KeatsConnelly
ENRICHING YOUR CROSS-BORDER LIFESTYLE

June 30, 2016

REVIEW OF THE SECOND QUARTER

The quarter ended on a rocky note after the UK voted to leave the European Union. Investors were left scratching their heads as to how this will all shake out. The largest fallout was the drop in the British Pound. The British currency now trades about 12% lower relative to the US dollar, than it was prior to the vote. Other currencies around the world also dropped relative to the US dollar as investors deemed a flight to safety as an appropriate response.

The stock markets were impacted by the uncertainty as well. Most stock markets around the world dropped after the UK vote to leave the EU. But for many world stock markets the downward move lasted only a day or two. The long-term impact of this vote for the UK will be increased administrative costs with unknown potential benefits.

The good news is that value stocks, which historically have done better in turbulent times (although not always) are up strongly so far in 2016. Through June 30, 2016, value stocks, as measured by the Russell 1000 Value stock index were up 6.3%. This can be contrasted to a 3.8% rise for the S&P 500 stock index year-to-date through June 30, 2016.

Gold has also continued to do well, a trend that started at the beginning of the year when gold, oil, and many other commodities seemed to have found a bottom. Oil has climbed back to around $50 a barrel after dipping down to the low thirties at the beginning of 2016. Allocations to gold, commodities and energy are providing a boost to performance this year.

Bonds have had moderately good performance as interest rates around the world continued to decline. Central banks in many developed countries, with the exception of the US, are still taking steps to increase liquidity and keep their economies from slowing down.

We continue to recommend being fully invested in a strategy appropriate for your ability to bear the risks that will come in the future. Dividend yields around the world are better than many 10-year government bonds! Cash yields are still close to 0% at most financial institutions. There are some values in some fixed-income securities but a diversified portfolio that includes exposure to stock markets around the world is still most likely to provide a good long-term outcome.

Investment Committee Update

I mentioned in a previous communication that we recently added a tax-free bond manager, Templeton Financial Services, to the set of partners we recommend. Many of our clients that need tax-free income will still use Vanguard tax-free bond funds, but Templeton will be appropriate when large accounts need additional customization. We have already recommended that some clients switch from Vanguard funds to Templeton and we will be recommending more over time.

We have also been examining ways to adjust value and small cap factor exposure that we have held for two decades. We will provide more information on this in future investment communications.

Sincerely yours,
KEATSCONNELLY

Robert F. Keats, CFP® (US and Canada), MSFP, RFP® (Canada)
President

John E Rice

John E. Rice, CFA®, CFP®
Chief Investment Officer

KeatsConnelly Offices
3336 North 32nd Street, Suite 100 | Phoenix, AZ 85018 | T: (602) 955-5007
1880 North Congress Avenue, Suite 302 | Boynton Beach, FL 33426 | T: (561) 659-7401
1400, 350-7th Avenue SW | Calgary, Alberta T2P 3N9 | T: (403) 290-0026
www.keatsconnelly.com