FINITY GROUP, LLC

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

October 2016

Third Quarter 2016

In general, markets had a good third quarter. With concerns of a Brexit squarely in the rearview mirror, most indices steadily increased throughout the quarter. The S&P 500 ended the third quarter up 3.85% and the index is positive 7.84% for the year. Fixed income markets, measured by the Barclay's Aggregate index, were positive as well, ending up .46% in the quarter and 5.80% for the year. Broader international markets, measured by the MSCI EAFE, had a nice bounce in the quarter, gaining 6.43%, turning the year to date returns positive.

It's that time again…

Every four years we tend to get a fair number of questions about how politics can impact portfolios. Politics take over public discourse and media pundits run headlines on how the results of the election impact portfolios and investment returns. Not surprisingly, there have been studies to try and determine which political outcome is best for investments. Some have shown that parts of equity markets have historically performed better under Democrats (Santa-Clara and Valkanov, Journal of Finance, 2003) while fixed-income markets have outperformed under Republicans (Johnson, Chittenden, and Jensen, Journal of Portfolio Management, 1999).

While it does make for good conversation, we would point investors in a different direction: to the Fed. In a study that looked at a combination of both political and monetary factors, in their paper "Don't Worry about the Election, Just Watch the Fed", (Journal of Portfolio Management, 2004) the authors Beyer, Jenson and Johnson found that when looking at both monetary policy and the political landscape simultaneously, the previously referenced relationships begin to break down. "Overall, our evidence indicates that equity investors have consistently benefited from an expansive Fed monetary policy relative to a restrictive policy. In contrast, there is no consistent evidence suggesting that shifts in the political landscape have been systematically related to security returns. This evidence suggests that market participants should focus their attention on the actions of the Federal Reserve when performing investment analysis and treat election outcomes as a minor distraction."

With the above in mind, and as we mentioned in our last note, it was largely anticipated that the Federal Reserve would raise interest rates four times in 2016, but given the events such as Brexit and other domestic and international factors, it seems at this point that one increase is all that is slated for the year. In an October 5th article, Bloomberg noted that the market-implied probability is now 64% that we will have one rate hike by the end of the year. As noted above, restrictive monetary policy is not ideal for equity markets, and while rates began to rise in December of 2015, the economy appears to be on a stable footing. Furthermore, with the Fed funds rate currently at .5%, well below the historical average of 5.85% since 1971, we see the current environment as one in which equities could continue to perform well.

Even in the modestly rising interest rate environment, the broader fixed income markets have continued to grow, ending the third quarter up 5.8% for the year. As we approach the end of the year and the dust settles from the election, we would side with the current market forecast and expect the Federal Reserve to raise rates modestly at the December meeting.

In our last note we commented on how bumpy a year 2016 had been after the selloff right after the New Year, the corresponding rebound and then the uncertainty created by Brexit. We wouldn't be surprised at all to see this type of volatility continue through the end of the year. As we work through the homestretch of the election we would encourage investors with diversified portfolios and invested in multiple asset classes to focus on their goals and rebalance back to their targeted asset allocation that is designed to match their time horizons and risk tolerances.

We are always ready to assist you and answer any questions regarding this newsletter or anything else that may come up. If any changes to your situation have occurred, please contact us at your convenience.

	Closing Price: 6/30/2016	Closing Price: 9/30/2016	CY 2016 % Return	Q3'16 % Return
S&P 500 TR USD	2098.86	2168.27	7.84%	3.85%
MSCI EAFE NR USD	1608.45	1701.69	1.73%	6.43%
Barclays US Aggregate Bond TR	2027.69	2036.98	5.80%	0.46%

Written by Finity Group

CORRECTION: In our Q2 Market Update we erroneously had market performance figures through 7/9/2016 not 6/30/2016 as we wrote.

Index & other data provided by Bloomberg.com, Yahoo!Finance MSCI.com, S&P Dow Jones, Morningstar, Factset, & JP Morgan. You cannot invest directly in an index. This information should not be construed as investment advice regarding specific ETF's, funds or stocks in particular, nor should it be deemed as a recommendation to purchase or sell a security. Past performance is not a guarantee of future investment results. This report is written solely for clients of Finity Group LLC, and may not be reproduced or disseminated without the express written permission of Finity Group LLC. Tracking #183409 DOFU 20161012