The Market Bounces Back After "Brexit"

Market Wrap - Second Quarter 2016

The second quarter was off to a good start, with encouragingly positive returns from both stocks and bonds. Then came the "Brexit" vote just a few days before quarter-end, astounding pollsters on both sides of the Atlantic as **British voters unexpectedly spoke out in favor of leaving the European Union**.

Stock markets in Europe, Asia and the U.S. were slammed as the outcome was announced early Friday morning. The U.S. market's widely regarded Dow Jones Average sank by nearly 900 points over two days as investors panicked.

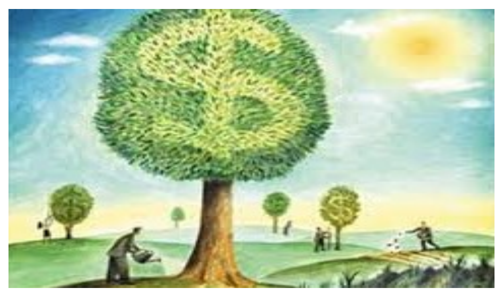
The morning after the vote, we started a round of conference calls with leading investment strategists both here in the U.S. and in the U.K. to talk about the impact of the Brexit vote on the economic outlook and on client portfolios. Before the close of business that first day, we sent to clients our insights on "**10 Quick Things To Know Right Now About Brexit**," putting the massive sell-off into perspective and urging clients to stay calm and on course. In many cases, we were able to use available cash to add to client investments at depressed prices during the market panic.

Fortunately, after the dramatic post-Brexit plunge, the market turned around and by early July, slightly after quarter-end, had recaptured its lost ground. Clearly, this market is more resilient than it looks, and - despite perceptions - the U.S. economy is actually picking up steam.

Here's a quick overview of the investment landscape :

What has helped, and hurt, investments so far in 2016?

The average U.S. diversified stock fund was up 1.5% by June 30, according to Thompson Reuters, but results were uneven across the board. There was **very good performance** from value stocks and utilities, high dividend stocks, energy, emerging markets, bonds, real estate and gold. However, these are all categories that were weak last year and are now bouncing back. Some have now reached price levels that are not sustainable, and will not necessarily be good investments going forward. What's **hurting portfolios** so far this year? Biotech and health care stocks, technology, and other fast growing stocks have slumped so far, as have European and other developed-market stocks. Large growth stocks, as a general category, lost 2% year-to-date as of June 30. With concerns about slowing growth and profits, high-flying stocks like these can get temporarily grounded.



Results
as of June 30, 2016
(assumes reinvested dividends)

6-Month CD	+ 0.14%
S&P 500	+ 3.84
Dow Jones	+ 4.31
Int'l Dev Stocks	(-4.42)
Emerg Markets	+ 6.41
Bond Aggregate	+ 5.31

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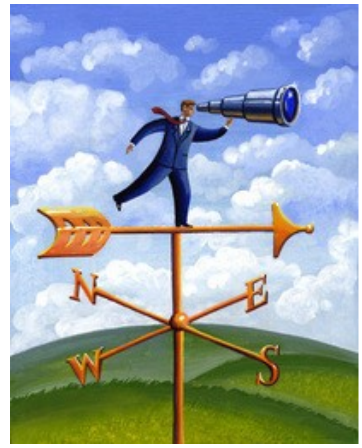

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What should investors know now about bonds?

We've been saying for years that we expect interest rates to be "longer for lower," and have long advised investors not to abandon bonds. That call continues to be correct.

That said, nervous investors are driving yields down, even to negative levels, in their search for "safe" assets. There are now almost $13 trillion of global government bonds paying negative yields. In this country, a 10-year Treasury bond pays under 1.4% per year before taxes and before inflation. Once those are taken into account, you will have a negative return. Clearly, an investor needing monthly income, and wanting to stay ahead of inflation, cannot build a portfolio based on investments like these.

The good news? **We are still able to design solid, diversified bond portfolios for income-oriented investors**, but we need to be more creative and resourceful, looking at corporate, high yield, municipal and other types of bonds to find value and income.

Many stocks are near their highs. Is this a bad time to invest?

Stocks aren't cheap, but relative to alternatives they remain **attractive long-term investments** designed to provide you with growing income and value over the years. We face **unique challenges today**. Bonds pay very little, and investors - especially those in retirement - need a constant flow of income plus growth to support an increasingly long life span. With interest rates at historic lows, we have to take intelligent and measured risks to help you reach your financial goals.

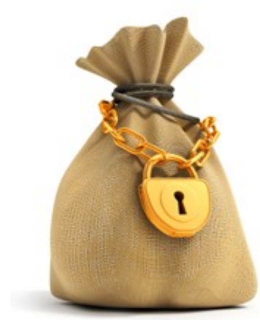
Staying out of the market to wait for the "right" time to invest has always been, and will always be, a **losing strategy**. In fact, the majority of investors are so bad at timing investments that the best way to succeed is **doing the opposite of what they do**. And right now, what they are doing is fleeing stocks and piling into bonds. An estimated $70 billion has been pulled from U.S. stocks so far this year.

In contrast, our strategy has always been to stay fully invested while selecting investments carefully, with an eye toward long-term results, so we can build you a diversified and customized portfolio designed to meet your personal risk tolerance and investment goals. ❖

How "safe" are your "safe" assets?

Question: How many years will it take your money to double if you invest it in a one-year Certificate of Deposit?

Answer: ***107 years***



We've been advising investors for years that some assets they consider "safe" are far from being that. An investment that loses money once taxes and inflation are taken into account—or that doesn't grow fast enough to keep you ahead of inflation—is *not* safe. **Consider instead adding your CD money to a diversified portfolio of stocks and bonds to give you growing long-term income and preserve your purchasing power.** ❖

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