PROFESSIONAL FINANCIAL MANAGEMENT, INC.
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October 25, 2016

Dear Client,

Welcome to Fall - we hope you had a wonderful summer and are enjoying the transition to this beautiful time of year.

Enclosed, please find your 3rd Quarter performance report. As a reminder, please compare the information reported in the enclosed quarterly report to the account statements you receive directly from the custodian and promptly report and material discrepancy to the office (note that there might be slight discrepancies due to the timing of the credit of dividends or transactions at quarter end). Also, if you are not receiving account statements directly (either in print or electronically) from the custodian please notify us immediately.

While Presidential Elections have historically tended to create uncertainty in the financial markets, very few in recent memory have seemed to "spook" (a timely adjective) investors than the current race for the White House. Regardless of political persuasion, many investors have concerns about the potential impact of the outcome on markets and their portfolios. This race features two candidates who are viewed as polarizing figures within their own political parties and who have divergent policies and visions for the future of our country. Following our brief quarterly market review, we discuss how markets have historically responded to election outcomes and further, how we should respond as long-term investors.

Third Quarter 2016 in Review

Markets recovered from the late June BREXIT shock to finish higher for the quarter. In looking at the broad market equity indices, Emerging Market stocks, which are having a blockbuster year, outperformed all equity markets for the quarter. Despite continued worries on the European front, International Developed markets had a positive quarter, also outperforming the US Broad equity market. US REITS, which have had a strong year overall, fell off a bit for the quarter, lagging the US equity market. As we have stated before, the news headlines are no indication of investment performance – a great reason for maintaining a diversified investment approach.

Small cap and Value oriented stocks had mixed results for the quarter. The value effect was positive in international developed market stocks, but negative in both emerging market and US stocks. Small cap stocks outperformed large cap stocks in the US and international developed markets, but underperformed in emerging markets. For a more detailed market re-cap visit the "News" tab on our website. A summary of QTD and YTD market returns is as follows:

	US Stock Mkt.	International Dev. Mkts	Emerging Mkts	US Real Est.	US Bond Mkt.	Global Bond–ex US
Q3 '16	4.40%	6.29%	9.03%	-0.23%	0.46%	0.10%
YTD '16	8.18%	3.12%	16.02%	11.47%	5.80%	7.51%

Source: Russell, MSCI, Wilshire, Barclays and Citigroup

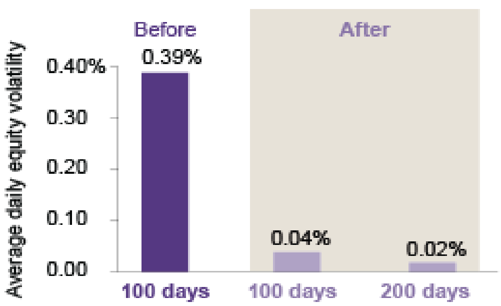
Politics and the markets

The election is right on top of us and while we have no way of determining its potential impact on our investment portfolios, we can count on a myriad of opinions from market prognosticators who will attempt to outguess the market. In fact, just a week ago we received an email from a financial publication requesting input to an article they planned to write about how Advisors were planning to position clients ahead of the upcoming election! Our response to this (while we hope it goes without saying) is that we continually believe investors are best served by maintaining their long-term investment plan and not getting caught up in the hype surrounding the election, which, research shows, ultimately has little to no effect on the markets (or their portfolios) long-term. Below is information to help put this into perspective.

<u>Short-term trading to outguess the market is a fool's errand.</u> Dimensional fund Advisors put out a piece on elections and the markets. In this, they stress the fact that current market prices have accounted for all the expectations of its participants, and this includes any expectations about the outcome or impact of elections. In general, future unanticipated events that differ from expectations may trigger price movements, but there is no way for investors to know what these are today, making it highly unlikely that anyone could gain an edge by attempting to predict what will happen to the market post-election. To further this point, one needs to be right twice – when to get out and then, when to get back in. Nearly all investors get the second decision wrong because they are paralyzed by ongoing short-term events that stoke their fear, causing them to miss the upside move when it comes. An old investment adage comes to mind here: **"It's not timing the market, but time in the market that carries you through to reaching your goals."**

Expect Volatility, but not more than previous election cycles. We know elections create uncertainty – they represent potential change and with change comes fear of the unknown. Not knowing creates uncertainty which in turn creates volatility. Vanguard published a recent article discussing that discusses the impact of volatility both pre-and post-election. Jonathan Lemco, Ph.D. a Senior Strategist with Vanguard Investment Strategy Group and former professor of political science at Johns Hopkins University points out that, "Despite the surprising nature of this election year, volatility hasn't exceeded normal levels for a presidential election year and there's no indication that it will deviate for typical patterns after the election." He used the below graph to show that market volatility, on average, tends to decrease substantially following elections (Figure 1).

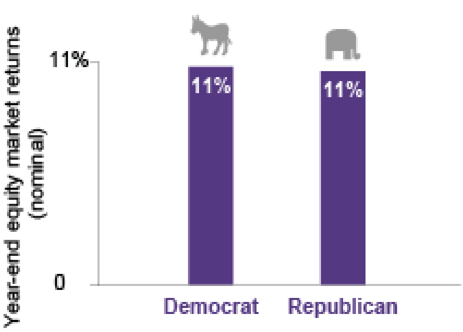
Figure 1: Stock market volatility stops increasing shortly after U.S. presidential elections



Source: Vanguard calculations based on data from Thomson Reuters Datastream, 2016.

Your Portfolio is Non-Partisan long-term. A second piece of research from Vanguard emphasized that markets are indifferent to either Democratic or Republican control of the White House. Dr. Lemco shows that when you take volatility out of the equation, nominal returns of the markets are identical:

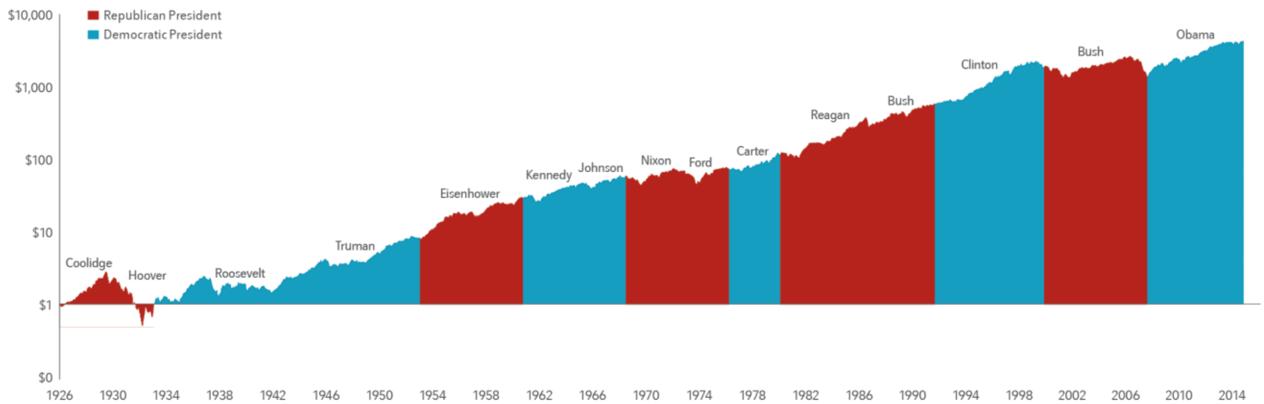
Figure 2: Average annual stock market returns based on party control of the White House (1853-2015)



Source: Global financial data 1853–1926, Morningstar and Ibbotson thereafter through 2015.

Dimensional Funds made a similar point in their piece citing that predictions about presidential elections and the stock market usually focus on which party or candidate will be "better for the market" over the long run. The graph below represents the growth of $1 in the S&P 500 over the past 90 years covering 15 presidencies (from Coolidge to Obama). The chart essentially reflects the fact that there is no obvious pattern relating stock market performance to the political party in office, but rather that over the long haul, the market has provided substantial returns regardless of which party controlled the executive branch.

Growth of a Dollar Invested in the S&P 500, January 1926–June 2016



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group

What all this means to you and your portfolio

All the above data suggests that elections and even occupants of the oval office have no material influence over markets long-term, ultimately making it a "non-event" where your portfolio is concerned – this time should be no different. The election issue, however, is just an example of how investors can get "wrapped around the axle" on issues that may have short-term impact but ultimately become blips on the radar screen when looking at the big picture. While short-term events may create negative market movement, remember that the risk to your portfolio is acting on the volatility, not the volatility itself!

As we continually state, we are better served to focus on those items that can be controlled. These include proper financial and investment goal planning combined with a sound, fundamental and diversified investment strategy allowing one to weather the storm and reap the potential benefits of long-term market performance. Successful investing requires one to focus on the long-term and not on the headlines of today or what is happening now.

If you have additional concerns, please reach out to us so for a discussion. As always, thank-you for the opportunity to serve as your Financial Advisor – we look forward to talking with you soon.

Sincerely,

Doug Babcock, CFP®

Bob Frey, MS, CFP®