Q2

Market Review

Second Quarter 2016

Piedmont Wealth Management

Second Quarter 2016 Newsletter

Like many of you, we had a wonderful time celebrating the Fourth of July. Growing up, the Fourth seemed mostly about food, friends, family and fireworks. Our adult years, has caused us to better appreciate what Independence Day really means. We have a degree of freedom in our nation that few today and even fewer throughout recorded history have enjoyed.

We have the freedom to speak our mind, the freedom of religion, the freedom to assemble, and the freedom to question our government. In addition, we have the freedom to choose our own leaders – from the local city council to the president of the United States.

You may be looking forward to the upcoming election and the prospect that a woman may lead the greatest nation that has ever graced the face of the Earth or you may be eager to cast your vote for a political newcomer, hoping to shake things up in Washington.

I am also a realist and am painfully aware that many folks aren't very enthusiastic about the choices that *We the People* have. It's not always perfect, but if you really reflect on it, we, as a nation, govern ourselves. And this grand experiment in democracy has been exported around the world in many forms.

Political tremors create economic waves

This leads us to Europe--and the United Kingdom in particular. On June 23, the UK voted in a nonbinding referendum to exit the 28-nation economic and political bloc called the European Union. "Brexit" was chosen by a narrow margin, but the people had spoken.

The referendum is not binding but British lawmakers state they will honor the vote. A victory by the "Leave" camp wasn't supposed to happen. While the vote was expected to be close, pollsters, analysts, and even the bookies who took bets all projected "Remain" would squeak through with a win. In advance of the vote, stocks rallied in anticipation "Leave" would go down to defeat.

Whether good or bad, continuity usually benefits markets because it provides certainty. As you may recall from some of our past newsletters that markets hate *heightened* uncertainty. Short-term traders dislike added uncertainty and are much quicker to hit the sell button than longer term investors, who are more tolerant of disappointments.

Why might this be viewed as heightened uncertainty? Well, we're in uncharted waters since no nation has ever asked to leave the EU. Could Brexit fuel other separatist movements and create additional economic uncertainty in Europe? Might we see the euro currency, which is shared by 19 nations, begin to unravel?

How might this pressure an already fragile European banking system? Will the dollar begin to strengthen as global investors seek the relative safety of the U.S. as a shelter from the stormy global environment?

While these are longer-term concerns, there were a couple of immediate casualties. British Prime Minister David Cameron, who was adamantly opposed to Brexit, quickly resigned, and the British pound fell to its lowest level in over 30 years (Bloomberg).

Meanwhile, expectations of a second rate hike by the Federal Reserve have dimmed considerably. Of course, rate hike sentiment could change again, but for now, prospects for a 2016 rate increase are low (CME Group).

Brexit 101 – what's it all about

In some respects, the vote boiled down to economic uncertainty versus national sovereignty.

The EU is both an economic and political union. Member states enjoy the benefits of free trade, i.e., the free flow of goods and services across borders. Now that the UK appears poised to exit the EU, trade deals and the vast complexities of an exit must be negotiated.

Further, large companies that set up shop in London, using their address as a gateway into the EU, may find other host countries more beneficial. Simply put, layoffs and empty buildings dampen investment and consumer spending, which, at worst, can lead to a recession.

But membership has its costs, and nations in the EU sometimes find themselves burdened by the whims of the European Parliament. Today, immigration is the biggest concern facing UK voters, and member nations must accept anyone who is a citizen of the EU.

It's this open-door immigration policy that has rubbed some folks the wrong way. In a nutshell, what voters viewed as onerous regulations and their impact on national sovereignty trumped the economic uncertainty a Brexit might cause.

Let's not discount the positives at home

Many of the themes that have kept stocks near highs continued to play out over the quarter that just ended. On the plus side, U.S. economic growth appears to have accelerated in Q2 and interest rates remain low. While Brexit may muddy the picture, earnings are forecast to begin rising again in Q3 (Thomson Reuters).

Meanwhile, the increase in oil prices has not only reduced the strong headwinds in the troubled energy sector, but it has reversed the surge in yields among junk bonds. Still, a fill-up at the gas station remains quite reasonable.

Moreover, the dollar's recent stability reduces the drag on revenues from firms that do a significant amount of business overseas. When U.S. companies sell goods around the globe, they must translate those sales back into stronger dollars. A rising dollar is a gift for Americans traveling overseas, but it puts a dent in the bottom line of multinationals.

What's an investor to do?

As we have talked about during our meetings and we have written about in our newsletters to you, control what you can control – your investment plan – and be very careful about making a rash decision based on emotions. Stocks took a beating in the wake of the Brexit vote but quickly recovered nearly all of their losses by the end of June. July with favorable economic reports, better than expected earnings and continued good employment reports have pushed all the major averages in US to new highs.

We understand that most investors don't fully understand the impact of what just happened in Europe in relation to their investments. Honestly, many analysts would concede there are unknowns. Our goal is to keep you focused on your financial goals and objectives. Emotionally based decisions rarely work out in your favor.

Investors whether large or small, highly sophisticated or simply a novice, price stocks through their collective buy and sell decisions. As new information is disseminated in the marketplace, stocks may react either positively or negatively, depending on how the information is viewed.

By itself, the UK's economy won't send the U.S. economy into a recession. But Brexit creates a new level of uncertainty and risk. However imperfectly, investors attempt to discount the event, pricing in how it may affect the U.S. economy and corporate profits.

Democracies can sometimes be messy. What just happened in the UK and the gridlock in Washington are just a couple of examples. I believe Winston Churchill described it well when he said, "Democracy is the worst form of government, except for all the others."

We do not know where the waves of populism that are swelling in the U.S. and Europe may take us, they represent the will of free citizens. Democratic freedoms enable the ordinary to do the extraordinary; to innovate, create wealth and fuel new economic growth. True, free elections aren't always neat and tidy, but history strongly suggests they are a vital ingredient for long-term economic success.

The market summary graphs included reflect major market index results for the second quarter ending June 30, 2016. Except for International Developed Markets (for the most part European Union Countries) all indexes were positive.

During prior quarters, we have focused on a slowing Chinese economy, falling oil prices and an increase in interest rates for the first time in recent history. The financial markets have overcome the bad news from all of these and has recently set in highs. The new highs are about good economic reports, good job growth and better than expected earnings (albeit a very small sample). As we head into future quarters, we should focus on economic growth and earnings, which to an investor are the two most important drivers of stock prices.

We hope you've found this review to be educational and helpful. As we always emphasize, it is our job to assist you. Thank you very much for the trust and confidence.

Quintin and Ginny

July 19, 2016

Market Summary

Index Returns

2Q 2016	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	2.63%	-1.05%	0.66%	4.48%	2.21%	3.11%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	1.7%	1.3%	2.9%	2.9%	1.3%	1.2%
Best Quarter	16.8% **Q2 2009**	25.9% **Q2 2009**	34.7% **Q2 2009**	32.3% **Q3 2009**	4.6% **Q3 2001**	5.5% **Q4 2008**
Worst Quarter	-22.8% **Q4 2008**	-21.2% **Q4 2008**	-27.6% **Q4 2008**	-36.1% **Q4 2008**	-2.4% **Q2 2004**	-3.2% **Q2 2015**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1−30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2016 by Citigroup.

US Stocks

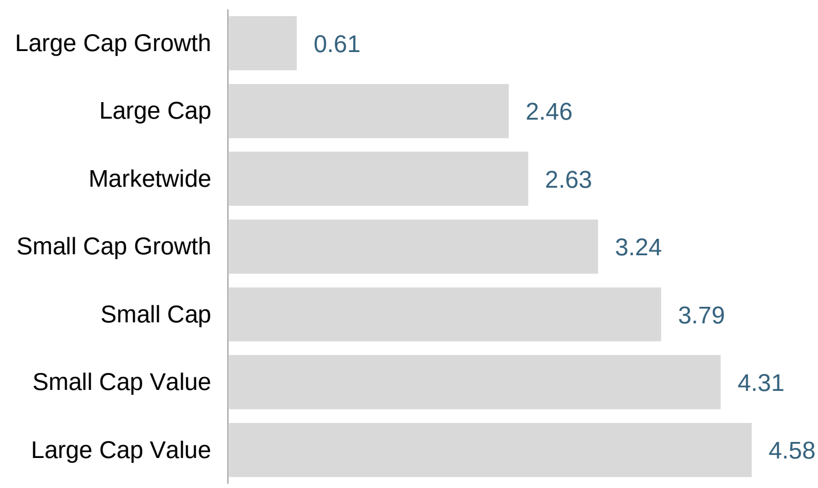
Second Quarter 2016 Index Returns

The broad US equity market recorded positive absolute performance for the quarter.

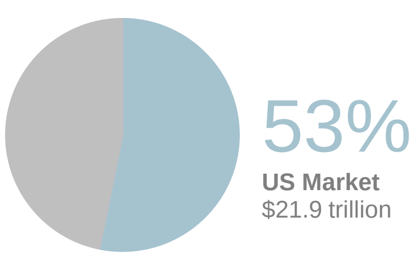
Value indices outperformed growth indices across all size ranges.

Small caps outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	3.62	2.14	11.13	11.60	7.40
Large Cap	3.84	3.99	11.66	12.10	7.42
Large Cap Value	6.30	2.86	9.87	11.35	6.13
Large Cap Growth	1.36	3.02	13.07	12.35	8.78
Small Cap	2.22	-6.73	7.09	8.35	6.20
Small Cap Value	6.08	-2.58	6.36	8.15	5.15
Small Cap Growth	-1.59	-10.75	7.74	8.51	7.15

** Annualized*

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Fixed Income

Second Quarter 2016 Index Returns

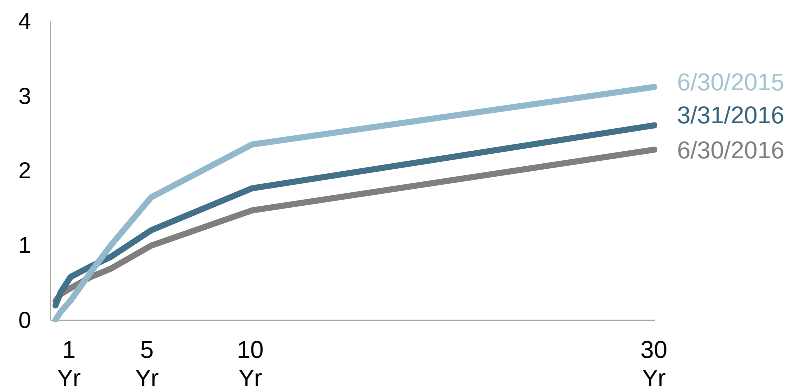
Interest rates across the US markets generally decreased during the quarter. The yield on the 5-year Treasury note fell 20 basis points (bps) to end at 1.01%. The yield on the 10-year T-note decreased 29 bps to 1.49%. The 30-year Treasury bond declined 31 bps to finish with a yield of 2.30%.

The 1-year T-bill ended the quarter yielding 0.45% and the 2-year T-note finished at 0.58%, for declines of 14 and 15 bps, respectively. The 3-month T-bill increased 5 bps to yield 0.26%, while the 6-month T-bill dipped 3 bps to 0.36%.

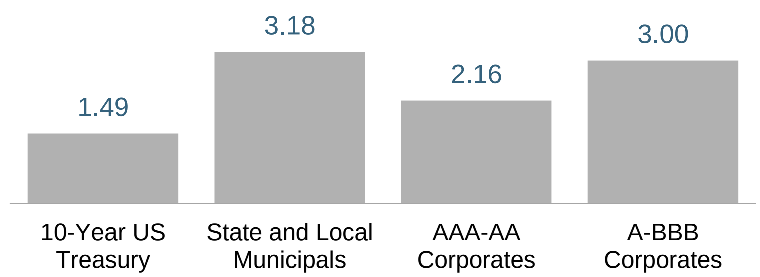
Short-term corporate bonds gained 1.05%. Intermediate-term corporates returned 2.24%, while long-term corporate bonds returned 6.64%.[1]

Short-term municipal bonds returned 0.66%, while intermediate-term municipal bonds gained 1.84%. Revenue bonds slightly outperformed general obligation bonds.[2]

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.15	0.19	0.09	0.09	1.04
BofA Merrill Lynch 1-Year US Treasury Note Index	0.65	0.59	0.38	0.34	1.69
Citigroup WGBI 1–5 Years (hedged to USD)	1.86	2.36	1.82	1.84	2.98
Barclays Long US Government Bond Index	14.94	18.98	10.38	10.17	8.69
Barclays US Aggregate Bond Index	5.31	6.00	4.06	3.76	5.13
Barclays US Corporate High Yield Index	9.06	1.62	4.18	5.84	7.56
Barclays Municipal Bond Index	4.33	7.65	5.58	5.33	5.13
Barclays US TIPS Index	6.24	4.35	2.31	2.63	4.76

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. 1. Barclays US Corporate Bond Index. 2. Barclays Municipal Bond Index. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Citigroup bond indices © 2016 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2016 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

Commodities

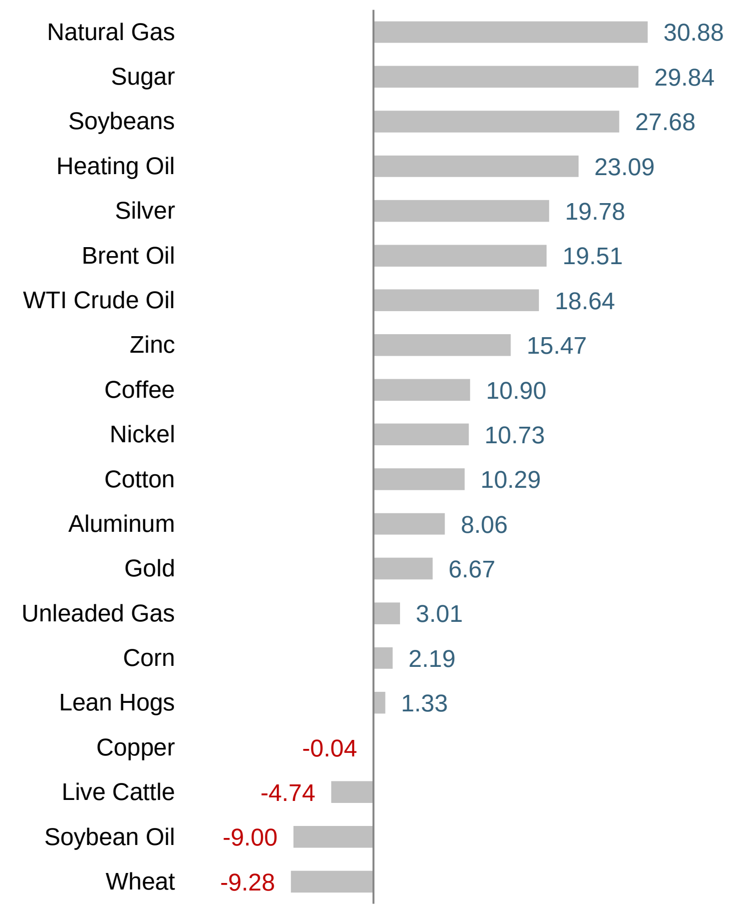
Second Quarter 2016 Index Returns

Commodities were broadly positive during the quarter. The Bloomberg Commodity Index Total Return gained 12.78%. Energy turned positive with natural gas gaining 30.88%, Brent crude oil 19.51%, and WTI crude oil 18.64%.

The Softs complex was also positive with sugar gaining 29.84%, coffee 10.90%, and cotton 10.29%.

Grains were mixed: Soybeans returned 27.68%, yet Kansas wheat and Chicago wheat declined 16.26% and 9.28%, respectively.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	13.25	-13.32	-10.55	-10.82	-5.59

** Annualized*

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. All index returns are net of withholding tax on dividends. Securities and commodities data provided by Bloomberg.