

2016 Third Quarter Review:

Autumn has arrived and the baseball postseason is in full swing. The Giants “even year” magic was dashed by the Chicago Cubs Tuesday evening. Maybe this is the year the Cubs will win it all. The Cubs last won the World Series in 1908 and at the end of that year, the Dow Jones Industrial Average closed at 86.15. Today’s close was at 18,161.60.

The third quarter market results and economic news were largely overshadowed by the looming US presidential election. We expect the presidential campaign will continue to dominate the headlines over the next several weeks. On the monetary front, Janet Yellen and the Federal Open Market Committee (FOMC) again delayed an interest rate hike and although the FOMC hinted of a rate hike by year end, economic data could push the hike into next year.

TLA’s Investment Committee Update:

Our firm’s Investment Committee meets twice monthly to monitor economic indicators as well as review and assess our investment models. Our monthly economic review meeting has us follow approximately 90 data points for the US and global economies. At our monthly portfolio meeting the Investment Committee reviews and assesses our investment models and their underlying holdings. In September, your TLA investment team implemented changes to our models and holdings. The first change was to move out of an investment grade US corporate bond index fund to a total return multifaceted bond fund. In addition, we trimmed back our REIT exposure in three of the models and slightly increased our exposure to International Equities. Finally, we replaced a high yield corporate bond fund with a strategic multifaceted bond fund. We believe these changes, as the Federal Reserve moves from an unprecedented level of accommodative monetary policy toward one of tightening, will position our client investment models for this new monetary stage.

Third Quarter 2016 Market results:

- S&P 500 index* +3.85%
- MSCI International Equity Index* +6.43%
- MSCI Emerging Markets Index* +9.03%.
- Barclays Capital Aggregate Bond Index* +0.46%

2016 Q3 Economic & Geo-Political Highlights:

- **Domestically:**
 - No change to interest rates
 - Equity markets-strong results
 - Good jobs report but below expectations
 - Contentious presidential campaign inches closer to election day
- **Internationally:**
 - Brexit moves forward
 - Asian economic data improving
 - The British Pound weakens further

Domestically

Markets & the Economy

U.S. equity markets (S&P 500) advanced 3.85% in the third quarter. The US bond market (Barclays AGG) inched up 0.46% in spite of Fed indications of a rate hike.

The U.S. economy is resilient and sluggish at the same time. Third quarter annual gross domestic product (GDP) forecasts of 3.6% have been recently revised downward to 2.9%. Annual inflation of 1.06% (August data) is well below the Federal Reserve's 2% target. The FOMC met in September and left interest rates unchanged, indicating a rate hike in 2016 is still a possibility in November or December. The September new jobs reported in at 156,000 which is good, but below expectations. The unemployment rate increased slightly to 5%, as the participation rate ticked up. Wage increases year over year were up 2.59% in September and improving.

The US service sector (ISM Non-Manufacturing Index) rose to a robust 57.1 in September from 51.4 in August and the US manufacturing sector (ISM Manufacturing Index) representing about 12% of the US economy, rebounded to 51.5 up from 49.4 in August. Both indices point toward an expanding economy.

Politics

The presidential election is a little less than a month away and voters remain divided and frustrated. Candidate contention, distortions, and personal attacks appear to be at an all-time high for presidential elections. Increased volatility is expected as we approach Election Day and our focus remains on the economy which continues to plod along.

Overseas

Markets and the Economy

International equity markets outperformed US equity markets in the third quarter. Theresa May, the new UK Prime Minister, moved forward with Brexit and plans on invoking Article 50, causing the British pound to weaken on this news. The negotiations with the EU could prove contentious and more difficult to navigate for England as France and Germany will most certainly maintain their tough stance on access to the single market which is only available if England accepts free movement of labor from EU countries.

Summary

The US economy is growing albeit slower than projected. US interest rates may increase later this year, pending further upticks in inflation. Election will determine our next President and the election could change the majority in one or both Houses. Globally, Brexit moves to implementation stage and tough negotiations. Uncertainty of elections, tax laws, government budgets, and entitlements can cause increased market volatility. We remain focused on the underlying economy and not the daily headline news which is generally designed to elicit emotional tension to attract readers.

Maintaining a long-term investment approach is important, especially during times of heightened market volatility. We will continue adhering to the steps that truly generate successful financial planning; those of following a rigorous process regarding asset allocation and rebalancing, communicating clearly with you, and continually and thoroughly monitoring your financial situation to ensure together, we are getting you ever closer to your financial objectives.

We look forward to speaking with you soon.

TLA Wealth Advisory Group

*Indices mentioned are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.