



Loyd Johnson,
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Monthly Review

July: 'Don't Think Twice, It's Alright'

Asset Class	Index	July	YTD	1 Year	3 Year	5 Year
US Large Cap	S&P 500 Index	3.69	7.66	5.61	11.16	13.38
US Mid Cap	Russell Mid Cap Index	4.55	10.00	3.84	9.85	12.19
US Small Cap	Russell 2000 Index	5.97	8.32	0.0	6.74	10.43
Int'l Developed	MSCI EAFE Index	5.07	.42	(7.53)	2.00	3.02
Int'l Dev. Small Cap	MSCI EAFE Small Cap Index	6.13	2.76	1.38	7.28	6.32
Emerging Markets	MSCI Emerging Mkts Index	5.03	11.77	(.75)	(.29)	(2.75)
US Inv Grade Taxables	Barclays Interm Aggregate Index	.04	3.59	3.55	2.38	2.06
US Inv Grade Munis	Barclays Municipal Index	.06	4.40	6.94	5.91	5.13
High Yield Bonds	Barclays US Corp High Yield Index	2.70	12.01	4.98	4.46	6.16
Bank Loans	S&P/LSAT Leveraged Loan Index	1.43	6.00	2.39	2.91	4.06
Emerging Market Bonds	JPM Emerging Mkt Bond Index	1.56	12.62	11.58	6.65	6.17
US Real Estate	Wilshire US REIT Index	4.35	15.93	21.03	14.94	13.05
Int'l Real Estate	Wilshire x-US REIT Index	4.58	12.65	7.49	8.07	7.56
Commodities	S&P GSCI Enh. Commodities Index	(9.57)	(.65)	(22.18)	(23.68)	(16.14)
Cash Equivalents	Citi 3 Month T-Bill	.03	.17	.22	.10	.09

A Look Back

The classic Bob Dylan song was written in 1962 and released in 1963. It was also famously covered by the ultimate 60's band, Peter Paul and Mary. After a surprisingly strong month of performance across most asset classes in July, many investors may be quietly humming this classic to themselves as they make their investment decisions. The positive performance came on the heels of the Brexit vote to leave the European Union, and the expected volatility that would provide. It came as we woefully missed our GDP expectation here in the U.S. The second quarter GDP estimate of 1.2% was announced in late July, and was half of the consensus 2.4% expectation. In addition, the first quarter number was revised down to .8% from 1.1%. These are not the type of economic numbers that are usually tied to equity markets making new all-time highs as we saw in the S&P 500 and other domestic indices in July. The large cap index was up 3.69% for the month, and is now positive by 7.66% for the year. As we suggested earlier in the year, there has been a resurgence in the small cap asset class, with a healthy 5.97% return, bringing its YTD number to 8.32%. The importance of asset class diversity can be clearly seen with the performance so far in 2016 in both the Real Estate and High Yield areas. The YTD returns are 15.93% and 12.01%, respectively. The only real downer for the month was in the Commodity space, as the index fell by (9.57%) in July. Energy and agriculture components were the biggest drag for the month.

A Look Ahead

The employment number for July was recently released and showed that we added 255,000 workers for the month, much more than the consensus estimate of 180,000. The unemployment rate remained unchanged at 4.9%, and provides another data point that the labor market is improving after a sluggish first half of the year. Not surprisingly, we made another all-time high in the S&P 500, now trading at 2181. First impressions are that this seems a bit at odds with some other data points we have seen recently. The second quarter GDP mentioned earlier comes to mind. As we have mentioned in the past, there seems to be less and less correlation to these first estimates on various economic indicators and the eventual final numbers, as witnessed with hefty changes to GDP and others. Additionally, with the much weaker than expected GDP, there is already chatter about a positive third quarter number, or upside revisions to the one that just came out. We called for a positive year in equities, even in the midst of a fairly ugly January and February. We now sit right at those expectations in early August. What is an investor to do with contradictory economic numbers and an uncertain political landscape in front of us? As Mr. Dylan so eloquently sang, "it ain't no use to sit and wonder why babe, it don't matter anyhow." With the Fed unable to remove itself from a rock and a hard place regarding interest rate policy, and the economy good enough, perhaps it is best to don't think twice....for now.

