Wimmer Associates

Quarterly Report

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A Letter from Kathy

Dear Friends,

We made it through the first half of the year with modest gains in the broad-based, major indices, despite the dyspeptic presidential primaries, "Brexit", the slowing of the Chinese economy, and a drop in oil prices that led to many bankruptcies in that sector. And, let's not forget negative interest rate policies (NIRP) that have been implemented in twenty-seven economies around the world. NIRP policies have not proven their worth or met their goals in driving up consumption and inflation, but they have forced investors to shift away from low-risk investments in debt securities to higher risk equity shares. NIRP also adversely affects the US dollar by driving up its value, as the Federal Reserve maintains a positive but low yield curve.

The US economy continues to be driven by consumption (70% of GDP) and foreign trade is a much smaller part of our overall economy (12.6% of GDP) compared to other developed market countries. While the UK and the rest of the European Union flirt with a messy divorce, their economies appear to be floundering with low or negative growth. The US, in contrast, can claim continuous, (even if tepid) economic growth, a healthy (but lumpy) increase in employment, a strong currency, and a resilient, better capitalized financial sector than other developed nations. All in all, the US economy and markets continue to provide a positive, albeit modest return on investment and compare favorably to non-US centered alternatives. We at Wimmer Associates remain constructive going forward. In this newsletter, we will review where we've been and where we see prospective opportunities. As a bonus, we will also provide a brief review on how you can "lock" or "freeze" your own credit report and prevent unscrupulous ne'er-do-wells from accessing your good credit. It's really quite simple, as you'll see in the "Locking Up Your Credit" and "Online Security" section. Enjoy the rest of the summer!~

Cordially,

Kathy Wimmer, CFA, CIC
President

Second Quarter 2016

Equity markets are modestly up for the first six months of the year, as measured by the broad-based, S&P500 Index, having risen 2.7% through June 30, 2016. The technology and biotechnology driven Nasdaq Composite Index has remained in negative territory throughout the year, as investors are still concerned that the presidential election could lead to onerous new restrictions on pharmaceutical prices. It seems that biotech has found its lows for the year, having recovered 12% so far in July, as measured by the IBB index. Overall market valuation, as measured by the price to earnings ratio (PE), appears historically high at 20:1, compared to the historical average of 16:1 on a trailing twelve month basis. One must look further than the PE, however, to explain today's high valuation of domestic equities. The average dividend yield for S&P 500 stocks at 2.1% is rich compared to a 1.5% return on ten year Treasury bonds.

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Key Facts for 2016

- *Annual gift exclusion $14,000*
- *Estate, gift and generation-skipping tax exemption $5,450,000*
- *Highest marginal estate tax rate 40%*
- *IRA contribution limits $5,500, plus another $1,000 for those over fifty*
- *SIMPLE IRA and 401(k) contribution limits $12,500, plus another $3,000 for those over fifty*
- *401(k) contribution limits $18,000, plus another $6,000 for those over fifty*
- *SEP IRA contribution limits 25% of compensation, max of $53,000*
- *Top Federal tax rate is 39.6% on income over $415,050 (single filers)*

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Foreign investors are also flooding into US equities as foreign bond yields have disappeared or gone negative. At some point, central banks should come to their senses and return to a normal rate environment, but this does not seem imminent.

The year-over-year corporate earnings estimate stands at -3.5% for the S&P 500 at the end of the second quarter. The energy sector is the largest contributor to the earnings decline for the index. Excluding the energy sector, the estimated earnings growth rate for the S&P 500 for CY 2016 would improve to 2.8%.

Overseas markets have suffered dearly this year: the Stoxx Europe 600 is off 9.8% in the first six months, as companies forego investment amid the unknown consequences of the UK's Brexit vote. Continental-based European companies are leery of investing in the UK, uncertain how tariffs and taxation will play out once the UK and the EU finalize their impending divorce. Surprisingly, the London FTSE 100 index has remained in positive territory, gaining 4% over the first six months of the year, despite the shock of the Brexit vote. The resilience of the UK equity market can be attributed to the decline in the value of the British pound in the wake of Brexit, which makes UK exports cheaper and more competitive versus euro or US dollar based products. The pound is down 10% against the dollar in the first six months of 2016.

Japan continues to flounder, despite the promise of "Abenomics" (named after Japanese Prime Minister, Shinzo Abe), wherein the Japanese Central Bank is undergoing a massive quantitative easing program by buying up Japan government and corporate debt and pushing negative interest rates on Japanese savers.
We remain skeptical of NIRP (Negative Interest Rate Policy) in Japan and elsewhere. NIRP does not have the desired effect of increasing demand for goods and services. Japan's Nikkei Stock Index is down 18% in the first six months of the year, which constitutes a failing grade for Abenomics.

China remains a challenging place to invest, as the central government continues to intervene with new rules and regulations every time a hiccup occurs in the Chinese stock market. More strikingly, the Chinese government has ordered local governments and brokerage houses to buy up Chinese corporate shares in an effort to prop up prices amidst the sharp market declines. The Shanghai Index of mainland shares is off 17% in the first half of the year, despite the government's interventionist machinations. We find it hard to justify Chinese investments under these conditions, despite our belief that the Chinese economy holds great promise for the future.

The US bond market benefitted from the fallout of Brexit, as investors pursued a flight to quality, meaning the purchase of sovereign US debt. The ten year US Treasury note yielded a paltry 1.492 % yield at the end of June, down from 1.784% at the end of March. International investors fled British gilts, assuming that the Bank of England would be forced to lower interest rates to prevent the British economy from going into recession in the aftermath of the nativist Brexit vote. In fact, the Bank of England subsequently lowered short term interest rates to 0.25% from 0.50% and provided additional funds to promote quantitative easing. The US Federal Reserve is now unlikely to raise interest rates further this year, as additional rate hikes would only make the dollar more valuable and uncompetitive versus the declining values of the pound sterling, the Chinese yuan and the euro. The struggling economies of Europe and Asia have a knock-on deflationary effect on the US economy, which impedes the US economy from attaining a 2% inflation target as set by the US Federal Reserve.

Oil prices rebounded 27% during the second quarter, having bottomed at $27 a barrel in the first quarter. Although supplies of stored crude oil are high on land and sea, Canadian wildfires, Nigerian rebels and Libyan chaos all added to the increased second quarter risk premium for crude oil. Copper and Iron Ore also seem to have found a bottom after being crushed as China's boom years have faded.

US June Gross Domestic Product (GDP) grew at a tepid annual rate of 1.2 %, which was marginally higher than the downwardly revised rate of 0.8% in the first quarter, according to the Bureau of Economic Analysis. Both US corporate capital and US government spending were lower in the second quarter.

The Institute for Supply Management (ISM) manufacturing Index for June was 53.2, marking the fourth consecutive month of expanding factory activity. Any reading over 50.0 is considered positive for manufacturing and anything below is contractionary and possibly a signal of pending recession. Non-residential fixed investment, i.e., capital spending by business, however, has now fallen for three consecutive quarters, although it still remains in positive territory at a 3.5% annual growth rate. Much of the decline in US manufacturing is attributed to the steep drop in oil rigs drilling in the US oil patch, now down 75% from a year ago. The US consumer

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continues to drive the national economy forward, as Personal Capital Expenditures rocketed up to an annual rate of 4.2% in the second quarter, up from a slogging rate of 1.6% in the first quarter. Disposable personal income rose 3.1% in the second quarter owing to higher wage, salaries and personal dividend income. If the US economy is ever going to accelerate to an historically normal 3-4% annual growth recovery rate, US businesses will need to increase capital spending, the US government will need to fund infrastructure projects and US banks will have to increase loans. Theoretically, greater US corporate and government investment should increase US productivity, resulting in the higher wages needed to rise to fuel US consumer consumption. These goals are hard to envision in the current US political and economic environments.

On a more encouraging note, the June unemployment report saw an additional 287,000 people joining the payrolls, after an abysmally low 144,000 new jobs were added to the economy in May. The unemployment rate ticked up to 4.9% in June, as the pool of individuals looking for work expanded. This is actually a good thing. The Achilles Heel of unemployment is the poor labor participation rate, which is the percentage of the population that has a job or actively looked for one in the past month. The labor participation rate increased from 62.6 percent in May to 62.7 percent in June, but remains at or near its lowest level since 1978. The low participation rate is attributed to a disheartening lack of opportunities for potential employees, but is also a result of Baby Boomers leaving the work force, a slow decline in the labor force participation rate for women and decades of rapid growth in the number of young people attending college. In late breaking news, the preliminary July unemployment report just showed a robust addition of 255,000 jobs for the month after seasonal adjustments. The preliminary July unemployment rate remains at 4.9%.~

Locking Up Your Credit

A "credit freeze" is a tool one can use to restrict access to your credit report, which makes it much more difficult for identity thieves to open new accounts in your name. A credit freeze does not negatively affect one's credit report, but must be lifted if you are applying for a loan, seeking to rent an apartment or, perhaps, even applying for a job.

One can lift the freeze for a set time, for defined entities like landlords, bankers or employers and then reinstate the freeze at a predetermined time. There is a nominal cost to lifting and resuming credit freezes with credit agencies. Ample notice should be planned beforehand. Credit freezes are not a cure-all; they do not preclude thieves from attempting to access your existing bank lines of credit, credit cards or insurance products. Consequently, one must vigilantly monitor all financial statements on a consistent basis.

Here are the phone numbers for the three main credit reporting agencies:

Equifax	800-349-9960
Experian	800-397-3742
TransUnion	800-909-8872

According to the Federal Trade Commission (FTC), who provided the bulk of the information herein on credit freezes, one needs to "supply name, address, date of birth Social Security number and other personal information. Fees vary based on where you live, but commonly range from $5 to $10." Once the credit agency receives your request, you will receive a Personal Identification Number (PIN), which needs to be safeguarded and retrieved should you later want to change or lift the credit freeze. Credit freezes must be lifted within three business days of request. There are nominal fees varying from state to state for the service. If you know the specific credit reporting agency that will be contacted by a potential employer, landlord or credit issuer, you can lift your credit freeze on that particular agency and save some money.

Online Security

Online access to one's financial and personal information and resources simultaneously makes it easier and faster to monitor all on a daily, weekly or monthly basis. But, online access also opens up additional potential security risks. We highly recommend that people consult with their IT experts concerning use of online password management programs (such as www.dashlane.com) and Two-Factor (or Two-Step) Authentication for their Google, Apple iCloud and other online email and other services. Password management programs and Two-Factor (or Two-Step) Authentication may reduce risks and make online access services more secure.~

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We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

Looking Ahead

While the US stock market slogs along, mirroring the lackluster growth of the overall US economy, we remain focused on US domestic investments. Despite the underwhelming nominal and real percentage returns available in the US stock and bond markets, we believe US investments offer greater and safer returns than what is now available overseas.

The United States is reaping the benefits of being an early implementer of significant post 2008 crisis banking reforms and a supportive US monetary policy. This is in positive and stark contrast with our European and Asian counterparts, who have highly unstable "zombie banks" and who continue to pursue counter-productive Negative Interest Rate Policies.

We remain focused on US investments until such time as a change may be warranted. In a nutshell, **t**he US stock and bond markets are the only "clean shirts in the global investment wardrobe."

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Disclosure: "Be careful about reading health books, you may die of a misprint." Mark Twain Keep that in mind as you read these articles. We obtain data from sources we believe are reliable but they should not be relied upon for making life-changing decisions.