July 2016

Second Quarter 2016

2016 has been nothing short of an exciting year. Major indexes have bounced around as market participants try to digest the developments of the year. That said, most are indexes are heading in the right (positive) direction. The S&P500 while falling 5%+ during the Brexit turmoil held the psychologically important level of 2000 and ended the second quarter up 2.46% and is positive 4.06% for the year. Fixed income markets, measured by the Barclay's Aggregate index were positive as well ending up 2.21% in the quarter and 5.31% for the year. Broader International markets, measured by the MSCI EAFE lagged slightly during the quarter ending down 1.46% and are down 6.28% for the year.

Brexit…Much Ado About Nothing…

While the referendum to leave the European Union did come as a surprise to many market participants, we continue to believe that maintaining a diversified strategy is the right course of action, and that this is not a fundamental reason to deviate from this approach.

Anytime there is an event of this magnitude, there will be multitudes of negative headlines and the true impact of the event will take some time to fully understand. The U.K. is one of the world's largest economies and according to FactSet 2.9% of the S&P 500 constituents revenues come from the country. While the U.K. is an important trading partner of the U.S., we would expect most of the short term effects of the event to largely be borne by the British citizens through increased difficulty surrounding trade and immigration. Longer term effects will stem from S&P cutting the U.K.'s AAA credit rating and the potential for further break up in the U.K. by Scotland. Despite the monumental referendum, the FTSE 100, an index that tracks the 100 largest companies on the London Exchange, is up 5.58% as of 7/10 since the start of the year. So while this created near-term volatility (the index fell 5.6% in two days after the referendum) it is a reminder of the importance of staying invested despite what news headlines make out to be economically catastrophic events.

A domestic example of the importance of staying invested can be highlighted by JP Morgan who performed a hypothetical study in 2014 in which they looked at the returns of investing $10,000 in the S&P500 Total Return index (technically you cannot invest directly in an index) from 1/1/1994 through 12/31/2013, a period that included the bursting of the Dot Com bubble and the Great Recession. They then measured the returns removing some of the best days of positive market performance. If investors had stayed invested through the events of the time period they would have realized annualized returns of 9.22%; however, if they had missed just the 10 best days of market performance the annualized returns were reduced to 5.49% and if they had missed the 40 best days over a 20 year time period, the equivalent of being out of the market just two trading days each year, their returns were -1.02%.

While the importance of staying invested cannot be overstated through events like this we do not mean to imply that there will not be far reaching effects as a result of such large geopolitical events. One such result is the likely further delay by the Federal Reserve in raising domestic interest rates. It was largely anticipated that the Federal Reserve would raise rates four times in 2016 going into the year but given the events of the Brexit, it likely appears that even the two raises we mentioned in our last note may be ambitious. Given this the broader fixed income markets have continued their slow and steady climb and are currently up 6.16% for the year. Many other events are sure to follow but this is one of the larger immediate impacts as this fits in with the Federal Reserve language of "Global economic and financial developments" as reasons to continue to keep rates at current levels.

Thus far 2016 has met our expectation of being a bumpy yet positive year. We would caution investors from making emotional reactions with their investments as the result of seemingly catastrophic headlines. For investors with diversified portfolios and invested in multiple asset classes, we would recommend looking for rebalancing opportunities especially in taxable accounts that bring long-term allocations in line with goals, risk tolerances and time horizons.

We stand ready to assist you and answer any questions regarding this newsletter or anything else that may come up. If any changes to your situation have occurred, please contact us at your convenience.

	Closing Price: 3/31/2016	Closing Price: 6/30/2016	CY2016 % Return	Q2'16 % Return
S&P 500 TR USD	2059.74	2098.86	4.06%	2.46%
MSCI EAFE NR USD	1660.68	1608.45	-6.28%	-1.46%
Barclays US Aggregate Bond TR	1983.77	2027.69	5.31%	2.21%

Written by Finity Group

CORRECTION: In previous distributed Q2 Market Update we erroneously had market performance figures through 7/9/2016 not 6/30/2016 as we wrote.

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