

Proper Wealth Management



MACRO VIEW Q3 2016

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DYNAMIC STRATEGIES BY DESIGN

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# 1,000 Foot View

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## CURRENT QUARTER

### Overall View:

- Growth is slowing
- Expansion cycle ending
- FED may raise rates this year, although may be tough after Q3 GDP is released
- US stock markets are over-valued
- Europe is a minefield
- Global currency war

### Positioning:

- Underweight risk assets (stocks)
- Overweight safe haven assets (bonds, gold)

## PRIOR QUARTER

### Overall View:

- Growth is slowing
- Expansion cycle ending
- FED may raise rates into a slowdown, the first time it's ever happened
- US stock markets are over-valued
- Europe is a minefield
- Global currency war

### Positioning:

- Underweight risk assets (stocks)
- Overweight safe haven assets (bonds, gold)

# MARKET STATISTICS



# Macro Views

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AS OF: SEP 30, 2016		<u>REPORTED</u>	<u>ADJUSTED<sup>1</sup></u>	<u>CRESTMONT<sup>2</sup></u>
<b>“P”</b>	Closing Price (S&P 500 Index) <sup>3</sup>	2168	2168	2168
<b>“E”</b>	Current Estimate (S&P 500 EPS) <sup>4</sup>	\$91	\$81	\$79
<b>P/E</b>	Price/Earnings Ratio <sup>5</sup>	23.9	26.9	27.3

Notes:

(1) adjusted using the methodology popularized by Robert Shiller (Yale; Irrational Exuberance), as modified for quarterly data

(2) based upon historical relationship of EPS and GDP as described in chapters 5 & 7 of Probable Outcomes and chapter 7 of Unexpected Returns; useful for predicting future business cycle-adjusted EPS

(3) S&P 500 Index is the value at the date listed in the table

(4) ‘Reported’ is based upon actual net income for the past year (trailing four quarters); ‘Adjusted’ is an inflation-adjusted multi-year average; ‘Crestmont’ see note 2

(5) P divided by E

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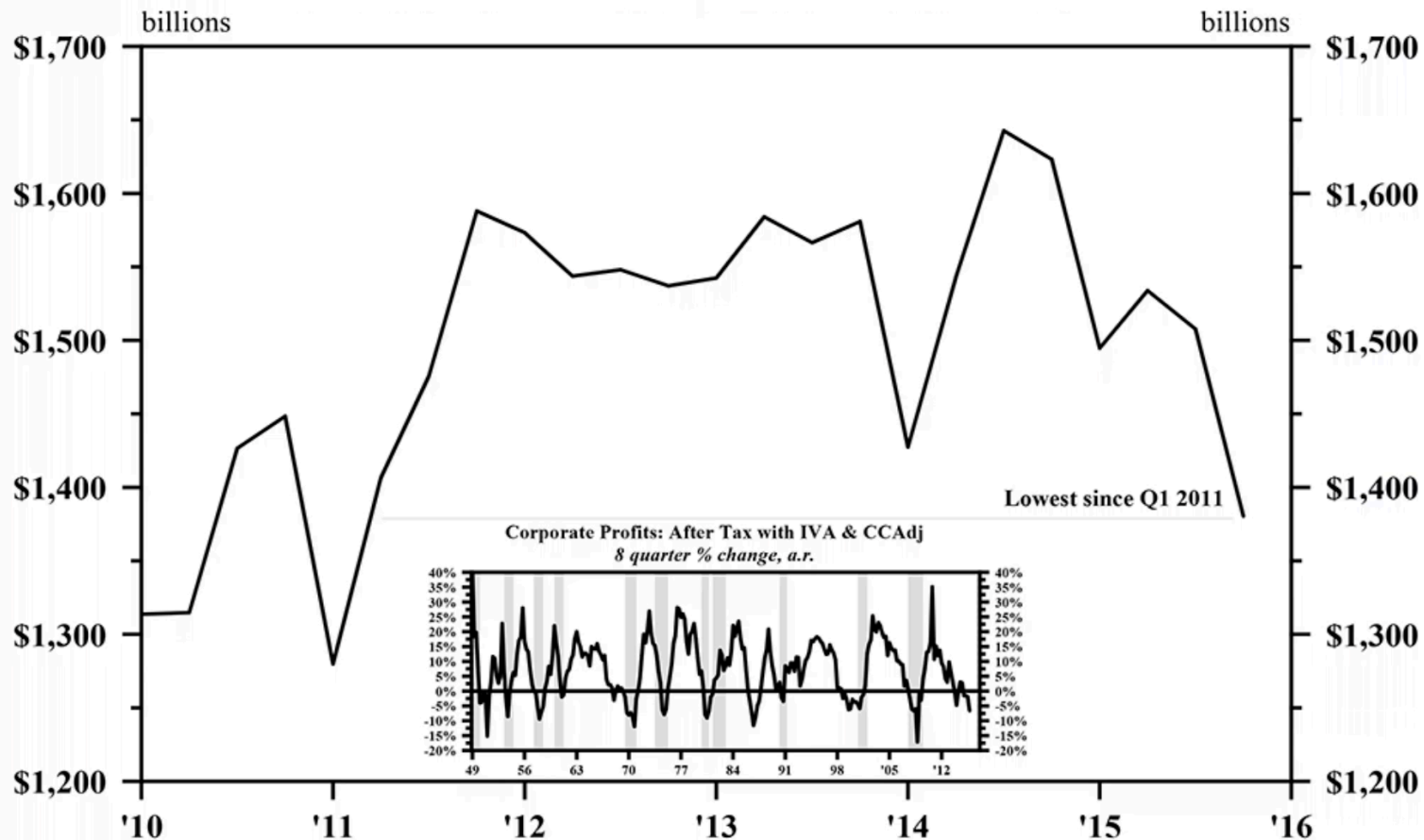
## S&P500 SALES & EARNINGS GROWTH

Q2 2016 QTD

SECTOR	SALES GROWTH (% CHG)	EARNINGS GROWTH (% CHG)	#REPORTED
<b>S&amp;P 500 (Aggregate)</b>	-0.5%	-3.9%	498 / 500
<b>Energy</b>	-24.2%	-81.6%	37 / 37
<b>Materials</b>	-7.3%	-9.1%	27 / 27
<b>Industrials</b>	-1.3%	-2.1%	68 / 68
<b>Consumer Discretionary</b>	6.7%	9.7%	81 / 82
<b>Consumer Staples</b>	0.8%	0.1%	35 / 36
<b>Healthcare</b>	8.8%	4.8%	58 / 58
<b>Financials</b>	0.7%	-7.0%	64 / 64
<b>Information Technology</b>	-3.8%	-2.6%	67 / 67
<b>Telecom</b>	9.6%	3.5%	5 / 5
<b>Utilities</b>	-2.4%	8.9%	28 / 28

Source: BBG

## Corporate Profits: After Tax with IVA & CCAdj



Source: Bureau of Economic Analysis. Through Q4 2015.

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Starting Median P/E Ratio & 10-Year Returns		
Starting Date	Starting Median P/E	10 Yr Annualized Return
12/31/1989	13.9	15.28%
12/31/2000	20.6	-0.48%
12/31/2001	23.5	0.92%
12/31/2002	18.8	4.94%
02/28/2003	16.9	6.06%
12/31/2003	21.2	2.17%
12/31/2004	20.3	5.54%
12/31/2005	19.0	5.24%
12/31/2008	12.5	13.21%*
02/28/2009	11.0	16.69%*
12/31/2015	22.0	???

\* Less than 10 years (through December 2015)

Source: CMG Investment Research, Ned Davis Research, Worldscope

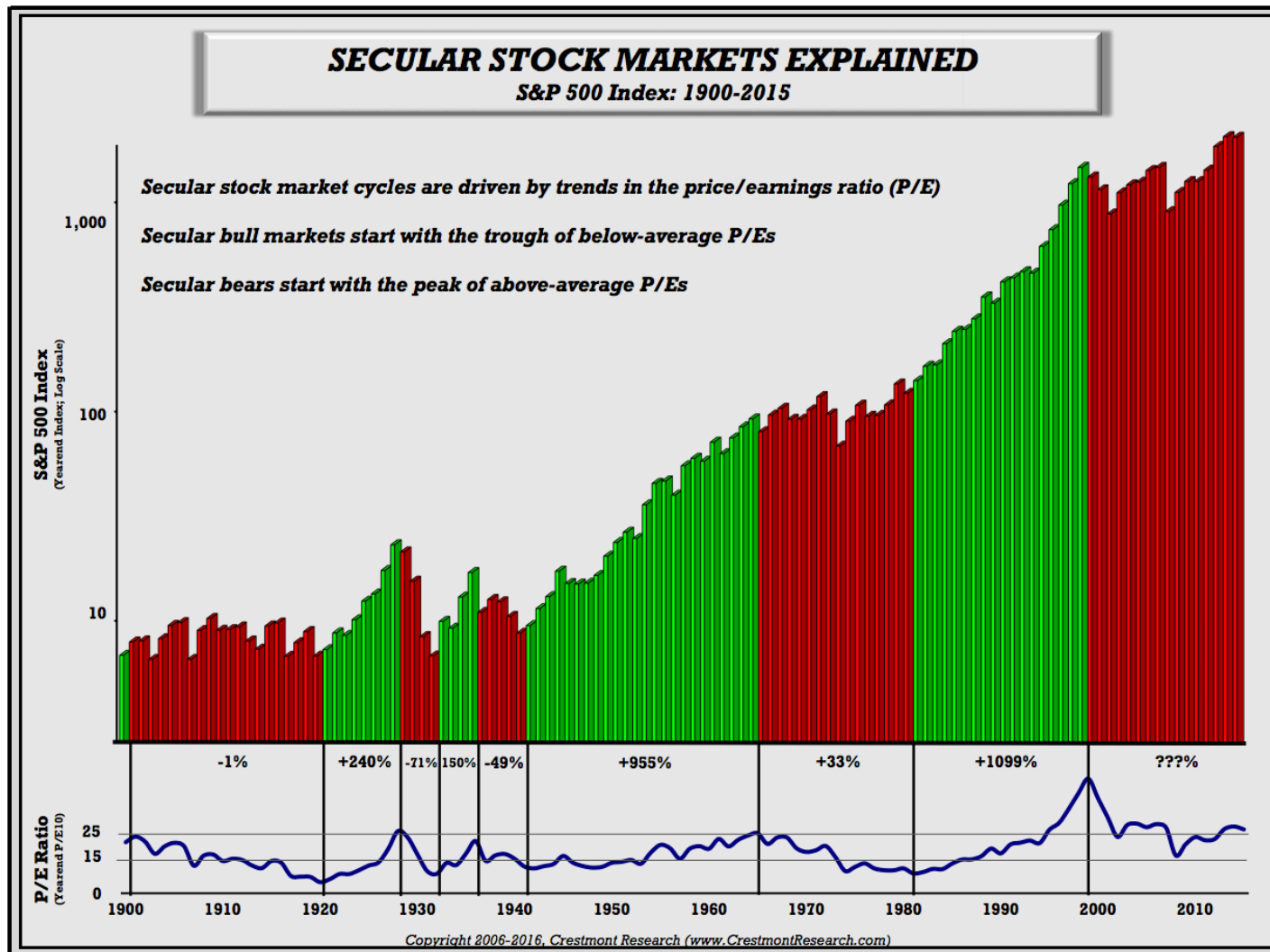
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Starting P/E		Avg. Real	Worst Real	Best Real	Standard
<u>Low</u>	<u>High</u>	<u>10 Yr Return</u>	<u>10 Yr Return</u>	<u>10 Yr Return</u>	<u>Deviation</u>
5.2	9.6	10.3%	4.8%	17.5%	2.5%
9.6	10.8	10.4%	3.8%	17.0%	3.5%
10.8	11.9	10.4%	2.8%	15.1%	3.3%
11.9	13.8	9.1%	1.2%	14.3%	3.8%
13.8	15.7	8.0%	-0.9%	15.1%	4.6%
15.7	17.3	5.6%	-2.3%	15.1%	5.0%
17.3	18.9	5.3%	-3.9%	13.8%	5.1%
18.9	21.1	3.9%	-3.2%	9.9%	3.9%
<b>21.1</b>	<b>25.1</b>	<b>0.9%</b>	<b>-4.4%</b>	<b>8.3%</b>	<b>3.8%</b>
25.1	46.1	0.5%	-6.1%	6.3%	3.6%





## EQUITIES ARE BECOMING MORE CORRELATED

Over the last couple of decades, the correlation between different types of equities has been growing. A 1.0 represents a perfect correlation between asset classes.

	1995-2000	2008-2015
<b>U.S. LARGE-CAP STOCKS TO ...</b>		
U.S. SMALL-CAP STOCKS	0.62	0.92
INT'L LARGE-CAP STOCKS	0.69	0.91
EMERGING MKT. STOCKS	0.67	0.82
<b>U.S. SMALL-CAP STOCKS TO ...</b>		
INT'L LARGE-CAP STOCKS	0.60	0.81
EMERGING MKT. STOCKS	0.64	0.76
<b>INT'L LARGE-CAP STOCKS TO ...</b>		
EMERGING MKT. STOCKS	0.71	0.90

Source: The Schwab Center for Financial Research, with data from Morningstar Direct. Data as of 12/31/15. Please see Disclosures for more information on market indices used: S&P 500® Index (U.S. Large Cap), Russell 2000® Index (U.S. Small Cap), MSCI EAFE® Index (International Large Cap), MSCI EAFE Emerging Market® Index (Emerging Markets).

# Macro Views

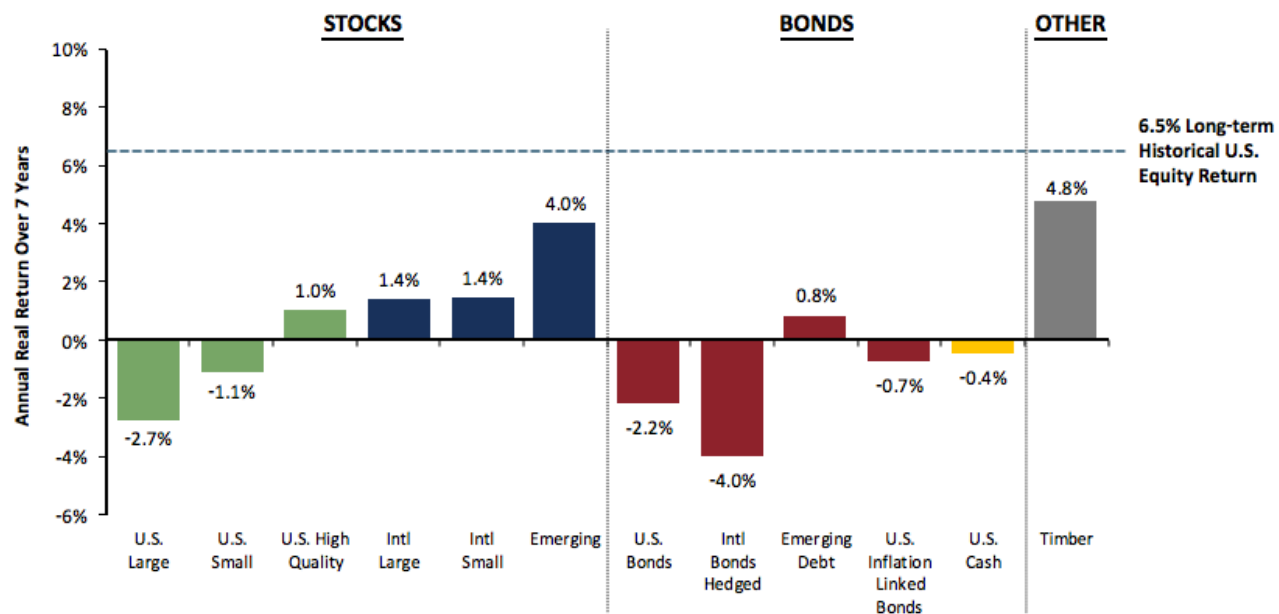
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GMO  
North America | Europe | Asia-Pacific

## 7-Year Asset Class Real Return Forecasts\*

As of June 30, 2016



Source: GMO

\*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

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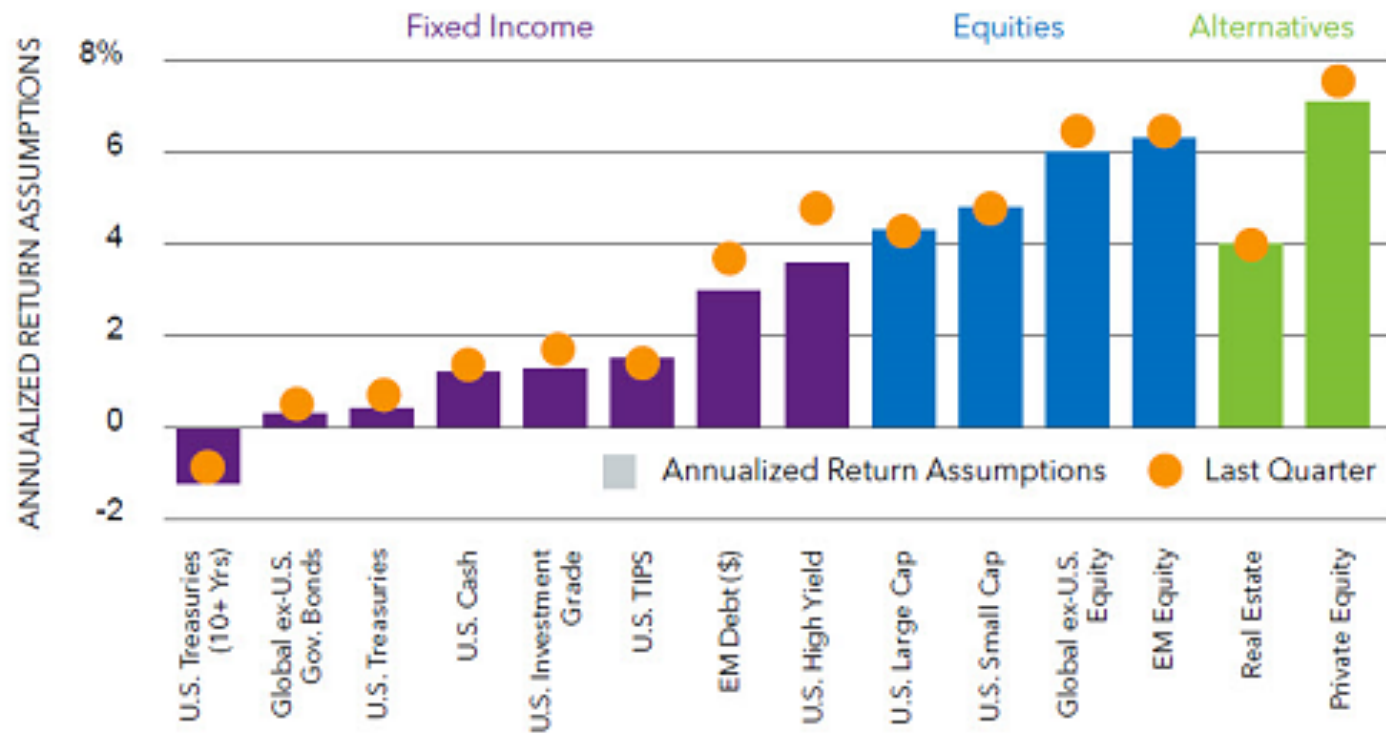
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## CHART OF THE WEEK

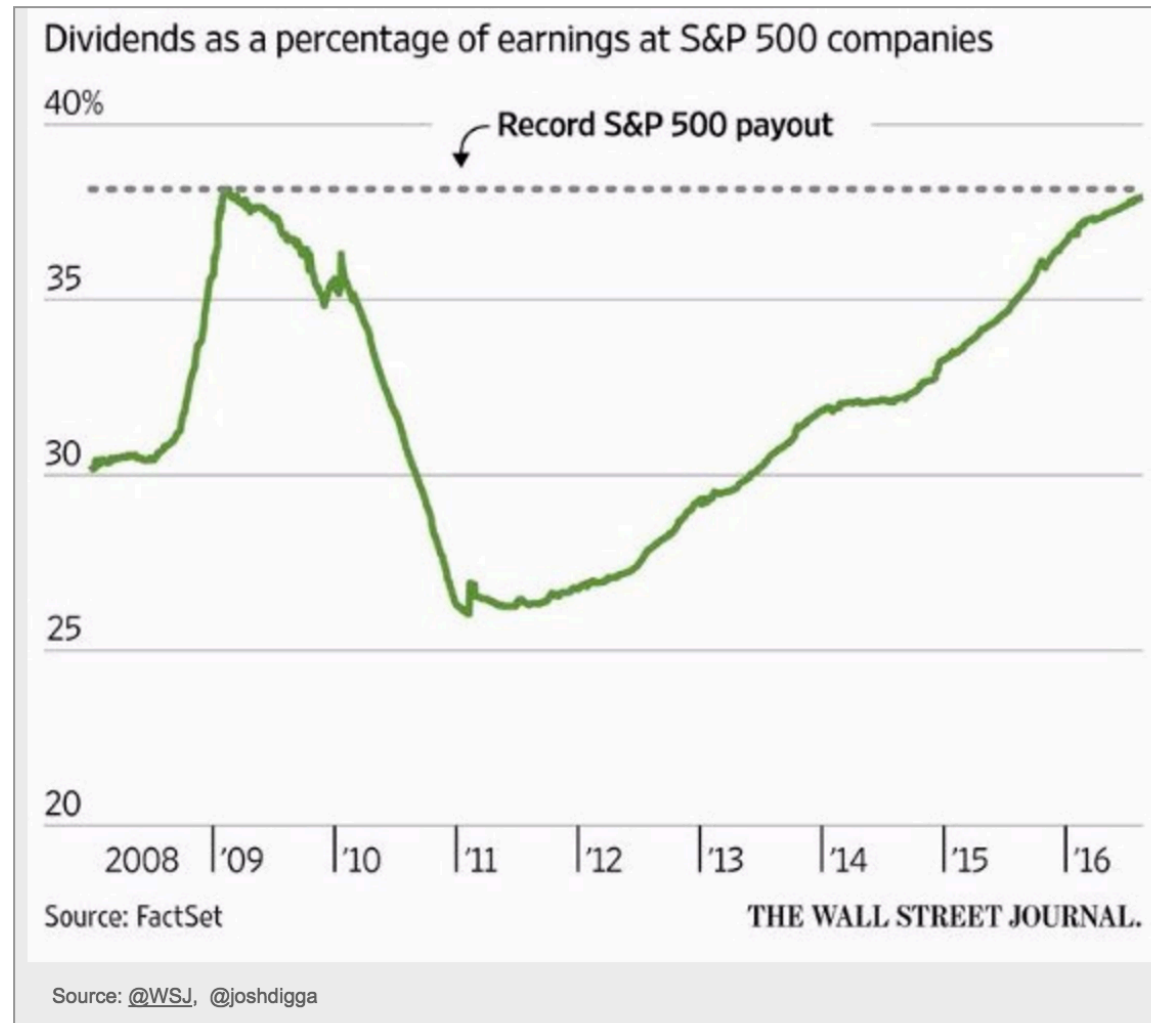
BlackRock's Five-Year Asset Class Return Assumptions, July 2016



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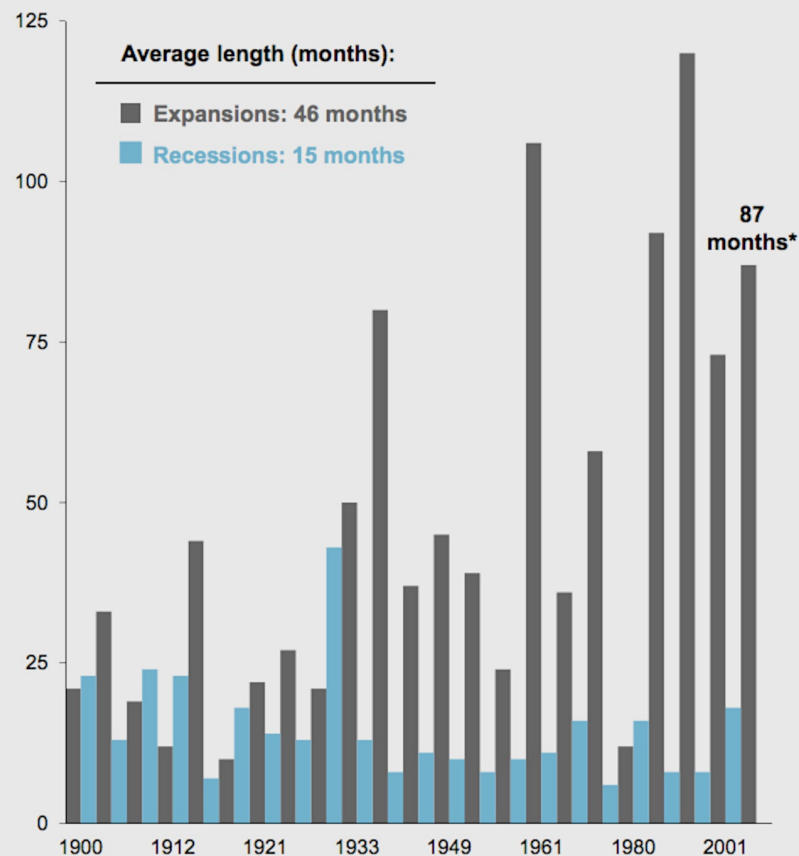
# **MACRO-ECONOMIC DATA**

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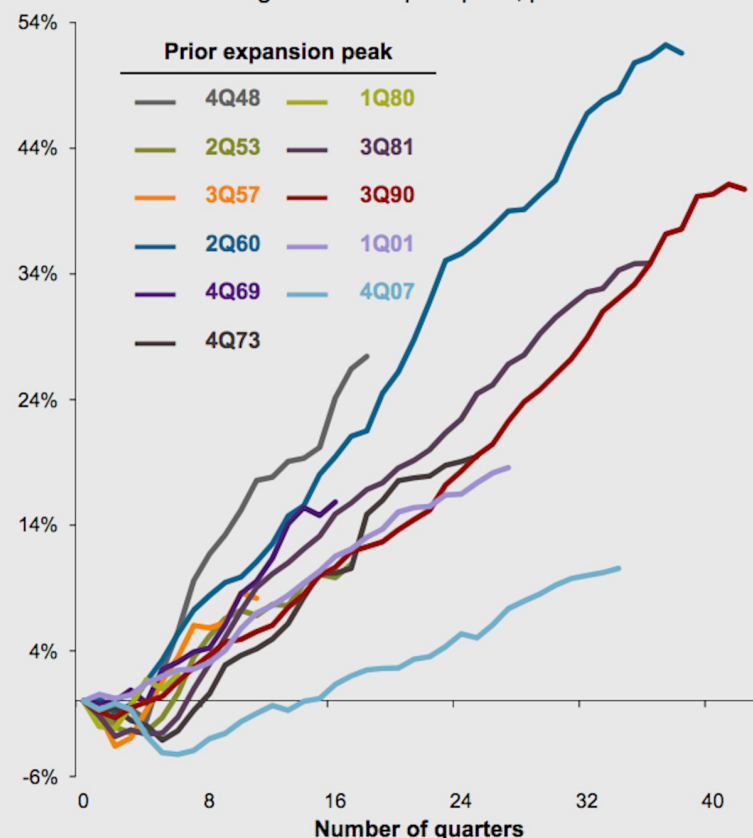
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## Length of economic expansions and recessions



## Strength of economic expansions

Cumulative real GDP growth since prior peak, percent



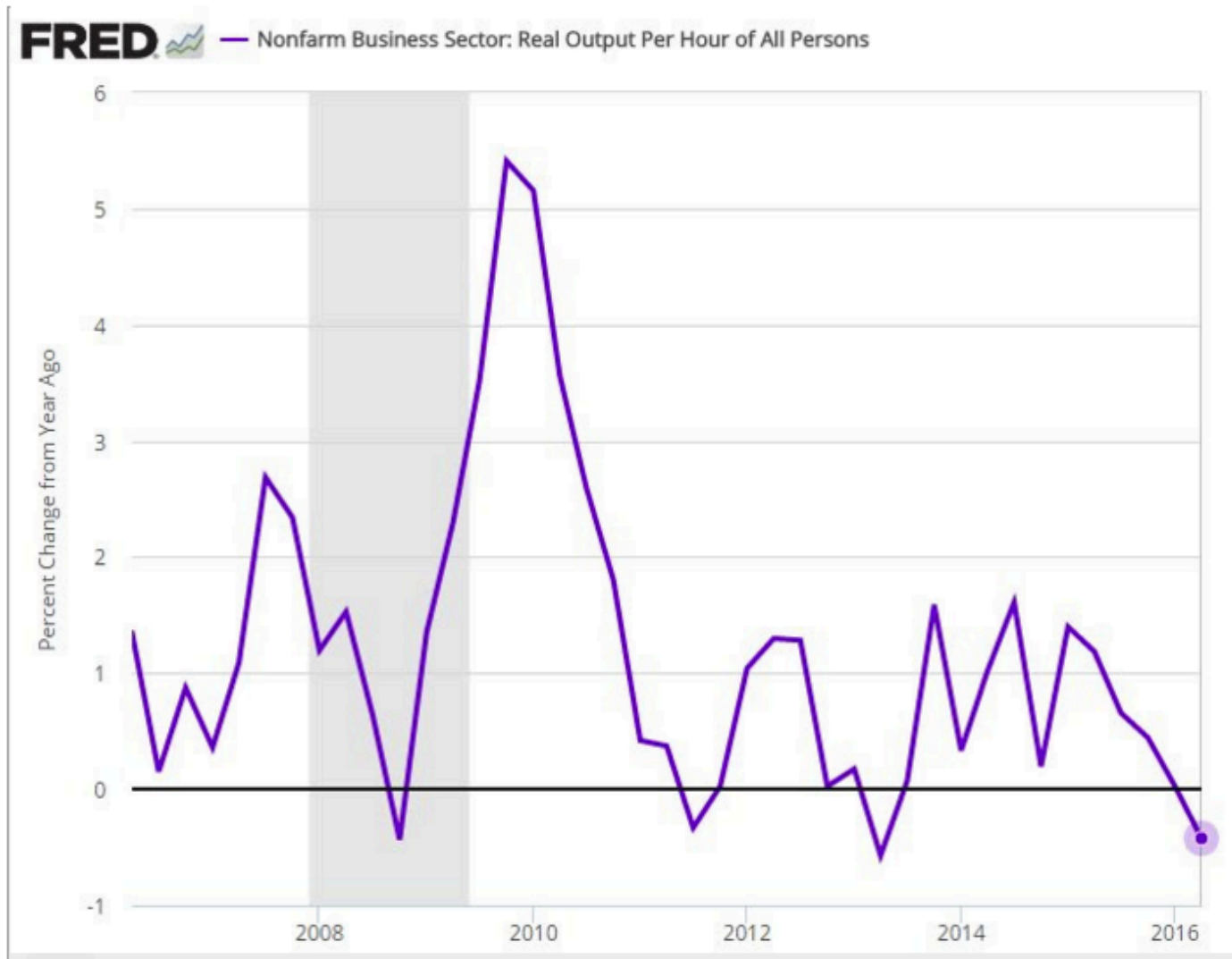
Source: BEA, NBER, J.P. Morgan Asset Management. \*Chart assumes current expansion started in July 2009 and continued through September 2016, lasting 87 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at [www.nber.org/cycles/](http://www.nber.org/cycles/) and reflect information through September 2016. Guide to the Markets – U.S. Data are as of September 30, 2016.

**J.P.Morgan**  
Asset Management

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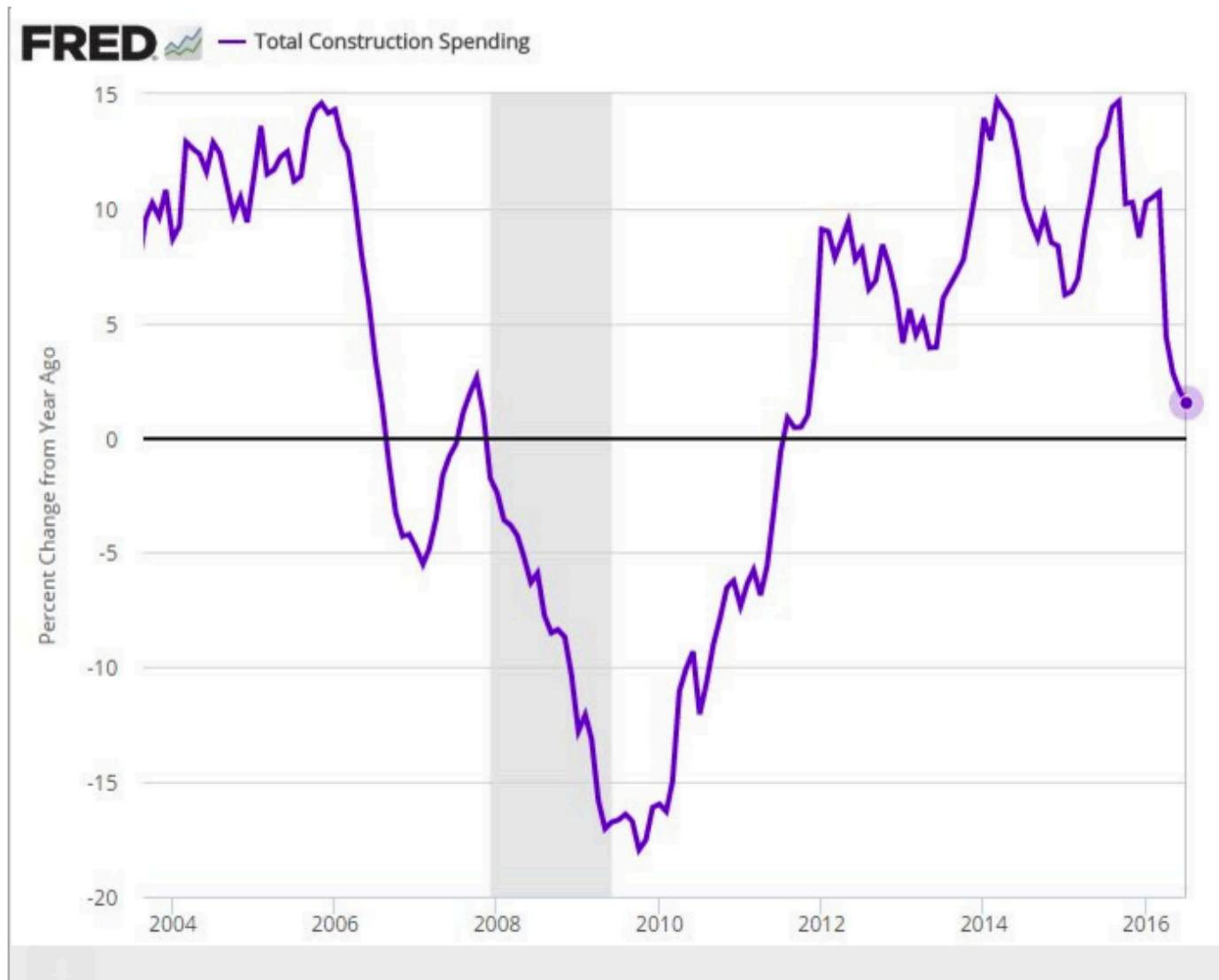
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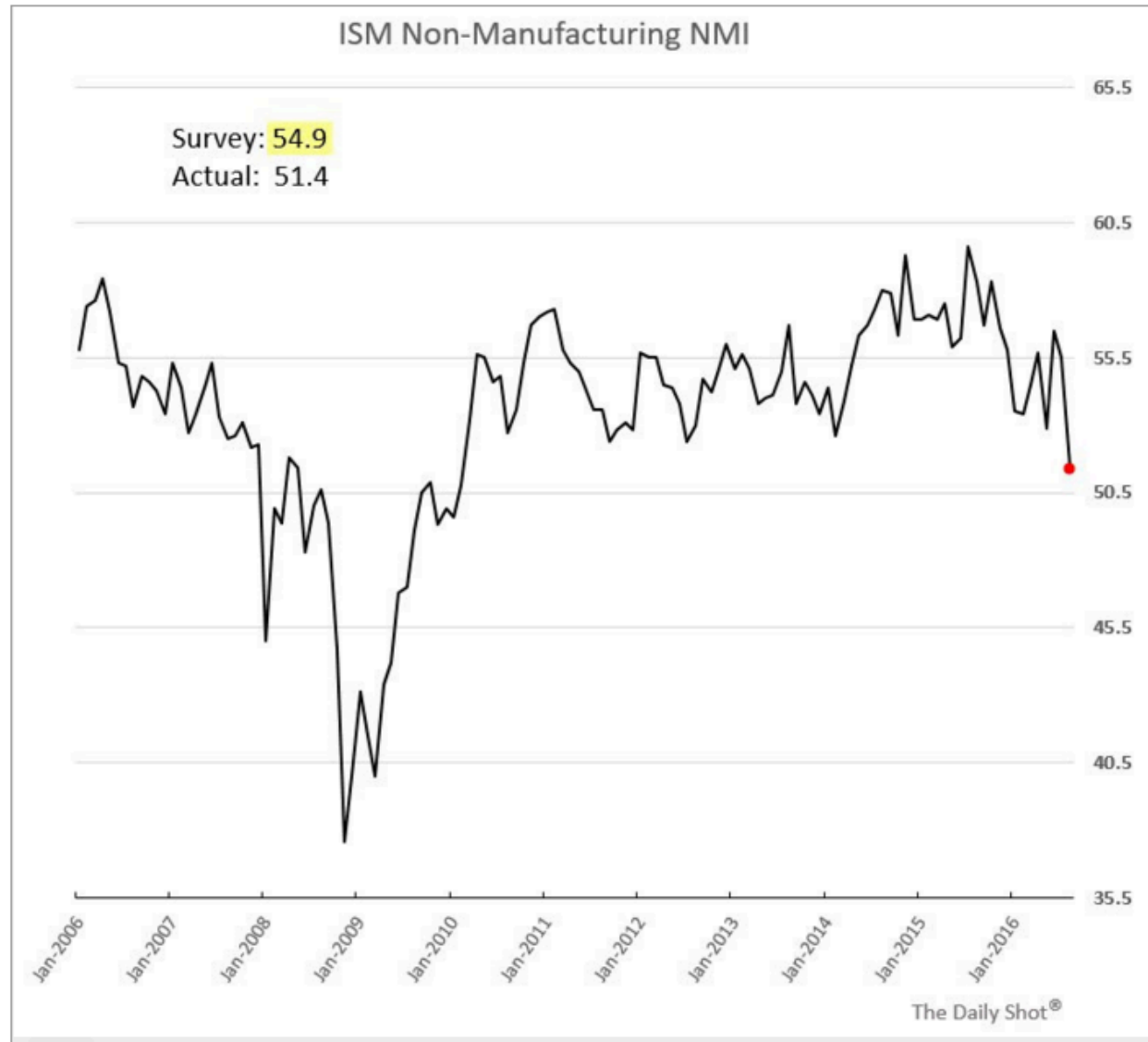
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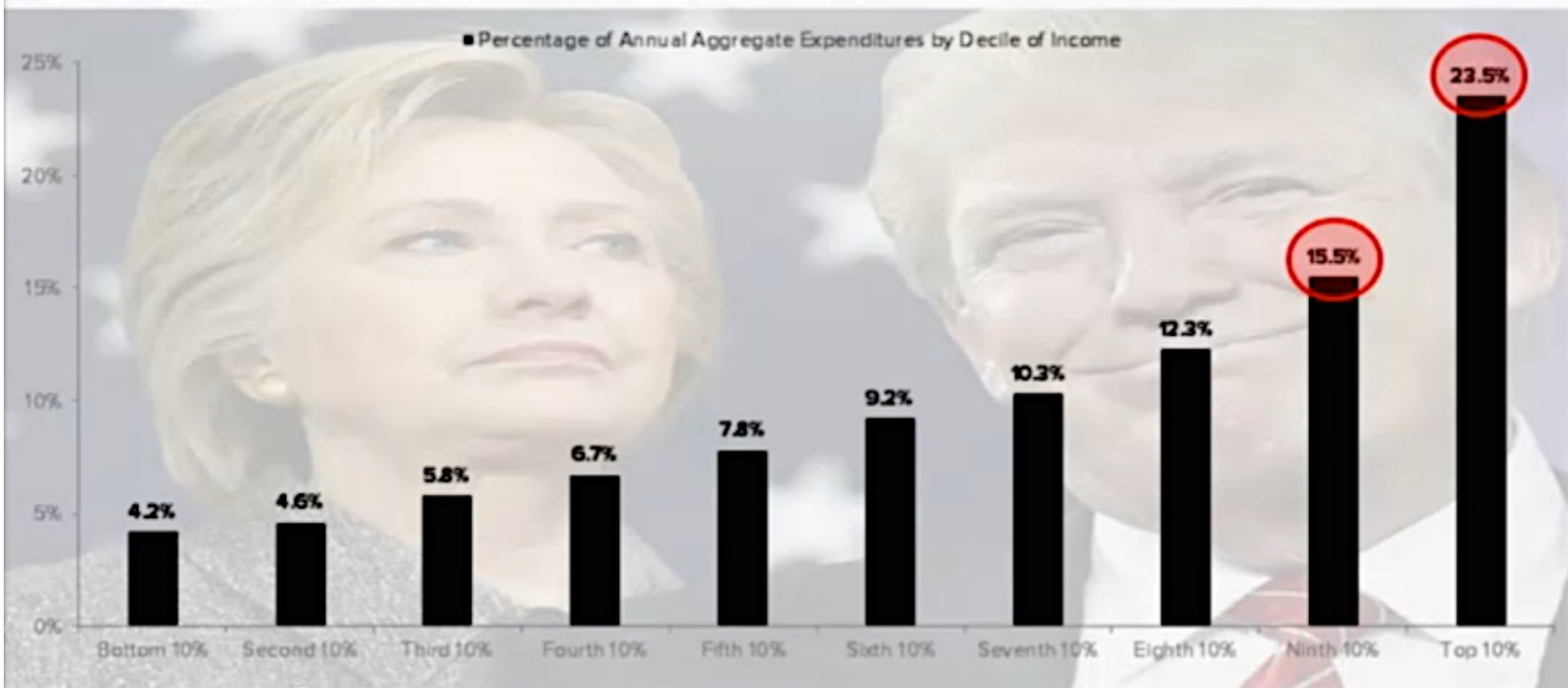
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## THE HIGH-END MATTERS; GAS PRICES DON'T

THE TOP 20% OF HOUSEHOLDS ACCORDING TO ANNUAL INCOME ACCOUNT FOR ALMOST TWO-FIFTHS OF CONSUMER SPENDING. THAT'S DOUBLE THE AMOUNT OF SPENDING THEIR UNITS WOULD IMPLY ON A LIKE-FOR-LIKE BASIS.

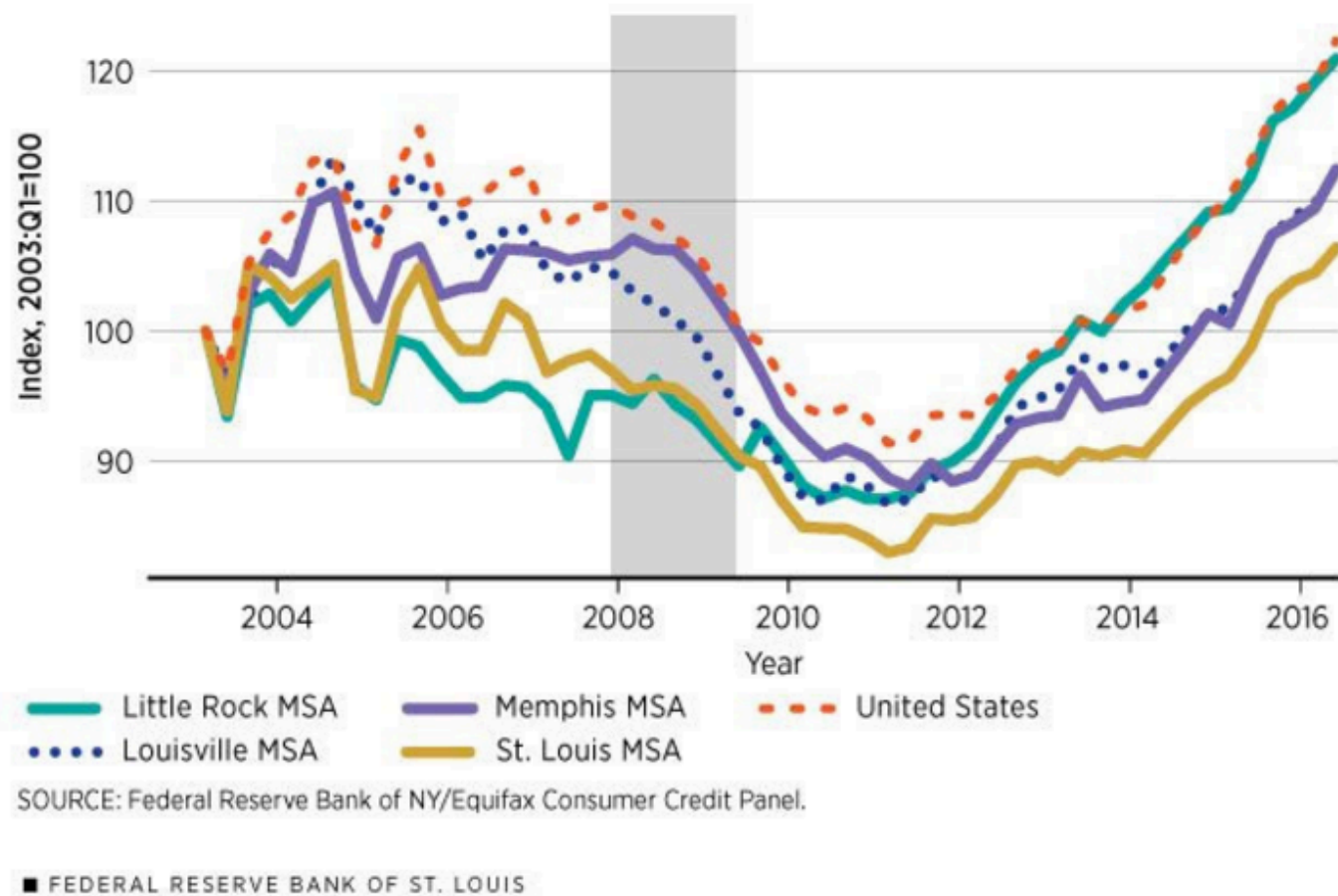


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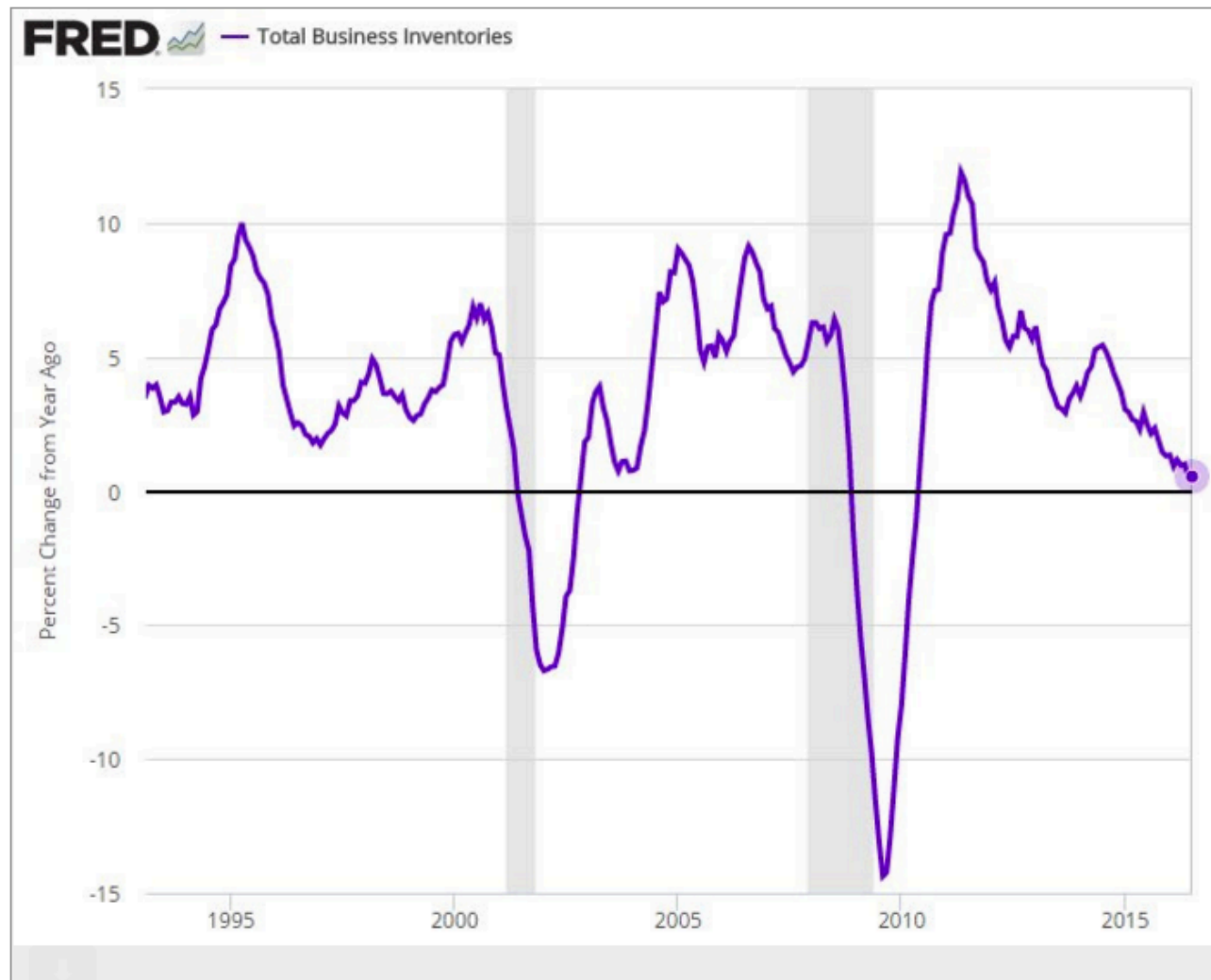
**Figure 4: Total Real Per Capita Auto Debt**



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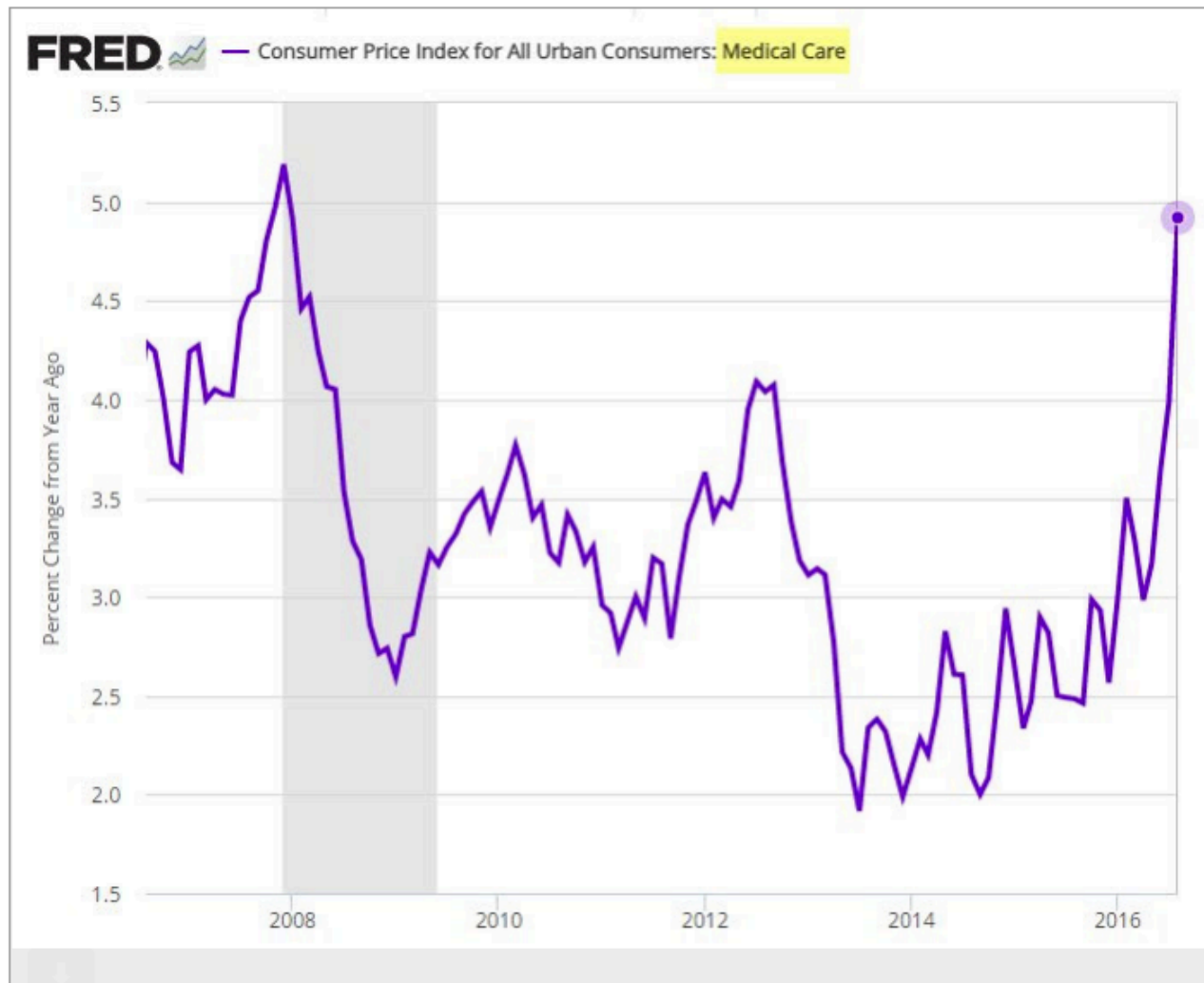
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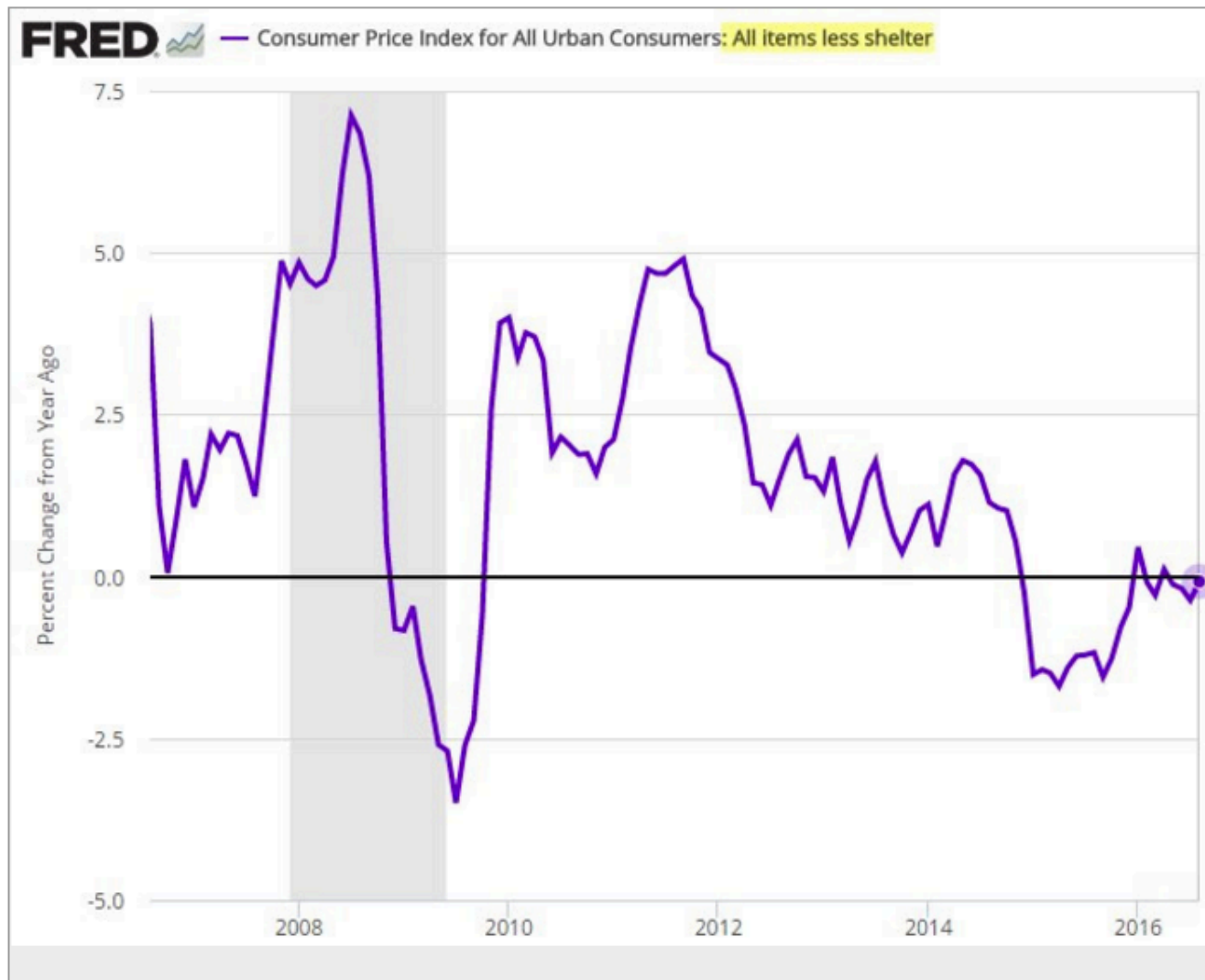
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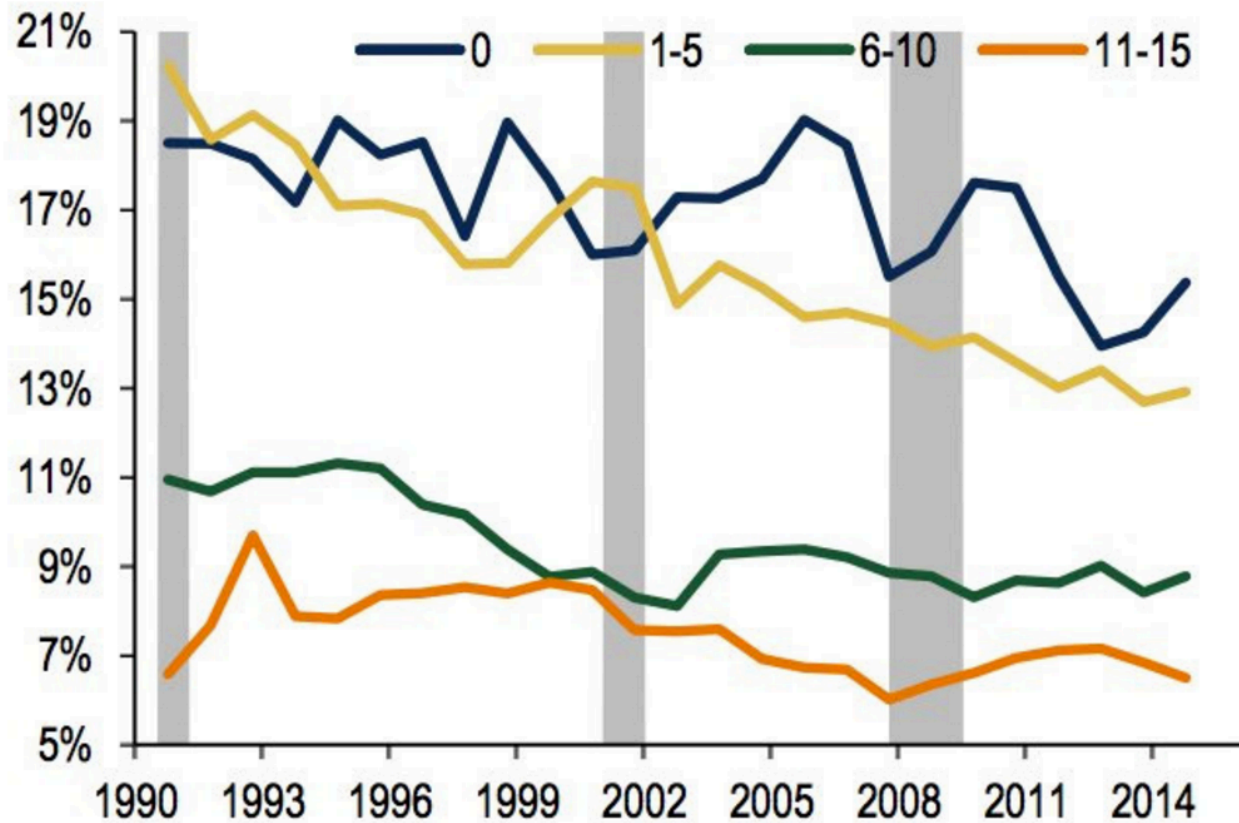


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**Chart 2: Share of gross job creation by age of firm**



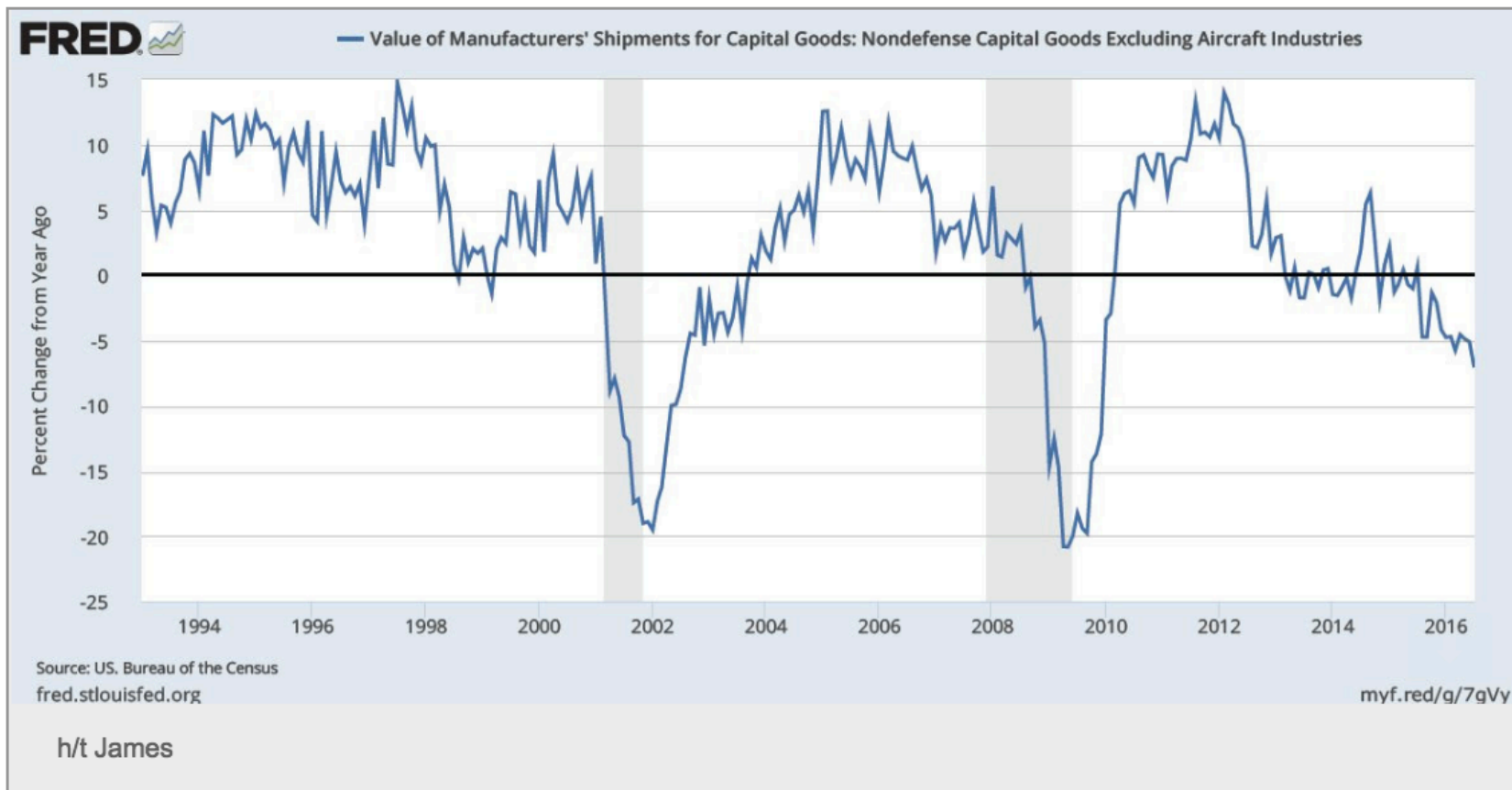
Note: These data are not net of job losses from firms downsizing or shutting down  
Source: BofA Merrill Lynch Global Research, Census Bureau



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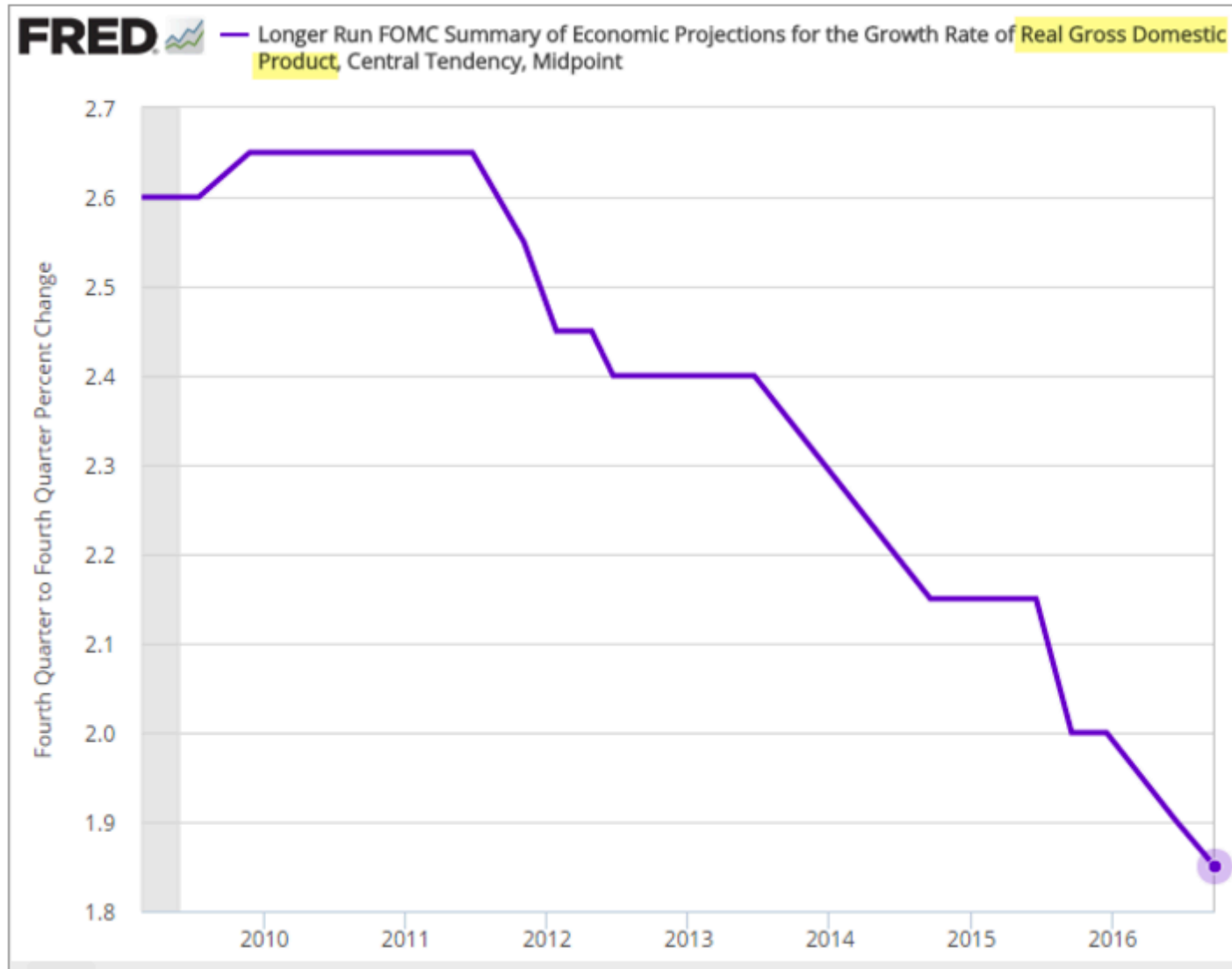
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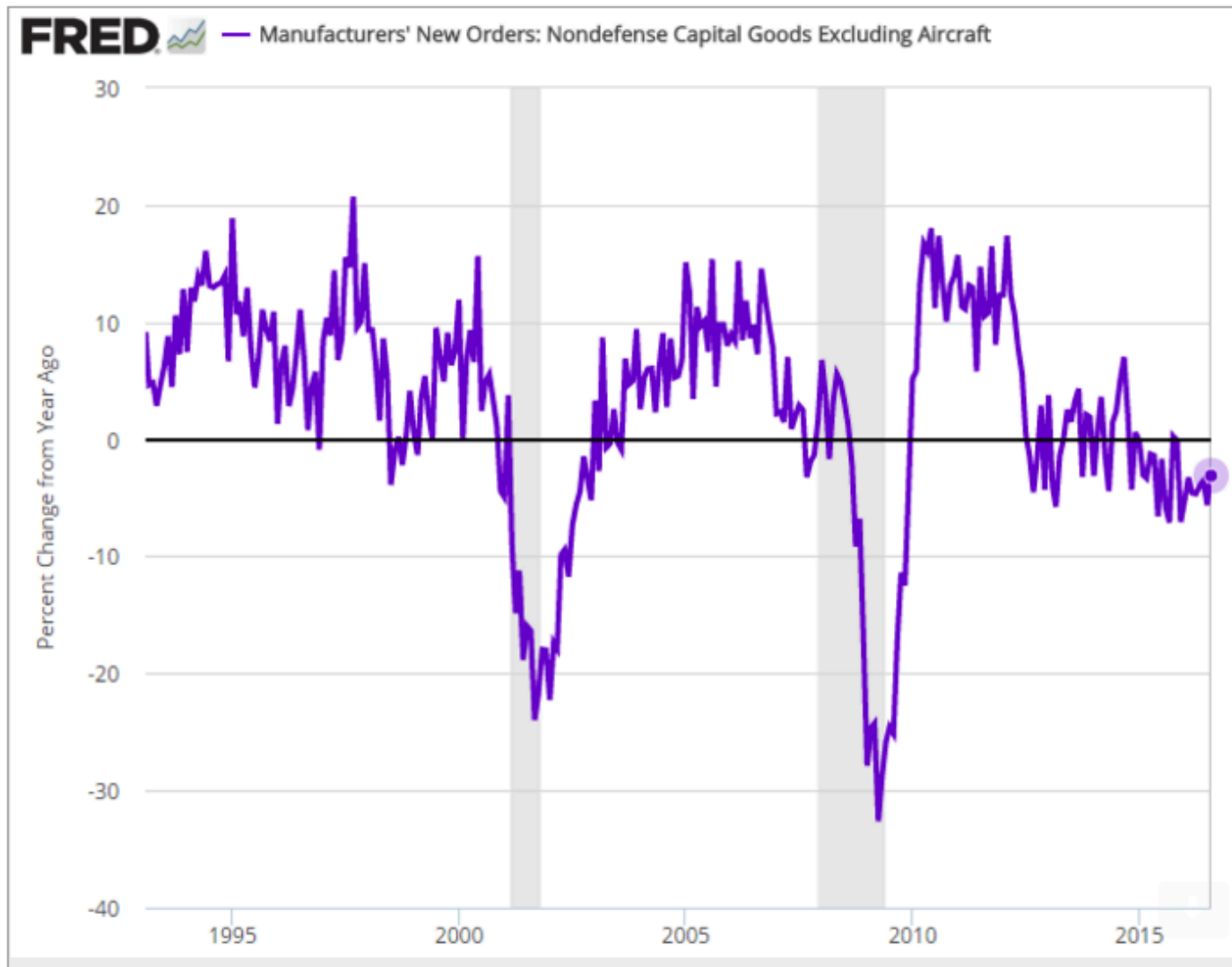
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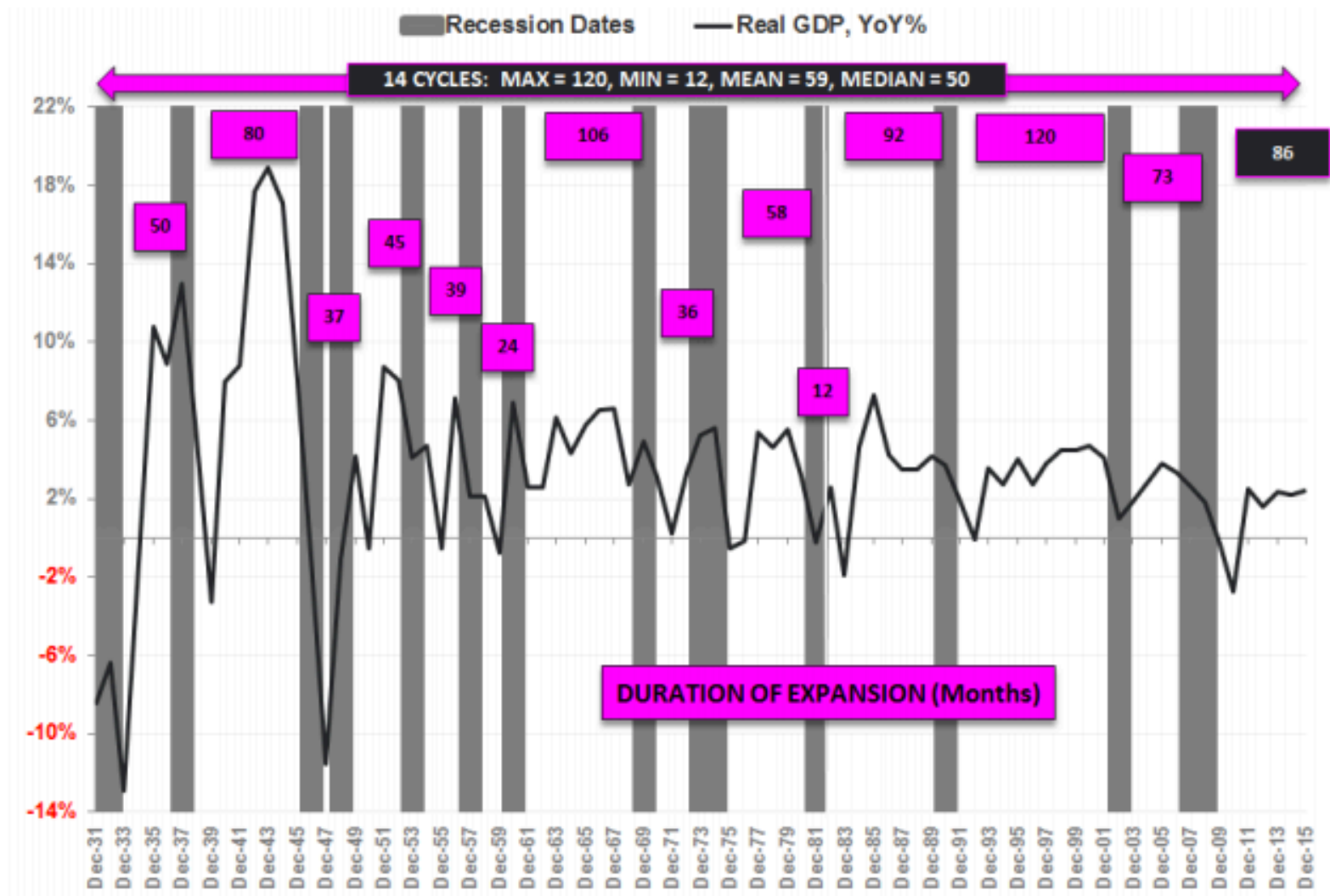
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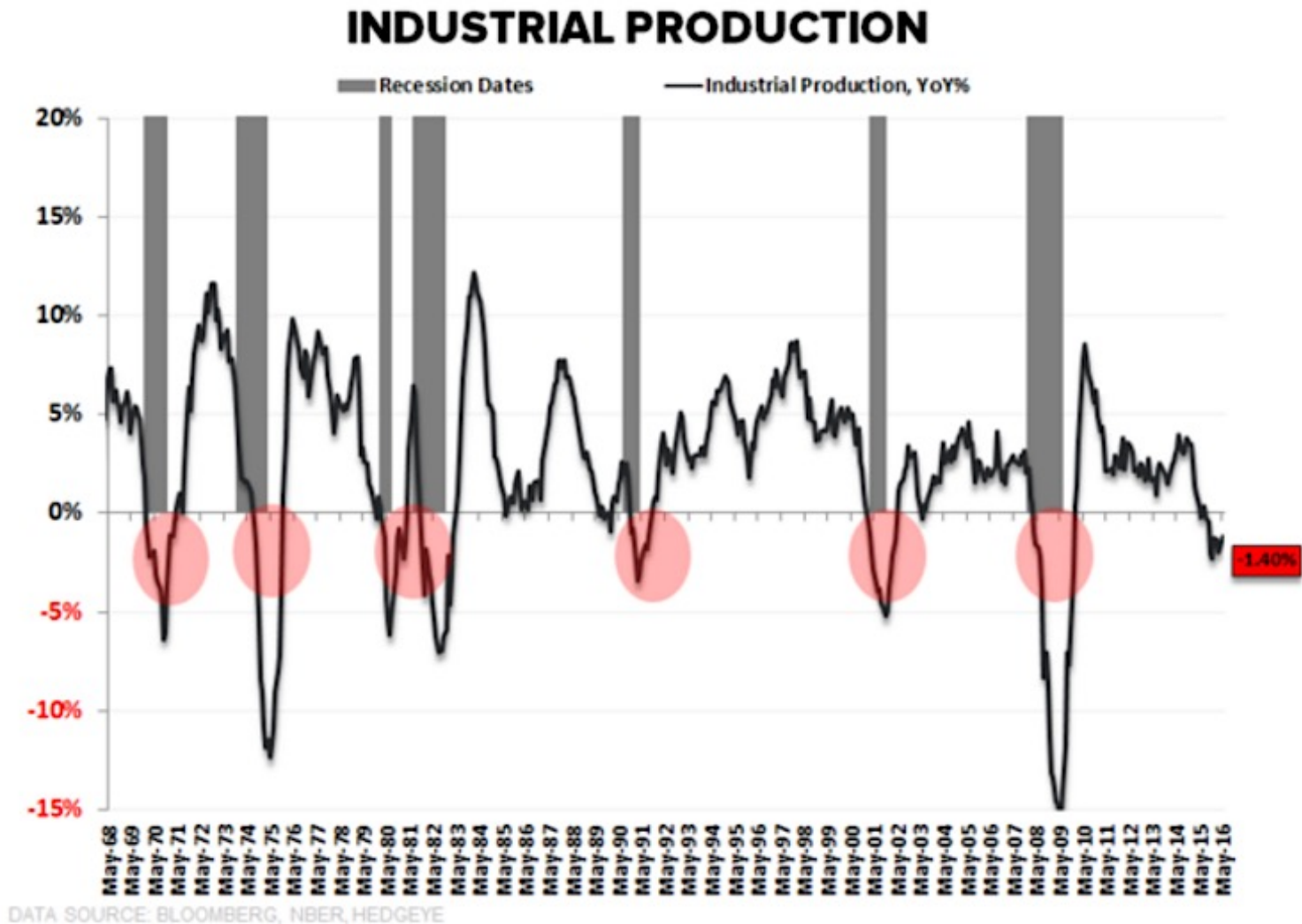
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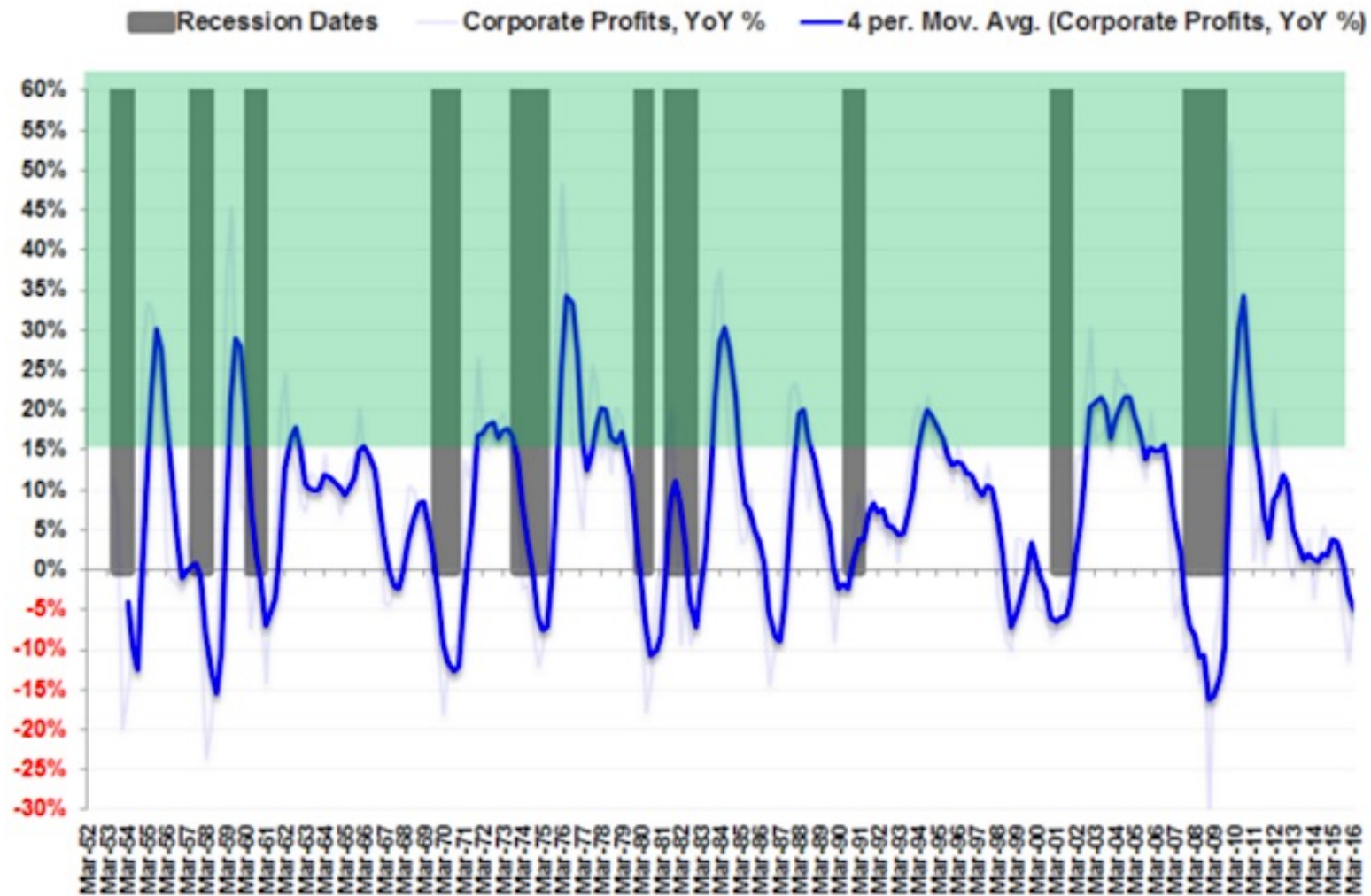


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## CORPORATE PROFITS

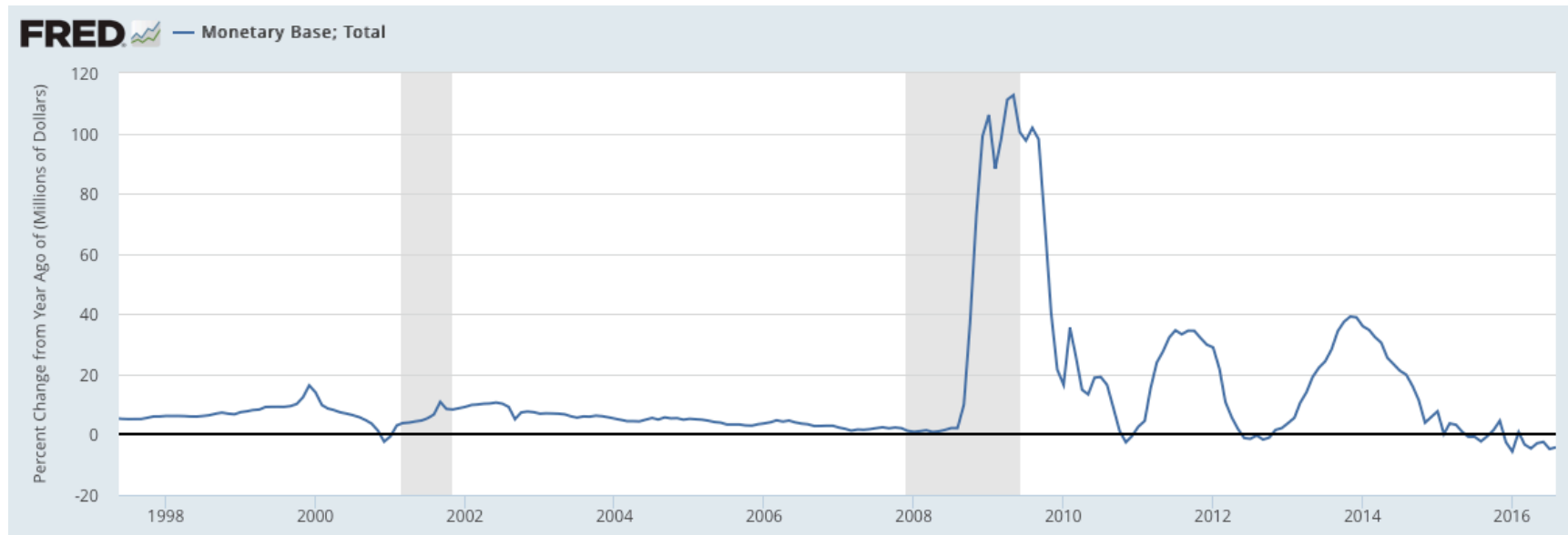


DATA SOURCE: BLOOMBERG, BEA, BLS, HEDGEYE

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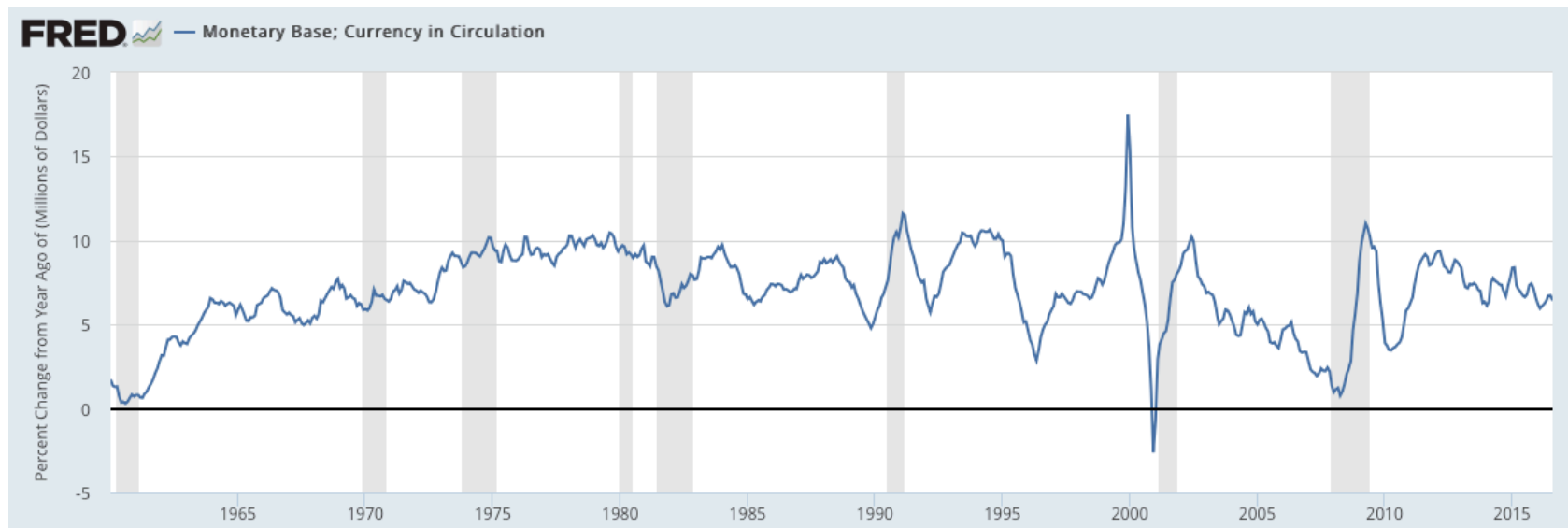
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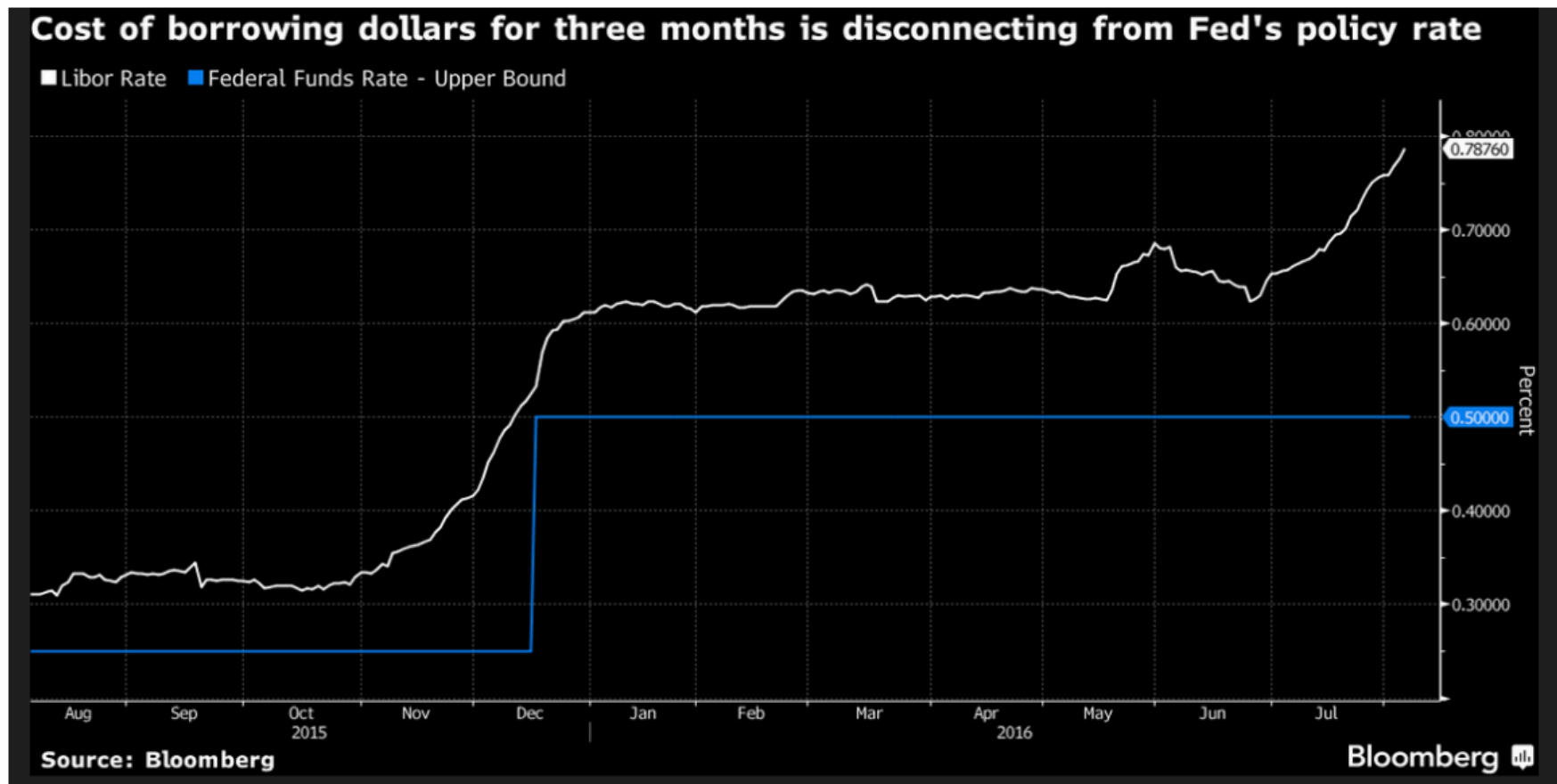


# **INTERNATIONAL** **MARKET STATISTICS**

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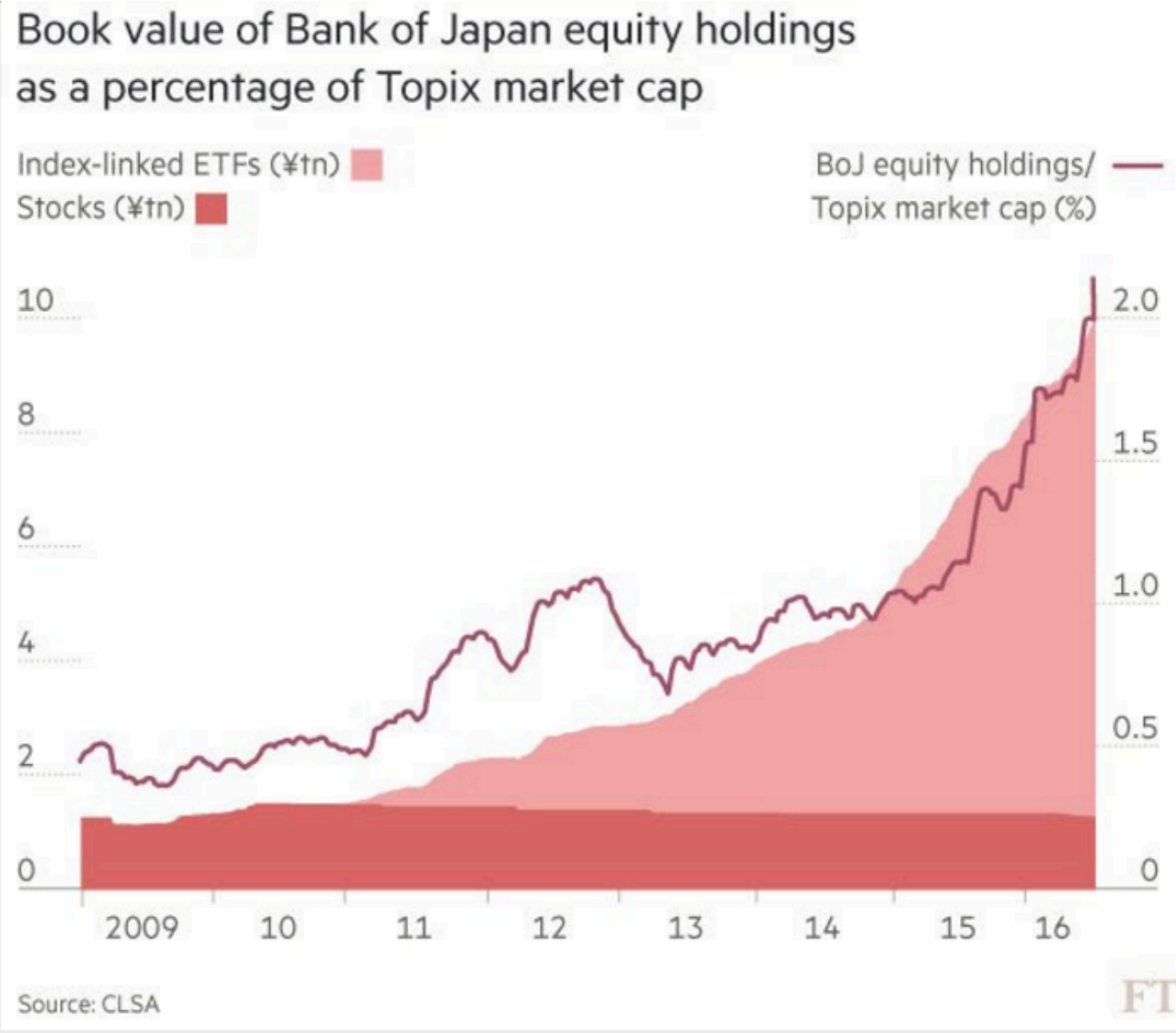
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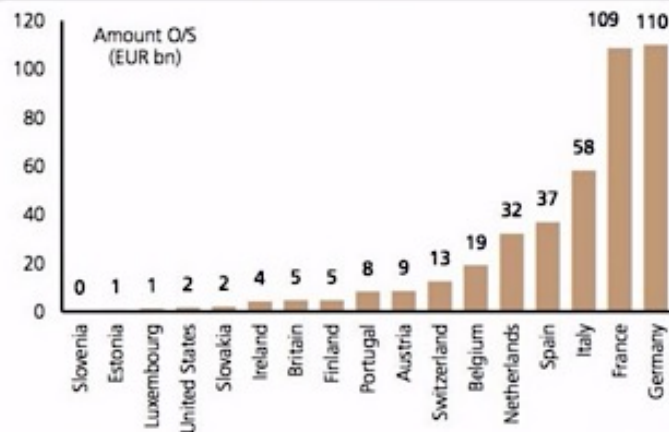


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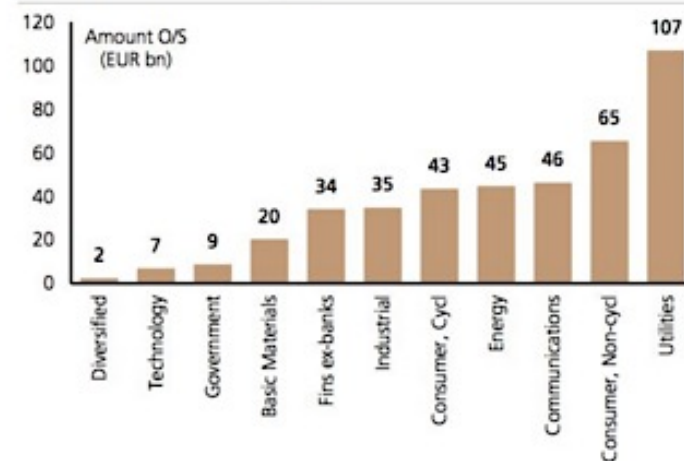
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Figure 2: Breakdown by country of risk



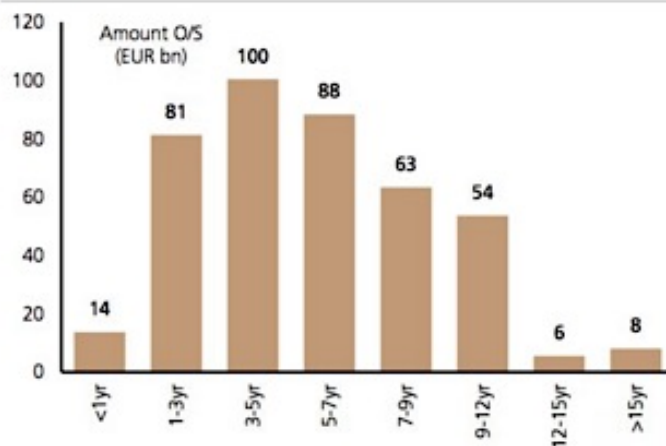
Source: UBS Research, ECB

Figure 3: Breakdown by sector



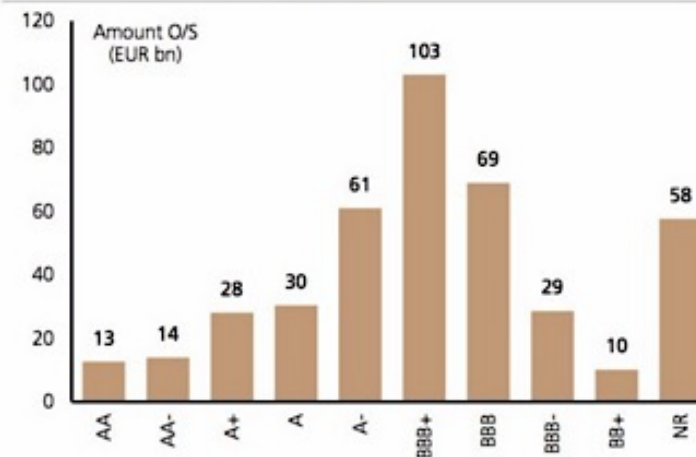
Source: UBS Research, ECB

Figure 4: Breakdown by maturity



Source: UBS Research, ECB

Figure 5: Breakdown by ratings



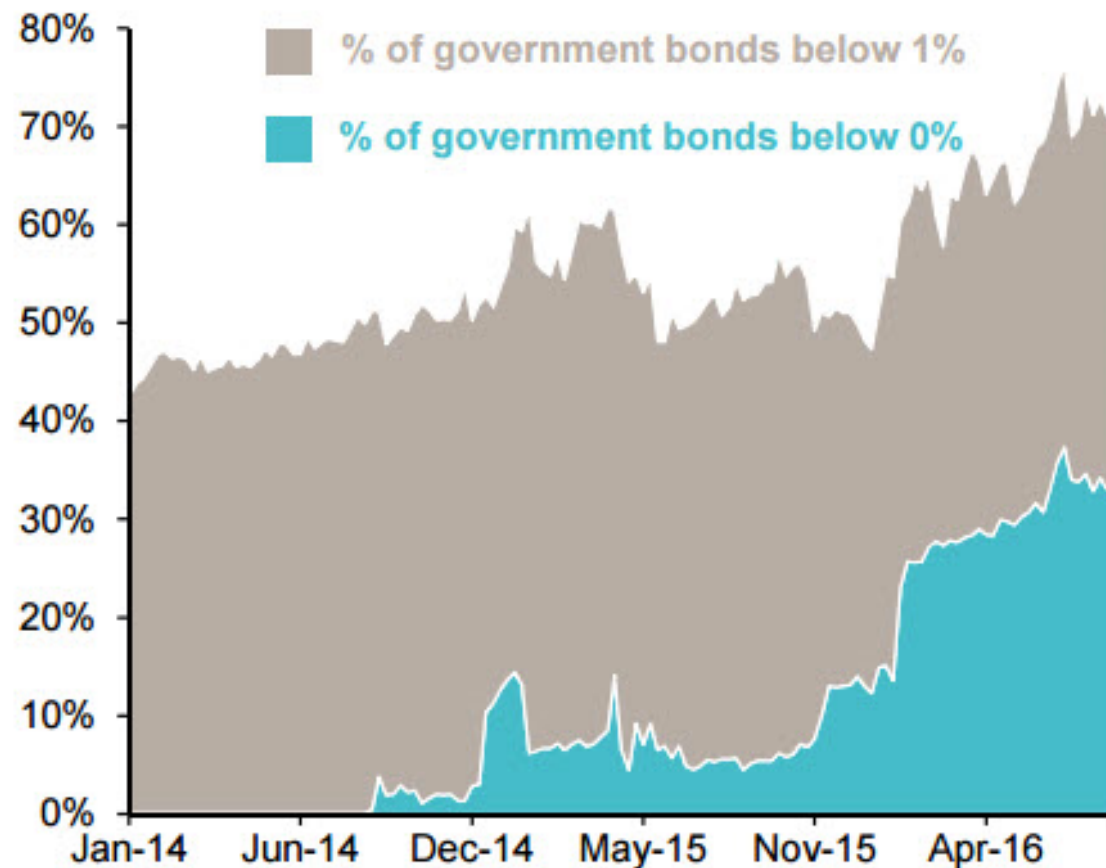
Source: UBS Research, ECB



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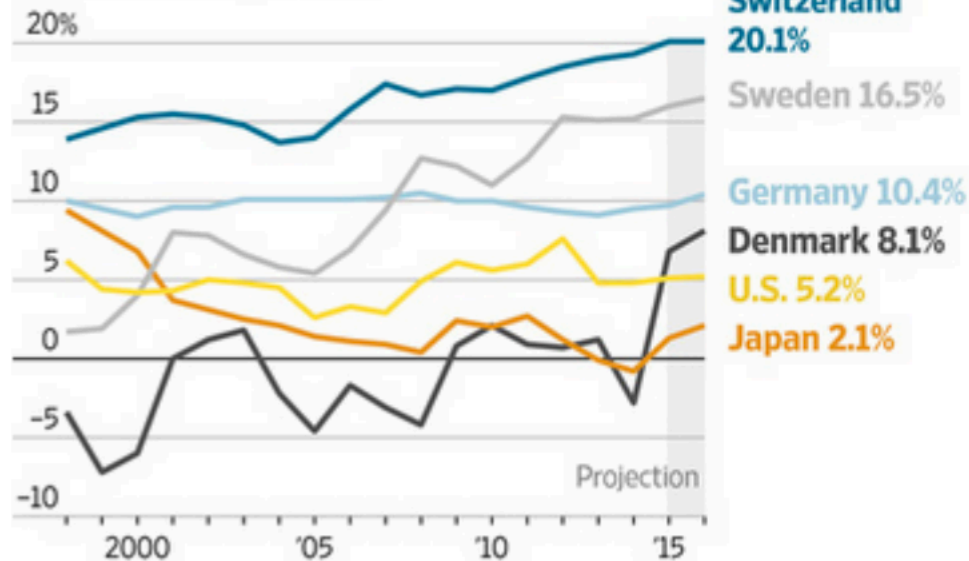


Source: Bloomberg, BofA/Merrill Lynch, J.P. Morgan Asset Management Guide to the Markets. Index shown is the BoFA/ML Global Government Bond index. Data as of August 26, 2016.

## Unintended Effects

Consumers are saving more in many countries with low or negative rates, and companies also are holding on to cash.

### Household savings rates



Note: 2015 savings data are preliminary and 2016 data are projected. \*Europe, the Middle East and Africa  
Sources: OECD (savings rates); Moody's Investors Service, company filings (cash)

### Cash as a percentage of revenues for EMEA\* nonfinancial companies



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