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SECURING TOMORROW

INSIDE

The Broader Market is on the Move!

by Clark Kendall

THE QUARTER IN BRIEF

The economy seemed to hit a soft patch this summer, but stocks carried onward and upward – the S&P 500 advanced for a fourth straight quarter in the third quarter, rising 3.31%. Markets were notably placid for much of the quarter, even with two major banking scandals, multiple terror attacks, and the latest dispatches from an especially contentious presidential race in the headlines. As quarter three went on, the Federal Reserve all but signaled to investors to expect a rate hike before the end of the year. Home sales, residential construction, factory activity, and consumer spending seemed to wane in the quarter, but consumers grew more confident.

> "Tech shares and small caps set the pace in the third quarter - the Nasdaq Composite leapt 9.69%, while the Russell 2000 posted a 3-month gain of 8.20%. "

DOMESTIC ECONOMIC HEALTH

As Wall Street mulled over the chances of a fall interest rate increase, some economic indicators pointed to a summer slowdown. In August, the Institute for Supply Management's manufacturing purchasing managers index went under 50 (49.4), meaning the sector had contracted for the month. Both industrial and manufacturing production declined 0.4%. Durable goods orders, up 3.6% for July, were suddenly flat. Retail sales fell off by 0.3%, and personal spending was flat after an 0.4% gain in July (personal incomes did manage to rise another 0.2%).

The pace of hiring also moderated in August, though July's number was revised upward in September. Employers added 275,000 new jobs in July, 151,000 for August. The headline jobless rate (4.9%), the U-6 rate counting the underemployed and the unemployed (9.7%), and the labor force participation rate (62.8%) were exactly the same in both months.

Other indicators were less dismal. As September ended, the federal government said the economy grew at a 1.4% pace in the second quarter but better than the 1.1% growth previously estimated. Additionally, ISM's service sector PMI remained above 50 in August at 51.4.

Accentuating the positive, consumers grew more upbeat as the quarter went on. In July, the Conference Board (CB) announced a reading of 97.3 for its consumer confidence index; in August, the CB said the gauge was at 101.1, and in September it reached 104.1. Across the quarter, the University of Michigan's monthly measure of household sentiment rose slightly from 90.0 in July to 91.2 for September (including a dip to 89.8 for August).

Consumer inflation picked up, but wholesale inflation did not. By August, the Consumer Price Index had advanced 1.1% in a year, as opposed to 0.8% in the 12 months ending in July. Core consumer prices were up 2.3% year-over-year by August. In annualized terms, the Producer Price Index showed no change from a year earlier in August; in monthly terms, the PPI fell 0.4% in July and was flat a month later. Core inflation, as measured by the Federal

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Reserve, increased 0.1% in July, 0.2% in August.

Speaking of the Federal Reserve, it left interest rates alone during the third quarter. It did, however, clue Wall Street in on the probability of a quarter four rate hike: its latest dot-plot forecast showed consensus for one, and the vote against raising the federal funds rate at its September policy meeting was close (7-3). After the vote was announced, Fed chair Janet Yellen remarked that FOMC members were "generally pleased with how the U.S. economy is doing" – a notably sunny viewpoint. On September 29, she made further headlines by commenting how useful it would be if the Fed could buy securities and corporate bonds to stimulate the economy in a recession (something it is currently prohibited from doing).

Wells Fargo certainly made headlines this quarter. In September, its CEO, John Stumpf, was brought before Congress after news broke that employees had opened as many as two million fake accounts in pursuit of sales goals. The bank was contending with $190 million in fines and severe damage to its reputation when the quarter ended.

> "The Federal Reserve left interest rates alone during the third quarter, but it did clue Wall Street in on the probability of a fourth quarter rate hike."

GLOBAL ECONOMIC HEALTH

Trouble at an even larger banking giant emerged during the third quarter. Deutsche Bank (DB) looked increasingly shaky after failing the U.S. government's bank stress test early this summer and barely passing the equivalent test in the European Union. S&P Global Ratings lowered its outlook for DB to negative. By the end of the quarter, CNBC and AFP were reporting that DB was trying to negotiate $14 billion in fines it owed to the Department of Justice down to the $5 billion level; indications were that the German government had no intention to bail the bank out should its situation worsen.

Economic indicators pointed at a less stagnant E.U. economy during the summer after the Brexit. Eurostat projected 0.4% consumer inflation in September, rising from 0.2% in August; the euro area jobless rate stayed at 10.1% in both July and August, the lowest level observed since July 2011.

In September, OPEC nations agreed to reduce oil production for the first time since 2008. The agreement, to be finalized in fall, would essentially restore the production limits that were in place back in 2015. Previously, Saudi Arabia had held out on such an agreement, saying it would cut production only if all other OPEC and non-OPEC oil-producing nations vowed to do so.

WORLD MARKETS

Benchmarks generally climbed higher in the third quarter, affirming that 2016 has turned into a good year for stocks. By the end of Q3, the U.K.'s FTSE 100 was up 13.82% year-over-year, and Germany's DAX had seen an 8.80% 12-month advance. Other impressive year-over-year gains: 20.39% for Russia's Micex, 11.76% for the Hang Seng in Hong Kong, 28.81% for Brazil's Bovespa, 14.07% for the MSCI Emerging Markets index, and 10.66% for the TSX Composite in Canada. The MSCI World index had risen 9.09% in 12 months; India's Sensex, 6.54%.

The past four quarters had not been so kind to some other indices. As the third quarter ended, Italy's FTSE All-Share had lost 21.06% in a year; Spain's IBEX 35, 8.16%; France's CAC-40, just 0.16%; China's Shanghai Composite, 1.55%; and Japan's Nikkei 225, 5.40%.

COMMODITIES MARKETS

Precious metals remained on track to log an impressive 2016 comeback. Gold lost just 0.3% in the quarter, which still left it up 24.2% YTD. The yellow metal closed the quarter at $1,317.10 on the COMEX. Silver wrapped up September at $19.21, rising 3.2% in the quarter and gaining 39.2% through three-fourths of 2016. Platinum advanced 1.0% in Q3; palladium, 20.8%. That brought their respective YTD gains to 15.8% and 28.4%.

Looking at the Bloomberg Commodity Index, the best performers in the third quarter were two base metals – zinc rose 12.6% in the quarter; nickel, 11.5%. Sugar advanced 9.8%; cotton, 5.3%; and soybean oil, 4.6%. The worst performers? Lean hogs lost 31.6%; soy meal, 25.1%; soybeans, 17.1%; and wheat, 14.0%. The U.S. Dollar Index retreated but 0.57% for the quarter, finishing the quarter at 95.42.

Like gold, WTI crude was nearly flat for the quarter. Futures lost just 0.2% in the quarter, finishing September at a NYMEX price of $48.24. Heating oil rose 2.9% in the third quarter, while unleaded gasoline retreated 0.9%.

REAL ESTATE

Home sales and housing starts tapered off during the quarter. Existing home sales slipped 3.4% in July and

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What Will the Election Do to the Markets

By Carol Petrov

Wall Street had a rather calm summer, but what effect will the Presidential Election have on the markets?

Historically, the markets have done well in the months leading up to presidential elections and this year is no exception. In nineteen of the prior twenty-two presidential election years, the S&P 500 advanced from June through October. The median gain for the index during that five-month period: 4.1%.

During those twenty-two election years, the S&P averaged a gain of 1.5% in June, 1.9% in July, and 3.0% in August. This year, the S&P rose 0.1% in June and rallied 3.6% in July; it was down 0.1% for the month of August and down another 0.1% for September.

In past election years, July and August have been the most volatile months. The yearly standard deviation for the S&P 500 averaged 18.6% during the past twenty-two election years, but volatility averaged 28.8% in July and 30.3% in August of those twenty-two years.

Due to the atypical nature of this presidential cycle and the status quo likely to remain on Capitol Hill, the markets may keep an even keel. If there is one thing on which both candidates can agree, it is that there are serious issues which must be addressed in our country. Infrastructure, immigration and defeating ISIS seem to rise to the top of both candidates' list of issues they would like Congress to help them fix. However, that would require the Congress to work together. When we look back at what jars the markets, it's the uncertainty created when the Congress toys with the ideas of defunding programs and federal government shut downs which affects all 50 states.

If you are really concerned with the outcome of this election cycle, turn an eye toward the Senate races. There are twenty-four Republican and only ten Democrat seats up for grabs in the Senate which will create a narrow voting margin for whichever party has the majority following the election. As Charles Schwab's Vice President of Legislative and Regulatory Affairs, Michael Townsend has stated, it will be very difficult for either candidate to enact the legislative reform mentioned in their platforms due to the likely chance of a Congress that would oppose either candidates proposed agendas.

Should stocks rollercoaster before or after Election Day, keep calm. Any disturbance may be short-term, and you should keep in mind that it is important to have a cash reserve for short-term needs in order to weather the storm that is market volatility. The election is a big event, but corporate earnings, central bank monetary policy, and macroeconomic factors have had a much bigger impact on the markets than elections. With global issues like China manipulating their currency, Brexit and our own Federal Reserve keeping rates low, we should be getting used to volatility and hope whichever candidate wins is one who can get Congress to cooperate for the good of our Nation.

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Forbes

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another 0.9% in August as inventory slimmed; the National Association of Realtors also said pending home sales were up 1.2% in July, but down 2.4% a month later. In July, the Census Bureau announced that new home sales were up a whopping 13.8% and near an all-time peak, but then they fell 7.6% in August. Housing starts were up 1.4% for July; building permits, down 0.8%. In August, permits were down another 0.4%, with groundbreaking reduced by 5.8%. The year-over-year advance in the monthly editions of the 20-city Case-Shiller home price index kept shrinking – it was 5.1% in June, 5.0% in July.

Home loans, broadly speaking, grew slightly less expensive throughout the quarter. The September 29 Freddie Mac Primary Mortgage Market Survey specified the following average interest on the three common mortgage types: 30-year FRM, 3.42%; 15-year FRM, 2.72%; 5/1-year ARM, 2.81%. Compare those numbers with these from the June 30 PMMS: 30-year FRM, 3.48%; 15-year FRM, 2.78%; 5/1-year ARM, 2.70%.

% CHANGE	Year to Date	Q3 Change	1-YR Change	10-YR Annualized Return
DJIA	+5.07	+2.11	+12.43	**+5.68**
NASDAQ	+6.08	+9.69	+14.97	**+13.52**
S&P 500	+6.08	+3.31	+12.93	**+6.23**
REAL YIELD	9/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.00%	0.65%	0.17%	2.27%

Sources: wsj.com, cnbc.com, bigcharts.com, treasury.gov – 9/30/16
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

LOOKING BACK…LOOKING FORWARD

Tech shares and small caps set the pace in the third quarter – the Nasdaq Composite leapt 9.69%, while the Russell 2000 posted a 3-month gain of 8.20%.The Dow ended the quarter at 18,308.15; the NASDAQ, at 5,312.00; the S&P 500, at 2,168.27; and the RUT, at 1,251.64. The RUT's YTD mark at the end of Q3 (+10.19%) surpassed the YTD performances of the big three. Concluding the quarter at 13.29, the CBOE VIX retreated swiftly this summer. Its Q3 loss was 10.02%, leaving the "fear index" down 27.02% YTD.

This is the time of year when bulls yearn for an extended rally. Will they get it? Will S&P 500 earnings surpass (low) expectations? Will the market confidently ride through the election, whatever the outcome? Will it simply and calmly price in a rate hike, assuming that happens? Will investors shrug off any unsettling headlines, whether from home or from overseas? If the market can answer "yes" to those last four questions, the quarter could see impressive gains for the major indices. According to S&P Global Market Intelligence research, the S&P 500 has risen an average of 5% in the fourth quarter since 1990, and advanced in the fourth quarter more than 70% of the time since 1945. The past has little or no influence upon future market behaviors, but even with continued slow economic growth, the overall market mood is still bullish – so perhaps investors will look at earnings first this quarter, then other factors. It is sure to be an eventful and possibly turbulent three months.

We deliver fiduciary financial services with the highest ethical standard.

-Kendall Capital Value Statement #3

It Is Better to Give

Tips for Making the Most of Charitable Gifting

By Paola Bruening

The holiday season is just a few short weeks away and now is the time for Middle Class Millionaires to begin thinking about their charitable giving for the year. Armed with a few simple strategies, you can give more regardless of the status of the financial markets. Of course, the main reason for your charitable giving should be a genuine desire to make a positive difference in your community. But first, you must decide where to direct your charitable contributions.

Charitable Gifting Basics

Since the equity markets have rallied over the past five years, many individuals have unrealized capital gains on stocks and other securities. Some of these securities may be over weighted in your investment portfolios, so you should reduce their position in order to maintain the proper asset allocation. We would either sell those securities and you pay tax on the capital gains, or you could gift the shares and receive a tax deduction on the full fair market value.

> "My advice is to give to organizations you care about, preferably charities with which you are involved."

There are also tax-related gifting strategies for stocks with unrealized losses. Let's say you bought $5,000 worth of stock in ABC Corporation, and the value went down to $2,000. The stock is sold and the $2,000 in cash is donated to a charitable cause. The investor takes a $3,000 loss on his or her tax return, and at the same time receives a $2,000 tax deduction for the donation – a total tax advantage of $5,000.

Finding Reputable Charities

Now, how do you know to which charity you would like to donate? My advice is to give to organizations you care about, preferably ones with which you are involved. If you would like to research a charitable organization, check out Charity Navigator (www.charitynavigator.org) to search by categories nationwide or find a specific organization in your community. This is a free service, but they do ask for donations to keep the site running. You can read reviews, comments and their financial statements (IRS form 990) to decide if it's a worthy charity. You can also compare organizations side by side or browse handy Top 10 lists for inspiration. Another similar website is Guidestar (www.guidestar.org) which is also free, but they offer several subscription packages if you are interested in drilling down to employee and board member information.

Making It Easy to Gift Securities

A donor-advised fund is a type of fund you set up to receive stock or mutual fund donations and then convert them into cash. It allows you to receive an immediate tax deduction on a lump sum stock contribution and then take your time deciding how to spend that money by issuing checks to your favorite charities, similar to an on-line bill paying account. Any money not donated stays in the account which is invested in an index portfolio and can grow tax-free. It's like having a separate piggy bank for your charitable inclinations. We have clients who enjoy making the donation decisions together from year to year and the fund can live on from generation to generation.

As a Kendall Capital client, each year simply tell us how much you would like us to donate, we will select securities, and you can then direct checks be sent to your desired charities. You can also request monthly checks be sent to the same charity or your church. If you are not interested in on-line access, we are happy to direct gifts at your request. Donations (or grants) must be at least $50, and accounts can be opened with a minimum $5000 stock or mutual fund contribution. As an added bonus, instead of keeping track of dozens of receipts, you get a list of all of your donations and a report of the total tax-deductible amount for the year.

The advantage is twofold: donations to a donor-advised fund can be timed for when the security's value is high, but gifts can be given when the charities need it most. I use this approach for my own charitable giving and have been pleased with the results.

You may have a particular stock which has doubled or tripled in value. We would identify that as "Gifting stock" and recommend giving that directly to an organization or an individual. In this case, consider two things – 1) how much will the recipient have to pay to liquidate the asset? 2) Is the recipient in a lower tax bracket than you?

Many churches or small non-profits have a standard brokerage account and are charged hundreds of dollars to sell a stock. They may be better off receiving a cash donation from a Donor Advised Fund. If you're planning to give money to a family member, say a young adult, they could sell the appreciated stock (which carries your cost basis)

Charitable Giving, *continued on page 8*

The Benefits and Drawbacks of Roth IRA Conversions

By Jason Tkach

If you own a traditional IRA, Clark or Carol may have mentioned to you the benefits of converting your IRA to a Roth IRA. "Roth-ing" makes sense for some, but not everyone. Factors to consider are your current tax bracket, anticipation of future tax bracket and your legacy plans. Fortunately, we have tools and calculators to help you evaluate your options and make a sound decision.

There is an assumption behind every Roth IRA conversion that income tax rates will be the same or higher in future years than they are for you today. If you happen to find yourself laid off or self-employed in a slow year that may be the case. Additionally, you may prefer to pass along as much of your IRA to children and grandchildren and thus avoid having to take Required Minimum Distributions after you turn 70 ½.

> "It often makes sense to convert a portion of your IRA annually, rather than all at once."

You may be asking yourself, why wouldn't I convert to a Roth IRA? Two reasons: the tax hit could be substantial, and time may not be on your side. A Roth IRA conversion is a taxable event. When you convert money from a traditional IRA (which is funded with pre-tax dollars) to a Roth IRA, that amount of money is added to your overall taxable income in that year. You should be prepared to pay that additional tax with money from an account outside of these IRAs. For this reason, it often makes sense to convert a portion of your IRA annually, rather than all at once.

The other issue is time. If you go ahead and pay the tax today, you'd like for the account to be able to grow for a long period of time, hopefully, before you pass away. So, it's best to consider this strategy in your sixties and seventies (a sweet spot is often between retirement and collecting Social Security). Here again, we have access to tools and calculators to see how much more growth potential exists in a Roth IRA given certain assumptions of tax brackets and longevity.

Should you decide to convert a portion of your IRA but then regret the decision, you can undo the conversion through a process called "recharacterization". The IRS gives you until October 15th of the year following the conversion to put the money back into the traditional IRA and avoid the related tax liability.

Lastly, Roth IRAs can prove to be very useful estate planning tools. If the rules are followed, Roth IRA heirs can end up with a tax-free inheritance, paid out either annually or as a lump sum. In contrast, when they inherit a Traditional IRA, every distribution is taxable income to them and Required Minimum Distributions need to be fulfilled every year. Inherited Roth IRAs also have Required Minimum Distributions to be aware of, but at least they're tax free.

Important Legal Documents for Adult Children

By Clark Kendall

When our children turn eighteen, many of us continue to act as their advisor and protector. We want to ensure they make the best decisions possible, but it is important to remember that while it may not seem like it, when they turn eighteen, you are no longer their legal guardian. In fact, now their health becomes their business and they're protected by the Privacy Rule of the Health Insurance Portability and Accountability Act (HIPAA). So, if they're in a car accident or knocked unconscious playing a friendly football game, you may get the call to go to the hospital, but you'll have a difficult time finding out their condition.

So, as you send your children off to college or they move out to start their careers, you will want to make sure they have a legally binding medical directive with a HIPAA waiver in place. A medical directive is a legal document which allows you to make medical decisions for your child if they are incapacitated. A HIPAA waiver allows health care providers to share your child's medical information with you. Please consult with your estate attorney to have one drafted or ask us for referrals.

If your child is attending college, many schools have a HIPAA waiver form which would apply to on-campus clinics. But this only allows the medical personnel to share information with you. The Health Directive, gives you the authority to make decisions on your child's behalf. If they are out-of-state students, you may want to consult an attorney to find out if you will need a medical directive for both home and school's states. With these two documents in place, you and your child can rest assured that they will be well-taken care of in the event of a medical emergency.

Do not save what is left after spending, instead
spend what is left after saving.
-Warren Buffett

Daily Money Managers

By Carol Petrov

Do you know someone who is overwhelmed by their day-to-day bills? Are they buried in statements from medical service providers and reimbursement forms from their Long-Term Care insurance plan? Perhaps they just get too frustrated when a problem arises and they don't know how to get it resolved.

Whether it's an ongoing dilemma or a one-time organization project, you should know there are trustworthy, dedicated professionals called Daily Money Managers or "DMMs". They use their organizational and people skills to help elderly clients deal with the day-to-day issues which may have been simple at one point but have become complex and frustrating.

DMMs are hired on an hourly basis or monthly retainer and build a relationship with their clients because they know they'll be visited on a regular basis, ready to tackle all kinds of issues. They're a tremendous asset for a busy professional who lives far from their elderly parents and needs to get a handle on their monthly income and expenses. DMMs can help their clients get ready for tax time and take inventory of their assets when planning their estate distribution. Remember that organizer we handed out at our "You Only Die Once" workshop? Well, they'll help you tackle that and get it done in no time!

"Daily Money Managers use their organizational and people skills to help elderly clients deal with the day-to-day issues which may have been simple at one point but have become complex and frustrating."

If you know someone who could benefit from this type of service, take a look at the American Association of Daily Money Managers (www.aadmm.com). They offer a database of DMMs around the country and many have earned a designation indicating they have the qualifications and ethics to perform this important job with integrity. They may be sole practitioners or work for an agency and as with hiring any professional, you should interview at least three DMMs to decide who is the best fit for your needs.

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but pay 0% capital gains tax if they're in the 10-15% marginal tax brackets. However, if your heirs are in similar tax brackets as you, they're better off receiving cash now and the appreciated stocks after your death, when they can receive the step-up in cost basis.

My closing piece of advice is this: market volatility is no reason to shy away from giving to charities or your children. Whether a particular asset has gained or lost value, by giving smartly you will save considerable taxes while enjoying the feeling of helping others and maximizing benefits all around. It's like grocery shopping with coupons or buying a TV the day after Thanksgiving – dollars saved on taxes are dollars earned for your community or family.

Welcome Our Newest Member of the Kendall Capital Team...Zemin Zhu

Zemin has joined Kendall Capital as our Accounting Associate. He is responsible for assisting with account reconciliation, quarterly billing, daily trade review and keeps the office running smoothly. Zemin is also a SAS Certified Advanced Programmer, has a Bloomberg Essentials Online Training Program Acknowledgement and recently completed the educational requirements to have the Chartered Financial Analyst (CFA®) designation and the Financial Risk Manager (FRM®) designation.

Prior to joining Kendall Capital, Zemin received a Master's degree in Finance from Tulane University and a Master's degree in Accounting from The George Washington University. While completing his Master's degree at The George Washington University, Zemin interned at the Public Company Accounting Oversight Board (PCAOB) where he researched myriad public companies for areas of risk and reported his findings to the Oversight Board Committee.

Zemin is from Shanghai, China and moved to the Washington, D.C. area in 2014. In his spare time, Zemin enjoys watching movies and spending time at the gym.

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