HalpernFinancial

2nd Quarter 2016 – Investment Commentary

Kirsty Peev CFP ®, Portfolio Manager

Market and Portfolio Performance:

Summary:

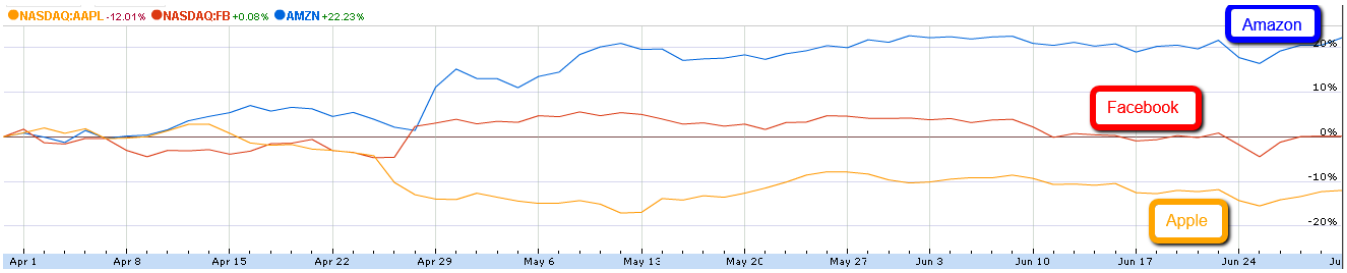
- **WILD volatility: to the upside and the downside.** After a very negative start to the year, many asset classes have made a strong recovery, giving us some nice quarterly and YTD numbers. You may not have even noticed, since there tends to be very little media coverage when the markets are fine or just OK. "If it bleeds, it leads" is very true in financial news. But smart investors "buy when there is blood in the streets" rather than panic, and that is exactly what we did by sticking to your long-term investment plan built on a value-based disciplined strategy.

- **Diversification works.** Emerging markets, which have been feared after a stretch of bad performance, are now leading almost all asset classes despite global headwinds. This is why we invest in a wide variety of asset classes—our strategy is not based on guessing when one asset class will zig when the other zags. Instead we rebalance to an asset allocation model that suits your specific goals and objectives.

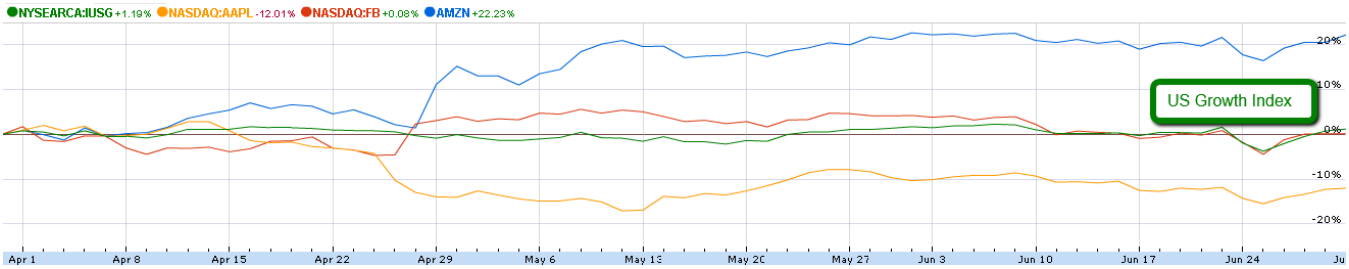
- **Investors LOVE bonds when equity markets are uncertain.** It has been a fantastic quarter and year-to-date for all bond categories we use. Stock market fears tend to drive money into the safety of bonds, and we were well-placed to benefit from the money flow in that direction.

Equities:

- **Why diversify?** Looking at this performance chart of 3 commonly discussed equities, you might assume they have no relationship to each other. In fact, these 3 stocks happen to be the 3 largest holdings of the U.S. Growth Index (Russell 3000 Growth Index). You can see what a different quarter you might have had if all of your "growth" allocation was in Amazon versus Apple.



But because you are invested in a diversified manner, you get the average of all 3 (plus 1,773 other holdings in the index!) without having to place all your bets on one horse. Growth stocks had a volatile second quarter, but through diversification you were protected, and took a more consistent path between huge outperformance and huge underperformance.



Virginia Office 20365 Exchange Street, Suite 200 Ashburn, VA 20147

Maryland Office 401 N. Washington Street, Suite 330 Rockville, MD 20850

Tel 240-268-1000 | Fax 240-449-8818 | Toll Free 877-268-1200
www.halpernfinancial.com

- **Value leading growth.** Investors have flocked to cash-healthy "value stocks," which have significantly outperformed growth-oriented stocks. We believed this would be the case and have been well positioned, favoring value over growth for some time now.
- **Despite a frightful start, large cap stocks ended strong**. In the first month of 2016, many worried that markets were in a free-fall. However, after a strong finish to Q1, the second quarter delivered healthy results, and even better YTD results despite global market concerns, including the Brexit vote. Make no mistake, we are firmly in the midst of increased market volatility and your portfolio is well-positioned to thrive in this environment. We are continuing to implement low-volatility holdings where appropriate to provide a cushion for equities during times like these.

Alternatives:

- **Non-correlated assets are especially important during volatile times.** Your real estate holding was just one more area where you benefited from proper diversification this quarter. Because real estate is inversely correlated to the equity or bond portion of your portfolio, it served as a ballast for the overall portfolio, especially in April and May when it outperformed its index with less risk! In fact, your income-focused real estate fund has delivered phenomenal YTD results, even out-performing all standardly tracked equity asset classes, while taking on significantly less risk and adding diversification benefits! We are making moves to slightly reduce the dependence on this asset class going forward because we believe valuations are now a little inflated.

Bonds:

- **The Federal Reserve did not raise rates in the June meeting.** Instead, they maintained the status quo, based on a quarter of mixed positive and negative economic data. Their position is that given "gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will strengthen." As we have mentioned before, it's the rate of Fed increases that matters, not the date – and it appears that rate is very, very measured and slow. We will continue to focus on holdings which are not highly correlated to U.S. Treasuries, as well as higher-quality bonds and bonds with shorter durations within each asset class in your portfolio.

- **Laddered bond exposure still important.** While short-, intermediate-, and long-term bonds are all in positive territory, you are being rewarded for going out farther on the yield curve (long-term bonds). The difference in performance is not huge, but it does show the importance of a laddered strategy, even with the potential of rising rates when many investors are leery of any longer-term bond holdings.

- **Your strategic income fund benefited from emerging market strength and exposure to high-yield.** Although we do not use individual bond issues, we do include active management in the bond space for a variety of reasons, including the fact that bond markets are far less liquid, fluid and transparent than the equity market. This strategic managed fund is able to make moves within stated parameters to take advantage of market inefficiencies.

- **Puerto Rico debt restructuring not an issue for your portfolio.** On June 30, a bill to restructure Puerto Rico's debt was passed, right before the July 1 payment deadline when Puerto Rico would have defaulted on $70 billion. This bill will also establish a board to oversee Puerto Rico's finances in the future. In our portfolios we had minimal exposure to this debt via one of our funds, which held less than 1% in Puerto Rican bonds. Again, this is why we love diversification!

Expectations and Perceptions for the Future:

Equities:

- **We expect pockets of volatility to continue in the second half of the year.** This election year has already lived up to our expectations for increased volatility, and it is wise to prepare for a bumpy ride ahead. Markets do not like uncertainty, and as we explain in the Q2 Market Review, we still face many uncertainties before the end of 2016. However, your portfolio is well prepared for these uncertainties, and has proven it can stand up to wild conditions so far in Q1 and Q2.

- **Equities may be held back by low GDP growth.** There is just not much economic growth to support high levels of equity performance. The latest estimate of Q1 GDP is a paltry 1.1%, and for 2015, GDP increased just 2.4% for the year. In the past, numbers like these would have almost been considered a recession. Now it has been par for the course and reflects lower potential for corporate earnings.

- **Emerging markets, while volatile in the short-term, are important in the long-term.** Money is flowing in to emerging markets, despite several months of terrible performance, thanks to a recovery in commodity prices (you may have already suspected this from the recent rise in oil prices at the pump!). Emerging market indexes overall are being held back somewhat by problems in Brazil (impeachment of their President Dilma Rousseff, recession, and concerns over Rio Olympics). We continue to hold a small exposure to this volatile asset class for the diversification and the fact that foreign markets often move counter to domestic equities, as they did this quarter.

International:

- **Implications of Brexit TBD**…but we hope it will be an amicable divorce. Only time will tell how the U.K and E.U. countries will play ball together, or even if/how/when the U.K.'s new Prime Minister (whoever that ends up being!) will put the "leave" referendum into action. Regardless, wild market movements globally have shown why exposure to international developed markets is necessary. For example, despite dire headlines, the London Stock Exchange (the FTSE), delivered three whopping single trading day gains in a row of 2.64%, 3.58% and 2.27% (open to close) in less than 1 week after the historic vote, to close out June. We never want to 'bet' on a country's outperformance or underperformance, so diversified exposure to many countries is very important for your portfolio to participate in global growth. Even the German stock exchange (the DAX) has posted positive days after taking the brunt of panic selling after the Brexit vote.

- **Accommodative monetary policies around the world continue to support developed international equities.** Japan, and some E.U. countries continue with moves to combat slow growth and attempt to stimulate lagging economies. We do have some concerns about the long-term impact of negative rates which are in place in a few developed countries now, however this quarter has shown why global exposure is impactful to portfolio results.

Bonds:

- **Fed rate hike probably off the table for 2016.** Never say never, but given the volatility so far this year, it seems the Fed's plan to tighten monetary policy is going to be a much slower process than originally anticipated. In any case, you are likely to continue to benefit from investor sentiment, since investors will continue to flock to safe haven bonds when markets experience turbulence.
- **We are taking strategic action in light of the market and global economic environment.** We are making adjustments within asset classes to further position your portfolio to navigate this unique interest rate environment:
    - We have modified specific bond asset classes to push slightly further out the yield curve while maintaining a focus on high quality and low duration overall.
    - We are also adjusting out of more developed countries' bonds to avoid those places implementing negative rate policies.
    - We are adding to emerging markets bonds to take advantage of higher oil prices and potential benefits from Brexit.
- **Lower fund costs for you!** Fidelity recently reduced the expense ratio on a large number of their mutual funds! This brings your already-low portfolio expense ratios even lower, resulting in savings for you. The Fidelity funds we have selected for inclusion in your portfolio are among the lowest available anywhere in the industry – even beating the often-touted 'low cost' Vanguard funds in all the asset classes we utilize!

Please do not hesitate to reach out with any questions about your investments in the current market environment. We are always happy to talk to you, and we look forward to the opportunities 2016 brings.

Important Disclosure Information

*Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Halpern Financial, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Halpern Financial, Inc.. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Halpern Financial, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. If you are a Halpern Financial, Inc. client, please remember to contact Halpern Financial, Inc., **in writing,** if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. A copy of the Halpern Financial, Inc.'s current written disclosure statement discussing our advisory services and fees is available upon request.*

Virginia Office 20365 Exchange Street, Suite 200
Ashburn, VA 20147

Maryland Office 401 N. Washington Street, Suite 330
Rockville, MD 20850

Tel 240-268-1000 | Fax 240-449-8818 | Toll Free 877-268-1200
www.halpernfinancial.com