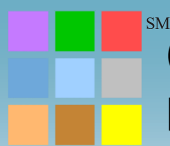

SPECTRUM INVESTMENT ADVISORS

3rd Quarter | 2016
As of 6/30/2016

Economic Update P.1
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Good News!

Spectrum was 1 of 5 finalists for the 2016 PlanSponsor Retirement PlanAdviser Large Team of the Year

Please see important disclosures on final page of newsletter

Upcoming Events:

Spectrum Investor® Coffee House Educational Series

Fall 2016
More info to come

THANK YOU
To all who attended our

11th Annual Retirement Plan Investment Seminar

On June 22, 2016
In Waukesha, WI

For weekly market updates, visit our website at www.spectruminvestor.com under Resources & Links and click on Investment Resources

For an electronic version of this newsletter, our ADV Part 2A and our Privacy Policy, please visit our website
Past performance is not an indication of future results

We appreciate your business

Quarterly Economic Update

James F. Marshall
President

Jonathan J. Marshall
Chief Investment Officer

In just four trading days beginning Wednesday, 6/29, world equity markets recovered most of the ground lost following the 6/23 Brexit vote. US major stock indexes, which at one point had fallen 6% after the UK's surprising decision to leave the European Union (EU), finished the second quarter near levels reached just before the Brexit referendum (*Barron's*, 7/14/16). Year-to-date, the total return with dividends on the S&P 500 is up 3.84% (Morningstar 6/30/16).

Two things to watch in the post-Brexit market:
1. There still might be a contagion from Brexit into Europe, especially with Italy's wobbly banking system being further unbalanced by Brexit. 2. Central bankers may continue to loosen the purse strings.

Among publicly traded banks in the Eurozone, Italian lenders account for nearly half of total bad loans. Years of lax lending standards left Italian banks ill-prepared when an economic slump sent bankruptcies soaring a few years ago. Currently 17% of Italian bank loans are sour. That is more than three times the levels of bad loans in US banks during the financial crisis in 2008-2009 (*WSJ*, 7/4/16). The UK vote to exit the EU has compounded the strains on European banks in general and Italy's in particular. Europe's banks were already retrenching before the UK vote, and markets appear fearful that many of Europe's banks don't have enough capital buffers. Since 6/23/16, the index of European banks has dropped 17% with YTD total losses for 2016 at close to 30%. Stress tests on European banks will be released in late July, 2016. The good news in the US is that capital rich US banks are probably in the best shape they have been in for decades. **Mike Mayo**, analyst at CLSA says that despite the strong health of their balance sheets, valuations are low in today's US banks because of the prospect of persistently low interest rates, which depresses bank profit margins (*Barron's,* 7/4/16). This is just the opposite of 2006 when US banks had strong earnings, but weak balance sheets with a lot of banks that were low on capital. US bank earnings will be lower for longer, until interest rates begin to trend up.

The Bank of England held rates steady on July 14, but hinted in the minutes that they "expected monetary policy to be loosened in August" (*Financial Times*, 7/14/16). Japanese Prime Minister Shinzo Abe also called for more stimulus after he was re-elected in early July and some believe the European Central Bank will follow suit. Brexit means expected US rate hikes are likely on hold, perhaps until 2017. The Federal Reserve meets next on July 26-27. In spite of the December, 2015 Federal Reserve interest rate hike, the yield on 10-year US treasury bonds has fallen from 2.1% last October down to an all time record low of 1.36% on July 5, 2016.

According to **Dr. David Kelly**, Chief Global Strategist at JPMorgan, right now there is a whopping 10 trillion of negative yielding sovereign bonds outstanding, representing 36% of the total value of JP Morgan's global government bond index. This is causing serious headaches for portfolio managers, especially pension funds and insurance companies. For example, the largest US public pension plan in the country, the California Public Employees' Retirement System (CalPERS), posted its lowest annual return since 2008, earning 0.6% for the year ending June 30, 2016. Its target investment return rate is 7.5% (*WSJ*, 7/19/16). CalPERS oversees retirement benefits for 1.8 million public sector workers. All of this would be manageable if the negative interest rates were causing significant growth to the European and Japanese Economies (*Fortune,* July 2016).

The collapse of yield, worldwide, has left US corporate bonds as one of the last places to seek relatively safe and steady income. According to Head of High Grade Credit Strategy at BofA Merrill Lynch, **Hans Mikkelsen**, US corporate bonds account for about 12% of all investment grade debt outstanding worldwide, but they represent about 33% of the investment grade yield. US corporate bonds generate one out of every three dollars paid out by every government or business that is considered investment grade. On July 5, interest rates on 10-year high quality US corporate bonds were at 3.05% vs 3.92% one year ago (BofA Merrill Lynch).

So what's an investor supposed to do? Invest in "quality companies" in growing sectors that pay high and rising dividends (*Forecasts and Strategies*, 7/16). The good news is that US S&P 500 companies overall have minimal exposure to the UK, (estimated at less than 5% according to FactSet, 7/5/16). The S&P 500 dividend yield was 2.3% as of the quarter end. According to **Richard Band** from *Profitable Investing*, after a long dry spell, value stocks, including energy, industrials and financials have started to pull ahead of the S&P 500 Index in 2016 (7/16). Value stocks (purple) are still cheap and could be in favor for the next few years; a good reason to **tilt your portfolio toward value.** As in the past, we continue to suggest diversified portfolios including mid cap stocks. When reviewing the annualized analysis (see insert), historically, the leading investment styles in the past five years (growth stocks/red) are not the leaders in the next five years (**Richard Thaler,** Economics Professor at the University of Chicago).

According to **Burt White**, CIO at LPL Financial, the drag of the US dollar and falling oil prices are starting to abate. Even with a 3% jump since Brexit, the dollar has weakened considerably since December 2015, as expectations of a Fed rate hike in 2016 have been pulled back, which should help multinational US companies.

According to **Brian Wesbury**, Chief Economist at First Trust, earnings were down 6.7% in the 1st quarter 2016 vs. a year ago, but this was due primarily to the energy sector. With energy removed, earnings were down only 1.2%. Oil appears to be stabilizing, which means energy earnings should be moving higher in the months ahead. As profits rise in the quarters ahead, that should help the markets. The markets have erased two 10% corrections in the last 10 months and with the recent positive jobs report, the next recession appears to be well in the distance. Bottom line, focus on earnings. The "lower for longer" interest rate regime looks like it will be around for quite a bit longer after the vote in the UK; a good reason to **refinance again** or consider buying a house if you don't already own one. Stay the course.

Wealth Management
Student Loans

Brian White, CFP®
Wealth Manager

College education often comes at a steep price for many students; crushing amounts of student loan debt. According to financial website Edvisors, 2015 college graduates left college with an average of just over $35,000 in student loans. This number doesn't include any other types of debt (credit card, auto loan, etc.), which can easily increase as children gain independence. Just 10 years earlier, the average student loan amount for graduates was $20,000. Those numbers are hard to swallow and almost seem unavoidable.

Many of us have children who are young and are not in college. Many have children who are out of college and on their own. Many don't have children of their own, but may have relatives or friends who have young children. Regardless of our situation, we all talk with kids who are going into college or parents of those kids. There are a few important items to think about when it comes to student loans, savings, college and everything that goes along with that experience.

Be careful which loans you take out
While it's easy to spend hours researching your next smartphone or computer, researching student loans is often low on the priority list. However, it's an important decision that impacts the rest of your life. Take time to do some research. Sites like www.studentloans.gov and www.studentaid.ed.gov are good places to start.

After you've done some research, you'll find that federal student loans are the best place to start. These loans offer the lowest interest rate and can be subsidized (for students who demonstrate a financial need) or unsubsidized. Direct subsidized loans do not start accruing interest until after the child is finished with school. Direct unsubsidized loans start immediately, but do offer the same low rates that subsidized loans do as well. Other federal loans include Direct PLUS loans and Perkins loans. These offer different interest rates and payment options.

Private lenders offer student loans and these may be at better rates than PLUS loans. Again, be sure to do your research when it comes to these loans. You may need to co-sign for your children in order to qualify for a private student loan. This can often lead to lower interest rates and the greater chance of loan approval. However, if your child fails to make the payments on that loan, you and your credit score will suffer. Be sure to have a good understanding and talk to your children about the responsibility of a loan.

It's never too late (or early) to start saving for college
The best way to deal with student loans is to reduce or eliminate the amount of loans that must be taken out. Saving for college education can be done through a 529 plan or through other types of education savings accounts. A great way to save is by doing an automatic transfer every month. It doesn't have to be a large amount – any savings will help. A visit to www.savingforcollege.com will help you to examine the world of 529 savings plans and is a great place to begin your research.

Don't pay for college at the expense of your retirement
You've probably heard this many times in the past, but it is very difficult to abide by. Although we all want the best for our children, sometimes our best intentions hurt us the most in the end. If you borrow from your retirement to pay for your children's education, you could be impacting not only your retirement, but also your children's lives. Saving for retirement means saving for your living expenses, hobbies and travel. In addition, you're saving for the increasing health care costs that happen later in life. If you haven't saved appropriately for long-term care costs, the responsibility could fall on your children to take care of you. According to the New York Life Insurance 2014 Cost of Care Survey, the average annual cost of nursing home care in Wisconsin is between $105,000 – $120,000. According to the Consumer Price Index, Health care costs continue to rise at a higher inflation rate than housing and transportation. If your retirement savings have gone to pay for college, your kids may be stuck paying for long-term care. This could be a pretty hefty bill at a time when they would like to be thinking about their own retirement.

If your employer offers a retirement plan contribution match, always be sure to contribute to it so that you maximize that match. Don't go below that amount so that you can save for your children's education. As the saying goes, you can always borrow for education, but you can't borrow for your retirement.

If you have questions on education savings or student loan debt management, please give us a call so we can help you with your options and come up with a plan.

Below is the 6/30/16 Spectrum Investor® Update.

Spectrum Investor® Update 6/30/16

Morningstar Category Averages	1st Qtr	1 Year	3 Year
Intermediate-Term Bond	2.35%	4.63%	3.59%
Allocation: 50%-70% Equity	2.19%	-0.13%	5.86%
Large Cap Value	2.68%	-0.09%	7.97%
Large Cap Blend	1.76%	-0.02%	9.43%
Large Cap Growth	0.54%	-2.33%	10.58%
Mid Cap Value	2.37%	-2.16%	7.85%
Mid Cap Blend	1.49%	-4.33%	7.55%
Mid Cap Growth	1.98%	-6.43%	8.21%
Small Cap Value	2.27%	-4.30%	5.92%
Small Cap Blend	2.43%	-5.78%	6.37%
Small Cap Growth	3.79%	-9.86%	6.46%
Foreign Large Blend	**-1.08%**	**-9.94%**	1.68%
Real Estate	5.51%	**19.50%**	**12.11%**
Natural Resources	**8.59%**	-9.35%	**-3.60%**

Source: Morningstar, 3 yr return is annualized. Morningstar classifies categories by underlying holdings and then calculates the average performance of the category. Past performance is not an indication of future results. Returns in **Blue** = Best, Returns in **Red** = Worst

DOW: 17,930	**10 Yr T-Note: 1.49%**
NASDAQ: 4843	**Inflation Rate: 1.1%** (5/2016)
S&P 500: 2099	**Unemployment Rate: 4.7%** (5/2016)
Barrel of Oil: $48.33	Source: Morningstar, bls.gov, eia.gov

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. 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 NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indices cannot be invested into directly.

IRS Indexed Limits for 2015: 401(k), 403(b), 457 Plan Deferral Limit is $18,000. Catch-up Contribution limit is $6,000. Source: 401khelpcenter.com

In Other Words

Risk Tolerance vs. Risk Capacity

Angie Franzone
Newsletter Editor

Often times in this column we talk about risk tolerance, your willingness to accept losses, but we haven't talked a lot about risk capacity, whether you are financially able to handle those losses. Risk tolerance is very much emotionally driven and based on the amount of risk you want to take, while risk capacity is more definite in that it's the amount of risk that you need to take to reach your goals. Your time horizon (amount of time you have to invest) age, other assets and need for income are all aspects in figuring out your risk capacity because they help you determine whether you can withstand and/or recover from a worst case scenario. Let's look at it from a non-financial standpoint.

Let's say your 80 year-old grandfather is so inspired by the debut of "rugby sevens" in this Summer's 2016 Rio Olympic games that he decides he wants to join a team himself. You, being the responsible grandchild that you are, try to talk him out of it because you know that even though he has the appropriate risk tolerance (he's not afraid to try at all) he doesn't have the appropriate risk capacity, because there is a high likelihood of him getting severely injured, or worse. Your grandfather, being the stubborn man that he is, tells you he will forget about playing rugby if you join a team, because then he can live vicariously through you. Since you are much younger and physically fit, you have the risk capacity to play rugby, but seeing as you're terrified while watching the game, you lack the risk tolerance necessary to play. Risk tolerance and risk capacity are not synonymous with each other, and that is an important aspect to understand when deciding how conservative or aggressive to be in your own account.

Looking at it from a financial perspective, generally speaking, younger investors in their 20s or 30s who are contributing to a 401(k) plan have high risk capacities because they have a long time horizon and likely a small balance (which means not much to lose) and therefore do not need to be very conservative in their investment strategy. Having a low risk tolerance when you have a high risk capacity can hurt your portfolio by essentially letting your emotions dictate your investment decisions, which may stop you from realizing your portfolio's full potential. Downturns in the market in the months and years to come don't matter all that much for younger investors because they have 30 to 40 years to invest. In fact, downturns can be very beneficial to younger investors because they create buying opportunities; the ability to buy stocks at a lower price. Having an overly conservative investment strategy when you're young causes your assets to sit on the sideline when they should be working and potentially growing for you.

Older investors who are nearing retirement, however, have low risk capacities because they have less time to invest and more to lose if the market drops. These types of investors may find that their nest egg is suffering from an inappropriately high risk tolerance. For example, investors with overly aggressive portfolios may get nervous when the market is down and switch to a more conservative portfolio, only to switch back after the market goes up again, causing them to catch all of the downside and none of the upside. The key is for your risk tolerance and your risk capacity to align, which allows your comfort-level and portfolio allocation to work together. Harmony between your risk tolerance and risk capacity is important because it helps stop you from making emotional decisions when the markets swing up or down; allowing you to be proactive, rather than reactive.

A great test of whether your risk capacity and risk tolerance align was your reaction to the recent decision by the United Kingdom to leave the European Union (Brexit). The Dow Jones Industrial Average (DJIA) plunged upon news of the historic vote on June 24. Just 18 days later, on July 12, the DJIA closed with a record high. According to Adam Shell of *USA Today*, the market reaction to Brexit was textbook. "The knee-jerk response after the UK's surprise vote to leave the European Union was panic and sell-first mentality. Then cooler heads prevailed and stocks rebounded sharply in a matter of days (7/4/16)." Were you part of the sell-first mentality or were you comfortable with your portfolio allocation because your risk capacity and risk tolerance were harmonious? If your first thought was to panic, be sure to call our office and talk to an advisor who can help you get your risk tolerance and risk capacity working together. If there's anything to learn from Brexit it's to have a strategy in place so that your emotions don't drive your investment decisions, because historically, the market comes back after big declines.

60% Stocks/40% Bonds Allocation vs. Indices Ending 6/30/16

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr	Index Definition
Real Est. 11.12%	Lg. Growth 8.97%	Lg. Growth 12.92%	Real Est. 13.55%	Real Est. 22.85%	Real Estate: DJ US Select REIT Index TR
Mid Cap 8.80%	Mid Cap 8.55%	Real Est. 12.30%	Lg. Growth 13.41%	Bonds 6.00%	Int.-Term Bonds: Bar-Cap Aggregate Bond
Sm. Value 7.73%	Lg. Blend 7.42%	Lg. Blend 12.10%	Lg. Blend 11.66%	Lg. Growth 4.24%	Large Growth: S&P 500 Growth TR
60/40 7.27%	Sm. Growth 7.14%	Lg. Value 11.18%	Mid Cap 10.53%	Lg. Blend 3.99%	Large Blend: S&P 500 TR
Sm. Blend 6.96%	Real Est. 6.86%	Mid Cap 10.55%	Lg. Value 9.66%	Lg. Value 3.38%	Large Value: S&P 500 Value TR
Nat. Res. 6.34%	60/40 6.70%	Sm. Growth 8.51%	Sm. Growth 7.74%	60/40 3.13%	60/40: 60% Diversified Stocks/40% Bonds
Lg. Growth 6.11%	Sm. Blend 6.20%	Sm. Blend 8.35%	Sm. Blend 7.09%	Mid Cap 1.33%	Mid Cap Blend: S&P MidCap 400 TR
Sm. Growth 5.91%	Lg. Value 5.77%	Sm. Value 8.15%	60/40 6.85%	Sm. Value -2.58%	Small Value: Russell 2000 Value TR
Lg. Blend 5.75%	Sm. Value 5.15%	60/40 6.78%	Sm. Value 6.36%	Nat. Res. -5.56%	Natural Res: S&P North Am. Nat. Resources TR
Lg. Value 5.26%	Bonds 5.13%	Bonds 3.76%	Bonds 4.06%	Sm. Blend -6.73%	Small Blend: Russell 2000 TR
Bonds 5.08%	Nat. Res. 1.98%	Intl. 1.68%	Intl. 2.06%	Intl. -10.16%	International: MSCI EAFE NR
Intl. 4.32%	Intl. 1.58%	Nat. Res. -3.13%	Nat. Res. -2.24%	Sm. Growth -10.75%	Small Growth: Russell 2000 Growth TR

Annualized returns. The above indices are unmanaged and cannot be invested into directly. Past performance is not an indication of future results. Diversification cannot protect from market risk. Source: Morningstar. *60/40 Allocation: 40% Bonds, 6% Lg. Value, Blend, & Growth, 12% Mid Cap, 6% Sm. Value & Blend, 6% Intl., Nat. Res., and Real Est. Allocation, excludes Small Growth. Rebalanced annually on Apr 1.©2016 Spectrum Investment Advisors, Inc. Please see important disclosures on the final page of this newsletter.

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. All indices are unmanaged and cannot be invested into directly.

Invest In Your Health

So Now Eggs Are Ok?

David Meinz, MS, RD, FADA, CSP
America's Personal Health Improvement Expert

The Dietary Guidelines Advisory Committee is a group of national experts that gets together every five years to make recommendations on what we should be eating. They recently released their current advice to the federal government as they prepare to update the "Dietary Guidelines For Americans" publication. The 571 page (!) report contains a lot of what you know already: Take in less saturated fat, sugar, salt, and soda, and eat more fruits, vegetables, and whole grains. Surveys show that most Americans fall short of the guidelines. Part of the problem may be that the history of the recommendations seem to make more flip-flops than most politicians.

Back in the 80s the original guidelines told us to base our diet on carbohydrates, without much emphasis on the form of those carbs. Then in the 90s we were told fat was bad, without much emphasis on the type of fat being consumed. Now they say cholesterol isn't that bad after all; go ahead and eat eggs. No wonder we're confused!

"Why do we keep eggs in the fridge? They weren't refrigerated in the chicken!"

Here's what you need to know. Discoveries in nutritional science aren't so revolutionary as they are evolutionary. Scientists tend to make those findings one small step at a time. They fine-tune earlier research, that's why you can *always* be suspicious of any advertisement or news story that claims some kind of "miracle discovery." Sorry, Dr. Oz.

So yes, most of what's on your plate should be carbohydrates. But not just any carbohydrates. Eat them closer to the way they grow. More whole fruits and vegetables, not their juices. Of the breads and cereals you eat, make them 100% whole grain. Whole wheat bread, not white bread. Brown rice, not white rice. Eat more tomatoes, less Twinkies.

When it comes to fat, you will do better if you eat less of it that comes from animals and replace it with fat that comes from plants. Less bacon and butter, and more olive oil and avocados. But aren't avocados fattening? Here's the fine-tuning part. All fats and oils have the same calories per unit volume of food. Nine calories in a gram, or 252 calories in an ounce. It doesn't matter if it comes from lard, margarine, mayonnaise, or vegetable oil. However, when it comes to your heart, it *does* matter very much where it comes from. Saturated fats, the kind that usually comes from animals, tend to raise your heart disease risk. Plant fats don't. The most recent guidelines suggest limiting total saturated fat intake to about 13 grams per day. That means looking at the labels of what you eat and eating less animal products.

By the way, you may have heard in the news recently that a major study said that decreasing saturated fat did NOT improve your cardiovascular health. What?? Well, as usual, the media is interested in headlines, not in the details. *The New York Times* even ran a headline that said, "Butter Is Back." They sold a lot of newspapers that day. What wasn't pointed out is the fact that decreasing saturated fat in your diet *does* decrease your cardiovascular risk IF you replace it with oils like fish omega-3's and olive oil. If, on the other hand, saturated fats are replaced with sugar and processed foods, then no benefit is seen. The devil, as usual, is in the details. Yes, do eat less animal and saturated fats. And do use olive oil and eat more fatty fish like salmon. But remember at the same time, when it comes to calories and your waistline, fat is fat is fat.

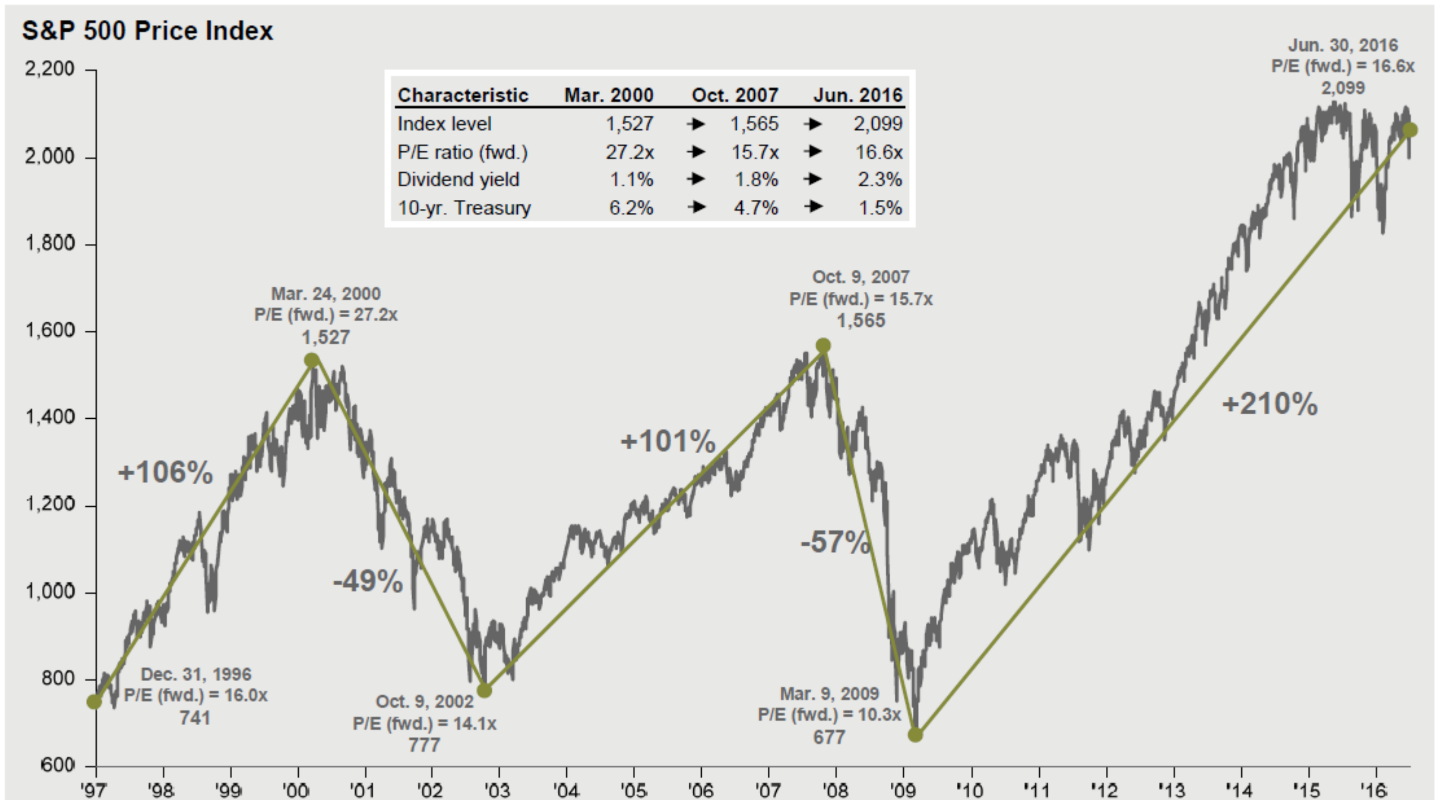
Then there's the new guideline that says that eggs are OK for most people. For years scientists saw that when people had high blood cholesterol levels their risk for a heart attack or stroke went up. Again, we've learned a lot more details in the last 30 years. We now know that eating a high cholesterol food does *not* necessarily mean that your blood cholesterol goes up. (By the way, remember that cholesterol and saturated fat are two different things.) While eggs do have a lot of cholesterol, in one egg you only get one and a half grams of the bad saturated fat. So eating a couple of eggs in the morning doesn't amount to much. And secondly, and more importantly, your blood cholesterol by itself is *not* a very good predictor of your risk for a future heart attack or stroke. Did you know that half the people that have a heart attack have *normal* cholesterol levels? Far more important is to know whether you have plaque in your arteries and whether you have inflammation in your vascular system. We now have simple technology and blood tests to determine if you do. Then there's one more issue. An increasing amount of research is showing that, in many ways, protein from plants seems to be better for you than protein from animal sources. Research by Dr. Stanley Hazen at the Cleveland Clinic showed that meat and egg yolks cause the bacteria in your gut to produce something called TMAO (Trimethylamine N-oxide) that increases cardiovascular risk independent of their effect on blood cholesterol levels. Among other effects, animal protein also seems to increase inflammation levels as well.

What's the bottom line? Eggs may not be as guilty as we thought they were in the past. On the other hand, most Americans already get plenty of protein. You really don't need to be eating more eggs. The protein in animal products may have negative long-term effects on your health, regardless of its cholesterol content. Again, most people should be eating more vegetables, fruits, and whole grains than they are now. Remember too, that the eggs may not be the entire problem. It may be that the omelet is loaded with cheese and sausage and accompanied by a large order of bacon, biscuits, and butter.

David Meinz presents keynotes and workshops to businesses and associations around the US and Canada based on his new book, ***Wealthy, Healthy & Wise: How to Make Sure Your Money and Your Health Last As Long As You Do***. For more information on his speaking services, or to order an autographed copy of his book, visit **www.davidmeinz.com**

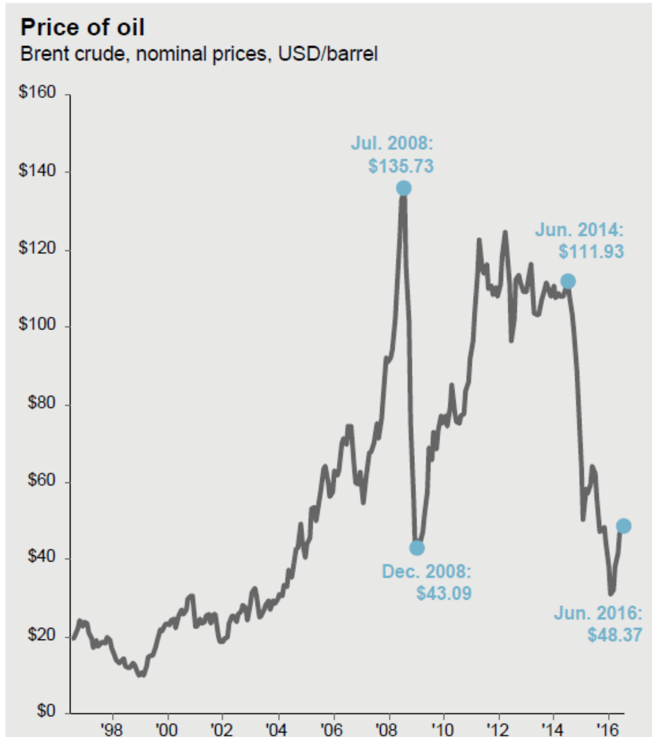
Important Disclosures:
David Meinz is not affiliated with Spectrum Investment Advisors. Opinions voiced in this newsletter are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.
The 2016 PLANSPONSOR Retirement Plan Adviser Large Team of the Year finalists are advisers who have a majority of business revenue derived from employer-sponsored retirement plans, who serve as a fiduciary, are committed to fee-based compensation and are using outcome-based metrics of plan success with clients. A large team is a practice with 11-25 people (including advisers and support staff. In 2016 Spectrum was one of five finalists in the Large Team category. out of 40 companies reviewed by PLANSPONSOR. The rating is not indicative of the advisors' future performance.
Benchmark Disclosures: ***Morningstar Category Averages:*** *Morningstar classifies mutual funds into peer groups based on their holdings. The Category Average calculates the average return of mutual funds that fall within the category during the given time period. The following indexes and their definitions provide an approximate description of the type of investments help by mutual funds in each respective Morningstar Category. One cannot invest directly in an index or category average.* ***Real Estate: DJ US Select REIT Index*** *– Measures the performance of publicly traded real estate trusts (REITs) and REIT-like securities to serve as proxy for direct real estate investment.* ***Large Cap Growth: S&P 500 Growth Index*** *– Measures the performance of growth stocks drawn from the S&P 500 index by dividing it into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum.* ***Intermediate-Term Bonds: Barclays US Agg Bond Index*** *– Measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS.* ***Large Cap Blend: S&P 500 Index*** *– A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US.* ***Large Cap Value: S&P 500 Value Index*** *– Measures the performance of value stocks of the S&P 500 index by dividing into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum.* ***Mid Cap Blend: S&P MidCap 400 Index*** *– Measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment.* ***Small Cap Blend: Russell 2000 Index*** *– Measures the performance of the small-cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.* ***Small Cap Value: Russell 2000 Value Index*** *– Measures the performance of small-cap value segment of Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.* ***Small Cap Growth: Russell 2000 Growth Index*** *– Measures the performance of small-cap growth segment of Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values.* ***Foreign Large Cap Blend: MSCI EAFE NR Index*** *–This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-US, developed country indexes.* ***Natural Resources: S&P North American Natural Resources Index*** *– Measures the performance of US traded securities classified by the Global Industry Classification Standard (GICS) as energy and materials excluding the chemicals industry and steel but including energy companies, forestry services, producers of pulp and paper and plantations.*

The stock market has realized two 10% corrections in the past 12 months and still has hit an all time high because of extremely low interest rates and improving oil prices. As the below chart indicates, the dividend yield in stocks is still favorable at 2.3% vs the 10-year US treasuries at about 1.5%. What should help the markets is the weakening dollar, which is a boost to US multinational stocks. According to FactSet, the dollar should continue to weaken for a few quarters. **What will also help the market is oil prices are improving as the number of active US oil rigs has dropped from over 1200 in late 2015, to less than 500 today** (JPMorgan 6/30/16).

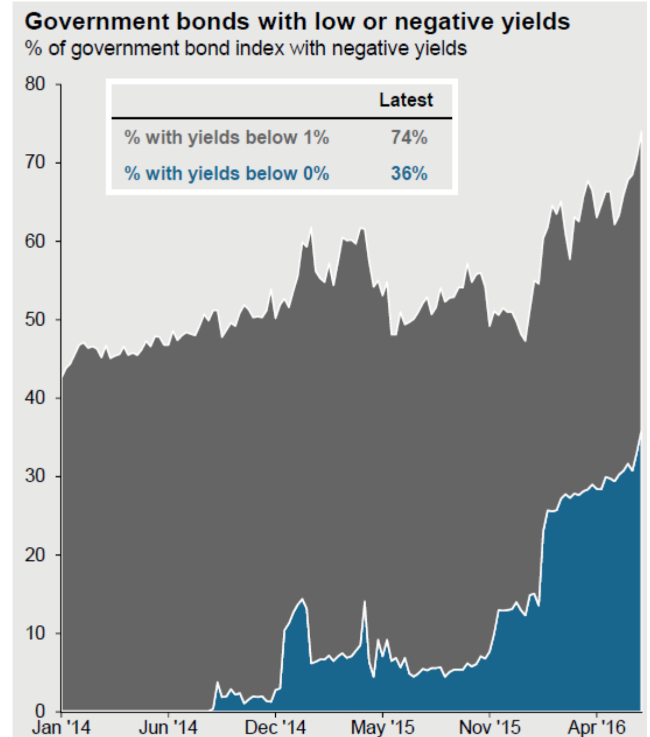


Characteristic	Mar. 2000		Oct. 2007		Jun. 2016
Index level	1,527	→	1,565	→	2,099
P/E ratio (fwd.)	27.2x	→	15.7x	→	16.6x
Dividend yield	1.1%	→	1.8%	→	2.3%
10-yr. Treasury	6.2%	→	4.7%	→	1.5%

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. The S&P 500 Index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US; it's often used as a proxy for the stock market. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. *Guide to the Markets – U.S.* Data are as of June 30, 2016.



Source: J.P. Morgan Asset Management; (Top and bottom left) EIA; (Right) FactSet; (Bottom left) Baker Hughes. *Forecasts are from the June 2016 EIA Short-Term Energy Outlook and start in 2016. **U.S. crude oil inventories include the Strategic Petroleum Reserve (SPR). Active rig count includes both natural gas and oil rigs. Brent crude prices are monthly averages in USD using global spot ICE prices. *Guide to the Markets – U.S.* Data are as of June 30, 2016.



	Latest
% with yields below 1%	74%
% with yields below 0%	36%

Source: Bloomberg, J.P. Morgan Asset Management; (Right) BofA/Merrill Lynch. *Target policy rates for Japan are estimated using EuroYen 3m futures contracts less a risk premium of 6bps. Government bond index is the BofAML Global Government Bond Index, which includes investment-grade sovereign debt denominated in the issuer's own domestic currency. The index includes all Euro members, the U.S., Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. *Guide to the Markets – U.S.* Data are as of June 30, 2016.

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Annualized returns for key indices ranked in order of performance through 12/31/15.

	30 Year	25 Year	20 Year	15 Year	10 Year	5 Year	3 Year	1 Year
BEST	13.08%	12.79%	11.22%	11.05%	8.70%	14.06%	17.19%	5.52%
	10.79%	11.86%	11.21%	8.32%	8.18%	12.57%	15.13%	4.48%
	9.93%	11.68%	9.26%	8.17%	7.95%	12.32%	14.28%	1.38%
	9.81%	10.50%	8.48%	7.28%	7.31%	10.96%	12.83%	0.55%
	9.71%	9.96%	8.19%	6.03%	7.20%	10.68%	12.76%	-0.81%
	9.26%	9.82%	8.03%	5.17%	6.80%	10.67%	11.76%	-1.38%
	9.10%	9.41%	7.60%	5.00%	5.80%	9.19%	11.65%	-2.18%
	8.18%	8.69%	6.31%	4.97%	5.57%	7.67%	9.06%	-3.13%
	7.46%	6.15%	5.34%	4.66%	4.51%	3.60%	5.01%	-4.41%
WORST	6.94%	5.40%	4.43%	4.54%	3.03%	3.25%	1.44%	-7.47%
				3.54%	1.49%	-5.50%	-7.32%	-24.28%

Investment Style	Representative Index	Correlation to S&P*
Intermediate-Term Bonds	Barclays Capital Aggregate Bond Index	0.04
Large Cap Value	S&P Value Index	0.98
Large Cap Blend	S&P 500 Index	-
Large Cap Growth	S&P Growth Index	0.98
Mid Cap Blend	S&P MidCap 400 Index	0.94
Small Cap Value	Russell 2000 Value Index	0.90
Small Cap Blend	Russell 2000 Index	0.91
Small Cap Growth	Russell 2000 Growth Index	0.90
International	MSCI EAFE Index	0.90
Real Estate	DJ US Select REIT Index	0.74
Natural Resources	S&P North American Natural Resources Index	0.73

Correlation based on the past 120 monthly returns from 1-1-06 to 12-31-15.

Past performance is not an indication of future results.
You cannot invest directly in an index.

The returns on this page represent returns of indices and do not represent the results of any model or actual performance results derived from SIA, Inc. services. SIA, Inc. does not manage models or actual accounts, except for those clients who have elected to use SIA, Inc.'s management by entering into a separate service agreement with the firm.

Source: Fidelity Investments/Morningstar

Fixed Income & Bonds	Large Cap Value	Mid Value	Large Cap Blend	Large Cap Growth	Small Cap Value	Mid Cap Blend	Mid Growth	Small Cap Blend	International	Small Cap Growth	Real Estate	Natural Resources

Lower Volatility — Higher Volatility

Please see important disclosures on page 4 of this newsletter

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