BRIAN D. LOWDER, INC.

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Financial Market Overview

Stocks finished the second quarter of 2016 in a similar manner as the first quarter – up slightly or just under 2%. U.S stocks, as measured by the 500 largest U.S. companies (S&P 500 Index) ended up 1.9% while the Dow Jones Industrial Average was up almost 1.4% during the second quarter. However, the average stock mutual fund is still down over 3% over the previous 12 months. If it were not for the 3% stock market gain during the last 4 trading days of June, the stock market would have posted a negative return during the second quarter.

In the same manner as the first quarter, a volatile week in stock prices occurred after the Brexit vote (England voting to leave the European Union) resulting in a 6% decline in overall stock prices over a two-day period followed by a recovery over the next week. Over the past 12 months, overall stock prices have plummeted 5 times ranging from 5% to 10% over short periods of time followed by recoveries of similar magnitude. Some pundits would suggest that the quick recovery in stock prices implies strength in the financial markets. Others, including us, would suggest that repetitive volatility in prices reflects a great deal of uncertainty. The financial markets hate uncertainty and become very erratic during these periods.

Overall, U.S. stock indexes are up less than 3% over the previous 12 months while the average stock mutual fund is down 3% and international stocks are down over 12%. International stocks posted a negative 2.34% return during the second quarter while emerging markets (small international companies) were up slightly.

Again, similar to the previous 4 quarters, value stocks (companies that are mature, have stable sales, and pay dividends) outperformed growth stocks. Value stocks of all sizes outperformed growth stocks by a margin of 5% or more during the first six months of 2016.

Energy companies and energy mutual funds were up about 10% during the second quarter as the price of oil climbed from about $38 per barrel to about $49. The price of oil has jumped 30% since the beginning of this year.

Real estate (REIT’s) prices advanced 5% during the second quarter as interest rates declined even further following the Brexit vote. Real estate has been one of the best performing asset classes during the first six months of 2016 – up over 13%. Likewise, another interest rate sensitive category, fixed income or bonds, performed well – with intermediate-term bonds advancing 7% year-to-date as interest rates dropped and the U.S. Dollar soared against other major currencies. The 10-year U.S. Treasury Note pays only 1.4% annual interest.

The best performing asset category during the second quarter and year-to-date has been gold and precious metals. The price of gold has soared 7.5% during the second quarter and nearly 25% over the first six months of 2016. After falling over 15% in 2015, gold prices have soared thus far in 2016 – another indication of uncertainty in the financial markets.

The chart on the following page displays sample returns of various asset categories during the second quarter of 2016:

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Yr-To-Date 2016	2nd Qtr. 2016	Index Return (*includes dividends reinvested*)
+ 2.90%	+ 1.38%	**Dow Jones Industrial Average** (^DJI)
+ 3.82%	+ 1.93%	**Standard & Poor's 500 Index** (^GSPC)
+ 3.68%	+ 2.23%	**DJ U.S. Total Stock Market** (VTI)
+ 1.26%	+ 0.58%	**Large-company stock-Growth** (IWF)
+ 6.14%	+ 4.47%	**Large-company stock-Value** (IWD)
+ 1.81%	+ 1.54%	**Mid-Size Stocks – Growth** (IWP)
+ 8.82%	+ 4.74%	**Mid-Size Stocks – Value** (IWS)
- 1.32%	+ 3.45%	**Small-company stock- Growth** (IWO)
+ 6.27%	+ 4.41%	**Small-company stock- Value** (IWN)
- 2.99%	- 2.34%	**International** (EFA)
+ 7.58%	+ 0.32%	**Emerging Markets** (EEM)
+ 13.46%	+ 5.81%	**Real Estate Investment Trusts** (VNQ)
		Fixed Income
+ 1.43%	+ 0.34%	**Short-term U.S. Treasury** (SHY) *(includes appreciation)*
+ 7.76%	+ 2.37%	**Intermediate U.S. Treasury** (IEF) *(includes appreciation)*
		Alternative Investment Category
+ 24.65%	+ 7.51%	**Gold** (GLD)

Financial Market Outlook

Overall stock prices have fluctuated wildly over the past 12 months, but the gains have essentially been zero since the end of 2014. Overall U.S. stock prices have not reached or surpassed the record high set in May 2015.

In our view, the problem is apparent, but the solution and the timing of implementing any changes are difficult to predict. For the stock market to go up and sustain the advance, we need better economic growth and/or improvement in corporate earnings. Profits of the 500 largest U.S. companies have declined in the previous four quarters and worse yet, are expected to fall again by 5% during the second quarter. For the entire 2016 year, the consensus estimate is near 0% growth in earnings. In order to sustain any future stock market advances, our economy and the economies around the world need to grow.

Are we on the doorstep of renewed economic growth? If yes, then the stock market may be poised for further gains and if not, stock prices are vulnerable to short-term and knee-jerk reactions to new information such as the Brexit vote, acts of terrorism, and political scandals. Before considering where we might be headed in the future, a clear assessment of the current circumstances should be the starting point.

Our government is still overspending (deficit spending), and economic growth is well-below average in spite of lowering interest rates to a 65-year low. We do have a positive economic growth rate; it is just very low and weakening. Likewise, job growth or job "creation," as determined by our government, is positive. We have had a multi-year period of steady job growth, but the *level* of growth or annual increase is again below-average and weakening. Last month was the weakest month of employment gains since 2010.

So our economy is not at risk of an eminent relapse into a spiraling recession, but it is clear that world economic growth is barely positive, corporate earnings and job growth is weak, and any further attempts at lowering interest rates will have little effect on economic growth. Further, reflecting on which kinds of stocks have been advancing over the past year also gives us a hint as to where we are now and the likelihood of a near-term resurgence in economic activity.

"Value stocks", utility company stocks, consumer staples, and tele-communication companies sell products and services people need in good times, a stagnant environment or during bad times. Utility stocks were up 7% during the second quarter and over 16% during the previous 12 months. Water company stocks were up over 7% last quarter and over 15% over the past twelve months. We have been in a defensive stock market rally and your popular growth-company stocks are barely posting a positive return over the past year.

In addition, 2016 is a Presidential election year and the candidates in this race are sure to make this election a memorable one. Our current economic policies and any hope of adjusting them will certainly not occur in this calendar year. We are still comfortable with our decision to reduce the overall proportion of stocks in client portfolios back in August of 2015 and are expecting more opportunities to purchase additional stock in companies or in sectors of the economy where the prices are reasonable and or attractive.

Investment Outlook and Recommendations

Volatility in the financial markets will continue throughout the balance of this year and we do not expect the U.S. financial markets to reveal which direction the next

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sustained move will be until the end of this year. Further, we do not expect any economic, political or any other policy changes to be implemented this year as well. Sometimes it is best to stay in the middle or to the right side of the road when conditions are uncertain.

We will continue to implement some additional purchases in areas that become attractive such as when oil and water sectors presented opportunities one year ago. It's difficult to predict which stocks or sectors of the economy may present a bargain or buying opportunity in the future.

In the meantime, we have a complete list of client accounts ready to purchase specific dollar amounts of specific investments when the price(s) reaches fair value in our judgment. In the meantime, client cash or money market balances will continue to be larger than normal. We will stay disciplined and only implement additional purchases if and when the values are compelling.

Again, we are not expecting a big decline similar to the 38% drop in stock prices in 2008. A very slow growing or weak economy is not the worst place to be in. The problem still remains that overall stock prices are at a level that is too expensive given the slow-growth environment.

At this time, we expect to maintain the current asset allocation and investment selections for most of our clients. Implementing all investment recommendations for new clients (new accounts over the past year) will take longer than expected. Any purchase suggestions or recommendations that we could identify at this time could change dramatically; therefore, once again **we will not be including our purchase recommendations on the blue sheets you are accustomed to receiving at quarter-end.**

TRANSFERRING LOW HOME PROPERTY TAX BASE TO NEW RESIDENCES - CALIFORNIA

Taxpayers age 55 or older and who are residents of California have a one-time opportunity to transfer the low base-year value of their principal residence to a replacement home located in the *same county*. Individuals or married couples can basically transfer the low assessed value of the residence they have owned for many years to a new home without experiencing a large jump in their property tax assessments. If you are considering a move within the same county and have owned your residence for several years or more, remember this one-time opportunity passed into law under Proposition 60. To qualify, an individual or at least one married spouse must:

1) Be at least age 55.
2) The replacement property must be purchased or newly constructed within 2 years before or after the sale of the original residence.
3) The replacement residence must be "*equal to or lesser*" in market value than the original residence.
4) The person claiming or the claimant's spouse can only be eligible once.

EARLY WITHDRAWALS FROM IRAS WITHOUT PENALTY

Generally, if you make withdrawals from your IRA before age 59 ½ you will usually get hit with a 10% early-withdrawal penalty plus the regular income tax owed on the withdrawal amount. There are several exceptions to the 10% penalty tax; however it is important to understand that the rules which apply to this exception are complex and rigid:

Medical Expenses: Regardless of age, you will not be assessed a 10% penalty tax for IRA withdrawals for unreimbursed *medical expenses that are more than 10% of your adjusted growth income*. You must have lost your job and received unemployment benefits. Withdrawals are subject to regular income tax.

College Expenses: Withdrawals used to pay for college education expenses (tuition, books etc.) referred to as "qualified higher education" expenses. Withdrawals are subject to regular income tax.

Buy a first-time home. First-time home buyers may take penalty-free withdrawals for the purchase of a first-time home purchase. The amount withdrawn from the IRA will be subject to regular income taxes.

Inherited IRA. Taxpayers who inherit an IRA may take the distribution in whole or in part and not be subject to the10% penalty tax – however, regular income taxes do apply to the amount withdrawn and NOT rolled over to an inherited IRA account.

The last rule – referred to as Annuity or 72(t) for the tax code that allows for the exception, applies to IRA withdrawals

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made at any age (prior to age 59 ½) and for any purpose *as long as you take "substantially equal periodic payments"* from the specific IRA account for at least 5 years or until you turn age 59 ½ - *whichever is later.* For example, if you are age 50 when you take your first 72(t) cash withdrawal, you must continue taking the same *annual* withdrawal until age 59 ½ (until age 59 ½ or 5 years – whichever is longer). If you start at age 56, you will need to make additional annual withdrawals until age 61 (5 years is longer than reaching age 59 ½).

During this mandatory withdrawal period, you cannot withdraw any more or less than the required amount AND you can't make new contributions to the same IRA account. Once you have finished the 5-year or until age 59 ½ period, you can then stop the withdrawals altogether, or take out any amount you wish.

Taxpayers have three options or methods of calculating the size of the annual penalty-free withdrawal. We will only discuss the simplest method referred to as "the required minimum distribution method" (the other two methods, amortization and annuitization are a bit complex). With the *required minimum distribution method,* you calculate the required annual withdrawal amount by taking your IRA account balance at the end of the preceding year (i.e. Dec. 31, 2015) and divide by your life expectancy. Life expectancy tables are provided by the IRS. For example, if your IRA account balance was $250,000 at the end of the preceding year and your life expectancy, using the IRS Tables, is 30 years, you must withdraw $8,333 (divide $250,000 by 30 years). You must recalculate this annual withdrawal amount each year and must continue making these withdrawals until the later of reaching age 59 ½ or 5 years.

COPIES OF 2015 INCOME TAX RETURNS

If you filed for an extension and recently submitted your 2015 income tax return or you have not yet sent us a copy of your 2015 income tax return, please request from your income tax preparer to send paper or electronic (email) copies to our office as soon as possible. Our investment decisions, income tax management and retirement planning strategies are greatly improved when we have your most recent income tax returns in our files.

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Best Regards

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