



Market Commentary July 5, 2016

Dear Investors:

Second quarter ended with a spectacular finale of Brexit-inspired market volatility.

Investors typically welcome sharp market movements with about the same level of enthusiasm that canines show for fireworks. However, recent market agitations highlighted a key tenet of investing: Volatility often creates opportunity. Following an initial Brexit sell-off, global markets rebounded. Last Friday, *Financial Times* reported:

“Global equity indices continued their stunning post-Brexit vote recovery, “core” government bond yields hovered near record lows, and sterling stayed in sight of a three-decade trough against the dollar as a tumultuous week in the markets drew to a close. The dollar finished the week on a broadly softer note, helping gold stay in sight of the two-year high it struck five days earlier. Oil prices were volatile but Brent regained the \$50 a barrel mark in late trade.”

During the first half of 2016, opportunities weren't always where investors might have expected to find them. *Barron's* reported stocks have become income providers and bonds have been delivering capital gains. “With dividends included, the Standard & Poor's 500 index returned 3.84 percent in the year's first six months, according to Bianco Research. Meanwhile, the Treasury's benchmark 10-year note returned roughly twice that, 7.97 percent...”

Some of the strongest stock market performance was found in emerging markets. On July 1, *MarketWatch* reported the best and worst (in *italics*) performing indices for the first half of 2016:

- Argentina (Merval) 25.77 percent
- Russia (RTS Index) 22.95 percent
- Brazil (Bovespa) 18.86 percent
- Pakistan (KSE 100) 15.14 percent
- Canada (S&P/TSX) 8.11 percent
- *China (Shenzhen A Shares) -14.49 percent*
- *China (Shanghai A Shares) -17.22 percent*
- *China (SSE Composite) -17.22 percent*
- *Japan (Nikkei 225) -18.17 percent*
- *Italy (FTSE MIB) -24.37 percent*

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The three major Chinese indices on the list serve as a reminder that, not too long ago, concerns about the health of the global economy and the world's financial markets focused on China. Today, the stethoscope is pressed to the heart of the European Union.

Predictions of higher interest rates in the United States have become a perennial that never blooms. Coming into 2016, the Federal Reserve was expected to increase the fed funds rate four times, making bonds appear an unwise investment choice. As mentioned, the 10-year Treasury note did just fine. However, the likelihood of the Fed raising rates fell during the quarter. *Barron's* reported, "Based on Eurodollar futures prices, the U.S. central bank is likely to keep its federal-funds target steady well into next year and perhaps until 2018."

During the last week of June, the Dow Jones Industrial Average and the Standard & Poor's 500 Index each experienced their best performance since November 2015, according to *MarketWatch*.

Data as of 7/1/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.2%	2.9%	1.2%	9.2%	9.4%	5.1%
Dow Jones Global ex-U.S.	3.4	-1.7	-11.5	-0.7	-1.9	-0.4
10-year Treasury Note (Yield Only)	1.5	NA	2.4	2.5	3.2	5.2
Gold (per ounce)	1.9	26.2	14.7	2.5	-2.0	8.0
Bloomberg Commodity Index	3.1	14.2	-11.7	-10.6	-10.6	-6.4
DJ Equity All REIT Total Return Index	4.8	14.1	22.6	13.6	12.1	7.3

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHERE DID YOUR WEALTH COME FROM?

The [2016 U.S. Trust InsightsonWealth and Worth Survey®](#) asked wealthy Americans about their financial success. They found a majority of wealthy Americans did not inherit their wealth :^(Page 4)

- 52 percent earned their wealth through work or entrepreneurial efforts
- 32 percent gained affluence through investing
- 10 percent inherited their money
- 6 percent relied on other means of accumulating wealth

The wealthy reported their parents emphasized the importance of academic achievement (76 percent), financial discipline (68 percent), and hard work (63 percent).^(Page 4)

In addition, they said it's important to find ways to have a positive impact on the world around them by volunteering their time (61 percent), giving money (74 percent), serving on boards (47 percent), and working for non-profit organizations (16 percent).^(Pages 5 & 16)

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In fact, the popularity of impact investing is growing. Wealthy Americans said investing for positive social impact is important because .^(Pages 16-17)

- It's the right thing to do (54 percent)
- Corporate America should be accountable for its actions (53 percent)
- I want to have a positive impact on the world (49 percent)
- Companies that are good corporate citizens are less susceptible to business risk (40 percent)
- Companies that are good corporate citizens have better financial performance (38 percent)

The issues that were of greatest concern included: environmental protection and sustainability; healthcare quality and access; disease prevention, treatment, or cure; and education.^(Page 15)

Weekly Focus – Think About It

“Afoot and light-hearted I take to the open road,
Healthy, free, the world before me,
The long brown path before me leading wherever I choose.

Henceforth I ask not good-fortune, I myself am good-fortune,
Henceforth I whimper no more, postpone no more, need nothing,
Done with indoor complaints, libraries, querulous criticisms,
Strong and content I travel the open road...”

--Walt Whitman, American poet

Best regards,



John Y. Kim, J.D., LL.M.
President

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

*The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

*Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

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- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
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- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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- * You cannot invest directly in an index.
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- * Stock investing involves risk including loss of principal.

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