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Quarterly Market Update
July 2016

Like many of you, my family and friends enjoyed celebrating the Fourth of July weekend. We did many of the traditional things that we have always done with some going to the lake, getting together for hot dogs and hamburgers, hanging out at the pool and fireworks. I must admit, I did not go to the lake with the younger crowd and had less interest in seeing this year's fireworks though I heard my 18 month-old granddaughter really enjoyed the flash and bangs.

However, this year I found special meaning in putting up the flag in our yard. Normally, in July where we live, there is not enough breeze to animate the flag to any degree but this year was different. The wind was brisk and Old Glory was in full display making that popping sound that adds to the moment. In my reflection, I thought about the meaning of Independence Day and the freedom we enjoy in our nation that few today and even fewer throughout recorded history have ever experienced. I appreciate that freedom came with a price paid by others but remains a responsibility owed by all who hold it dear.

Political tremors create economic waves

The "Brexit" was mentioned in our April Market Update as one of eleven topics competing for the "News Headlines" in 2016 and the United Kingdom's surprise vote certainly had an impact in the 2nd quarter.

On June 23, the UK voted in a nonbinding referendum to exit the 28-nation economic and political bloc called the European Union. Though "Brexit" was chosen by a narrow margin, the people had spoken.

Given it's a nonbinding referendum, British lawmakers could ignore the results. While there has been some talk that a UK exit will never happen, at this juncture, it doesn't seem likely the referendum will be ignored.

Nonetheless, a victory by the "Leave" camp wasn't supposed to happen. While the vote was expected to be close, pollsters, analysts, and even the bookies all projected "Remain" would squeak through with a win. In advance of the vote, stocks rallied in anticipation "Leave" would go down to defeat.

Whether good or bad, continuity usually benefits markets because it provides certainty. More accurately, short-term traders dislike added uncertainty and are much quicker to hit the sell button than longer-term investors who are more tolerant of the headlines of the day.

Why might "Brexit" be viewed as heightened uncertainty? Well, we're in uncharted waters. No nation has ever asked to leave the EU.

Could Brexit fuel other separatist movements and create additional economic uncertainty in Europe?

Might we see the euro currency, which is shared by 19 nations, begin to unravel? How might this pressure an already fragile European banking system?

And will the dollar begin to strengthen as global investors see the relative safety of the U.S. as a shelter from the stormy global environment?

While these are longer-term concerns, there were a couple of immediate casualties. British Prime Minister David Cameron, who was adamantly opposed to "Brexit", quickly resigned, and the British pound fell to its lowest level in over 30 years (Bloomberg).

Meanwhile, in the U.S., expectations of a second rate hike by the Federal Reserve have dimmed considerably. Of course, rate hike sentiment could change again, but for now, prospects for a 2016 rate increase are low (CME Group).

Let's not discount the positives at home

Many of the themes that have kept stocks near highs continued to play out over the quarter that just ended. On the plus side, U.S. economic growth appears to have accelerated in Q2 and interest rates remain low. While "Brexit" may muddy the picture, earnings are forecast to begin rising again in Q3 (Thomson Reuters).

The increase in oil prices has not only reduced the strong headwinds in the troubled energy sector, but it has reversed the surge in yields among junk bonds. Still, a fill-up at the gas station remains relatively low.

Moreover, the dollar's recent stability reduces the drag on revenues from firms that do a significant amount of business overseas. When U.S. companies sell goods around the globe, they must translate those sales back into stronger dollars, thereby, reducing revenues.

Interest rates remain low with the benchmark 10-year US Treasury sliding below the 1.5% level providing continued support for the U.S. housing market.

The equity market returns are shown below:

Key Index Returns	YTD %	3-year* %
Dow Jones Industrial Average	+2.9	+6.3
NASDAQ Composite	-3.3	+12.5
S&P 500 Index	+2.7	+9.3
Russell 2000 Index	+1.4	+5.6
MSCI World ex-USA**	-4.8	-0.8
MSCI Emerging Markets**	+5.0	-3.9

Source: Wall Street Journal, MSCI.com
YTD returns: December 31, 2015–Jun 30, 2016
*annualized **in US dollars

Looking ahead

While our goal is to generally invest using a 3-5 year perspective and time horizon, we certainly have a focus on what is going to happen in the 2nd half of 2016. We continually adjust our perspective to the news of the day but try to identify and stay focused on those things that will have an impact on our client's long-term success.

We have confidence in our planning process and the personalized investment strategy we have implemented with the input of each client. We understand the importance of listening to the needs and goals of each client and together determine an appropriate level of risk in order to be successful. We enjoy our client relationships and interaction and want you to know we are always available to answer questions, address concerns or just hear about how your life is going.

Thank you for the opportunity you have given our team to be of service. Enjoy the final Summer months. We look forward to our next contact!

John