

CAPITAL MARKET REVIEW

Third Quarter 2016



The Economy

It is often easy to know what is going to happen in the market. It is hard to know when it is going to happen. We have been harping on the uneven distribution of returns in the market for what seems like forever. The short-term traders' fixation on central banks and record low interest rates has driven the so called FANG stocks and the dividend paying stocks to what seem like outrageous heights. However they have ignored the rest of the market.

Stock is just ownership in a company. We say that all the time when we conduct participant education meetings. Yet, it is often the most sophisticated among us that forget this simple fact. To traders on Wall Street stocks are just pieces of paper. To investors it is fractional ownership, and the health of what one owns should matter.

Over the last few years the passive crowd has made a lot of noise as indexes driven by overvalued FANG stocks have outperformed. No one ever seems to wonder why? Why don't any of the investment managers want to own the stocks that are driving index returns? Do they know something? Usually that is exactly how it turns out.

It feels good to have a healthy quarter in the markets. Will it continue? It should. But as Keynes famously said, "The market can stay irrational longer than you can stay solvent." Anything is possible in the short run, but this quarter was a positive sign that markets eventually get back to fundamentals. Here's hoping that it lasts.



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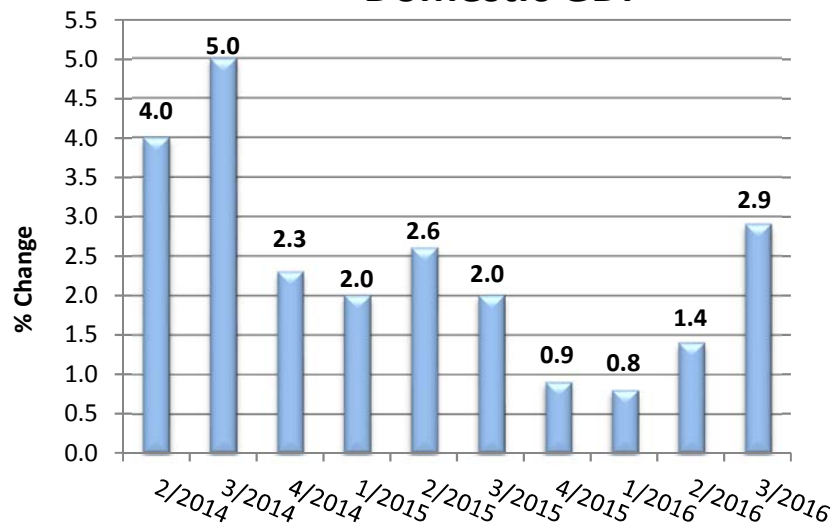
The Economy

Yes it is the same old story. Second quarter GDP was up 1.4 percent. Third quarter came in higher at 2.9 percent but we are still in our new-normal range. We are still stuck in this new normal sluggish growth mode.

The official unemployment rate is 5 percent in September. Jobs growth has slowed and there has been little change in the workforce since last quarter.

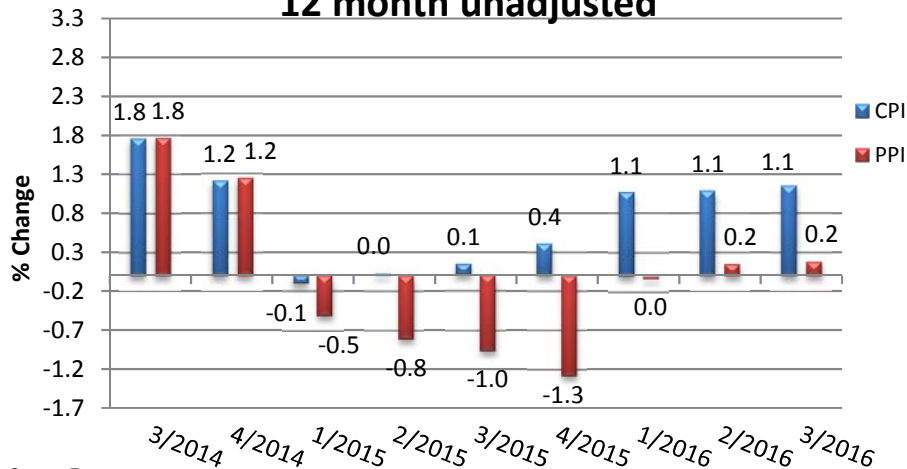
Inflation has been flat with CPI coming in at 0.2 percent in August. The Fed remains on hold after their first interest rate hike last year. The Fed has prepared the market for a move late this year. We shall see if it actually happens. They may have waited too long.

Domestic GDP



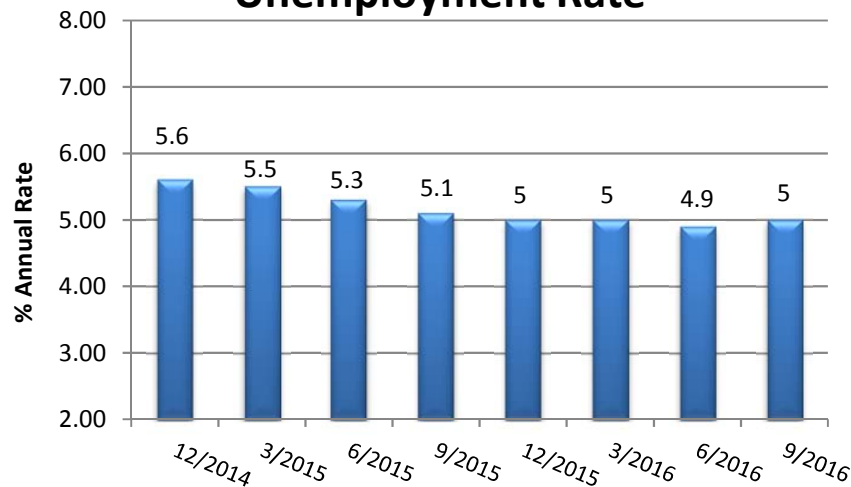
Source: Factset

Inflation Indicator 12 month unadjusted



Source: Factset

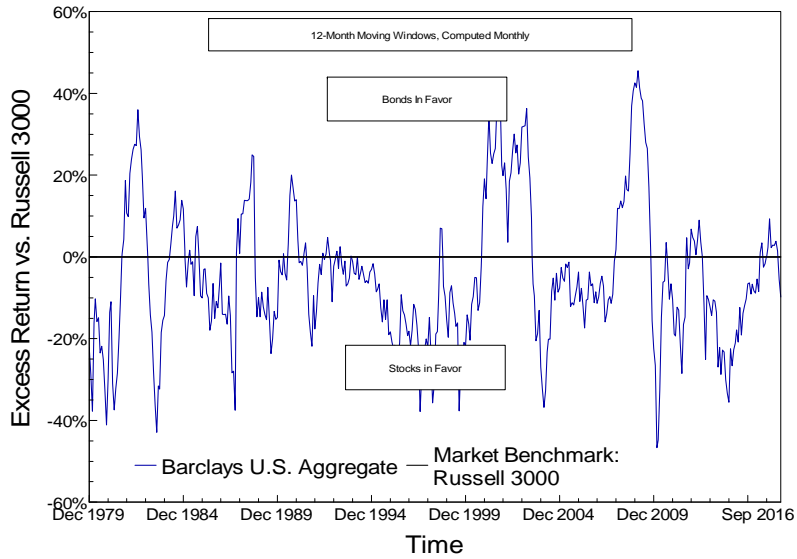
Unemployment Rate



Source: Factset

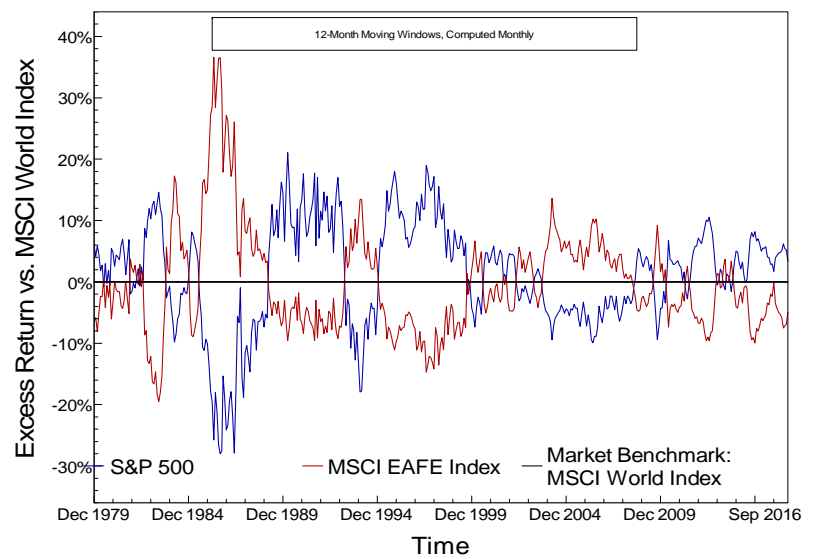
Bonds vs. Stocks

Zephyr StyleADVISOR: Iron Capital Advisors



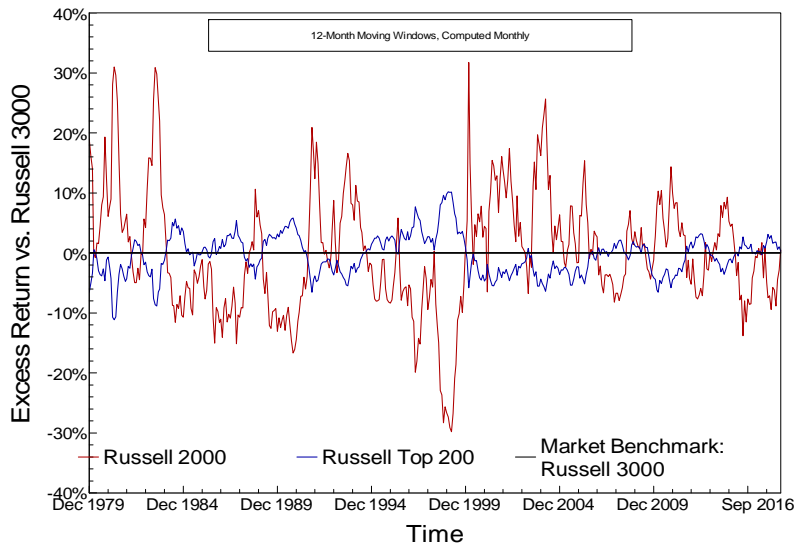
International Vs. Domestic

Zephyr StyleADVISOR: Iron Capital Advisors

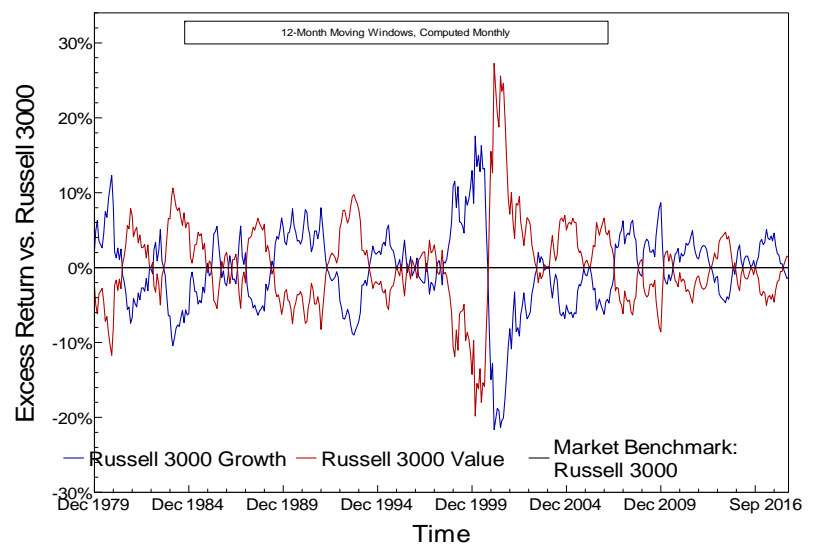


Large vs. Small

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Value vs. Growth



Domestic Equity Markets

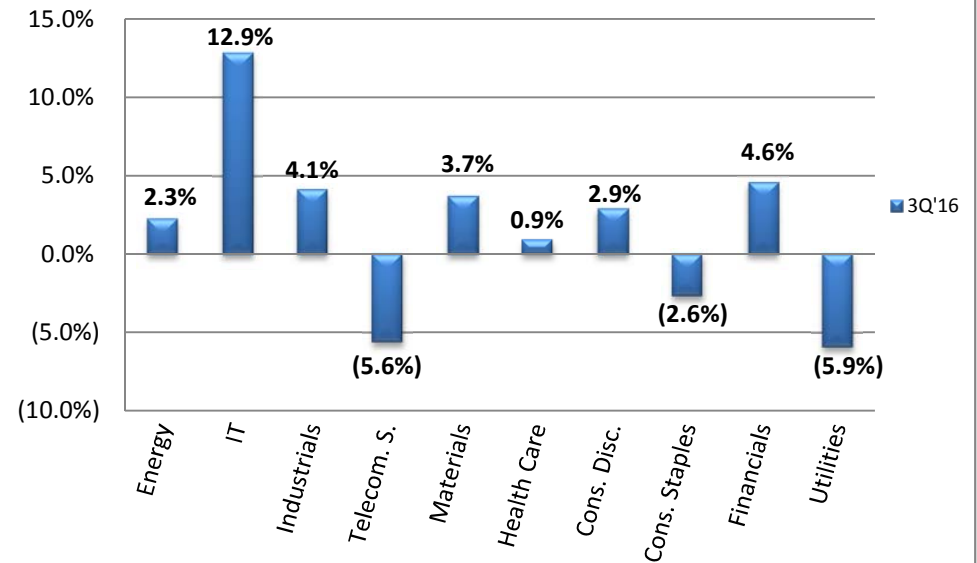
We bounced back and the market finally moved away from the FANG and Dividend trends to a broad based rally. The question is will it continue? The S&P 500 finished up 3.9% but Small Company stocks were up 9% as represented by the Russell 2000 index.

Technology stocks were the best place to be but most sectors participated. The only laggards were the dividend payers in utilities, telecom and staples which had been so hot going into the quarter. This rotation was long over due and we are hopeful that it will be lasting.

Domestic Indices Three Months Ending September 30, 2016

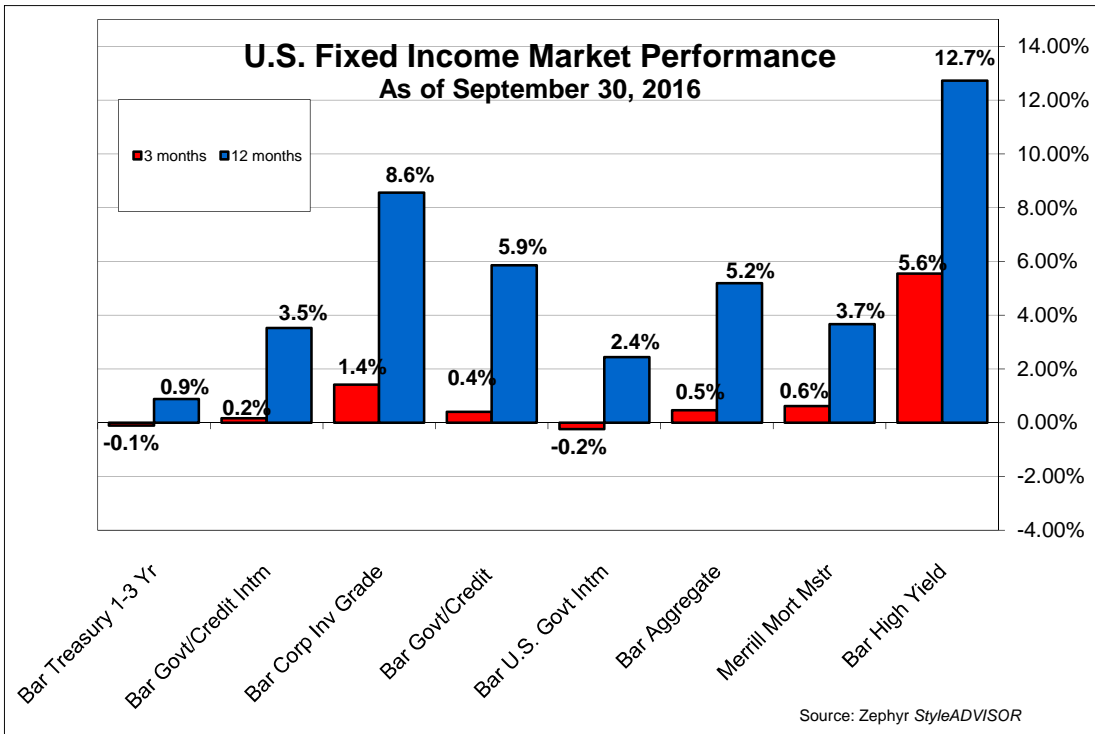
	Yield	Price/Earnings	Price/Book
S&P 500	1.99%	19.89	2.76
Russell 1000 Gr	1.60%	22.86	5.64
Russell 1000 Val	2.65%	18.27	1.76
Russell Midcap	1.80%	24.64	2.56
Russell 2000 Gr	0.81%	44.20	3.98
Russell 2000 Va	2.13%	31.50	1.43

S&P GICS Sector Returns

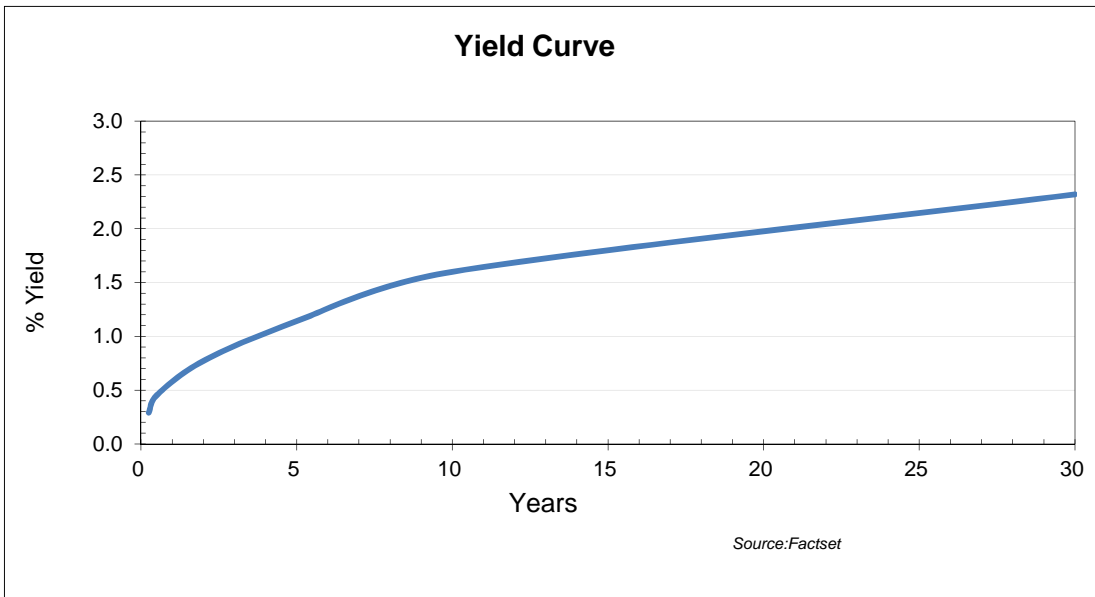


Source: Factset

DOMESTIC FIXED INCOME MARKET



Bonds were flat for the quarter up 0.46 percent. High yield bonds ended the quarter up 5.50 percent. The search for yield and a more stable economic mood translated to big returns for the high yield market which is now up 15.21 percent year to date.



Yield Curve as of September 30, 2016

Time to Maturity	Interest Rate
3 Month	0.29
6 Month	0.45
2 Year	0.77
5 Year	1.14
10 Year	1.60
30 Year	2.32

INTERNATIONAL MARKETS

International stocks also rallied. The EAFE index finished up 6.50 percent and the MSCI Emerging Markets index ended the quarter up 9.15 percent.

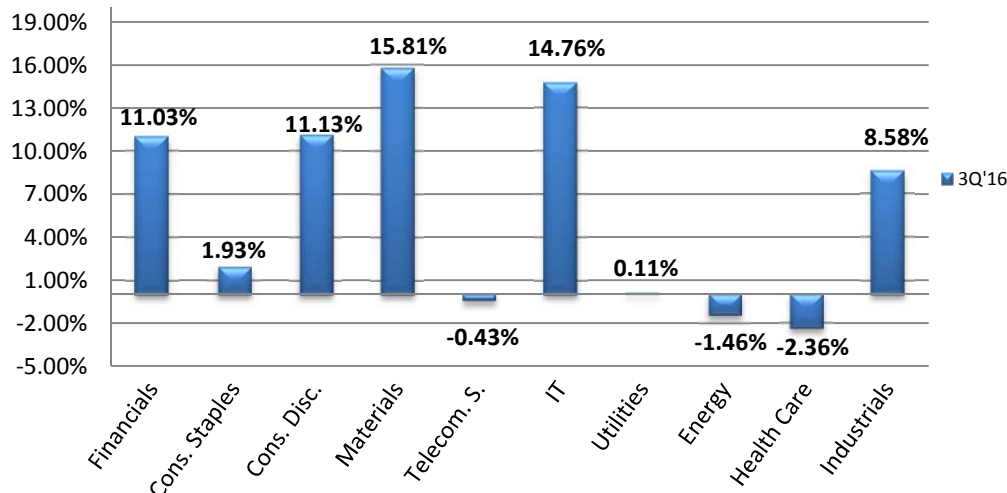
It turns out that the world will not come to an end if Britain exits the European Union. Likewise, China does not have to grow at 10 percent into eternity for investors to be rewarded. The international rebound was largely an admission that fear had been overblown.

This does not mean that issues are not real. China is maturing and will not likely grow as it did in the past. There will be issues to overcome with Britain's exit. Record low, and even negative interest rates are a problem as is the overall government debt issues around the world. However, these issues can be addressed. Companies will continue to make and sell products and their stock has value. We believe this rebound should have legs.

MSCI Country Returns Three Months Ending September 30, 2016

	Return US\$ (%)	Return Local Currency (%)	Currency Effect(%)
Austria	16.86%	15.53%	1.33%
Belgium	5.03%	3.82%	1.21%
Denmark	-6.17%	-7.16%	0.99%
Finland	7.42%	6.19%	1.23%
France	6.43%	5.21%	1.22%
Germany	10.02%	8.76%	1.26%
Ireland	7.50%	6.27%	1.23%
Italy	2.34%	1.17%	1.17%
Netherlands	9.23%	8.08%	1.15%
Norway	6.36%	1.59%	4.77%
Portugal	6.47%	5.25%	1.22%
Spain	9.45%	8.20%	1.25%
Sweden	7.48%	8.68%	-1.20%
Switzerland	2.66%	2.15%	0.51%
UK	3.99%	7.02%	-3.03%
Europe Total	5.45%	5.70%	-0.25%
Australia	7.95%	5.03%	2.92%
Hong Kong	11.92%	11.89%	0.03%
Japan	8.76%	7.35%	1.41%
New Zealand	12.89%	10.56%	2.33%
Singapore	-0.13%	1.15%	-1.28%
Pacific Total	8.57%	7.08%	1.49%
Brazil	11.37%	12.93%	-1.56%
Canada	5.04%	6.29%	-1.25%
China	13.96%	13.94%	0.02%
Greece	0.99%	-0.16%	1.15%
Hungary	10.81%	7.25%	3.56%
India	5.92%	4.49%	1.43%
Indonesia	9.54%	8.20%	1.34%
Korea	10.97%	6.11%	4.86%
Mexico	-2.20%	2.59%	-4.79%
Poland	3.39%	-0.10%	3.49%
Russia	8.90%	7.74%	1.16%
Thailand	7.32%	5.82%	1.50%
Emerging Markets	9.15%	7.71%	1.44%

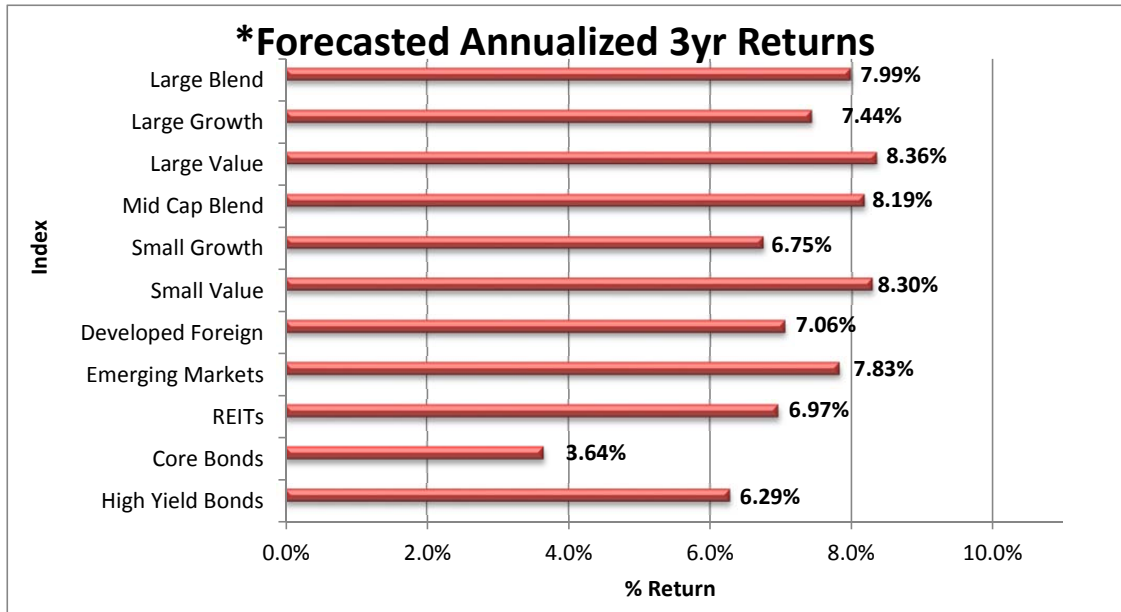
Developed Int'l Sector Returns*



Source: Harbor Capital

* MSCI EAFE Index

Market Forecast



The long awaited rotation to beaten down areas of the market arrived in the third quarter. The question now is will it continue. We are hopeful that it will.

Emerging markets look attractive as do small company stocks. Large company stocks look expensive but that is skewed due to the FANG outliers. Overall stocks are attractive.

Bonds remain our biggest concern over the long term, but they are still a shelter in the storm when the market does go down. The run in high yield bonds will likely slow down.

Indices Three Months Ending September 30, 2016

	Yield	Frwd Earnings Yield	**Hist. Return	***Hist. Risk Prem. + RF Rate
Large Blend	1.99%	8.02%	9.95%	5.99%
Large Growth	1.45%	6.88%	9.64%	5.99%
Large Value	2.51%	8.84%	10.09%	5.99%
Mid Cap Blend	1.80%	7.47%	11.36%	5.99%
Small Growth	0.81%	6.02%	7.49%	6.99%
Small Value	2.13%	7.80%	10.27%	6.99%
Developed Foreign	3.63%	10.82%	4.97%	4.12%
Emerging Markets	1.69%	8.23%	9.52%	5.62%
REITs	3.50%	5.79%	10.95%	4.56%
Core Bonds	1.97%	1.97%	6.61%	2.89%
High Yield Bonds	6.57%	6.57%	8.13%	4.06%

* Weighted average using 40% earnings yield, 30% historic return and 30% historic risk premium + RF rate

**Annualized 28 Yr return

***Hist. risk premium of domestic and international equity as defined by Zephyr Style Advisor's GFD Long Term Index database except for REITs and High Yield which are based on average 20 year rolling returns of the NAREIT Equity REIT Index and the Barclays Corporate High Yield Index minus the average 20 year rolling returns of the 3-month T-Bill and scaled using proprietary data. The Current 3-month T-Bill yield (as of 09-30-2016) is added back to each risk premium.

SELECTED INDEX RETURNS - PERIODS ENDING SEPTEMBER 30, 2016

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
US EQUITIES						
Broad Stock Market - Russell 3000	4.40%	8.18%	14.96%	10.44%	16.36%	7.37%
Large Stocks - S&P 500	3.85%	7.84%	15.43%	11.16%	16.37%	7.24%
Dow Jones Industrial Average	2.78%	7.21%	15.46%	9.23%	13.77%	7.39%
Medium-Size Stocks - Russell Mid-Cap	4.52%	10.26%	14.25%	9.70%	16.67%	8.32%
Small Stocks - Russell 2000	9.05%	11.46%	15.47%	6.71%	15.82%	7.07%
Small Value Stocks- Russell 2000 Value	8.87%	15.49%	18.81%	6.77%	15.45%	5.78%
Small Growth Stocks- Russell 2000 Growth	9.22%	7.48%	12.12%	6.58%	16.15%	8.29%
Large Value Stocks - Russell 1000 Value	3.48%	10.00%	16.19%	9.70%	16.15%	5.85%
Large Growth Stocks - Russell 1000 Growth	4.58%	6.00%	13.76%	11.83%	16.60%	8.85%
US FIXED INCOME						
1-3 Yr Treasury (Gov't) Bonds - Barclays Capital	-0.11%	1.33%	0.88%	0.86%	0.70%	2.27%
US Government Bonds Int - Barclays Capital	-0.24%	3.30%	2.44%	2.19%	1.62%	3.74%
US Corporate Inv Grade Bonds - Barclays Capital	1.41%	9.20%	8.56%	5.63%	5.14%	5.91%
Government/Credit (Corp) Bonds - Barclays Capital	0.40%	6.66%	5.86%	4.22%	3.24%	4.86%
Int Govt/Credit (Corp) Bond - Barclays Capital	0.16%	4.24%	3.52%	2.80%	2.45%	4.17%
US Aggregate Bond Market - Barclays Capital	0.46%	5.80%	5.19%	4.03%	3.08%	4.79%
Mortgage Master - Merrill Lynch	0.61%	3.72%	3.66%	3.57%	2.63%	4.66%
US Corp High Yield Bonds - Barclays Capital	5.55%	15.11%	12.73%	5.28%	8.34%	7.71%
INTERNATIONAL (Measured in US Dollars)						
Non-US Stocks - MSCI EAFE	6.50%	2.20%	7.06%	0.93%	7.88%	2.30%
World Stocks (includes US) - MSCI World	4.99%	6.06%	12.02%	6.44%	12.27%	5.06%
European Stocks - MSCI Europe	5.45%	0.58%	3.13%	-0.01%	8.10%	2.10%
Japanese Stocks - MSCI Japan	8.76%	2.87%	12.52%	3.65%	7.63%	1.24%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	8.21%	10.97%	20.22%	0.55%	7.20%	6.16%
Chinese Stocks - MSCI China	13.96%	8.80%	13.18%	4.14%	8.53%	7.98%
Indian Stocks - MSCI India	5.92%	7.12%	6.14%	11.18%	5.29%	5.17%
Emerging Markets - MSCI EM	9.15%	16.36%	17.21%	-0.21%	3.39%	4.28%
Int'l Gov't Bonds -Citi World Gov't Bond (Non USD)	0.60%	14.18%	12.61%	1.21%	0.24%	3.94%
REAL ESTATE						
FTSE NAREIT Equity-Reits Index	-1.43%	11.75%	19.86%	14.22%	15.91%	6.35%
SHORT TERM INTEREST RATES						
T-Bills	0.07%	0.19%	0.20%	0.09%	0.08%	0.84%

Note: Returns for periods longer than 12 months are annualized.