

Third Quarter 2016 Review and Outlook

Major stock indices maintained upward momentum during the third quarter. The quarter began with investors attempting to decipher the future impact of the Brexit vote. As the quarter progressed, Brexit concerns faded as the prolonged timetable for the transition quelled the most immediate concerns. By and large, for financial markets, the third quarter was without dramatic element. Not so for the political arena!

Domestic markets benefitted from economic data that was strong enough to alleviate worries of a recession but not so strong as to drive concern that the Fed would be forced to increase interest rates. Internationally, fears about Chinese market growth and that of other emerging markets countries eased. A reversal of the recent trend in the price of oil was a positive stimulus to the market. Oil prices ended the quarter considerable higher than at the start of the quarter.

Towards the end of the quarter, volatility did pick up as speculation regarding the Federal Reserve's timing of an interest rate increase resurfaced. The late September Federal Reserve meeting left rate unchanged but speculation remains that a rate increase may occur before the end of the year. There is a growing chorus voicing concerns about the impact low rates are having on savers and institutions (pensions and life insurance companies) as well as asset prices (stocks). The task at hand is to assess if the benefits of low rates continue to outweigh the negatives.

On the International front, things continued to deteriorate in Syria with the short cease fire ended and increased civilian casualties. Russia continues to be more aggressive in its actions and does not seem concerned how these actions affect its relationship with the US or the rest of Western Europe. Similarly, there are concerns about increased aggressiveness from North Korea (ongoing nuclear testing) and China (island building in the South China Sea).

The following shows details of the major domestic indices:

	<u>QUARTER</u> Ending 9/30/2016	<u>12 MONTHS</u> Ending 9/30/2016	<u>THREE YEARS</u> Ending 9/30/2016	<u>FIVE YEARS</u> Ending 9/30/2016
DJIA	2.8%	15.5%	9.2%	13.8%
S & P 500	3.9%	15.4%	11.2%	16.4%
NASDAQ Composite	10.2%	16.4%	13.5%	18.5%
Barclays Cap. Agg. Bond	0.5%	5.2%	4.0%	3.1%
Mutual Funds				
Domestic				
Large Cap				
Growth	5.6%	-10.4%	9.3%	15.0%
Value	3.7%	13.1%	7.7%	14.0%
Small Cap				
Growth	5.3%	10.5%	5.2%	14.4%
Value	7.3%	14.5%	5.7%	14.5%

	QUARTER Ending 9/30/2016	12 MONTHS Ending 9/30/2016	THREE YEARS Ending 9/30/2016	FIVE YEARS Ending 9/30/2016
International				
Europe	5.0%	1.8%	0.4%	8.6%
Latin America	5.2%	27.9%	-7.9%	-4.0%
Japan	8.0%	14.6%	5.8%	9.3%
Pacific ex Japan	8.9%	17.2%	4.5%	8.3%
China Region	12.4%	14.2%	4.1%	8.2%
Corporate Bond				
Long	1.1%	13.5%	9.0%	6.5%
Intermediate	0.9%	5.3%	3.8%	3.5%
Short	0.5%	2.1%	1.4%	1.7%
Government Bond				
Long	-0.4%	11.8%	10.0%	4.6%
Intermediate	0.3%	2.9%	2.6%	1.9%
Short	-0.1%	0.7%	0.9%	0.6%
Municipal Bond				
Long	-0.3%	6.0%	6.0%	4.1%
Intermediate	-0.2%	4.8%	4.5%	3.0%
Short	0.0%	1.6%	1.3%	1.3%

Market Outlook –

Barring a major incident on the international front, all eyes are on the U.S. election. Without taking a position, it seems that the market would prefer a Clinton victory as it feels she is a known quantity so a negative market reaction may be likely if Mr. Trump is elected. The uncertainties outlined last quarter remain; the market impact of the Brexit vote, timing of the inevitable interest rate increase by the Federal Reserve and the pace of economic growth both domestically and globally. Also, unknown is the impact of increased protectionism in the U. S. as well as other countries as each country struggles to jumpstart growth.

Therefore, our advice is to continue with your current equity and bond/cash allocation targets. Within the bond/cash allocation, check to be sure that your liquidity (cash) is adequate for your near term (1 year minimum) needs. We continue to review the components of your allocations for possible upgrades.

MSM FINANCIAL STRATEGIES

10/12/2016