

DEAVEL WEALTH ADVISORS

CLARITY • CONFIDENCE • CONTINUITY



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

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Dear Valued Client,

As the second half of 2016 began, the investment markets faced a litany of concerns. The financial markets struggled to recover from a sharp sell-off in January and February. Economists warned that interest rates were finally ready to rise. Perhaps most daunting, British citizens had just voted to exit the European Union. Some “experts” were forecasting a dark future and some scrambled to adjust portfolios in reaction. While these issues remain unsettled and markets could react in many ways over the next few months, at least for now, the predictions of an immediate sustained sell-off were wrong.

We take a different approach. Benjamin Graham, who Warren Buffett has called one of the great investment minds, once said, “Investment is most intelligent when it is most businesslike.” Mr. Graham was advocating viewing equity investments like owning businesses, not just daily quotes on a computer. He urged investors, like good business owners, to be disciplined and focus on the things that can be controlled. Those principles are core to how we help clients manage their money.

This disciplined approach was rewarded during the third quarter. Both stocks and bonds rallied as the chatter subsided. U.S. equities surged to all-time highs as investors once again focused on valuing businesses rather than uncontrollable and unquantifiable macroeconomic issues.

| <u>% Return as of 09/30/2016</u> | | | |
|----------------------------------|-------------------------|------------|-------------|
| <u>Equity Indexes</u> | <u>3rd Q</u> | <u>YTD</u> | <u>3 Yr</u> |
| S&P 500 | 3.9 | 7.8 | 11.2 |
| Russell 2500 | 6.6 | 10.8 | 7.8 |
| MSCI EAFE | 6.4 | 1.7 | 0.5 |
| Emerging Market | 9.0 | 16.0 | -0.6 |
| Wilshire REIT | -1.2 | 9.7 | 14.3 |
| <u>Bond Indexes</u> | | | |
| TIPS | 1.0 | 7.3 | 2.4 |
| Aggregate | 0.5 | 5.8 | 4.0 |
| Governments | -0.3 | 5.0 | 3.3 |
| Mortgages | 0.6 | 3.7 | 3.6 |
| Investment Corporate | 1.4 | 9.2 | 5.6 |
| Long Corporate | 2.6 | 16.8 | 9.5 |
| Corporate High-Yield | 5.6 | 15.1 | 5.3 |
| Municipals | -0.3 | 4.0 | 5.5 |
| <u>Cash Equivalents</u> | | | |
| 3-Month T-Bill | 0.1 | 0.3 | 0.1 |
| <u>Consumer Price Index</u> | | | |
| | 0.4 | 1.0 | 1.0 |

8219 Leesburg Pike, Suite 200, Vienna, VA 22182

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Of course, macroeconomic issues will likely always be with us. As November approaches, we can expect a continued focus on the presidential election. Like many elections before, this one has been contentious. As the candidates banter back-and-forth, many people are sitting on the edge of their seats waiting to see the path our country and economy will take.

As always, an examination of the math is helpful. Dr. Jonathan Lemco studied stock market returns from 1853-2015. He compared the average return of equity markets and the party controlling the White House. The results were surprising. He found that over this 162-year period, the returns were ... identical for each party!

How could this be? It is widely believed that the two parties have different philosophies and agendas. The answer may be that the party in the White House has considerably less effect than many believe. It might be comparable to a ride you might have seen at theme parks where children can get in a car and go around a track. When the steering wheel is turned to the left or right, the car turns a few inches in either direction. Upon closer inspection, one can see the car is actually guided by a rail running along the middle of the track. While turning the wheel does slightly affect the car, the rail ultimately defines the path and destination. The analogy here is that politicians are the steering wheel and the work and ingenuity of the people is the rail. We are certainly not saying that the election is not important. It is just not likely the most important thing to you and your long-term goals.

Domestic Equities: Through all of the noise, U.S. stocks continued to advance. Apparently, the business of America was stronger than the headlines would lead one to believe. The S&P 500 advanced 3.9% for the third quarter. This brings the year-to-date return to a quite respectable 7.8%. Smaller stocks, however, led the way by jumping 6.6% for the quarter, bringing them up 10.8% for the year.

International Equities: After underperforming domestic stocks for several quarters, some were starting to lose faith in international holdings. Indeed, given the turmoil with the European Union and the lingering doubts regarding Chinese growth prospects, one might expect weakness in international equities. That was not the case. World developed markets rose 6.4% for the quarter. Still, the advance for the year is a modest 1.7%. Likewise, emerging markets had posted poor relative returns for the most recent periods. That changed in the third quarter when the Emerging Markets Index rose 9.0%. This brings the year's advance to a powerful 16.0%. Often, when a large group of investors loses faith in an asset class, it can be the worst time to abandon ship.

Fixed-Income: As the world reassessed the global risks of the "Brexit" sell-off, bonds posted muted returns. The Barclay's Aggregate Index, a measure of the broad bond market, edged out a 0.5% gain for the quarter. The year-to-date return is still a respectable 5.8% gain. Municipal bonds slipped 0.3%, although they are still up 4.0% for the year.

We have been through a lot over the past few years. We have seen multiple issues surrounding European debt, elections and referendums, earthquakes and epidemics. The list goes on and on. This is not to say that the world is suddenly more dangerous than it has ever been. These types of things - and far worse - have always been with us. We can't make them go away. We can help you manage the potential effects on your portfolio and move forward.

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What it takes to move forward is perspective, solid planning and a bit of courage. Winston Churchill once said, "Courage is what it takes to stand up and speak; courage is also what it takes to sit down and listen." We are committed to doing both. We will speak with you about world events and the construction and risks of your portfolio. We are also committed to listening carefully to what is going on in your life and with your family.

We will be here through whatever the elections bring and beyond. We know there are people attached to the money we help manage for you. Thank you for your confidence in us. Please call if you need anything.

Sincerely,

Cindy Deavel, CFP

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Source of data -- The Vanguard Group Inc., Morningstar, U.S. Department of Commerce, Wall Street Journal, St. Louis Federal Reserve, Bloomberg, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 3 year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets.

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