ROUND TABLE
WEALTH MANAGEMENT

QUARTERLY REVIEW - SECOND QUARTER 2016

The morning after the Brexit referendum confirmed the "Leave" victory, Bloomberg News ran an article titled, "Can we talk about last night?" And as funny as it is to compare the referendum decision to a one-night stand, the implications of Brexit will last far longer than until the new work week begins. Impulsive reactions in life, politics and in the investment world can be met with negative results. In the aftermath of the Brexit vote, rash investors rushed to sell at the lows, only to see the markets rebound in the following days. Going forward, we are very likely to see meaningful global equity market gyrations given other regional macro-economic and political issues.

Round Table considers its mandate to be long-term investing, not short-term trading. The impactful questions of the day are not whether the markets will be up or down some percentage today or this week. Rather they concern where we think markets will be five and ten years from now and if those asset classes under investment consideration provide reasonable compounded returns. To be clear, we do make tactical tilts within portfolios and you are likely to see these within your portfolios. Currently, we are emphasizing a near-term focus on income through equites, real assets and fixed income. We delve deeper into our reasoning later in this letter and the linked asset class summaries.

We are very aware that these can be challenging times for investors. Rest assured that markets have been here before and have ultimately risen to higher levels. We all recall the prior U.S. recessions, the Mexican and Asian Crisis of the 1990s, the 1998 Russian default, the U.S. Technology Crash, the 2008 Financial Crisis...and there will be more. We continually take a forward-looking view in the context of new developments and reflect on how they may impact our long-term investment thesis. As illustrated by our communication after the Brexit vote, we are here for you and welcome the opportunity to discuss any questions or comments you may have.

Annualized Benchmark Returns through June 2016*

	1 quarter	YTD	1 year	2 years	3 years	5 years	10 years
S&P 500	2.5%	3.8%	4.0%	5.7%	11.7%	12.1%	7.4%
Russell 2000	3.8%	2.2%	-6.7%	-0.3%	7.1%	8.4%	6.2%
MSCI World Ex. US Index	-0.8%	-2.6%	-9.4%	-7.1%	2.4%	1.7%	2.1%
MSCI Emerging Markets	0.8%	6.6%	-11.7%	-8.3%	-1.2%	-3.4%	3.9%
Barclays U.S. Aggregate	2.2%	5.3%	6.0%	3.9%	4.1%	3.8%	5.1%
Barclays Municipal Bond	2.6%	4.3%	7.7%	5.3%	5.6%	5.3%	5.1%
Barclays U.S. Corporate High Yield	5.5%	9.1%	1.6%	0.6%	4.2%	5.8%	7.6%
FTSE Nareit All REITs	7.4%	13.7%	22.7%	12.8%	13.1%	12.3%	7.0%
Alerian MLP	19.7%	14.7%	-13.1%	-16.5%	-5.4%	3.2%	9.5%

Source: Zephyr Style Advisor **Quarter and YTD returns are not annualized.*

The Big Picture (for additional information click HERE)

Recent global developments have created many "known unknowns[1]" so we'll begin this discussion with what we believe are facts and then gravitate toward more fluid issues.

[1] Borrowed from Donald Rumsfeld's February 2002 response to a question on the war in Iraq.

The U.S. economy is growing, albeit modestly. The third estimate of 1Q 2016 U.S. Real GDP growth was an annualized 1.1%. This figure was revised up from the second estimate of 0.8%. The reported rate of Real GDP growth has trended down since the second quarter of 2015 from an annualized level of 3.9% to 2.0%, 1.4% and 1.1% for 3Q15, 4Q15 and 1Q16, respectively. Forecasts for 2016 U.S. GDP growth have been revised down from 2.1% to 1.7%, though the 2017 median forecast remains at 2.4%.[2] Most economists are not forecasting a U.S. recession in the near term and we subscribe to that perspective. Indices of Leading Economic Indicators remain positive, but we remain watchful of the declining trend that began in early 2015. Other positive aspects of the U.S. economy include greatly improved household finances: the household savings rate is 5.4% of personal income, which is, on average, higher than the decade prior to the 2008 Financial Crisis. Household debt service as a percentage of disposable income is 10%, which is at its lowest level over the last 36 years. In the context of GDP growth, our concern filters down to the ability of U.S. corporations to achieve meaningful earnings growth. A modest cash flow and earnings growth environment is a baseline for our focus on income and stability.

We would be remiss if we didn't mention the U.S. presidential election. Clintrump? Speaking of "known unknowns," the platforms and policies thus far espoused by each candidate vary greatly. We dive deeper into two investment-scenario analyses in a separate essay on our website, so we will be brief here. Suffice it to say, the election process is raising the risk premium in the markets. As in any election what is said on the campaign trail and what actually is enacted can be quite different. The markets however will likely discount their own projections, which we believe equates to greater volatility. We suspect the election will keep market levels relatively range bound until November and again this leads us to our "focus on income" perspective.

We have touched on the non-U.S. markets with key Brexit concerns. In the U.K., Prime Minister Cameron is stepping down and a new Prime Minister will be elected. Cameron has stated that he will not invoke Article 50 of The Lisbon Treaty, which effectively starts a two-year timeline for the U.K. to negotiate its exit from the European Union. We do know there are hundreds, if not thousands, of details that need to be worked out; unfortunately, no one knows when or how they are to be resolved. The concern is that corporations have no meaningful path to guide capital investments, which in turn limits growth and raises investment risk premiums. And let's not forget that the European Central Bank is currently promoting negative interest rates and buying non-financial sector corporate bonds in an effort to stimulate economic growth. Is all lost on Europe? Not necessarily. Eurozone recent quarter over quarter real GDP growth was 2.2% and unemployment has decreased to about 10% from mid-teens levels. Banks are reporting increased loan demand, which on the surface seems to imply confidence on the part of borrowers. All of that said, the European trajectory may have changed June 23, and we are less confident of its prospects going forward compared to the start of the year.

The ongoing story of Chinese debt seems to be picking up steam, but remains in the "known unknown" category. We released a whitepaper on the issue, which was subsequently published on Seeking Alpha (over 1,000 views), and many of our concerns remain relevant today. Recent discussion has focused on the potential recapitalization of China's largest banks, which would require significant printing of Yuan and a likely currency devaluation. In a hard-landing scenario, we would expect a risk-off trade in most emerging markets with contagion to developed markets. As the chart on the first page shows, broad emerging markets have performed well year-to-date up 6.6% in U.S. Dollar terms. Most of this return is due to the depreciation of the U.S. Dollar relative to emerging market currencies. In local currency terms broad emerging markets are up 3.6%, about in line with U.S. equity indices. This has

[2] Federal Reserve Bank of Philadelphia – Survey of Professional Forecasters

linkage with potential U.S. interest rates increases by the Federal Reserve in that the U.S. currency may appreciate relative to emerging market currencies and produce volatility in EM share prices.

Summary of Allocation Recommendations

Asset Class	Recommendation	Comment	Asset Class Summary Link
U.S. Large Cap	Neutral	Maintain high quality, 2016 projected returns in-line with long-term averages	*U.S. Large Cap Review*
U.S. Small & Mid Cap	Neutral to Modest O-W	Valuation risk; stronger earnings growth potential	*U.S. Small Cap Review*
Non-U.S. Developed	Underweight	Earnings downgrades likely; seek high quality multi-nationals & dividends	*International Equity Review*
Emerging Markets	Underweight	Currencies become issue again with higher USD; Global economic growth is challenged; China concerns	*International Equity Review*
Fixed Income	Overweight	Government and investment grade bonds to fend off market volatility	*Fixed Income Market Review*
Tactical	Overweight	Income with appreciation opportunities	*Tactical Investments Review*
Alternative	Hedge Funds & Private Equity	For appropriate allocations	Contact your Wealth Advisor

The Outlook

In our prior quarterly letter we noted that volatility was likely to continue during the summer. Given the above-mentioned issues, we are maintaining that view. Our equity outlook suggests modest returns. Our framework rests on the fact that investors generate returns through a combination of three items: capital appreciation through earnings growth, capital appreciation through valuation multiple expansion and income through both dividend and interest payments. While some elements may be positive contributors to an investor's return, others may detract from that return. Within this context, we believe corporations will continue to generate modest earnings growth (+), but valuations, given modest earnings growth combined with higher volatility levels, may contract (-). Dividends and interest generally are consistent elements of total return (+).

We continue to recommend a neutral allocation to U.S. large cap equities on the basis that the expected return over the next year is in-line with long-term market expectations. Year-to-date the S&P 500 is up 3.8% and our 2016 projection called for mid to-upper-single-digit total returns. The U.S. large cap market's upside may be challenging for the remainder of the year with higher bouts of volatility. We recommend seeking higher quality companies with reasonable valuations and/or meaningful dividends. In addition, we recommend active management as select industry sectors and companies with these characteristics have experienced dramatic valuation multiple expansion.

We elevated our neutral weighting in SMID cap equities to a modest overweight allocation. Valuations have contracted and driven total returns negative in the asset class. Projected earnings, however, continue to be stronger than large cap equities with revenue more focused on domestic consumers rather than international consumers. Similar to large cap, volatility in the SMID cap asset class will continue to be elevated.

We are recommending an underweight allocation to developed market equities and an underweight to emerging markets. Our developed market underweight is driven by Europe. Earnings growth is expected to be challenging as corporations are unlikely to invest growth capital without any trade or regulatory assurances. Financial companies are particularly prone to this risk as well as the ECB's negative interest rates. We remain underweight emerging markets primarily due to continuing issues with commodity producing nations, our previously stated China concern and the risk of higher U.S. interest rates that could force the USD higher and undermining the key driver of EM's strong year-to-date performance.

We maintain our overweight recommendation to fixed income. Similar to last quarter, we advocate clients to have a larger portion invested in "safe haven" fixed income assets given the potential for bouts of market volatility. As discussed in our Fixed Income Overview, the "safest" fixed income, such as U.S. Treasuries have seen yields drop dramatically (the 10-Year U.S. Treasury Bond yield is around 1.4%!) and the safety of those securities could feel less so in a risk-on environment. We believe high grade corporates, which are a part of core fixed income strategies, and municipals for higher tax bracket investors, are choice sectors.

We improved our recommendation from a neutral to an overweight allocation to tactical investments including energy master limited partnerships, non-energy high yield bonds, floating rate loans and convertible bonds. We believe each of these asset classes currently trade at valuation metrics that make them compelling from both an income generation and capital appreciation perspective.

Tax and Financial Planning News

Scenario analysis is a process that projects certain outcomes and creates contingency plans to be undertaken should a given outcome develop. The U.S. presidential election candidates Hillary Clinton and Donald Trump have materially different tax policies that lend themselves to scenario analysis. While it is a fact that either Clinton or Trump will be inaugurated in January 2017, several "known unknowns" as they relate to your financial plan should be discussed with your financial advisor. Our job is not to say who is best or who will win, but what the rules of the game could be under either administration.

For instance, according to the Tax Policy Center's analysis of Clinton and Trump's current proposals[3], the former would reduce the Federal estate threshold from $5 million for individuals and $10 million for married couples to $3.5 million and $7 million, respectively, without escalations for inflation. Trump's position would eliminate the estate tax. Estates within reach of the current thresholds would likely find themselves in a taxable position under the Clinton plan; under the Trump platform larger estates become Federally tax-free. Consider both platforms with a grain of salt since new policies can take a long time to implement and vary greatly from what is said on the campaign trail. Nonetheless, a conversation with your financial advisor should take place on this subject.

A second, and by no means last, item for discussion with your financial advisor is the topic of short-term and long-term capital gain taxes. Depending on who wins in November, the location of investments in taxable and tax deferred accounts could change. The Clinton plan calls for long-term capital gains rates to be applied if an investment is held for six or more years; under Trump the one-

[3] Tax Policy Center "Analysis of Hilary Clinton's Tax Plan", March 3, 2016; "Analysis of Donald Trump's Tax Plan", December 22, 2015.

year term stays the same but rates come down. While expected rates of return are critical for the analysis, under the Clinton plan it may be more tax efficient to have bonds in a taxable account and equities in a tax deferred account. For example, an equity portfolio earning 6% per year and realized over a four-year period may be more taxable than a 4% bond portfolio given equal funding levels. Again, we advocate discussions with your financial advisor on tax strategy matters as the rules of the game are likely to change in the years ahead.

Firm News

Please join us in congratulating Robert Davis, a Firm partner and Chief Investment Officer, for earning the designation of Chartered Alternative Investment Analyst ®, also referred to as CAIA.

We welcome Emma Cucci as a new member of the Firm's Operations team.

Respectfully submitted,

Round Table Wealth Management