Jul. 15, 2016
Volume 17, Number 2

Nauset Market Commentary
Second Quarter 2016

Market Performance Recap: **A Sly Stallone Market**

Q2 was a repeat of Q1: knocked around a bit, dazed but still standing. Brexit, the UK vote to exit the EU, dealt the biggest blow, but a quick market recovery in the final days of June left the Russell 1000 up +2.5% for quarter, while the tech-heavy NASDAQ 100 fell -1.1% and international stock MSCI EAFE finished off -1.5%. Continued strength in real estate and a sharp recovery in energy and materials stocks led the way. With the Fed on hold regarding rate hikes, bond prices gained for Q2 as the Barclays Intermediate Gov't/Credit Index was up +1.6%.

Economic & Market Discussion: **Training for the Next Round**

Continued slow economic growth sets up the rest of the year for more volatility. We are focused on three key factors in managing portfolios during these rocky times.

- Bulked up Earnings Growth – The key to fresh US market highs will be earnings growth. Expectations are for a stronger back half of 2016. While possible, a strong dollar and global growth softness may create headwinds for US multinationals. We will be monitoring earnings as they roll in.
- Avoid the Yield Trap – As key rates around the world have fallen through the floor, income-producing assets are being bid up with some valuations now stretched. Evaluating purchase price, asset quality and the issuer's ability to pay are critical to avoiding the yield trap.
- Haymaker from the Outside - Brexit has created a lot of uncertainty, but Britain will not stop doing business with the EU and most economists do not see significant impact on the US. Still, we are keeping a close watch for signs of a US recession and further Eurozone issues, and possible opportunities to add to long-term European positions.

Portfolio Strategy: **In the Ring with Open Eyes**

As explained above, we are carefully monitoring key factors in managing portfolios, while staying true to our diversified, balanced approach. Our managed risk approach is emphasizing the following strategies:

- Staying in the Fight – We are not market timers, shifting between stocks and cash. We remain invested in US and non-US stock markets to capture long-term market upside. Our equity allocations are at target weight blending defensive and select growth investments, while favoring higher quality.
- Paydays with Low Risk – We continue to build a diversified set of yield securities in all portfolios, ranging from dividend stocks and REITs to US high yield and emerging market bond funds with a strong focus on asset quality and being paid appropriately for the risk taken.
- A Few New Moves – Currently, we are managing risk on two levels: an overweight allocation to alternatives and a focus on quality across all asset classes. We use a variety of alternatives including managed futures, long/short equity funds, and stocks that act like private funds. And recently, we added SPDR Gold Shares ETF to most portfolios as an additional risk hedge.

Market Performance % Change for Periods Ended 6/30/2016

Market Index	Second Quarter	2016 YTD	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	2.54	3.74	2.93	11.48	11.88
MSCI EAFE – Non-US	-1.46	-4.42	-10.17	2.06	1.68
Russell 2000	3.79	2.22	-6.73	7.09	8.35
MSCI Emerging Markets Equity	0.66	6.41	-12.06	-1.56	-3.78
DJ US Real Estate	6.79	12.30	20.97	12.31	11.22
NASDAQ 100	-1.14	-3.17	1.77	16.42	15.16
Barclays Gov't/Credit Interm. Bond	1.58	4.07	4.33	2.95	2.90
IQ Hedge Multi-Strategy	1.42	2.93	0.42	4.13	3.32
3-Month T-Bill	0.06	0.12	0.14	0.07	0.06

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