PROCTOR FINANCIAL

RETIRE BETTER®

August 1, 2016

Dear Client:

We hope you are enjoying your summer as we approach its midpoint. We have entered our eighth year of a bull market for US equities, which is significant for being the 2nd longest bull market in modern history. However, the recent reading for US GDP (Gross Domestic Product, a measure of all domestic economic output) and downward revisions for past quarterly readings offer concern about the health of the economy going forward. Additionally, international markets were taken by surprise and still have not recovered from the Brexit debacle.

Generally, we tend to be optimistic about the future of the stock market as history has rewarded that outlook more often than not. But optimism tempered with some realism and some education about the relative valuations of different world equity markets should lead to better outcomes. Strangely, even though the media has recently been reporting that the market is at an all-time high, during the past year it has been down or flat almost the entire time. Only in the 2nd week of July did the US market hit a new high, and only by a small amount.

Some facts that have altered our portfolio designs in the past couple of years include the extended bull market in US equities and the significant underperformance of international equities. While we always hold globally diversified portfolios for our clients to decrease portfolio risk, we have increased our weighting to international markets because they have become much cheaper than US markets. This also coincides with the 2nd longest period of US outperformance versus international equities in history. Unfortunately, while the US continues to outperform, portfolios that include international exposure like yours will suffer in comparison. We are aware of

the relative underperformance that has occurred during the US bull market and are not happy with it. However, we invest for the long term, and are confident that the trend will reverse at some point and we will be rewarded by letting history guide us rather than abandoning our methodology and chasing after returns.

As we have written about many times previously, we also have increased the use of hedges in our portfolios as the market has continued to climb. Up until now, all bull markets have been followed by a bear market, and we don't see any reason why this constant should change. In fact, with slowing GDP and an uncertain political environment, it seems more likely that the bull market will come to an end sooner rather than later. If we do experience a dramatic pull back of significant magnitude, then our use of hedges should serve your portfolios very well. In the past when these big downturns have occurred, the hedges have returned very positive results. While there is no guarantee that this will occur the next time, it is our operating theory as we look for ways to protect your future. One of our hedges did quite well during the quick Brexit downturn, but unfortunately, one of them got whiplashed when the US market turned positive so quickly after an initial significant decline. It had "turned on" and was protecting against further market declines when everything rebounded very quickly. Because it is meant to make money when the market is declining, the opposite was also true and it lost a lot when the bounce happened. This is how the investment is designed, but in a true bear market, the hedge would more likely be adding positive return for a sustained period of time before the rebound occurred.

At the beginning of 2016, our allocation to international equities was paying off nicely and they were finally beginning to outperform the US markets by a noticeable amount. Our equity portfolios on the whole were therefore delivering better results than the US equity markets. However, when Britain voted to leave the EU (the Brexit vote), international markets declined and haven't yet recovered, whereas the US markets have. On the whole, between the combination of our exposure to international equities and our use of hedges, both of which we believe will serve our clients well in the coming years, we have had some disappointing results so far this year with portfolios mostly flat. While some clients have expressed concern about this, and wonder why we are sticking with investments that have underperformed while the US equity market is doing so well, the fact remains that a possible bear market in the US is well past due, and international equities continue to be cheaper than their US counterparts. It

does not help long-term results to buy more of the US market when it is at a high by selling the international market when it is low – in fact, that's the opposite of what should be done. And when the bear market does finally happen (no one knows when), our hedges should be the difference between significant declines and only modest declines. Therefore, even though it requires patience to see these strategies pay off, we do believe that they will, and the complete market cycle returns will be what are necessary to help you achieve your goals. By not chasing returns now, we are trying to make sure that your portfolios don't "blow up" so much later that you are forced to change your retirement plans.

On a positive side, our single largest equity-style position on average has had very good results relative to the US equity markets. Since we've owned it, the note we customized with the investment bank BNP has outperformed the S & P 500 (US large caps) by almost 10 % and the Russell 2000 (US small caps) by over 19%. We intend to capture those gains by selling this note before it matures in January. At current market levels, if we held it to maturity it would be worth another 2-2.5%, but we feel that removing the risk of losing all of the gain it has delivered this far is worth missing out on a little bit more return. We will replace this note with one very similar, and by setting the new protection level at current market highs, we'll be better positioned to survive any future pull back. If the market continues to run, despite historical precedents, we will still capture the upside with the new note. We will be adjusting small amounts of some of the funds we own as well, so you should expect some activity in your portfolio.

One other asset worth a brief mention is the note from JP Morgan. It has been paying 8% annually (4% twice per year) for the past 2 ½ years. It will be paying its next 4% this week. It is currently valued at a discount to its original principal, but if it matured today it would pay its full nominal value of 100. It matures in January 2017.

So in summary, we think you are positioned well no matter what this very volatile market brings us going forward. We know that having a diversified portfolio has hurt returns during this US bull market, but we believe that maintaining a consistent methodology will create the best long term results. We continue to monitor all the investments in your portfolio and will make changes we think will benefit you. Lastly, we thank you for your trust at this point and your patience in the long process of helping you achieve a successful retirement. As always, if anything has changed in your personal

circumstances please let us know, or schedule a review and we can spend more time on your personal situation.

Our best regards,

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