WINFIELD
ASSOCIATES

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Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

All three major U.S. equity indexes hit record intraday highs during the third quarter of 2016. On August 23 the S&P 500 crossed 2,193, on August 15 the Dow Jones Industrial Average (DJIA) reached 18,668, and on September 22 the NASDAQ touched 5,342. While the markets generally traded flat to modestly down through the remainder of the quarter, equity indexes across the globe logged impressive quarterly results. During the third quarter alone, the S&P 500, the DJIA, the NASDAQ and the MSCI EAFE indexes rose 3.9%, 2.8%, 10.0%, and 6.6% respectively. For the first nine months of 2016, the S&P 500 posted a total return of 7.8%, the DJIA 7.2%, and the NASDAQ 7.1%. Of the major indexes that we closely follow, only the broad international MSCI EAFE index finished in the red through September, down 0.4%.

The demand for riskier equity assets is the result of improving economic data and the monetary policies of the world's central banks. The continuation of accommodative monetary policy across the globe is suppressing interest rates and as long as these policies persist, equity markets will benefit. With this backdrop, the September meeting of the Federal Open Market Committee (FOMC) was one of the most closely followed Fed meetings since Janet Yellen assumed her role as Chairperson in February 2014. During the Fed's annual Economic Policy Symposium at Jackson Hole in August, Chairwoman Yellen stated, "the case for an increase in the federal funds rate has strengthened." Although the FOMC did not raise rates at the September meeting, it repeated the Jackson Hole comment in its statement, shifting expectations to its December meeting.

Nonetheless, we believe that the likelihood of an increase in the federal funds rate in December is uncertain. The Fed has undershot its inflation target since April 2012, and inflationary pressures remain weak. Moreover, with rates so low, the FOMC is less able to respond to negative geopolitical developments and thus needs to be especially cautious about hiking prematurely. In a press conference following the September meeting, Chairwoman Yellen highlighted these risks and called the United States' current monetary policy only "modestly accommodative," having already raised rates once.

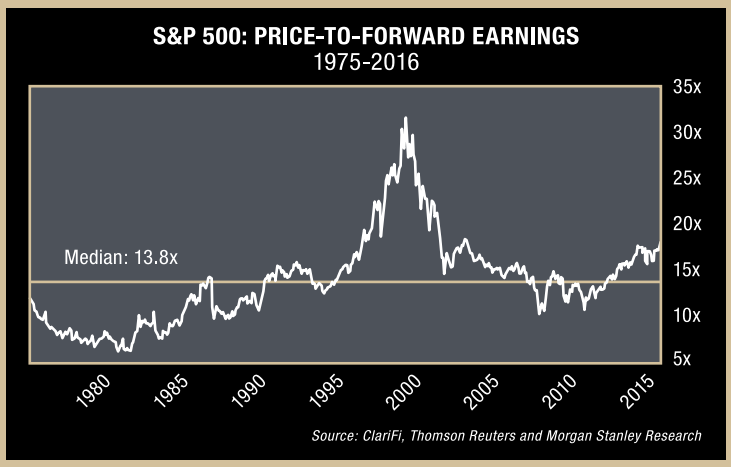
Despite the Fed's stated concerns, the US continues to be the strongest economy among the major developed markets. US consumers are leading economic growth and data suggest that the recovery could be broadening. In particular, three indicators demonstrate that the jobs, income, and wealth of the middle class have all improved in 2016:

1. ***Job Creation:*** In the third quarter, an average of 232,000 new jobs per month were created, which is well above the 75,000–125,000 jobs per month needed to keep up with population growth.

2. ***Household Income:*** Annual data released by the US Census Bureau in September showed that real median household income increased by 5.2% in 2015, the largest one-year increase in the 48-year history of the data series.

3. ***Household Net Worth:*** US aggregate household net worth continued to climb in 2016 and hit a record $89.1 trillion, which is 31% above its pre-crisis high and 64% above its post-crisis low.

While US economic data are decidedly improving, corporate profits have remained essentially flat compared to 2015 levels. As stock prices continue to rise, valuation considerations become increasingly important. Current earnings expectations for the third quarter show low single-digit gains trending higher in the fourth quarter and into 2017. The graph below shows a 40-year history of price to forward earnings (PE) multiple on the S&P 500.



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The current PE of 17.7x is above the 40-year median level of 13.8x, but well below the inflated valuations of 1998-2001 which were in excess of 30x. As stocks continue to trade at relatively high valuations, equity appreciation will depend less on expanding multiples and more on improving earnings. Importantly, two transitory macroeconomic factors contributed to muted corporate earnings over the past year: lower oil prices and a strong dollar. In the case of oil, the price of a barrel of crude seems to have stabilized after a period of substantial volatility. Additionally, in recent weeks the dollar has stabilized against emerging market currencies and the euro. We believe stability in both factors will ultimately contribute to improved earnings not just in the US, but globally as well. We will monitor third quarter earnings in the coming weeks for signs of improvement.

In less than a month, the United States will vote for a new President. Regardless of the outcome of the election, it is hard to predict market implications other than increased volatility up to and through November 8. Furthermore, increased uncertainty surrounding Congressional races across the country adds to the confusion. As races in both the House of Representatives and Senate tighten, it becomes clearer that the new executive, regardless of party, will have to push a legislative agenda through an embattled and potentially split Congress. Our strategy so far has been to exercise caution with reasonable levels of fixed income and cash, and to concentrate our seeking of potentially rewarding opportunities in equities.

REQUIRED MINIMUM DISTRIBUTION

Individuals are generally required to withdraw a minimum amount of money from tax–advantaged retirement accounts each year beginning the calendar year after turning 70½. This amount is called a Required Minimum Distribution (RMD). Individuals must take RMDs from any retirement account that included tax–deferred assets or had tax–deferred earnings.

These accounts include:

- Traditional IRAs
- SIMPLE IRAs
- Most Keogh accounts
- Rollover IRAs
- SEP–IRAs
- Most 401(k) and 403(b) plans

Annual RMDs may be taken in one distribution or periodic withdrawals throughout the year, but the total annual minimum amount must be withdrawn by the deadline of December 31. Of note, individuals can always take more than the RMD amount. Please contact us if you have questions.

MARKET PERFORMANCE

	3Q 2016	2016 YTD
Dow Jones	2.8%	7.2%
S&P 500	3.9%	7.8%
Nasdaq	10.0%	7.1%
Russell 2000	9.0%	11.5%
MSCI EAFE	6.6%	-0.4%
Barclays Agg	0.5%	5.8%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES

- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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