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ANGRY - A QUARTER OF POLITICAL SURPRISES

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The political scene consumes way too much emotional energy this year. Angry is the new political hope, and it is going global. That emotion was most recently on display in the unexpected Brexit outcome. It is appearing in the US political landscape, and surfacing in other countries around the world. The recent surge in angry populism finds its roots in the lack of economic growth. Symptoms of the problem are income inequality, trade (protectionism or de-globalization), immigration, and/or stagnant wages; if the economic pie was growing at a more normal pace, voters would likely be less angry. But since 2007, the economic pie is growing at a slower rate than voters are used to. The world transitioned from a global economic growth rate of 3.4% to barely 2%. This downshift is problematic and not easily adjusted to. Historically, recessions lead voters to remove the party in power when growth is too slow; then when it revives, the political environment goes back to normal. But since the financial crisis, economic growth has not returned to past levels with the situation now persistent for 8 years. Angry is the new hope as voters demand more growth. This trend seems unlikely to dissipate near-term - similar to what happened during the 1930s - until pre-2007 growth resumes.

It is odd for the financial markets to get global events completely wrong. But the UK vote to leave the European Union surprised pollsters and financial markets alike. Brexit happened; it is an historical vote and a geopolitical event. It is not a quick process to leave the EU, as there is a 2-year negotiation process to occur. Thus, the decision to leave the EU increases political, economic and market uncertainty. The vote likely will push the UK into a recession, with the EU and global economic growth outlook being lowered. It is even expected that US growth will slow a touch as a result. Likely, there will also be back and forth market movement as policy negotiations occur on what Brexit means long-term. Two questions: will Brexit undermine confidence and increase uncertainty enough that businesses retrench further; does it cause deferred economic actions (corporations defer hiring employees, defer building plants and equipment, or individuals defer buying a house); will deferrals occur in Europe, the US, and Japan? Second, will voter dissatisfaction create more "exit" votes for protectionism and anti-globalization? Could Brexit be an early signal that Trump's bid for US president has higher possibility than early polls give credit? The US public appears to display an anti-establishment mood - tired of established political activities that seem incorrect.

Brexit created significant financial market volatility - the quarter concluded with a dramatic selloff following the vote, followed by a swift recovery. The post-Brexit S&P looks a lot like the pre-Brexit S&P, as the market indexes trade near levels prior to the vote. But perhaps the **bigger takeaway is that 2Q resembled another relatively flat performance experience, wherein stocks remained stuck in a trading range of volatility traveled for the better part of the past 2 years**. Below the surface, the market is churning with defensive stocks providing different leadership than existed at the beginning of the year. More cyclical sectors like financials and European bank stocks in particular, are struggling as bond yields fall; they remain depressed even as the market bounced back. That's because low interest rates will continue to make it difficult for banks to generate appropriate capital returns on low interest rate loans. US 10-year interest rates fell 86 basis points during the first half of 2016 to the lowest levels since mid-2012 and skinniest yield in 50+ years. Recall, bond prices rise as yields (interest rates) fall; the price of Treasuries are rising sharply this year (as investors seek safety in uncertain political times). Yields and yield curves are often viewed as a sign of future economic growth and inflation expectations. The current yield curve is at its flattest trajectory in 9 years. So, when interest rates and the rate curve are very low and flat, it may suggest continuing sub-par economic growth, continuing low inflation and the expectation for very low interest rates to continue (despite the Fed's desire to raise rates). Further, many other global bond yields are near zero, and a number of foreign bonds are selling at negative interest rates. Maybe the global monetary policies, even negative interest rates, designed to stabilize markets are now part of the problem. Returns for all assets are mushed to low and unappealing levels due to zero and negative interest rates.

Muddle-through economic conditions are producing less than 2% economic growth – we need 2%+ GDP growth to generate corporate profits which aid advancing stock prices. Putting it another way, the problem with "muddle" is that the economy is not stable when flat (no profits). So, risks are skewed

ANGRY - A QUARTER OF POLITICAL SURPRISES (*continued…*)

to the downside. The key, as populist voters are advocating, is get economic growth. The US will experience new government fiscal spending to boost economic growth in the 2nd half (2016) and we might expect more stimulus in 2017 in the US and around the world. But without a return to pre-crisis levels of growth, there is less room for equity markets to absorb economic and geopolitical shocks, and shifts in investor sentiment. We expect that 2% economic growth keeps company earnings barely advancing (no recession in the next 12 months), inflation stalled, volatility in the financial markets, investors edgy and wary, and voters angry.

"The post Brexit S&P looks a lot like the pre-Brexit S&P… perhaps the bigger takeaway is that 2Q resembled another relatively flat performance experience, wherein stocks remained stuck in a trading range of volatility traveled for the better part of the past 2 years."

Historically, US presidential election years affect investment returns. In a year where the election is open (meaning the incumbent cannot run again), stocks typically move sideways or slightly lower through the summer and early fall. Given populist uncertainty, this low-return pattern again seems probable. Since 1950, the S&P500 averaged a +0.9% gain in the 3Q of election years, and was the worst performing quarter of the year. Further, during the 8th year for the President in office, stocks historically experienced their weakest performance. It is interesting that the market can "tell" who should win in November. If the stock market is declining during the 3 months before an open election (because the economy is soft), more often the incumbent party (Democrats in this case) loses in November. And just the opposite – if the market is rising, the incumbent party is advantaged with their new candidate. At this point, Clinton has a 90% correlation to the S&P500 market direction (see graph, page 4); she is associated as being from the incumbent party. It should be an interesting political and market environment during the 3Q.

Global populism probably needs to be taken seriously. We are closely watching for signs of improving economic growth needed to advance global stock markets. During this time, we are trying to invest portfolios in a diversified mix of actively managed no-load mutual funds and ETFs. We continue to emphasize a cautious, lower-risk tactical mix in client portfolios relative to how we might position if we were entering a fresh economic expansion. To us, investing in this market environment is challenging and even frustrating – stocks are tough to buy, yet still offer better long-term return prospects when compared to bonds, which require very careful choices as low yields (high prices) are akin to picking up dimes in front of a steam roller – you may be quick enough to snatch a few but are at high risk of getting run over. Investing requires attention to the current evolving environment, keeping the process simple and repeatable, and not making huge mistakes via emotional, timing the market actions.

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STAY CALM; LIVE WITH CONFIDENCE

How does one live with confidence in a chaotic world? We live in confusing, unprecedented times that create much unease. Low interest rates; low investment portfolio returns, paychecks feeling shorter than the month; now Brexit and our upcoming presidential election all raise uncertainty and anxiety. Some feel like their 401K is now a 101K compared with where it should be. What should one be doing in a chaotic world? We should regularly remind ourselves to stay calm – "don't let your heart be troubled."

The word "calm" does not have a definition of its own; instead, the word is better known for what it is not – not agitation, fear, nor turbulence. Calm does require some kind of storm or we would never notice it. The weather world gave us the word "calm", and it means wind that is moving 1 mile per hour or less. There's a scale used to measure wind called the Beaufort Scale invented in 1805. At one end of the scale is "calm" and at the other is "hurricane". If you were to measure your attitude toward the investment environment, your financial life, or any other part of life, would you rate it toward "calm" or "hurricane"?

"Global populism probably needs to be taken more seriously. We continue to emphasize a cautious, lower-risk tactical mix in client portfolios relative to how we might position if we were entering a fresh economic expansion."

It is critical that during times of confusion, when the storms seem to be blowing up a hurricane, that we recall key basic principles. In the investment world, that requires that we recall two ideas – "time is our greatest ally", and "risk disappears with the passage of time." If we can remind ourselves about these two truths, we can reduce our immediate anxiety and remain more calm.

"Time is our greatest ally." We each live at different stages of life. Yet, if we can match an investment to be available with our timeline (for when we need the money), we can effectively manage and/or reduce risk. This is our concept of investing in "buckets of time". Second, remember that "risk disappears with the passage of time." If one can own any asset for enough time, it will be a winner. Risk is greatest in the short term. Yet, if we can own it long enough, it can turn out to be successful. Timing – getting in and out, and then back in – is a fruitless exercise that is not successful, and increases

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STAY CALM; LIVE WITH CONFIDENCE (*continued…)*

risk in a big way. Planting potato spuds today, does not yield instant potatoes tomorrow. It takes time and patience to reap potatoes. So too with investing. Match the right investments with time horizon, and be reminded that time is my greatest investment ally, AND risk disappears with the passage of time.

Mark Twain once wrote, "I'm an old man, and I've known a great many worries; but most of them never happened." Calm is keeping your wits, when the world is losing theirs.

We all live in a chaotic world; we may feel it in our financial and investment lives. Yet, by using a diversified portfolio strategy with different types of investments from different "buckets of time", risk can be reduced. AND, by remaining "time in the market" one can witness risk disappearing with the passage of time. Then annual investment returns compound into magical experiences.

"home values are rising fast in many areas of the country. Many are hearing friends or neighbors tell stories of receiving a contract offer for more than the asking price; …or report getting caught in competitive bidding wars with other hopeful buyers"

PERSONAL FINANCE: STOREHOUSE OF VALUE

Early in our adult lives, we view the purchase of our house as one of our most important investments. Indeed it is. But for most, owning a home uses more of one's wages to pay-off the mortgage, pay taxes, utilities, and make repairs/improvements, than any other expense category. Thus, owning a house is THE most expensive "investment" of any. But, it is definitely one most all of us will make. Generally, if we own a property long enough, it will be worth more than what we paid. Time will make most any investment a winner.

Currently, home values are rising fast in many areas of the country. Many are hearing friends or neighbors tell stories of receiving a contract offer for more than the asking price within just a day or two of listing; or report difficulty finding a home to buy and getting caught in competitive bidding wars with other hopeful buyers. Low interest rates make homeownership very attractive. For those looking to sell, or even just observing from the sidelines, it is exciting to know that a large part of one's net worth, their house, is advancing quickly in value.

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Clients often view owning their house as a "storehouse of value" or savings vehicle. Of course, that is relative. We all need a place to live and even if one plans to ultimately downsize someday, we often observe that the new home requires most of the value of the former (the replacement home value is rising too). Even retirement homes require substantial amounts of money to pay in as an entry fee. Often most of the total sale proceeds are used for the next place to live life. Seldom does a client pull a lot of money out of a primary home to use for their "living life" expenses when they downsize.

So how can one capture their "storehouse of value?" Obviously, one could downsize to such a large degree that significant value is taken out, with the excess money then available to be invested and used for living life. Reverse mortgages offer another vehicle to tap the storehouse of value, and can aid in smoothing cash flow. A few years ago, most financial advisors would quickly offer caution to such options. Reverse mortgages were criticized for being confusing, high cost, and the interest charged on "loaned" amounts would quickly balloon and wipe out all available equity. But the reverse mortgage structure is changing to offer new protections to homeowners, lower costs, and enhance financial flexibility.

For those retired with good credit history, a reverse mortgage can allow home equity to be converted into a tax-free liquid asset pool. A reverse mortgage can be setup to provide monthly cash flow, or as a line of credit available should adverse financial conditions develop. For most, the desire to remain in one's own home until death may be the biggest reason to pursue a reverse mortgage. The new structure, consumer protections, and enhanced flexibility mean this vehicle could help one meet high and unexpected medical costs, or assist those with small non-retirement savings balances with a tax-free source of funds not subject to stock market risk, or smooth cash flow to weather a financial emergency amid a sharp market downturn. That means a potential source to draw upon in rainy-day market environments, or when one wants to avoid additional pre-tax distributions from retirement accounts.

While the conservative core in us still advises prudent financial planning that positions one with other saving/investment accounts, it is nice to know that the growing value of one's home may in fact be a source that can be tapped under the right circumstances. Still, we advocate clients take a conservative view of one's home equity, and take care not to view it as the central asset that can correct a situation of insufficient saving/investing, or financial discipline.

ANNOUNCEMENTS:

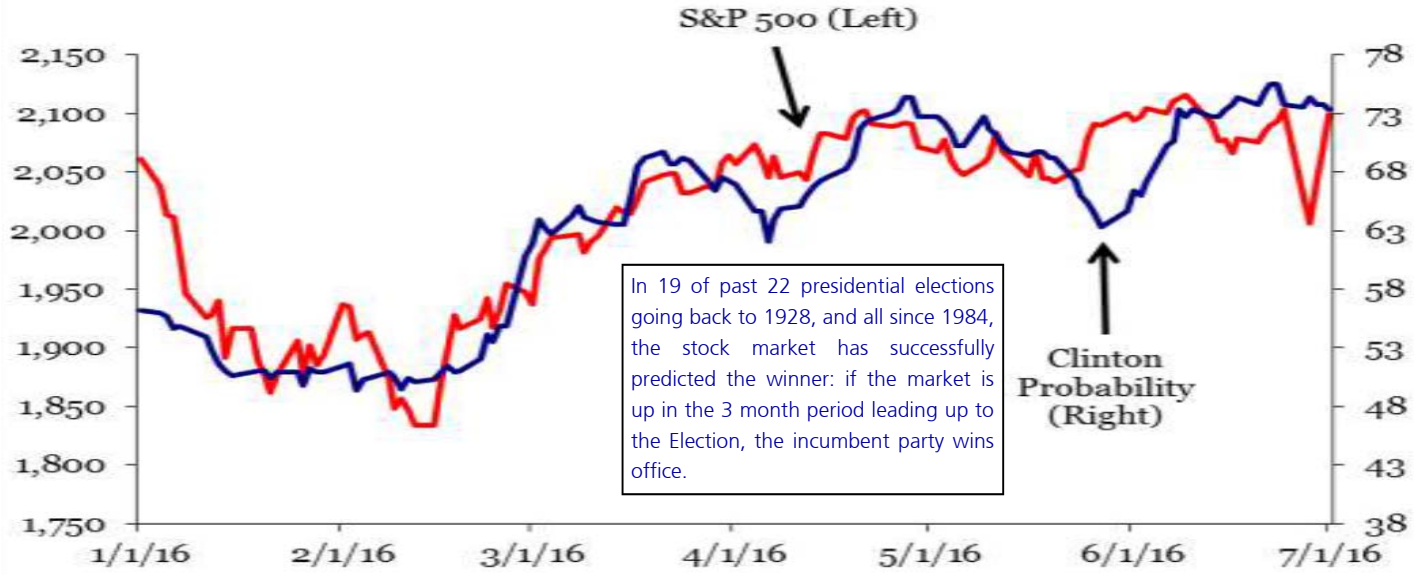
- Early July - 3Q 2016 fees collected
- July 4 - Independence Day; banks and financial markets closed.
- September 5 - Labor Day; banks and financial markets closed.
- September 30 - End of 3rd Quarter; reports sent early October
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

BENCHMARKING AS OF JUNE 30, 2016

Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

Index Portfolio	Stock/Bond Allocation		Total Return Through 6/30/2016				
			2nd Qtr	YTD	12 Mths	3 Years	5 Years
Capital Preservation	0% / 100%	*Cumulative*	0.9%	1.8%	1.4%	3.9%	7.2%
		Annualized			1.4%	1.3%	1.4%
Income	20% / 80%	*Cumulative*	1.0%	1.6%	0.2%	7.5%	13.6%
		Annualized			0.2%	2.4%	2.6%
Balanced Conservative	35% / 65%	*Cumulative*	1.0%	1.4%	-0.3%	9.3%	16.9%
		Annualized			-0.3%	3.0%	3.2%
Balanced	50% / 50%	*Cumulative*	1.1%	1.2%	-1.1%	12.2%	22.2%
		Annualized			-1.1%	3.9%	4.1%
Balanced Growth	65% / 35%	*Cumulative*	1.1%	0.9%	-2.2%	14.5%	26.5%
		Annualized			-2.2%	4.6%	4.8%
Growth	80% / 20%	*Cumulative*	1.1%	0.7%	-2.9%	17.6%	32.4%
		Annualized			-2.9%	5.6%	5.8%
Aggressive Growth	95% / 5%	*Cumulative*	1.2%	0.6%	-3.7%	19.2%	35.4%
		Annualized			-3.7%	6.0%	6.3%

Movement of S&P500 Index 90% Correlated to Clinton Winning Presidency so far in 2016



The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap, 3% Mid Cap, 2% Small Cap, 5% International; Balanced Conservative: 65% Bond, 15% Large Cap, 5% Mid Cap, 3% Small Cap, 7% International; Balanced: 50% Bond, 24% Large Cap, 7% Mid Cap, 4% Small Cap, 10% International; Balanced Growth: 35% Bond, 30% Large Cap, 9% Mid Cap, 6% Small Cap, 15% International; Growth: 20% Bond, 38% Large Cap, 12% Mid Cap, 8% Small Cap, 17% International; Aggressive Growth: 10% Bond, 40% Large Cap, 15% Mid Cap, 10% Small Cap, 20% International. You cannot invest in these indexes or averages and all above indexes/averages include a 5% allocation to the Treasury Bill Index, reflecting a nominal level of cash. The level of diversification represented by these benchmark averages may be materially different than actual client accounts; therefore, clients may experienced different levels of performance volatility. Past performance is no guarantee of future results.

Selected Mutual Funds - Total Return Performance Summary

As of June 30, 2016

Bond Funds - Taxable	Style	2nd Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*2.0%*	*1.0%*	*1.5%*	*1.4%*	*1.5%*
Taxable Intermediate Bond Average		*4.9%*	*2.3%*	*4.6%*	*3.6%*	*3.7%*
Wells Fargo Ultra Short	AS	0.6%	1.0%	1.0%	0.6%	0.7%
AC Alternatives Market Neutral Value	AS	0.9%	3.5%	3.8%	3.6%	N/A
Vanguard Short Federal	HS	0.6%	1.9%	2.1%	1.4%	1.3%
American Century Short Duration	HS	0.9%	1.8%	1.9%	1.5%	1.5%
Pioneer Short-Term Income	HS	0.7%	1.1%	1.3%	1.2%	1.8%
PIMCO Low Duration	HS	0.7%	1.2%	1.1%	1.4%	1.7%
Vanguard Short-Term Investment Grade	HS	1.3%	3.0%	3.2%	2.5%	2.3%
American Century GNMA Income	HI	0.9%	2.5%	3.2%	2.8%	2.4%
Diamond Hill Corporate Credit	LI	3.8%	6.3%	3.7%	4.6%	5.0%
Aberdeen Global High Income	LI	3.6%	3.5%	-6.3%	0.1%	2.6%
Miller Convertible	LI	3.6%	2.8%	-1.6%	6.0%	5.3%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*3.6%*	*2.2%*	*6.4%*	*4.6%*	*4.5%*
Vanguard Muni Limited Term	HS	0.8%	1.5%	2.6%	1.9%	1.7%
T. Rowe Price Tax Free S/I	HS	0.9%	1.6%	2.6%	1.9%	1.9%
Vanguard Muni Intermediate Term	HI	2.1%	3.8%	6.9%	5.0%	4.7%
Vanguard Ohio Long-Term	HL	3.5%	5.4%	9.6%	7.1%	6.1%
Stock Funds - Domestic						
S&P 500 Index		*2.5%*	*3.8%*	*4.0%*	*11.7%*	*12.1%*
Equity Fund Average		1.8%	*1.5%*	*-3.3%*	*7.6%*	*8.1%*
Schwab Large Cap Growth	LG	0.4%	-0.2%	1.2%	12.5%	11.9%
Wells Fargo Advantage Growth	LG	3.4%	-2.4%	-4.9%	8.4%	8.9%
Sit Dividend Growth	LV	1.6%	4.1%	3.7%	9.7%	10.3%
Hennessy Focus	MG	-0.5%	1.4%	-0.6%	10.4%	13.1%
Munder Mid-Cap Growth	MG	0.5%	1.5%	-7.9%	7.4%	8.3%
John Hancock Disciplined Value Mid-Cap	MV	3.3%	3.1%	2.2%	12.3%	12.3%
SPDR S&P600 Small Cap Growth	SG	3.6%	4.0%	-0.6%	10.9%	11.0%
Century Small-Cap Select	SG	1.6%	-5.3%	-16.6%	4.6%	5.0%
Neuberger & Berman Genesis	SB	4.1%	5.7%	1.3%	8.7%	8.8%
Diamond Hill Small-Cap	SV	1.8%	2.4%	-3.9%	6.1%	7.8%
Wells Fargo Small-Cap Value	SV	7.0%	13.1%	3.0%	4.9%	4.8%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*-1.5%*	*-4.4%*	*-10.2%*	*2.1%*	*1.7%*
Harbor International	LV	-1.6%	-1.1%	-11.5%	1.0%	0.7%
Oakmark International	LV	-7.8%	-10.5%	-18.3%	-1.2%	2.3%
Allianz NFJ International Value	LV	-5.1%	-8.2%	-22.3%	-5.6%	-3.0%
John Hancock International Growth	LG	1.8%	-0.8%	-2.6%	7.3%	6.1%
Thornburg Developing World	LG	1.5%	4.9%	-10.0%	-1.8%	-0.2%
Harding Loevner International Small Company	SG	0.2%	-0.3%	-2.7%	5.2%	4.1%
Stock Funds - Specialty						
Salient-Forward Select Income (REIT)	MV	6.3%	8.8%	7.2%	7.5%	8.9%
Neuberger Berman Real Estate Securities	MV	5.5%	10.6%	21.6%	11.4%	10.1%

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