KATHMERE
CAPITAL MANAGEMENT

Monthly Market Update

September 2016

Market Performance Overview

Asset Class	Benchmark	1 Month	3 Months	YTD	1 Year	3 Years
U.S. Stocks	*Russell 3000 Index*	0.3	4.5	8.0	11.4	11.7
U.S. Large-Cap Stocks	*S&P 500 Index*	0.1	4.1	7.8	12.6	12.3
U.S. Small-Cap Stocks	*Russell 2000 Index*	1.8	7.8	10.2	8.6	8.5
International Stocks	*MSCI ACWI ex. U.S. Index*	0.6	4.0	4.5	2.9	2.0
Developed Market Stocks	*MSCI EAFE Index*	0.1	1.6	0.5	-0.1	2.5
Emerging Market Stocks	*MSCI Emerging Markets Index*	2.5	11.9	14.6	11.8	1.1
U.S. Taxable Bonds	*Barclays U.S. Aggregate Bond Index*	-0.1	2.3	5.9	6.0	4.4
U.S. Municipal Bonds	*Barclays U.S. Municipal Index*	0.1	1.8	4.5	6.9	6.5

3-Year return figure is annualized.
Source: Morningstar. As of 8/31/2016.

Stock Market Volatility Takes a Summer Vacation

While the occurrence of all three major U.S. stock market indexes—S&P 500 Index, Dow Jones Industrials Average, and Nasdaq Composite Average—recording new all-time highs on the same day on August 14 for the first time since the turn of the millennium in December 1999 grabbed headlines and many investors attention, perhaps the most remarkable aspect of the stock market environment of late has been the near complete absence of volatility. Or, in other words, how boring the markets have been.

Since the immediate aftermath of the Brexit vote (and resulting market swoon and subsequent rebound), stock market volatility can best be described as having been on vacation. Analysts in LPL's Financial Research group commented that "[August] will go down in history as one of the least volatile months ever."[1] Consider the following:

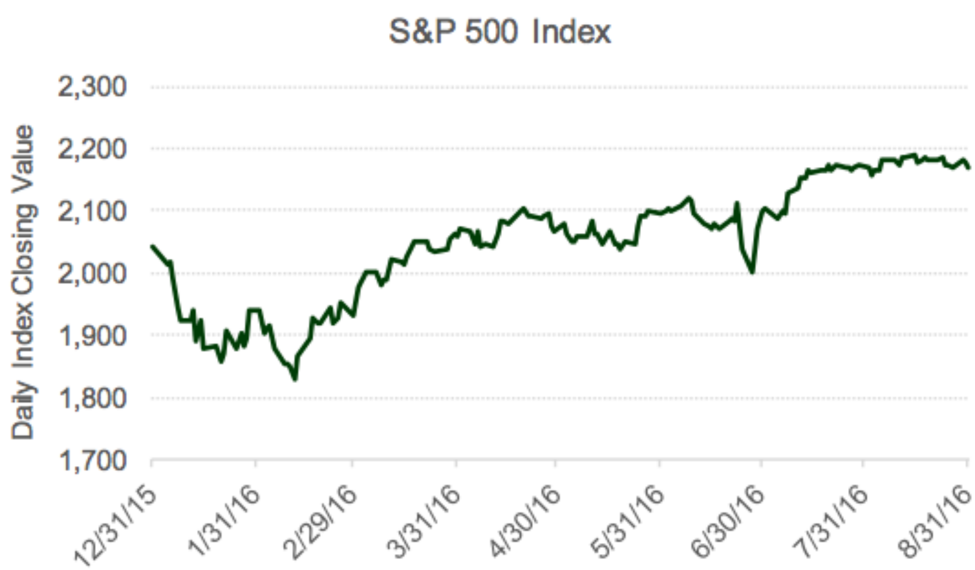
- The S&P 500 traded in a range of only 1.54% for the entire month using closing prices; the tightest monthly range since August 1995 and the 7th tightest range since 1928.
- The S&P 500 didn't move up or down by more than 1% on any day for the entire month for the first time since November 2014.
- Since the Brexit-induced market swoon, the S&P 500 has gone 46 straight trading sessions without a daily decline greater than 0.7%; during the first 46 sessions of the year, the S&P 500 declined by greater than 0.7% on a single day 16 times.

There is an old saying that **the stock market takes the elevator down and the escalator up**. The first eight months of the year have lent credence to this old saw as investors have experienced both of

[1] *Market Update: Thursday, September 1, 2016*; LPL Financial Research

these effective modes of vertical transportation. To briefly recap the year to date (also the chat below for a graphical recap):

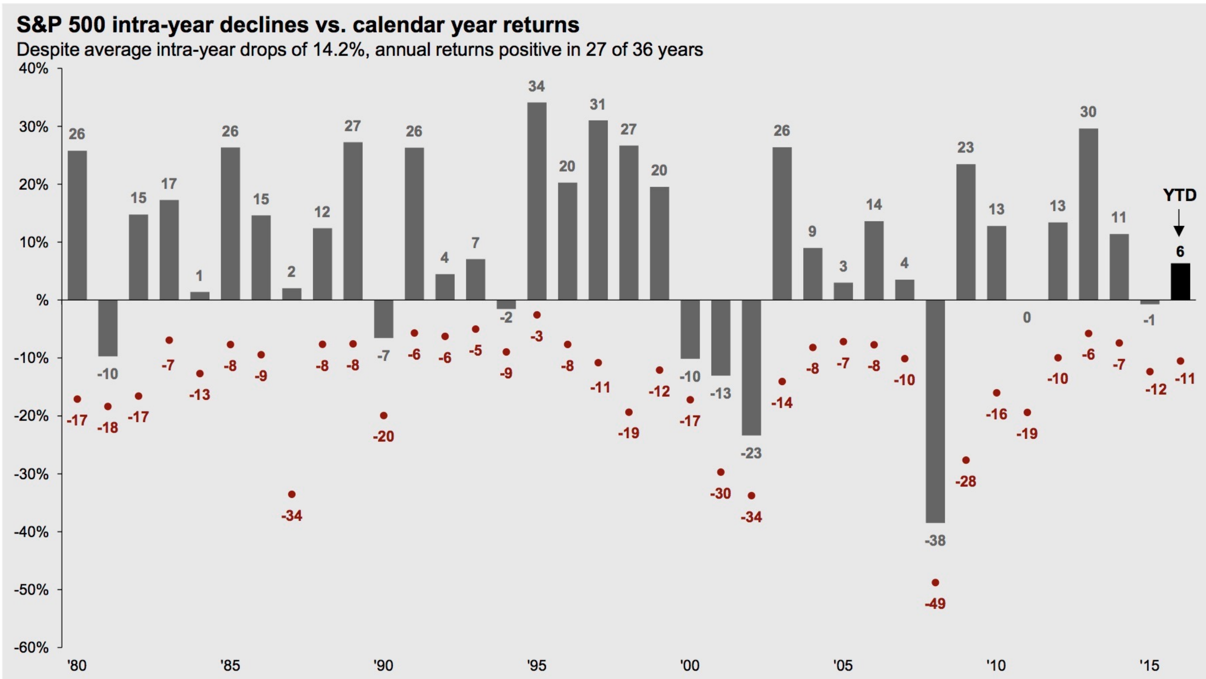
- January 1 to February 11: Over the first 28 trading sessions of the year, the S&P 500 was down more than 10%, marking one of the worst starts to a year in the index's history.
- February 12 to June 23: The S&P 500 steadily climbed the proverbial "wall of worry" over the course of the next four months (92 trading sessions), racking up cumulative gains of more than 15% along the way.
- June 24 to June 27: In the wake of surprise result of the Brexit vote, the S&P 500 sharply fell more than 5% over two trading sessions.
- June 28 to August 31*:* The markets shook off the initial shock of the Brexit vote and proceeded their march upward toward new all-time highs. The S&P 500 gained nearly 9% over the next two months (48 trading sessions).



Source: Stockcharts.com

While the specifics of this year's events are of course unique, this **pattern of sharp, unexpected, and often jarring drawdowns occurring amid an upward trending market is not unusual.** According to research from JPMorgan, presented in the slide below, the S&P 500 has ended the year higher in 27 of 36 years since 1980.[2] However, during this period, the index experienced an average intra-year decline of more than 14%. In fact, in eight of those 36 years, the S&P 500 both ended the year 10% or more higher and experienced a 10% intra-year decline.

[2] *Guide to the Markets: U.S. 3Q 2016*; JPMorgan Asset Management



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2015, except for 2016, which is year to date.

It's our perspective that, in hindsight, many investors—amateur and professional alike—often remember extended bull markets as having taken a smooth, relatively uninterrupted ride upward while history demonstrates that this has often not been the case.

We believe that the diligent study of market history is crucial for long-term investment success. As noted investment author, William Bernstein notes, "Those who are ignorant of investment history are bound to repeat its mistakes."[3] We believe that routinely reminding ourselves of market history can prepare us well for the inevitable ups and downs that we'll experience through the course of our investing lives and can serve as a powerful antidote to panic during times of turbulence and uncertainty.

Please reach out to us with any questions you have or if you'd like to speak about your investments,

Kathmere Capital Management Investment Department

[3] *The Intelligent Asset Allocator*; William Bernstein