FAIRPORT ASSET MANAGEMENT
A WEALTHTRUST COMPANY
The Compass
Wealth management tips, trends and articles that provide confident navigation for high net worth clients.

August 2016

Thank you for your continued trust, feedback and generous referrals. As always, we encourage you to share our newsletter with friends, family members and colleagues.

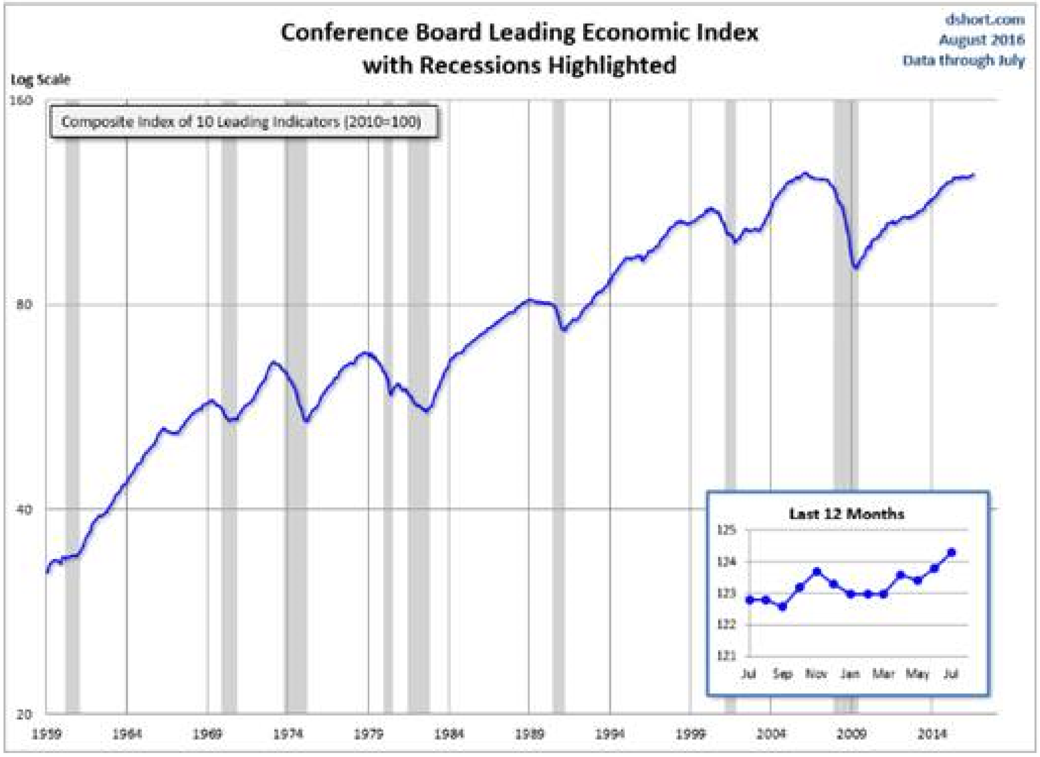
Mid-Quarter Commentary as of August 19, 2016
John M. Silvis, CFA
Chief Investment Officer

The equity markets remain resilient rebounding from the lows experienced after the surprising Brexit vote near the end of last quarter. The S&P 500 Index has returned 9.7% since closing at a low of 2,001 on June 27th (two trading days after the Brexit vote). The MSCI All Country World Index (ACWI), a global equity benchmark, after bottoming in tandem with the S&P, registered a similar bounce with a return of 11.44% from the low. Domestic equity markets surpassed their previous highs reached over a year ago, booking a total return of 8.53% year-to-date. Globally, as represented by the ACWI, returns have pushed further into positive territory, achieving a total return of 7.57% year-to-date. Experiencing a revival, emerging markets represented by the MSCI Emerging Markets Index, led equity markets with a total return year-to-date of 17.63%.

The overall trend, even after the negative reaction to the vote in the United Kingdom, remains healthy with over 72% of global markets trading above their 200 day moving average. The direction of the average continues to trend positive as well, historically being a good indicator of future returns.

The U.S. economy has struggled during the first six months of the year and remains anemic. GDP (gross domestic product) suffered two straight quarters of sub 2% growth in the first half of the year, with the most recent second quarter reading coming in at a paltry 1.2%. Growth was held back in the quarter due to a spending down of inventories hampering production, while an improving trade imbalance added to growth. The Federal Reserve remains on hold, last raising interest rates in December of 2015. While there is a chance they could increase the federal funds rate at their scheduled meeting next month, Wall Street is discounting such an event in the Fed Fund futures market. The likelihood of a rate hike in December, post-election, remains a real possibility and would deliver on the Fed's earlier commitment to raise rates this year (similar pattern to last year's single interest rate hike).

As we shift focus to the second half of 2016, there are signs that economic activity should pick in in the coming months. The ISM Manufacturing Index, a leading indicator, continues to signal economic growth in the near future after posting its fifth consecutive month of expansion in the manufacturing sector. The Conference Board Leading Economic Index (LEI) continued to climb in July and is forecasting that economic growth should continue through the end of 2016. With the LEI approaching its previous peak established back in 2006 (see chart on next page), history would tell you that a recession is still years away. The employment picture remains positive as the U.S. created close to 2.5 million jobs over the last 12 months according to the Bureau of Labor Statistics (BLS) and the unemployment rate remains steady at 4.9% putting some upward pressure on wages.



Globally, central banks around the world continue to expand their balance sheets (i.e. they continue to print more money). The Bank of Japan, Peoples Bank of China and the European Central Bank (ECB) are firmly committed to more easing heading into 2017 while the Bank of England recently joined the chorus by initiating a rate cut in response to the recent Brexit vote. The fallout from the vote in the U.K. is still in question and likely will take years to measure. With the resignation of former Prime Minister Cameron and the election of newly installed Prime Minister May, changes are already afoot across the pond. With her election, the conservative party (which led the charge for exiting the EU) has chosen to take a more measured approach to the process of divorcing themselves from the European Union. With immigration being the focal point of the vote, most are coming to grips with the economic fallout of electing to leave. It is likely some compromise will be struck resulting in a Brexit-lite arrangement between the U.K. and their friends across the channel. So far, there has been little disruption to the British economy, with U.K. retail sales in July up a robust 1.7% month-over-month. Stay tuned. Meanwhile, the U.S. Dollar, which jumped in value against the Euro and the British pound during the sell-off in late June, has resumed its decline against a basket of currencies falling -5.35% so far this year.

Since the equity markets bottomed in early February, cyclical sectors have outperformed the broader market led by Energy, Industrials and Technology. As the economy improves in the second half of the year, cyclicals should continue to show leadership while defensive sectors like Utilities, Telecom and Staples remain laggards. The S&P is creating an 11th sector as of September 1st, breaking out Real Estate Investment Trusts (REITs) from the financial sector. As it stands now, REITs would be the best performing sector of the market so far in 2016. Earnings look to have turned the corner in the second quarter. With over 95% of the companies reporting, earnings are up over 2% from the previous quarter with over 70% exceeding expectations. Mid and Small Caps have lead domestically with the Russell 200 Index up over 9.90% year-to-date. We expect to see the lower end of the capitalization curve continue to outperform heading into the year end.

Emerging markets are the big story internationally with Brazil leading the charge out among the BRICs. The political drama in Brazil is almost done with the impeachment of President Rousseff likely in the coming weeks or months. We continue to like the emerging markets within the backdrop of a weaker dollar and stable global economy.

Within an improving economic backdrop and a cyclically lead equity market, we foresee further expansion and new highs in the last half of 2016. Markets tend to be positive in presidential election years. In spite of the nasty campaign that likely lies ahead, history should hold.

Fixed Income Commentary as of August 23, 2016
Rick D'Amico, CFA
Manager of Investments

All eyes will be focused on Jackson Hole this week, with Fed Chair Janet Yellen set to speak Friday at 10:00AM. The title of her speech, "The Federal Reserve's Monetary Policy Toolkit," doesn't imply a comprehensive discussion of current events, however, it would be surprising if she didn't address recent Fed thinking in some form or fashion. Over the weekend, Fed Vice Chairman Stan Fischer stated that the Fed was close to reaching its employment and inflation targets. He also noted that core PCE at 1.6% is "within hailing distance of 2 percent--and the core consumer price index inflation rate is currently above 2 percent." It would be unusual for the Board vice chair to go out so close to Yellen's important speech and mention something that she did not agree with; as such, Fischer's comments could serve as a good preview of what Yellen will say. The Fed Funds futures markets are currently implying a 52.3% chance of an interest rate increase at the December meeting, so it's basically a coin flip at this point as to whether or not the Federal Reserve will raise interest rates this year.

The incredible quantitative easing (QE) around the world (e.g., BOE, BOJ and ECB) helps to explain why bond yields remain so low. As of July 31, 2016, 35% of the issues in the government bond index offered negative yields, while 72% of issues in the index offered yields below 1.0%. Low global government bond yields have acted as a weight on the long end of the Treasury curve, anchoring 10-year U.S. treasury yields at 1.54%, and 30-year U.S. treasury yields at 2.22%. The Barclays U.S. Aggregate has posted strong performance year-to-date, returning 5.73%, mostly driven by the sharp decline in longer term government and corporate bond yields. Going forward, we have muted return expectations for fixed income given the current low level of absolute yields, along with the strong recovery in credit spreads that has occurred within the high yield and corporate bond sectors since the beginning of the year.

Tia D'Aveta Promotion

Fairport is pleased to announce that Tia D'Aveta has been promoted to Client Service Representative. Since joining the firm in 2014, Tia has been an integral part of providing clients with an exceptional service experience in both her reception desk responsibilities and in her work supporting the client teams. Clients appreciate Tia's upbeat attitude and helpful nature and look forward to seeing her in our office and at our events.

As Client Service Representative, Tia will be responsible for dedicated servicing activities including preparing client paperwork, custody letters, check deposits, bill pay and client meeting coordination. Tia is also studying to achieve the Registered Paraplanner designation through the College for Financial Planning.

Please join us in congratulating Tia!

Two Documents Every 18-Year-Old Should Sign
Parents can always step in for their kids when they can't fend for themselves. Right? Wrong!

On a child's 18th birthday, he or she becomes an adult in the eyes of the law. This is true even if his or her parents are still paying for college tuition, housing, cell phone and car insurance, and it's even true if they are still carrying the adult child on their health insurance plan and claim him or her as a dependent on their income tax return.

More importantly, once a child turns 18 parents no longer have any authority over their adult children's finances or health care decisions without proper legal documentation. If a young adult is in an accident or becomes temporarily disabled, without a pre-existing power of attorney a parent will need to obtain court approval to simply act in their child's best interest.

Parents are very likely their adult children's fallback for emergencies. And as the average age of marriage for young adults creeps up into the late 20's, it's likely there could be a ten-year or more window of risk where there is no spouse to assume the role of advocate and the parent must act during times of crisis. It could be a parent's worst nightmare to find out the hard way that the law has cut some valuable and deep ties when their child needs them the most.

Fortunately, parents, a simple solution exists. When your children turn 18 years of age, ask them to sign both a **Durable Power of Attorney** and a **Health Care Directive**, documents which will allow you to make decisions regarding emergency health care or step in and manage your adult children's financial affairs should they be unable to do so themselves. Be sure the documents are valid not only in the state where you reside but also in your children's states of residence.

The **Health Care Directive** consists of three parts: a health care power of attorney, which authorizes an agent to make medical decisions on someone's behalf; a HIPPA release that will provide the agent full access to medical records; and a living will, which expresses a person's preference regarding end-of-life care.

While the health care directive gives authority over medical decisions, a **Durable Power of Attorney** appoints an agent to act on the adult child's behalf in a wider range of financial and legal matters. Not only limited to parents, any trusted family member, friend or adviser may take on the role of agent. A power of attorney may become effective from the moment it is signed or it may be activated by a specific event—for instance, if he or she becomes incompetent. The problem with the latter approach, known as "springing power," is that someone must decide when an individual has reached that state. For that reason, we recommend a durable power of attorney that takes effect immediately.

Certainly these situations are not fun to ponder. But an ounce of prevention is worth a pound of cure when it comes to the health and wellbeing of your children...no matter what age! Please contact your Fairport team for further discussion or additional information.

Check Deposit Checklist

A reminder concerning our policy for check deposits to managed accounts.

As always, you may send a check to Fairport for deposit into your managed account made payable to your account registration ("John Smith IRA" or "Jane Smith Trust") or to your custodian ("Charles Schwab & Co."). Please do not make checks payable to "Fairport" as they are unable to be deposited and will be promptly returned.

Additionally, you must also restrictively endorse the back of the check and write "For Deposit Only" after your signature and include the account number. Any check received that is made out incorrectly or not endorsed properly will be returned. Below is a helpful check deposit checklist.

Before mailing a check to Fairport, please ask yourself -

- ✓ Is my check made payable to my account registration or custodian (NOT Fairport)?
- ✓ Did I sign the back?
- ✓ Did I write "For Deposit Only to ac # XXXX-XXXX"?

If you have any questions on a specific check deposit or our policy in general, please contact your dedicated Client Service Manager and he or she will be happy to help. Thank you in advance for your cooperation and your continued confidence reflected by additional assets.

Fairport News

Read about our most recent community involvement, accolades, conferences and continuing education.

FT 300 Ranking June 2016

Fairport has again been named to the Financial Times 300 Top Registered Investment Advisers list. The ranking, as of June 16, 2016, recognizes top independent firms from across the United States. **Fairport** was also named one of the largest investment advisers, ranked by assets under management locally, in Crain's May 9, 2016 issue. Thank you to our loyal clients and friends for consistently helping us achieve these recognitions!

Paul Abbey and **Tom Seifert** led a Fairport foursome at The First Tee of Cleveland's 17th annual golf benefit on August 1st. Fairport was an eagle sponsor as part of our 2016 Community Beacon program. The dinner reception featured inspiring remarks by Cleveland Browns great Earnest Byner and words from three terrific The First Tee participants.

Tricia Cindric, **Tia D'Aveta**, **Gwen Rosenthal-Martin** and **Paul Zappala** attended Schwab SOLUTIONS workshop in Columbus earlier this month. Offered by Schwab to help advisors maximize trading and operational efficiency, the one-day regional workshops covers best practices for using Schwab tools and resources.

Ken Coleman attended the Schwab Executive Forum on August 16th with Schwab EVP and head of Advisor Services Bernie Clark. The agenda covered industry and Schwab updates as well as roundtable discussion with 15 regional firm principals.

Our Family Business Practice Group Leader **Andrew Connors** and Marketing Manager **Kristen Lucas** attended Crain's 2nd Family Business Forum. Fairport was a proud supporting sponsor of the event that connected over 200 local business owners and advisors. Kudos to all of our business owner clients and friends who candidly shared their challenges and advice as panelists.

In June, **Heather Ettinger** attended Schwab EXPLORE for leaders of top advisory firms. She was surrounded by supportive and like-minded peers at InvestmentNews' Women Adviser Summit in Boston in mid-July. And she met up with her national study group - Family Wealth Advisors Council - in California at the end of July.

Kristen Lucas will be attending the Content Marketing Institute's Content Marketing World in Cleveland on September 7th and 8th. CMI is the leading global content marketing education and training organization, teaching enterprise brands how to attract and retain customers through compelling, multichannel storytelling.

John Silvis kept current on investment strategies and trends by attending the JP Morgan Wealth Management Summit in New York City and Westfield Investment Forum, both in June, and the First Trust Investment Symposium in July.

Paul Zappala attended Schwab Compliance Technologies annual conference in Austin, Texas in May and Salentica User Group Meeting in Toronto, Canada in June.

Newsletter Disclosures

This newsletter represents an assessment of the economic and market environment at a specific moment in time and is not intended to be a forecast of future events or any guarantee of future results. It is for informational purposes only and should not be relied upon as research or investment/financial planning/tax advice. It should not be considered as a solicitation or recommendation by Fairport to buy, sell or continue to hold securities or other investments. Past performance is not a guarantee of future results, and is not indicative of any specific investment. It should not be assumed that the investment process and strategy discussed herein has been or will prove to be profitable. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.