RBC Wealth Management

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November 2016

3rd Quarter 2016 Market Commentary

Equity and Fixed Income Gains

The 3rd quarter saw both international and domestic equity markets end higher, building, for the most part, off of a positive 2nd quarter. Year-to-date, small cap stocks continued to outpace large cap stocks and domestic holdings continued their outperformance of their international counterparts'. And on the fixed income side, the Barclays US Aggregate Index was little moved after a strong 2nd quarter performance, up 5.80% year-to-date.

Period Ending September 30, 2106

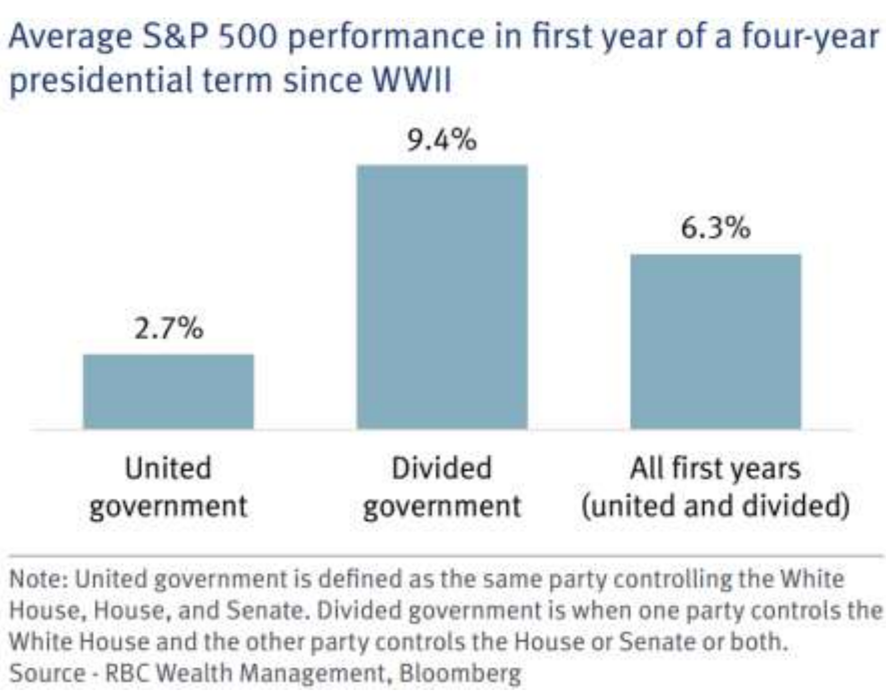
		Annualized Total Returns					Calendar Period Total Returns						
	YTD	1 year	3 year	5 year	7 year	10 year	2015	2014	2013	2012	2011	2010	2009
Dow Jones Industrial Average	7.21%	15.46%	9.23%	13.77%	12.34%	7.39%	0.21%	10.04%	29.65%	10.24%	8.38%	14.06%	22.68%
NASDAQ Composite Index	7.09%	16.42%	13.45%	18.54%	15.33%	10.08%	6.96%	14.45%	40.12%	17.45%	-0.83%	18.02%	45.32%
S&P 500	7.84%	15.43%	11.16%	16.37%	13.17%	7.24%	1.38%	13.69%	32.39%	16.00%	2.11%	15.06%	26.46%
Russell 2000	11.46%	15.47%	6.71%	15.82%	12.49%	7.07%	-4.41%	4.89%	38.82%	16.35%	-4.18%	26.85%	27.17%
MSCI EAFE	1.73%	6.52%	0.48%	7.39%	4.24%	1.82%	-0.81%	-4.90%	22.78%	17.32%	-12.14%	7.75%	31.78%
Barclays US Aggregate	5.80%	5.19%	4.03%	3.08%	4.10%	4.79%	0.55%	5.97%	-2.02%	4.21%	7.84%	6.54%	5.93%

Based on U.S. dollars

Source: RBC Wealth Management

Impact of the Election

While we recognize that the controversies and polarization that surrounds both the democratic nominee, Hillary Clinton, and the republican nominee, Donald Trump, we try and remind clients not to let their emotions sway their long-term investment decisions.



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Per the graphic above, history tells us that markets tend to prefer a divided government, meaning one party controlling the White House and the other party controlling the House or Senate or both. Currently, republicans control 247 of 435 seats in the House of Representatives and many pundits do not foresee a path for democrats to retake control of the House. If those insights were to hold true, then the government would remain divided, regardless of the Presidential outcome. We believe that any volatility in the markets as a result of the election would be a shorter-term event and could help to create buying opportunities for longer term holdings.

The Impact of Rising Interest Rates

Some of the most frequent questions we are asked revolve around interest rates and what could happen once they start to normalize. The chart below does an excellent job of illustrating the price impact of a one percent rise or fall in interest rates. It is important to remember that the relationship between bond prices and bond yields is an inverse one, meaning that as yields rise, prices fall and vice versa. As you can see, a one percent increase in interest rates has the largest impact on longer term bond prices which is due to the fact that longer term bonds have a greater duration (a measure of interest rate risk expressed in years) than shorter term bonds.

There are certain fixed income products available, such as floating rate bonds and bond funds, which tend to outperform in a rising interest rate environment. Our Portfolio Focus models are currently positioned for a flat-to-rising interest rate environment, and we are continuously monitoring these models and adjusting our exposures as opportunities present themselves. Our bond exposure in our fixed income models is tilted towards shorter duration bonds, thus they will be less sensitive to rising rates versus long-term corporates and treasuries.

			Yield		Return
U.S. Treasuries	**Correlation to 10-year**	**Avg. Maturity**	**9/30/2016**	**6/30/2016**	**2016 YTD**
2-Year	0.62	2 years	0.77%	0.58%	1.20%
5-Year	0.91	5	1.14%	1.01%	3.96%
10-Year	1.00	10	1.60%	1.49%	7.14%
30-Year	0.92	30	2.32%	2.30%	16.96%
TIPS	0.57	10	0.00%	0.09%	7.27%
Sector					
Broad Market	0.85	7.8 years	1.96%	1.91%	5.80%
MBS	0.79	5.1	2.06%	2.07%	3.72%
Municipals	0.44	10.0	1.72%	1.57%	4.35%
Corporates	0.43	10.9	2.84%	2.88%	9.20%
High Yield	-0.26	6.3	6.17%	7.27%	15.11%
Floating Rate	-0.21	2.3	1.75%	1.65%	1.93%
Convertibles	-0.31	–	0.99%	0.92%	8.94%
ABS	-0.02	5.4	1.97%	1.94%	5.68%

Source: Barclays, U.S. Treasury, FactSet, J.P. Morgan Asset Management. Sectors shown above are provided by Barclays and are represented by – Broad Market: U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; Corporate: U.S. Corporates; Municipals: Muni Bond 10-year; High Yield: Corporate High Yield; TIPS: Treasury Inflation Protection Securities (TIPS). Floating Rate: FRN (BBB); Convertibles: U.S. Convertibles Composite; ABS: ABS + CMBS. Treasury securities data for number of issues based on U.S. Treasury benchmarks from Barclays. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield to worst, while Treasury yields are yield to maturity. Correlations are based on 10-years of monthly returns for all sectors. Change in bond price is calculated using both duration and convexity according to the following formula: New Price = (Price + (Price * -Duration * Change in Interest Rates))+(0.5 * Price * Convexity * (Change in Interest Rates)^2). *Calculation assumes 2-year Treasury interest rate falls 0.77% to 0.00%. Chart is for illustrative purposes only. Past performance is not indicative of future results.
Guide to the Markets – U.S. Data are as of September 30, 2016.

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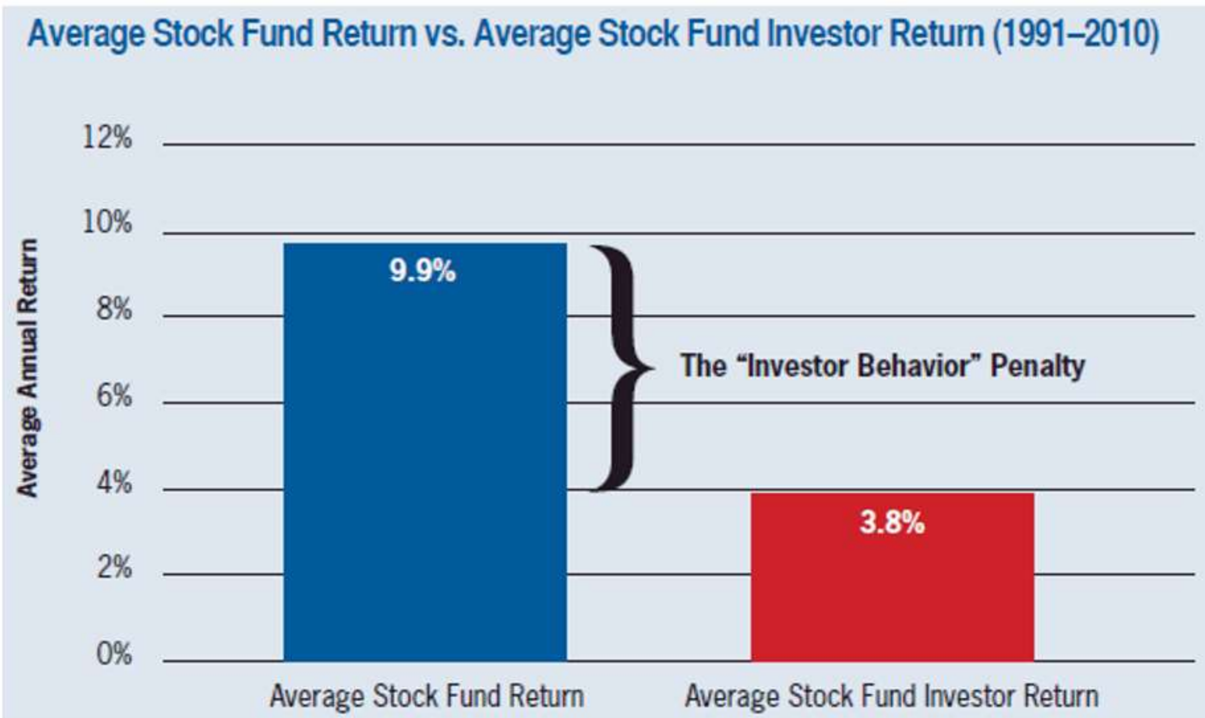
Behavioral Finance

One of our roles as advisors is helping clients navigate difficult market environments. According to the Prospect Theory laid out by Nobel Prize economist, Daniel Kahneman, investors feel the pain of a loss at 2-3 times the rate they perceive a gain. This means that an investor feels 2-3 times worse losing 10% on an investment versus gaining 10% on an investment. Because of this and other behavioral anomalies, the average investor tends to underperform general market environments. Let's take a look at the graphic below:



Source: DALBAR, Inc. Quantitative Analysis of Investor Behavior (QAIB) 2010.

Here we can see that from 1991 through 2010 (20 years), the average stock fund had an average annual return of 9.9%, while the average stock fund *investor* returned only 3.8% annualized over the same range. We have all heard the adage, "sell high and buy low," however, this graph helps to illustrate that most investors do not heed this advice. Many times, we see mutual fund flows "chase" a fund that has recently performed well (buying high) only to have the fund hit a rough patch and flows exit the fund (selling low).

It is our job as your advisor to help you determine your investment risk tolerance level, then guide and educate you through difficult investment periods. We are here to help answer any questions you might have and encourage you to call if you are ever feeling anxious or unsure about the markets.

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As we are set to enter the holiday season and year end, we would like to again thank you for your continued support and business. We are truly thankful for the opportunity to work with you and your families and enjoy immensely the relationships we have been able to foster over the years. We wish you happy holidays and a healthy, prosperous new year!

-The Abrahamson Investment Group
Kirk, Mike, Dana, & Colby