QUARTERLY MARKET REPORT

THIRD QUARTER 2016

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Third Quarter Highlights

EQUITIES RALLIED WHILE BOND PRICES WERE DAMPENED BY UNCERTAINTY ABOUT CENTRAL BANK POLICIES

Financial Markets

- There was a shift in leadership in equity markets away from the top performers of the first half, high dividend payers and defensive stocks, to higher growth and more cyclical stocks. Technology, small-capitalization (cap), and emerging markets stocks had the best returns.
- Global bond yields traded in a narrow range from the low end of the range on safe haven trading to the higher end of the range when sentiment shifted about the likelihood of changes to the accommodative monetary policies of various central banks.
- After significant gains in the second quarter, oil and commodity prices cooled in the third quarter.

Overview of the Economy

- In the U.S., economic data continues to be mixed. Weaker than expected data reported in September on manufacturing and service activity, home sales, and retail sales brought back worries about recession and overshadowed good news on the job market and an upward revision to second quarter growth in gross domestic product (GDP).
- China is showing some improvements in manufacturing activity, exports, and retail sales. There has been little change in economic data in Europe.

Notable Events

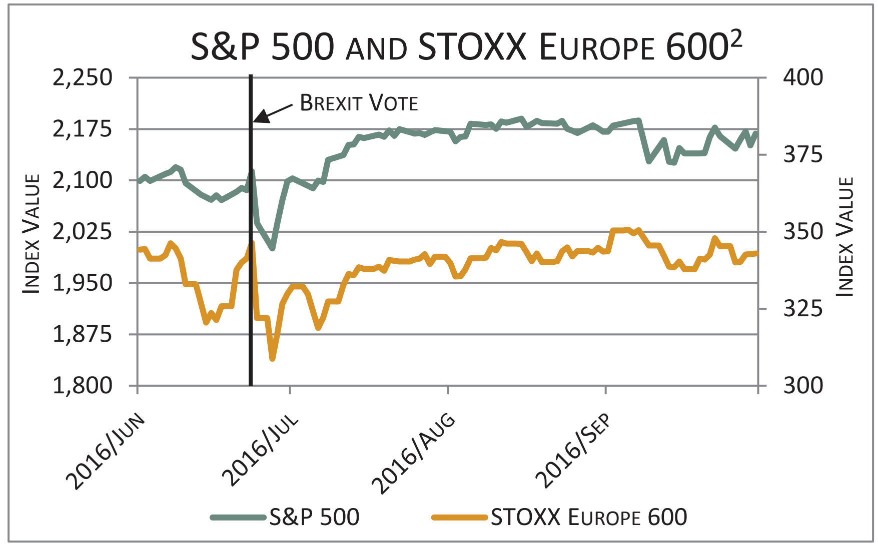
- In a surprise move, the Organization of Petroleum Exporting Countries (OPEC) agreed to limit production. The agreement is only preliminary; it could change when OPEC meets in November to finalize implementation details.
- Concerns flared about the health of European banks as negative interest rates, tepid borrowing, and the impact of regulatory actions are pressuring bank earnings and capital levels.

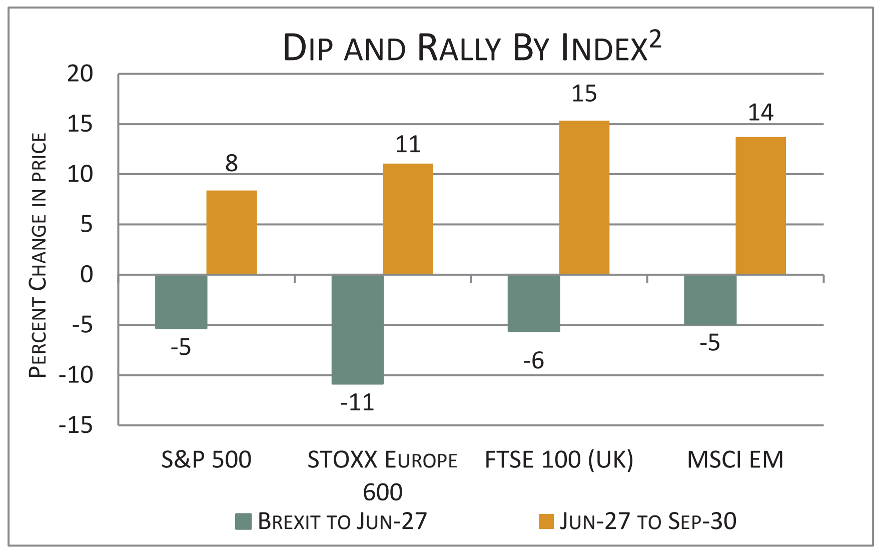
Third quarter Highlights

Markets bounced back quickly after steep reaction in June to Brexit vote result

Near the end of June, the surprise result of the vote in the United Kingdom (UK) to leave the European Union (EU) known as Brexit caused a swift and steep reaction in financial markets. Markets rebounded quickly and risk assets such as global equities posted strong returns from the Brexit reaction lows through the end of the third quarter. Bond yields which fell in reaction to Brexit moved back up.

Even UK stocks recovered on signs of resilience in the UK economy given the uncertainty created by the surprise vote result. Currency moves have had a positive impact as well. The pound has fallen in value since the vote, making UK exports more competitive. UK exports rose in July and August.





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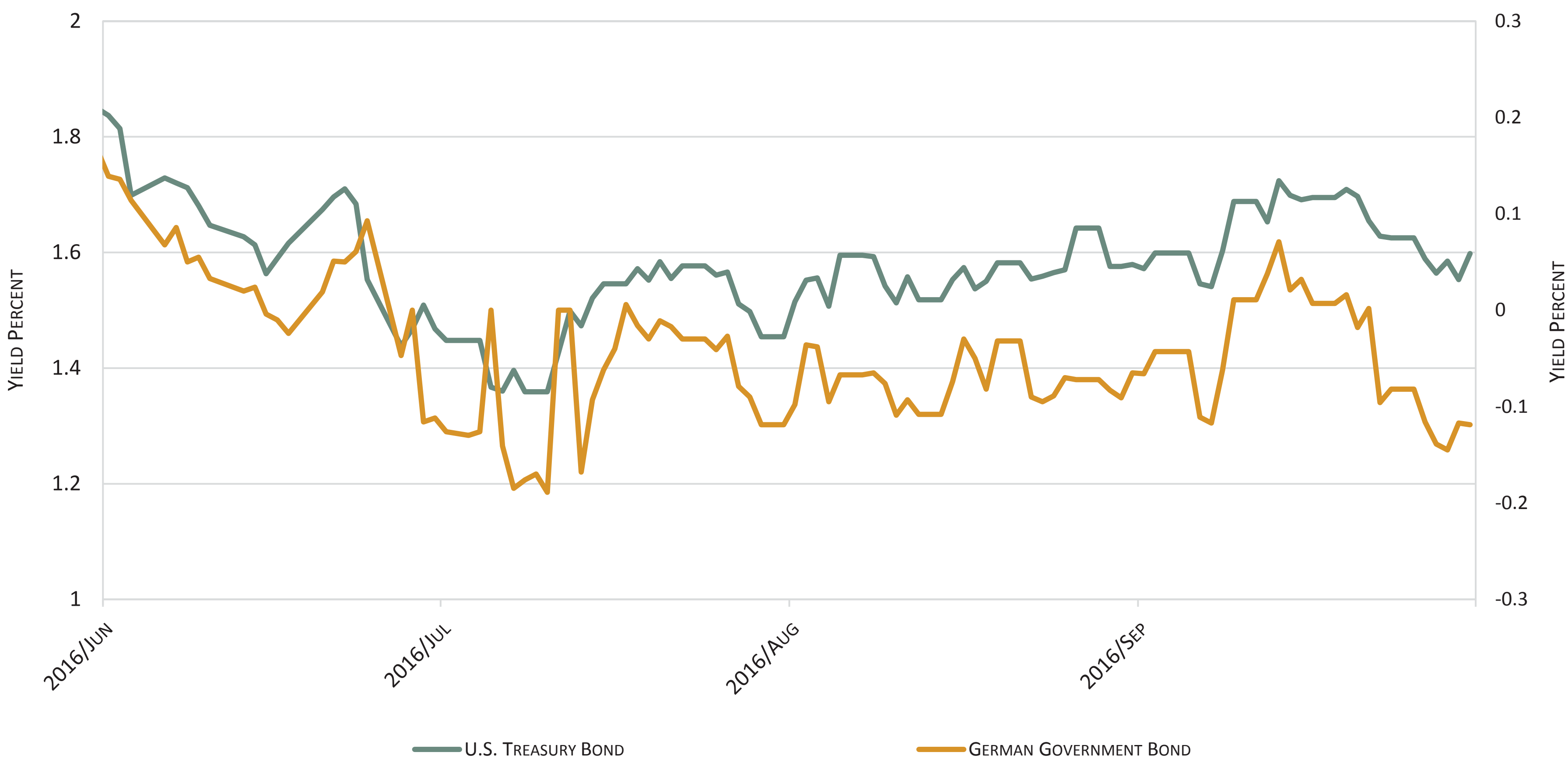
THIRD QUARTER HIGHLIGHTS

GLOBAL BOND MARKETS HAD SIZEABLE MOVES UP AND DOWN ON NEWS

The U.S. yield hit a new low of 1.37% in early July on haven trading in reaction to Brexit but ratcheted as high as 1.73% as a Fed funds rate hike looked more likely. The German bond fell to negative yields on Brexit but briefly rose to 0% on worries about the limits to stimulus.

10-YEAR GOVERNMENT BOND YIELDS[2]



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Third Quarter Highlights

Central bank policy and expectations for any change drove investor sentiment

Loose monetary policies around the world provided the liquidity that fueled gains in stocks, bonds, and commodities in 2016. Financial markets experienced bouts of volatility when expectations shifted and investors worried that central banks would reduce or withdraw these policies. Recent decisions by key central banks signaled the accommodative policies will continue.

The Federal Reserve (Fed) decided against increasing its Fed funds rate target and reduced its 2017 projections for future hikes from three to two.

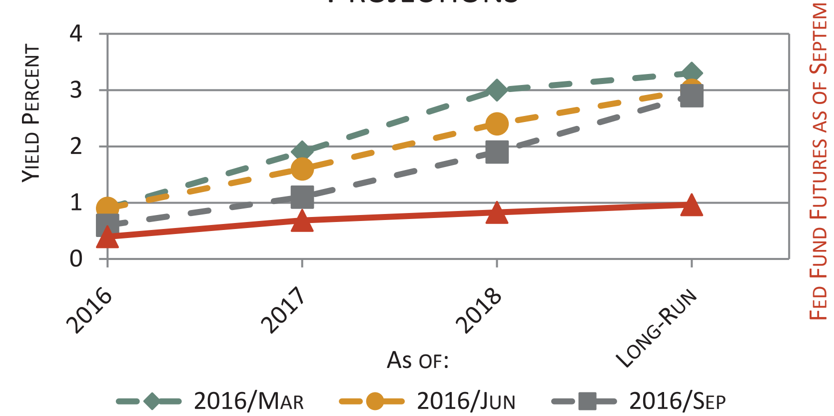
The European Central Bank (ECB) disappointed investors when it did not extend the term of its quantitative easing asset purchase program (QE) beyond March 2017. The Bank of England (BOE) took actions designed to minimize the impact of Brexit.

Japan added a new twist. The Bank of Japan (BOJ) will now target a 0% yield for 10-year government bonds. This target will allow negative yields on short-term bonds but maintain a spread between longer-term bonds which will incent banks to lend.

Key Central Bank Decisions

Central Banks	Policy Decision	Target Rate
Federal Reserve (FED)	Rate unchanged	0.25 to 0.50%
European Central Bank (ECB)	Rate unchanged; Did not extend QE	-0.40%
Bank of Japan (BOJ)	Rate unchanged; Introduced Yield Curve Control	-0.10% to 0.00%
Bank of England (BOE)	Rate cut by 0.25%; £70 Billion Increase in QE	0.25%

Federal Funds Target Rate Projections[2,3]



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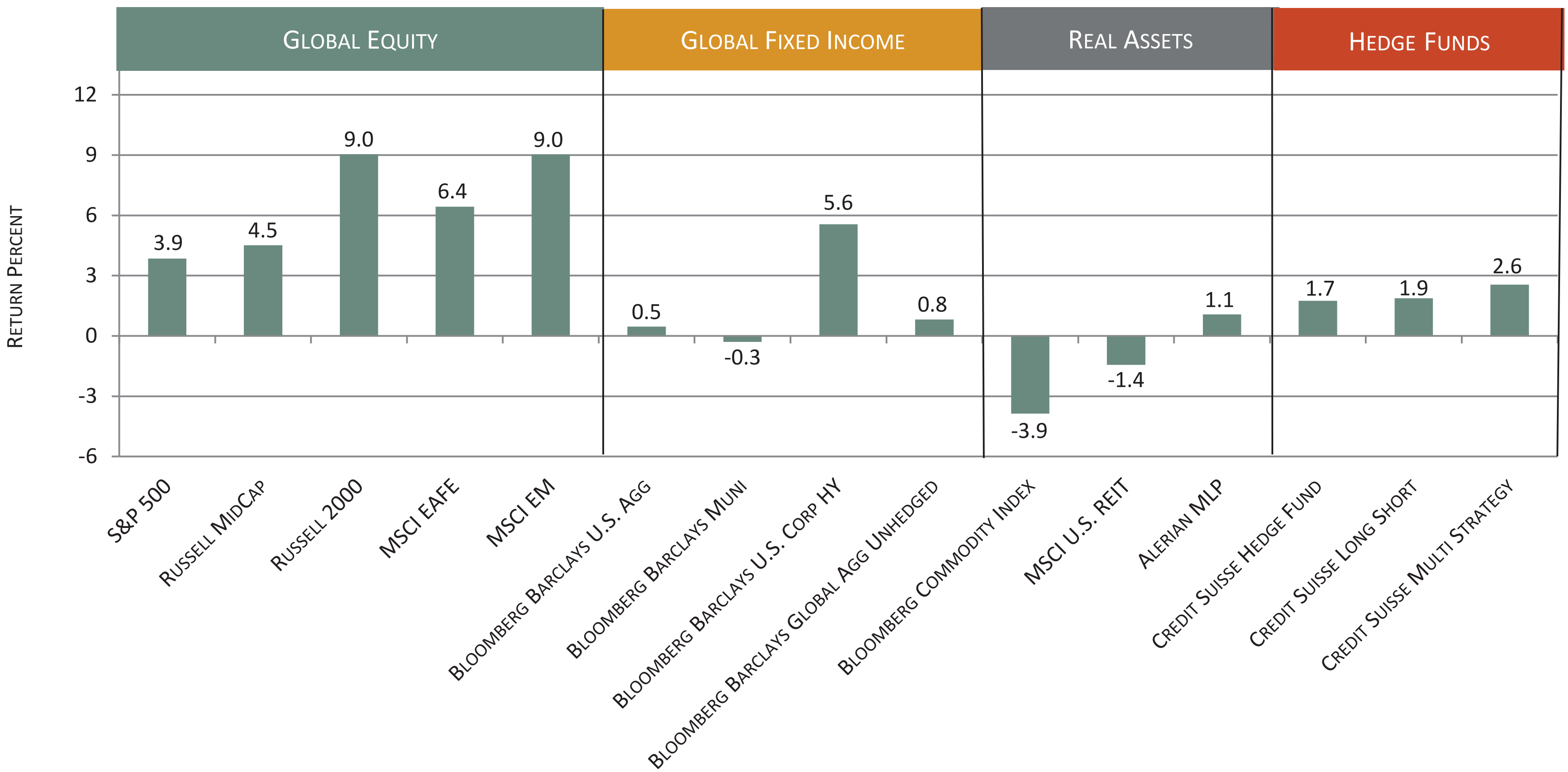
Third Quarter Highlights

Riskier assets rallied and outperformed more defensive assets for the quarter

For the second quarter in a row, small-cap stocks outperformed larger cap stocks. The emerging markets index had the best gain in four years due to positive currency impact and improving fundamentals. Oversupply dragged down the commodity index.

Market Returns: Third Quarter 2016[1]



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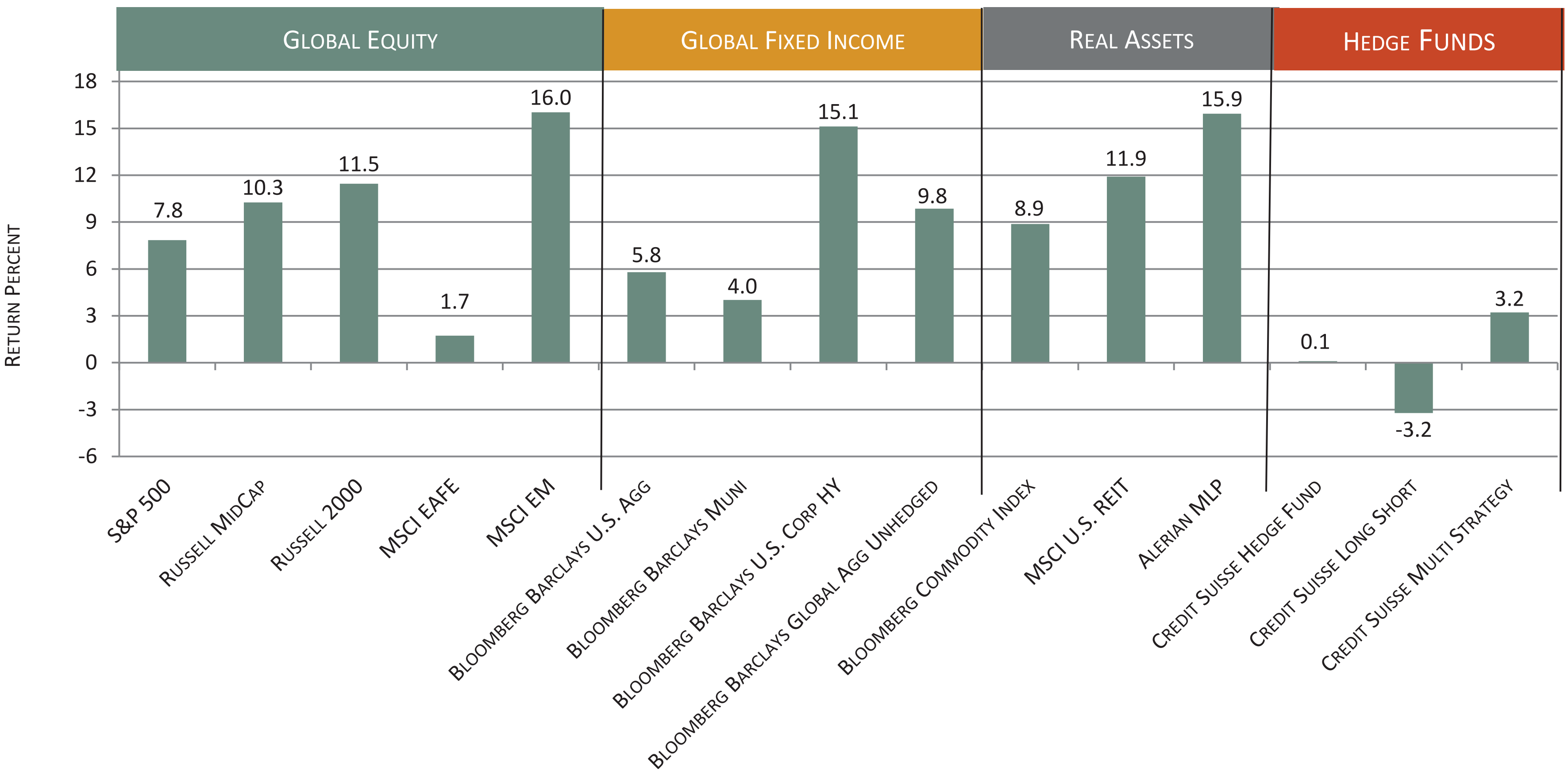
Third Quarter Highlights

Returns year-to-date have been surprisingly strong in a low growth world

One exception to the strong returns is international equities (MSCI EAFE index). Poor returns in Europe, particularly in financial stocks, is a main reason this index is lagging. Hedging and short positions have hurt hedge fund returns given the strong returns across asset classes.

Market Returns: Year-To-Date 2016[1]



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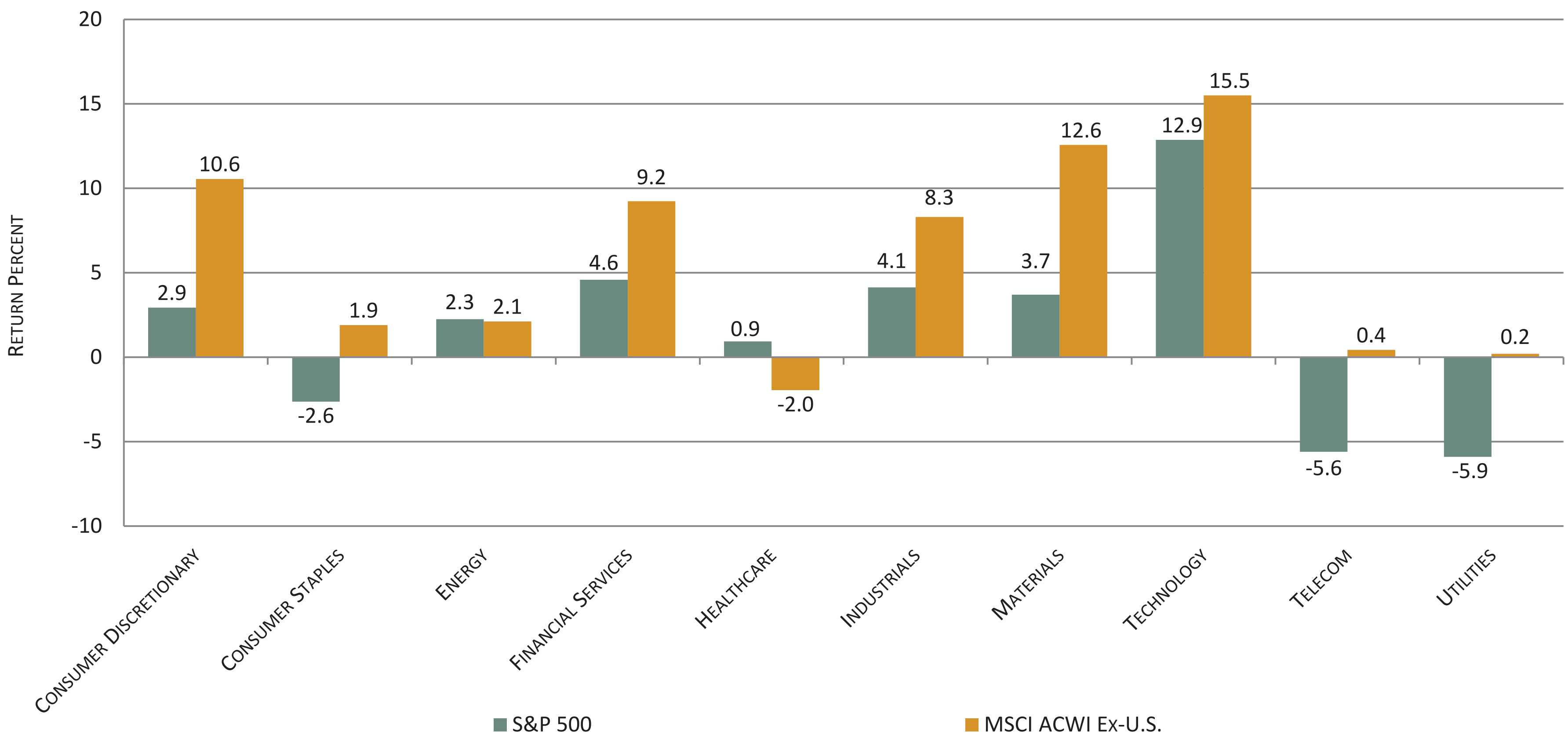
THIRD QUARTER HIGHLIGHTS

SHIFT OCCURRED AWAY FROM DEFENSIVE STOCKS INTO STOCKS WITH HIGHER GROWTH POTENTIAL

Technology stocks surged as investors favored stocks with higher earnings growth. The shift out of defensive, high dividend yielding stocks could be in part due to investors viewing these stocks as higher risk because of stretched valuations after very strong gains in prior quarters.

SECTOR RETURNS: THIRD QUARTER 2016[1]



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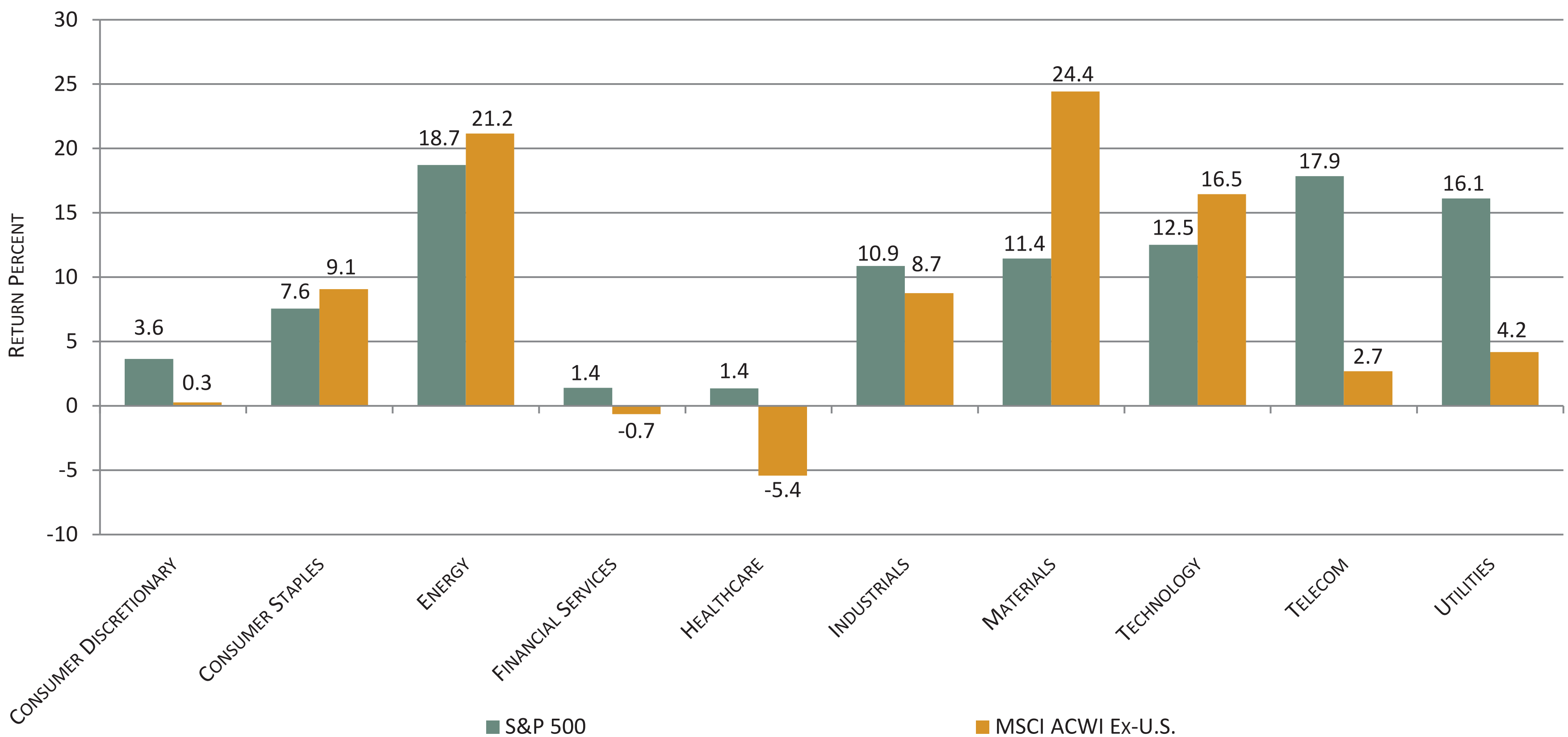
THIRD QUARTER HIGHLIGHTS

INCOME ORIENTED AND CYCLICAL STOCKS LEAD WHILE FINANCIALS AND HEALTHCARE LAG YEAR-TO-DATE

A rebound in commodity prices drove energy and materials stocks to double-digit gains. Technology stocks rallied on strong earnings reports. Healthcare has been weak due to political pressures. Financials are lagging as low interest rates are hurting margins.

SECTOR RETURNS: YEAR-TO-DATE 2016[1]



Third Quarter Highlights

Hedge strategy funds posted modest positive returns

Event driven managers have performed well with mega deals including Dell/EMC, Anheuser Busch InBev/SABMiller, and ChemChina/Syngenta trading at wide spreads throughout the quarter and all either closing or clearing significant hurdles prior to quarter-end that narrowed their spreads and generated strong returns. The overall dollar value of merger and acquisition activity (M&A) is down approximately 25% to record setting 2015 levels, but the opportunity set remains solid for merger arbitrage focused funds.

Distressed managers had a solid third quarter. Managers that added to distressed energy names during the weakness of the first quarter have been well rewarded. In addition stressed performing credit has been one of the strongest performing sectors. Some of the largest, most widely held distressed names had positive credit specific events including Caesar's, TXU, Lehman Brothers, and Puerto Rico municipal bonds. The rebound in credit has also provided a boost to distressed and post-reorganization equities.

Many structured credit managers performed well in the third quarter boosted by the continued recovery in commercial mortgage-backed securities and collateralized mortgage obligations. Hedges generally were performance detractors since indices that many managers use to hedge their portfolio strongly outperformed cash bonds which managers tend to hold as long positions. Structured credit manager net exposures are lower than they have been since the global financial crisis as managers prepare for increased credit market volatility around a future Fed rate hike.

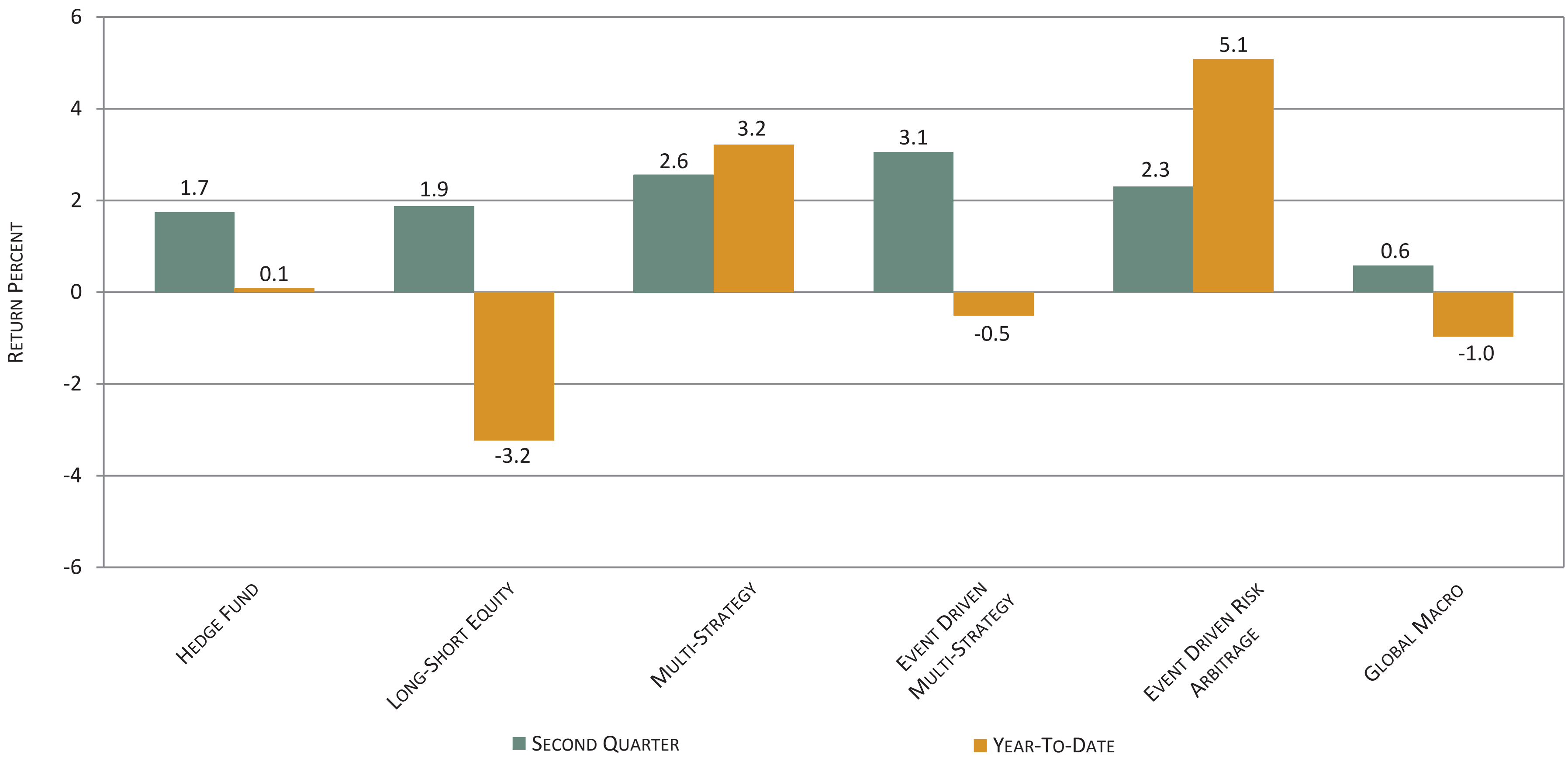
Multi-strategy funds performed well during the quarter. Funds with M&A exposure capitalized on spread narrowing and convertible bonds have been offering attractive opportunities as well. The trend of overweight long/short equity special situations exposure remains a notable aspect of multi-strategy manager profiles.

Third Quarter Highlights

Various hedge fund strategies had positive quarterly returns, but mixed returns year-to-date

The best performing hedge fund strategies have been those with less correlation to general equity market or macroeconomic trends.

Hedge Fund Returns: Third Quarter and Year-To-Date[1]



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Outlook

Volatility likely to continue due to low global growth, full valuations, and policy change risk

The outlook is similar to the end of the second quarter although risks associated with central bank policy change have increased.

- The global central bank policy watch continues to drive the direction of financial markets. Shifts in policy may be coming but policymakers have signaled they will continue to support growth and liquidity.
  - The Fed is expected to raise its Fed funds rate at a gradual pace. The risk is that higher interest rates will push the value of the dollar higher, making U.S. exports less competitive.
  - The ECB quantitative easing program is set to end in March 2017, concerns are increasing about what comes next.
- Low rates of economic growth around the world are expected to continue since macroeconomic data continues to be mixed. Most countries are expected to see positive GDP growth, but that growth is expected to remain lackluster. Reports from around the world on industrial activity, employment conditions, wage growth, housing, and consumer spending continue to be uneven from period to period and country to country. A low rate of economic growth makes growing corporate earnings challenging.
- Uncertainty about the impact from Brexit on the UK and Europe continues and is likely to flare as formal talks about the exit process begin.
- Most assets are fully valued.

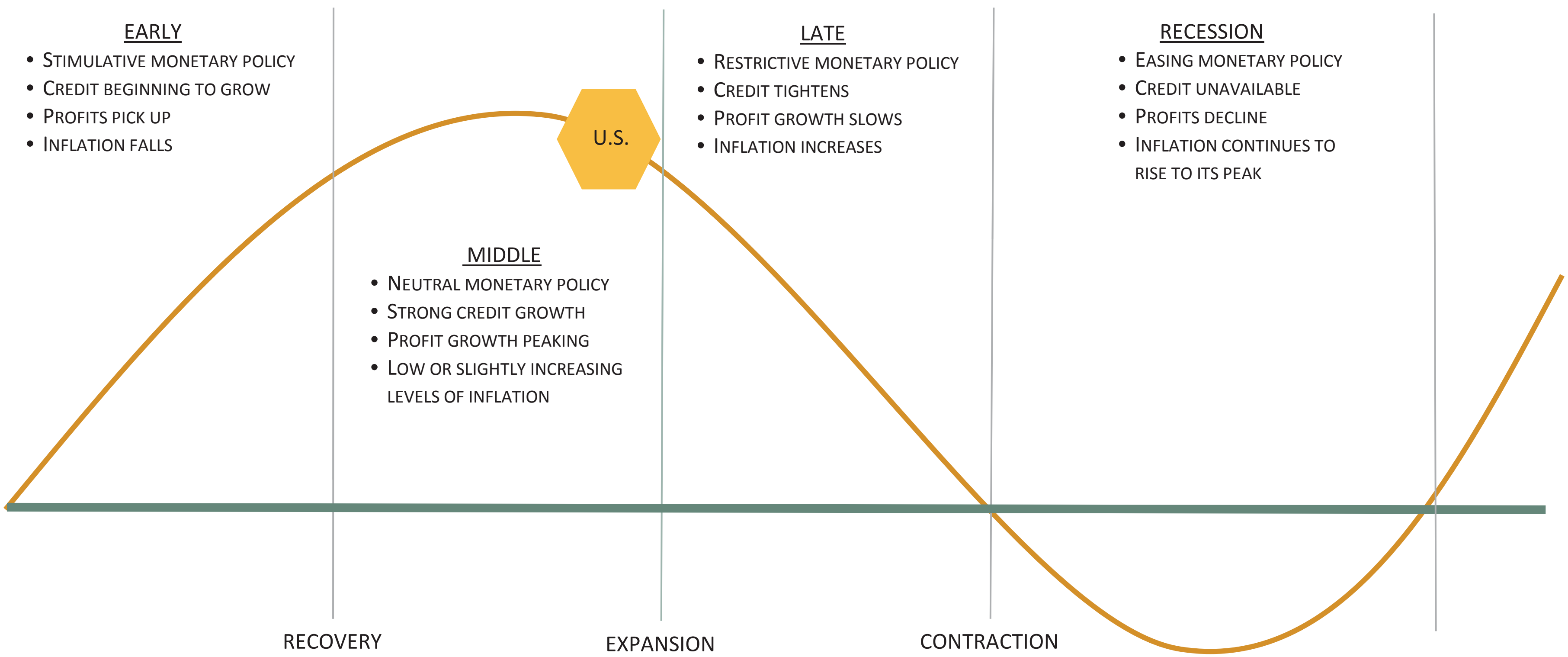
FREQUENT CHANGES TO INVESTOR EXPECTATIONS ARE LIKELY IN REACTION TO NEW DATA OR COMMENTS FROM POLICYMAKERS LEADING TO VOLATILE MARKETS.

Outlook

U.S. may be entering the late sage of the economic cycle, but a downturn is not certain

The current U.S. expansion at 87 months is longer than most. More late cycle characteristics are developing. However, the recovery has been shallow so the cycle may be extended since the economy is not overheating and Fed policy is still accommodative.

Economic Cycle



Outlook

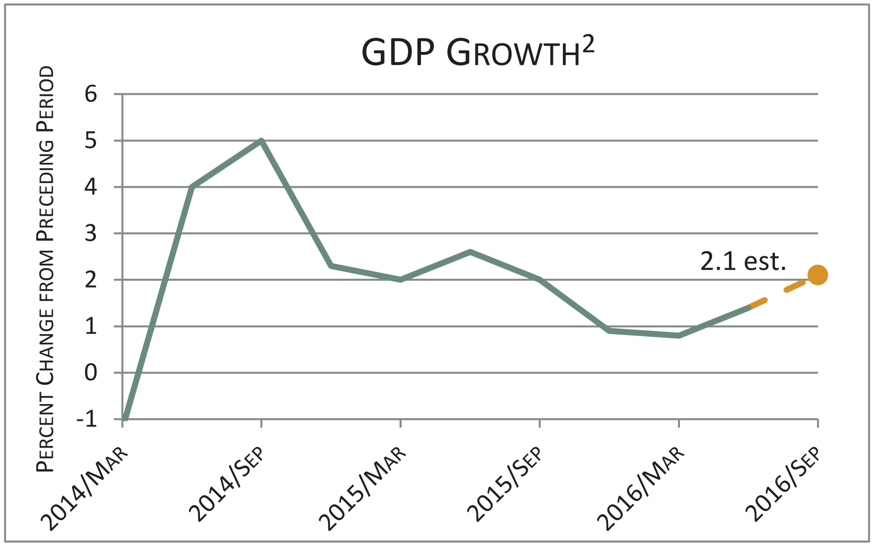
U.S. economic growth is expected to remain positive but low

Second quarter GDP growth was 1.4%, which was better than the first quarter growth rate of 0.8% and 2015's fourth quarter growth rate of 0.9%. The Federal Reserve Bank of Atlanta forecasts third quarter 2016 GDP growth at 2.1%.

The most recent projection from the Fed is for GDP growth of 2.0% in 2017.

The index of 10 leading economic indicators points to positive economic growth. The index increased at a faster rate in the second and third quarters of 2016 than in the first quarter and the last months of 2015. However, the rate of increase is moderate because strength in certain indicators has been offset by weakness in others.

Low GDP growth due to a mixed level of activity in various sectors of the economy suggests the Fed will take a gradual approach to raising interest rates.



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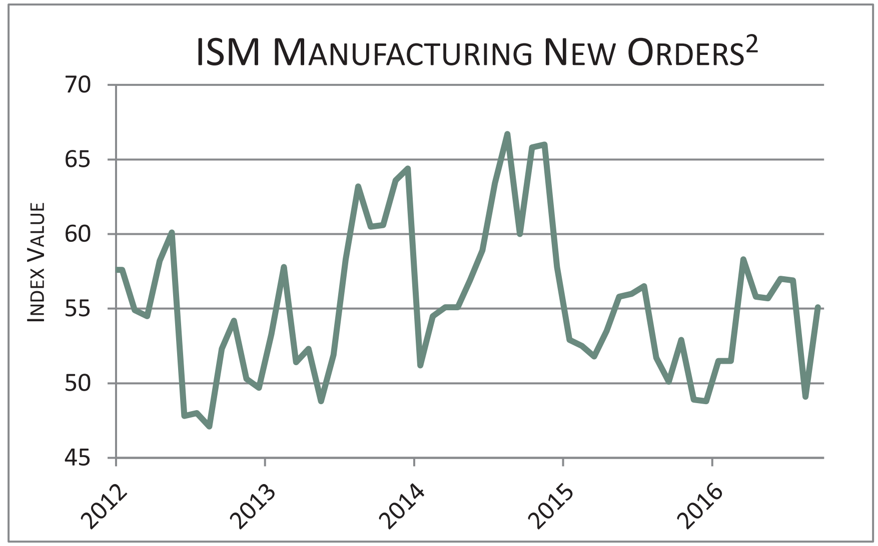
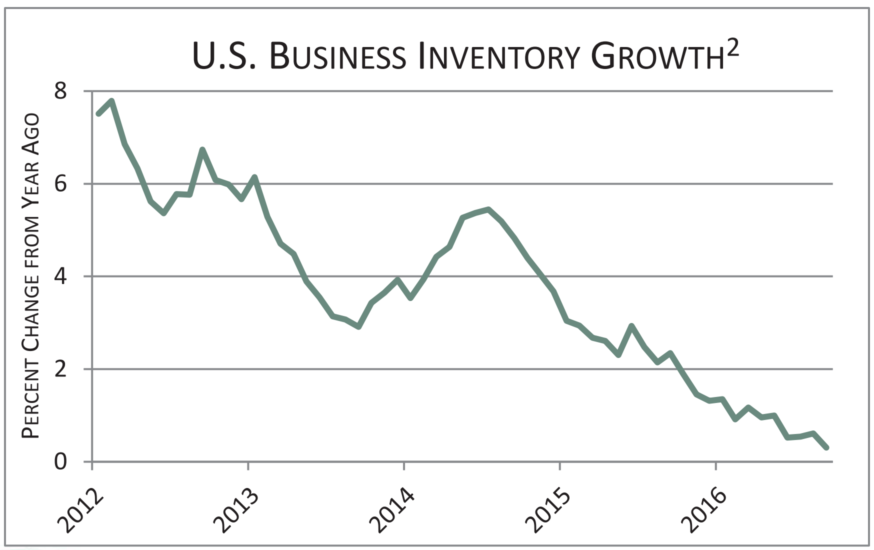
OUTLOOK

INDUSTRIAL SIDE OF ECONOMY STILL WEAK BUT HEADWINDS MAY BE EASING

The industrial economy in the U.S. has been weaker than the consumer and services economy. Prior negative factors may be improving.

- Capital spending has been weak largely due to the oil price drop. Higher oil prices could spur spending.
- Exports are ticking up after falling in 2015 as the dollar has weakened.
- Inventory levels were high, reducing the need for new production. Inventory levels are leveling off.





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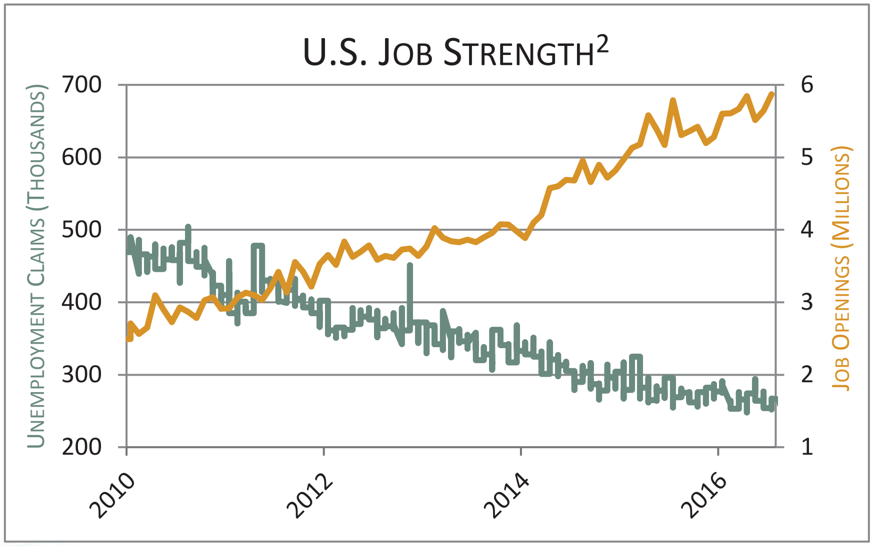
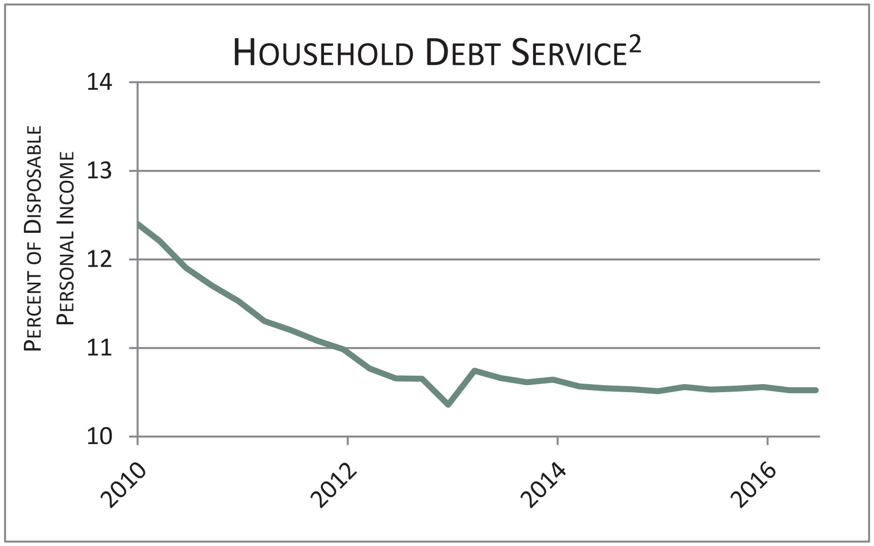
Outlook

Consumer finances are generally supportive for future spending

The consumer side of the economy is supported by a tight labor market with a record high number of job openings and decreasing layoffs. Personal income continues to move higher. Wages are increasing even though the rate of increase is below the historical average.

Improving employment and wages along with strong consumer sentiment is expected to keep housing, vehicle sales, and overall consumer spending trending gradually higher.





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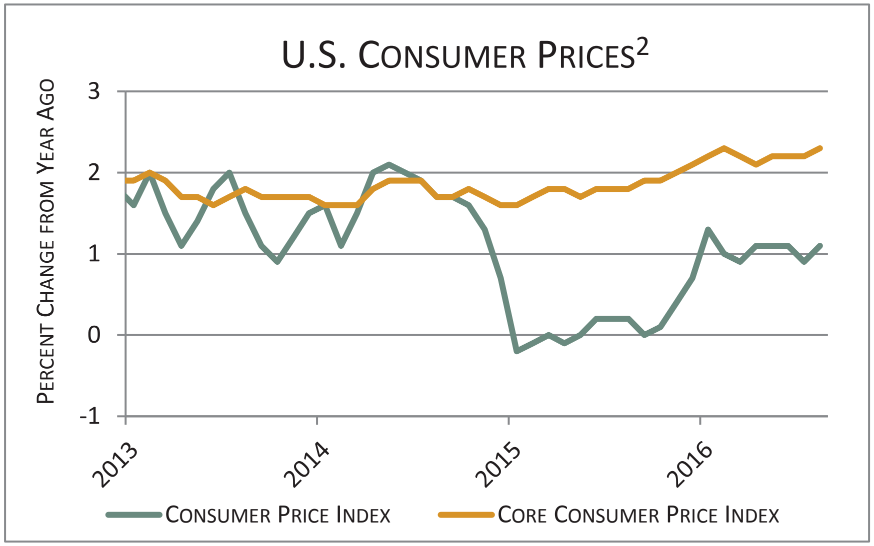
OUTLOOK

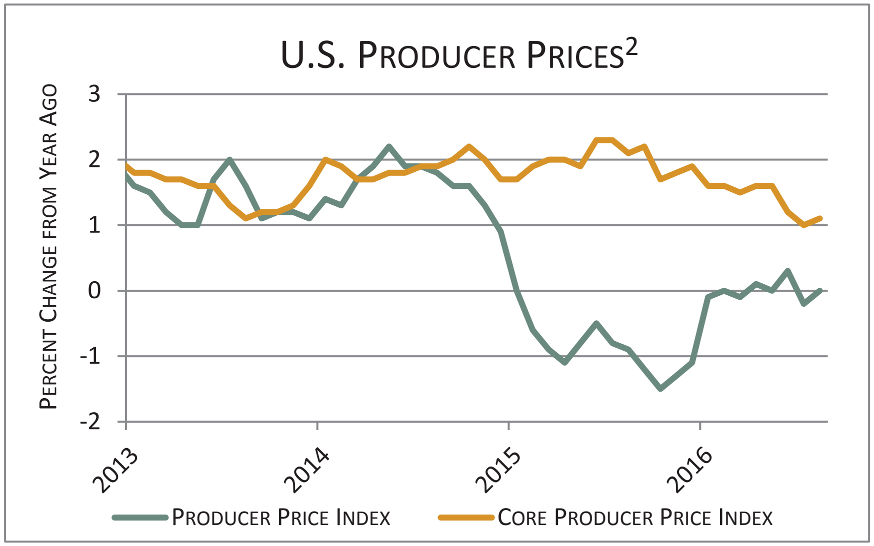
INFLATION IS LOW BUT IS TRENDING HIGHER

Consumer inflation (CPI) has been slowly trending higher but remains at a modest level. Medical and housing costs have been a main driver of the increases. Declining energy and food prices have been keeping the core CPI above the overall CPI. However, both core and overall inflation are likely to tick higher as the benefits of declining oil prices end. In addition, wages are increasing.



The overall level of producer price increases remains low with service price increases offsetting declines in prices for goods.

Also pointing to a pick-up in inflation is the increase in the money supply. Simply defined, inflation is caused by too much money chasing too few goods. A measure of the money supply including cash and time deposits is M2. M2 is increasing at a faster rate in 2016 than over the past seven years.



With inflation rising, it is likely the Fed will raise interest rates. But the Fed is expected to raise rates a gradual pace.

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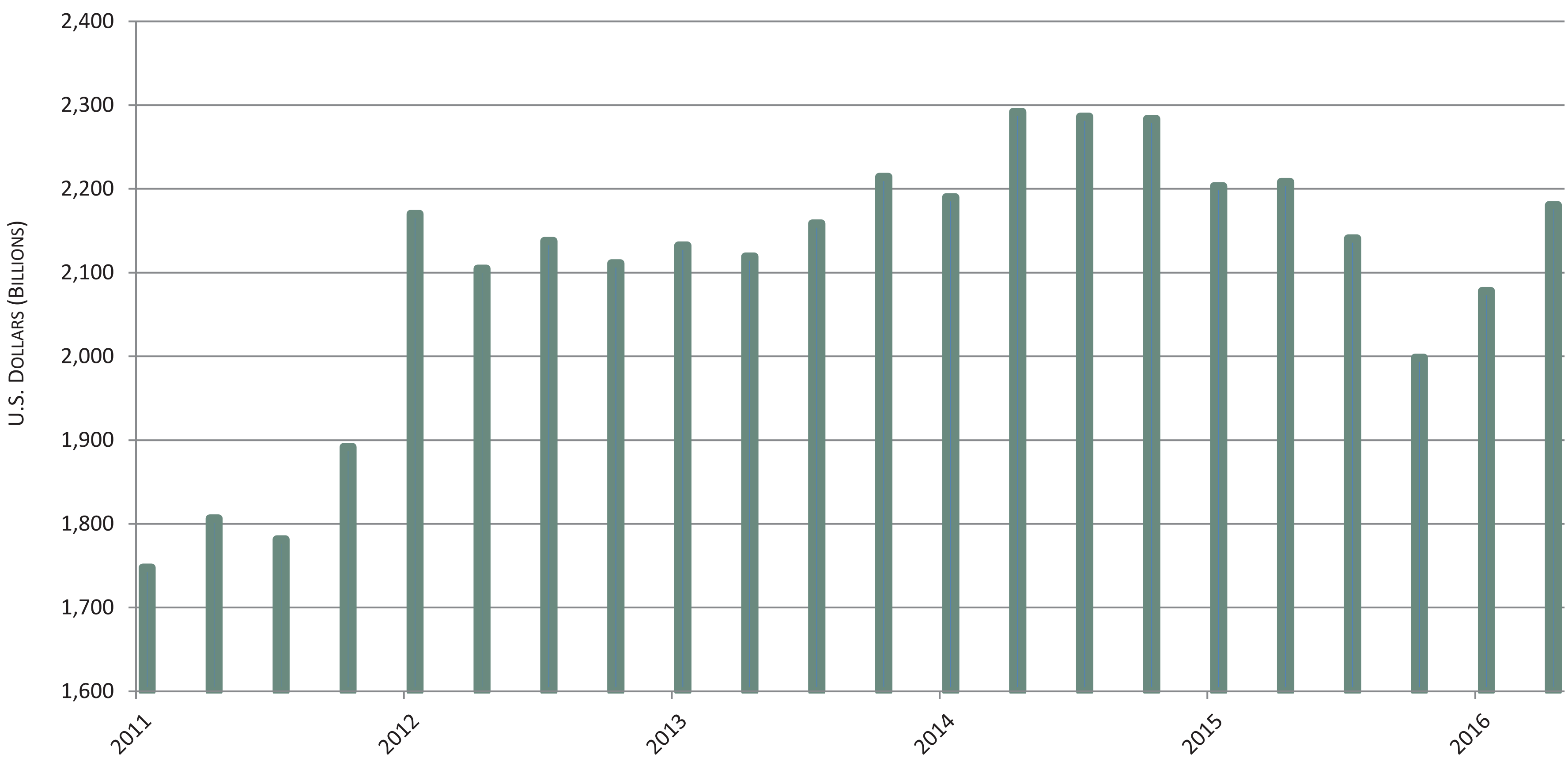
Outlook

Profits are improving quarter over quarter

Corporate profits were higher on a quarter over quarter basis due to the lower dollar helping exports, the drag from falling oil prices subsiding, and a solid employment situation supporting consumer spending. These conditions are expected to continue into 2017.

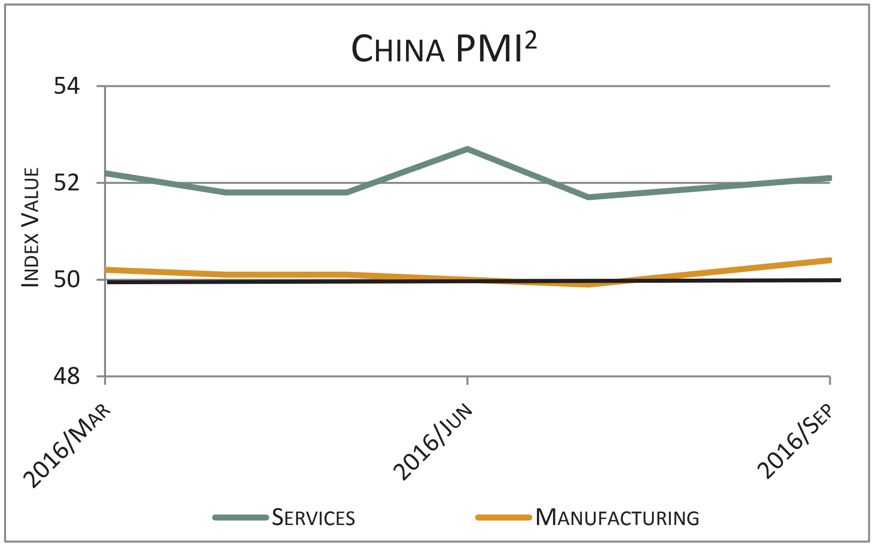
Pre-tax U.S. Corporate Earnings[2]

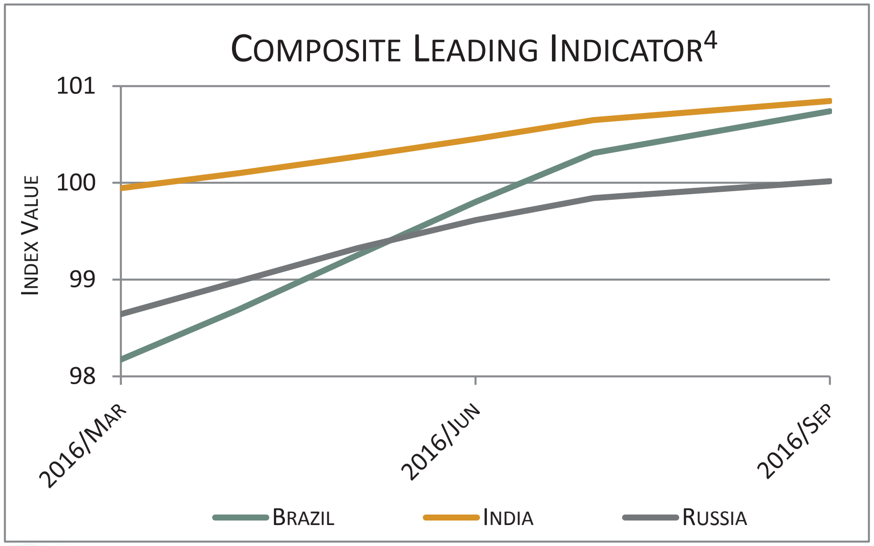


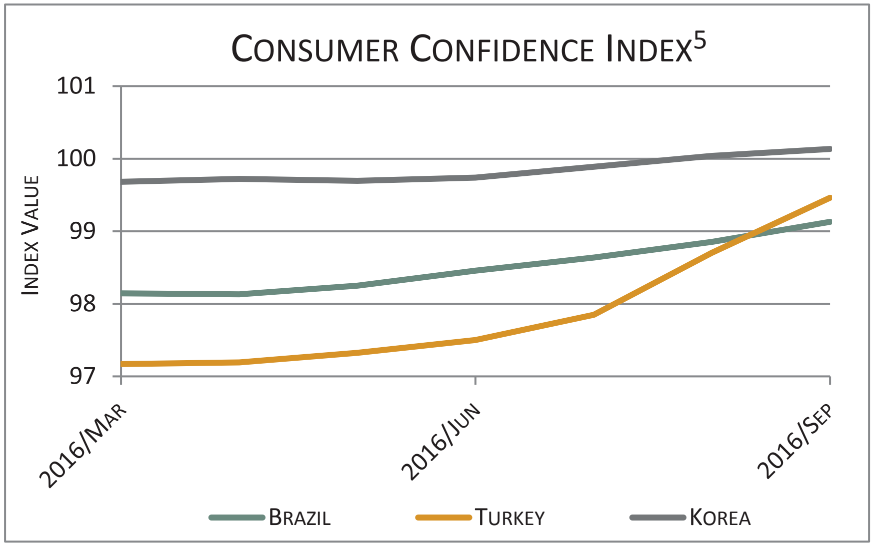
Outlook

Emerging market fundamentals trending up on stable commodities and currencies

Fundamentals in many emerging market countries improved recently. For example, manufacturing activity has been trending higher in several countries, even in previously weak areas such as China, Taiwan, and Brazil. The health of emerging market economies continues to be sensitive to commodity prices, U.S. interest rate policy and the impact on currencies, and global economic activity.







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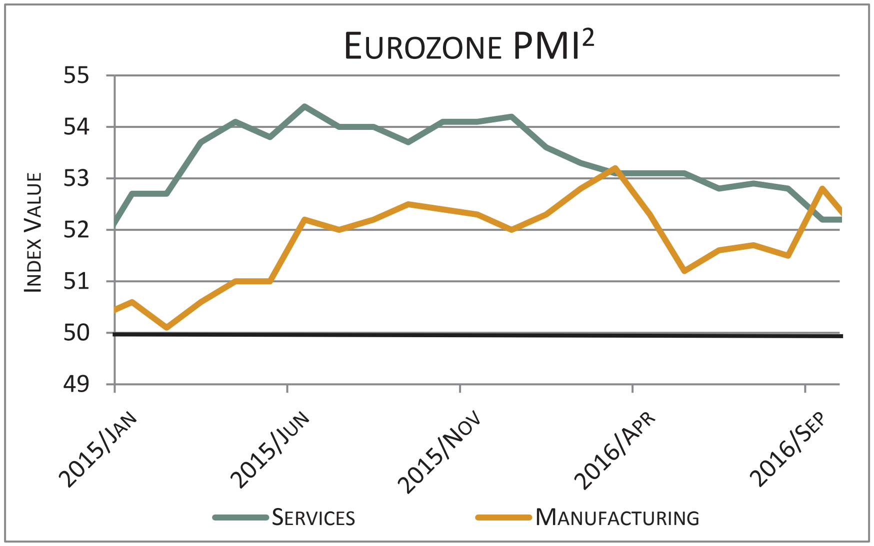
Outlook

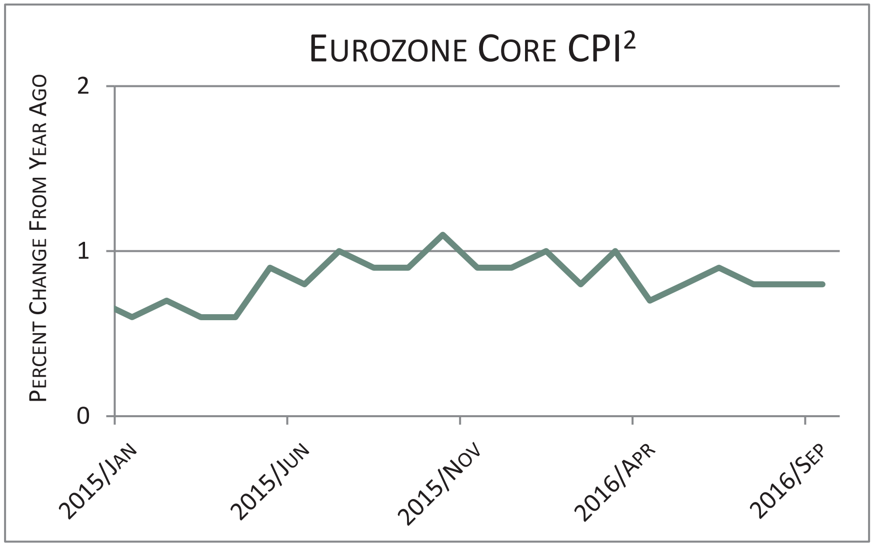
European economy is gradually improving but uncertainty remains about QE and BREXIT

Economic activity in the eurozone is slowing improving despite some mixed data. Both the services and manufacturing purchasing managers' indices remain above 50, which indicates expansion. Other data is trending up such as disposable income and consumer spending.

ECB policies have been aimed at increasing inflation and avoiding deflation. Inflation in the eurozone is well below the 2% target. There have been positive signs, such as the inflation rate in Germany hitting a 16-month high.

The ECB is expected to continue its QE policies beyond the original March 2017 end date in an effort to boost economic growth and inflation. European financial markets are likely to be volatile on any news that would signal a change in policy. Developments related to Brexit are another source of potential volatility when formal talks begin.





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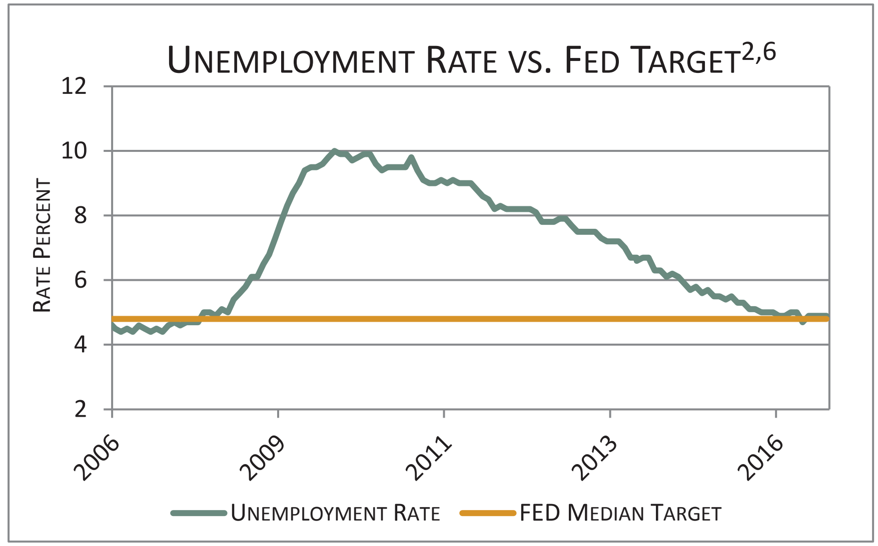
OUTLOOK

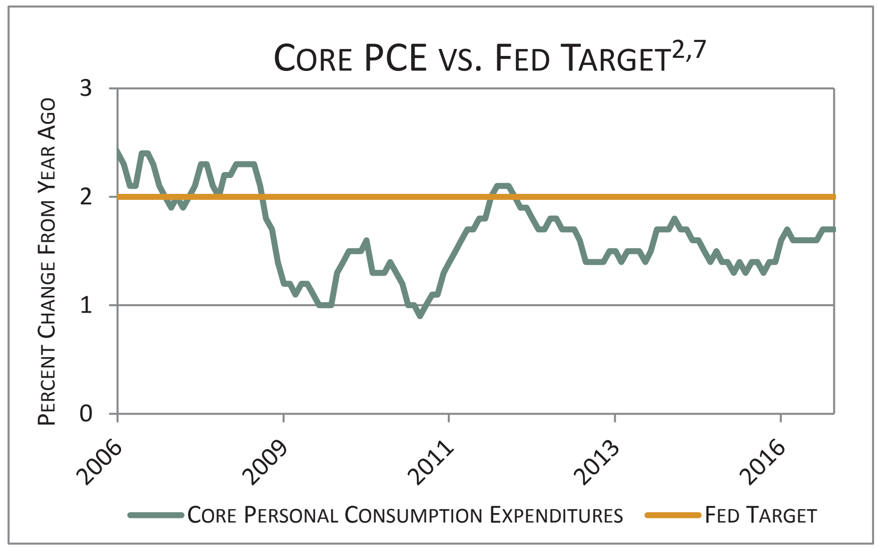
FED FUNDS RATE HIKE LIKELY IN DECEMBER

In September the Fed said, "The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives." A 0.25% increase in the policy rate is likely at the December meeting because:

- More members want a rate hike. At the last meeting, three committee members were in favor of a 0.25% move. This is the highest number of members dissenting since 2014.
- The labor market is tight, suggesting the economy is near full employment. Not only has the unemployment rate been near the Fed's target rate for several months, the duration of unemployment has decreased and the number of job openings is at an all-time high.
- Inflation is moving closer to the Fed's 2% target and wage pressure is increasing.

U.S. economic data are at or near Fed targets, but the Fed said it is sensitive to global economic and financial developments. Weakness outside the U.S. would be a reason the Fed may decide against a rate increase.





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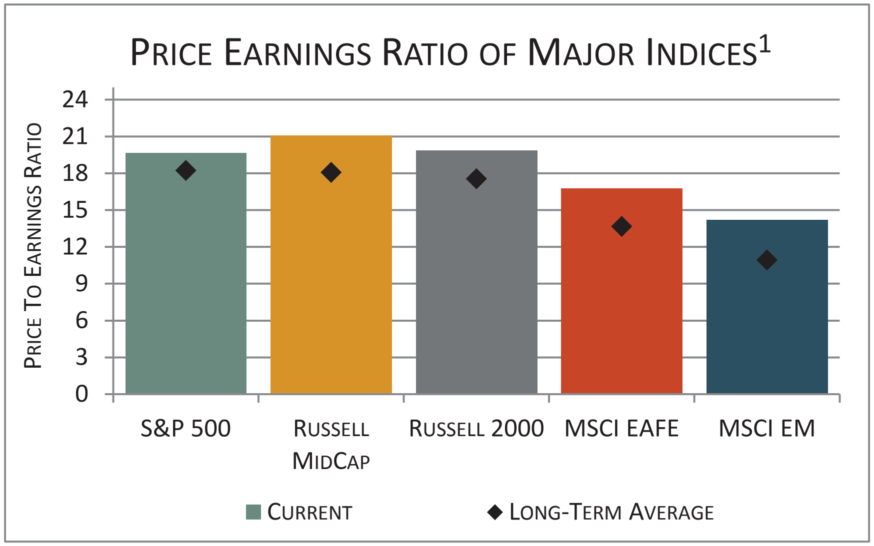
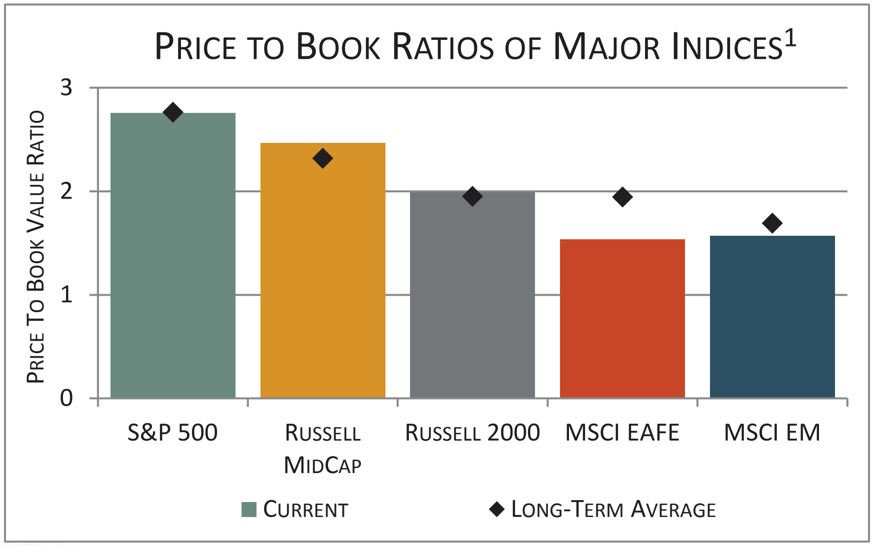
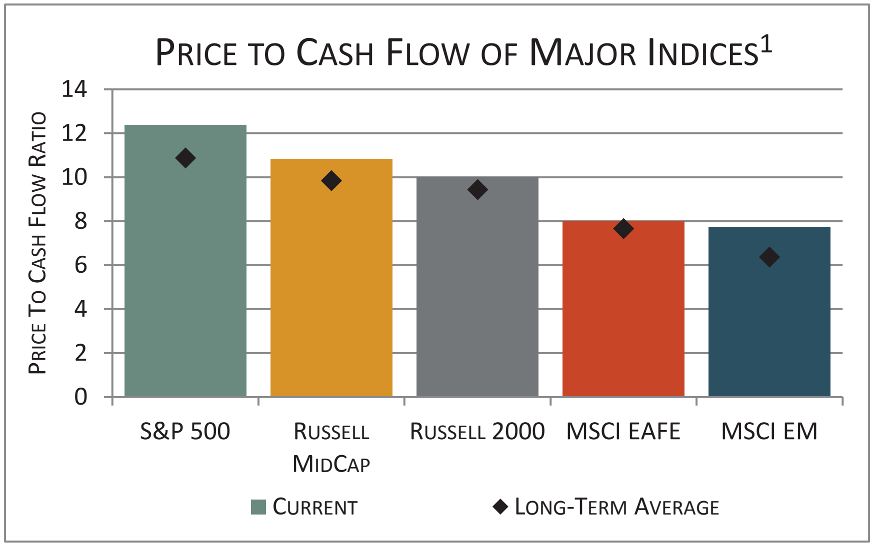
Outlook

Equity valuations mostly higher than average

Since the major equity market indices posted gains for the quarter, various valuation metrics moved slightly higher over their long-term averages. This is especially noticeable for emerging markets and U.S. small-cap stocks. There are no clear areas of undervalued opportunities.







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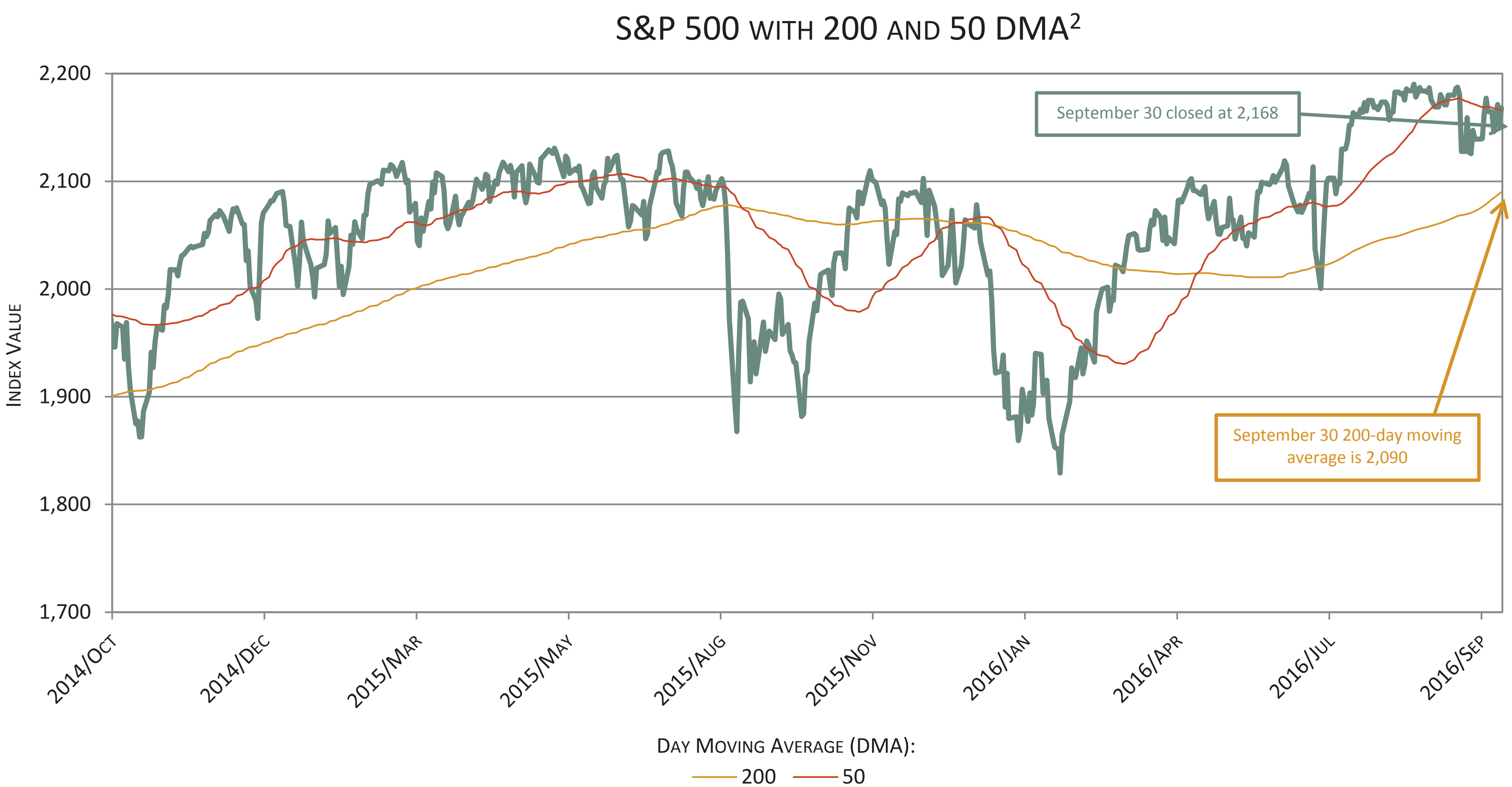
Outlook

Caution for adding money to equities in short-term

The S&P 500 index 50-day moving average (DMA) trend line is flattening and the index was trading below that trend line near quarter-end. This could be pointing to a short-term breakdown in the index toward the 200 DMA. The 200 DMA remains in an upward trend.



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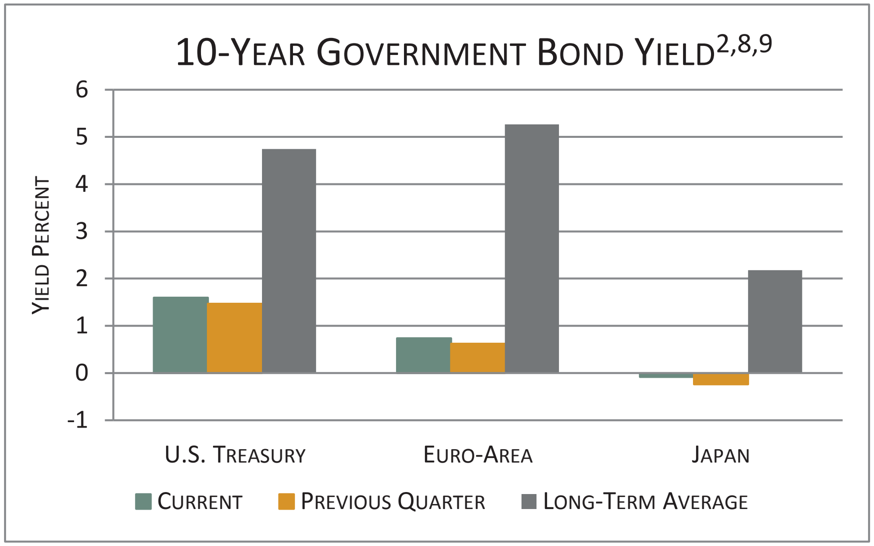
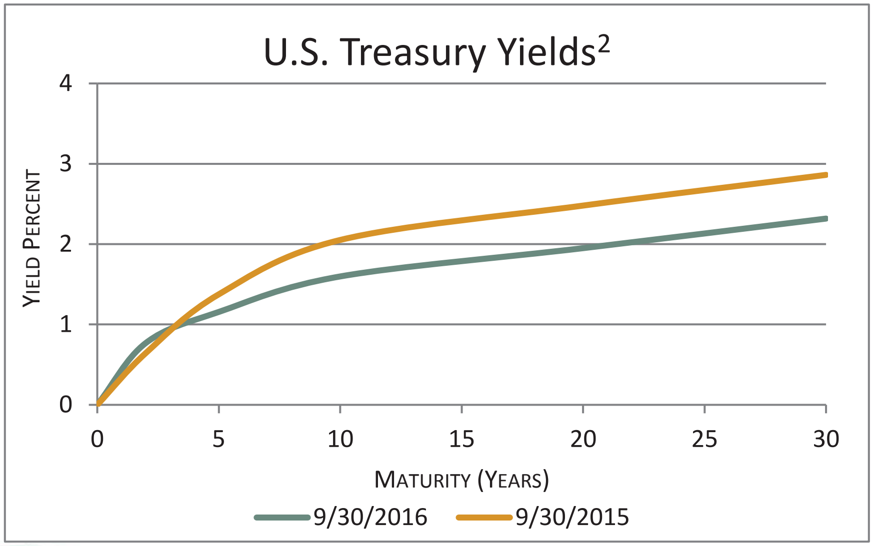
Outlook

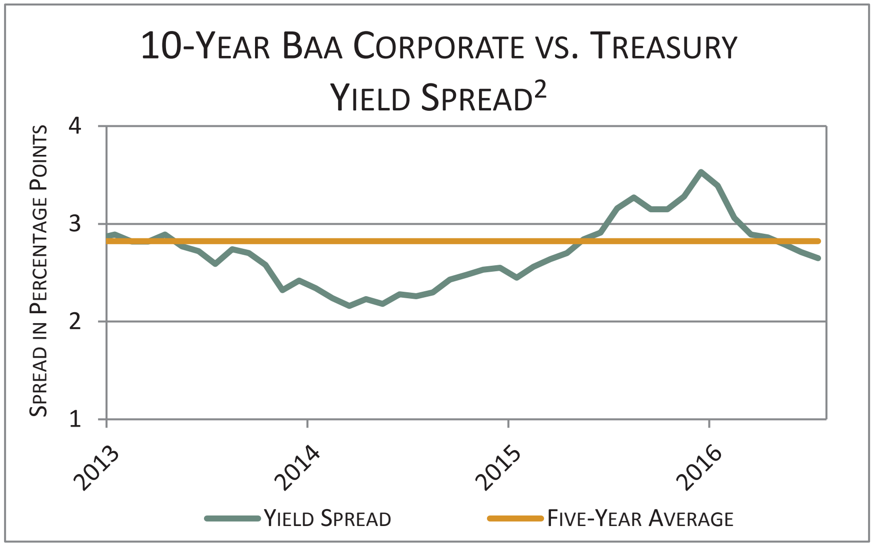
Low bond yields elevate price risk related to a change in monetary policy

Treasury bond yields are mostly lower than a year ago as demand for the bonds as safe haven assets and for the higher yields available compared to many countries has driven prices up. Strong demand has also driven corporate bond prices higher. The yield on corporate bonds over similar maturity Treasury bonds has decreased to below the average of the prior five years.

Despite the high valuations, demand for the yield available on U.S. bonds is likely to remain high which could limit downside price risk if the Fed raises its policy rate.







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VOGEL TACTICAL RECOMMENDATIONS

CHANGE IN TACTICAL RECOMMENDATION TO UNDERWEIGHT INTERNATIONAL DEVELOPED EQUITIES

ASSET CLASS	ACTION	COMMENTARY
Domestic Large-Cap Equity	EQUAL WEIGHT	Room for equities to advance in positive, but low, growth climate with still low interest rates. Full valuations may limit returns. Equities offer better risk/return outlook than bonds.
Domestic Mid-Cap Equity	EQUAL WEIGHT	Room for equities to advance in positive, but low, growth climate with still low interest rates. Full valuations may limit returns. Equities offer better risk/return outlook than bonds.
Domestic Small-Cap Equity	EQUAL WEIGHT	Room for equities to advance in positive, but low, growth climate with still low interest rates. Full valuations may limit returns. Equities offer better risk/return outlook than bonds.
International Developed Equity	UNDERWEIGHT	Continued low economic growth outlook along with increasing Brexit, political, and policy uncertainty likely result in periods of heightened volatility in asset prices.
International Emerging Market Equity	EQUAL WEIGHT	Fundamentals improving in some countries, but currency and commodity risks remain a factor. Favor active management to focus on companies with best growth potential.
Fixed Income - Investment Grade	UNDERWEIGHT	Historically low yields and the potential for Fed funds rate increases forecast low returns and elevated price risk.
Fixed Income - High Yield	UNDERWEIGHT	Yield spreads have come in as investors continue to go down the credit quality scale reaching for yield which increases the price risk.
Hedge Strategies	EQUAL WEIGHT	The flexibility to position portfolios for various risk scenarios is expected to provide return opportunities while limiting volatility but full asset values may mute returns.
Real Assets	EQUAL WEIGHT	Slow global growth could limit the commodities recovery but signs of a potential uptick in inflation keep the equal weight position intact.
Cash	OVERWEIGHT	Maintain adequate cash reserves for at least 12 months of cash needs, plus cash for opportunistic investing.

QUARTERLY MARKET REPORT

DISCLOSURES

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Sources: *Number below corresponds to the superscript notation in chart titles*

1. Morningstar Direct℠
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