October 15, 2016 ***Personal & Confidential***

Dear Valued Client:

Fall is in the air and the race for the White House is in the home stretch. More on this topic below.

Summer is now in the rear-view mirror after providing us markets that reached record highs. "Sell in May and go away" was not the way to go, despite many media and "expert" pundits who suggested otherwise. There have been 40 times that the S&P 500 was up more than 6% for the year with 100 business days to go (like 2016). In 90% of these instances, the market continued to move higher **-** with an average additional return of +5.3%. (Source: LPL Research, FactSet, Dimeo Schneider). Stay tuned…

Third Quarter Market Review

Global equity markets advanced 5.4% during the third quarter, as measured by the MSCI ACWI Index, outperforming the 0.8% return for the Barclays Global Aggregate Bond Index.[1] Stocks rose early in the quarter as fears eased over the UK's vote to leave the European Union. Accommodative policy from global central banks and low bond yields also provided support for stocks. Uncertainty over central bank policy contributed to market volatility during September, but eased as the US Federal Reserve did not raise rates at its policy meeting. For the first nine months of 2016, global equities returned 7.1%**,** while global bonds gained 9.9%.

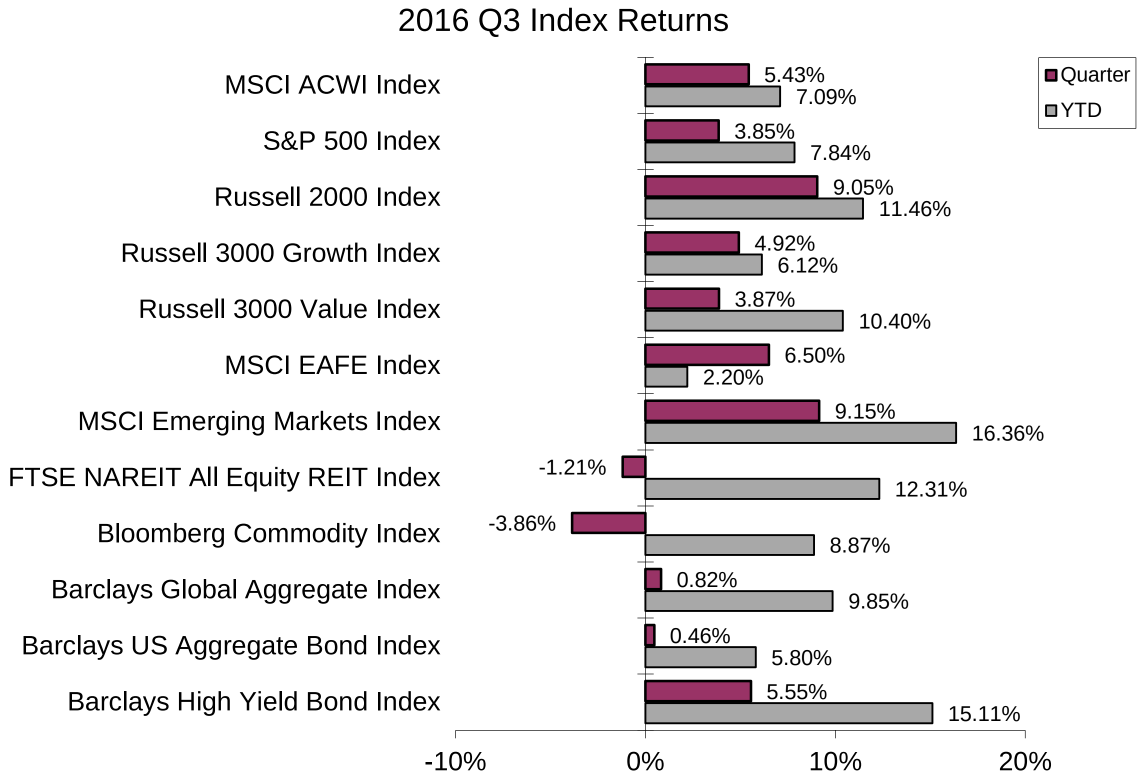
The S&P 500® Index of large-cap US stocks rose 3.9% for the quarter, but trailed global equities. Most of the gains were made during July**,** as diminished global risks and positive employment data helped drive stocks higher. The technology sector surged 12.9% during the quarter, lifted by Apple and its new iPhone release. Financial stocks rebounded on the prospect for higher rates, gaining 4.6%. The more defensive and higher dividend sectors were more sensitive to the weakness in bonds, with notable declines in Utilities (-5.9%), Telecoms (-5.6%), Consumer Staples (-2.6%) and Real Estate (-2.1%).

The MSCI EAFE Index of international developed stocks outperformed US stocks with a 6.5% return for the quarter. Japan rose 8.8%, lifted by strength in the yen, as the Bank of Japan continued its policy efforts to stimulate growth and counter deflation. Broader Europe rose 5.5%**,** despite concerns surrounding Germany's Deutsche Bank, with it facing a $14 billion fine from the US Justice Department over sales of mortgage securities.[2] UK stocks rose 4.0% with diminished fears over Brexit and the pound's depreciation boosting exports. Emerging markets gained 9.2% on stabilization in commodity prices, with Brazil and Russia adding to strong gains for the year.

In fixed income, the Bloomberg Barclays US Aggregate Bond Index returned 0.5% during the quarter as bond yields rose modestly. The 10-year Treasury yield reached a historic low of 1.36% in July, but retreated and ended the quarter at 1.60%. Longer-dated maturities were more sensitive to the rise in rates and saw small declines. Investment-grade corporate bonds and high-yield bonds benefited as credit spreads tightened, with the high-yield sector up 5.6% for the quarter. International bonds benefited from strength in foreign currencies versus the dollar, particularly the Japanese yen, as the Barclays Global Aggregate ex-US Bond Index rose 1.0%.

[1] Index returns from FactSet

[2] Source: Viswanatha, Aruna. "Deutsche Bank Asked to Pay $14 Billion to Resolve US Probe Into Mortgage Securities." *WSJ* (2016, September 16).



An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indices are unmanaged, with no associated expenses, and investors cannot invest directly in an index. Past performance is no guarantee of future results. All index returns shown in the table represent total return figures in US dollars, with dividends reinvested, which means the returns include not only the change in prices for the securities in the index, but any income generated by those securities. Sources: Bloomberg, Barclays, Dow Jones, Morningstar, MSCI Barra, Russell, Zephyr Associates.

Economic Highlights

- **Employment:** The employment sector slowed a bit in August, but remained steady with 151,000 new jobs added for the month, compared to 275,000 new jobs added in July. The unemployment rate remained at 4.9% in August — the same as July. There were 7.8 million unemployed persons. Both the unemployment rate and the number of unemployed persons have shown little movement. Interestingly, the unemployment rate for adult men and adult women was the same — 4.5%. The labor force participation rate remained at 62.8% as did the employment/ population ratio, which was 59.7%. According to the latest figures from the Bureau of Labor Statistics, the average workweek decreased by 0.1 hour to 34.3 hours, while average hourly earnings rose to $25.73 compared to $25.59 at the end of July.

- **FOMC/interest rates:** The Fed did not raise interest rates in September, keeping the federal funds target rate at the 0.25%-0.50% range. Following its September meeting, The FOMC's Chair Janet Yellen noted that while a case for a rate increase has strengthened based on overall economic strengthening, consumer price inflation continues to run at a **rate that is under the Committee's target of 2.0%, and labor market slack is being taken up at a somewhat slower pace** than in previous years. Nevertheless, it appears more likely that the Fed will increase rates by the end of the year.

- **Oil:** The price of crude oil (WTI) fluctuated some during September, hovering between $43 and $45 per barrel, finally settling at $48.05 per barrel by the end of the month. The national average retail regular-gasoline price was $2.224 on September 26, down from the August 29 selling price of $2.237.

- **GDP/budget:** The US economy is expanding, but at a slow pace. Per the Bureau of Economic Analysis, the final estimate of the second quarter 2016 gross domestic product grew at an annualized rate of 1.4%, compared to the first quarter, which grew at an annual rate of 0.8%. The primary positives driving the upward movement of the GDP were nonresidential (e.g., business) fixed investment, private inventory investment, and exports. An indicator of inflationary trends, the price index for gross domestic purchases increased 2.1% in the second quarter, compared to an increase of 0.2% in the first quarter. As to the government's budget, the federal deficit for August was $107 billion, as total receipts came in at about $231 billion and total outlays were $338 billion. The deficit at the end of July was about $113 billion. Through the first 10 months of the fiscal year, the deficit sits at $620.8 billion, compared to $530 billion over the same period last year. The government's fiscal year ends in October.

- **Inflation/consumer spending:** Inflation slowed in August as consumer income and spending increased only marginally. Personal income (pretax earnings) and disposable personal income (income less taxes) each rose 0.2%, while personal spending, as measured by personal consumption expenditures, gained less than 0.1%. Core personal consumption expenditures (personal spending excluding volatile food and energy costs) rose 0.2% in August, following a 0.1% monthly increase in July. The price index increased 0.2% for the month, and is up 1.0% year-over-year. The Producer Price Index, which measures the prices companies receive for goods and services, was unchanged in August from July, when prices fell 0.4%. Excluding food, trade services and energy, prices crept up 0.3% for the month. For the 12 months ended in August, the index for final demand less foods, energy, and trade services moved up 1.2%; the largest increase since climbing 1.3% for the 12 months ended December 2014. The Consumer Price Index, which measures what consumers pay for both goods and services, increased 0.2% in August. Over the last 12 months, the CPI has risen 1.1%. The index less food and energy increased 0.3%.

- **Housing:** The housing market slowed in August. Higher home prices and a lack of available homes for sale are the main reasons given for the drop in the housing sector. Existing home sales fell 0.9% to a seasonally adjusted annual rate of 5.33 billion, down from July's downwardly revised annual rate of 5.38 billion, according to the National Association of Realtors®. However, existing home sales are slightly ahead of last year's rate of 5.29 billion. The median sales price for existing homes was $240,200 — up 5.1% from August 2015. Total housing inventory at the end of August fell 3.3% to 2.04 million existing homes available for sale, and is now 10.1% lower than a year ago (2.27 million).The Census Bureau's latest report reveals a fall in new home sales as well. Sales of new single-family homes fell 7.6% in August to an annual rate of 609,000 — down from July's rate of 659,000. The median sales price of new houses sold in August was $284,000, while the average sales price was $353,600. Available inventory of new homes for sale did expand slightly from July. The seasonally adjusted estimate of new houses for sale at the end of August was 235,000. This represents a supply of 4.6 months at the current sales rate, which is up from 231,000 homes available (supply of 4.2 months) in July.

- **Manufacturing:** One of the reasons the Fed has held off on raising interest rates is the continued weakness in the manufacturing and industrial production sectors. The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) fell 0.4% in August after rising 0.6% in July. Manufacturing output also declined 0.4% for the month. At 104.4% of its 2012 average, total industrial production in August was 1.1% lower than its year-earlier level. Capacity utilization for the industrial sector decreased 0.4 percentage point in August to 75.5%, a rate that is 4.5 percentage points below its long-run (1972-2015) average. The latest report from the Census Bureau shows new orders for all durable goods (expected to last at least three years) fell $0.1 billion in August from the prior month. Excluding the volatile transportation segment, new orders fell a disappointing 0.4%. Orders for capital goods dropped 4.4%, while shipments fell 0.4%.

- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap narrowed by 0.6% in August. The overall trade deficit was $58.4 billion in August, down $0.4 billion from July. Exports rose 0.7% to $124.6 billion, $0.9 billion more than July exports. Imports jumped 0.3% to $183.0 billion, $0.5 billion more than July imports. The prices for US imports (goods purchased here but produced abroad) fell for the first time since February, primarily driven by lower fuel prices. August imports sank 0.2% following a 0.1% gain in July. The prices for exports declined 0.8% following four consecutive months of increases. Year-on-year import prices are down 2.2% and export prices have fallen 2.4%.

- **International markets:** According to the World Trade Organization, world trade will grow more slowly than expected in 2016, expanding by just 1.7%, well below the April forecast of 2.8%. With expected global GDP growth of 2.2% in 2016, this year would mark the slowest pace of trade and output growth since the financial crisis of 2009. The WTO warned that long-term economic growth could be weakened if growing anti-globalization continues to slow trade. The Bank of Japan maintained its stimulus policy, hoping to rally equities and spur inflation. Great Britain is still trying to stem its economic slowdown following voters' decision to leave the European Union. More stimulus measures from the Bank of England are expected, including further interest rate decreases.

Election

It seems every four years politicians tell us that the current presidential election cycle is the most important one in a generation, or even in our lifetime. This current cycle is no different, with both protagonists echoing such sentiment all while having led us into the uncharted territory of being the two most unfavorable candidates in more than 30 years of ABC News/Washington Post polling (Source: ABC News). Needless to say, it does all feel somewhat unprecedented.

Our focus here lies on market behavior as there are numerous non-economic implications to this election beyond the scope of this letter. As we think about the markets, they seem to view Clinton as a continuation of current policy of the Obama administration with clearer policy expectations. A Trump presidency does not offer such predictability. It begs the questions: Do the markets care whether there is a Democratic or Republican president? What about the makeup of Congress?

In the first chart on the next page, MFS Investment Management illustrates stock market returns under various combinations of political parties in power. It shows Democratic presidents tend to have higher rates of return than Republican presidents in the stock market. Democrats can look at this and point to reasons why they should be in charge. Republicans can look at this and claim that a Democratic administration’s success is due to policies from previous Republican administrations.

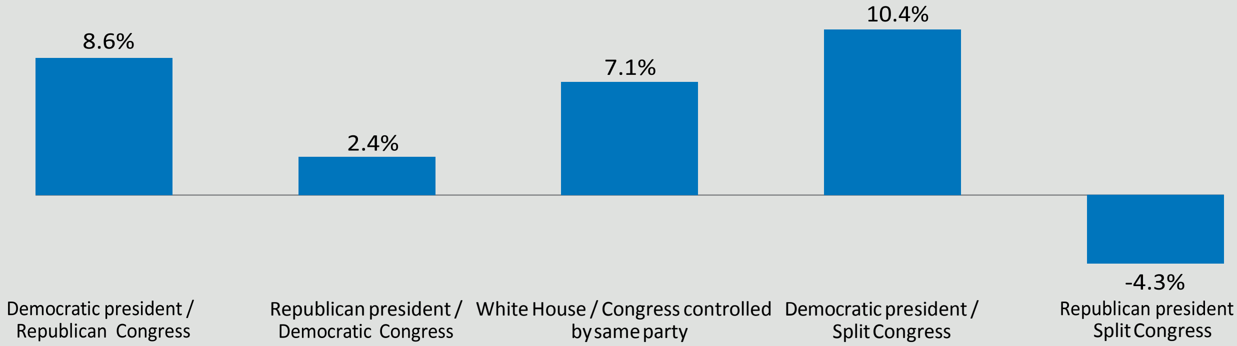
The second chart shows bond market returns under Democratic and Republican administrations. While the extent of historical data is limited within fixed income markets, we do see outperformance under a Republican Administration.

Both of these charts can surely get both political parties in an uproar. Either way, we hope this provides some encouraging context that no matter who is in charge, neither will be definitively better (or worse) for the markets.

Political control and the market: 1901-2016

In the years 1901–2016, the S&P 500 Index was up 8.6% per year (total return on average) under Democratic presidents and Republican-led Congresses, more than three times the 2.4% annual return achieved under Republican presidents when both houses of Congress were controlled by Democrats.

When both the White House and Congress were run by the same political party, the S&P 500 gained about 7% per year. When Congress was split, with one party controlling the House and the other controlling the Senate, the S&P 500 gained 10.4% under Democratic presidents and lost 4.3% under Republican presidents. (Source: Ned Davis Research), as of March 31, 2016.



4 Year Terms	Democratic Average Return	Republican Average Return
US Treasury Total Return Index (1972-2012)	24.9%	43.9%
Barclays US Aggregate Index (1976–2012)	26.3%	47.2%
USD Index (1972–2012)	2.4%	-1.3%
Barclays US Corporate HY Index (1984-2012)	59.6%	39.9%
Gold (1980–2008)	34.6%	16.4%
Barclays Intermediate Government/Credit Index (1976–2012)	25.7%	43.9%
Barclays U.S. MBS Index (1976-2012)	23.6%	50.5%

Source: Bloomberg, JPMAM as of March 29, 2016

Outlook

According to Marketfield Asset Management, the Conference Board Consumer Confidence index just broke out to a new cycle high at 104.1 (Jan 1985=100), indicating a growing belief by consumers in the state of the economy. The improvement in overall confidence has started to express itself in the labor market indicators. Marketfield writes:

> “It is important to note that the improvement in overall confidence has started to be expressed in the labor market

> indicators. Respondents claiming that “Jobs are Hard to Get” fell to an 8 ½ year low at 21.6% while the “Jobs are Plentiful” response rate rose to a 9 year high at 27.9% (this indicator peaked at 30.3% in 2007). The net "Job Differential" rose to 6.3%, its highest since August 2007, and now looks to have moved decisively into positive territory. The recent improvement in employment sentiment has come during a period of a flat-lining Unemployment Rate, but a number of secondary indicators such as Participation and the transition into full-time employment from part-time have suggested that the "qualitative" progress has been made in recent months, while the JOLT report has shown a large increase in vacant positions. All of this suggests a continued power shift towards employees, increasing the odds that wage growth will finally become a factor in the months ahead.”

In the past five years consumer spending has averaged 68.3% of GDP, the highest five-year period in history (First Trust 10/3/16). Clearly, we need this to continue. Low rates, confident consumers, and relatively strong employment suggest that it might. Recent declines in the service and manufacturer readings had some concerned, but the most recent September readings showed solid moves upward. Corporate and family balance sheets are in decent shape, while the housing market continues to look strong.

So what takes us off the tracks?

Oil prices were the major culprit in the declines last year. Today, we seem to have found a trading range. A rise in rates seems poised to happen later in the year, but we’ve seen historically that slow rate hikes do not have a materially negative long-term impact on the stock market, despite potential short-term declines. Terrorism and weather-related maladies continue to pose threats daily, but the markets have been resilient.

Earnings are expected to show a sixth consecutive quarter of declines, albeit a slower decline than last quarter. We’ll be watching to see how this earnings season plays out and reviewing firm guidance for hints about future direction. Further earnings declines in a market that seems reasonably-valued to fully-valued could portend declines ahead. In addition, the upcoming election will set the stage for a new direction that could create market angst domestically, while Europe wrangles with Brexit and the Middle East continues to promote concern globally.

Renewed focus on banks like Deutsche Bank and Wells Fargo is disheartening and potentially troubling for the sector. Trade policy, growing Federal debt, consumer-led margin-debt, taxation, and immigration are all issues that will be steps on the wall of worry ahead. Finally, while the aforementioned confidence is a positive, it can also be a possible contrarian indicator.

The S&P 500 has been rising **since the index bottomed** on 3/09/09. This bull market began its **92nd month** as of Monday 10/10/16. Only the **1990-2000 bull market** that was into its **114th month** before it peaked on 3/24/00 **has lasted longer** among the **11 bulls** that have occurred in the **last 70 years** (source: BTN Research). We may be getting long in the tooth and in line for a reversal. To match the longest bull market, we would have 22 more months to go.

There is clearly an expanding level of dissatisfaction with the status quo. The potential for changes will likely create heightened levels of volatility. As such, we continue to incorporate volatility dampening asset classes in our portfolios and are looking at one in particular that may be an addition soon. Diversification allows us to ride out the bumps that are sure to be there in the markets.

PRW Wealth Management News

We are pleased to welcome **Janice Forgays**, JD, CLU as Estate and Wealth Management Counsel. Janice is an attorney with over 25 year of assisting affluent families and advisers on comprehensive, complex, and effective wealth accumulation, conservation, and transfer planning. She is available to assist you and your estate planning attorney as you plan for the future. We also welcome **Kristin Skinner** as a new executive assistant coming to us with many years of experience. We look forward to introducing you to them.

Elliot was once again active with the media, opining on interest rates in an article on CNBC.com - http://www.cnbc.com/2016/09/13/prepare-your-portfolio-for-rising-rates.html. He was also interviewed by the Financial Times for a story about how advisors are advising clients in this run-up to the election.

Finally, October is National Cyber Security Awareness Month. National Cyber Security Awareness Month was created as a collaborative effort between government and industry to ensure that every American has the resources he or she needs to stay safer and more secure online. We recommend that you visit staysafeonline.org for more information.

We wish you and your family a wonderful fall season and look forward to seeing and working with you in the months ahead. Thank you.

Sincerely,

William A. Payne | Richard A. Renwick | Elliot B. Herman

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Benchmark Definitions

Barclays Capital US Aggreg. Bond Index: broad-based index measuring investment grade, US dollar-denominated, fixed-rate taxable bond market, incld'g Treasuries, gov-related & corp securities, MBS(agency fixed-rate & hybrid ARM pass-throughs), ABSs & CMBs.
Barclays Capital High Yld Bond Index: measures mrkt of US $-denominated, non-investment grade, fixed-rate, taxable corp. bonds.
Dow Jones Indus Avg: 30 stock index of large, well-known US companies covering all industries except Transportation & Utilities.
S&P 500 Index: an index of 500 leading companies in leading industries of the US economy, capturing 75% coverage of US equities.
NASDAQ Composite Index: broad-based index measuring all NASDAQ domestic & intrn'l com. stocks on NASDAQ stock Market.
Russell 1000 Growth Index: an index that measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.
Russell 1000 Value Index: an index that measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.
Russell 2500 Growth Index: an index that measures the performance of the small to mid-cap growth segment of the US equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.
Russell 2500 Value Index: an index that measures the performance of the small to mid-cap value segment of the US equity universe. It includes those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values.
MSCI EAFE Index (Europe, Australasia, and Far East): a free-float-adjusted, market-capitalization-weighted index designed to measure the equity market performance of developed markets, excluding US & Canada.
MSCI Emerging Mrkts Index: free-float-adjusted market-capitalization-weighted index designed to measure equity perf. of emerging mrkts.
FTSE NAREIT US Equity REIT Index: US publicly-traded REITs. Equity REITs include firms that own, manage and lease investment-grade commercial RE. A Co. is classified an equity REIT if 75% or more of its gross invested book assets are invested in real property.

Data sources: Economic: Based on data from US Bureau of Labor Statistics (unemployment, inflation); US Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes) and Barron's (S&P 2014 total return); US Treasury (Treasury yields); US Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprices.org (spot gold/silver); Oanda /FX Street (currency exchange rates). All information based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. News items based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources; i.e. government agencies, corporate press releases, or trade organizations. Neither the information nor any opinion expressed herein constitutes a solicitation for purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal; there is no guarantee that any investing strategy will be successful.

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