Shift Commentary: July 5, 2016

In light of the recent market volatility and the headlines/news surrounding the destabilizing events in the Eurozone, we wanted to share a mid-year review of our strategies. In our view, the first half of 2016 can be boiled down into two big themes:

Preservation Was Paramount

- We've been preparing for higher volatility starting last August – Exited higher beta markets like Emerging Markets (Aug 2015), U.S. Small Caps (Dec 2105), U.S. Mid Caps (Feb 2015) and Added meaningful allocations to EAFE (Feb 2016) and U.S. (Jan 2016) Low Volatility
- We've done a nice job of avoiding landmines, while limiting volatility during a choppy first quarter
- During June, when volatility and market uncertainty spiked, the equity side of our allocation performed well

Fixed Income – Tried & True

- The biggest surprise this year has been the strong performance of core fixed income
- Being close to full duration this year helped our performance, while removing riskier fixed income during the first quarter hurt on a relative basis
- We will continue to allow fixed income to do its job of helping hedge against equity volatility

Within our equity allocation, we have reduced our exposure to international equities overall, particularly in Europe, in favor of core U.S. equities. We believe the uncertainty surrounding the possible economic and political impact of Brexit will weigh heavier on developed international markets. We took full advantage of the European markets almost "V" like recovery last week, where they outperformed and gained 5%, to reduce our exposure. We also exited our domestic growth tilt in favor of core equities, as fears of slowing global activity is likely to pressure more cyclically sensitive growth sectors.

On the fixed income side, we took advantage of the recent drop in yields to lower our Treasury exposure in favor of increasing high quality credit. Increased QE in Europe and Japan has created a technical backdrop that has driven global yields to historic lows while creating strong demand for investment-grade U.S. debt. This trend we feel will both keep U.S. rates low and be supportive of IG credit spreads.

As always, we thank you all for your continued support and look forward to discussing any or all of our thoughts at your convenience.

Best regards,

Richard A. Funk, CFP®
Senior Vice President, Investments

Jenny G. Davis, CFA®
Senior Investment Portfolio Specialist