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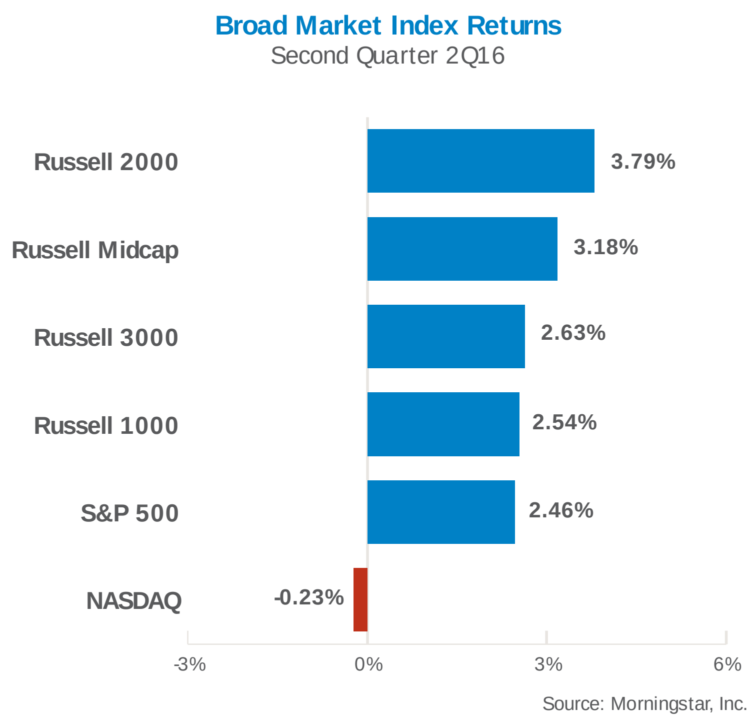
With the exception of the Brexit vote in late June, the second quarter was relatively uneventful. While the market quickly dropped following the Brexit vote, it also recovered quickly. Overall, the markets saw modest gains in the second quarter.

The Economy



Domestically, the economic environment was affected by several factors, including very weak job growth and the so-called "Brexit" – the UK's decision via referendum to exit the European Union. While many segments of the U.S. economy have remained resilient, the downturn in recent employment data was surprising. Analysts believe that various temporary factors hampered job growth, and that a rebound should be expected throughout the remainder of the year. The Brexit outcome was also somewhat unexpected, and although the longer term effects on the domestic economy are uncertain, it is not likely to have a materially adverse impact. The Bureau of Economic Analysis reported its third estimate of first quarter 2016 gross domestic product (GDP) of +1.1%, higher than the prior estimate, but lower than the +1.4% reading of the fourth quarter of 2015. The employment situation took a turn for the worse, with an average of about 116,000 jobs added each month. The unemployment rate declined to 4.7%.

Globally, the ultimate impact of Brexit on foreign economies remains to be seen, but economic growth has shown signs of improvement in recent months. Notwithstanding Brexit, the financial

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services sector is stabilizing, and improving worldwide demand and weaker currencies should aid certain regions. In Europe, the European Central Bank's (ECB) extremely aggressive asset purchase program is expected to boost growth gradually over the next couple of years. Economists expect China's growth will continue to slow in an orderly fashion, as the country's policymakers attempt to transition the economy from an export-driven to a consumption-driven model, which will generate more sustainable growth.

At its most recent meeting in June, the Federal Open Market Committee (FOMC) stood pat, deciding not to increase the target fed funds rate from the current range of 0.25% to 0.50%. The FOMC reduced its growth outlook, as well as the expected fed funds rate for 2017 and 2018.

Highlights

GDP

The Bureau of Economic Analysis released the third estimate of the first quarter 2016 real GDP, a seasonally adjusted annualized rate of +1.07%. This figure is down from the +1.39% annualized growth of the prior quarter, but is an improvement over the prior estimate of +0.8% growth. Despite it being the worst six-month performance in more than three years, analysts were not overly disappointed with the report, as second quarter growth seems to be accelerating. As with the prior quarter, the two primary obstacles to growth were inventory and trade. Although reduced inventory accumulation will eventually be resolved, the adverse impact on exports as a result of the strong dollar may last awhile longer. The dollar has remained a safe haven asset of choice amid concerns about the impact of Brexit on the world economy. Exports also may continue to suffer as emerging markets economies struggle with lower oil and other commodity prices. Economists have been somewhat more upbeat recently, noting that economic growth is likely to accelerate as job growth rebounds. Corporate profits rose by +1.8% (not annualized) after declining -7.8% in the prior quarter. Continuing a trend from recent quarters, falling energy prices kept inflation in check, with the personal consumption expenditures (PCE) index of prices rising +0.2%, following a +0.3% advance in the prior quarter.

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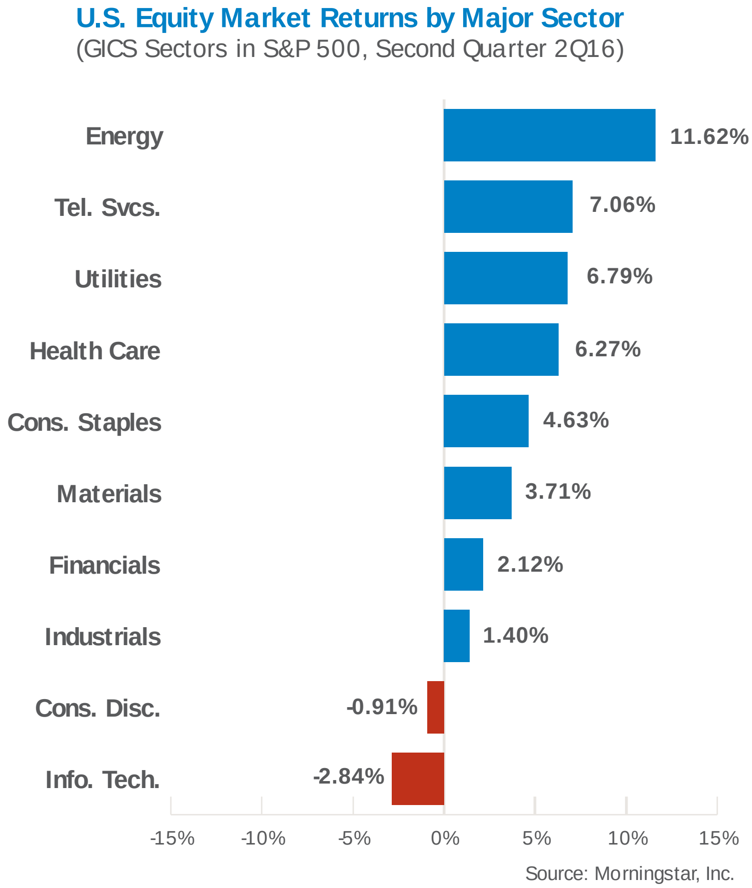

HOUSING

The housing segment remained on a steady course. Existing home sales for May (the latest monthly data available) advanced at an annualized rate of 5.53 million units, up about +2% from the 5.43 million unit rate reached in April, and up +4.5% from May 2015. The inventory of existing homes was about 4.7 months of supply, down slightly from year-ago levels. Existing home prices in May were up moderately from February, and about +4.5% higher from May 2015. In the new home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at a level of 60, modestly higher than the reading of the prior quarter. Homebuilders and analysts remain optimistic about the outlook for housing, as solid fundamentals and a favorable employment picture are expected to be supportive for the remainder of the year.

EMPLOYMENT

The employment situation took a surprising downward turn in the most recent monthly report. Employers added only 38,000 jobs during May, falling far short of consensus expectations of 160,000 new jobs. In addition, the gains for each of the prior two months were revised lower by a total of 44,000. The three-month moving average fell to 116,000, well below the average for the period ending in February, and also the lowest level in at least eight months. At the same time, the unemployment rate in May was 4.7%, below the 4.9% level in February, and significantly lower than the 5.0% rate of the prior month. Average hourly earnings increased 2.5% in the past 12 months, consistent with an improving labor market. Although May's report was both surprising and

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disappointing, economists anticipate upward revisions to the data in subsequent months. Analysts expect the employment gains to remain in the range of 180,000 to 200,000 through 2016 and into 2017, and that the unemployment rate should remain below 5%.

FED POLICY

The FOMC ended its recent June meeting standing pat on interest rate policy, maintaining a target range of 0.25% to 0.50% for the fed funds rate. The FOMC's decision was not surprising, given the recent poor employment data and the looming Brexit referendum in the UK. In weeks leading up to the FOMC meeting, committee members had been signaling to markets that an increase was possible. However, even though the committee's bias has been toward a quicker path to policy normalization, it ultimately decided to hold the line. The committee's statement continued to reflect an expectation of two rate hikes in 2016, but the futures market is assigning only about a 10% probability of even one rate hike occurring this year. The FOMC's median estimate for where the fed funds rate will end 2017 was lowered materially to 2.75%, and the year-end 2018 expectation was lowered by 63 basis points to 2.375%. Most analysts believe the FOMC will not make a change at its July meeting, with an outside possibility of an increase in September.

INTEREST RATES

In the second quarter, a pause in the stock market's rebound, soft employment data in the U.S., and volatility surrounding the Brexit referendum were the key drivers of the prices of fixed-income securities. Although the FOMC had been signaling to the markets that there was a possibility of a fed funds rate increase at its June meeting, the prevailing circumstances warranted the committee adopting a posture of standing pat. The committee's preference is to begin normalization of interest rate policy as soon as practicable, but geopolitical and economic uncertainties will affect the timing. Within the context of these various influences, yields remained in a fairly confined trading range until the Brexit results late in June, at which time fixed income prices rallied and yields fell.

As has happened in prior quarters, the yield curve flattened, with yields on short-term maturities declining less than those in the intermediate- to long-term end of the spectrum. By the end of the quarter, the yield on the benchmark 10-year U.S. Treasury declined to 1.47%, from 1.79% on March 31.

In terms of total returns, fixed-income securities generated positive returns across the spectrum, as they did in the prior quarter. The Barclays Treasury 5-7 Yr. Index rose +1.9%, and the Barclays U.S. Corporate 5-10

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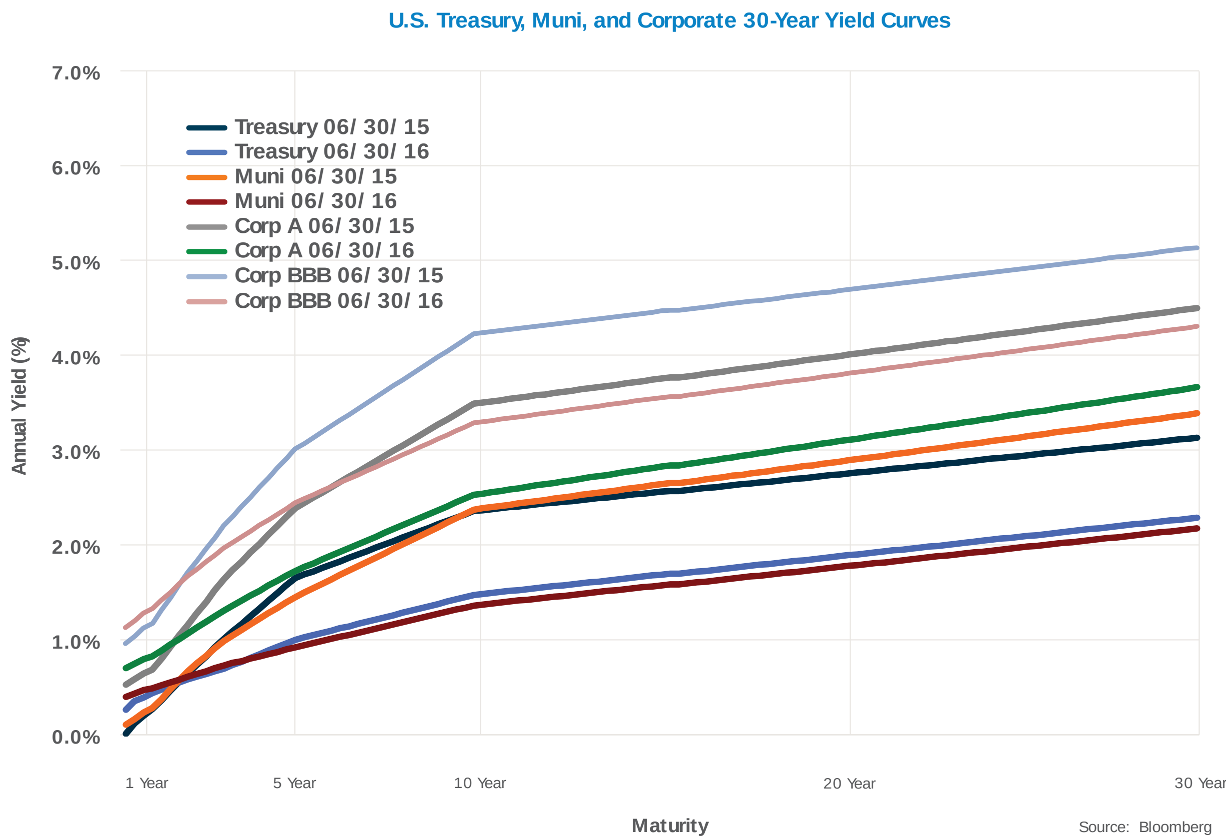
Yr. Index added +3.3% during the three months. High yield securities performed well, advancing +5.5%, as investors continue to seek yield. Municipals continued to perform well, as the Barclays Municipal Bond Index gained +2.6%. Prices of non-U.S. fixed income securities also rose, as the Barclays Global Aggregate ex-U.S. Index posted a +3.4% return. Emerging markets bonds again delivered strong gains, with the JPM EMBI Global Index adding +5.4%.



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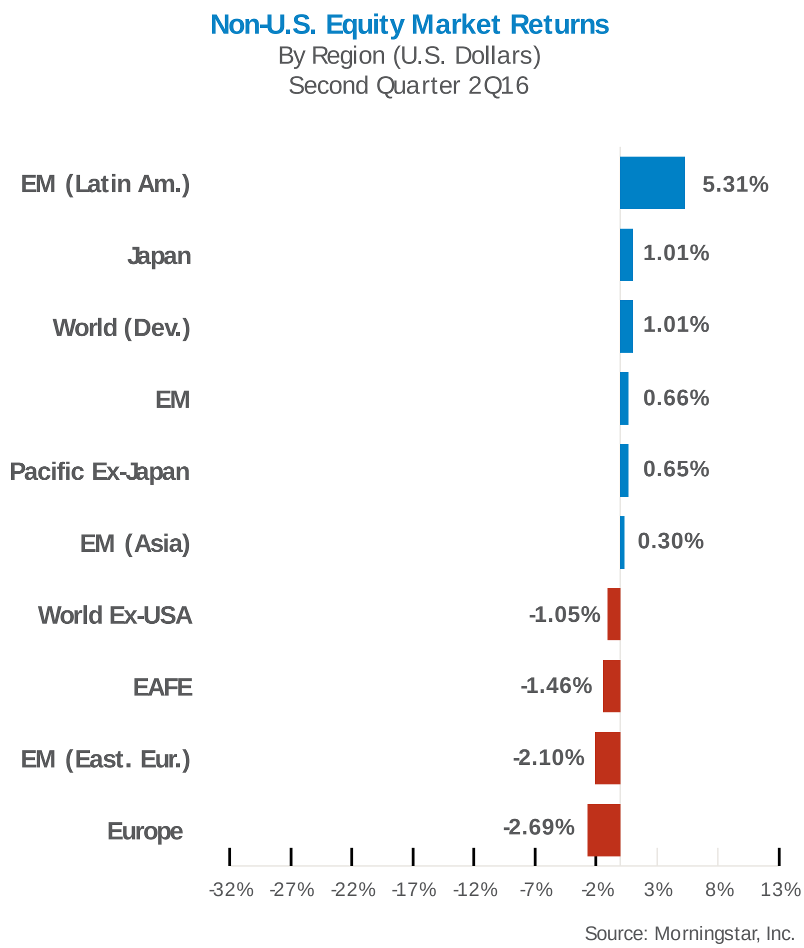
Equity Markets

With the exception of the period immediately following the Brexit outcome, the second quarter of 2016 was fairly uneventful for equity prices. Broad market indices were confined to a relatively narrow trading range during most of the quarter, with the Brexit result surprising the market and sparking a short-lived sell-off. Stocks regained their footing very quickly following the Brexit volatility, ending the quarter back within the trading range they roamed throughout the quarter. The S&P 500 Index finished the quarter with a gain of +2.5%.



The ten primary economic sectors once again demonstrated substantial dispersion in performance, placing a premium on sector allocation and security selection. Energy, utilities, and telecommunications services were the strongest performers, delivering gains of +11.6%, +6.8% and +7.1%, respectively. Many active managers have held underweight exposures to those sectors, making it difficult to outperform their benchmarks. The information technology and consumer discretionary sectors were the poorest relative performers, posting losses of -2.8% and -0.9%, respectively.

The Russell 1000 Index of large capitalization stocks generated a +2.5% total return. Within the large cap segment, value stocks materially outperformed growth stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly outperformed large caps, ending with a total return of +3.8%. Small cap value performed slightly better than small cap growth. The Nasdaq Composite, dominated by information technology stocks, ended down -0.2%. The Dow Jones Industrial Average of 30 large industrial companies gained +2.1%.

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Real Estate Investment Trusts (REITs) delivered solid gains for the second consecutive quarter, largely a result of continued low interest rates. The DJ US Select REIT Index posted a gain of +5.4%. Commodities also performed very well with the rebound in oil prices, with the Bloomberg Commodity Index surging +12.8%.

International stocks generally underperformed U.S. equities, as slowing growth in China and Brexit concerns in Europe had an adverse impact on results. Sluggish economic data overhangs many regions of the world, despite the aggressive efforts of central bankers. Europe faces serious questions about the future of the European Union now that the U.K. has voted to exit. In China, policymakers continue to attempt to engineer a soft landing from an export-driven to a more sustainable consumption-driven model. Against this backdrop, international stock indices were mostly lower. The MSCI ACWI ex-USA Index, which measures performance of world markets outside the U.S., declined -0.6%. The MSCI EAFE Index of developed markets stocks fell by -1.5%. Regional performance was mostly negative, and many regions felt the impact of slowing growth. Latin America and China were the strongest performers on a relative basis, with the MSCI Latin America and MSCI China indices posting returns of +5.3% and +0.1%, respectively. Europe broadly and Eastern Europe more specifically were the poorest relative performers, suffering losses of -2.7% and -2.1%, respectively. Emerging markets performance was modestly positive, as the MSCI Emerging.

Looking Forward

Despite May's poor employment report and the uncertainty surrounding Brexit, the consensus among economists is that concerns about an imminent recession are overblown. Although job growth is a key indicator of the economy's health, analysts point out that the recent softness in the data is likely due to transient factors that could be reversed in coming months. Employers are expected to add 180,000-200,000 jobs per month through the latter half of the year and into 2017, and analysts are expecting the economy to be at full employment either later this year or sometime early next year. Even though many FOMC members would prefer to normalize interest rate policy soon, the committee is likely to remain accommodative by refraining from raising short-term rates

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until employment growth is back on track and the global outlook improves. The international economy outside the U.S. remains muddled, but there are

signs of improvement. Eurozone policymakers will need to tackle several issues to reinvigorate growth: including understanding the effect of the UK's exit on the region's overall economy; ongoing difficulties experienced by financial institutions; the continued influx of refugees; and the threat of terrorist activity within European borders.

This year has been interesting to say the least. We anticipate that the volatility we have seen over the past year and a half will continue. The market continues to seem on edge and can quickly react to negative news. Just remember that we think a diversified portfolio is the appropriate response to a turbulent market.

"You know, people talk about this being an uncertain time. You know, all time is uncertain. I mean, it was uncertain back in 2007, we just didn't know it was uncertain. It was uncertain on September 10th, 2001. It was uncertain on October 18th, 1987, you just didn't know it." --Warren Buffet

In light of the "uncertainty" surrounding the Brexit vote and our upcoming election, we are including Warren Buffet's wise words to end our quarterly report letter this time. Mr. Buffet is one of the most respected financial gurus of our time and his words seem to perfectly sum up our viewpoint. This uncertainty leads us to always advocate for diversified portfolios invested for the long-term. For no one can predict when the next "uncertain" time will be, but we do know another "uncertain" time will happen. It isn't a question of if, only when. So as we approach the "uncertainty" of the future, we also want to remind ourselves of the importance of hope.

"To be hopeful means to be uncertain about the future, to be tender toward possibilities, to be dedicated to change all the way down to the bottom of your heart."

---Rebecca Solnit