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MARKET COMMENTARY

Stocks continued to trade in a range during the second quarter. The S&P 500 was unable to break through to a new high and continues to trade below its high reached over a year ago in May 2015. Large cap stocks in the S&P 500 had a gain for the quarter boosting their year-to-date return to 3.8%. Value-oriented stocks continue to outperform growth stocks. Small cap stocks in the Russell 2000 posted a 3.8% gain for the quarter thereby erasing their earlier loss for a year-to-date return of 2.2%. Mid cap stocks in the S&P 400 are still performing better than either large or small caps with gains of 7.9%. International stocks in developed markets added to their losses, posting a –4.4% loss so far this year for the MSCI EAFE. Emerging market stocks held on to most of their first quarter gains and have a 5.0% gain year-to-date. US Treasury bonds became a safe haven causing bond prices to soar and yields to fall. Even with the recovery in stocks, bond yields remained low and the Barclays US Aggregate Bond Index posted a 5.3% gain.

Investors have been favoring higher dividend paying stocks so sectors such as utilities, telecommunications, and consumer staples have had better performance with double digit returns. The energy sector also did well as many of those companies pay good dividends and oil prices rebounded. Meanwhile, financial stocks are having the most difficult year so far (down -6% year-to-date), and with global bank concerns surrounding the Brexit and the Fed unlikely to raise rates as quickly as projected, financial stocks may continue to suffer. (More detailed information on the Brexit is on page 2.)

First quarter GDP growth has been revised to 1.1% slightly below the 1.4% growth in fourth quarter. The strong dollar and sluggish global demand were blamed for the slower growth. Consumer spending was at the slowest pace in two years. Fed Chair Janet Yellen reported that data was pointing to a “noticeable step-up” in GDP growth in the second quarter and the Federal Reserve Bank of Atlanta projected 2.6% for the period. The Federal Reserve had been projecting GDP growth at 2.4% for all of 2016, but that figure will likely be revised lower as a result of the Brexit vote. Strategas Research currently estimates that 2016 GDP growth will only be 1.7% in the US and lower in the rest of the developed world.

2016 BENCHMARK RATES OF RETURN

INDEX	SECOND QUARTER	YTD
S&P 500	2.5%	3.8%
DJIA	2.1%	4.3%
NASDAQ	-0.6%	-3.3%
Russell 2000	3.8%	2.2%
International	-1.5%	-4.4%
Fixed Income	2.2%	5.3%

Corporate profits have been a concern as earnings comparisons have shown negative growth each quarter versus the same quarter the prior year. The energy sector had been a drag on the S&P 500 earnings during that time as oil prices were falling. Oil prices have reversed course and have been rising, and now appear to be stabilizing between $45 and $50 per barrel. These prices are much higher than the $26 reached in February. The higher prices should make prior year earnings comparisons start to look better as the year goes on in addition to providing support to energy stock prices. Before the Brexit vote, JPMorgan was projecting quarterly earnings to reach new highs in the second half of the year.

Even before the Brexit vote, many analysts were wondering if the Federal Reserve would be able to raise rates two times in 2016. Now, most think the earliest a rise will happen would be in September making it hard to get two in before the year ends. Some analysts think that the Fed may not even move then since it would be so close to the election. Others believe the Fed may not move for the next two years while the UK is preparing to leave the EU because there will be too much economic uncertainty. The yield on the 10-year Treasury bond is trading near its all-time lows at 1.49%. At year end, it had been yielding 2.27%.

The rally in gold prices continued this quarter bolstered by the Brexit. It is now trading near its highest prices in two years and is up almost 25% since year-end. This strength is due to the fear of uncertainty around the implications of the Brexit vote and not inflation worries as inflation remains in check.

Although the stock markets have rebounded, there is still much uncertainty. We believe volatility will continue and stocks will trade in their pre-established range. We are closer to the high end of the range so downside risk is higher right now. Because of this, we are not aggressively investing cash balances into stocks and believe there may be better opportunities for patient investors. For more conservative clients, now is a good time to reduce stock exposure if over-weighted positions have not already been trimmed back. Barring a break in the support levels, we believe investors should continue to follow a strategy of diversification.

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have.

ATTENTIVE ♦ TRUSTED ♦ ACCESSIBLE

MARKET COMMENTARY

Brexit considerations

Leading up to the UK's vote on whether to exit or remain in the European Union, most observers believed the result would be to stay. Stock prices reflected this as they steadily rose the days prior to the vote. When the count showed that that the people had voted to exit, the stock markets here and abroad dropped significantly from the surprise. Since then, fears have receded and stock prices have moved higher—many above levels where they were trading a week before the vote.

There is much uncertainty around how the UK's exit from the EU will affect domestic and foreign stocks, economic growth, and the dollar. Most analysts seem to agree that the UK will be hurt the most—through falling currency and a possible recession. However, there is no consensus yet on what the fallout will be for the rest of the world.

JPMorgan analysts seem to think the Brexit is a big problem to a small country but that it will not have a large impact on the rest of the world. Britain already has its own currency and has natural borders separating it from the rest of Europe. In addition, no other country is currently on the edge of leaving the EU.

Strategas Research thinks that risks are skewed to the downside. They believe the UK will have a recession and growth in the rest of Europe will be minimal. They predict Japan will also have 0% growth as they cannot get their monetary policy of negative interest rates to spur growth. In 2016, they think there is a 25% chance of recession in the US and this risk goes up to 40% in 2017. With a strong dollar, US goods will be more expensive to foreigners and currency translation will again be a headwind to earnings growth. A strong dollar can also hurt the emerging market countries who have borrowed in dollars or who are dependent on exporting natural resources.

BCA Research and Vanguard both note that the undercurrent of anti-EU sentiment in other counties cannot be discounted now that the UK has voted to exit. Although Vanguard does not think the EU is heading for a larger breakup, they do think that the EU may need to start reforming itself to avoid that outcome. Vanguard specifically cites that more integration is needed in terms of fiscal policy, banking union, and political union but forces tend to pull things in opposite directions.

As John Mauldin reminded readers in his newsletter, "a lot of folks are making claims about what Brexit means for financial markets, but the reality is that there are so many possible permutations, nobody knows what...they are talking about. Will or won't the UK go into recession? Will or won't other countries secede from the EU? Nobody knows the answers to these questions. We can speculate, but it's too hard, and I think any forecast is really just a guess here."

CAMBRIDGE ADVISORS NEWS

You most likely noticed that your report from Cambridge Advisors looked quite a bit different this quarter. For the past year, we have been transitioning to a new portfolio management accounting and reporting system. This change was motivated by our dedication to providing value to clients through meaningful reports and tools. Based on early responses, these reports should provide you an easy and quick way to see your big picture plus provide the pertinent information you are accustomed to seeing. These reports will likely continue to evolve over time adding new charts and data as they are deemed appropriate. In addition, we are working on a client portal where you will be able to access your account information and reports online in a secure way. The new software also integrates with our financial planning software making updates easy and time-efficient. We hope you'll like the system as much as we already do.

Upgrading our software and reporting capabilities is a reflection of our desire and intent for Cambridge Advisors to continue growing and adding new clients. If you have family or friends who may be interested in finding out about becoming a client of Cambridge Advisors, please don't keep us a secret. We would love to share with them how we work with clients and see if we would be a good fit for them. As an added benefit, for new clients who open a new account at Schwab, Schwab will waive the transaction fees to buy and sell stocks and ETFs for one year.

Many people who currently work with brokers or who buy mutual fund investments through insurance representatives, may be looking to make a change to a registered investment advisor like Cambridge Advisors. RIAs are different because they are held to a higher standard of care—we ahave a fiduciary duty and are required to act in the best interests of our clients all the time. Cambridge Advisors has always had fiduciary duty and operated in this manner feeling that it is the right way to do business. The Department of Labor has introduced new legislation so that others will adopt this way of doing business further validating our business model. We've added some new articles to our website discussing these and other advantages of working with an independent registered investment advisor.

Now is a great time to become a Cambridge client!

If you would be interested in receiving electronic statements rather than paper copies from Schwab, please let your advisor know and we can help get this set up for you. We look to offer electronic statements for your Cambridge reports as well in the near future. If this is something you would be interested in, please let your advisor know that as well so we can add you to the list.