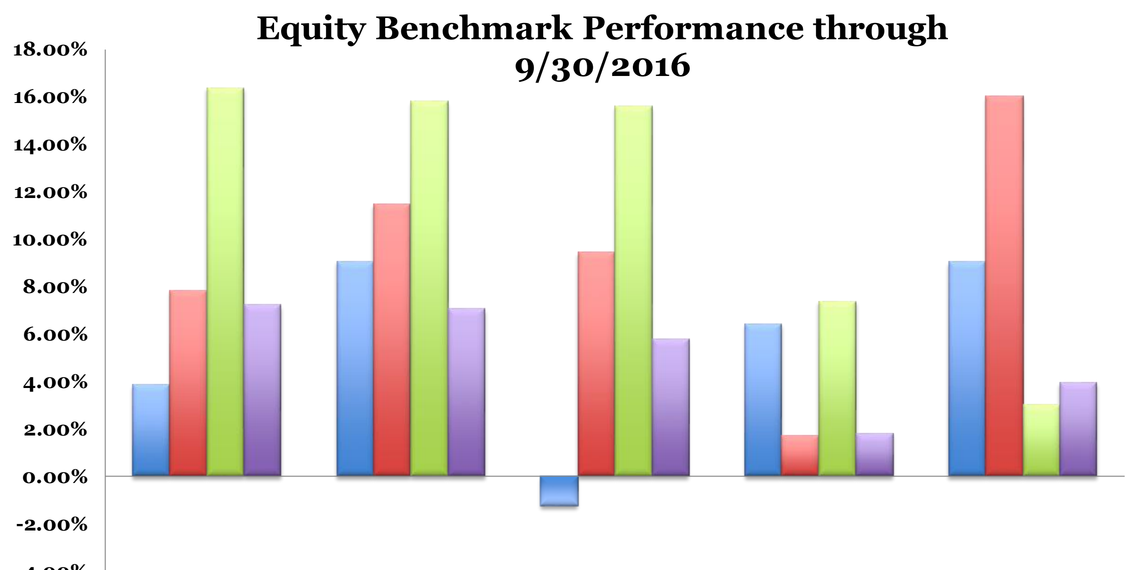
The 3rd quarter was surprisingly quiet and solid, considering how it started. The surprise Brexit referendum result, in which Britons voted to leave the European Union, happened just before the end of the second quarter, on June 23rd. After two tumultuous weeks, the markets recouped their losses and then continued to gain during the third quarter. Perhaps investors went away for the summer because volatility levels in July and August were exceptionally low.

This quarter, we are including separate equity (stock) and fixed income (bond) performance charts in order to make them easier to read and to provide performance data about foreign fixed income.

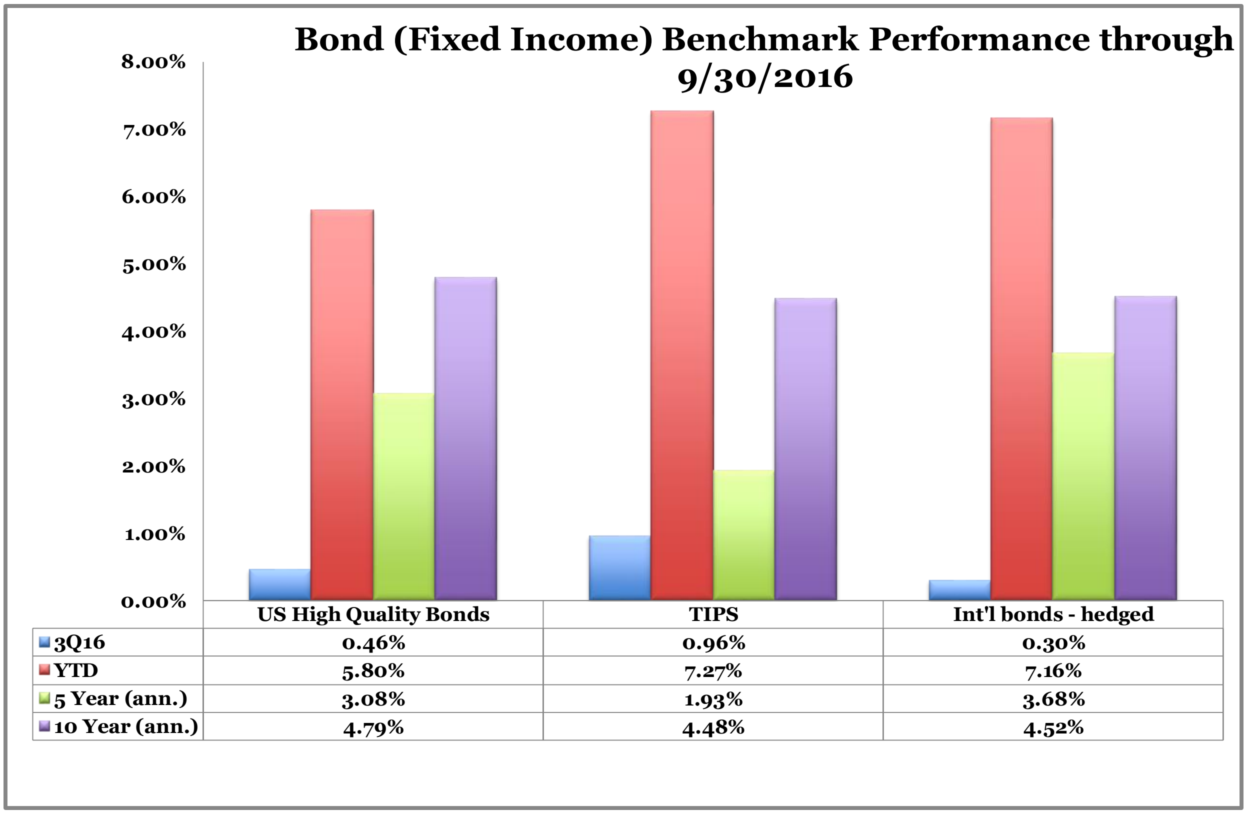
Below is performance for equity benchmarks. With the exception of REITs (commercial real estate), which were slightly down during the quarter, all other markets were positive for the quarter and all markets are positive year-to-date.



	S&P 500	US Small Cap	US REITs	Foreign Developed	Emerging Markets
3Q16	3.85%	9.05%	-1.24%	6.43%	9.03%
YTD	7.84%	11.46%	9.45%	1.73%	16.02%
5 Year (ann.)	16.37%	15.82%	15.60%	7.39%	3.03%
10 Year (ann.)	7.24%	7.07%	5.80%	1.82%	3.95%

source: DFA

We added a category (known as “international developed hedged foreign”) to the bond performance chart below since it is a part of all our clients’ portfolios. “Hedging” refers to whether the underlying bonds’ performance is tied to foreign currencies (unhedged) or whether the US dollar level is locked in (hedged). We generally use “hedged” in foreign fixed income to reduce risks associated with currency fluctuations.



	US High Quality Bonds	TIPS	Int'l bonds - hedged
3Q16	0.46%	0.96%	0.30%
YTD	5.80%	7.27%	7.16%
5 Year (ann.)	3.08%	1.93%	3.68%
10 Year (ann.)	4.79%	4.48%	4.52%

source: DFA

We are very aware of the concern over negative yield in this era of low interest rates and continued easy monetary policy. While we believe our foreign bond choices will largely avoid positions with negative yields, we also think diversification across bond categories will continue to justify our long term rationale for bonds which has not changed: to protect against downside risks in equity markets. In this particular quarter, equities were strong and bonds modest, precisely what we want to see. As you have heard us state many times before, fixed income stability becomes significant when equity markets take a dive. High quality fixed income generally holds its value and prevents drops in the equity market from being catastrophic to your portfolio.

This has been a good quarter for diversified portfolios and reasonable calm after so many volatile quarters. However, we are watchful for a return of volatility due to:

- U.S. Election uncertainty
- The Federal Reserve raising interest rates
- Continued fallout from the Brexit vote

Economic Data

Concerns about the state of our economy are at the forefront during this tumultuous election season. Based on the election and media there is a general perception we frequently hear: that our economy is in dire shape. While we agree the economy is far from perfect (which is always the case), we take issue with the perception we are about to enter a repeat of 2008. In an age where so much of what we read is written with bias or an outright agenda, we must rely instead on economic indicators to help us determine the best way forward for our clients. Here is a link to a discussion of several economic indicators we follow and their significance.

Our conclusion is that the key data illustrate a positive trend. Since our typical client is invested for the long-term, we support staying the course.

As with the upcoming election, we advise our clients against making emotional decisions or trying to predict the outcome of an event. If you want to make a statement about the state of our country, we advise you do it next month by voting. As for your investment portfolio, our guidance is to maintain a long-term discipline based on your financial plan. There may well be some short-term volatility due to individual investor reaction to upcoming events, but rather than being part of that trend we encourage you to stay the course.

We thank you for your confidence in us and encourage you to call or email any time.

Sincerely,

Janet L. Hoffmann, CFA, CFP®

Barry R. Taylor, CFP®

Sources: Dimensional Fund Advisors (DFA), PIMCO, JP Morgan, Morningstar, New York Times, Schwab, Vanguard, Wall Street Journal.