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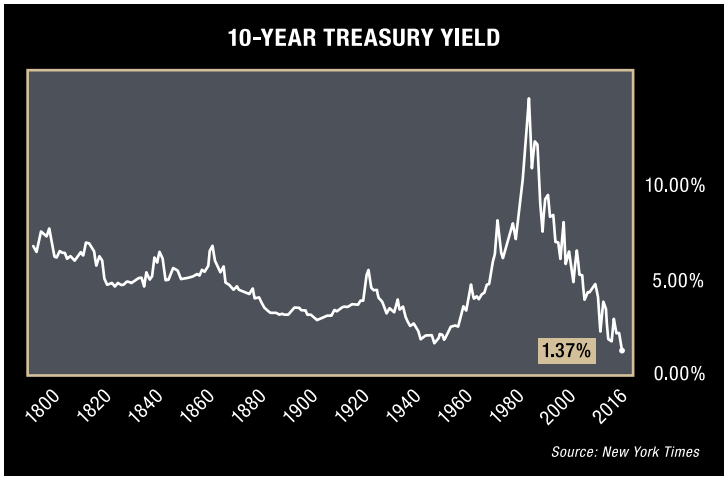
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

The United Kingdom's vote to leave the European Union dominated headlines at the end of the second quarter. Global equity markets plunged in the two trading days that followed the June 23 British referendum, temporarily erasing an estimated $3 trillion of shareholder value. However, in the weeks that followed equity markets rebounded and by July 11 numerous indexes, including the DJIA and the S&P 500, hit all-time highs. Many international equity markets shared in the recovery but not at levels strong enough to set new records. The still-unfolding effects of Brexit and a possible banking crisis in Italy dampened investors' enthusiasm in Europe, while Asian markets generally lagged due to ongoing worries about slowing growth in China. Nonetheless, investors' appetite for riskier assets strengthened at the end of the second quarter amid expectations of new monetary stimulus programs in Europe, Japan, and China.

In our April *Market Commentary*, we discussed the effects of negative interest rates on global credit markets. Prior to Brexit, approximately $11 trillion of government bonds worldwide offered yields below zero. This amounts to nearly double the value at the end of February. Brexit added further pressure on credit markets, leading to yet another significant drop in bond yields. Following Brexit, another $2 trillion of government bonds in the global market offered negative yields. In the domestic market, the yield on the benchmark 10-year Treasury bond fell to 1.37% on July 8. As the graph below illustrates, this is the lowest mark in the 227-year history of the United States.



Among other factors, bond markets trade on the economic outlook for growth and inflation - low yields could suggest difficult times ahead. However, many institutional investors such as insurers, pension funds, and banks are required to buy government-issued bonds for regulatory reasons. The European Central Bank and the Bank of Japan are also buying bonds as part of their respective quantitative easing programs. These various domestic and foreign entities will continue to buy government-issued bonds regardless of the price. Meanwhile, few governments are issuing new bonds as they seek to avoid increasing debt loads. As a result, strong demand has combined with limited supply to send bond prices up and yields down.

The confluence of factors affecting financial markets is driving all asset prices higher, particularly in the United States. On the one hand, investors are seeking higher returns by assuming additional risk in equities. On the other hand, investors buying government-issued debt are satisfied with low long-term returns in exchange for lower volatility. We believe that global uncertainty is especially favoring domestic assets, as investors seek relative safety. This capital flight has contributed to the historic drop in U.S. interest rates and the record-breaking levels in domestic equity markets.

While consumer consumption, low unemployment, stable commodity prices, mild inflation, and a strong housing market point to growth, six key factors could affect our investment strategy for the remainder of 2016:

1. ***Brexit Aftermath:*** In all likelihood, the United Kingdom's decision to leave the EU will pressure other countries to question their participation in the economic and political union. Already, strategists speculate that Sweden, the Netherlands, and the weaker southern members (Spain, Portugal, Greece, and Italy) may reconsider their position.

2. ***Federal Reserve Policy:*** The Federal Open Market Committee will meet four more times in 2016. Considering post-Brexit turmoil, further rate hikes seem unlikely.

3. ***Global Interest Rates:*** Interest rates should continue to drop as further monetary stimulus is introduced. As comparatively-high yields in the United States attract further investment, rates in the U.S. should remain low.

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4. ***Energy Prices:*** Oil posted a remarkable recovery in the second quarter, rising from $26 per barrel in February to $48 per barrel at the end of June as both inventories and demand remained flat. We expect less volatility in energy and believe that oil will be range-bound for the foreseeable future.

5. ***U.S. Labor Market:*** Unemployment remains low and wages continue to rise slowly. There still appears to be room for more jobs growth and for policies that improve the country's productive capacity.

6. ***Growth in China:*** It remains to be seen if increased credit supplies earlier in the year will lead to gains in GDP. Concerns remain regarding the excessive leverage of many companies.

We believe that good investing opportunities exist, particularly in United States equity markets. Low interest rates will continue to make equities attractive and U.S. firms are producing superior returns on capital. Additionally, the domestic market is more heavily composed of high-margin businesses and remains relatively insulated from the myriad risks abroad.

INDIVIDUAL RETIREMENT ACCOUNT RULES FOR 2016

- The maximum contribution for Traditional IRA and Roth IRA accounts is $5,500 (under age 50) or $6,500 (age 50 or older).
- For single individuals, the ability to contribute to a Roth IRA begins to be phased out when modified adjust gross income (MAGI) is between $117,000 and $132,000.
- For married couples filing jointly, the ability to contribute to a Roth IRA begins to be phased out when MAGI is between $184,000 and $194,000.
- Since 2010, there is no income limit for taxpayers who wish to convert a Traditional IRA to a Roth IRA.
- Traditional IRAs require withdrawals (based on age) beginning at 70 ½. Roth IRAs have no mandatory withdrawals until after the death of the owner.
- Required minimum distributions for Inherited IRAs/ Roth IRAs are complex and should be discussed with a tax professional.

SCHWAB SECURITY GUARANTEE

With data breaches making news more and more frequently, your security is a primary concern. To ensure confidence in the safety of your assets, Schwab offers a simple guarantee: Schwab will cover 100% of any losses in any of your Schwab accounts due to unauthorized activity. While there is no substitute for careful protection of your personal information, clients should feel confident in Schwab's cyber security.

MARKET PERFORMANCE

	2Q 2016	2016 YTD
Dow Jones	2.1%	4.3%
S&P 500	2.5%	3.8%
Nasdaq	-0.2%	-2.7%
Russell 2000	3.8%	2.2%
MSCI EAFE	-3.5%	-6.5%
Barclays Agg	2.2%	5.3%

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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