DEAVEL WEALTH ADVISORS
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703.287.1567
(cell) 703.200.4272
(fax) 703.287.1581
Cindy.Deavel@LFG.com

July 15, 2016

Dear Valued Client,

2016 began with markets fixated on global issues. Equity markets dropped in January and February as oil prices slumped due to fears of a weakening Chinese economy. As the Fed held interest rates steady, these concerns eased. Markets rallied and most equity markets made it into positive territory for the year.

As the first half drew to a close, many thought the global macroeconomic issues that had captivated the interest of market participants were behind us. Instead, in the final days of June, markets were jolted by yet another macroeconomic issue: In a highly anticipated vote, British citizens stunned the world when they voted to withdraw from the European Union. Soon the so-called "Brexit" dominated most people's attention. Ominous headlines and dire "expert" predictions were suddenly everywhere.

Given the unknown effects of a potential British exit, markets were hard-hit. In the two trading days following the vote, the S&P 500 fell 5.34% and the MSCI Developed Markets International Index dropped almost 10%. Some predicted this was just the beginning. So far, it looks like it was not the "beginning" the experts had expected. As of the date of this letter, the S&P 500 has surged to new highs for the year and international markets have regained much of the Brexit losses. While we still have a long way to go and many twists and reversals are possible, it is clear knee-jerk reactions don't often work. As we have noted earlier, it is too early to tell the long-term effects of Brexit. It is possible that the Brexit issues will take months or years to play out.

Undoubtedly, you have seen refrigerator magnets, mugs and other items at knick-knack shops displaying the "keep calm and carry on" message. Because these items are so prevalent, the message might seem tired and common. The origin of the phrase is anything but common. As Europe faced rising tensions leading up to WWII, British leadership felt massive air attacks by the Luftwaffe were increasingly likely. Such attacks would not only bring damage and casualties but could result in widespread panic, further crippling the economy. In 1939, the British Ministry of Information designed posters bearing the message in an attempt to calm and unify the people. While the air raids did come, the panic did not. We all know how WWII turned out.

One of the most important factors in successful investing is the ability to put things into proper perspective. Of course, the Brexit issues are in no way comparable to the scope, impact and tragedy of the London air raids. There are, however, potential parallels to human reactions to fear and uncertainty. Our stewardship of wealth model seeks to combine several factors toward achieving results. Among them are a thorough knowledge of financial history and emotional discipline. These principles were built into your portfolio well before the Brexit issues occurred and will be there long afterward.

Domestic Equities: As noted, U.S. stocks were buffeted by various extraneous factors throughout both the latest quarter and the year-to-date period. This is nothing new. Since the recovery from the 2009 lows, the markets have been beset by the Greek debt crisis, the Ukraine invasion, the Ebola scare and many others. In the end, domestic equities carried on. The S&P 500 advanced 2.5% for the quarter and is up 3.8% through June. Recovering from general weakness last year, smaller stocks did even better: the Russell 2500 index rose 3.6% for the quarter and is up 4.0% for the year.

International Equities: Obviously, international equities faced significant challenges during the first half. The threat of weakness in China during the first quarter and all of the Brexit uncertainty dominated the headlines. The actual numbers to date are not nearly as

8219 Leesburg Pike, Suite 200, Vienna, VA 22182

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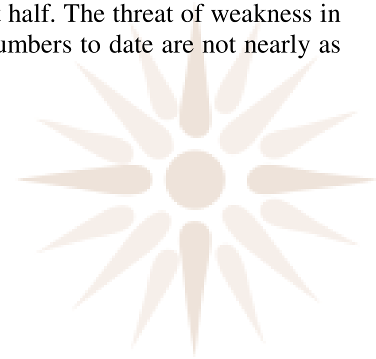

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bad as the headlines might imply. Even considering the significant Brexit-related sell-off, the MSCI Developed International Index edged down just 1.5% for the second quarter. For the year-to-date period through the end of June, the index was down 4.4%. A considerable bright spot was seen in the emerging markets. As you likely recall, due to China-related fears, the emerging markets underperformed other indexes by a considerable margin last year. As is sometimes the case when an asset class becomes out of favor, emerging markets snapped back. In spite of the troubles with international markets, the Emerging Markets Index managed to eke out a 0.7% gain for the quarter and is up 6.4% year-to-date.

Recently, we have heard, "given the challenges to international equities, why include them in allocations at all? Why not just put all of the money in the best-performing asset classes and call it a day?" The answer is diversification. History has shown that diversification often leads to less volatility for the overall portfolio with the same return opportunity over the long run.

Fixed Income: When things get scary, money often flows to assets considered a safe haven. Bonds, particularly U.S. bonds, are often where the money lands. This, coupled with the Fed's apparent softening stance as to future interest rate hikes, all added up to a strong performance for bonds. The Barclay's Aggregate index rose 2.2% for the quarter and 5.3% for the first half of the year. Municipal bonds also turned in a solid performance, increasing 2.6% for the quarter and up 4.3% year-to-date. While these returns are strong, bear in mind that interest rates are at all-time lows.

Looking back over 2016, one is reminded of a quote from famed investor, Warren Buffett. He once said, "Investing is simple but it is not easy." We certainly agree. Investors are bombarded with information. This will likely increase as the upcoming elections will only add to the volume. While some of this information is valuable, much of it is often laced with speculation and fear.

% Return as of 06/30/2016

Equity Indexes	2nd Q	YTD	3 Yr
S&P 500	2.5	3.8	11.7
Russell 2500	3.6	4.0	8.6
MSCI EAFE	-1.5	-4.4	2.1
Emerging Market	0.7	6.4	-1.6
Wilshire REIT	5.6	11.1	13.6
Bond Indexes			
TIPS	1.7	6.2	2.3
Aggregate	2.2	5.3	4.1
Governments	2.0	5.2	3.4
Mortgages	1.1	3.1	3.8
Investment Corporate	3.6	7.7	5.4
Long Corporate	6.6	13.9	8.6
Corporate High-Yield	5.5	9.1	4.2
Municipals	2.6	4.3	5.6
Cash Equivalents			
3-Month T-Bill	0.1	0.2	0.1
Consumer Price Index	0.7	0.6	1.1

It is likely the volatility will be with us for a while. These movements are not new to us. Some see the world as suddenly filled with risk and uncertainty. We know the world has always been this way. Fortunately, there are things we can and have done about it. We know it is our job to listen to your goals. Then we use the principles of mathematics, knowledge of history and intelligent allocation to prudently pursue your goals. We remain committed to this approach in all market environments.

Please call if you would like to discuss anything. We are always here to talk.

Sincerely,

Cindy Deavel

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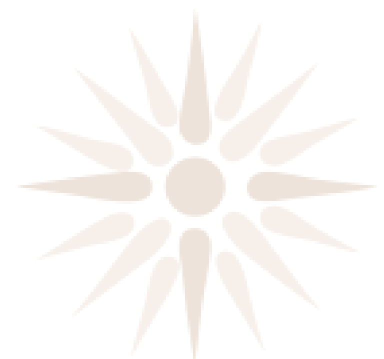

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