Q3

Quarterly Market Review

Third Quarter 2016

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7 Keys to Success in 2016

1. The bull market in stocks is 7+ years old, anticipate more volatility in 2016 & 2017.
2. With current valuations, expected returns for both stocks and bonds may be below historical averages over the next 7+ years.
3. Focus on what you can control. Saving, spending, your job, your family, your health.
4. Target to save 20%+ of gross family income.
5. Track your spending with www.mint.com or we have tools
6. Stay diversified, don't reach for yield or chase hot returns. Be ready to rebalance when we have a major pullback.
7. Have discipline & let markets work for you over the next 10 to 20+ years! Trying to guess the market peak is usually a fools game.

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Q3 Highlights

- The 3rd Quarter was rewarding for diversified investors. US Stocks were up about 4%, International stocks were up 6% and EM was up 9%. REITs and bonds were mostly flat.
- US stocks have dominated the long bull market. Eventually, as always, the pendulum will swing and asset class leadership will shift.
- US equity valuations are high compared to historical averages and bond yields are low. This combination means expectations for US assets should be moderated. – See blog The Perfect Storm May be Brewing
- We urge investors not to get emotional about how the Presidential election will affect stocks. The winner will have important policy impact, but from an overall market perspective elections are not a reliable predictor of investment success– See blog Investors Hate Uncertainty!
- The low interest rate environment creates challenges for bond investors. Expectations for bonds should be muted and there will be sporadic negative years.
- With historic low interest rates, we're seeing some investors stretch for yield in dangerous ways. It is important to have a solid plan for your goals.

Long-term Investing is about philosophy, strategy, process & discipline.

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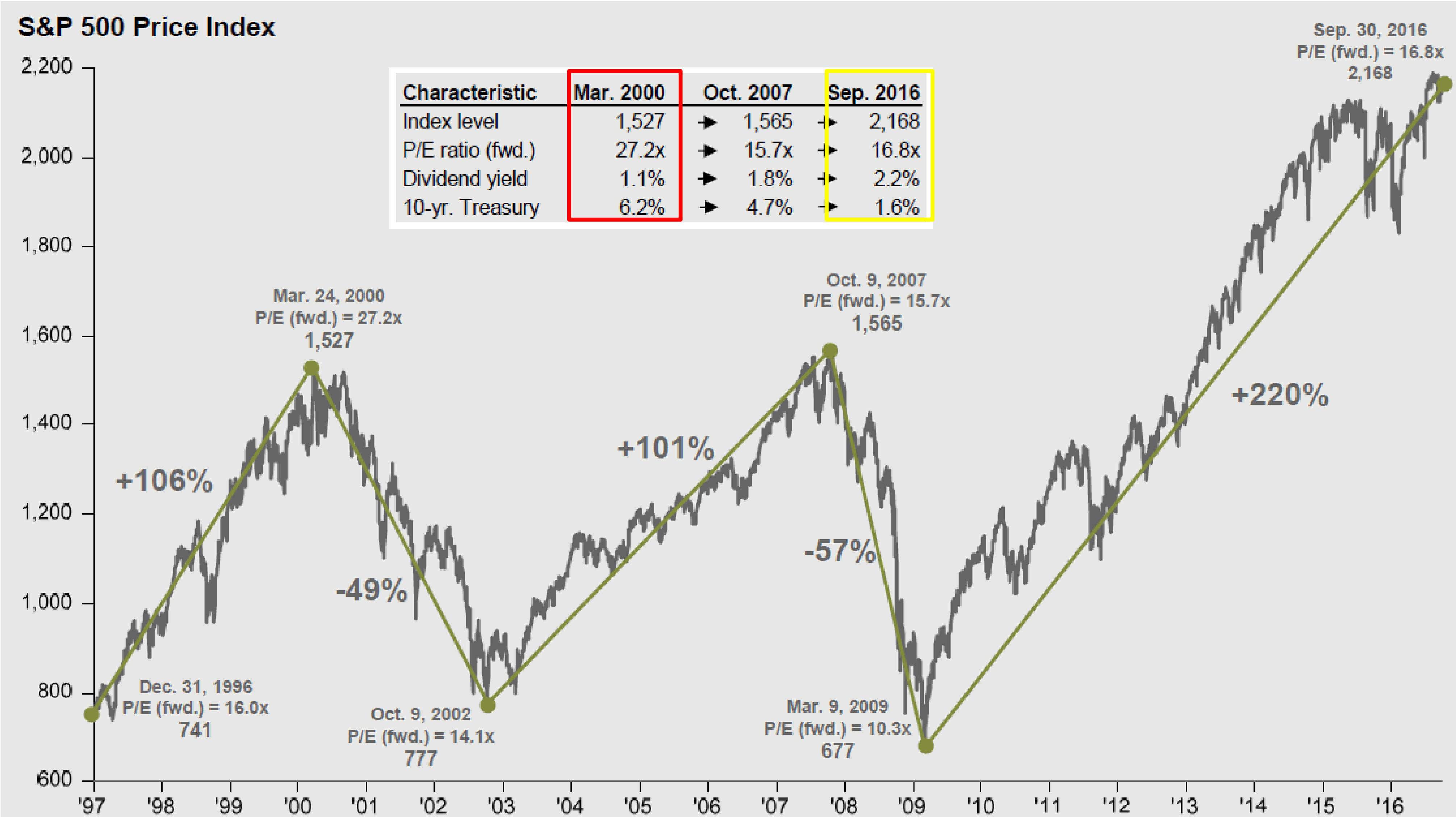
S&P 500 Index at inflection points



Characteristic	Mar. 2000		Oct. 2007		Sep. 2016
Index level	1,527	→	1,565	→	2,168
P/E ratio (fwd.)	27.2x	→	15.7x	→	16.8x
Dividend yield	1.1%	→	1.8%	→	2.2%
10-yr. Treasury	6.2%	→	4.7%	→	1.6%

Stocks are up big since 2009.

Guide to the Markets – U.S. Data are as of September 30, 2016.

JP Morgan

S&P 500 valuation measures

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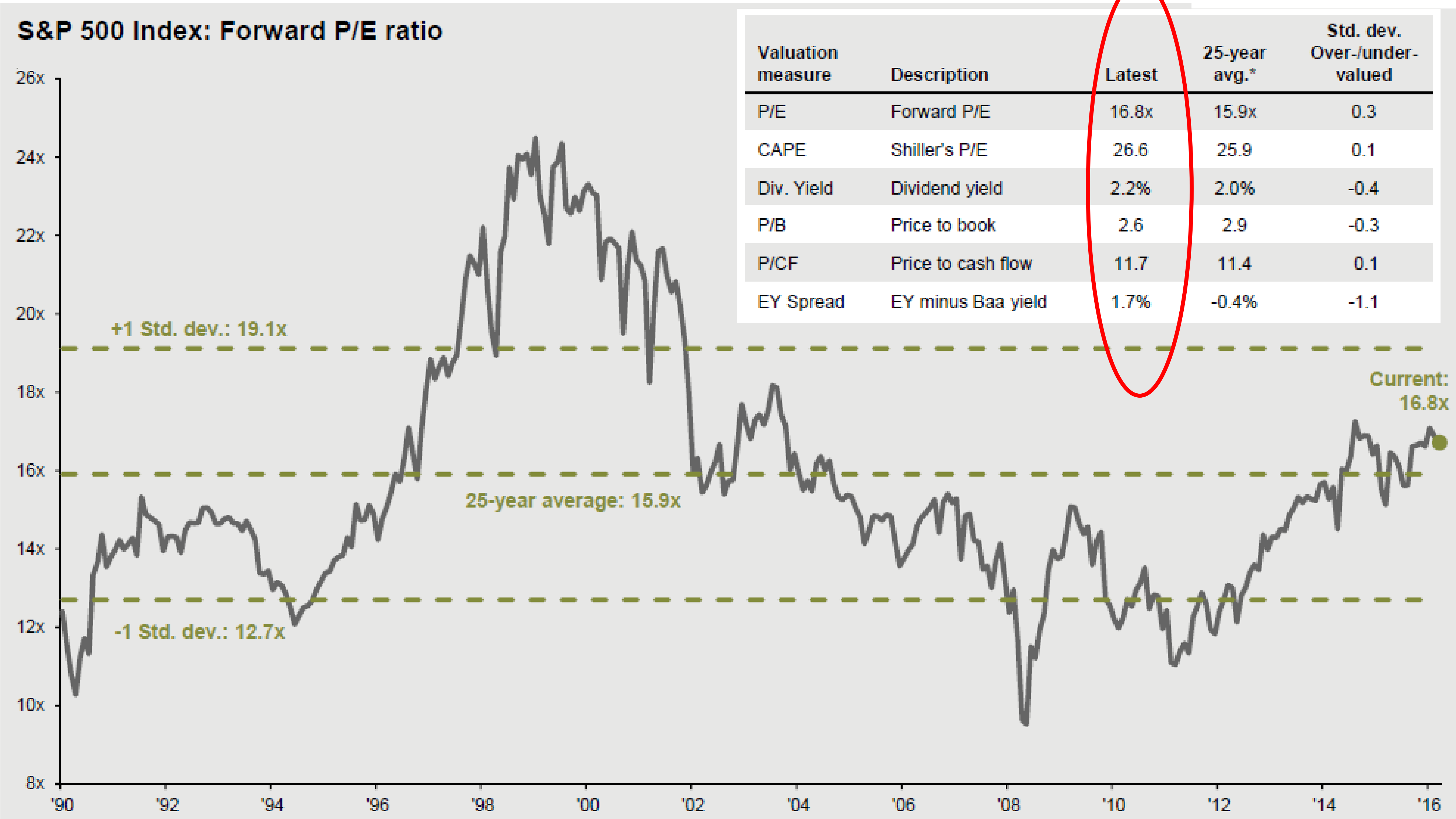

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-valued
P/E	Forward P/E	16.8x	15.9x	0.3
CAPE	Shiller's P/E	26.6	25.9	0.1
Div. Yield	Dividend yield	2.2%	2.0%	-0.4
P/B	Price to book	2.6	2.9	-0.3
P/CF	Price to cash flow	11.7	11.4	0.1
EY Spread	EY minus Baa yield	1.7%	-0.4%	-1.1

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
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Guide to the Markets – U.S. Data are as of September 30, 2016.

Stocks are not that expensive.

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Returns and valuations by style

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QTD

	Value	Blend	Growth
Large	3.5%	3.9%	4.6%
Mid	4.4%	4.5%	4.6%
Small	8.9%	9.0%	9.2%

YTD

	Value	Blend	Growth
Large	10.0%	7.8%	6.0%
Mid	13.7%	10.3%	6.8%
Small	15.5%	11.5%	7.5%

Since market peak (October 2007)

	Value	Blend	Growth
Large	50.4%	68.4%	90.5%
Mid	82.4%	82.9%	80.8%
Small	58.3%	67.9%	76.7%

Since market low (March 2009)

	Value	Blend	Growth
Large	274.9%	276.3%	288.5%
Mid	365.7%	341.4%	318.0%
Small	291.4%	304.8%	316.9%

Current P/E vs. 15-year avg. P/E*

	Value	Blend	Growth
Large	15.8 / 13.8	16.8 / 15.4	18.4 / 17.8
Mid	16.7 / 14.7	18.1 / 16.4	20.1 / 19.4
Small	17.5 / 16.5	22.3 / 20.1	30.5 / 27.1

Current P/E as % of 15-year avg. P/E*

	Value	Blend	Growth
Large	114.2%	109.0%	103.3%
Mid	113.8%	110.4%	103.4%
Small	105.9%	110.7%	112.5%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period 10/9/07 – 9/30/16,

YTD 2016, Value has been better than Growth.

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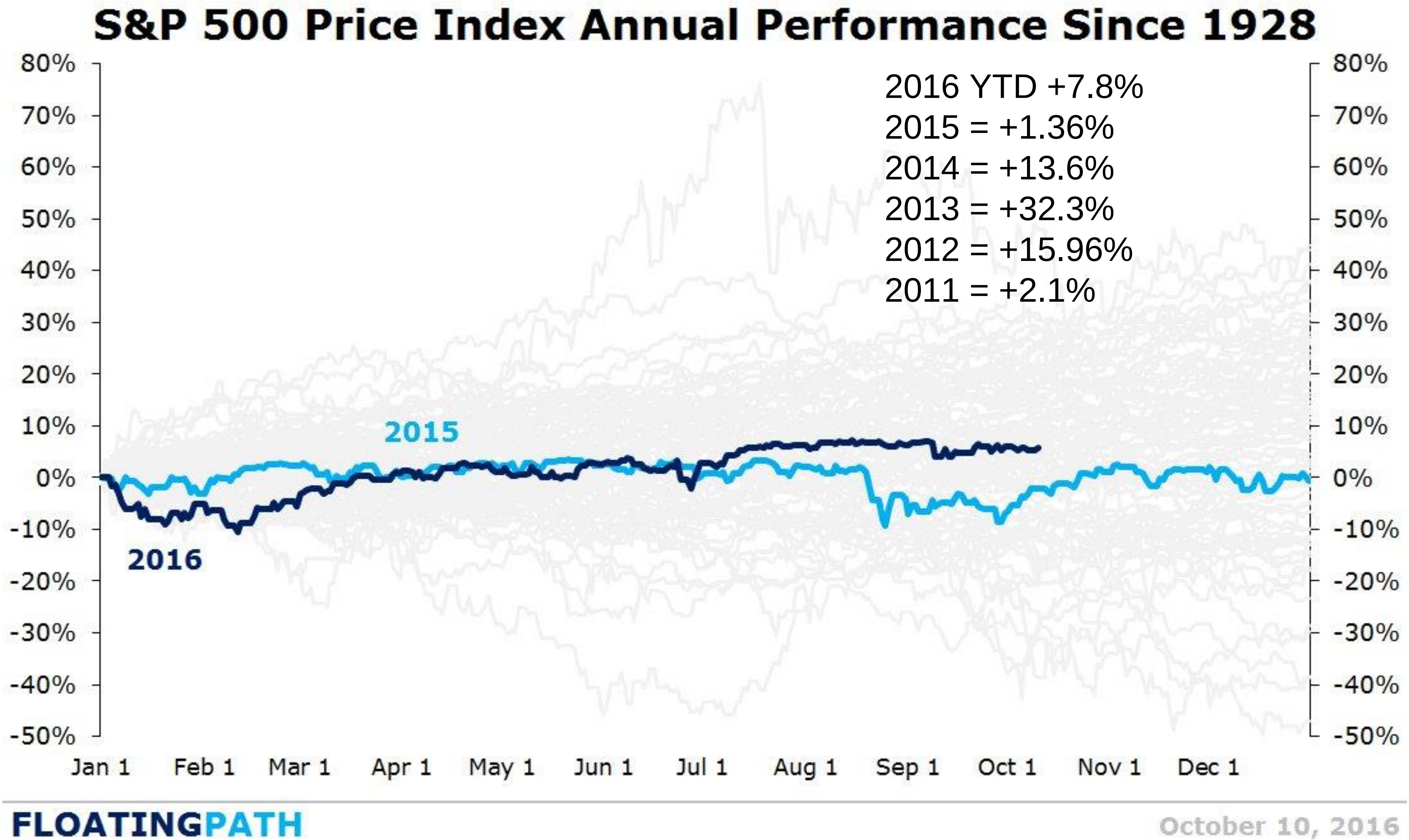
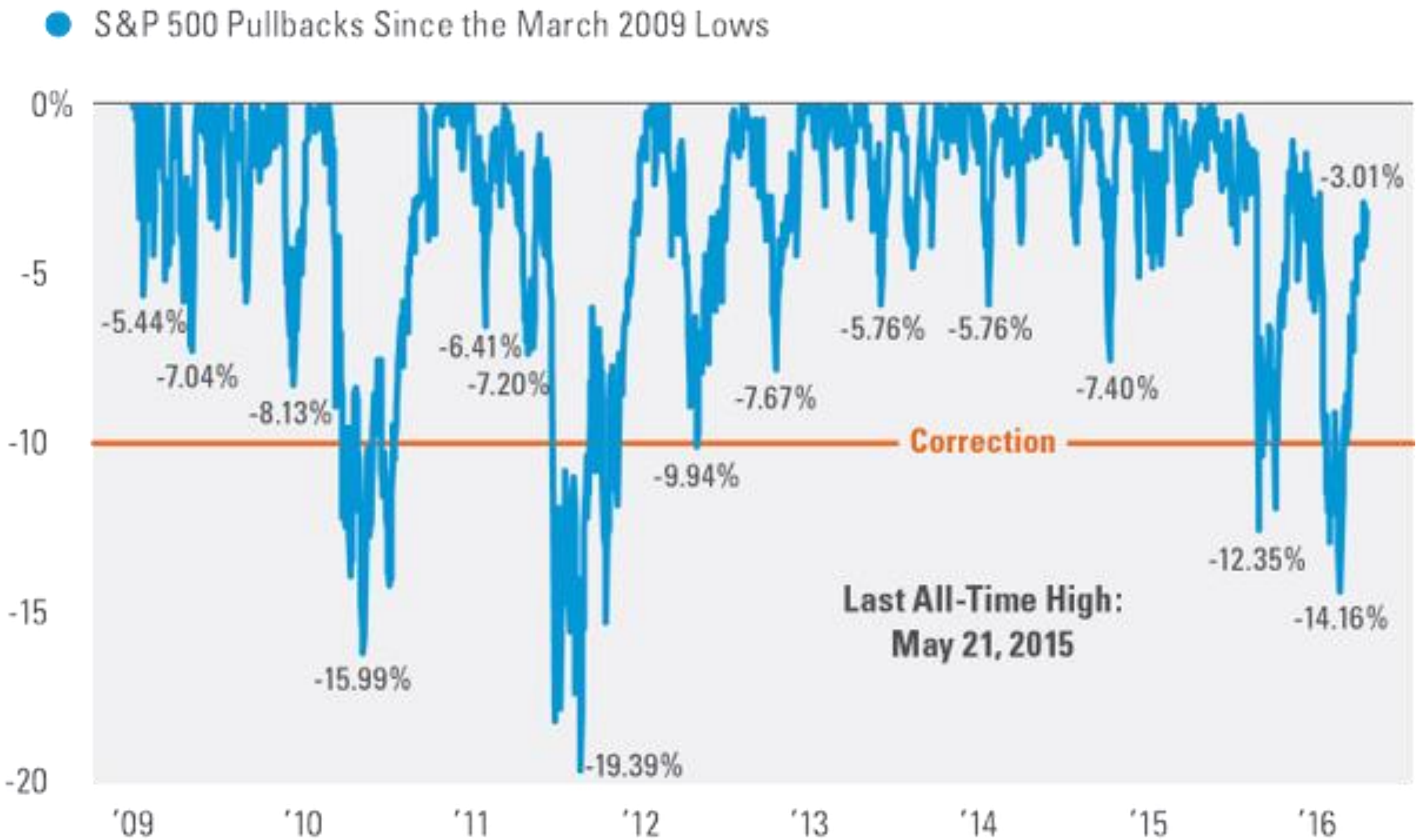
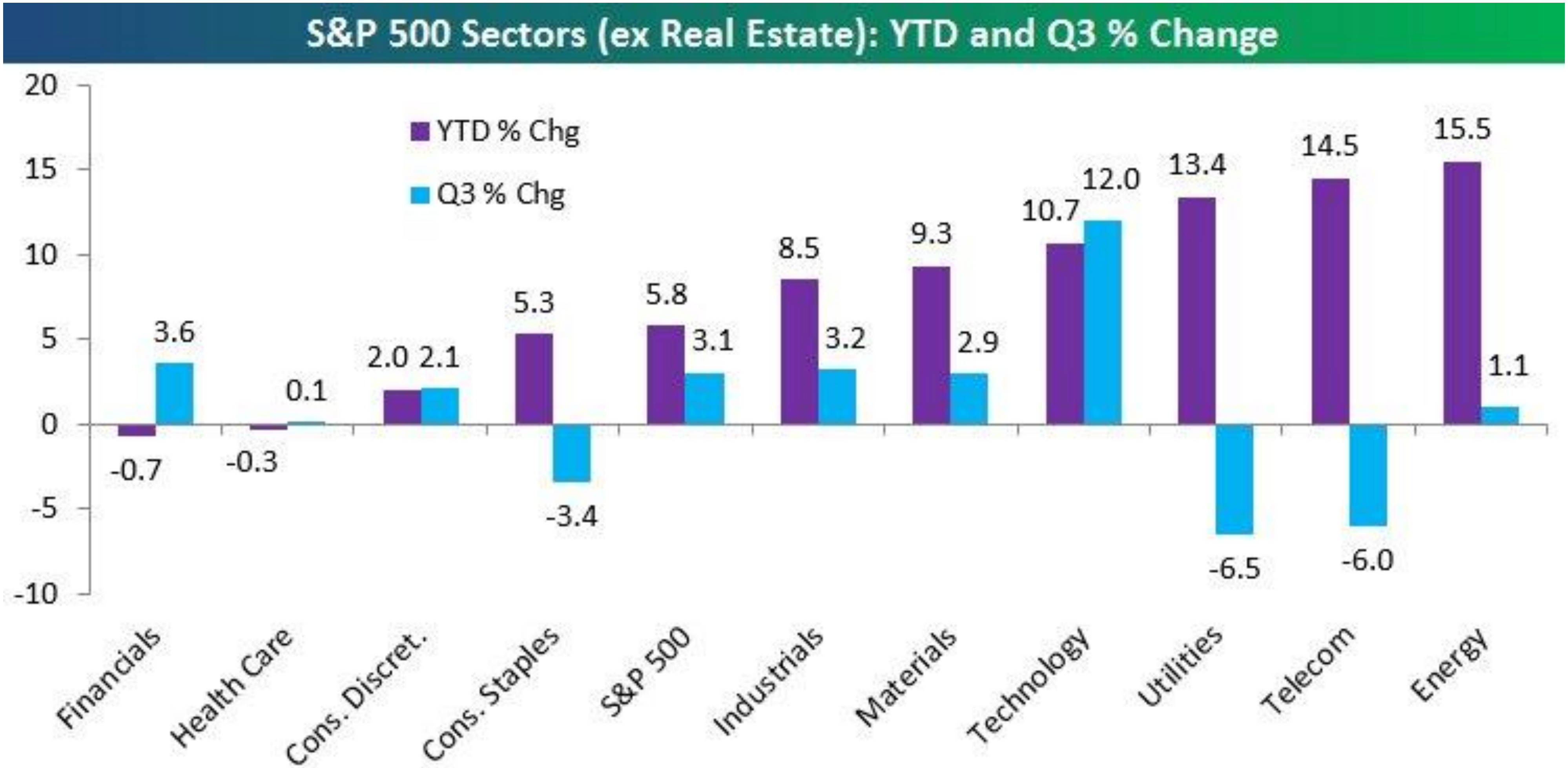


The last 21 months have been boring.



In the 7 year bull market, S&P 500 in correction only 8% of the time.
Source: LPL

Drawdowns of -10% to -20% are normal.



Q3 & YTD sector performance

S&P 500: Total Returns

1929-1932	-64.8%
1933-1936	186.9%
1937-1941	-35.6%
1942-1945	140.9%
1946-1948	1.8%
1949-1955	351.9%
1956-1957	-3.8%
1958-1965	199.4%
1966-1974	1.1%
1975-1976	69.6%
1977	-7.0%
1978-1980	66.3%
1981	-4.7%
1982-1989	294.3%
1990	-3.1%
1991-1993	53.9%
1994	1.3%
1995-1999	247.5%
2000-2002	-37.4%
2003-2007	81.7%
2008	-36.6%
2009-2014	156.4%
2015-2016	4.2%

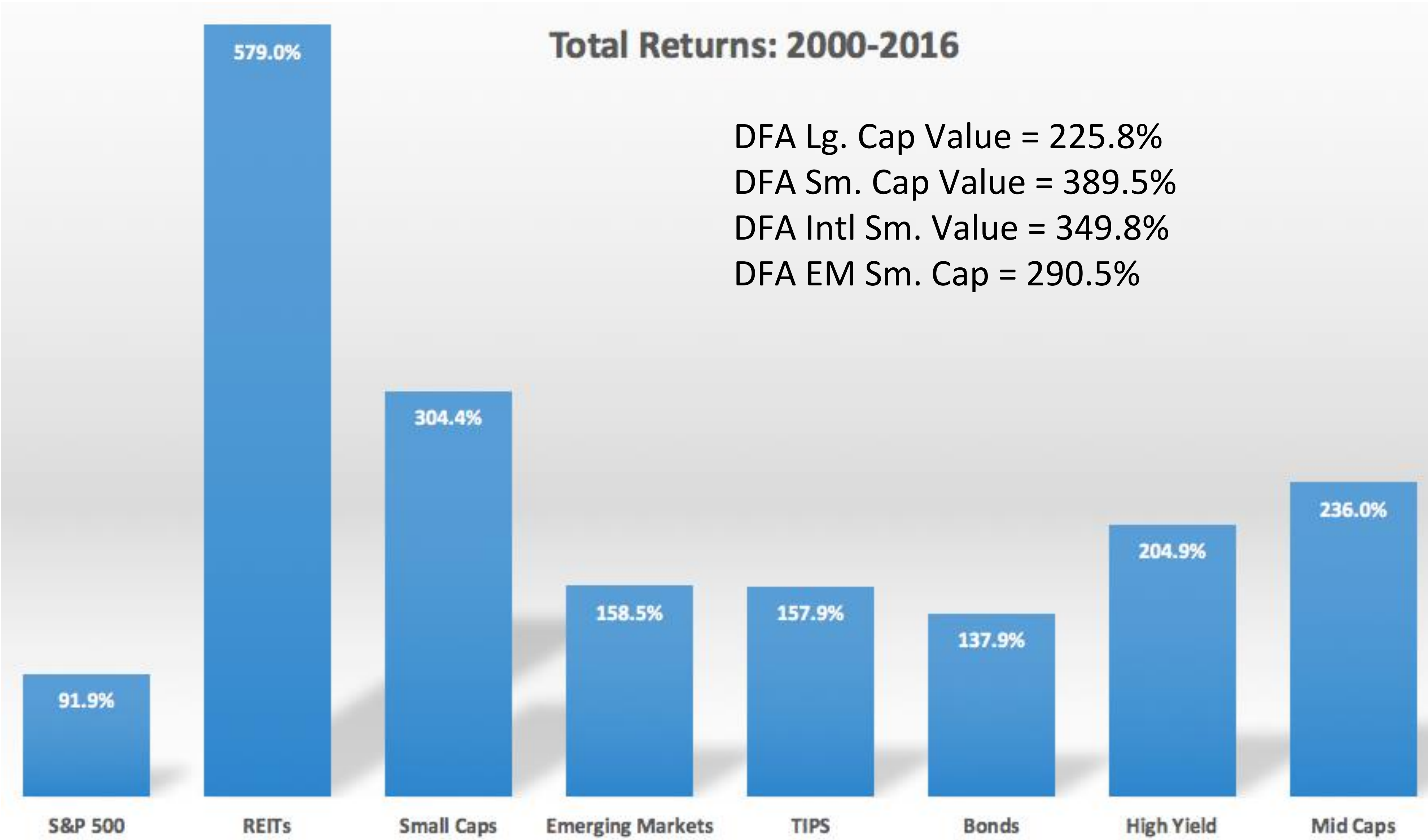
MSCI EAFE: Total Returns

1971-1972	80.5%
1973-1974	-33.2%
1975-1980	201.4%
1981-1982	-1.9%
1983-1989	537.2%
1990-1992	-23.8%
1993-1996	70.4%
1997	2.1%
1998-1999	53.2%
2000-2002	-42.8%
2003-2007	171.2%
2008	-43.1%
2009-2010	43.3%
2011	-11.7%
2012-2013	45.4%
2014-2016	-11.8%

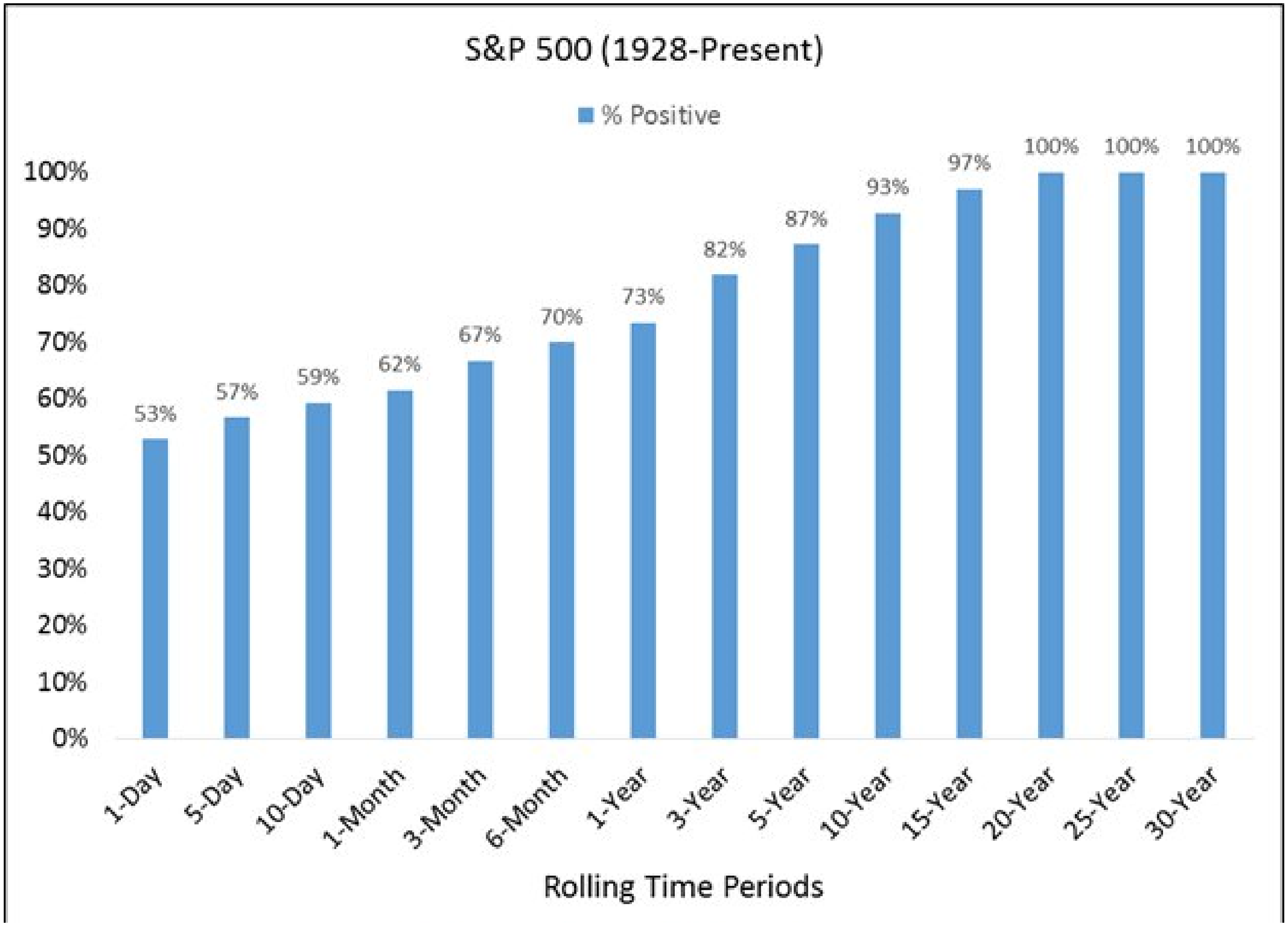
MSCI EM: Total Returns

1988-1989	131.6%
1990	-10.6%
1991-1993	211.5%
1994-1998	-38.5%
1999	66.4%
2000-2002	-36.3%
2003-2007	390.8%
2008	-53.2%
2009-2010	113.4%
2011	-18.2%
2012	18.6%
2013-2016	-14.0%

Stock returns are lumpy



Every asset class has done better than SP500



Stocks have done well over 10 & 20 rolling years.

Bull Market now over 2,770 days

- Markets tend to climb a wall of worry
- They don't typically die of old age
- What will cause the next recession?
- What is not already factored into the Mkt?
- Corporate balance sheets are in great shape
- Collective Net Worth is at all-time high
- Profits are near all-time highs
- If we have pullbacks, are you prepared to buy more stocks?

S&P 500 Historical Bull Markets

Begin	End	Start	Finish	% Change	Days
12/4/1987	3/24/2000	223.92	1,527.46	582.15%	4,494
3/9/2009	7/11/2016	676.53	2,137.00	215.88%	2,681
6/13/1949	8/2/1956	13.55	49.74	267.08%	2,607
10/3/1974	11/28/1980	62.28	140.52	125.63%	2,248
7/23/2002	10/9/2007	797.70	1,565.15	96.21%	1,904
8/12/1982	8/25/1987	102.42	336.77	228.81%	1,839
10/22/1957	12/12/1961	38.98	72.64	86.35%	1,512
4/28/1942	5/29/1946	7.47	19.25	157.70%	1,492
6/26/1962	2/9/1966	52.32	94.06	79.78%	1,324
5/26/1970	1/11/1973	69.29	120.24	73.53%	961
10/7/1966	11/29/1968	73.20	108.37	48.05%	784
3/14/1935	3/10/1937	8.06	18.67	131.64%	727
12/30/1927	9/16/1929	17.66	31.86	80.41%	626
5/19/1947	6/15/1948	13.77	17.06	23.89%	393
3/31/1938	11/9/1938	8.50	13.79	62.24%	223
4/11/1939	10/25/1939	10.42	13.21	26.78%	197
6/10/1940	11/7/1940	8.99	11.39	26.70%	150
11/13/1929	4/10/1930	17.66	25.92	46.77%	148
2/27/1933	7/18/1933	5.53	12.20	120.61%	141
10/19/1933	2/6/1934	8.61	11.82	37.28%	110
9/21/2001	1/4/2002	965.80	1,172.51	21.40%	105
6/1/1932	9/7/1932	4.40	9.31	111.59%	98
12/16/1930	2/24/1931	14.44	18.17	25.83%	70
11/20/2008	1/6/2009	752.44	934.70	24.22%	47
10/5/1931	11/9/1931	8.82	11.52	30.61%	35
6/2/1931	6/26/1931	12.20	15.35	25.82%	24

**20%+ rally that was preceded by 20%+ decline.*

This has been one of the most hated bull markets

Downturns, Recoveries, and Expansions

The U.S. stock market hit new highs over the summer. Will it run out of gas? A lot of things certainly seem to be giving investors jitters. But some context may be helpful. There have been eight market downturns since 1926, the most severe one being the Great Depression. More recently, two consecutive downturns with little to no expansion made for a "lost decade." But as we've been saying since we first published this chart two years ago, the historical evidence shows that there is ample potential for future growth, even after recent run-ups.

Source: Morningstar. Created with S&P 500 month-end total return data.

Secular bull mkt or recession?

Fuel in Tank

- Fuel is slight
- Low and slow growth
- FED has done heavy lifting
- Little policy help from DC
- People with college degree have jobs (skills gap)
- Negative yields forcing investors to take risk

Spark for Fuel

- Fiscal stimulus
- Investment in infrastructure
- Corp Tax reform
- Less Regulation burden
- Repatriate foreign dollars
- Personal tax reform
- Cheap US energy
- Manufacturing innovation
- Technology revolution
- Gigantic amounts of capital

Economy $\neq$ Stock Market

Economic Indicators

Economic Indicator	Status	Comments
Growth		GDP growth is expected to be supported by an inventory rebuild in 3Q16, but growth forecasts for 2017 and 2018 have been edging lower.
Employment		Nonfarm payrolls have been a bit uneven in recent months. The trend is moderately strong, but somewhat slower than in the last two years. Job destruction remains low.
Consumer Spending		Aggregate income growth slowed into 2Q16, but real average wages remain moderate. Results have been mixed across categories.
Business Investment		Orders and shipments have been weak, but not "recessionary" weak. Businesses are expected to remain relatively cautious in the near term.
Manufacturing		An uptick in factory output in July likely reflected seasonal adjustment issues (watch for confirmation or a possible correction in the data for August).
Housing and Construction		A bit choppy from month to month, but a general trend of improvement. Supply constraints remain a factor, lifting home prices and rents.
Inflation		Some mild deflationary pressure in consumer goods. Prices of services have been mixed, but generally higher (shelter, medical care). Firms still generally have a limited ability to raise prices. Labor cost pressures are moderate, but should increase in the next couple of years.
Monetary Policy		With labor market slack being reduced, the Fed remains in tightening mode, looking to resume the process of policy normalization, but officials will proceed cautiously, aware of the potential downside risks from global economic and financial developments.
Long-Term Interest Rates		Long-term interest rates should drift gradually higher as the economy improves and the Fed raises short-term rates. However, in the near term, we should see limited concern about inflation and a continued flight to safety (lower bond yields) due to global concerns.
Fiscal Policy		State and local government budgets are in better shape and spending should add a bit to GDP growth. Demographics (an aging population) will boost spending on entitlements (Social Security and Medicare) in the years ahead.
The Dollar		The dollar is likely to remain range-bound in the near term, supported by expectations of gradual Fed tightening and worries about the rest of the world.
Rest of the World		The global outlook remains relatively soft by historical standards, with a number of downside risks. China's restructuring will be difficult. Brexit adds uncertainty.

Source: RJ

Economy ≠ Stock Market

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Quarterly Market Review

Third Quarter 2016

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a quarterly topic.

Overview:

Market Summary

Index Returns

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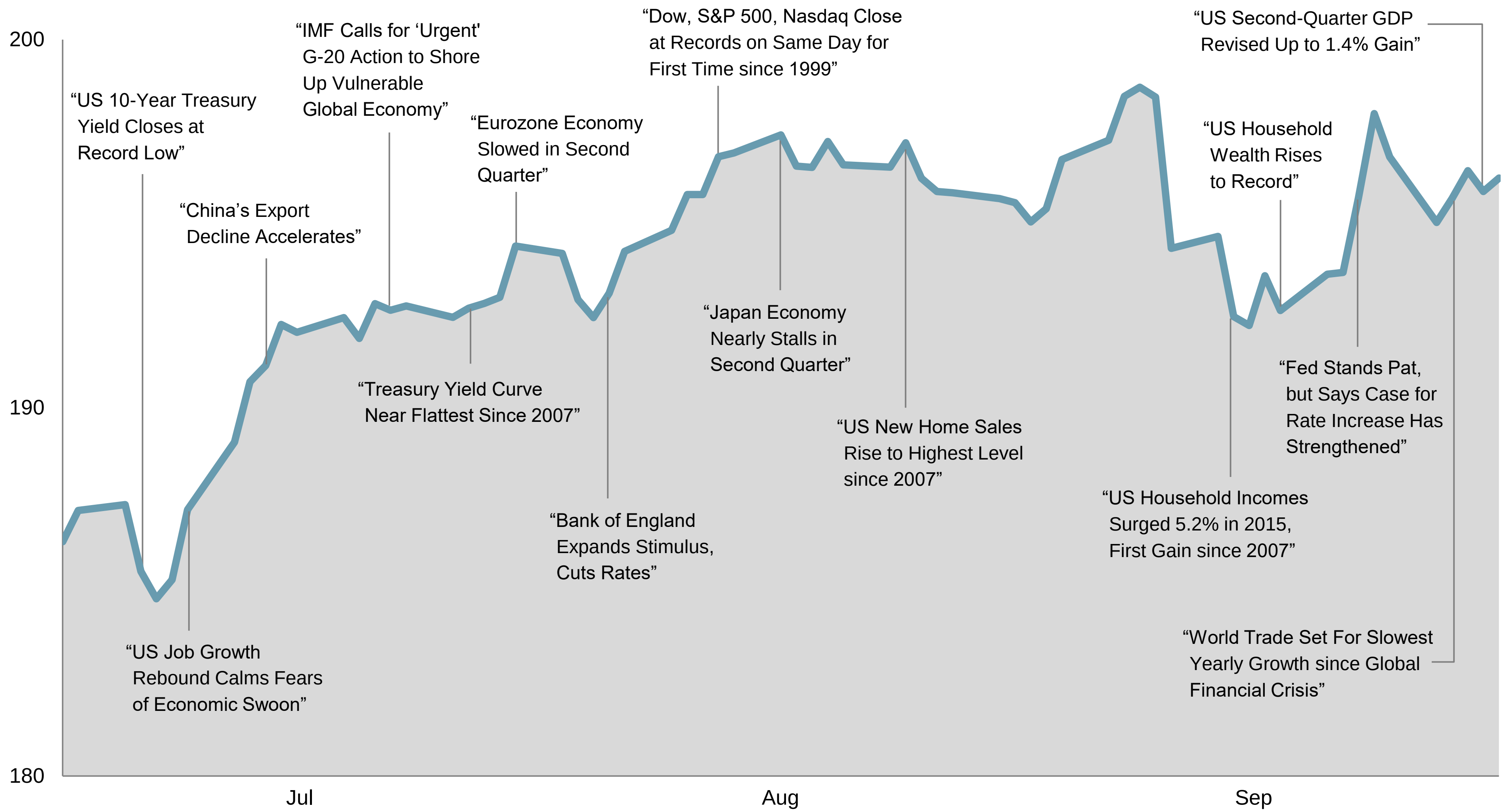
3Q 2016	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	4.40%	**6.29%**	**9.03%**	**-0.23%**	**0.46%**	**0.10%**

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	1.8%	1.4%	3.0%	2.8%	1.3%	1.2%
Best Quarter	16.8% **Q2 2009**	25.9% **Q2 2009**	34.7% **Q2 2009**	32.3% **Q3 2009**	4.6% **Q3 2001**	5.5% **Q4 2008**
Worst Quarter	-22.8% **Q4 2008**	-21.2% **Q4 2008**	-27.6% **Q4 2008**	-36.1% **Q4 2008**	-2.4% **Q2 2004**	-3.2% **Q2 2015**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1−30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

World Stock Market Performance

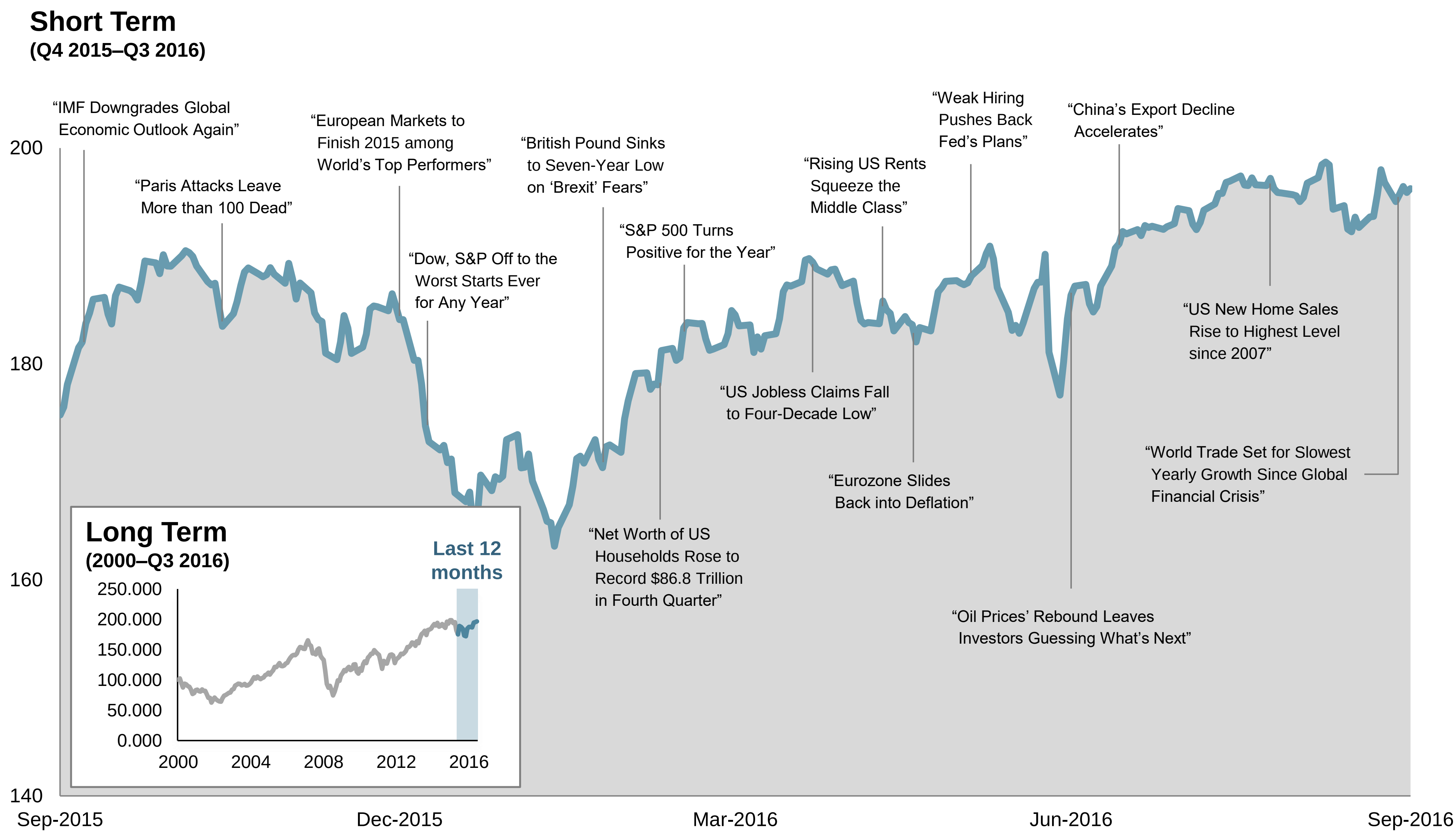
MSCI All Country World Index with selected headlines from Q3 2016



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



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It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results**.

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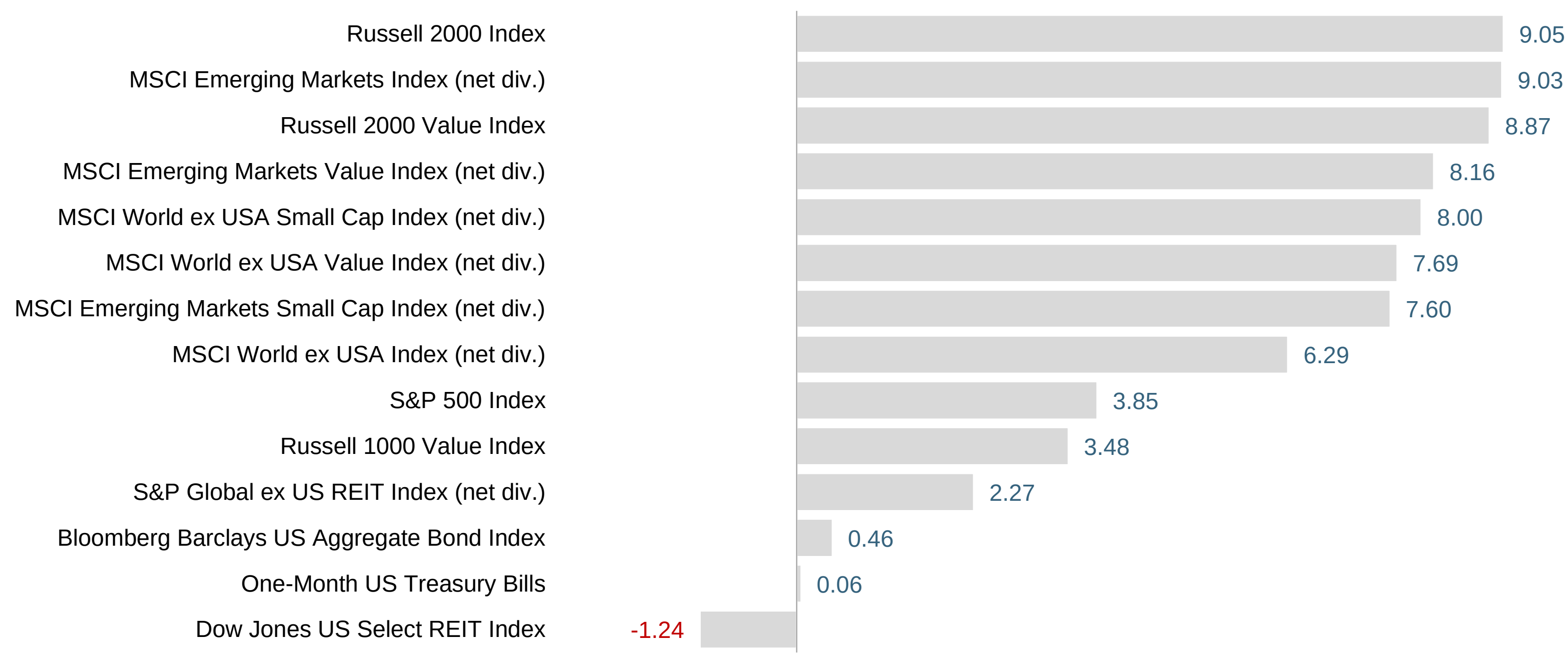
World Asset Classes

Third Quarter 2016 Index Returns (%)

Looking at broad market indices, emerging markets outperformed all other equity markets during the quarter. The US equity market lagged developed markets outside the US. US real estate investment trusts (REITs) recorded negative absolute returns and lagged the US equity market.

The value effect was negative in the US and emerging markets but positive in developed markets outside the US. Small caps outperformed large caps in the US and in developed markets outside the US but underperformed in emerging markets



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US Stocks

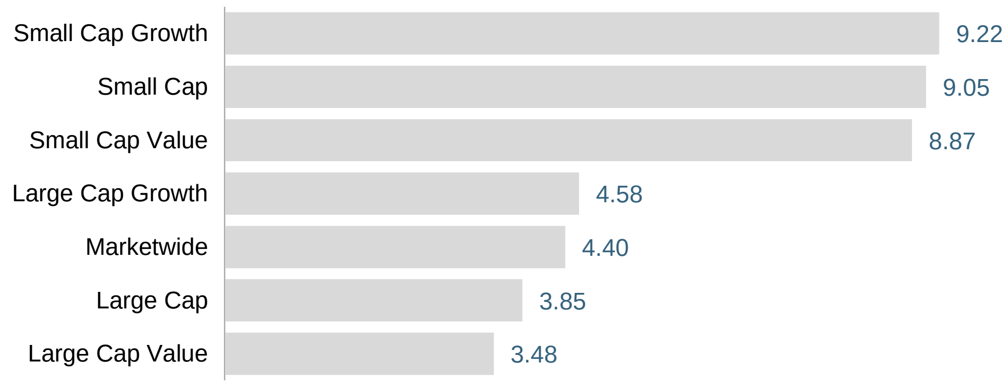
Third Quarter 2016 Index Returns

The broad US equity market recorded positive absolute performance for the quarter.

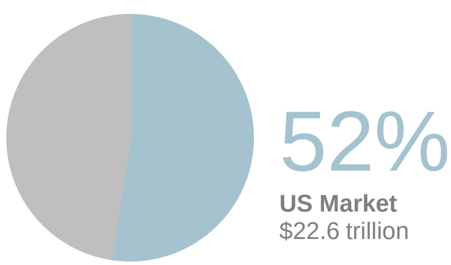
Value indices underperformed growth indices across all size ranges.

Small caps outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	8.18	14.96	10.44	16.36	7.37
Large Cap	7.84	15.43	11.16	16.37	7.24
Large Cap Value	10.00	16.20	9.70	16.15	5.85
Large Cap Growth	6.00	13.76	11.83	16.60	8.85
Small Cap	11.46	15.47	6.71	15.82	7.07
Small Cap Value	15.49	18.81	6.77	15.45	5.78
Small Cap Growth	7.48	12.12	6.58	16.15	8.29

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International Developed Stocks

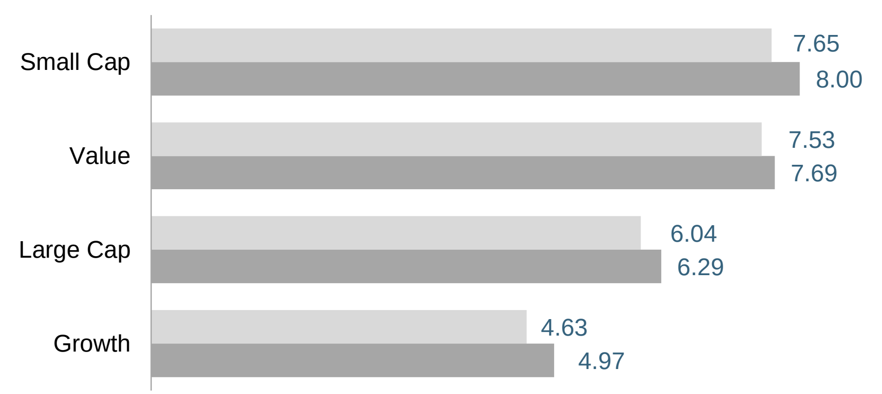
Third Quarter 2016 Index Returns

In US dollar terms, developed markets outside the US outperformed the US equity market but underperformed emerging markets indices during the quarter.

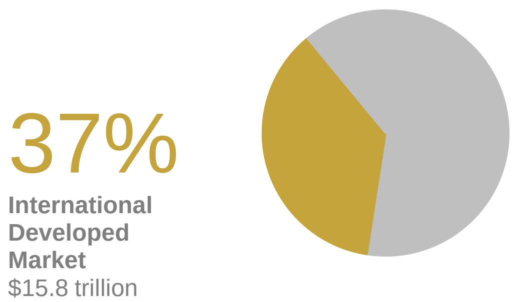
Small caps outperformed large caps in non-US developed markets.

Looking at broad market indices across all size ranges, the value effect was positive in non-US developed markets.

Ranked Returns (%)



World Market Capitalization—International Developed



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	3.12	7.16	0.33	6.89	1.88
Small Cap	7.26	13.50	4.15	9.72	4.11
Value	2.64	4.87	-1.69	5.64	0.66
Growth	3.61	9.42	2.30	8.08	3.04

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Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market.

Emerging Markets Stocks

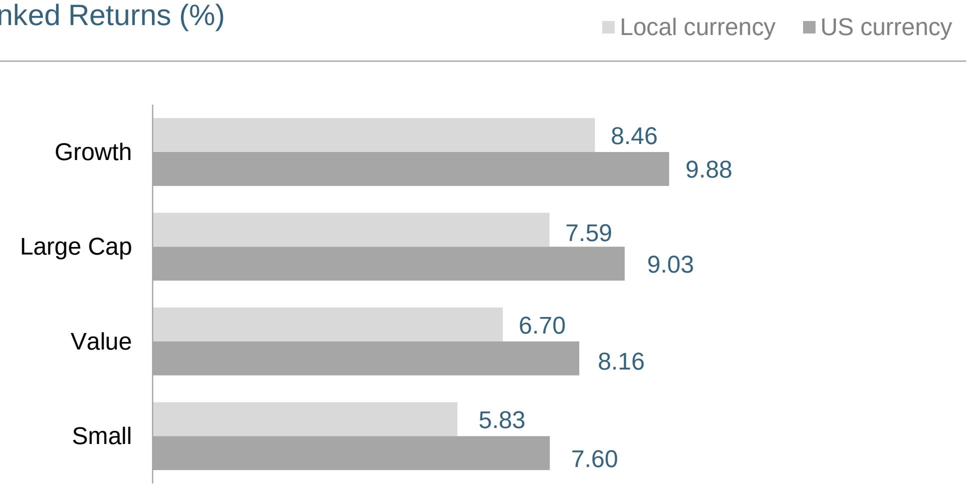
Third Quarter 2016 Index Returns

In US dollar terms, emerging markets indices outperformed both the US market and developed markets outside the US.

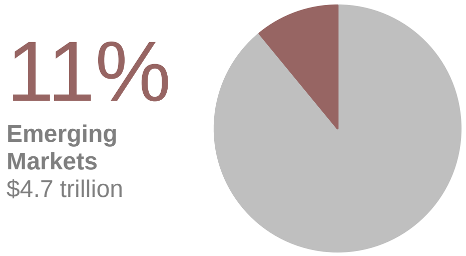
Using broad market indices as proxies, the value effect was negative in emerging markets. Large cap value indices underperformed large cap growth indices. The opposite was true among small caps; small cap value indices outperformed small cap growth indices.

Large cap indices outperformed small cap indices.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	16.02	16.78	-0.56	3.03	3.95
Small Cap	9.08	12.65	1.29	4.72	5.97
Value	16.18	14.50	-3.00	0.79	3.77
Growth	15.84	18.92	1.81	5.19	4.03

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Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

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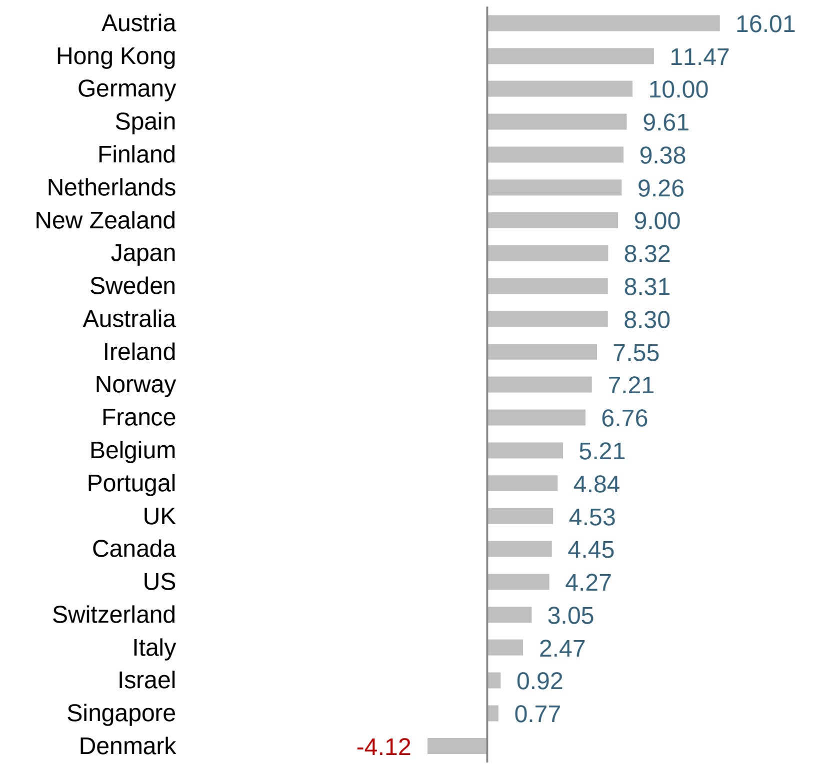
Select Country Performance

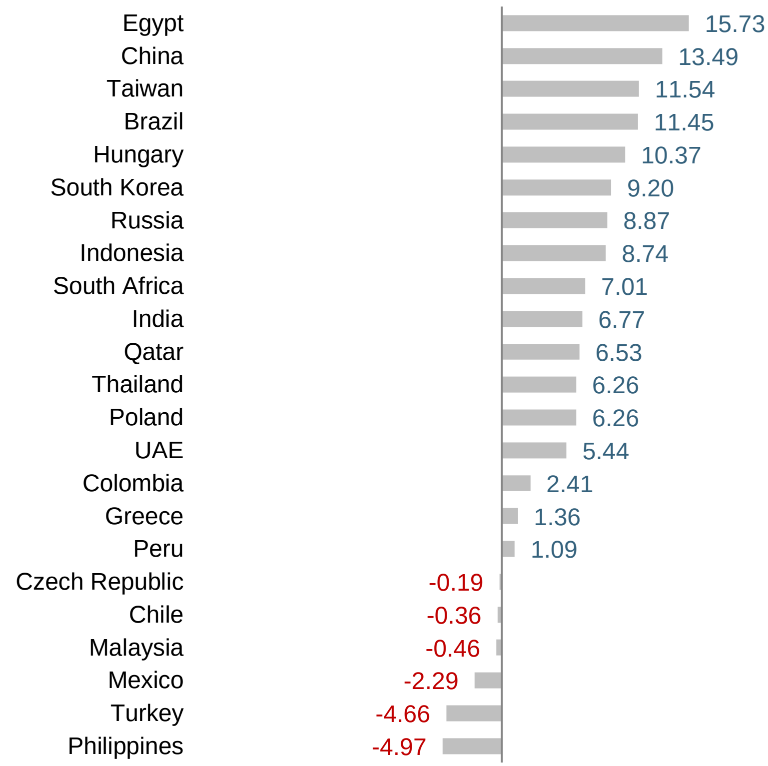
Third Quarter 2016 Index Returns

Austria and Hong Kong recorded the highest country performance in developed markets, while Singapore and Denmark posted the lowest performance for the quarter. In emerging markets, Egypt and China were the top performers, while Turkey and the Philippines recorded the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



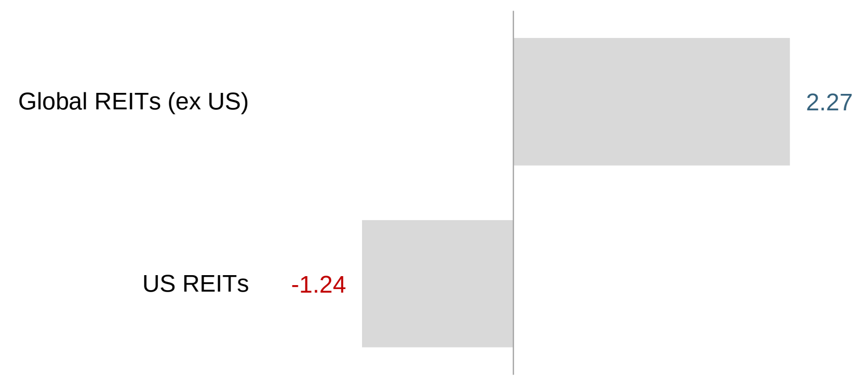
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2016, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Real Estate Investment Trusts (REITs)

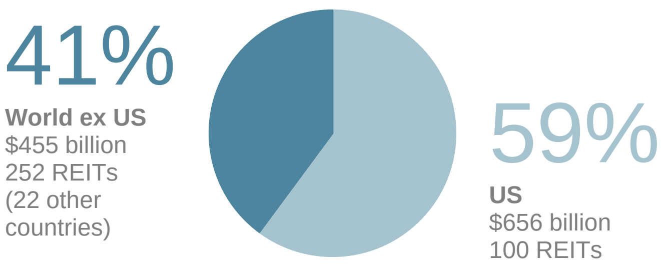
Third Quarter 2016 Index Returns

US REITs posted negative absolute performance for the quarter, lagging the broad equity market. REITs in developed markets recorded positive absolute returns but underperformed broad developed markets equity indices.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	9.45	17.70	14.29	15.60	5.80
Global REITs (ex US)	12.52	14.61	6.03	10.46	2.55

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Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2016.

Commodities

Third Quarter 2016 Index Returns

Commodities were mixed for the third quarter but remained positive for the year-to-date period ending September 30, 2016. The Bloomberg Commodity Index Total Return posted a -3.86% return during the quarter.

The softs complex led the index: Sugar gained 9.76%, cotton climbed 6.09%, and coffee was up 1.42%. Industrial metals also recorded gains, with zinc returning 12.55% and nickel 11.46%.

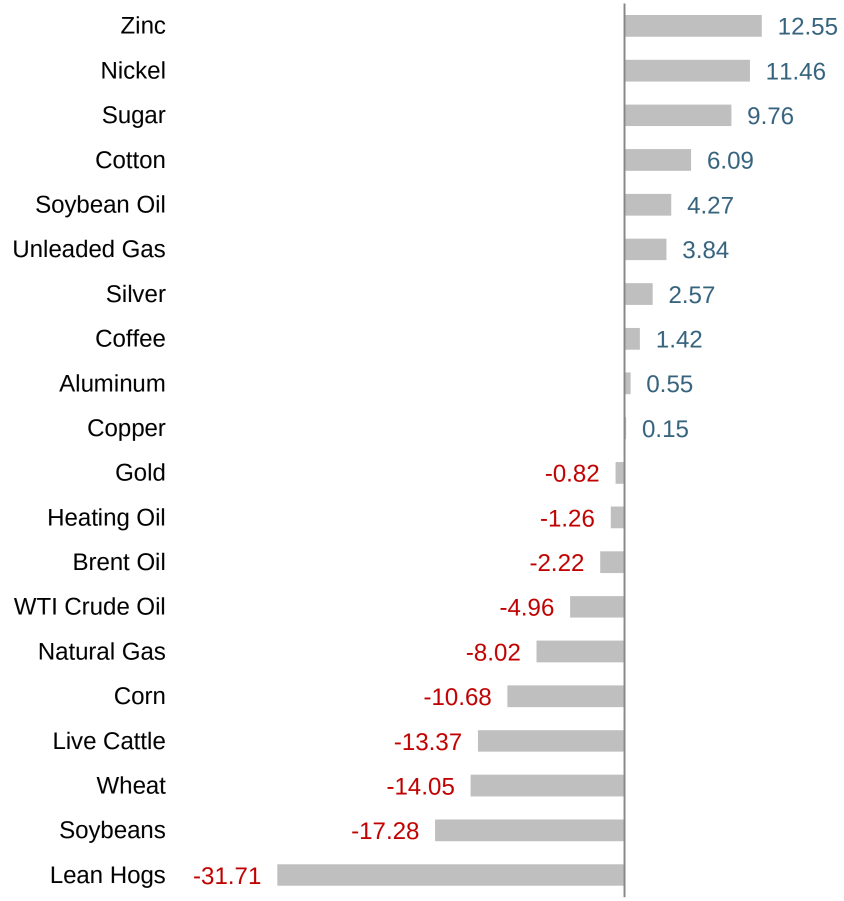
Energy fell, with natural gas declining 8.02%, brent crude oil down 2.22%, and WTI crude oil falling 4.96%. Lean hogs underperformed the most, returning -31.71%. Gold declined 0.82%.

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	8.87	-2.58	-12.34	-9.37	-5.33

Ranked Returns for Individual Commodities (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
All index returns are net of withholding tax on dividends. Securities and commodities data provided by Bloomberg.

Fixed Income

Third Quarter 2016 Index Returns

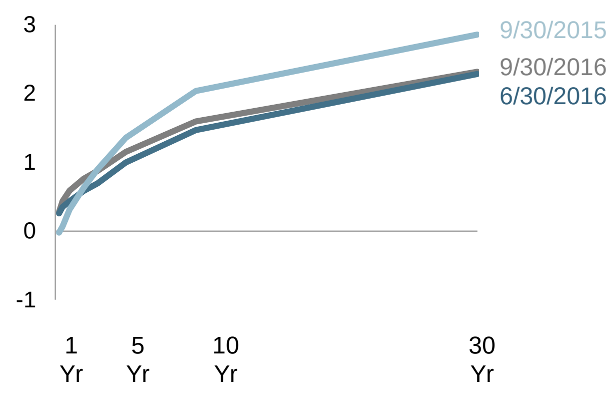
Interest rates across the US fixed income markets generally increased in the third quarter. The yield on the 5-year Treasury note rose 13 basis points (bps) to 1.14%. The yield on the 10-year Treasury note rose 11 bps to 1.60%. The 30-year Treasury bond increased 2 bps to finish with a yield of 2.32%.

The 1-year Treasury bill yield rose 14 bps to 0.59%, and the 2-year Treasury note yield increased 19 bps to 0.77%. The yield on the 3-month Treasury bill rose 3 bps to 0.29%, while the 6-month Treasury bill was up 9 bps to 0.45%.

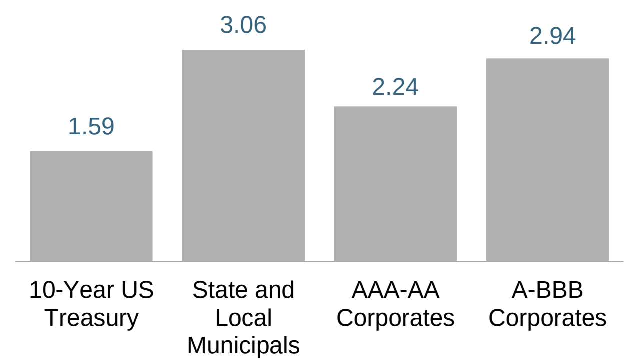
Short-term corporate bonds gained 0.32%. Intermediate-term corporates rose 0.89%, while long-term corporate bonds gained 2.56%.[1]

Short-term municipal bonds returned -0.21%, while intermediate-term municipal bonds were unchanged. Revenue bonds slightly outperformed general obligation bonds.[2]

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch 1-Year US Treasury Note Index	0.71	0.54	0.35	0.33	1.53
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.24	0.27	0.12	0.10	0.92
Citigroup WGBI 1–5 Years (hedged to USD)	1.98	1.89	1.70	1.60	2.78
Bloomberg Barclays Long US Government Bond Index	14.61	13.02	11.07	5.48	7.97
Bloomberg Barclays Municipal Bond Index	4.01	5.58	5.54	4.48	4.75
Bloomberg Barclays US Aggregate Bond Index	5.80	5.19	4.03	3.08	4.79
Bloomberg Barclays US Corporate High Yield Index	15.11	12.73	5.28	8.34	7.71
Bloomberg Barclays US TIPS Index	7.27	6.58	2.40	1.93	4.48

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1. Bloomberg Barclays US Corporate Bond Index. 2. Bloomberg Barclays Municipal Bond Index. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Citigroup bond indices © 2016 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2016 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

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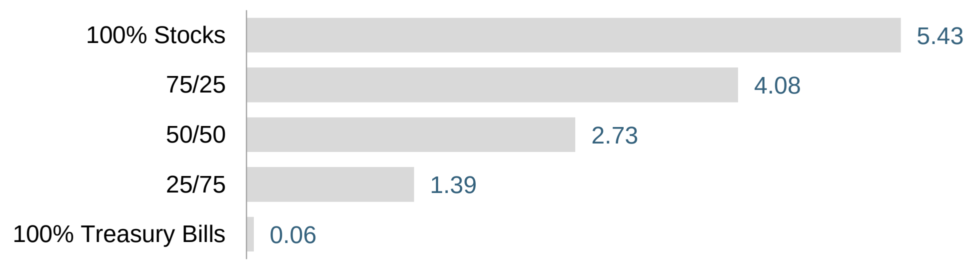
Global Diversification

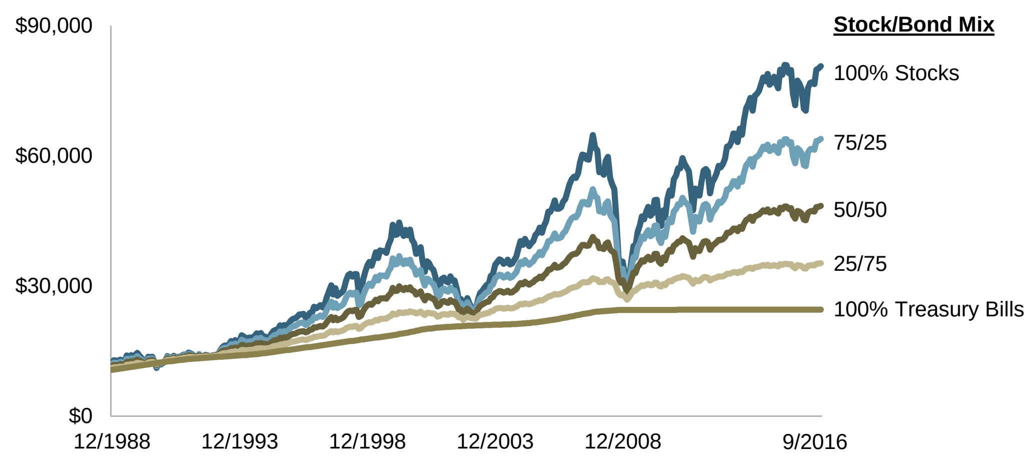
Third Quarter 2016 Index Returns

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	7.09	12.60	5.74	11.23	4.90
75/25	5.42	9.53	4.41	8.48	4.15
50/50	3.70	6.43	3.02	5.70	3.21
25/75	1.94	3.30	1.57	2.89	2.09
100% Treasury Bills	0.14	0.16	0.06	0.05	0.79

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio**. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2016, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

Presidential Elections and the Stock Market

Third Quarter 2016

Next month, Americans will head to the polls to elect the next president of the United States. While the outcome is unknown, one thing is for certain: There will be a steady stream of opinions from pundits and prognosticators about how the election will impact the stock market.

As we explain below, investors would be well-served to avoid the temptation to make significant changes to a long-term investment plan based upon these sorts of predictions.

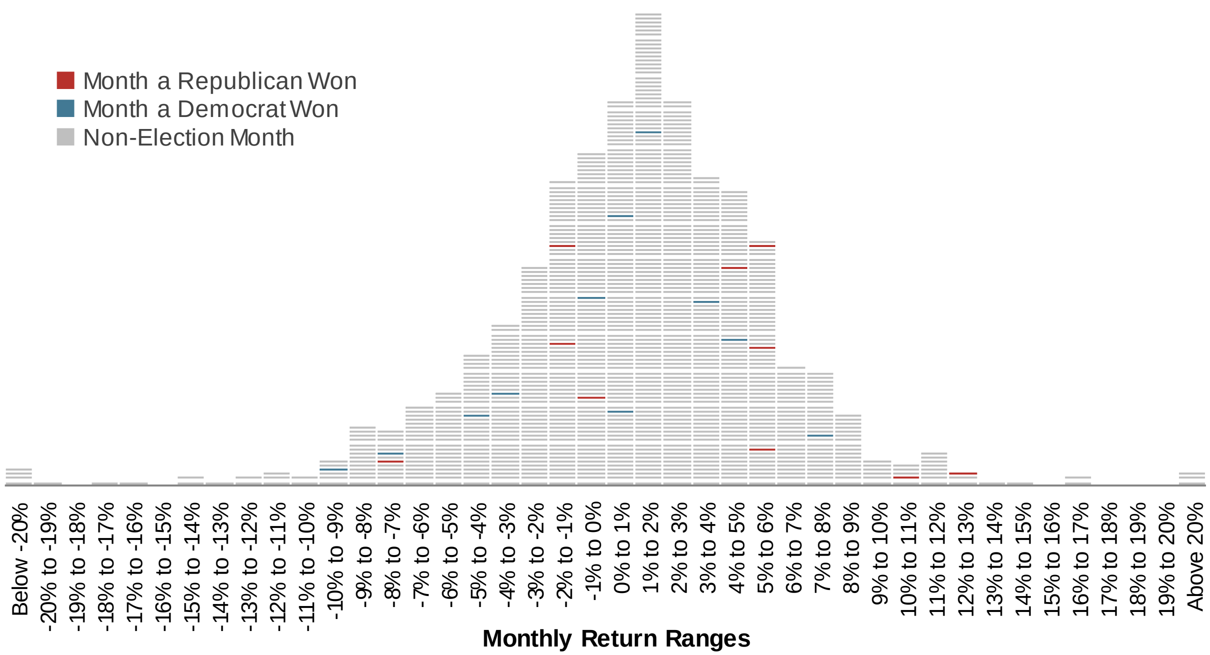
Short-Term Trading and Presidential Election Results

Trying to outguess the market is often a losing game. Current market prices offer an up-to-the-minute snapshot of the aggregate expectations of market participants. This includes expectations about the outcome and impact of elections. While unanticipated future events—surprises relative to those expectations—may trigger price changes in the future, the nature of these surprises cannot be known by investors today. As a result, it is difficult, if not impossible, to systematically benefit from trying to identify mispriced securities.

This suggests it is unlikely that investors can gain an edge by attempting to predict what will happen to the stock market after a presidential election.

Exhibit 1 shows the frequency of monthly returns (expressed in 1% increments) for the S&P 500 Index from January 1926 to June 2016. Each horizontal dash represents one month, and each vertical bar shows the cumulative number of months for which returns were within a given 1% range (e.g., the tallest bar shows all months where returns were between 1% and 2%). The blue and red horizontal lines represent months during which a presidential election was held. Red corresponds with a resulting win for the Republican Party and blue with a win for the Democratic Party. This graphic illustrates that election month returns were well within the typical range of returns, regardless of which party won the election. *(continues on page 16)*

Exhibit 1. Presidential Elections and S&P 500 Returns
Histogram of Monthly Returns, January 1926–June 2016



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group.

Presidential Elections and the Stock Market

(continued from page 15)

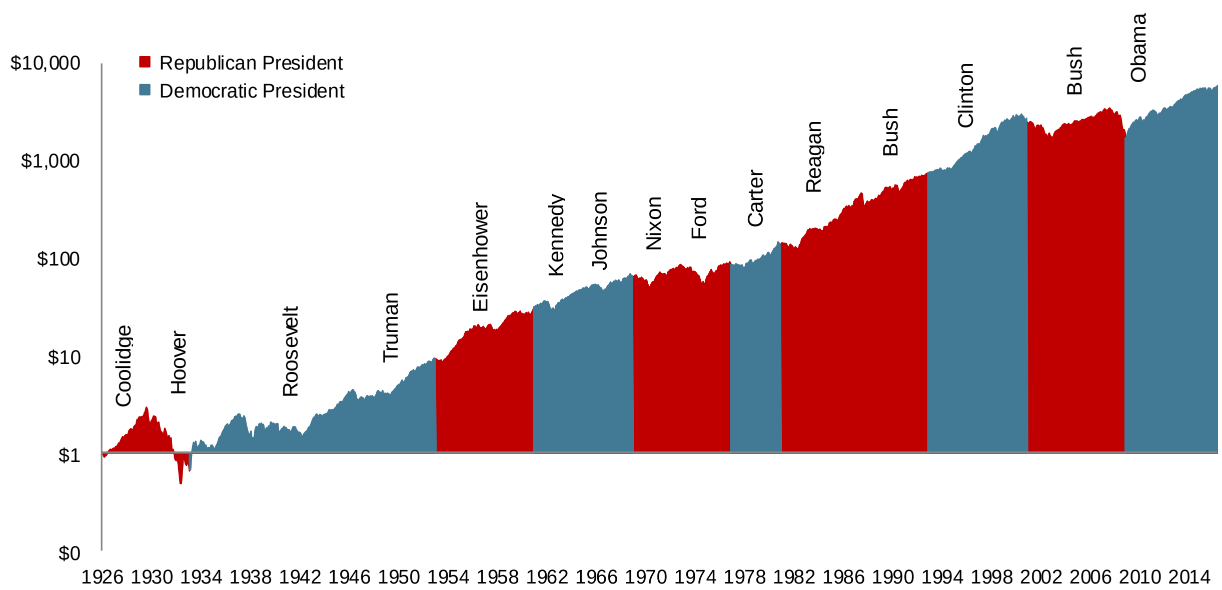
Long-Term Investing:
Bulls & Bears ≠ Donkeys & Elephants

Predictions about presidential elections and the stock market often focus on which party or candidate will be “better for the market” over the long run. Exhibit 2 shows the growth of one dollar invested in the S&P 500 Index over nine decades and 15 presidencies (from Coolidge to Obama). This data does not suggest an obvious pattern of long-term stock market performance based upon which party holds the Oval Office. The key takeaway here is that over the long run, the market has provided substantial returns regardless of who controlled the executive branch.

Conclusion

Equity markets can help investors grow their assets, but investing is a long-term endeavor. Trying to make investment decisions based upon the outcome of presidential elections is unlikely to result in reliable excess returns for investors.

At best, any positive outcome based on such a strategy will likely be the result of random luck. At worst, it can lead to costly mistakes. Accordingly, there is a strong case for investors to rely on patience and portfolio structure, rather than trying to outguess the market, in order to pursue investment returns.



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Source: Dimensional Fund Advisors LP.

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For more information or to discuss your portfolio needs, please contact Todd Moerman @ 303-549-4720 or 970-818-5266 or toll free 855-863-3332.

Thank you for your business.

If you have any friends or family who need a 2nd opinion, please contact us.

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