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May got off to a sluggish start as equities steadily declined before bouncing to finish the month in positive territory. **For domestic equities, the "risk-trade" was back on** as small caps led large cap equities (2.2% vs. 1.8%), growth outperformed value (1.9% vs. 1.5%) and the NASDAQ (4.4%) led all of the major indices. International equities told a different story. Developed markets were slightly negative on a strengthening U.S. dollar, growth concerns and fear of Brexit. Emerging markets declined by 3.2%, reflecting concerns of a Fed hike and a strong dollar. In early June these trends started to reverse as a Fed hike came off the table, the dollar declined and international equities rallied.

Fixed income returns showed similar patterns as corporate bonds rallied .6%, while the broad bond market was essentially flat for the month. Emerging market bonds sold off sharply, down 5.4% for the month, reversing last month's gains.

Financial asset prices remain heavily influenced by the Fed's policy stance. Based on improving economic numbers in April and early May market participants were convinced the odds of a Fed hike were increasing. However, a weak jobs report in early June quickly reversed that sentiment, causing a knee-jerk reaction in financial market prices. The U.S. Dollar Index declined sharply, U.S. Treasuries rallied, bank stocks pulled back and high quality dividend yielding equities benefitted from the tailwind**. Though the odds of a rate hike for the next few meetings dropped significantly, the Fed Funds Futures still suggest a 69% probability of a rate hike at the December meeting.** We believe uncertainty regarding the Fed and the upcoming election will continue to increase volatility in the financial markets.

Election Cycle and Equities

Regardless on where you stand politically and who you plan to cast your vote for this November – **there are two outcomes you can count on. First, markets (investors) loath uncertainty** which is likely to increase volatility up until the election. **Second, the outcome of the election will produce winners and** losers in the stock market.

Uncertainty typically escalates from August up to Election Day. *During periods of uncertainty, defensive sectors such as staples, health care and utilities tend to outperform the more cyclical sectors such as tech, energy and industrials.*

This election cycle has been anything but typical and it's shaping up to be a close, down-to-the wire showdown. As such, we anticipate continued market volatility and uneasiness from investors, especially as we near November 8th. Exhibit 1 below shows how **uncertainty typically picks up around the primaries, eases the next couple of months, then escalates again from August up to Election Day.** Note that during periods of uncertainty, defensive sectors such as staples, health care and utilities tend to outperform the more cyclical sectors such as tech, energy and industrials. Given the underperformance this year, we believe the best current opportunities for defensive stocks are in the healthcare sector. We will be watching the market gyrations closely, looking for evidence of sectors and/or positions swinging too far in either direction. Any spikes in volatility are likely to create good opportunities for us to buy at better valuations, and is something we welcome.

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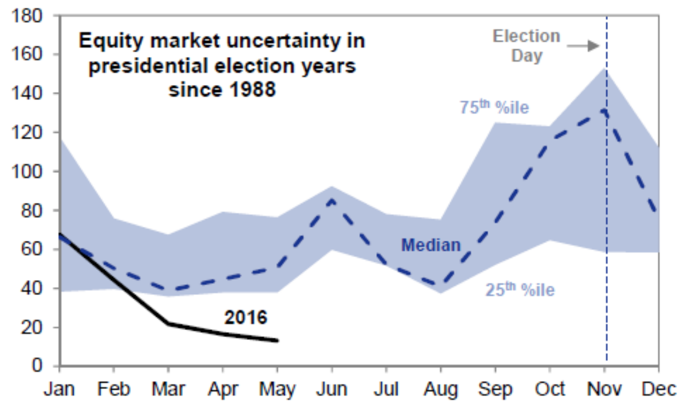
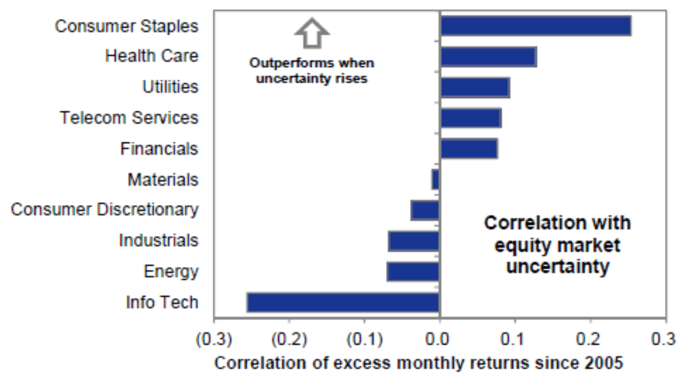
Exhibit 1: Equity market uncertainty climbs as Election Day approaches
as of May 19, 2016



Source: Economic Policy Uncertainty and Goldman Sachs Global Investment Research.

Exhibit 2: Defensive sectors outperform as equity market uncertainty rises
as of May 19, 2016



Source: Economic Policy Uncertainty and Goldman Sachs Global Investment Research.

SPIVA Update: Active vs Passive Management

Twice a year, the Standard & Poor's Index versus Active (SPIVA) report is published. The report evaluates how well actively managed mutual fund managers are performing relative to their respective benchmarks. We have followed this report for many years and the results haven't reflected well on active managers. **The chart below shows that over the past 1, 3, 5 and 10 years well over 70% of active managers have lagged their benchmarks.** Clearly a difficult period for active managers, however not all funds are created equal and many factors need to be considered when selecting active managers. In the paragraph below we highlight the importance of fees in manager selection. If you would like information on other criteria we use to select managers that we believe can outperform their benchmarks, send us a note.

REPORTS

Report 1: Percentage of U.S. Equity Funds Outperformed by Benchmarks					
Fund Category	**Comparison Index**	**One-Year (%)**	**Three-Year (%)**	**Five-Year (%)**	**Ten-Year (%)**
All Domestic Equity Funds	S&P Composite 1500	74.81	80.85	88.43	83.18
All Large-Cap Funds	S&P 500	66.11	75.81	84.15	82.14
All Mid-Cap Funds	S&P MidCap 400	56.81	61.64	76.69	87.61
All Small-Cap Funds	S&P SmallCap 600	72.20	81.73	90.13	88.42
All Multi-Cap Funds	S&P Composite 1500	73.64	79.61	88.56	88.32
Large-Cap Growth Funds	S&P 500 Growth	49.30	76.34	86.54	93.63
Large-Cap Core Funds	S&P 500	73.82	83.70	88.26	82.84
Large-Cap Value Funds	S&P 500 Value	59.16	78.70	82.17	61.00

Source: S&P Dow Jones Indicies LLC, CRSP. Data as of Dec. 31, 2015. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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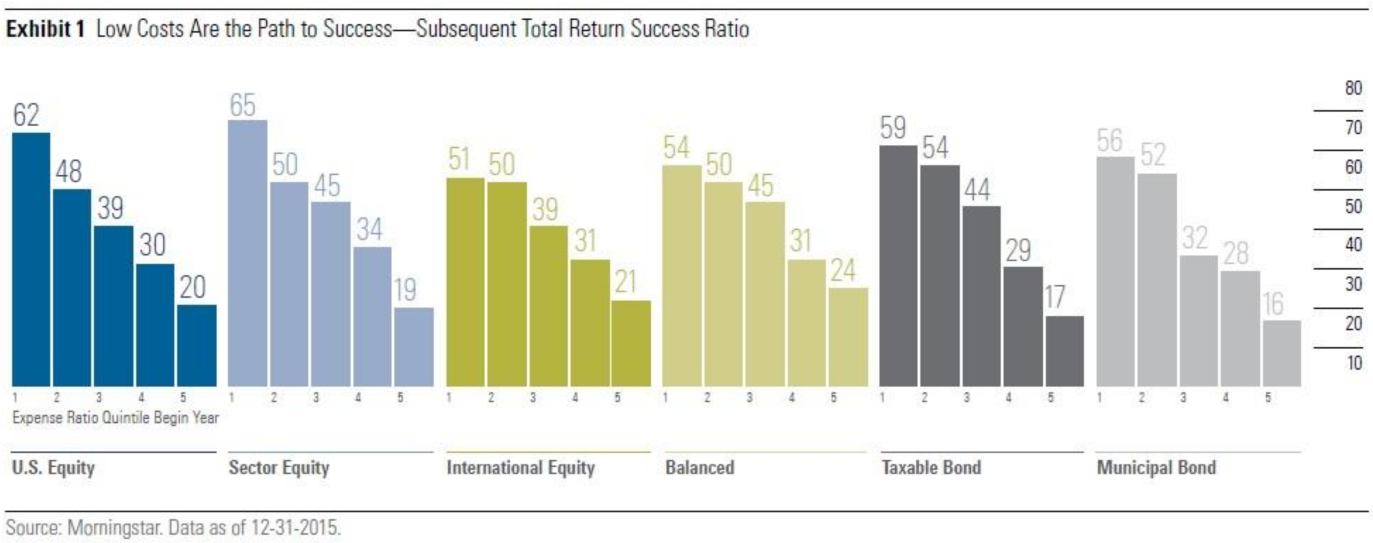
Are Excessive Fees Holding You Back?

We are strong believers that cost plays a major role in the long-term success of investors. That seems like an obvious statement, however it is surprising to us how many investors don't know how much their costs really are. **In a recent Morningstar study titled, *Fund Fees Predict Future Success or Failure*, they concluded that "the expense ratio is the most proven predictor of future fund returns."** The results from the study, highlighted in the chart below, clearly shows that funds with the lowest fees have the highest success ratio. The success ratio simply asks what percentage of funds survived and outperformed their category group (the higher the ratio the better). When we search for active managers low fees is a must!



From 2010 to 2015, cheapest quintile funds produced better success ratios that second cheapest and so on, showing just how important costs are to the investing

The topic of fees has been hotly debated in the headlines for the past couple of years, spurred by the Department of Labor study into the impact of excessive fees and retirement savings for Americans. According to President Obama's administration, these fees and other conflicts of interest, cost retirement investors $17 billion each year. In the recently announced ruling by the DOL, brokers will be required to put their clients' interest first, ahead of their own interest and commissions. **We are big proponents of the idea that all investment advisors should be required to act as fiduciaries and act in their client's best interest.**

In closing we want to emphasize that cost is a big factor in our evaluation of a manager, however it is only one of the 5 factors we consider. **Our investment process evaluates each of the "5 P's": performance, people (managers), parent company (ownership), (investment) process, and price (cost). We only look to invest with managers that score well in these areas, and believe this discipline greatly improves the "success ratio" of our clients!**

AWM Investments (6/16)