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Stocks End Q2 With a Bang

Quarterly Update – July 5, 2016

After the previous week's post-Brexit selloff, stocks closed out last week with one of the best performances of 2016 as investors bought the dip. In the first half of the year, the S&P 500 was up 2.69%, the Dow was up 2.90%, the NASDAQ was down 3.29%, and the MSCI EAFE was down 6.28%. All these numbers are as of the quarter's end on June 30.ⁱ

What lesson can we draw from recent market gyrations? Markets respond unpredictably to shocks, and periods of strong performance often follow close on the heels of frightening selloffs. While the media loves to predict gloom and doom at every opportunity, smart investors know to stay calm, look at underlying fundamentals, and stay away from emotional decisions. While we can hope for smooth sailing in the weeks ahead, we should expect continued volatility.

What's going on with Britain's exit from the EU?

Within Britain, a lot. In the aftermath of the vote, several major British politicians have resigned, including Prime Minister David Cameron, a key supporter of the "Remain" campaign. The leadership of major "pro-Leave" parties is also in flux, suggesting the coming elections will be eventful.ⁱⁱ

Several possible roadmaps for the Brexit have been released over the past week by various political factions, but no official plans exist yet.ⁱⁱⁱ Differences in the way that UK and EU leaders would like to handle the Brexit have also emerged, leading to more uncertainty.^{iv} We can expect these negotiations to dominate European headlines for months to come.

What does the data say about the U.S. economy?

The focus on international events has overshadowed some positive indicators here in the U.S. The final estimate of Q1 Gross Domestic Product (GDP) growth shows that the economy grew 1.1% in the first three months of the year. This final estimate is up considerably from the 0.5% growth originally reported in the first estimate.^v

Resilient domestic consumer spending supported growth last quarter and indications suggest the trend continued in the second quarter. Despite a strong U.S. dollar, exports grew more than expected, which is cheering news because it could mean that foreign demand is holding steady.^{vi}

While we don't yet have official data on Q2 GDP growth, two advanced forecasts by the Federal Reserve show 2.6% and 2.1% growth, respectively, indicating the economy accelerated after the first quarter.^{vii}

Earnings reports will emerge in the next few weeks, and analysts are anticipating another tough season with total S&P 500 company earnings expected to be down 6.1% over Q2 2015.^{viii} Much of the weakness can be attributed to persistent headwinds from low energy prices and a strong dollar. Despite the lackluster growth expectations, we're hoping to see some positive surprises and standout performances. We'll know more in a few weeks.

What will the next few weeks bring?

Volatility is likely. Though markets have shrugged off the Brexit panic, Europe isn't in the rearview mirror yet, and we should be prepared for more hiccups down the road. While the summer is often a sleepy time for markets as traders take their own holidays, recent events make it likely that markets will remain fickle. When trading volume is low, even minor events can have an outsized effect on market performance.

Next week, investors will take stock of last quarter and wait for new data. Friday's release of the June jobs report will be carefully analyzed to see whether May's meager job gains were an anomaly or the beginning of a worrisome labor market trend. Minutes from the last Fed Open Market Committee meeting will hopefully provide some clarity about the Fed's future interest rate decisions.

We're still closely monitoring markets and reviewing economic data as it emerges. We'll continue to update you as needed.

ECONOMIC CALENDAR:

Monday: Markets closed for Independence Day Holiday

Tuesday: Factory Orders

Wednesday: International Trade, ISM Non-Manufacturing Index, FOMC Minutes

Thursday: ADP Employment Report, Jobless Claims, EIA Petroleum Status Report

Friday: Employment Situation

Data as of 7/1/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	3.22%	2.89%	1.23%	11.40%	6.56%
DOW	3.16%	3.01%	1.08%	8.53%	6.10%
NASDAQ	3.28%	-2.89%	-3.00%	14.53%	12.39%
U.S. Corporate Bond Index	1.09%	7.68%	8.48%	6.04%	8.03%
International	3.40%	-5.57%	-12.69%	-1.14%	-1.17%
Data as of 7/1/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.24%	0.37%	0.45%	1.00%	1.46%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance, S&P Dow Jones Indices, and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the SPUSCIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Motor vehicle sales stay strong. Americans continued to buy cars and trucks in June despite the market volatility. Purchases of big-ticket items are a good sign for consumer spending last quarter.^{ix}

Jobless claims increase. Weekly claims for new unemployment benefits rose by 10,000 last week. Though claims remain at historically low levels, the increase could indicate slowing growth in the labor market.^x

Construction spending falls. Spending on construction projects fell by 0.8% in May, dropping for the second-straight month. The fall was led by a significant cutback in spending on public construction projects.^{xi}

Consumer confidence rises. A June reading of how Americans feel about the U.S. economy increased, indicating consumers aren't letting economic uncertainty get to them.^{xii}

QUOTE OF THE WEEK

"The secret of getting ahead is getting started."

— Mark Twain

Spiced Carrot Apple Slaw



Use this healthful slaw as a side at your next picnic!

Serves 4

Ingredients:

1/2 cup Greek yogurt or sour cream
2 tablespoons white or red wine vinegar
1/2 teaspoon ground cumin
1/2 teaspoon ground ginger
Kosher salt and black pepper
3/4 pound carrots (2 to 3), peeled
2 tart apples, halved and cored
1/2 cup golden raisins
1/4 cup cilantro, rinsed and chopped

Directions:

1. Whisk the vinegar, yogurt, cumin, ginger, a pinch of salt, and a pinch of cracked black pepper in a large serving bowl.
2. Grate carrots and apples into the bowl.
3. Add raisins and cilantro and toss to combine. Serve immediately.

Recipe adapted from Kate Merker | RealSimple.com^{xiii}



Which Tax Form Do You Need?

While most Americans choose to e-file their taxes for convenience and security, some taxpayers still prefer to fill out paper forms. If you are filing on paper, you need to know which form to fill out. Here are some tips from the IRS on how to choose the right tax form:

Use the 1040EZ if:

- Your taxable income is below \$100,000.
- Your filing status is single or married filing jointly.
- You are not claiming any dependents.
- Your interest income is \$1,500 or less.

Consider the 1040A if:

- Your taxable income is below \$100,000.
- You have capital gain distributions.
- You claim certain tax credits.
- You claim adjustments to income for IRA contributions and student loan interest.

Use the 1040 if:

- Your taxable income is \$100,000 or more.
- You claim itemized deductions.
- You are reporting self-employment income or income from sale of a property.
- You owe household employment taxes.

For more information about tax forms, consult a tax advisor or read IRS Publication 17, "Your Federal Income Tax".

Tip courtesy of IRS.gov^{xiv}



Move Past Your Mistakes

Golf is a mentally taxing game, and a bad shot can eat away at your confidence. While it's important to train for the physical aspects of the sport, the mental side of the game becomes even more critical as you improve as a golfer. Here are some tips for overcoming negative thinking during your play:

- Snap a rubber band against your wrist every time you catch yourself thinking negatively to train your mind to be aware of these thought patterns.

- Reset yourself for each shot with a mental routine to get in the right frame of mind.
- Go through a full practice shot routine when you catch yourself making frequent mistakes.
- Play without expectations. Relax and try not to judge yourself after every shot.

Tip courtesy of John Stahlschmidt, PGA | Golf Tips Mag^{xv}



Stay Healthy on Planes

Planes are not very healthy environments. The dry, pressurized, crowded environment is perfect for passing on germs. Stay healthy on your next flight with these tips:

- Stay hydrated! Start preparing by drinking lots of water at least 24 hours before your flight. Avoid alcohol and carbonated drinks on the flight to avoid further dehydrating yourself in the arid air and ask for a full bottle of water from the flight attendant.
- Keep active. Deep vein thrombosis and blood clots are serious risks on long flights. Get up and walk around to keep your legs moving during the flight.
- Wash your hands regularly and avoid touching your face when traveling. Use paper towels or wipes to touch doorknobs or bathroom handles instead of using your hands.
- Wear socks through security scanners to avoid walking on the floor with bare feet.

Tip courtesy of WebMD^{xvi}



Buying a New Home? Simplify.

If you're in the market for a new house, think about how you might be able to downsize to reduce the amount of space you need. Sprawling homes require more resources to heat, cool, and maintain. They may also be farther away from work, friends, and shopping, thus requiring you to drive more. A smaller house may be more affordable, and reduce the time and expense associated with maintenance, insurance, utilities and taxes. If you're planning to retire in your new house, consider how mobility-friendly it is and think about what modifications you may need to make to support aging.

Tip courtesy of Seattle PI^{xvii}

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, simply click on the "Forward email" link below. We love being introduced!

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

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ⁱ <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=00&b=1&c=2016&d=05&e=30&f=2016&g=d>

<http://finance.yahoo.com/q/hp?a=00&b=1&c=2016&d=05&e=30&f=2016&g=d&s=%5EDJI%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=00&b=1&c=2016&d=05&e=30&f=2016&g=d&s=%5EIXIC%2C+&q=1>

<https://www.msci.com/end-of-day-data-search>

ⁱⁱ <http://www.theguardian.com/politics/2016/jul/04/nigel-farage-resigns-as-ukip-leader>

<http://www.telegraph.co.uk/news/2016/06/30/boris-johnson-wont-run-for-prime-minister-after-michael-gove-ent/>

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- ⁱⁱⁱ <http://www.newstatesman.com/politics/staggers/2016/07/nigel-farages-exclusive-brexit-plan-has-just-been-revealed-and-its-very>
- ^{iv} <http://www.bbc.com/news/uk-politics-eu-referendum-36682735>
- ^v <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>
- ^{vi} <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>
- ^{vii} <https://www.newyorkfed.org/research/policy/nowcast>
<https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1>
- ^{viii} <https://www.zacks.com/commentary/84457/tough-earnings-environment>
- ^{ix} <http://www.foxbusiness.com/markets/2016/07/01/car-shoppers-shrug-off-brexit-volatility-in-june.html>
- ^x <http://www.foxbusiness.com/markets/2016/06/30/jobless-claims-rose-by-10000-last-week.html>
- ^{xi} <http://www.foxbusiness.com/markets/2016/07/01/u-s-construction-spending-falls-0-8-percent-in-may.html>
- ^{xii} <http://www.foxbusiness.com/markets/2016/06/28/consumer-confidence-improves-in-june.html>
- ^{xiii} <http://www.realsimple.com/food-recipes/browse-all-recipes/carrot-apple-raisin-slaw-recipe-00000000031515/index.html>
- ^{xiv} <http://www.irs.gov/taxtopics/tc352.html>
- ^{xv} <http://www.golftipsmag.com/instruction/strategy-troubleshooting/dont-get-in-your-own-way.html#.U7iun1dVsJ>
- ^{xvi} <http://www.webmd.com/a-to-z-guides/features/keeping-healthy-while-flying>
- ^{xvii} <http://www.seattlepi.com/news/article/52-tips-for-living-green-1269861.php>