Market Analysis / Third Quarter 2016

IWM

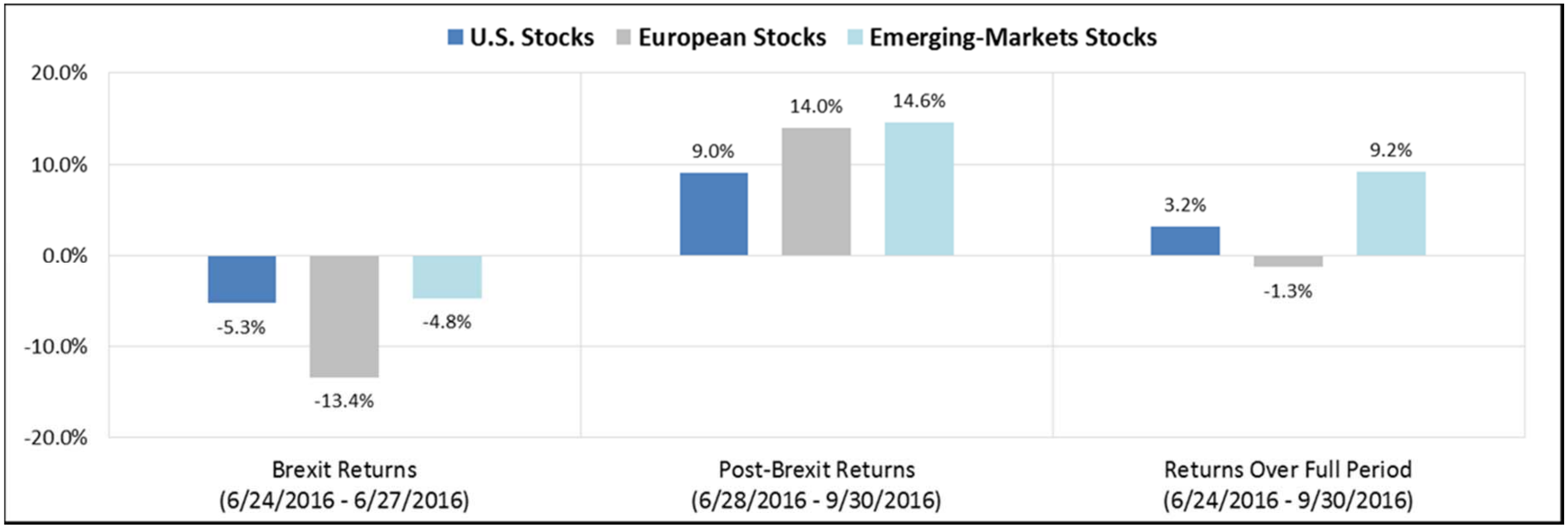
INDEPENDENT WEALTH MANAGEMENT

Asset Class Returns

Through – 9/30/2016 **Past performance may not be indicative of future returns.**

Asset Class	3rd Qtr. 2016	12 Months	5 Years (Ann.)
Russell 1000 Value iShare (Domestic Large-Cap Value)	3.45%	15.97%	15.89%
Russell 1000 Growth iShare (Domestic Larger-Cap Growth)	4.53%	13.65%	16.35%
Vanguard 500 Index (Domestic Larger-Cap Blend)	3.82%	15.27%	16.20%
Russell 2000 Value iShare (Domestic Smaller-Cap Value)	8.70%	18.71%	15.32%
Russell 2000 Growth iShare (Domestic Smaller-Cap Growth)	9.09%	12.26%	16.30%
Russell 2000 iShare (Domestic Smaller-Cap Blend)	8.92%	15.53%	15.86%
Vanguard FTSE Developed Markets ETF (Foreign Stocks)	6.31%	8.07%	8.21%
Vanguard REIT Index (Real Estate Investment Trust)	-1.49%	19.53%	15.54%
Merrill Lynch High Yield Master (High-Yield Bonds)	5.49%	12.82%	8.24%
Vanguard Total Bond Mrkt Index (Domestic Invest-Grade Bonds)	-0.28%	4.09%	2.37%
Citigroup World Gov't Bond (Global Invest-Grade Bonds)	0.30%	9.71%	0.77%
Dow Jones-AIGCI (Commodity Futures)	-3.86%	-2.58%	-9.17%
JP Morgan Emg Local Mrkt+ (Short-term Local Currency Emg Markets Bonds)	2.68%	17.06%	0.06%

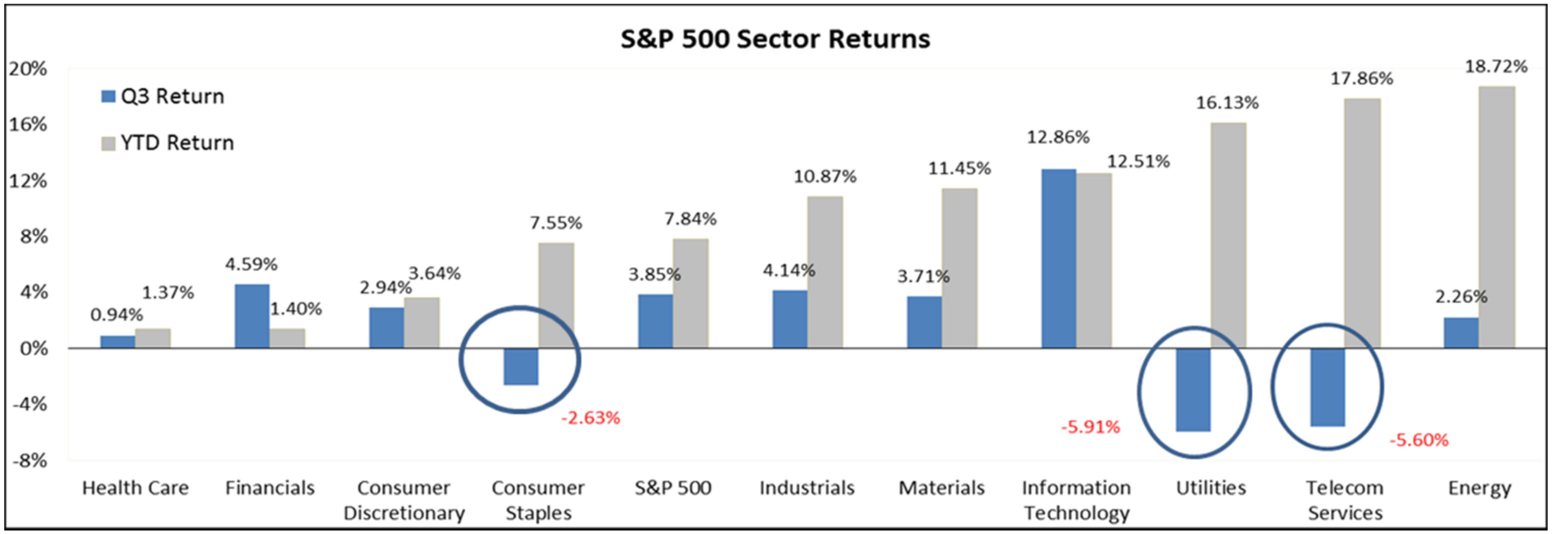
Stock Markets Reversed and Rallied Sharply Following the Brexit Vote



- In the vote's immediate aftermath, and after careful consideration, we decided not to make any changes to our portfolios.
- In our assessment, Brexit did not materially impact our longer-term five-year outlook and assumptions for European corporate earnings growth and valuations.
- Therefore, we held our positions at a time when many investors were fleeing to traditional safe-haven assets. That decision proved beneficial for our portfolios' performance in the third quarter, as European stocks rebounded 14% from their Brexit low while core bonds gained just 0.5% over the same period.

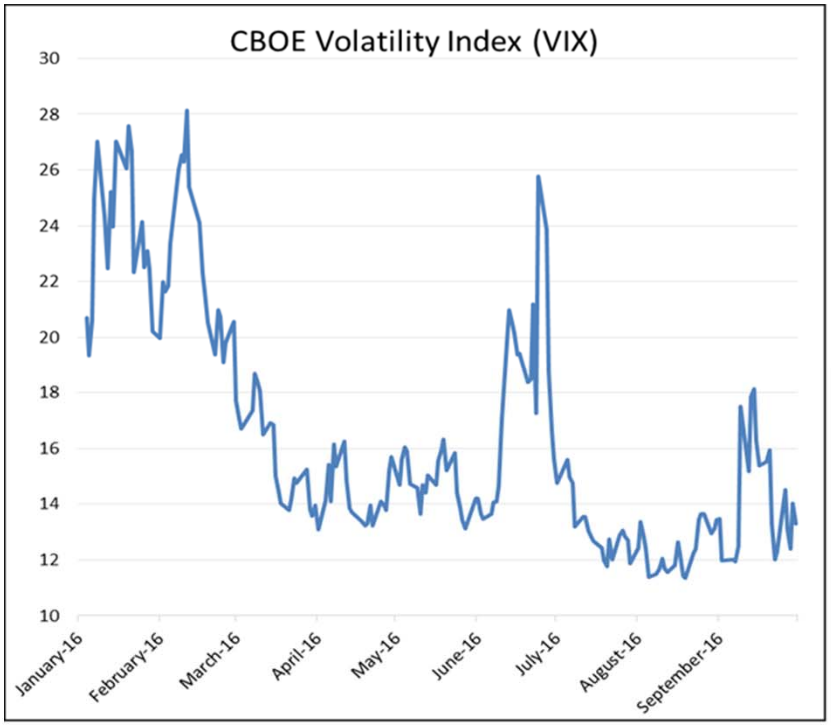
3Q 16

Higher Dividend-Yielding Stocks Underperformed Sharply as Interest Rates Backed Up in Q3



- The traditionally “defensive” yield-oriented sectors of the stock market, such as utilities, telecom, consumer staples, and REITs are areas where many investors appear to be “reaching for yield” as well as perceived safety, but where we and many of our active fund managers actually see significant risk.
- These trades can unwind quickly. These sectors’ performance in August and early September shows they may be riskier than they seem to be. While the overall stock market was flat in August, the utilities and telecom sector fell roughly 6%. It certainly seems that these “defensive” plays are vulnerable to any hint of interest rate increases and are potentially higher risk than even the broad stock market, not to mention bonds

Volatility Picked up in September and We're Prepared for More of it Heading Into the Election



U.S. Presidential Election

Fed Rate Hikes

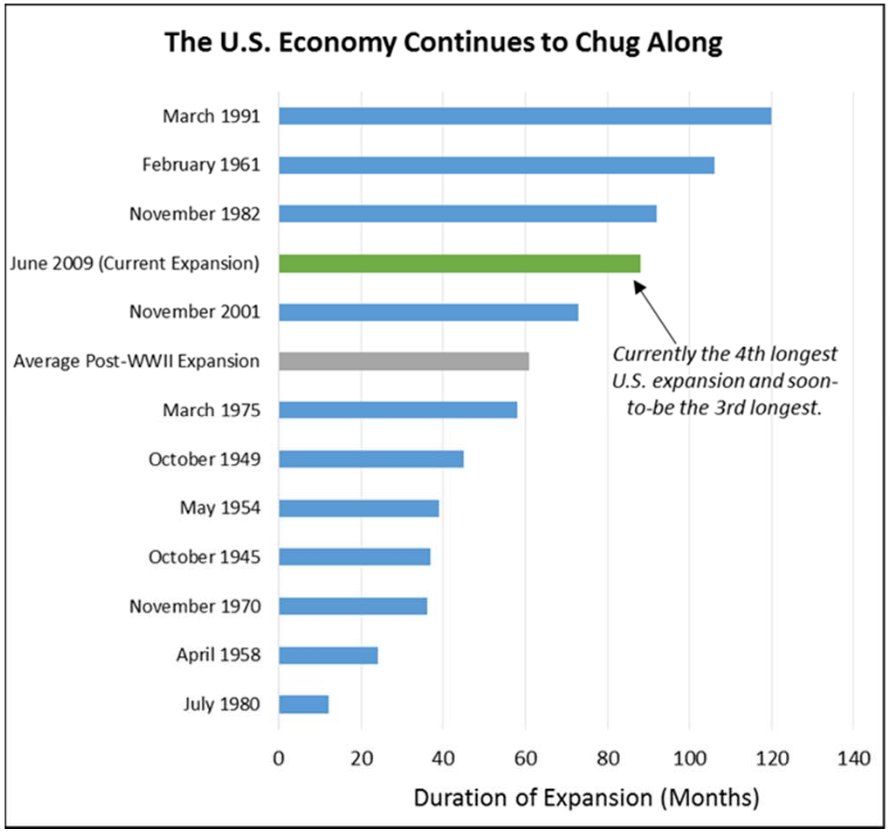
Global Central Bank Policy

Brexit Negotiations

Stock Markets Near All-Time Highs

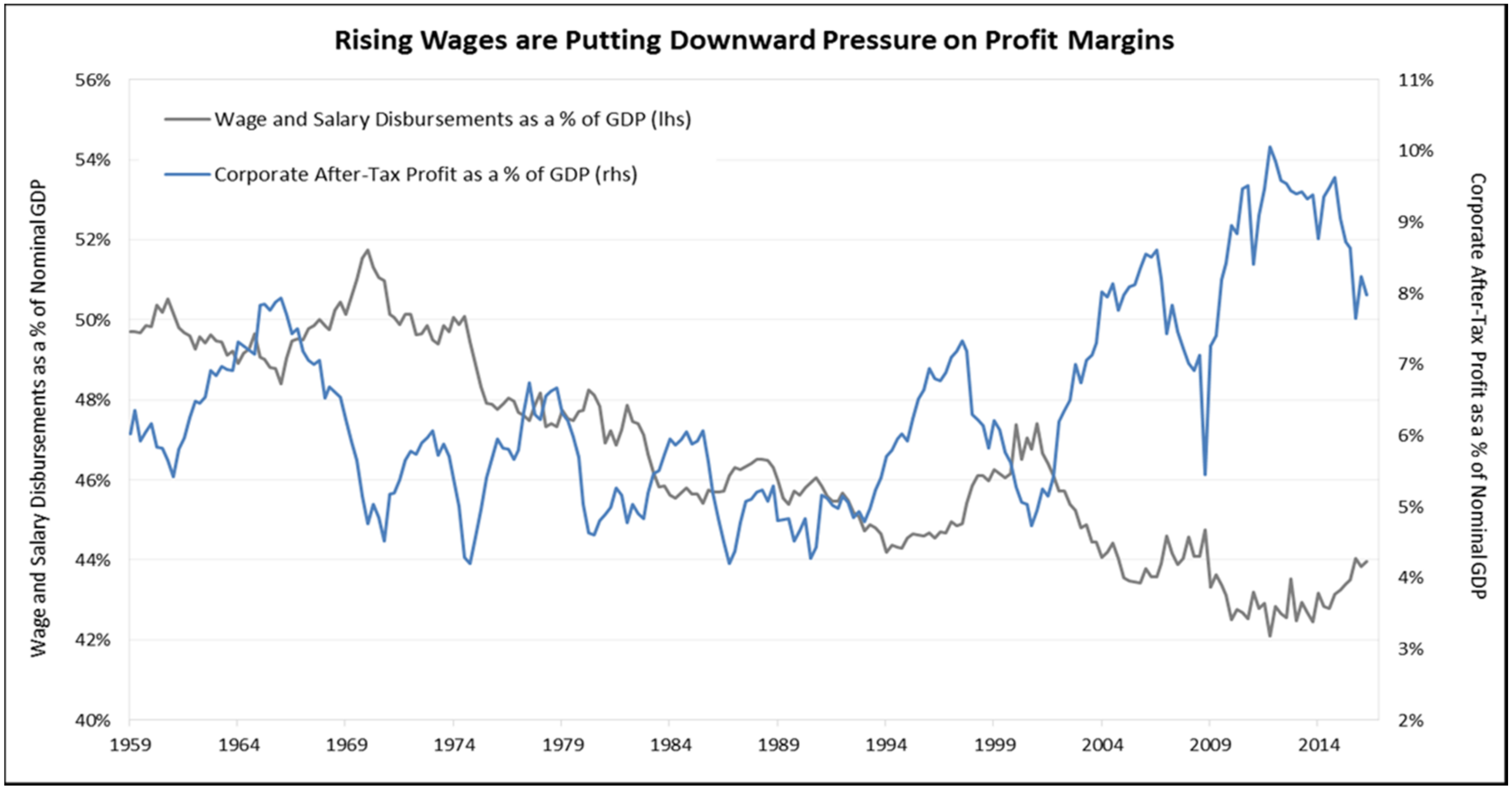
Bond Yields Near All-Time Lows

Outlook for the U.S. Economy is Fairly Positive



- Strengthening Labor Market
- Rising Wages
- Improving Household Balance Sheets
- High Levels of Consumer Confidence
- Low Inflation
- Lower Energy Prices

Our Analysis Suggests Profit Margins for U.S. Companies are Likely to Keep Falling, Resulting in Lower Earnings Growth



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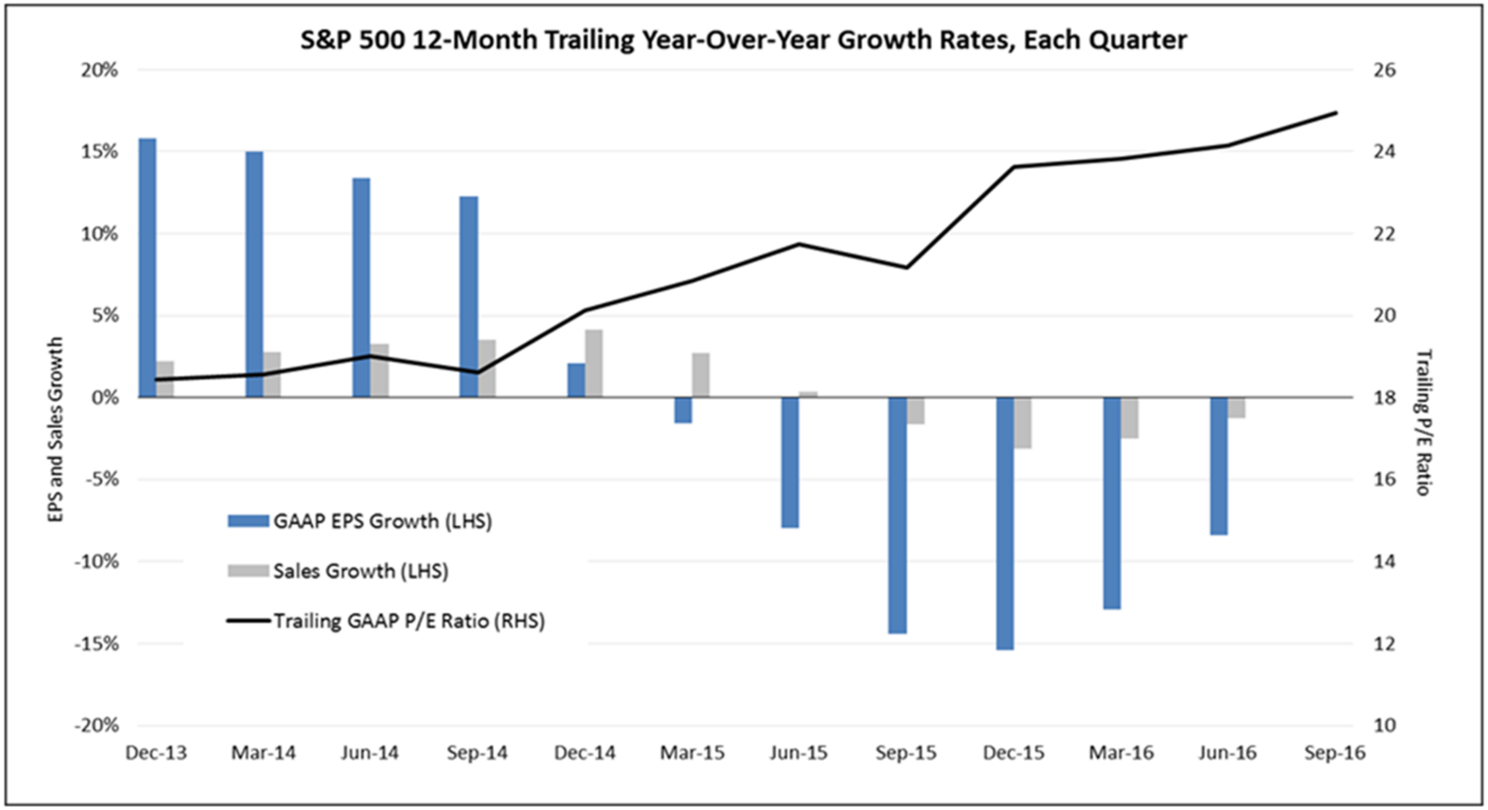
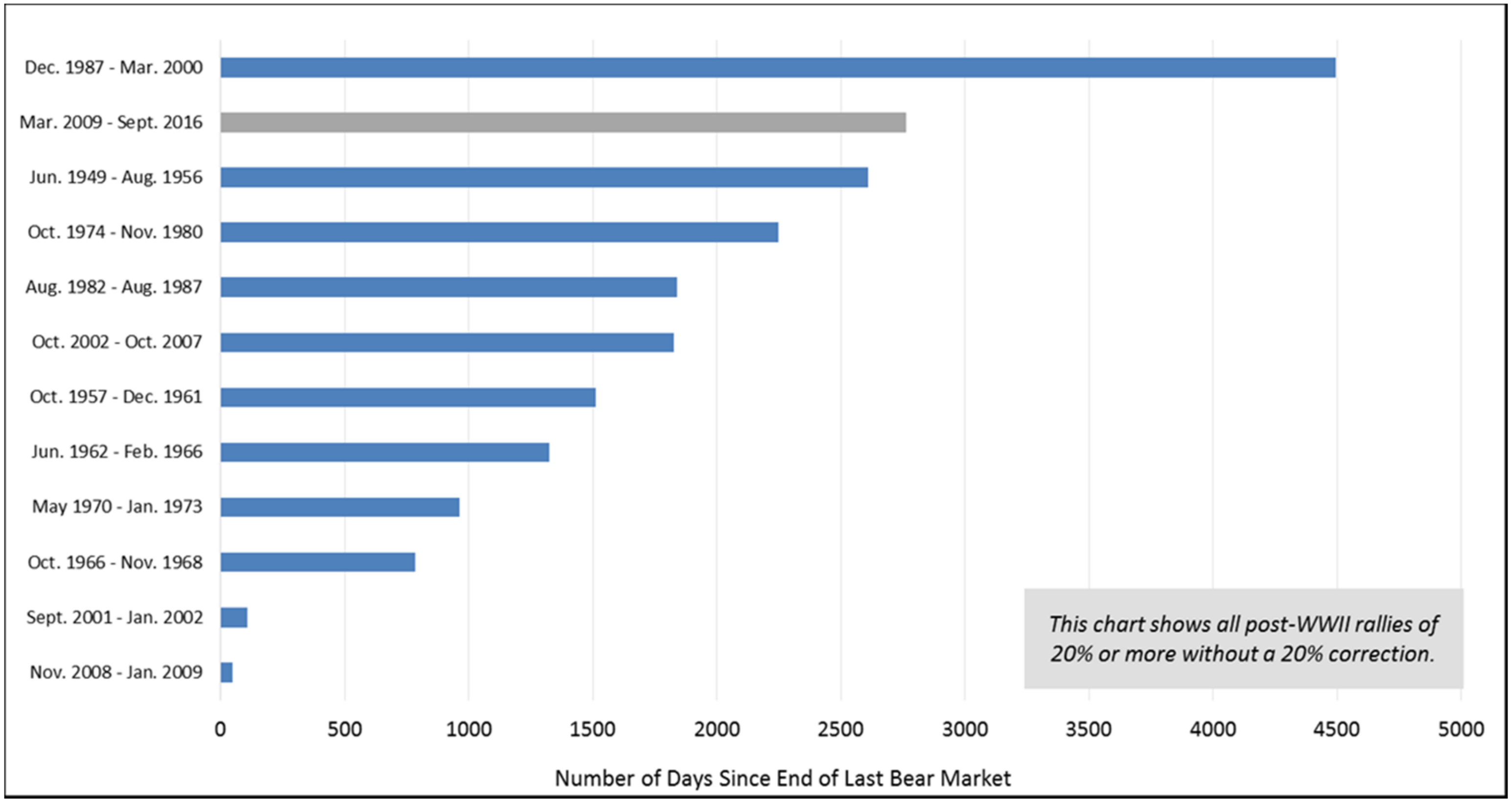
Valuations for U.S. Stocks Keep Rising Despite Declines in Corporate Earnings and Sales



3Q 16

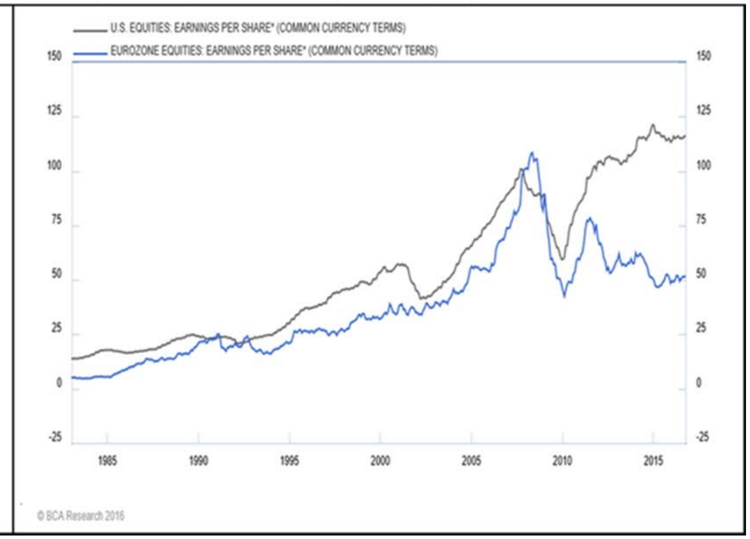
The Current Bull Market for U.S. Stocks is Now the Second Longest on Record and Stocks are Near All-Time Highs



European Stocks are Cheap and Offer Attractive Long-Term Return Potential

Valuations for Europe are far below U.S. stocks

European Corporate Earnings are Very Depressed



- European stocks have already gone through a crushing earnings recession.
- Market expectations for earnings growth over the next few years are depressed. However, our analysis suggests earnings growth will improve and be higher than what the market is expecting.
- While Brexit increases near-term uncertainty from a macro perspective, we believe it won’t have a material impact on European companies’ ability to do business and generate profits.
- For example, roughly 45% of Europe’s revenue comes from outside the Eurozone, where the International Monetary Fund expects economic growth next year to be much better (2.5% for the United States, 3.3% for other advanced economies, and 4.5% for emerging markets).

We Expect Earnings Growth for European Companies to Move Back Toward the Long-Term Trend

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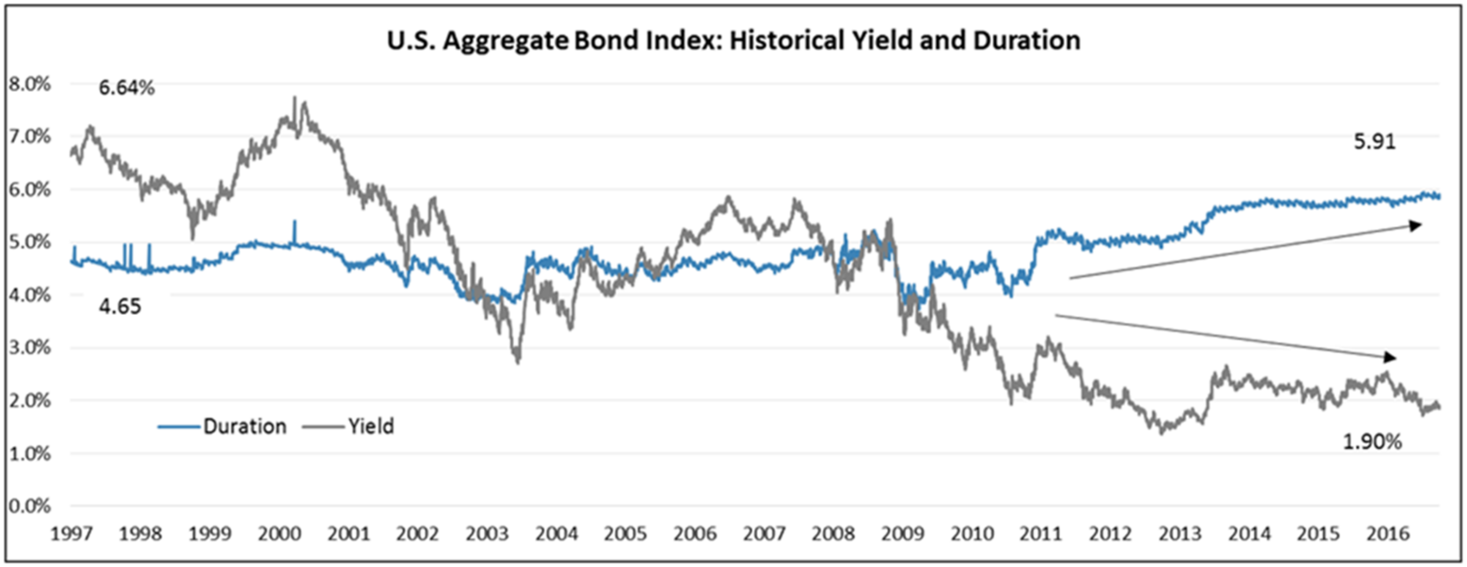
* NOTE: EXPRESSED IN COMMON CURRENCY TERMS.

- We believe European stocks continue to significantly underearn relative to their longer-term, or normalized earnings power.
- There are any number of known and unknown catalysts that could result in an earnings recovery. Earnings may recover due to the European Central Bank's continued efforts to keep borrowing costs down as a way to stimulate lending and investment spending. Or, Brexit, along with the rise of many right-wing political parties, may serve as a wake up call to European authorities that they need to loosen the fiscal purse strings to assist the ECB's reflation efforts.
- The exact timing is uncertain; however, we expect to benefit from higher than expected earnings growth and valuation multiple expansion, which suggests European stocks could generate 10% to 12% annualized returns over the next few years, with similar downside risk as U.S. stocks.

The Core Bond Index Provides Low Potential Returns for the Interest Rate Risk



- Since 2008 there has been a meaningful increase in U.S. Treasury bond issuance. These longer-maturity, lower-yielding bonds make up an increasing proportion of the core bond index, resulting in higher sensitivity (duration) of the index to interest rate moves.
- In other words, investors are taking on greater amounts of interest rate risk in exchange for lower potential returns.

Estimated Asset Class Returns

Average Annual Returns Over Next Five Years

Equity Asset Classes	Bear Case	BASE CASE	Bull Case
U.S. Larger Cap	-5.3%	**3.6%**	10.8%
Developed International - Europe	-5.3%	**13.6%**	20.8%
Emerging Markets	-1.0%	**10.1%**	17.0%
REITS	1.9%	**3.7%**	2.8%

Fixed-Income Asset Classes	Bear Case	BASE CASE	Bull Case
Investment-Grade Bonds	1.7%	**0.9%**	-0.1%
High Yield Bonds	2.0%	**2.4%**	2.5%
Floating-Rate Loans	6.7%	**6.0%**	6.6%
Treasury Inflations Protected Securities (TIPS)	0.6%	**-0.3%**	-2.2%

Alternative Asset Classes	Bear Case	BASE CASE	Bull Case
Alternative Strategies	Mid-single-digit returns in most scenarios		

Our Base Case Economic Scenario Continues to be a Moderate Economic Recovery

SCENARIO	DEFINITION
Bull Case	U.S. economic growth is above average and/or earnings end the period above the long-term trendline. Helped by stronger non-U.S. growth, releveraging of the U.S. consumer, and corporate investment spending, a self-reinforcing global growth cycle develops.
Base Case	Moderate economic recovery continues with no major crisis, but a normal recession is likely within the five-year time horizon. Assumes GDP growth rates and interest rates start to "normalize" toward the end of our five-year horizon.
Bear Case	The economy falls into recession for any of various reasons, such as deleveraging/deflation from Europe or China, unexpected systemic shock, Fed policy error, etc. This scenario does not assume another severe financial crisis, i.e., not a repeat of 2008-2009.

S&P 500 5-Year Return Estimates Under Each Scenario

Potential Five-Year Avg. Annual Returns for S&P 500

	Bear	Base	Bull
GAAP Earnings	*$92*	*$135*	*$162*
P/E	*16x*	*17x*	*20x*
Starting S&P 500 Level			
1400	4.4	14.2	22.0
1500	2.8	12.4	20.2
1600	1.3	10.8	18.4
1700	-0.1	9.3	16.9
1800	-1.3	7.9	15.4
1900	-2.5	6.6	14.0
2000	-3.6	5.4	12.8
2100	-4.6	4.3	11.6
2200	-5.6	3.2	10.4
2300	-6.5	2.2	9.4
2400	-7.4	1.3	8.4

HOW THIS WORKS:
If the S&P 500 were at 1900 today, and we factor in our estimate that earnings in our Base Case Scenario would reach $135 over five years, and apply a 17x P/E multiple to those earnings, then add in dividends (which are not shown here), the annualized five-year return would be 6.6%.

Asset Class Descriptions

Domestic Investment-Grade Bonds (Barclays Capital U.S. Aggregate Bond Index): We are currently using the Vanguard Total Bond Market Index Fund to represent the Barclays Capital U.S. Aggregate Bond Index, an index of domestic investment grade bonds.

Floating-Rate Loans (S&P/LSTA Leveraged Loan Index): We are currently using the S&P/LSTA Leveraged Loan Index to represent an index of floating rate loans.

High-Yield Bonds (Merrill Lynch U.S. High Yield Master Cash Pay Index): We are currently using the Merrill Lynch U.S.High Yield Master Cash Pay Index to represent an index of domestic high yield bonds.

Domestic Larger-Cap Stocks (S&P 500 Index): We are currently using the Vanguard 500 Index Fund to represent the S&P 500, an index of primarily domestic larger-cap stocks.

Domestic Smaller-Cap Stocks (Russell 2000 Index): We are currently using the Russell 2000 Index iShares Exchange Traded Fund (ETF) to represent the Russell 2000, an index of primarily domestic smaller-cap stocks.

International Developed-Market Stocks (FTSE Developed ex North America Index): We are currently using the Vanguard FTSE Developed MarketsExchange Trade Fund (ETF) to represent an index of international developed-market stocks. Prior to May 2013, this Vanguard Exchange Traded Fund followed MSCI-EAFE. Prior to the July 2007 inception of Vanguard MSCI EAFE ETF, we use iShares MSCI EAFE Index from September 2001 to July 2007, and the MSCI EAFE Index adjusted for 0.35% expenses annually prior to September 2001.

Emerging-Market Stocks (FTSE Emerging Markets Index): We are currently using the Vanguard FTSE Emerging Markets Index Exchange Traded Fund (ETF) to represent an index of emerging market stocks. Prior to January 2013, this Vanguard Exchange Traded Fund followed the MSCI Emerging Markets Index. Prior to the March 2005 inception of Vanguard MSCI Emerging Markets ETF, we use iShares MSCI Emerging Markets Index from May 2003 to March 2005, and the MSCI Emerging Markets Index adjusted for 0.67% expenses annually prior to May 2003.

Managed Futures: We are currently using the Newedge Trend Index to represent an index of managed futures (trend following) strategies.

Additional Disclosure

Disclosures:

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Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.