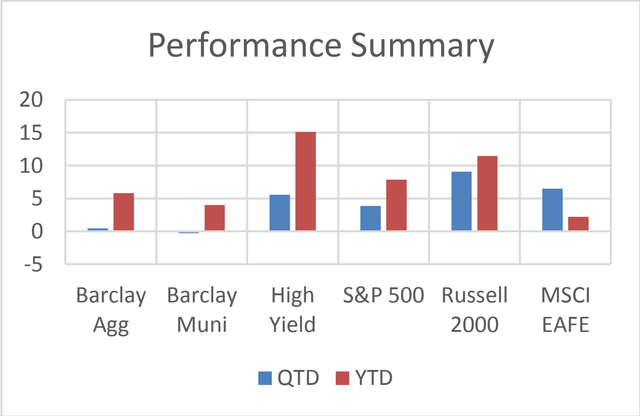
Overall, risk assets performed well in the face of lots of uncertainty: an increase in European populism and a new government in the United Kingdom; an unsuccessful coup attempt in Turkey; and a U.S. presidential campaign that continues to unfold as the most unconventional in recent memory. Large cap stocks in the U.S. rose 3.9% in the quarter but lagged more aggressive growth stock indices. Emerging market stocks were the top performer during the quarter up 9.2% and were followed closely by small-cap stocks up 9.1% and foreign developed stocks up 6.5%. In our last quarterly commentary we wrote the following in regards to the U.S. stock market "**a transition in stock market leadership from defensive sectors into more economically sensitive sectors would be a positive sign that any breakout to new highs is sustainable.**" Well, since late July that is exactly what we have seen as low quality or high beta stocks have outperformed high quality. **In our opinion, an optimistic case for stocks can be made primarily due to *positive stock market internals and price action*. Although, our optimism is tempered by high valuations and any decline in the internals and price action would cause us to be more cautious.** Core bonds were up 0.5% as interest rates rose during the quarter and more aggressive bonds like high-yield and emerging market outperformed, up 5.6% and 2.7% respectively.

In our opinion, successful long-term investors need to be able to both recognize value and have a general sense of timing when looking for opportunities to seek and take profits. This is easier said than done, especially when the normal fundamental signals we look for may be skewed due to the aggressive monetary policy in place since the great recession. In general, we believe long-term performance in the stock market is driven by fundamentals (economic growth, earnings, etc.), however the internal action of the market can provide clues when market conditions and direction may be changing. **In the current environment of artificially low interest rates and skewed asset class valuations, watching the market internals may provide more insights than normal**. Although far from fool-proof below are several of the indicators we believe are worthy of watching:

- New 52-week highs can be an early indication that a market is turning unhealthy. Look for divergences between index-price highs and new 52-week highs.
- Monitor divergences between the advance/decline line (stocks going up vs. down) and the broader markets. Similar to new 52-week highs this is a signal of market breadth, a term that describes how much of the market is participating in the advance. As markets peak we often see fewer and fewer stocks are pulling the market upward.
- Watch for a change in market capitalization leadership. Usually when markets begin to peak we start to see small caps underperform. Often the smallest companies start to turn south, while the rest of the market appears healthy.
- The percentage of stocks in a bear market. Based on Lowry market studies it is typical during healthy bull markets that less than 10 percent of stocks are down 20 percent from recent highs.



In general, the markets internals we watch and the experts we follow continue to be mostly constructive on the stock market. However, as experienced market watchers we know this can change quickly and if it does we would likely adopt a more conservative position in portfolios, especially since valuations are stretched in several asset classes. Please note, we are not advocating a market timing approach, however, we do think it is important for long-term successful investors to look for clues that can improve both their sense of timing and value. **Lastly, we are seeing some nascent signs of inflation and believe now is the time to consider the impact rising inflation can have on portfolios and positioning to capitalize on both opportunities and hedge downside risks.** For more information on our asset class outlook see the next page.

Asset Class Views

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↔	Based on valuation it is challenging to make a strong case for stocks; valuations based on trailing, forward and normalized earnings all look expensive. However, the market internals or price action, combined with aggressive monetary policy and low interest rates continue to warrant a neutral rating for stocks.
U.S. Small/Mid Cap	↓	Small-cap stocks outperformed in the third quarter and their absolute and relative valuation metrics look expensive. Given the late stage of the market cycle we are sticking with our underweight recommendation.
International Developed	↔	Relative valuations are attractive, especially if depressed earnings are normalized. Valuation is not a great market timing tool, however investors with a longer time horizon should be at least neutral, preferably overweight.
Emerging Markets	↔	EM continued to outperform in the third quarter. Similar to foreign developed markets, investors with a long-term time horizon should consider at least a neutral allocation to emerging market stocks.
Fixed Income		
Investment Grade	↔	Yields rose in the quarter and returns were up slightly; our view that future returns will be low is unchanged, however we are keeping some exposure for risk management and diversification purposes.
High-Yield Bonds	↓	High-yield bonds have rallied strongly and yield spreads (default-adjusted) have narrowed substantially. We caution investors that HY risk is more comparable to stocks than core bonds.
Municipal Bonds	↔	Valuations remain fair, however they look attractive for high tax-bracket investors.
TIPS	↑	We are seeing some signs of early inflation and TIPs make sense (in tax-deferred accounts) as a hedge against higher inflation; our preference is short-duration exposure to avoid interest rate risk.
Floating-Rate Loans	↑	We view FRLs as reasonably attractive and the increase in LIBOR rates make them more attractive as a hedge against rising interest rates. We suggest sticking with the highest quality.
Emerging Markets	↓	Money continues to be attracted to EM bonds in search of higher yields, although we are not seeking any direct exposure, we know that some of our managers own EM bonds and we are comfortable with those decisions.
Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and believe it can improve the risk/reward profile of portfolios that hold traditional asset classes; investors need to maintain a long-term perspective. Performance this year has improved significantly.
REITs	↔	REITs have attracted funds as investors viewed them as a proxy for bond exposure and positioned for their recent addition to the S&P 500. Valuations are not cheap and they may be vulnerable in a rising interest rate environment. That being said, we believe there are selective opportunities and will look to add on pullbacks.
Commodities/Gold	↔	We view gold as an "insurance" asset and recommend holding small positions, precious metals are in the process of correcting and we view that as an opportunity to build positions at lower levels.

U.S. Stocks
Market Performance, Third Quarter 2016

Index	Q3 2016	YTD
S&P 500	3.85%	7.84%
Russell 1000	4.03%	10.00%
Russell 1000 Value	3.48%	10.00%
Russell 1000 Growth	4.58%	6.00%
Russell Midcap	4.52%	10.26%
Russell 2000	9.05%	11.46%

Source: Morningstar

- Risk assets performed well in the face of lots of uncertainty.
- The S&P 500 was up 3.9%, including dividends. More aggressive Small-cap stocks performed even better, up 9.05%, and are now outperforming YTD.
- Value stocks lagged a little during the quarter but are still outperforming by a wide margin YTD. If interest rates continue to rise we expect the performance of growth stocks will improve on a relative basis.

International Stocks
Market Performance, Third Quarter 2016

Index	Q3 2016	YTD
MSCI EAFE	6.50%	2.20%
MCSI EME	9.15%	16.36%
MSCI BRIC	11.62%	16.76%

Source: Morningstar

- Foreign stocks performed well during the quarter in the aftermath of Brexit and in the face of lots of uncertainty. Emerging market stocks outperformed for the quarter and have a wide margin of outperformance for the YTD.
- We believe foreign markets are attractively valued relatively to the U.S. and recommend at least a neutral weight to both foreign developed and emerging markets. Long-term returns should outperform U.S. Stocks.

Fixed Income

Market Performance, Third Quarter 2016

Index	Q3 2016	YTD
Vanguard Total Bond Index	0.40%	5.89%
Barclays Muni Bond	(0.30%)	4.01%
Barclays US Corp High-Yield	5.55%	15.11%
JPM GBI- EM Global Diversified	2.68%	17.07%
iShares TIPS Bond	0.96%	7.17%
BofA Merrill Lynch 3 month Treasury Note	0.07%	0.18%

Source: Morningstar

- Interest rates rose during the quarter and core bonds finished with a slight gain of 0.40%.
- More aggressive parts of the bond market continued to outperform as investors chased higher yields. High-yield bonds were up 5.55% and emerging market bonds were up 2.68%, YTD they are up 15.11% and 17.07% respectively. TIPs were up 0.96% and remain a good hedge against nascent signs of inflation.
- Core bonds yields remain in a low trading range and we have modest expectations for returns in the coming years. We own core bonds mainly for diversification and risk management (unchanged).

Alternative Assets

Market Performance, Third Quarter 2016

Index	Q3 2016	YTD
PIMCO All Asset All Authority	3.94%	14.71%
AQR Diversified Arbitrage	3.69%	3.80%
Gateway	1.99%	3.42%

Source: Morningstar

- In general, liquid alternative had a strong quarter and outperformed core bonds by a wide margin. PIMCO benefitted from strong returns in emerging markets and high-yield.
- We continue to recommend moderate allocations for the long-term and believe they will improve the risk-adjusted return of portfolios.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	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.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
Gateway	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.