Market Review

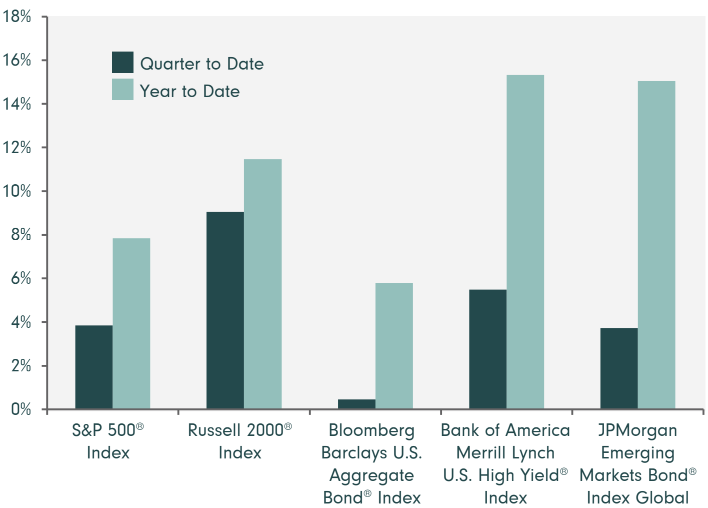
Third Quarter 2016

Market Performance

Equities produced outstanding returns during the third quarter. The S&P 500 Index advanced 3.85%, bringing the year-to-date return to 7.84%. Small-cap stocks, as measured by the Russell 2000 Index, were exceptionally strong advancing 9.05% for the quarter and 11.46% year to date. Global growth prospects seem to have stabilized during the quarter which encouraged investors to embrace more risk-based assets.

The 10-year bond yield finally stopped declining with yields rising slightly from 1.47% to 1.60% at the quarter's end. The Bloomberg Barclays U.S. Aggregate Bond Index was essentially flat for the quarter, returning 0.46%, due to this modest yield increase. The chase for yield that happened in the first half of 2016 took a breather in the third quarter, but credit-sensitive risk assets performed very well. High yield bonds (which returned 5.49% for the quarter and 15.32% for the year to date as measured by the Bank of America Merrill Lynch U.S. High Yield Index) and emerging-market debt (which returned 3.73% for the quarter and 15.04% for the year to date as measured by the JPMorgan Emerging Markets Bond Index Global) continued to do very well.

Index Returns

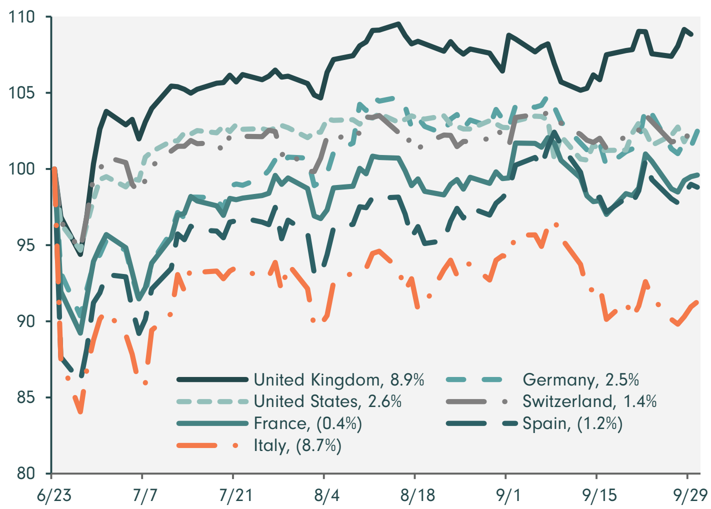


Periods ending September 30, 2016.
Data is obtained from FactSet Research Systems and is assumed to be reliable.
Past performance is no guarantee of future results.

Market Review

Global growth prospects stabilized during the quarter for a few reasons: (1) Continued central bank easing at the Bank of Japan and the European Central Bank; (2) no real negative impact of the U.K. Brexit vote as of yet (See chart: *Equity Market Performance Since Brexit*); (3) and continued stability in the oil markets. For U.S. equity investors, second quarter earnings reports were much better than feared overall as most U.S. companies continued to perform extremely well even in a low-growth global environment. Over the last two years, two major factors have had a very negative effect on reported S&P 500 earnings: (1) The collapse in the price of oil; (2) and strength in the U.S. dollar. Both of these have the potential to reverse going forward, or at least become much less of a negative for reported earnings for many large-cap multinational companies. Businesses which have suffered from the decline in energy prices have yet to meaningfully recover, but they are showing signs of stability in end demand. Cost structures, particularly for oil-related companies, have been dramatically reduced over the last two years and will, therefore, show better profits at much lower levels of crude-oil prices.

Equity Market Performance Since Brexit



As of September 30, 2016.
Data is obtained from Strategas and is assumed to be reliable.
Past performance is no guarantee of future results.

Despite the stock market hitting new all-time highs during the third quarter, there are very few traditional indicators that would signal a "blow-off top" in equity prices (a chart pattern that indicates a steep and rapid increase in a security's price and trading volume followed by a steep and rapid drop in price and volume). Investor sentiment overall is still mixed, at best, with net outflows of $157 billion out of domestic equity funds and ETFs over the last year and nine months and net inflows of $178 billion into bond funds and ETFs. Initial public offering activity, which is usually very frothy at market tops, is very quiet at best and only a few deals have gotten done. Inventories are usually high and climbing into a market top as businesses gear up for strong demand. However, $144 billion worth of inventory has been liquidated over the last five quarters, making inventory levels more likely to be rebuilt rather than liquidated in the future. And, most importantly, corporate earnings prospects in the in the U.S. appear sound even in a 1.5% to 2.5% GDP growth environment (See chart: *S&P 500® Earnings Per Share*).

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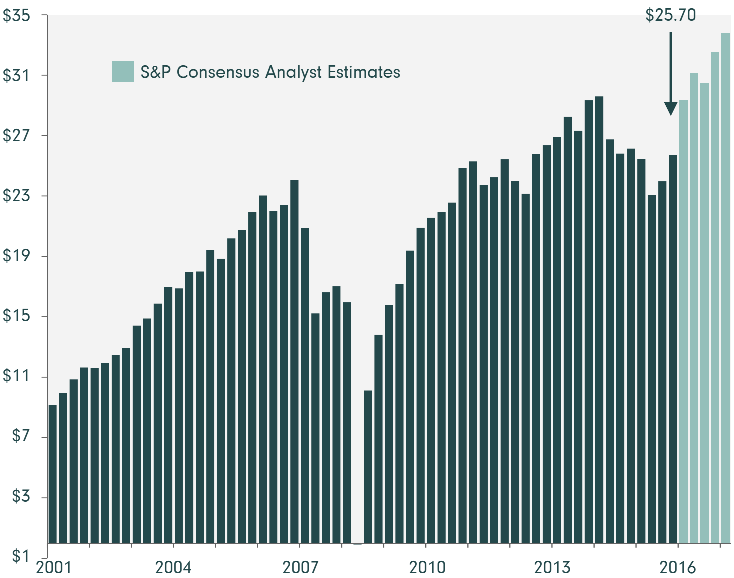
S&P 500® Earnings Per Share

Index Quarterly Operating Earnings



*2Q16 earnings are calculated using actual earnings for 98.6% of S&P 500 market cap and earnings estimates for the remaining 1.4% of companies.
Data is obtained from Compustat, FactSet Research Systems, Standard & Poor's, and J.P. Morgan Asset Management and is assumed to be reliable. EPS levels are based on operating earnings per share. Earnings estimates are Standard & Poor's consensus analyst expectations. Past performance is no guarantee of future results.

S&P 500® Performance Three Months Prior to the Presidential Election

S&P 500® Performance in the Three Months Ahead of the Election has Predicted 19 of 22 Elections

Year	S&P 500® Price Return	Incumbent Party	
'28	14.91%	Won	✓
'32	(2.56%)	Lost	✓
'36	7.92%	Won	✓
'40	8.56%	Won	✓
'44	2.29%	Won	✓
'48	5.36%	Won	✓
'52	(3.26%)	Lost	✓
'56	(2.58%)	Won	✗
'60	(0.74%)	Lost	✓
'64	2.63%	Won	✓
'68	6.45%	Lost	✗
'72	6.91%	Won	✓
'76	(0.09%)	Lost	✓
'80	6.73%	Lost	✗
'84	4.80%	Won	✓
'88	1.91%	Won	✓
'92	(1.22%)	Lost	✓
'96	8.17%	Won	✓
'00	(3.21%)	Lost	✓
'04	2.16%	Won	✓
'08	(19.48%)	Lost	✓
'12	2.45%	Won	✓

The S&P 500® has correctly predicted 19 of the past 22 presidential elections going back to 1928 and every election since 1984. If stocks are higher in the three month period before the election, the incumbent party wins and vice versa. Intuitively, this makes sense. A lower stock market reflects a down trending economy, which is not good for the incumbent party (1992, 2000, and 2008). Moreover, the uncertainty associated with a new president could weigh on financial markets in the short-run.

NOTE: AUGUST 8TH MARKED THE START OF THE THREE MONTH PERIOD BEFORE THE ELECTION.

Data is obtained from Strategas and is assumed to be reliable. Past performance is no guarantee of future results.

Market Outlook

As we enter the final quarter of the year, we continue to face the uncertain outcome of the presidential election (See chart: *S&P 500® Performance Three Months Prior to Presidential Election*) and the prospect that the Fed will raise interest rates slightly in December. This will create some short-term uncertainty and headwinds for the market, but we recommend staying the course for the long term. Investors have had plenty of time to process the election possibilities and the Fed's outlook for the rate increase, so we do not believe either will have a meaningful impact on equity prices over the long term. It is important to remember that even the President of the United States has limits to his/her power with checks and balances from the legislative and judicial branches of our government. Many campaign promises made are never actually accomplished once a politician is elected. Additionally, future interest-rate increases by the Fed are intended to "normalize" rates and give the Fed more room to maneuver in the future, and are not intended to shut down an overheated economy.

Our outlook continues to be that the United States will grow over the next year at 1.5% to 2.5% in GDP, and corporate earnings growth will drive equity returns of approximately 6% to 8% over the next 12 months.

We thank you for your continued support and trust, and we will continue to implement our high-quality investment approach on your behalf.

Douglas S. Foreman, CFA
Chief Investment Officer
Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 30 years of investment experience.

The S&P 500® Index is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Bloomberg Barclays U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least $250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The JPMorgan Emerging Markets Bond Index Global is a benchmark index for measuring the total return performance of international government bonds issued by emerging market countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements. The Bank of America Merrill Lynch U.S. High Yield Index tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market.