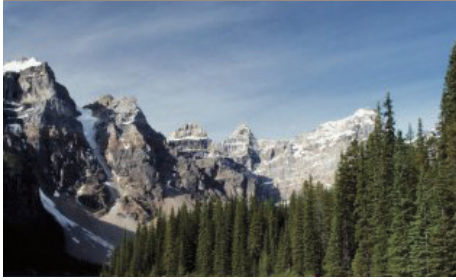


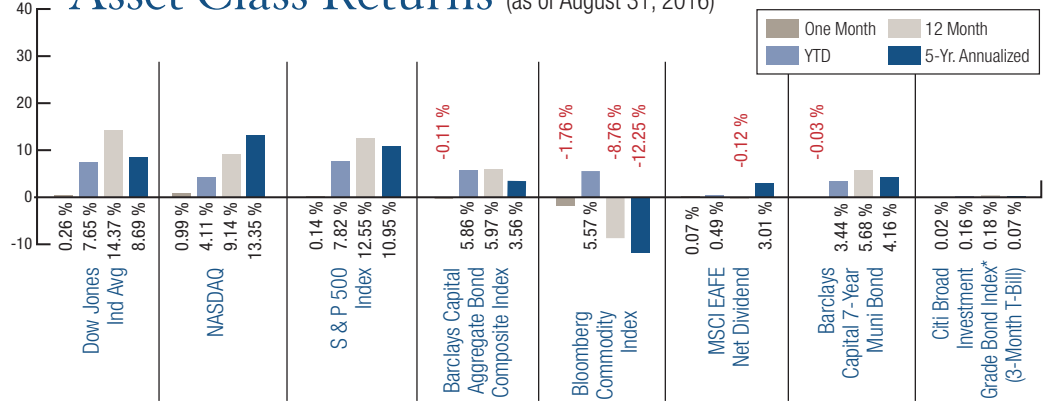
From the Office of:  
Jeff Sgroi, CFP®



“If there is effort, there is always accomplishment.”

Jigoro Kano

Asset Class Returns (as of August 31, 2016)



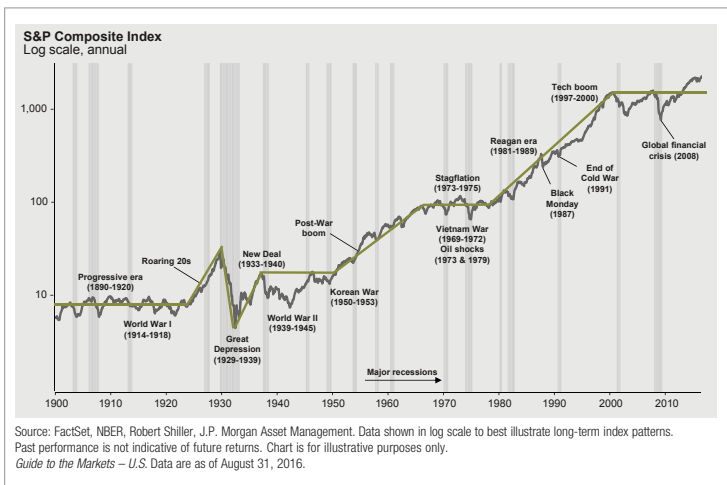
Market/Economic Synopsis

- Major U.S. equity indices reach all-time highs in August
- 2016 Summer Olympics a success, with U.S. athletes capturing more medals than any other nation
- Chances of Federal Reserve raising interest rates in September continue to wane

- Oil prices remain range-bound in upper-\$40s/barrel
- U.S. presidential candidates make final push for fundraising as race tightens and debates approach
- After underperforming developed markets for years, emerging equity surges in 3Q 2016

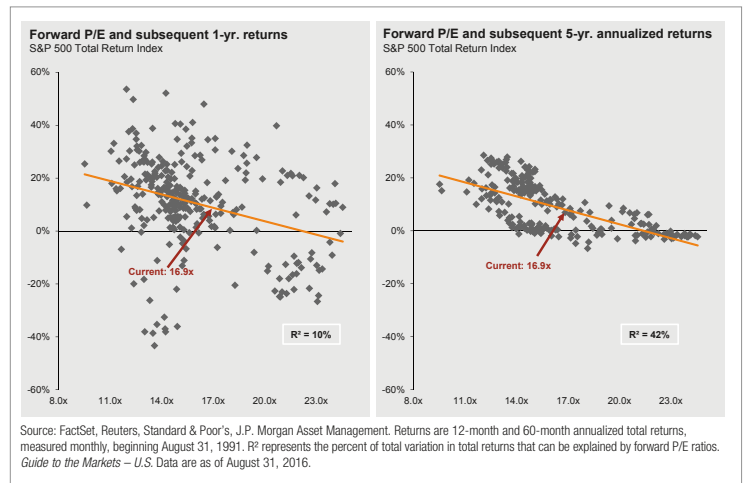
Market Outlook

There is a lot of “noise” surrounding the financial markets these days. One recurring theme I continue to hear is that we are in one of the least loved bull markets in recent memory. One of the reasons for this is that, collectively speaking, many investors are “on the sideline” – holding excessive cash amounts, waiting for the next big market pullback before they are willing to commit to any level of risk and pour money into equities. Historical data shows that this can be a mistake.



As the above chart shows, the last century, for the most part, has had extended bull markets met by extended stagnant markets, with periods of pullbacks during both. The question we all want answered is, are we currently in a stagnant market (that started around the completion of the tech boom peak of 2000), or are we in a bull market that began in spring 2009 at the tail end of the global financial crisis? Time will tell.

In the meantime, it is our role to determine if we want to “play hard”, and shift our asset allocation toward a heavily favored equity bias, or ease up on equity exposure and explore overweight exposure in other asset classes. Examining two forward looking data points should help answer this question.



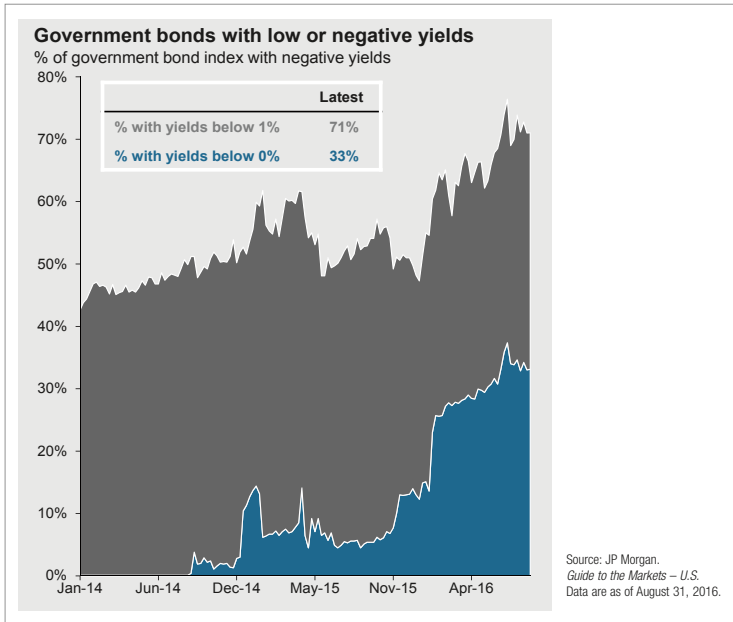
The two preceding charts offer useful short-term and intermediate-term information. The current P/E of 16.9 is very much “average” as far as historical market valuations are concerned – i.e. the market does not appear to be terribly cheap, nor does it look unreasonably expensive. Observing the forward P/E and subsequent 1-yr. returns, it is reasonable to expect that a positive return in the S&P 500 is most likely, although there is a significant variable in potential returns over the next 12-month period.

Upon further review of the forward P/E and subsequent 5-yr. annualized returns, we see that variations in returns are much more consolidated, as would be expected. Similar to the 1-yr. return chart, the likelihood of positive returns over the five year period far outweigh the likelihood of negative returns over the next five years.

In essence, these charts demonstrate that price matters. In this case, the price of the S&P 500 (as measured by forward price to earnings multiples) is a strong indicator of future returns.

Let’s consider the other major asset class, fixed income, and more specifically, the core component of it – government bonds.

(continued)



This chart provides both historical and future perspective. The historical component, dating back to January 2014, shows that the amount of government bonds with yields below 0% (negative yield) have skyrocketed in the past 2 ½ years. This has had significant implications for bondholders over that time period. First, bondholders have, for the most part, enjoyed appreciation of their investment (i.e. the value of their bonds has increased), while the current yield on those appreciated bonds has decreased. The second implication is forward-looking. For the 33% of bonds with yields below 0%, we know that the investors return over the maturity period is going to be negative (i.e. a \$100 investment today may only return \$99 in 3 years upon maturity).

The reason I have assembled information on both equity and fixed income valuations is to illustrate comparisons that we consider when constructing and managing your portfolios. For now, equity markets are telling us to play, but not too hard. Fixed income markets are telling us to proceed with caution – keep maturities short and keep expectations for return low.

As always, different investors and different clients have varying objectives, strategies, and risk tolerances. We share our perspective to offer insight to perceived opportunities and risk mitigation.

## From the Homefront

We can officially welcome in fall, as school has started for all students. Stella began 1st grade the end of August and Lily and Hannah are back in pre-school twice a week. We sent summer out with a bang, visiting



Arches National Park (Moab, UT) and Flaming Gorge National Recreation Area (northeast corner of UT) on two weekend trips in our camper.

In Moab we cruised up the Colorado River in a jet boat (recommended to all) and visited a number of the natural arches carved from sandstone over millions of years. Timing was impeccable, as our hosts at the KOA informed us that we arrived just after a three-week heat wave (with daily temperatures reaching 109 degrees) had broken.

In Flaming Gorge, Utah we met up with my brother and his family and one highlight was a tour of the Flaming Gorge dam. Interestingly, the dam offers power to parts of seven different states.

This fall we hope to make it back to the desert for a couple more camping trips. I also hope to spend some time in the high country chasing elk around.

Index performance is shown for illustrative purposes only and does not reflect the deductions of fees, trading costs or other expenses, which will affect actual investment performance. You cannot invest directly in any index. Individual results may vary. Past performance is not a guarantee of future results.

Opinions expressed are those of Jeff Sgroi and are not necessarily those of Raymond James. All opinions are as of this date and are subject to change without notice. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Investments mentioned may not be suitable for all investors.

The DJIA index covers 30 major NYSE industrial companies. The NASDAQ represents 4500 stocks traded over the counter. The S&P 500 is a broad based measurement of performance of 500 widely held common stocks. The Barclays Aggregate Bond Index is diversified index measuring approximately 6,000 investment grade, fixed rate taxable securities. The Bloomberg Commodity Index is a diversified benchmark for the commodity futures market. The MSCI EAFE index is designed to measure the equity market performance of developed markets excluding the US & Canada. The Barclays Municipal Bond Index is a measure of the long-term tax-exempt bond market with securities of investment grade. The Citigroup

Broad Investment Grade Bond Index is market capitalization weighted and designed to track the performance of U.S. dollar-denominated bonds issued in the U.S. investment-grade bond market.

International investing involves additional risks such as currency fluctuations, differing financial and accounting standards, and possible political and economic instability. Also, investing in emerging markets can be riskier than investing in well-established foreign markets. There is no assurance any of the trends mentioned will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

U.S. government bonds and treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Commodities may be subject to greater volatility than investments in traditional securities. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes, and international economic and political developments. Diversification and asset allocation do not ensure a profit or protect against a loss. Dividends are not guaranteed and must be authorized by the company's board of directors.

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