SPECTRUM[SM]

INVESTMENT ADVISORS

4th Quarter | 2016

As of 9/30/2016

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

Tuesday, October 18, 2016

Featuring Guest Speaker
LeRoy Butler
Retired Green Bay Packer

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

US stocks wrapped up their best quarter of the year with help from the banking sector, whose shares have started to recover in recent months. The S&P 500 gained 3.3% in the third quarter, 2016 and is up 7.84% year-to-date. There are possible rough spots ahead, including the uncertainty over when the Fed will raise interest rates, and concerns about the Deutsche Bank AG's thin capital cushion. The Deutsche Bank developments were a reminder that the financial crisis still haunts the banking sector (*WSJ*, 10/1/16).

The S&P 500 Index rebounded from the turbulence created by the surprise UK Brexit vote in June, to settle in an unusually tight range. The index went for two months without a move of 1% or more and the 10-year US Treasury traded in the tightest monthly range since 2006. The summer calm was largely a "wait-and-see" situation with markets expecting that Brexit would force the world's central banks to extend "lower for longer" accommodating policies (*Bloomberg,* 8/22/16). The 10-year US Treasury yield hit a record low on July 7 at 1.36% and by mid-August the S&P 500 Index, Nasdaq and DJIA all hit all-time highs. Stock market volatility returned in September as the European Central Bank (ECB) and Federal Reserve gave markets a reality check (*WSJ*, 9/9/16). Ten-year Treasury yields have risen to 1.77% as of 10/12/16. With the Fed signaling it wants to raise rates by the end of the year, it would be the first rate hike in 2016, when the original target called for four rate increases during the year.

The third quarter 2016 could mark the sixth consecutive quarter of falling earnings for the S&P 500 Index, however, the index is up four straight quarters and 13 of the past 15 quarters (FactSet). You have to go back to the mid-1990s to find the last time we saw that. Historically, the best quarter of the year is upon us. Going back to 1950, the final three months of the year are up an average of 4.1% and higher nearly 79% of the time. In general, the first and fourth quarters are the two strongest, with the second and third quarters tending to be weaker. As they say in the business, **"markets generally do better in the winter months"**. October, however, has a reputation as one of the most volatile months, going back to 1938. According to **Burt White**, Chief Investment Officer at LPL Financial, 24.6% of the days in October since 1950 closed up or down at least 1%, the highest of any month. Recently, October has been stronger, but November and December are also historically strong months for stocks.

The fourth quarter of election years has been lower three of the past four cycles, with a huge drop of 22.6% in 2008 mixed in. In the election years, from 1952-1996, all fourth quarters were higher (*LPL Weekly Market Commentary*, 10/3/16). If we take a closer look at the past four election cycles, 2000 and 2008 were in the midst of, or just ahead of recessions, so that played into the weakness in those years. In all election years since 1950, the fourth quarter had an average gain of 1.9%. According to **Mark Skousen**, editor of *Forecasts & Strategies*, in 19 of the past 22 elections, if the stock market was up in the three months before the November election, the incumbent party won.

The upcoming Federal Reserve policy meetings will also drive the markets in the fourth quarter. It is unlikely the Fed will raise rates at their November 2nd meeting, just before the election. We could, however, see a rate hike at their December 14th meeting, assuming the markets do not receive significant negative news.

According to **Dr. David Kelly**, Chief Market Strategist from JPMorgan, with the unemployment rate below 5%, mortgage rates below 4%, gas prices below $3, inflation below 2% and one recession in the last 15 years, consumers ought to be feeling much better about the economy than they are. He said one possible explanation is that fewer people are getting their news through local television, and more through social media and national news channels, which have a tendency to sensationalize news events, particularly negative news. The positive to the pessimism is, it has kept a lid on stock market valuations.

The good news is, there is a likelihood that the earnings recession may be ending in the fourth quarter of 2016, assuming the market doesn't have any surprises. Oil prices have recently approached $50 a barrel, recovering from $26.21 a barrel on February 11, 2016. Higher oil prices should help earnings on energy companies, which should improve year-over-year earnings estimates. This, along with the potentially weakening US dollar, backed up by economic growth, could produce a small increase in S&P 500 earnings in the fourth quarter 2016. The bottom line is, stay balanced, stay diversified and stay the course.

The Fiduciary Rule

At our June 22, 2016 Retirement Plan Investment Seminar co-sponsored by the WICPA, we had ERISA Attorney **Bradford Campbell** from the DrinkerBiddle Law Firm in Washington D.C. speak on the new Fiduciary Rule; effective April 10, 2017. Bradford is the former head of the Employee Benefits Security Administration for the Department of Labor (DOL).

The Fiduciary Rule is a culmination of a seven year effort by the DOL to eliminate conflicted investment advice for employee benefit plans, including IRA rollovers. The Fiduciary Rule will benefit the consumer with greater transparency on investment fees, which includes requiring greater disclosure when entering into an arrangement.

Over the past 10 years, Spectrum has been transitioning to fee based advisory services. Anticipating the Fiduciary Rule going into effect, Spectrum terminated its relationship with its broker dealer on September 30, 2015. We no longer receive commission on any investment product. We act as a level fee fiduciary on our investment services, which includes 401(k) and individual wealth management.

As 401(k) participants retire, often our first piece of advice is to remain in the 401(k) plan as expenses are typically lower than IRA expenses. However, if participants have a desire for consolidation or investment flexibility with an IRA, Spectrum offers investment portfolios on a level fee, no commission basis, which can include variable annuities, where appropriate, for retirement income planning. In comparison to a fee only variable annuity, the typical front-end commission on a $250,000 variable annuity is in the $7,500-$10,000 range with potential surrender charges, plus 1% annual trails (*InvestmentNews,* 9/30/16, *Forbes,* 7/2012*)*. The Fiduciary Rule is long overdue.

Wealth Management

Review your Medicare Insurance coverage

William Kravit, President
Deborah Alpert, Senior Advisor
Guest Columnists - FHK Insurance

Why should you consider reviewing and possibly changing your health insurance during this upcoming Annual Open Enrollment?

Medicare Advantage plans and prescription drug plans are now into their Annual Open Enrollment Period (AEP). This period starts October 15 and ends December 7. During this window of time, if the review suggests changing your MAPD (Medicare Advantage combined with a prescription drug plan) or your Standalone prescription drug plan, you can change it with no health questions asked and no waiting periods for pre-existing conditions. In other words, it becomes a seamless transition with the new coverage taking effect the first of the year.

There are reasons to review your plan with an experienced licensed insurance agent:

If you have a Medicare Advantage Prescription Drug Plan (MAPD)
Are your doctors still in that company's network? Doctor affiliations with insurance company networks can change and that may be particularly important especially if you have an HMO type MAPD.

Have your circumstances changed? For example are you now spending any significant time outside your primary residence? Some MAPD's who have provided you excellent doctor networks and coverage may not be as mobile as you would expect.

Are there any other significant changes in your present coverage such as copay or deductible dollar amounts? Your Annual Notice of Change (ANOC) that you should have received will reveal any coverage changes for the following year.

Have you had any changes or additions in your prescription drug use? The formularies and coverage for RX within your MAPD plan can and do change for the following year as well.

Prescription drug plans also change from year to year
Each insurance company's drug formularies and coverage can change from year to year and that may affect how your existing drugs will be covered for the following year. Various drugs can be reclassified and thus covered with a different set of copays than in the previous year. Is your pharmacy still in your drug plan's network and is it designated as a preferred pharmacy provider?

The best approach to review your drug coverage is to provide a list of your monthly drugs (name, dosage, and frequency) to a licensed insurance agent, such as FHK Insurance, for review. Many of our clients who had been reviewed last year and changed plans as a result of that review have avoided over a thousand dollars of extra out of pocket expenses in buying their prescription drugs. To have us do the review, please go to www.fhkinsurance.com enter your drugs using our RX page. For the name of the agent, insert Debbie Alpert so the information can be directed for follow-up.

If you have a Medicare Supplement
Medicare supplement premiums will usually increase each year. These increases add up over time and many people lose track of what premiums they're actually paying because many times the premiums are set up to be automatically deducted monthly from a checking account or credit card. Despite whatever your health conditions may be, Medicare Supplements should also be reviewed every year and compared to the advantages of what a MAPD plan can provide.

Next Steps
Whether you have an existing MAPD, a Standalone drug plan and Medicare Supplement, having your coverage reviewed with these points in mind is why all the MAPD's and standalone prescription drug plans go into Open Enrollment each year at this time. We urge you to use this opportunity to visit with us. Let us help determine what's best for you and have us find you the most suitable plan available for you in 2017. Lastly, this review could result in us advising you that your existing insurance will be the most suitable for next year. Going through this no obligation and free review is worth the peace of mind in knowing for sure that your coverage is as suitable as it can be for the following year.

FHK Insurance Services – We speak health insurance.
www.fhkinsurance.com – 414-228-7555

Debbie Alpert is a Senior Advisor at FHK. Debbie has been in the benefits field for over 30 years. Mr. William Kravit is the owner and President of FHK Insurance Services. FHK has been servicing individual insurance needs in the marketplace for over four generations. Spectrum Investment Advisors, Debbie Alpert, William Kravit and FHK Insurance Services are unaffiliated.

Below is the 9/30/2016 Spectrum Investor® Update:

Spectrum Investor® Update 9/30/16

Morningstar Category Averages	3rd Qtr	1 Year	3 Year
Intermediate-Term Bond	0.98%	**5.28%**	3.74%
Allocation: 50%-70% Equity	3.12%	9.07%	5.43%
Large Cap Value	3.69%	13.09%	7.71%
Large Cap Blend	3.81%	12.02%	8.76%
Large Cap Growth	5.59%	10.43%	9.23%
Mid Cap Value	5.03%	13.18%	7.32%
Mid Cap Blend	5.01%	10.46%	6.67%
Mid Cap Growth	4.78%	8.40%	6.43%
Small Cap Value	7.29%	14.49%	5.70%
Small Cap Blend	6.96%	13.00%	5.55%
Small Cap Growth	**8.20%**	10.44%	5.10%
Foreign Large Blend	6.19%	6.56%	0.55%
Real Estate	**-0.90%**	16.72%	**12.76%**
Natural Resources	5.06%	**18.62%**	**-4.91%**

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: 18,308	**10 Yr T-Note: 1.60%**
NASDAQ: 5312	**Inflation Rate: 1.1%** (8/2016)
S&P 500: 2168	**Unemployment Rate: 4.9%** (8/2016)
Barrel of Oil: $48.24	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 2016: 401(k), 403(b), 457 Plan Deferral Limit is $18,000. Catch-up Contribution limit is $6,000. Source: www.irs.gov

In Other Words

Elections and the markets

Angie Franzone
Newsletter Editor

I know it's hard to believe, given the stark contrast between the two, but I am undecided. I just can't make up my mind which to choose and the day is fast approaching. Should my children be superheroes or princesses for Halloween this year? Oh well, I'll figure it out on my own time. Let's talk election!

It's safe to say emotions are running high right now. No matter where you turn, television, radio or social media, end-of-days type messages abound. Whatever your politics may be, you can't let it affect your investment decisions. **When it comes to your portfolio, your emotional reaction to the election, not who actually wins it, is what matters most.** You are investing for the long-term so stay focused on your financial goals, investment time-frame and risk tolerance.

Famed investor Benjamin Graham has been credited with saying, "In the short-run, the market is a voting machine. In the long-run, it's a weighing machine." What this means is that in the short-term, markets react to news, such as the election of a new president, but in the long-term they follow the fundamentals of investing. Markets don't like uncertainty and it doesn't get much more uncertain than who the next President of the United States will be. "In the run up to the election, returns tend to move sideways as a reflection of greater future uncertainty. Volatility tends to develop in the first year following an election, as the market digests change, and then gradually increases to its peak in the second year of the cycle" (www.nasdaq.com). Having a plan in place and diversifying your assets into a variety of different investment options can help you sleep better and weather the storm until things calm down. If the uncertainty of what's to come still has you feeling anxious, take a look at the facts.

Since 1950, there have been 16 Presidential elections, (six republicans and five democrats). As the chart below illustrates, nine of them did not see an immediate negative stock market response following the election. In five cases, the S&P 500 declined by an average of 5% within about 17 days following the election, with four of them recovering the loss within a month and the other recovering within six months of the election. The remaining two elections (2000 and 2008) saw major declines unrelated to the Presidential election; the reason for those declines being the tech bubble burst of the early 2000s and the financial crisis of 2008 - 2009.

S&P 500 Performance Post Election Since 1950

	No Significant Loss	4-10% Loss	More than 30% Loss
Average Return	6.97%	-5.07%	-39.24%
Average time until bottom	0	17 Days	13 Months
Average recovery time	0	2 Months	28 Months
# of Elections	9	5	2

Source: Morningstar, S&P 500 Index.

It's important to keep in mind that the markets aren't just unpredictable in election years either; take Brexit (the United Kingdom's vote to leave the European Union) for example. The S&P 500 lost 5.34% over four days following Brexit and had fully recovered just 10 days later. 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)."

Knowing that there will be volatility, no matter who is elected, and being prepared for it, is half the battle. Whether it is an election year or not, investing in the stock market should always be a long-term investment strategy.

One of the great things about our country is that the president is not a dictator and we have a system of checks and balances in place to ensure that one individual, party or set of policies does not have all the power. According to Dr. Brian Jacobsen, chief portfolio strategist at Wells Fargo and guest speaker at our upcoming January Coffee House, "Parties don't matter as much as policies, and you should be very skeptical of any claim that one party is definitively better for the markets than another." "Markets are complex systems driven by many forces. Who is president may matter, but maybe only a miniscule amount. Which policies get passed depends also on the composition of Congress" (*AdvantageVoice® Blog* 12/22/15).

If you're anything like me, you just want to fast forward to election day and find out the winner so we can all go back to being nice to each other again. While past performance is no indication of future results, history may be able to give us a little insight into who will become the next president. According to JPMorgan, "Looking over the last 22 election cycles (since 1928), in the three months leading up to the election, a rising stock market accurately predicted a victory by the incumbent party's candidate, while a down market predicted a victory by the challenger party—in 86% of all observations. Heading into November, it would not surprise us to see a higher market eventually predict a Clinton victory, or a lower market forecast a Trump win. We caution that this pattern is less a market vote on the long-term impact of policy proposals than a referendum on uncertainty vs. status quo."

If you feel as though your portfolio allocation does not line up with your risk tolerance, or you simply don't know if it does or not, call our office and talk to one of our advisors. The best approach to take in uncertain times is to be proactive rather than reactive.

60% Stocks/40% Bonds Allocation vs. Indices Ending 9/30/16

15 Yr	10 Yr	5 Yr	3 Yr	1 Yr		Index Definition
Real Est. 11.21%	Mid Cap 9.11%	Lg. Growth 16.81%	Real Est. 14.29%	Nat. Res. 22.36%		Natural Res: S&P North Am. Nat. Resources TR
Mid Cap 10.42%	Lg. Growth 8.84%	Mid Cap 16.50%	Lg. Growth 12.75%	Sm. Value 18.81%		Small Value: Russell 2000 Value TR
Sm. Value 9.38%	Sm. Growth 8.29%	Lg. Blend 16.37%	Lg. Blend 11.16%	Real Est. 17.70%		Real Estate: DJ US Select REIT Index TR
Sm. Blend 9.26%	Lg. Blend 7.24%	Sm. Growth 16.15%	Mid Cap 9.35%	Lg. Value 15.98%		Large Value: S&P 500 Value TR
Sm. Growth 8.90%	Sm. Blend 7.07%	Lg. Value 15.87%	Lg. Value 9.34%	Sm. Blend 15.47%		Small Blend: Russell 2000 TR
60/40 8.00%	60/40 6.71%	Sm. Blend 15.82%	Sm. Value 6.77%	Lg. Blend 15.43%		Large Blend: S&P 500 TR
Nat. Res. 7.67%	Real Est. 5.80%	Real Est. 15.60%	Sm. Blend 6.71%	Mid Cap 15.33%		Mid Cap Blend: S&P MidCap 400 TR
Lg. Growth 7.44%	Sm. Value 5.78%	Sm. Value 15.45%	Sm. Growth 6.58%	Lg. Growth 14.74%		Large Growth: S&P 500 Growth TR
Lg. Blend 7.15%	Lg. Value 5.53%	60/40 9.49%	60/40 6.44%	Sm. Growth 12.12%		Small Growth: Russell 2000 Growth TR
Lg. Value 6.71%	Bonds 4.79%	Intl. 7.39%	Bonds 4.03%	60/40 11.49%		60/40: 60% Diversified Stocks/40% Bonds
Intl. 5.81%	Nat. Res. 3.08%	Bonds 3.08%	Intl. 0.48%	Intl. 6.52%		International: MSCI EAFE NR
Bonds 4.80%	Intl. 1.82%	Nat. Res. 2.98%	Nat. Res. -3.58%	Bonds 5.19%		Int.-Term Bonds: Bar-Cap Aggregate Bond

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

It's not all in your genes

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

If your parents were overweight, you are more likely to have a weight problem as well. Heart disease and cancer also run in families, too; the good news is that genetics is only your tendency, it is not your destiny. It may be in your jeans, but it's not all in your genes. That means your health experience, to a large part, is up to you. Don't blame your parents.

Fortunately, genetics can play a positive role, too. For example, brothers of 100-year-olds are 17 times as likely to live to 100 as are people without centenarians in the family. Sisters of centenarians are 8.5 times as likely to live to 100. Children of centenarians in their 70s and 80s have a 60% reduced risk of heart disease, stroke and diabetes.

Experts say that the average person is born with strong enough longevity genes to live to about 85. People who take appropriate preventive steps may add 10 years to that. Those that make it to 100 and over can usually thank their family for some good genes.

But a study done in Sweden of identical twins showed that only about 30% of longevity is genetically determined. Their ultimate lifespan, like everyone else's, really was determined by their lifestyle habits. If it was all genetics, identical twins should live about the same length of life, but they don't. They often have different health and sickness experiences and ultimately die at different ages. The 7th Day Adventists is a worldwide Christian denomination that worships on Saturday instead of Sunday. They are a genetically diverse group, but the vast majority of them live a very healthy lifestyle and they live an average of about 10 years longer than the rest of America. A full extra decade of healthy life! A healthy lifestyle will maximize your genetic potential. That's good news.

"After all these years, I'm finally comfortable in my own skin. Maybe it's because my skin is a lot bigger than it used to be!"

You can't do much about your genetics, yet, but you can improve your lifestyle. Genetics probably influences an individual's ability to overcome a disease or injury and also effects how much of an organ is necessary for its continued performance. For example, an autopsy on a 103 year-old man who had no signs of Alzheimer's still showed the physical evidence of it in his brain. Because of his good genetics, he had enough excess reserve of his brain function that he could still think properly even though the disease was present.

We used to think that human aging was pre-programmed into each one of us. We thought it was just a normal part of the ongoing development of the human body. We now know that's not true. For the most part, it appears that human aging results when the body's normal repair and maintenance mechanisms, controlled by our genes, simply don't work as well as they did when we were younger. We're not really programmed to get old; we get old because we lose the ability to repair the day-to-day damage that happens from life. Fortunately, we now understand that that aging process itself is much more subject to modification than was ever thought in the past. There's now real hope that we may be able to change our genetic programming in the not too distant future so that we can maintain those repair mechanisms. We aren't necessarily talking about making old people live longer but rather, about helping people stay healthier as they get older.

Here's the bottom line on genetics as of now. Most of us have the genetic potential to live into our late 80s or early 90s. On our own, and until genetic therapy becomes practical, we can't do anything to lengthen that genetic potential, but the wrong lifestyle decisions can definitely cut it short. That's what most people do. But remember, to reach your maximum lifespan potential it's 70% lifestyle and only 30% genetics. Your personal health decisions are VERY important.

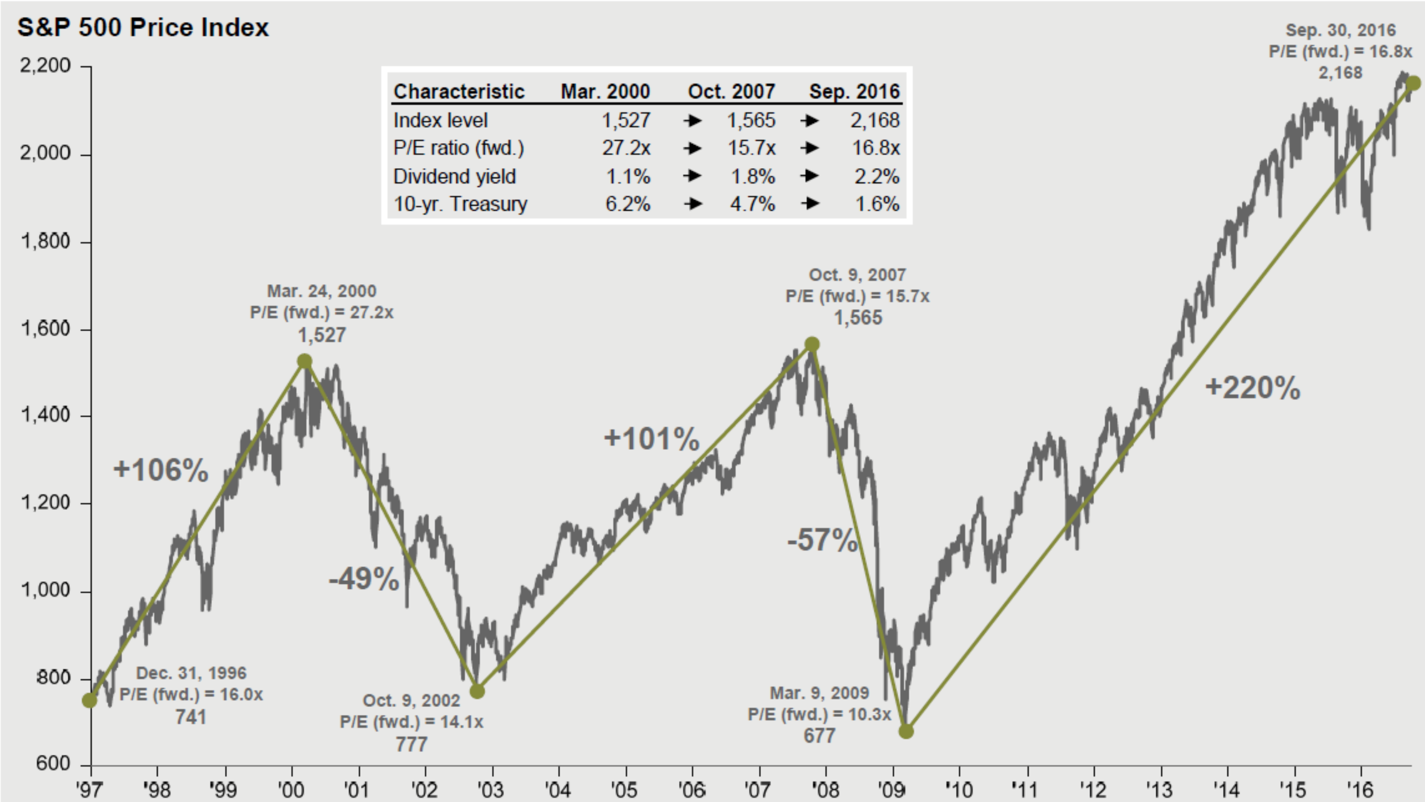
David Meinz presents keynotes and workshops to businesses and associations around the US and Canada based on his new book, ***Wealthy, Healthy & Wise: How to Make Sure Your Money and Your Health Last As Long As You Do.*** For more information on his speaking services, or to order an autographed copy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

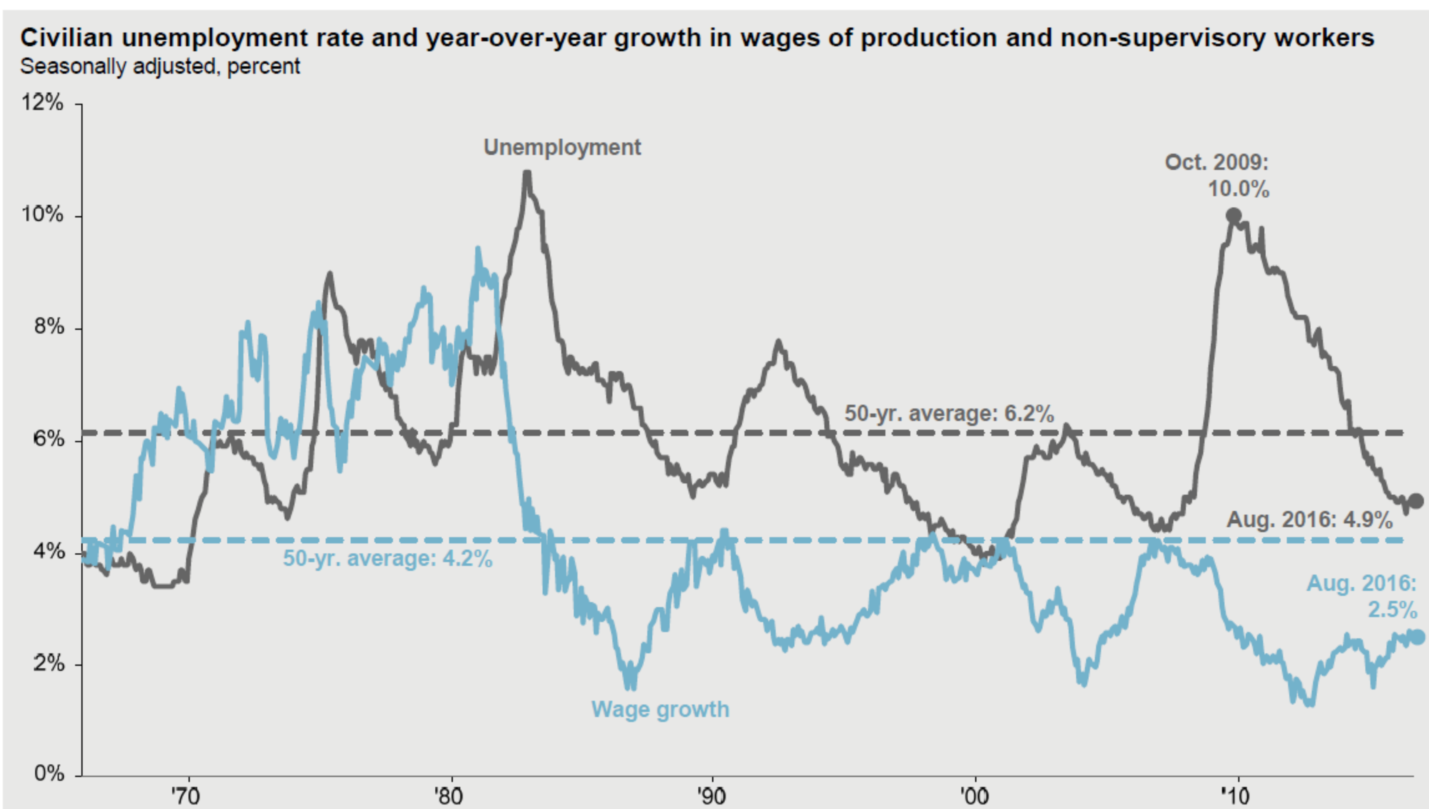
Benchmark Disclosures: ***Morningstar Category Averages:*** *Morningstar classifies mutual funds into peer groups based on their holdings. The Category Average calculates the average return of mutual funds that fall within the category during the given time period. The following indexes and their definitions 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.*

As the top chart indicates, the PE Ratio (white box) at 16.8 times earnings is higher than the norm, but not significantly higher compared to March 2000. The dividend yield of the S&P 500 Index of 2.2%, is still higher than the alternative yield on the 10-year treasury at 1.6%. The higher 10-year treasury yield vs. the S&P 500 dividend was one of the reasons stocks corrected in 2000 & 2007. The Fed may raise rates in December, but the pace of rate increases will be relatively slow until the rate of wage growth at 2.5% gets closer to the unemployment rate at 4.9% (bottom chart). When the two lines come close to meeting, that's when historically the Fed puts the pedal to the metal.



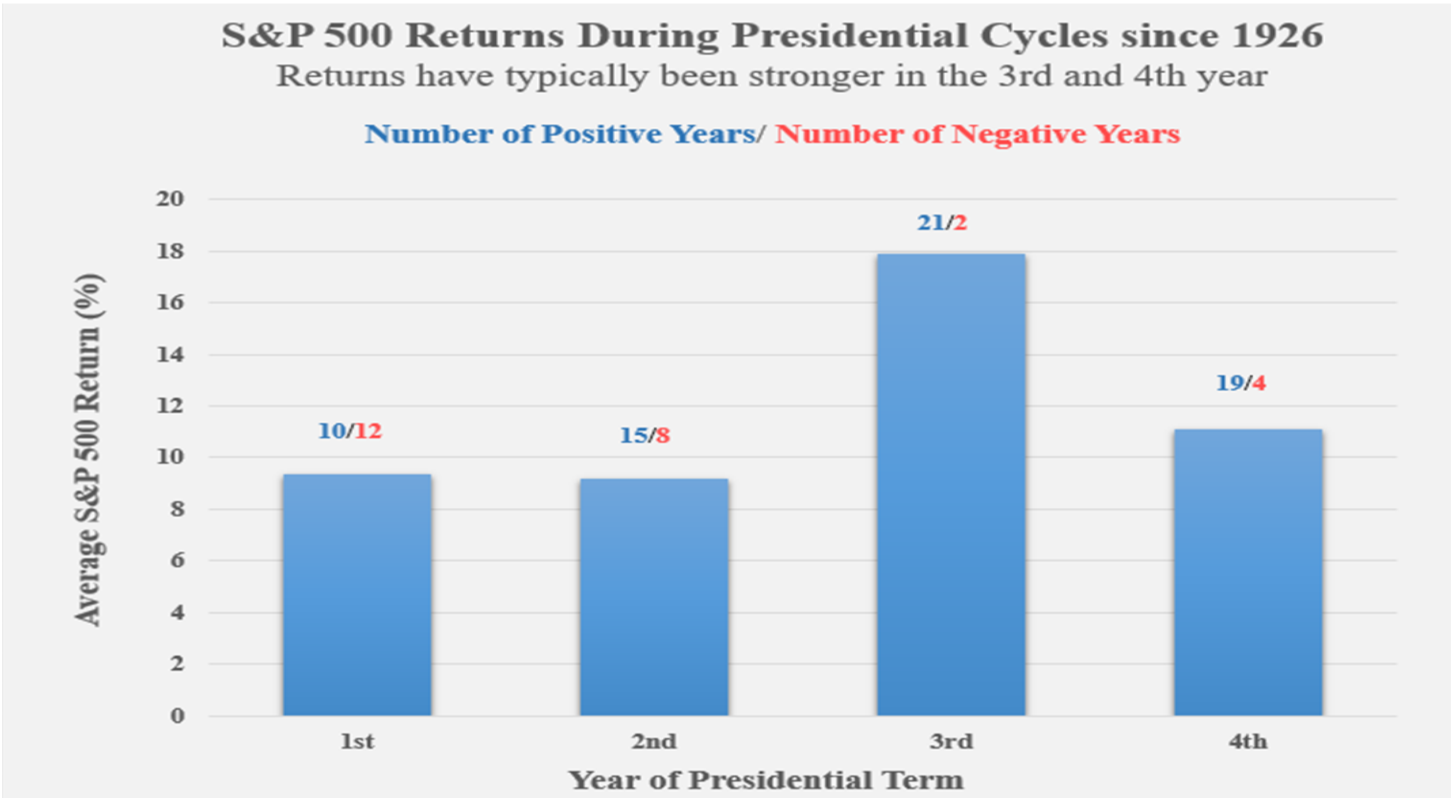
Characteristic	Mar. 2000		Oct. 2007		Sep. 2016
Index level	1,527	→	1,565	→	2,168
P/E ratio (fwd.)	27.2x	→	15.7x	→	16.8x
Dividend yield	1.1%	→	1.8%	→	2.2%
10-yr. Treasury	6.2%	→	4.7%	→	1.6%

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. 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 September 30, 2016.

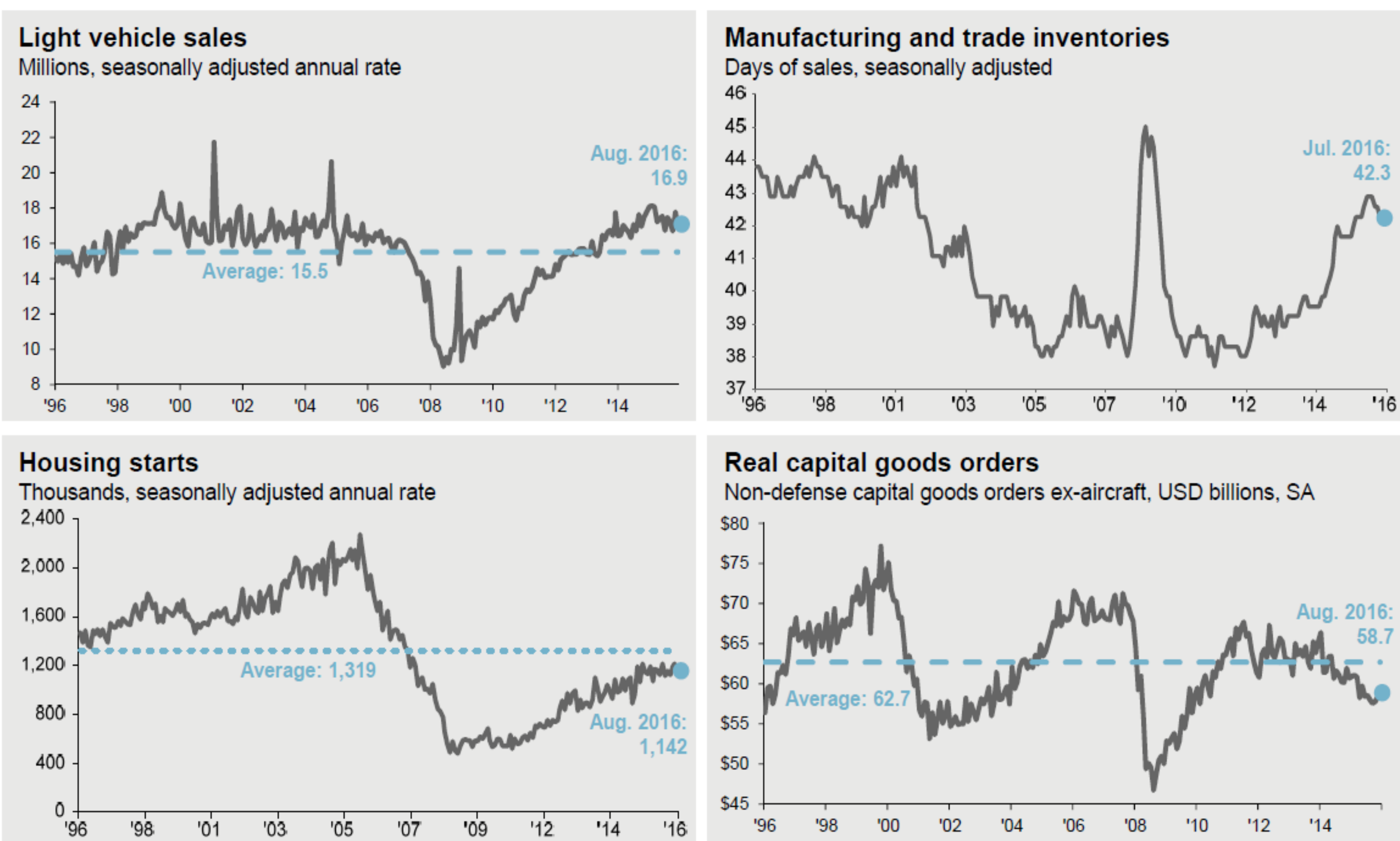


Source: BLS, FactSet, JPMorgan Asset Management. *Guide to the Markets – U.S.* Data are as of September 30, 2016.

The top chart illustrates the S&P 500 returns for each year of a presidential cycle. We are currently in the fourth year of the presidential cycle. Next year is the first year of a new cycle, which shows 10 positive years and 12 negative years since 1926. As the bottom chart indicates, both vehicle sales and housing starts are almost back to normal. Light vehicle sales have been on a tear lately at 16.9 million per year vs. an average of 15.5 million per year. Lower interest rates have helped vehicle sales. As of August 2016, housing starts were at 1.14 million, with the average being 1.31 million.



Source: Morningstar, S&P 500 TR (1926). Cannot invest directly in an index. Past performance is not an indication of future results.



Source: JPMorgan Asset Management; (Top left) BEA; (Top and bottom right, bottom left) Census Bureau, FactSet. Capital goods ordered deflated using the producer price index for capital goods with a base year of 2009. August non-defense capital goods orders ex-aircraft is an advance estimate. SA—seasonally adjusted. *Guide to the Markets – U.S.* Data are as of September 30, 2016.