LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT, CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

MARKET COMMENTARY

Stocks finally broke through the upper bound of their trading range during the third quarter. Large cap stocks in the S&P 500 matched their gain for the first two quarters with a 3.8% gain in the third quarter bringing their year-to-date return to 7.8%. Small cap stocks in the Russell 2000 posted a strong 9.1% return for the quarter thereby boosting their year-to-date return to 11.5%. Mid cap stocks are slightly less with gains of 10.3%. International stocks in the MSCI EAFE reversed their losses into a gain of 2.2% for the year thanks to a 6.5% gain in the quarter. Emerging market stocks have an astonishing 16.5% gain year-to-date after three prior years of losses. Although stocks recovered from the BREXIT fears felt at the end of second quarter, yields on US Treasury bonds have remained low this quarter, and the Barclays US Aggregate Bond Index posted a 0.5% gain resulting in a year-to-date return of 5.8%. What started off as a bleak year, has turned into a good year so far for most asset classes.

Stock rotation is happening as growth oriented stocks outperformed value stocks in the quarter. The higher dividend paying stocks in sectors such as utilities and telecommunications are still the top performers year-to-date, but their third quarter performance was negative, -5.9% and -5.6% respectively. The energy sector's performance has slowed down now that oil prices have stabilized. Healthcare is also taking a break and is only up 1.4% year-to-date after being an industry leader the last several years. Meanwhile, after posting negative returns for the first two quarters, stocks in the technology sector now have a gain of 12.5% year to date. Financial stocks have also reversed their prior negative returns and are now positive 1.4% for the year.

Second quarter GDP growth has been revised to 1.4% slightly above the 1.1% growth in first quarter. The Federal Reserve is projecting 1.8% for all of 2016 so if that holds true, the second half of the year should be better than the first half. Growth projections have been coming down, though. Previously, the Federal Reserve had been projecting GDP growth at 2.4% for all of 2016. The new figure is in line with what Strategas Research had been estimating. However, in 2017, the Fed expects GDP growth to be 2% where Strategas expects 2% growth in the first quarter tapering down to 1% in the second half of the year. They note that their model also gives a 40% chance that the US could enter a recession next year.

2016 BENCHMARK RATES OF RETURN

INDEX	THIRD QUARTER	YTD
S&P 500	3.9%	7.8%
DJIA	2.8%	7.2%
NASDAQ	10.0%	7.1%
Russell 2000	9.1%	11.5%
International	6.5%	2.2%
Fixed Income	0.5%	5.8%

Corporate profits are expected to be down again in the 3rd quarter marking the sixth straight quarter of negative earnings growth. However, earings are expected to show growth in the fourth quarter. With energy prices stabilizing, prior year earnings comparisons should start to look better for both the energy sector and the S&P 500 as a whole.

Closely watched economic factors are favorable—inflation is low, unemployment is low, wages are growing. However, others show a mixed picture. Housing data hasn't been as strong and manufacturing is back at neutral levels.

After estimating they would raise rates four times, then two times in 2016, the Fed still has not raised so far this year. December is the next likely meeting where they would raise rates. With rates so low for so long without an accompanying big boost in GDP growth, many analysts question whether this form of monetary policy is still effective. Instead, some believe fiscal policy like increased government spending on infrastructure and/or tax reform will be needed to spur stronger economic growth.

The yield on the 10-year Treasury bond is still trading near its all-time lows at 1.61%. At year end, it had been yielding 2.27%. High yield bonds and emerging market bonds have performed especially well this year as investors were searching for yield and willing to take on more risk. These bonds would also be more vulnerable, though, if stocks became more volatile again and investors reduced their appetite for risk.

Stock valuations are higher than recent history but still in line with long-term averages so are not necessarily in a bubble. BREXIT fears have also largely subsided. Typically, the fourth quarter is positive for stocks and in the past, the market has rallied after an election regardless of the outcome. With GDP growth expected to be better and corporate profits turning back to growth, the "risk on" environment may continue through the end of 2016. Even if the Fed raises rates in December, many analysts expect that so it shouldn't be a shock to the market. Looking into next year, the sentiment could quickly change and lead to resumed volatility and uncertainty fears. Diversification continues to be a prudent strategy.

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.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET

FINANCIAL PLANNING

Basic estate planning for all ages

Most of us don't like to think about our estate planning needs because it makes us contemplate an uncomfortable situation—what happens when we die or become incapacitated. However, taking care of the inevitable can help us live a more peaceful life knowing that everything will be taken care of. If you haven't reviewed your estate plan in the last 5 years, now would be a good time to do so.

Regardless of age, everyone should have a healthcare power of attorney naming someone who will make healthcare decisions for them if they become unable to make the decisions for themselves. Most people have these because lawyers often include them when writing wills. However, many young adults do not have this because they haven't needed a will yet. When a child turns 19 in Nebraska, parents can no longer make the decisions because they are considered adults. An attorney isn't needed for this; forms are available on the internet at www.dhhs.ne.gov and only require a notary.

Parents of young children need a will if for nothing else than to name guardians of the children in the event both parents pass. Although grandparents are usually willing to become guardians, parents may want to name someone closer to their own age as raising toddlers to teenagers could be overwhelming to aging parents. A trust may also be established in the will to govern the funds that would be available to care for children.

Adults with grown children may be able to have their assets avoid probate by having named beneficiaries on investment accounts and having a trust named on other assets such as their home. Trusts can also be used in special situations where you want restrictions placed on how or when money can be given to heirs. They can also be useful when second marriages are involved and the decedent wants the spouse to be cared for during their lifetime but remaining assets to be passed to children from a prior marriage.

Adults may also want to set up a general power of attorney in the event they become incapacitated so that money can still be accessed to pay their bills and provide for their care.

During the estate planning review, it is prudent to have a written list of assets showing how each is titled, where they are held, and the beneficiaries named to make sure they are correct. Upon conclusion of the review, it is advised that you create a folder or file that includes this list and other pertinent information such as

- location of your will;
- location of your safety deposit box and the location of the key;
- a copy of any life insurance policies;
- the location of the titles to your cars; and
- the names and contact information of your investment advisor, accountant and attorney.

Then, be sure and share the location of this file with loved ones so they know where to look if you should pass unexpectedly.

QUESTION: *What is a fiduciary?*

ANSWER: Simply stated, a fiduciary is someone who must put a client's best interests ahead of their own at all times when providing advice and recommendations. In addition, a fiduciary must provide full disclosure of how they are paid and any conflicts of interest before a client relationship is established so that the consumer can make an informed decision.

The Department of Labor's issued a new directive recently that requires advisers working with individual retirement accounts to be held to a fiduciary duty. Cambridge Advisors has always acted as a fiduciary. However, many stockbrokers and representatives from firms such as Edward Jones have not been held to this high standard and have only been held to a suitability requirement which doesn't protect against conflicts of interest or high commissioned recommendations. While these advisors are now scrambling to change the way they have done business, Cambridge Advisors will continue to operate in the best interests of our clients just like we have since our founding in 1990. It has always been one of our core values that our interests be aligned with the client's so that we provide objective financial advice that our clients can trust.

CAMBRIDGE ADVISORS NEWS

Thank you for the positive feedback you have been giving us on the format of our new reports. We are glad that you are finding them easier to read and that you like the new graphs that provide big picture information at a glance. We will continue to add new features over time to make the reports even more meaningful to you. We are also working on the client portal where you'll be able to access your account information and reports in a secure way. As cybersecurity becomes more important, this will provide further protection to you against identity theft.

Just a reminder that Schwab has a great offer going on for new clients. They will waive the transaction fees to buy and sell stocks and ETFs for one year. If you know someone who may need the financial planning and investment management services we provide, now is a great time for them to check us out. We would love to talk to your friends and family and help them reach their financial goals, as well as help them take advantage of this offer.

Each year, we are required to offer you the most recent version of our From ADV Part II which describes our business and how we work for our clients. When you first became a client, you received a copy. Each year in March, we send you a report of anything that has changed on our ADV Part II. If you would like to receive a complete copy, please give us a call. A copy of our Proxy Voting Policy is also available upon request.