2016: 3rd Quarter Summary

"What…me worry?" Alfred E. Neuman, *MAD magazine mascot*

As we enter the final quarter of 2016, investors find themselves in an unusual position: a strong Q3 has pushed all major asset classes into the black for the year thus far. The last time this happened was in 2010, the first full year of recovery from the Financial Crisis. This year, markets reacted to increasing geopolitical tensions, a contentious U.S. election cycle, turmoil in the oil patch, a possible rate increase by the Fed and future dollar strength by…climbing higher. Given that there are always things to wait on and worry about in the markets, Alfred E. Neuman is our spiritual guide this quarter.

In the 3rd quarter, oil and commodity prices corrected, U.S. real estate cooled, but smaller-cap and international stocks had very strong returns. Here's a summary table of market results:

Index	Q1 2016	Q2 2016	Q3 2016	YTD 2016	2015
FIXED INCOME					
Barclays US HY 2% Issuer Cap	3.35%	5.52%	5.55%	15.11%	<4.43%>
Barclays Municipal	1.67%	2.61%	<0.30%>	4.01%	3.30%
Barclays Global Aggregate	3.28%	2.51%	0.53%	6.44%	1.02%
Barclays US Agg Bond	3.03%	2.21%	0.46%	5.80%	0.55%
U.S. STOCKS					
Russell 1000 [Large-cap Stocks]	1.17%	2.54%	4.03%	7.92%	0.92%
Russell 2000 [Small-cap Stocks]	<1.52%>	3.79%	9.05%	11.46%	<4.41%>
S&P 500	1.35%	2.46%	3.85%	7.84%	1.38%
INTERNATIONAL STOCKS					
MSCI ACWI Ex USA NR [All Stocks]	<0.38%>	<0.64%>	6.91%	5.82%	<5.66%>
MSCI EAFE NR [Developed Markets]	<3.01%>	<1.46%>	6.43%	1.73%	<0.81%>
MSCI EM NR [Emerging Markets]	5.71%	0.66%	9.03%	16.02%	<14.92%>
REAL ASSETS					
Morningstar US Real Asset Index	2.13%	4.05%	1.13%	7.47%	<3.92%>
Bloomberg Commodity	0.42%	12.78%	<3.86%>	8.87%	<24.66%>
S&P GSCI Crude Oil Spot	3.51%	26.06%	<0.19%>	30.24%	<30.47%>
S&P United States REIT TR USD	6.32%	6.56%	<1.31%>	11.80%	2.54%
S&P Global Ex US REIT TR USD	8.82%	1.57%	2.47%	13.26%	<2.77%>

Source: Morningstar, Inc. USD data with dividends and interest; YTD data through 9/30/16

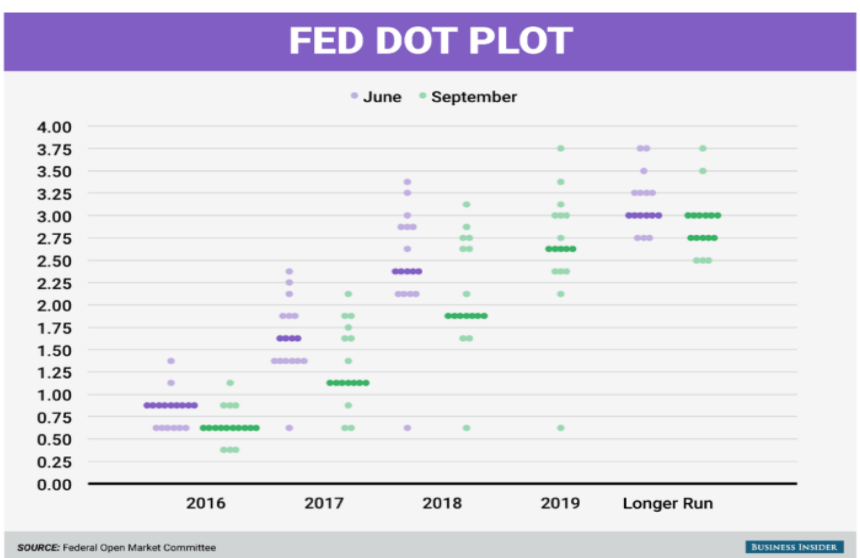
Most investors have heard mention of the markets' 'wall of worry.' It is built, brick by brick, of all the issues that are believed to give investors pause, particularly with respect to equities. Here's one rendition of the wall as perhaps imagined by Pink Floyd:

"So we keep waiting / Waiting on the world to change" John Mayer, *Waiting on the World to Change*

Here's a brief summary of what we think investors are waiting on now:

Global Growth: Expectations are still low and slow. The OECD's September 2016 projections are for World GDP to dip to 2.9% in 2016 and hit 3.2% in 2017. Over those years, the U.S. is projected to grow 1.4% and 2.1%, and the Euro area 1.5% and 1.4%. China is expected to drop to 6.5% and 6.2%. Recessions are not imminent. Both the European Central Bank and the Fed are paused in their rate-management regimes, but a survey of the globe's interest rates indicates that monetary policy effectiveness appears to be exhausted. Fiscal spending is the *other* growth tool, and the time has come for governments and corporations to increase spending. With unemployment averaging over 10% in the Euro area, a strong impetus is necessary to get growth back on track in countries other than Germany.

The Fed's interest-rate hikes: The world anxiously awaits the Fed's next move. We now fully understand the Fed is 'data-dependent' and is reviewing every data point they can. Their delays have promoted a false 'floor' to the markets as a result. Reviewing the changes from June (purple) to September (green) 2016, the Fed members' dot plot of future rate expectations indicates a 'lower and slower' level of increases over 2017 and 2018.



U.S. stock earnings: One 'brick' in the wall that we're focusing on is the next four quarters of S&P 500 earnings results. Technically, the market has been in an earnings recession for several quarters; forward expectations are for strong comparisons beginning with Q4-16 earnings. Energy sector comparisons in particular are expected to be favorable, but any earnings shortfall might promote a market correction. Here is one snapshot of current earnings expectations:

Source: Zacks Investment Research Inc.

Geopolitics: Reaction to the current state of global affairs is, frankly, surprising. We have many regional conflicts in the Middle East, rising terrorist threats in Western countries, nascent muscle-flexing by Russia and China, a seeming break in relations between the U.S. and the Philippines, elections with populist overtones in the U.S., France, the Netherlands, Italy and Germany over the next 18 months, a failed coup in Turkey, economic and political upheaval in South America…suffice to say, the list is large. Underpinning these external concerns are the gyrations in the energy and metals markets, and China's economic transition. We would normally expect more market downside volatility surrounding these events and uncertainties, which leads us to believe investors are waiting for some lynchpin event – an election or other change – that may push market direction more firmly. What we'd like to see is stability and clarity in government control, planning and policy execution, with a de-emphasis on fringe groups and their political agendas. A resolution of the long-running issues in the Middle East would go a long way to promoting this stability.

"Don't you worry 'bout a thing…" Stevie Wonder, *Don't You Worry 'Bout a Thing*

Investors worry; it's our perpetual state of mind in which all news has a downside. Investors also have much to be cheered by in the years since the Financial Crisis. Broadly speaking, the U.S. has recovered well, and other developed nations have recovered to a lesser degree. Globally, however, we find ourselves at another inflection point. New growth-oriented political and fiscal solutions are on the table, and careful management of these policies to promote growth is vitally important. A return to 'normal' interest rates, capital-raising policies and asset valuations would be welcome. As we approach the U.S. elections, we need to be mindful that, once they're concluded, we will still have a functioning global economy and governments. New agendas will be in place, and markets will have a 'certainty point' to begin assessing policy changes and their potential impacts. This implies higher short-term volatility, but we'll maintain our faith in capitalism, our long-term optimism and commitment to diversification as the best solutions to manage through these intriguing times.

As always, we welcome your comments and questions.

-Your Wealth Management Team at JJ Burns & Company

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 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value indexwide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.