FEIERTAG
FINANCIAL SERVICES

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

July 2016

Our roads to success may have twists and turns and ups and downs; together we can navigate a course and enjoy the scenery along the way.

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July 2016 from Feiertag Financial Services

Diversification: A Big Word, With Bigger Investment Implications

When investing, don't put all of your eggs in one basket. Diversify to manage risk and potentially enhance performance.

Weekly Market Commentary | Week of July 5, 2016

The earnings recession will likely continue with second quarter results, which will begin with a small handful of companies reporting this week (July 58, 2016).

Please CLICK on any Article Title, Then SCROLL to See All Pages

Many of our clients have been receiving letters from brokerage, mutual fund companies, insurance companies, or banks saying they haven't heard from the investor for a while. Don't ignore these letters. Please call our office and we may be able to help. The financial institution might be trying to prevent your investments from being turned over to your state government. States are becoming quicker to declare investments "abandoned" when owners lose touch with their financial firm. Here are some tips: Contact should be made at least once every three years. Reinvesting dividends and capital gains does not constitute contact. Pensions and 401(k)'s are excluded from unclaimed property laws, but not your IRA's. Respond to these letters. If you are worried it is a scam, call the firm's number listed on your last statement. Go to Unclaimed.org and Missingmoney.com to search for seized property. To find uncashed savings bonds, search treasuryhunt.gov, and to recover deposits from failed banks, go to www.5.fdic.gov/funds.* Who knows-you might find accounts of yours, or possibly that of relatives, so you can then notify them of the account.

The following tips were shared with us:

- If you are traveling and parking your car in long-term parking, do not leave your car registration, insurance card or garage door opener in the glove box.
- Don't put your home address in your GPS. If your car gets stolen, the thieves don't know where you live.
- Possibly rename certain contacts in your cell phone. Don't use things like "hubby". A thief can text "hubby" in your contact list and say "I forgot our PIN" and withdraw money from your bank account. Do not disclose relationships between you and those in your contact list. If someone is texting you and asking for sensitive info, call them back to confirm that it is indeed the person you think it is.
- Don't be so loose on social media sites with your current location. Robbers can see that you are not home, and that is not good.

Please call us to set up an appointment so we can fine-tune your accounts. We don't make anything, but we believe this is something you should ask us to do on a regular basis, so please call us to set up an appointment. We will do the work before that appointment so when we call you, it should only take about five or ten minutes of your time.**

We always appreciate referrals from our satisfied clients, friends, business partners, and family members. We welcome the opportunity to serve the people you care about. All of your information will be kept confidential, and the time we devote to serving them will not dilute the time needed to serve you. Please visit our website (www.steven.feiertag.com) and if you like what you see, pass this on to your contacts. Thank you for your continued business and support.

If you are not receiving our monthly e-Newsletter, please check your spam filter to make sure that both my e-mail address (steven.feiertag@LPL.com) and Eileen's e-mail address (eileen.feiertag@LPL.com) are being delivered.

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** Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit

or protect against a loss.

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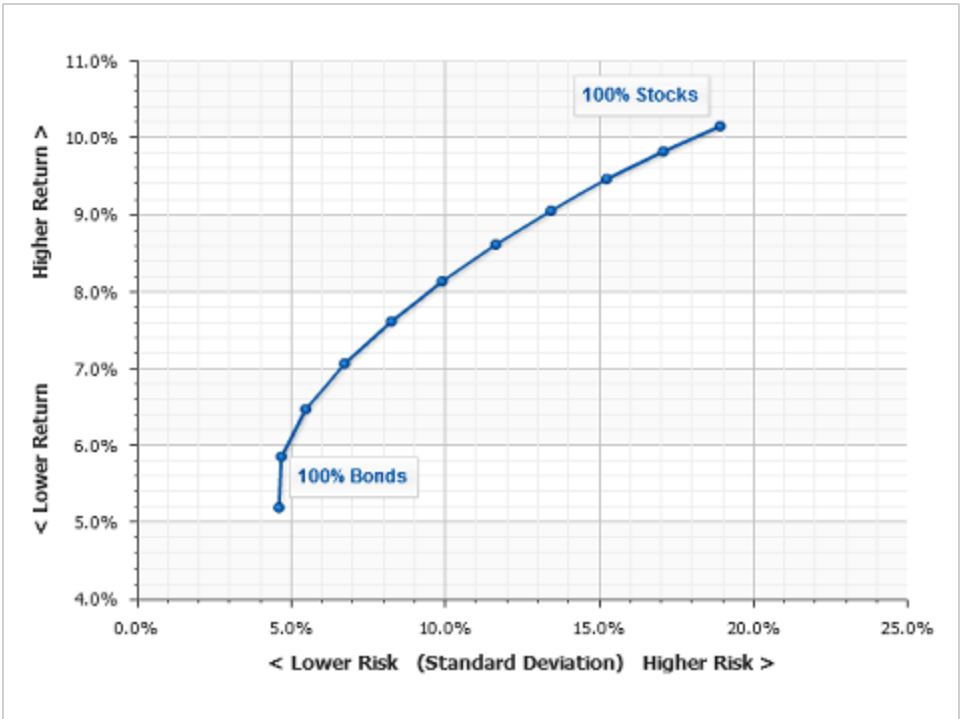
Diversification: A Big Word, With Bigger Investment Implications

The process of diversifying -- or dividing your money among different types of investments -- is based on the idea that different asset classes tend to react differently to similar market conditions.

In today's market environment, diversification is more important than ever.[1] But what is the thinking behind this big word? The process of diversifying -- or dividing your money among different types of investments -- is based on the idea that different asset classes tend to react differently to similar market conditions. So by diversifying your portfolio, you may help reduce the risk that a loss in one asset class will drag down your entire portfolio.

The Right Mix May Help You Manage Risk



Source: ChartSource®, DST Systems, Inc. Results include total annual returns for the period January 1, 1926, through March 31, 2016. Bonds are represented by a composite of the total returns of long-term U.S. government bonds, derived from yields published by the Federal Reserve through 1972, the Barclays Long-Term Government Bond index through 1975, and the Barclays U.S. Aggregate index thereafter. Stocks are represented by the S&P 500 index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

Diversify Within and Among Asset Classes

To diversify your portfolio, first select among major asset classes, such as stocks and bonds.[2] The chart above shows how diversifying your portfolio with stocks and bonds may help reduce risk over time, although past performance is no guarantee of future results. Second, consider diversifying within an asset class, such as stocks. For example, if your primary objective is growth, you might choose to invest the majority of your money in "blue-chip" stocks and small-cap stocks.[3] You may also want to consider adding foreign investments to your portfolio mix.[4] Foreign investments make up more than half of the world's total market, so if you are not investing overseas, you may be limiting your opportunities.

Sometimes Less Is More

Diversification is often described as putting your eggs in different baskets. The mix of "baskets" you choose should depend on your goals, time frame for those goals, and ability to tolerate risk. Long-term investors may choose more stock investments, while shorter-term investors may select a mix weighted toward bonds and cash investments such as certificates of deposit.[5]

No matter what combination you choose, make sure each investment plays a specific role in your overall objective. In investing, more is not always better -- strategic diversification is the key.

This communication is not intended as investment advice and should not be treated as such. Each individual's situation is different. You should contact your financial professional to discuss your personal situation.

[1]*There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.*

[2]*Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.*

[3]*Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments.*

[4]*Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.*

[5]*CDs may be FDIC insured and may offer a fixed rate of return if held to maturity.*

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Weekly Market Commentary | Week of July 5, 2016

KEY TAKEAWAYS

- The earnings recession will likely continue with second quarter results, which will begin to be reported this week.
- Better times may lie ahead: U.S. economic growth has started to pick up, the drags from the U.S. dollar and oil are starting to abate, and Brexit appears unlikely to hurt U.S. companies much.
- We continue to expect a second half earnings rebound to drive further stock market gains in the second half of 2016.

Q2 2016 EARNINGS PREVIEW: BETTER TIMES AHEAD?

The earnings recession will likely continue with second quarter results, which will begin with a small handful of companies reporting this week (July 5-8, 2016). The Thomson-tracked consensus estimate for S&P 500 earnings per share (EPS) is calling for a 4% year-over-year drop, which would mark the fourth consecutive quarterly decline (by FactSet's count the streak would reach five). Perhaps the best thing to say about this streak, the longest since 2008, is that the drop will likely confirm that the 5% year-over-year decline in the first quarter of 2016 marked a trough.

But signs are pointing to better times ahead. U.S. economic growth has picked up in the second quarter of 2016 based on available economic data. Despite the U.S. dollar rally following the Brexit news on June 23, 2016, we expect the dollar to turn from a headwind to tailwind in the second quarter of 2016. Higher oil prices should lead to a smaller (but still large) decline in energy sector profits. And we do not expect the Brexit news to have a meaningful impact on results.

This week we preview the upcoming earnings season and update our thinking on the prospects for an earnings rebound in the second half of 2016.

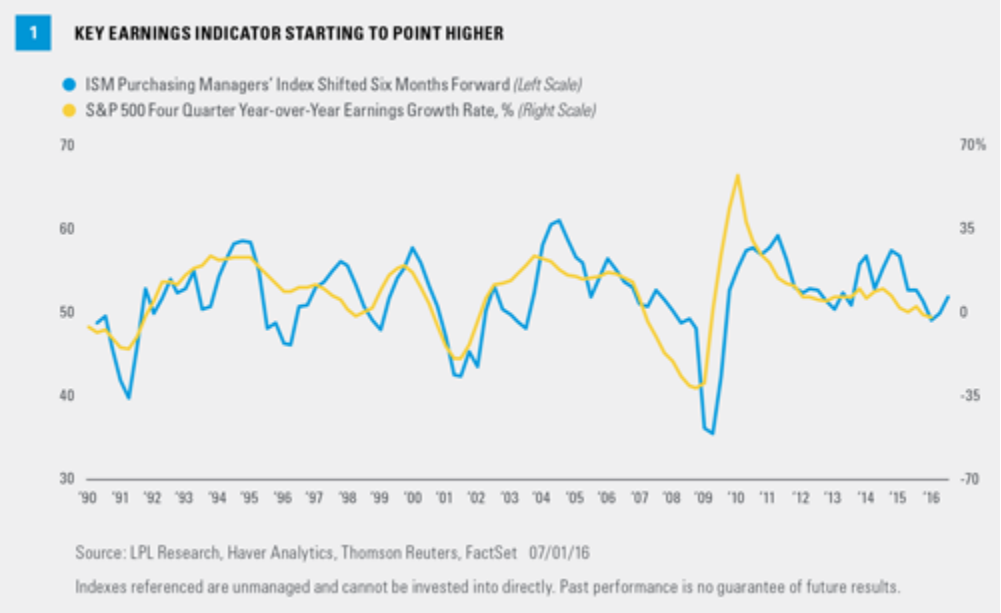
CONSIDER THE SOURCE

Different sources such as FactSet, Bloomberg, Standard & Poor's, and others have different calculations than Thomson Reuters for S&P 500 earnings, based on various methodologies and different interpretations of what constitutes operating earnings.

BETTER U.S. ECONOMIC PICTURE

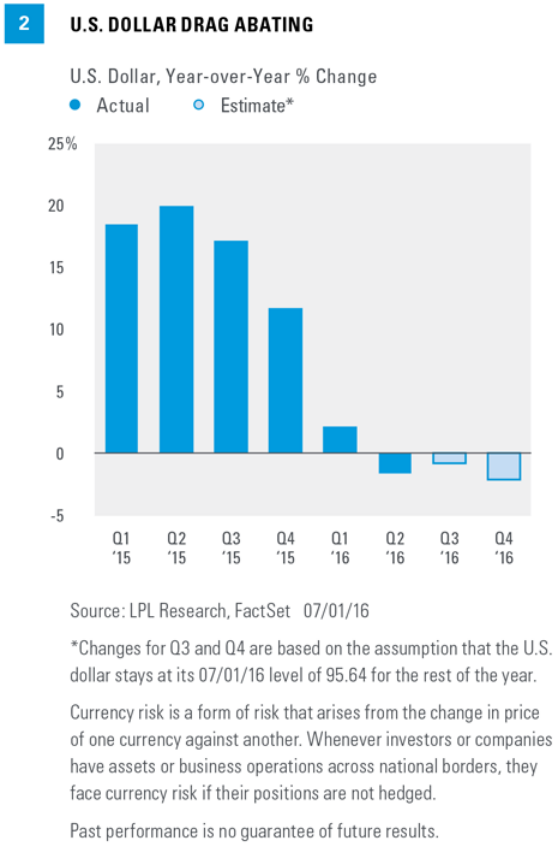
U.S. corporate profits are closely tied to manufacturing activity and capital spending. Accordingly, earnings have historically been well correlated with the Institute for Supply Management's (ISM) Manufacturing Index, a survey of purchasing managers' future spending plans. As a result, the strong and better than expected ISM Index of 53.2 for June (reported July 1), the fourth straight reading above 50 and second straight month of improvement, is a positive signal [Figure 1].

We expect another bounce back in second quarter gross domestic product (GDP), to perhaps 3.0% or more, despite the weak May 2016 jobs report and weakness in Europe, and see capital spending beginning to pick up following the nearly two-year oil-driven slump, despite heightened political uncertainty.



FADING DRAG #1: U.S. DOLLAR

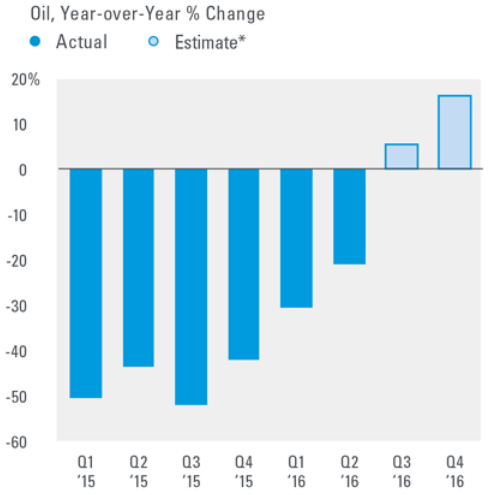
We expect the earnings drag on foreign profits from a stronger U.S. dollar to dissipate during the second quarter of 2016 despite the latest Brexit-driven rally. Even with the 3% jump since the Brexit news on June 23, 2016, the dollar has weakened considerably since December 2015, as expectations for Federal Reserve (Fed) rate hikes in 2016 have been pared back--to the point where no hikes are being fully priced into federal funds futures markets in 2016 or 2017. The average dollar index level in the second quarter of 2016 was 1.7% below that of the same quarter a year ago, providing a tailwind for earnings. And should the dollar remain where it is for the rest of 2016, currency would be a tailwind for the second half of the year as well, after representing a drag of as much as 20% on foreign profits during the second quarter of 2015
[Figure 2].



FADING DRAG #2: OIL

The drag on earnings from the energy downturn has been even bigger than the dollar drag over recent quarters. The sector posted a small loss in the first quarter of 2016, registering a 105.7% year-over-year earnings decline, which trimmed about 5 percentage points off of overall S&P 500 profits. Low oil prices will still likely lead to energy sector profit declines in the second and third quarters of 2016 based on consensus estimates. Oil prices averaged 21% less in the second quarter of 2016 than in the second quarter of 2015. However, should oil prices stay at current levels, the commodity would show a year-over-year price gain in the third quarter of 2016 [Figure 3] and position the sector to potentially produce double-digit earnings gains in the fourth quarter.

3 OIL PRICE PRESSURES BEGINNING TO EASE



Source: LPL Research, FactSet 07/01/16

*Changes for Q3 and Q4 are based on the assumption that oil prices stay at their 07/01/16 level of 48.99 for the rest of the year.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

Past performance is no guarantee of future results.

BREXIT IMPLICATIONS

Broadly, we expect Brexit to have limited impact on earnings. S&P 500 companies overall have minimal exposure to the U.K. (estimated less than 5%, according to FactSet). Although some companies will surely use Brexit as an excuse for falling short of estimates, overall, we do not expect political and economic uncertainty in the U.K. to have much impact on U.S. company profits.

Brexit has had some negative impact on corporate profits through the stronger dollar and tighter financial conditions. The financials sector is perhaps most impacted given its sensitivity to interest rates, which remain near post-Great Recession lows; the 10-year Treasury yield closed at 1.46% on July 1 and dipped below 1.40% intra-day on July 5. One way Brexit has not yet negatively impacted earnings is commodity prices; the Bloomberg Commodity Index is actually up since the Brexit news despite dollar strength.

ALL ABOUT GUIDANCE

It's always about guidance as stocks trade more on expectations for future quarters than on results for a quarter that ended. Since the Great Recession, earnings estimates for the next 12-months have typically fallen 2-3% during earnings season. During first quarter 2016 earnings season, the estimate reduction was at the low end of that range--an encouraging sign. We believe we will see a similar result this quarter for several reasons:

- Better growth. We continue to see 2-2.5% GDP growth for the second half of the year despite stalled overseas growth, the Brexit-related tightening of financial conditions (via the stronger U.S. dollar), which we expect to be short-lived, and U.S. election uncertainty that will be with us for the next several months. This growth pace is supportive of a return to high-single-digit earnings gains by year-end.
- Easing drags of the dollar and oil. The significant drop in earnings estimates early this year was largely due to weak oil prices and the strong dollar. Even with the post-Brexit dollar rally, these drags are easing considerably and increase the chances that companies are able to at least maintain their outlooks through year-end and into 2017.
- Favorable pre-announcements. The ratio of companies pre-announcing negative results relative to those

pre-announcing positive results (2.3) has been more favorable during the second quarter 2016 than in the prior quarter (3.8) and the year-ago quarter (4.3). The ratio is also better than the 20-year average of 2.7.

- Estimates held up well late in the quarter even post-Brexit. Estimates for the second quarter of 2016 and the next year held up very well in June 2016, even following the June 23, 2016 Brexit vote, after which many economists reduced their European and U.K. economic growth forecasts and currencies experienced extreme volatility. Consensus estimates, which have fallen less than 0.2% since the vote, are calling for a 10% increase in S&P 500 EPS over the next four quarters, so we would view a number near this or slightly lower after earnings season is over as a positive surprise.

These factors suggest that high-single-digit earnings gains in the fourth quarter of 2016 are potentially achievable (consistent with consensus estimates), in our opinion, and can help support modest stock market gains in the second half of 2016.

CONCLUSION

The earnings recession will likely continue with second quarter results. Although the decline is likely to be smaller than the first quarter's and suggest a trough is in, there will not be much good to say about the results. But better times may lie ahead. U.S. economic growth has started to pick up, the drags from the U.S. dollar and oil are starting to abate, Brexit appears unlikely to hurt U.S. companies all that much, and we generally expect guidance to be pretty good. We continue to expect a second half earnings rebound to drive further stock market gains in the second half of 2016.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

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.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

All investing involves risk including loss of principal.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

INDEX DESCRIPTIONS

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 Institute for Supply Management (ISM) index is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management. Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment.

The USD Index measures the performance of the U.S. dollar against a basket of foreign currencies: EUR, JPY, GBP, CAD, CHF and SEK. The U.S. Dollar Index goes up when the dollar gains "strength" compared to other currencies.

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