Market Perspective

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All data and information as of June 30, 2016
For Financial Adviser and Current Client Use Only

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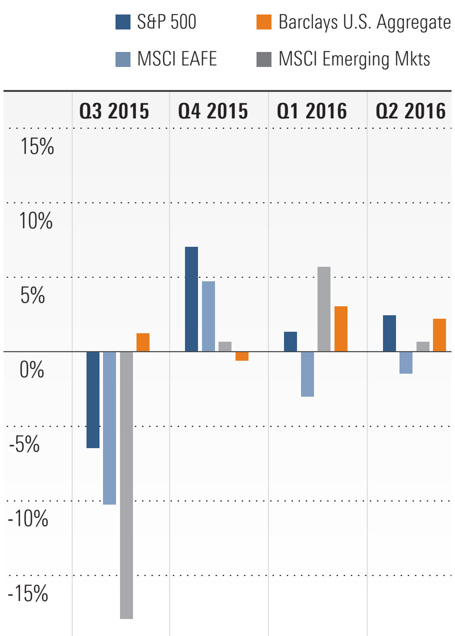
Quarterly Index Returns



Returns %	Q3 '15	Q4 '15	Q1 '16	Q2 '16
U.S. Stocks				
S&P 500	−6.44	7.04	1.35	2.46
Int'l Stocks				
MSCI EAFE	−10.23	4.71	−3.01	−1.46
Emerging Markets				
MSCI Emerging Mkts	−17.90	0.66	5.71	0.66
Bonds				
Barclays U.S. Agg.	1.23	−0.57	3.03	2.21

The United Kingdom's vote to leave the European Union ended a period of relative calm in financial markets. U.S. stocks lost ground in late June leaving the S&P 500 with a quarterly gain of 2.46%. Foreign developed-market equities had a rougher ride, as the MSCI EAFE fell -1.46%. High-quality bonds provided stability, with the Barclays U.S. Aggregate Bond index rising 2.21%.

Brexit and the Certainty of Uncertainty
Markets are again under pressure. You might think we make up these market declines every quarter to tell you the same message, but of course we don't. But by now, you may have heard the chorus so often you're ready to sing it with us: We are long-term, valuation-driven investors who prioritize research over reaction. We know we need to take risk to reap potential rewards, and we care a lot more about the long-term future cash flows of an asset class than we do the latest news event causing markets to sway this way or that.

Are we concerned about the fact that investors have fled stocks for safe-haven assets such as government bonds? Yes, we are watching markets carefully. But being long-term investors, we are relieved of the task of calling the outcome of every election, or predicting how investors might react to every news story. Instead, we focus on the research, we try to keep a clear head, and we remember that often the best time to buy investments is when others are selling them on the cheap.

The current kerfuffle

The cause of market turbulence this time was an unexpected result British voters delivered in a June 23 referendum on whether the country should remain part of the European Union (EU). For much of the week and even hours leading up to the vote, all signs pointed to "Bremain"—that the United Kingdom (UK) would not approve the referendum—and global stocks and the value of the pound sterling rose. Then, as evening grew later in the U.S., news dribbled in of "Brexit" victories in northern English cities. The pound plummeted in overnight trading, and early on June 24 in London, the BBC called the election in favor of those voting to leave.

The next two trading days offered more of the same: Investors cared more about the uncertainty around what the Brexit might mean than they did about finding—and keeping—good investments. Selling stocks after a news event is like throwing away dollar bills after they get wet: It requires an insistence that the future can't possibly look different from the present.

History often rhymes

You've probably heard the old saying that history doesn't repeat itself but often rhymes. This saying is understood to be metaphorical, of course, but this time it's also literal.

Cast your memory back an entire year to summer 2015: Greek voters faced their own referendum then, namely to weigh in on whether their government should accept the EU's bailout terms or reject them. The Greeks faced a crossroads akin to the one Woody Allen described in a 1979 speech. Allen at the time said, "One path leads to despair and utter hopelessness. The other to total extinction. Let us pray we have the wisdom to choose correctly."

Humor aside, Greek people voted to reject the terms of the bailout. Grexit, a longstanding threat to markets that Greece would leave the EU, default on its debt, etc., once again roiled markets. And yet, a year later, who would market Grexit as a significant driver of portfolio returns?

The certainty of uncertainty

Granted, Grexit could have been far worse. Greece and the UK are different in many ways (again, the details change), and Brexit is only starting to play out in the history of tomorrow. However, we can see in the Grexit/Brexit rhyme that events which instill fear in the short-term are often minor blips in the long-term, even at times just a year later.

As we said, we invest in asset classes based on valuations and fundamentals. That story has not changed materially by the developing Brexit situation.

Significant market declines often present the opportunity to buy asset classes at steep discounts. We continue to search the markets for beaten down areas that may offer long-term opportunity.

We are all left grappling with uncertainty, but investing is a trade-off of expected risk for expected reward. Markets are always uncertain. We can put short-term events in the proper perspective and stand firm in our conviction that buying assets when they're cheap can be a successful strategy, despite what the headlines may say.

Thank you for your consideration.

Opinions expressed are as of June 30, 2016; such opinions are subject to change without notice.

Index Information
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S&P 500 Index—An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The S&P 500 is a market value weighted index.

MSCI EAFE Index (Europe, Australasia, Far East)—A free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

Barclays U.S. Aggregate Index—A market value weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

MSCI Emerging Markets Index—A free float-adjusted market capitalization index that captures large-cap and mid-cap representation across 23 Emerging Markets (EM) countries.

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