SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®

SEIA

3RD QUARTER 2016 VOL 9, ISSUE 3 WWW.SEIA.COM

INSIGHTS

A QUARTERLY NEWSLETTER BRINGING YOU FINANCIAL INSIGHTS

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SEIA's Investment Committee meets frequently to discuss current market trends and potential investment managers. The Investment Committee is composed of SEIA's Senior Partners and Financial Advisors, holding a variety of advanced degrees and certifications, including Master of Science Degree in Financial Services, Certified Financial Planner™, Chartered Financial Analyst, Chartered Mutual Fund Counselor, Chartered Financial Consultant and Accredited Investment Fiduciary®.

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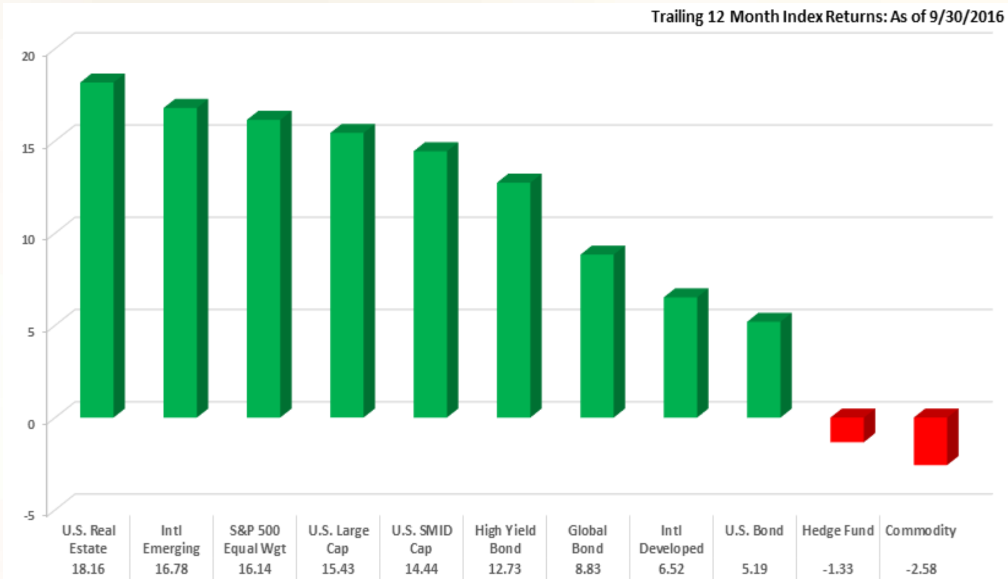

Index	Index Name	Definition
S&P 500 Equal Weight	S&P 500 Equal Weighted	Index based on 500 large US companies ranked equally.
U.S. SMID Cap	Russell 2500	Index based on 2500 smaller US companies ranked by size (or, Russell 3000 which measures approximately 98% of US market cap less the S&P 500 names).
Global Equity	MSCI ACWI	Index consists of 46 country indexes comprised of 23 developed and 23 emerging market country indexes.
International Equity	MSCI ACWI Ex. USA	Index consists of 46 country indexes comprised of 22 developed (excluding the US) and 23 emerging market country indexes.
International Developed	MSCI EAFE	Index comprised of large and mid-cap stocks across Developed Markets around the world, excluding US and Canada.
International Emerging	MSCI EM	Index comprised of large and mid-cap stocks across 23 Emerging Market countries.
U.S. Bond	Barclays US Aggregate Bond	Index comprised of U.S. government and investment grade corporate bonds. 45% of index is government related.
High Yield Bond	Barclays US Corporate High Yield	Index comprised of U.S. non-investment grade corporate bonds.
Global Bond	Barclays Global Aggregate	Index is comprised of global investment grade bonds from twenty-four Developed and Emerging local currency markets.
Real Estate	MSCI US REIT	Index comprised of equity REITS including industrial, mortgage, office, residential, retail, specialized and diversified REITS.
Commodities	Bloomberg Commodity	Index tracks price of basket of commodities including energy, grains, industrial metals, precious metals, softs (sugar, coffee and cotton) and livestock.
Hedge Fund	DB Hedge Fund	Index tracks performance of equity hedge, market neutral, systematic macro, event driven, credit & convertible and global macro.

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2016 Q3 Insights: "Trend Reversals"

For stock investors, the third quarter was a welcomed respite as many of the harsh trends from the first half of the year quite simply reversed. The trend of increased volatility and sharp selloffs from both Q1 (due to recession fears) and Q2 (due to Brexit) subsided over the summer as US Large Caps (the S&P 500) remained within a benign +/- 1% daily trading range for 43 straight days. Also, the trend of meager equity returns from the first half of the year gave way as the S&P 500 had its best quarter of the year rising 3.85% to finish at 2168 but not before posting an all-time high of 2190 in mid-August.

The 'trend reversal' mantra was not limited to the S&P 500 and in fact, the theme permeated most equity regions, investment styles, and sectors as recent laggards became leaders in Q3.

- International equity (+6.91%) which has lagged US stocks in recent years reversed trend and outpaced US stocks (+4.40%) for the first time in a year.
- Within International one of the biggest recent laggards, Emerging Markets actually posted one of the strongest quarters (+9.03%).
- Within the US, after lagging for the better part of 3 years, Small Caps (+9.05%) bested their Large Cap brethren (3.85%).
- The tech heavy Nasdaq (+10.02%) posted its best quarter since 2013. The Technology sector (+12.86%) was the clear standout in Q3 as the recent outperforming dividend/defensive sectors like Utilities (-5.91%), Telecom (-5.60%) and Consumer Staples (-2.63%) gave back the gains from the first half of the year.

	INDICES	Q3	TTM*
STOCKS	***GLOBAL EQUITY***	***5.30***	***11.96***
	U.S. Large Cap (S&P 500)	*3.85*	*15.43*
	U.S. Small Cap (Russell 2000)	*9.05*	*15.47*
	International Developed Markets	*6.43*	*6.52*
	International Emerging Markets	*9.03*	*16.78*
BONDS	***GLOBAL BONDS***	***0.82***	***8.83***
	U.S. Aggregate (High Quality)	*0.46*	*5.19*
	U.S. High Yield (Low Quality)	*5.55*	*12.73*
	International Aggregate	*1.03*	*11.67*
	Emerging Market Debt (USD)	*3.13*	*13.93*
ALTS	*Gold*	*-0.27*	*18.10*
	Commodities	*-3.86*	*-2.58*
	Master Limited Partnerships	*1.07*	*12.74*
	Real Estate	*-1.45*	*19.83*
CASH	*Inflation*	*-0.12*	*1.18*
	Cash (3-month T-bills)	*0.08*	*0.21*
	U.S. Dollar Index	*0.17*	*0.00*

**Trailing Twelve Months*

Trends reversed for bond investors as well but not to their favor. The large gains in the first half of the year gave way to more tepid returns in Q3 as the Barclays US Aggregate Index rose a measly 0.46%. The yield on the 10-year treasury bond rose 13 bps to end the quarter at 1.61%. Our earlier theme that high cash flow assets and Credit Bonds could perform in line with

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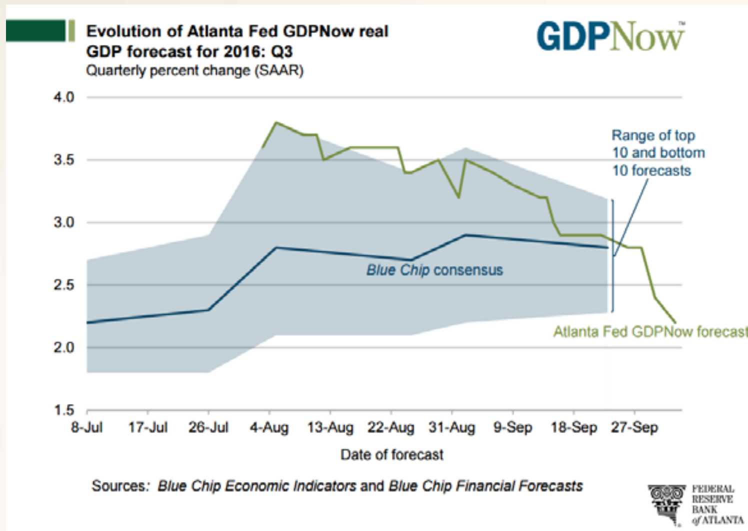
equities proved true this quarter as High Yield rose 5.55% actually outpacing most stocks.

Alternative Assets followed fixed income's theme as large first half gains gave way to more muted returns with both Gold (-0.27%) and Oil (-0.19%) posting small losses over the summer.

Q4 = 4E Will recent trends continue? The fourth quarter historically is the strongest time of year for equities. According to Bespoke Investment Group, the average gain in Q4 has been 2.7% dating back to 1928. Furthermore, when the S&P 500 is positive through Q3, the subsequent average gain is 4.3% (compared to an average loss of -0.43% when S&P 500 is negative year-to-date). But for the rest of this year, we believe investment returns will hinge upon four E's namely the economy, corporate earnings, emerging markets and of course, the election.



ECONOMY

Heading into Brexit, one of the reasons we couldn't get too bearish was that the US economy was actually improving and trending higher. By early August, strong economic data points had helped push the current quarter real GDP estimate to 3.8% according to the Atlanta Fed's GDPNow tracker. Stocks followed course and reached an all-time high a week later (reversing an earlier theme where good economic news was actually bad news for stocks). A few weeks later, bond yields reached a post-Brexit high at 1.75% and we were on the cusp of a *major* trend change with stocks moving up in the face of higher yields. But then mid-September came and the summer strong patch started to wane and by early October, the estimate for third quarter gross domestic product had fallen precipitously back to 2.2%.

What does this all mean? In short, the economy doesn't appear to be on the cusp of breaking out anytime soon. But this is not new news. Long-time readers will recall our "*Flying at Low Altitude*" economic thesis where we surmise that while the plane (economy) is still in the air, the altitude (growth) is not sufficient enough to withstand too much turbulence (higher interest rates). We added in February that our Central Bank projection of 4 interest rates hikes in 2016 should not happen and if the "*Fed Awakens*" to this new economic reality, interest rates would stay low, stocks would stay high and the economic expansion would continue. Everything fell into place and now current projections point to another hike in December but more importantly only 2 more hikes next year which would

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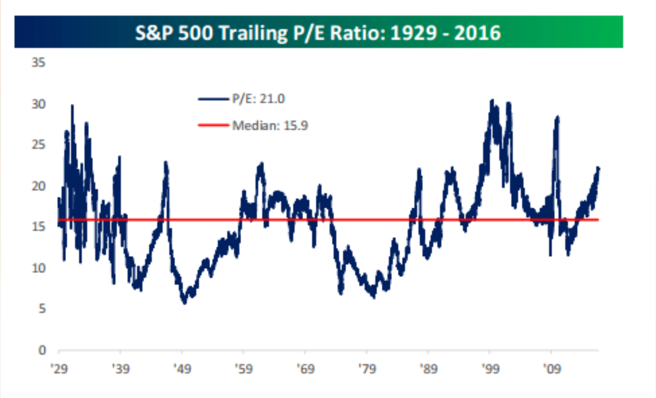
then put the lower bound of the Fed Funds rate at 1.00% by the end of 2017. This glide path is much more in line with economic growth and takes the risk of a policy mistake off the table—unlike the recession fears investors witnessed the last hike.

EARNINGS With historically low interest rates and over $15 trillion of global debt in negative yield territory, investors have been forced into anything that pays a decent yield. The result, rising prices for both real estate and stocks. However, the all-time highs in equities has come alongside five consecutive quarters of declining corporate earnings. Thus, valuation multiples (Price/Earnings multiples, etc.) while not in nosebleed levels are certainly elevated compared to history (see chart). Stocks can go up for two reasons—either the underlying corporate earnings improve or investors are collectively willing to pay more for the same level of earnings. With the latter already extended, the former needs to take over which is why Liz Ann Sonders of Charles Schwab opines, "earnings need to start to carry the weight if this bull market is to advance." Investors will be watching the upcoming quarterly reports to glean a sense of whether earnings have reached an inflection point and can return to growth mode.



EMERGING MARKETS While US stocks are historically expensive we should remind investors that history is not much of a guide as negative interest rates are a recent phenomenon. Nonetheless, overseas equity markets are relatively cheaper yet many investors are gun-shy to allocate capital overseas after years of underperformance which makes the recent resurgence of Emerging Markets all that more important. If recent outperformance continues, investors will be increasingly comfortable taking profits from expensive assets and reallocating to an asset class that is currently not at the upper end of historical valuations which you cannot say about Treasury Bonds and US stocks.

ELECTION Q3 started with politics overseas and ended with politics here stateside with the most watched presidential debate of all time topping 80 million viewers (with many more online). Regardless of which party wins the race, investors will want to see a shift away from monetary policy (the Fed) toward fiscal policy (President/Congress). Areas of compromise that look achievable are an increase in infrastructure and defense spending as well as corporate tax reform. If corporations can get some sense of visibility, capital expenditures and overseas profit repatriation could pick up which could provide a tailwind to the latter innings of this economic cycle.

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