

2016 Third Quarter Review

October 2016

Autumn is upon us. Whether you delight in colorful fall foliage, adorable goblins demanding sweets, or gathering your loved ones for the annual feast, this season offers something for everyone. The markets had something for everyone in the third quarter, too, as almost all segments produced positive returns. Like star quarterbacks, a few indexes turned in stellar performances.

2017: Right Around the Corner

This fall all eyes are on the election coming in November. The current round of campaigning is by turns amusing, dizzying, frightening, and wearisome—unlike any we have seen before. Predictions and analyses of the relationship between market performance and presidential elections cover the board; choose your favorite hypothesis and someone's research supports it.

So while it may be too soon to predict who will play in the Rose Bowl or occupy the Oval Office, we are confident that winter follows fall. Before we know it, we will be celebrating our winter holidays and welcoming 2017. Now is the perfect time to plan your year-end financial activities and take them off your to-do list before your calendar fills up with parties and gift exchanges.

Among the tasks we can handle for you far before New Year's Eve:

- If you are required to take annual minimum distributions (RMDs) from retirement accounts:
 - Schedule your RMD. If we have not already contacted you, we will be in touch before November 15 to confirm the details of your required minimum distribution from your retirement account.
 - If you have retirement accounts you have not yet moved to us, confirm you are meeting your RMD requirements with the account representative.
 - You may make a qualified charitable distribution (QCD) of up to \$100,000 from your IRA without increasing your gross income, provided you have not yet taken all your RMD for the year. Contact us for details.
- If you plan year-end gifts to loved ones or charities, you can give us the details now, and we will handle all the details at the time you specify. In any event, please provide your gifting instructions by the end of November so we can strategically accomplish your wishes.
- We can harvest tax losses or gains for you if you need them.
- The end of the year is a great time for a mini-checkup. You might review your trust documents, beneficiary designations, and other financial documents to make sure they reflect your current wishes.
- We are always here to counsel you on any financial questions or life matters touched by your finances.

Speaking of checkups, did you know that we offer special services for your friends and family members? Our Second Opinion Overview™ offers a complimentary and confidential portfolio review. Our expert team evaluates diversification, quality of holdings, and fees, along with other pertinent factors, and provides an outline of findings *at no cost*. If you know someone who would like our help, have the individual contact Matt Balaker at 800.545.4442, extension 231, or mbalaker@towneley.com. Or you may contact Matt with your friend's or family member's name and phone number.

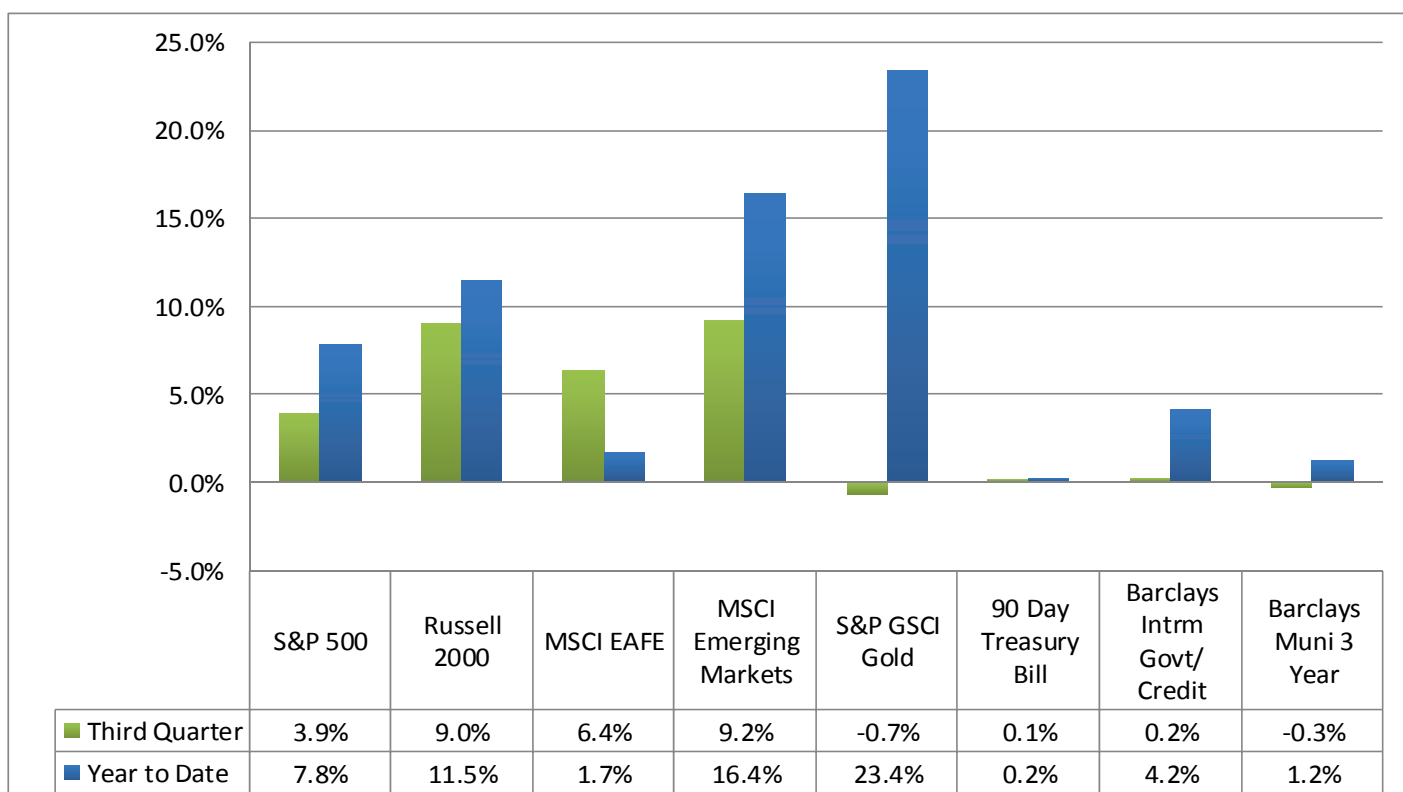
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Your Portfolio

The third quarter brought less volatility than we saw in the previous quarter and most segments posted positive returns. Our second-quarter changes in fixed income allocations helped to boost client portfolio fixed income returns above the indexes in the third quarter. Our international equity allocation includes a slightly higher position in emerging markets than do the indexes, another plus for client portfolios in the third quarter, as returns in that segment came in ahead of the benchmarks. If election results do not spook the markets, we could be in a good position to end the year quite nicely, but that “if” is a big one. In any event, your portfolio is positioned to weather whatever lies ahead as 2016 draws to a close.

Market Returns: Third Quarter and Year To Date



Thoughts From Towneley

GDP growth is slow to moderate, and declining corporate profits are moving the price-to-earnings ratio to higher levels. These valuations may reflect unrealistically high expectations. The market has been up since February, but big returns are not expected over the next five years. We do not see market forces developing that will generate big equity returns and fixed income returns will be low, due to low yields. Most of the Fed’s economy-stimulating weaponry has already fired. We are prepared, and more importantly, your portfolios are prepared, for a period of relatively modest returns. The bulls may be getting tired after eight years on the run.

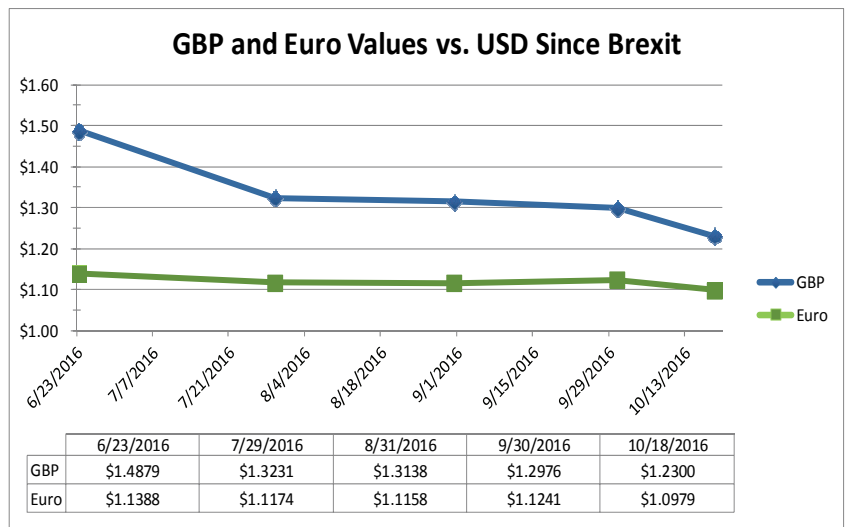
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Economic Roundup

The USA Growth has been slow to moderate but is expected to pick up in the fourth quarter, and higher valuations show us the market has been betting on healthier GDP and profit figures as the year draws to a close. Labor force participation rates are increasing after a period of decrease and wages are growing. In short, the economy is chugging along. The Fed is more likely to raise interest rates in December, once the election is over. Growth and small-cap stocks were the leaders in the third quarter, though value leads for the year to date.

The UK and EU The Brexit decision is hitting the UK harder than it is the EU. While the pound (GBP) has lost over 17% against the dollar since the vote last June 23, the euro has declined 3.6% over that same period. As a result, many pound-denominated investment returns will be lower when converted into US dollars. Exports to the UK will cost more and imports from the UK will be cheaper, but the volume isn't enough to move the inflation needle yet. More important will be the impact on US trade negotiations with the UK and the EU.



The European Central Bank is buying more corporate bonds, reducing the supply to other investors. This action is driving some bond buyers to US securities, so foreign demand for US bonds has increased over the last year.

Currently, more money is moving into riskier assets like high-yield bonds (up 5.6% in the third quarter). This shift could indicate increasing confidence in the economy, but safer choices have been snapped up due to QE and the ECB's efforts to stimulate the economy.

Asia The Bank of Japan (BOJ) announced monetary policies meant to battle deflation. The interest rate is currently set at -0.1 percent. The BOJ has vowed to maintain interest rates between -0.1 and 0.0 and is buying and selling bonds to maintain that rate while expanding the money supply. China managed to continue steady growth during the third quarter. Most Latin American economies remain in recession, but economists are hopeful that modest growth may return in 2017.

Emerging Markets Emerging markets were big winners last quarter. Oil prices have made significant gains since February's trough. Although they dipped a bit in the third quarter, the overall gains are helping to boost 2016 year-to-date returns for resource-rich countries. Low interest rates help, too. Stock prices are rising as a result.