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CALLING ALL TINCAPS FANS!

FORT WAYNE

Are you interested in attending a Fort Wayne TinCaps game this season?

Dekko Investment Services has four season tickets for the Fort Wayne TinCaps that we enjoy sharing with our clients and friends. If you would like to go to a game, please email Alisha at alisha.norris@lpl.com with the date that you'd like, and if that date is still available, the four tickets are yours! You can view the Fort Wayne Tincaps schedule online at www.tincaps.com.

Second Quarter is in the Books

We've experienced a bumpy ride so far in 2016 after the worst start to a year in Wall Street history in January, a market correction in February, and the United Kingdom's surprise vote to exit the European Union in June. On June 24th alone, stocks were punished globally after the result of the Brexit vote was announced and the U.K. prime minister David Cameron decided to step down. On that day, the S&P 500 fell 3.6% while many markets across the globe fared worse. The S&P's initial losses were then almost fully recovered in the final trading days of the quarter. Through all of these market moving events, the U.S. stock market has remained resilient and is in positive territory for the year returning 3.84% through June 30th.

Large cap U.S. equities, as measured by the S&P 500, managed a total return of 2.46% for the second quarter. Meanwhile, small cap U.S. equities finished even higher returning 3.79%, as measured by the Russell 2000.

International equity markets were mixed with developed international equities losing 1.46% while emerging market equities ended the quarter up 0.66%, as measured by the MSCI EAFE Index and MSCI EM Index respectively.

The U.S. bond market posted a return of 2.21%, as measured by the Barclay's US Aggregate Bond Index, as interest rates continued to fall throughout the quarter.

Index	Q2 Return	Index Description
S&P 500 TR	2.46%	Tracks 500 leading large cap companies in the U.S.
Russell 2000 TR	3.79%	Tracks 2000 of the smallest companies in the U.S.
MSCI EAFE NR	-1.46%	Tracks 21 developed international equity markets including France, Germany, Spain, the U.K., & Japan
MSCI EM NR	0.66%	Tracks 25 emerging market countries including China, India, Brazil, Mexico, Russia, Turkey, & Greece
Barclays Aggregate Bond TR	2.21%	Tracks investment grade bonds trading in the U.S.

Presidential Elections and the Markets

Here we will discuss what the upcoming presidential election may mean for markets in 2016. Key takeaways include the following:

1. Markets do not like uncertainty, and this election undoubtedly brings uncertainty to the table.
2. Election years are historically good for stocks though with added volatility.
3. We may benefit from the typical late election year rally once the markets have more clarity on the candidates and their platforms.

Election Year Pattern

Election years have historically been good for stocks though not as good as year three [See Figure 1]. Year three (the pre-election year) has been the standout performer since 1950 with only one down year out of 17 (flat in 2011 and -0.7% in 2015) and an average S&P 500 gain of 16%. Election years (year four) have also been good, especially excluding the anomaly in 2008, with gains averaging near 10%, and positive returns in a solid 87% over the years. Since 1960, the only down election years were 2000 and 2008 when the U.S. economy was either sliding into recession or already in one. Bottom line, election years have generally been good for stocks.

Gains during election years are encouraging, but the path to those gains has historically been volatile. The volatility at the start of 2016 was certainly extreme, but the election year pattern for stocks suggests volatility may persist through the summer months until markets have more clarity on the candidates and their platforms [See Figure 2]. Once that clarity arrives, often before the election itself, stocks have typically staged a late-year rally.

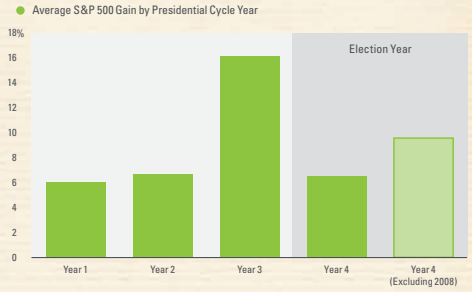
Is Gridlock Good?

The oft-cited market mantra "gridlock is good" suggests that a split Congress or a President from the opposite party in control of both houses of Congress would be better for markets. Historically, the combination of a democratic President and split Congress has been best for markets, with an average gain of 10.4% for the Dow Jones Industrial Average [See Figure 3]. However, that combination has only occurred during the 2010–2014 period (3.5% of all periods) so take those stats with a grain of salt. A republican sweep of the White House and Congress (a fairly common outcome historically at 22.6% of all periods) has been positive for stocks as well, with an average gain for the Dow of 7%. It's also worth noting that stocks have tended to do better when the incumbent party wins the White House.

Conclusion

Markets do not like uncertainty, and this election is certainly unpredictable. But election years are historically good for stocks. Although more volatility may lie ahead, we could potentially benefit from a late-year rally as the markets receive more clarity. So even if the headlines from the campaign trail lead to pullbacks or corrections between now and November, more likely than not, we would view them as buying opportunities.

1 YEAR FOUR HAS BEEN GOOD FOR STOCKS, 2008 ASIDE



Source: LPL Research, FactSet 05/06/16
Study covers 16 election cycles back to 1952.
Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

2 PRESIDENTIAL CYCLE PATTERN SUGGESTS VOLATILE SUMMER AND LATE-YEAR RALLY

Source: LPL Research, FactSet 05/05/16
Study covers 16 election cycles back to 1952.
Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

3 STOCK MARKET PERFORMANCE UNDER PRESIDENTIAL AND CONGRESSIONAL PARTY COMBINATIONS

	% Gain/Annum	% of Time
Democratic President, Republican Congress	8.6	9.8
Democratic President, Split Congress	10.4	3.5
Democratic President, Democratic Congress	7.2	34.7
Republican President, Republican Congress	7.0	22.6
Republican President, Split Congress	-4.3	10.5
Republican President, Democratic Congress	2.4	19.1

Source: LPL Research, Ned Davis 05/05/16
Dow Jones Industrial Average data back to 1901.
Indexes are unmanaged and cannot be invested in directly.
Past performance is no guarantee of future results.

Wishing you a profitable summer!

Erica D. Dekko, CFP®

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The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Portions of this newsletter have been prepared by LPL Financial.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average Index is comprised of U.S.-listed stocks of companies that produce other (non-transportation and non-utility) goods and services. The Dow Jones industrial averages are maintained by editors of The Wall Street Journal. While the stock selection process is somewhat subjective, a stock typically is added only if the company has an excellent reputation, demonstrates sustained growth, is of interest to a large number of investors, and accurately represents the market sectors covered by the average. The Dow Jones averages are unique in that they are price weighted; therefore, their component weightings are affected only by changes in the stocks' prices.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

The Morgan Stanley Capital International ('MSCI') Europe, Australia, Far East Index ('EAFE') is an unmanaged index of over 900 companies, and is a generally accepted benchmark for major overseas markets. Index weightings represent the relative capitalizations of the major overseas markets included in the index on a U.S. dollar adjusted basis. The index is calculated separately: without dividends, with gross dividends reinvested and estimated tax withheld, and with gross dividends reinvested, in both U.S. dollars and local currency.

The Morgan Stanley Capital International ('MSCI') Emerging Markets Index adjusts the market capitalization of index constituents for free float and targets for index inclusion 85% of free float-adjusted market capitalization in each industry group, in global emerging markets countries. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indexes: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The Barclays Capital U.S. Aggregate Index is comprised of the U.S. investment-grade, fixed-rate bond market.