KEYES & ASSOCIATES, INC.

Chris Keyes, CFP®
Financial Planner

121 Spruce Ave
Fairbanks, AK 99709-4150
Phone: 907-452-6393
AK Only Toll Free: 800-478-6393
Fax: 907-452-1600
chris.keyes@LFG.com

www.lfa-fairbanks.com

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Dear Valued Client,

% Return as of 09/30/2016			
Equity Indexes	**3rd Q**	**YTD**	**3 Yr**
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
Bond Indexes			
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
Cash Equivalents			
3-Month T-Bill	0.1	0.3	0.1
Consumer Price Index	0.4	1.0	1.0

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.

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. As pointed out in the Oppenheimer Funds piece 'Election 2016 in Perspective', "For U.S. citizens and observers in other countries, the U.S. election will, as always, give us sufficient reasons for both optimism and despair. But as investors, whether our preferred outcome materializes or not, we must keep our focus on where economic value is being created under the circumstances that actually occur, not on what would have happened had our choice been realized." 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.

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,

Chris Keyes, CFP®