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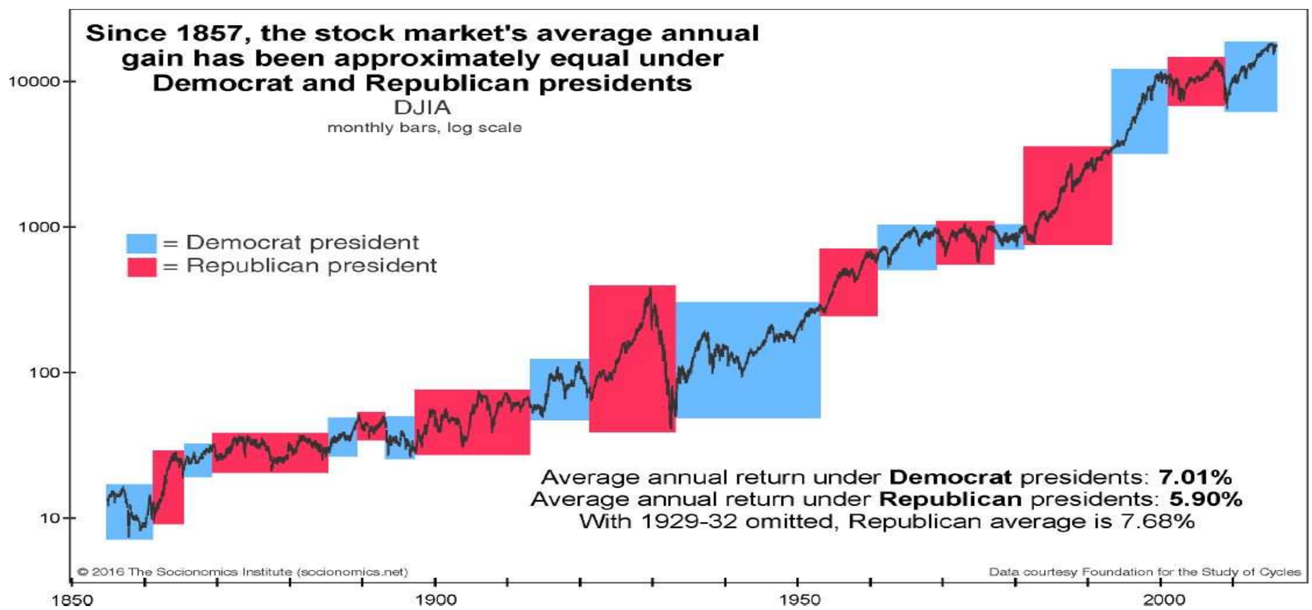
THE BIG PICTURE ~ ELECTION 2016: BUY OR SELL?

"In the short run the market is a voting machine, in the long run it's a weighing machine." -Benjamin Graham

Perhaps no non-economic event gets people interested in the markets more than a Presidential election. Every four years, newspapers, political watchers and the general public try to handicap what the next president will mean for the markets. While AMM associates hold a fairly diverse set of political views, when it comes to markets, we have learned that political agnosticism is the best course of action.

Exhibit A



While markets have fared better on average under a Democrat since 1857 (Exhibit A), the differential is 1.11% and includes the 1929-32 Great Depression which might be considered an outlier. Exclude this, and the Republicans have the advantage by a scant .67%. Looking at the individual data, one can't help but think that luck and timing, more than policy, has had a lot to do with how markets have fared under various Presidents.

The best return for an individual President since World War II was 18.6% annualized under President Ford (R); yet, he had the benefit of becoming President near the 1970s bear market lows. Likewise, market returns under Barack Obama (D) annualized at 12.6%; yet, he too was inaugurated near the market lows of a deep recession. For these Presidents, there was nowhere to go but up. On the flip side, George W. Bush (R) was inaugurated near the highs of the technology bubble when stocks were trading at nosebleed valuations and had nowhere to go but down.

To be clear, the US Presidency is still the most powerful position in the world, and the stakes are high both for the winner of the election and the country. But, if you are an investor, making a buy/sell decision based on who wins the presidency will, in all likelihood, be a coin toss. Better to take Ben Graham's advice and "weigh" the value of the business and its prospects before buying or selling, and leave the political/market handicapping to the pundits.

(OVER)

Our Sell Philosophy

Selling is generally a more difficult decision than buying and can be a greater cause of investment mistakes. If you do your homework and buy a good business, then even a poorly timed buy can be bailed out by time and dividends. Selling, however, means exiting your potential for future return. If this is to fund a purchase or is required for living expense, then the reinvestment decision is irrelevant. But more often than not, selling is triggered by "other" reasons. Below we highlight both good and bad reasons to sell.

Bad Reasons To Sell:

A "smart" investor/pundit says it's time to sell

Following this advice is bad for several reasons: 1) There are usually smart investors on both sides of a trade, so following one opinion and ignoring the other is basically a coin toss; 2) Smart investors get burned all the time. In 2016 alone, some of the largest hedge funds (the purported "smart money") are down double digits versus the S&P 500 which is up mid-single digits as of this writing; and 3) If it were that easy, everyone would do it. The SEC requires quarterly 13F filings for money managers with over $100 million in assets under management, which disclose buys and sells during the prior quarter and current holdings. Check out whalewisdom.com and you can follow some of the largest and most successful investors to see what they bought last quarter. Just don`t follow them blindly in to their trades (see reasons 1-2 above).

The market went down

Markets go down. It is part of investing. Stocks are volatile, and their prices swing dramatically from year to year. Too often, investors decide to become traders when markets turn against them. Ultimately, this leads to fear based selling, followed by relief that they are no longer "losing", followed much later by regret when prices have rebounded. For dividend investors, there is double regret since they also gave up cash flow when they sold their dividend paying stocks.

Crystal ball says so

Humans just are not very good at making predictions, especially about complex systems like the stock market. Behavioral finance researchers have uncovered a variety of psychological characteristics that challenge our predictive abilities. Chief among them is that we tend to overweight evidence that supports our view and ignore evidence to the contrary; and, we are not naturally wired to think statistically. This leads to overconfident and often wrong predictions.

Good Reasons to Sell:

Rebalancing

Selling positions that are "overweight" relative to your pre-determined asset allocation strategy is a no brainer for prudent investment management. Rebalancing is a mechanical decision that inherently buys "low" and sells "high" making it the easiest sell decision.

Change in individual circumstances

Nearing retirement, recently got laid off, came in to a financial windfall, suffered an unexpected health issue, etc. These are all reasons to revisit your asset allocation and *possibly* sell positions that do not meet your new objectives/risk tolerance. A change in personal circumstances is fairly self-explanatory; but, it is critical that this change be discussed with your investment advisor to determine what, if any, changes should be made to your portfolio.

Funding a new investment

In a diversified portfolio, not all investments are equal. Sometimes, a new investment must be funded by selling a holding that you deem to have lesser prospects. Ranking one investment versus another is challenging and requires a keen sense of an investment`s valuation and future prospects. More often than not, investors make the mistake of ranking the investment that has performed better in the recent past as the "superior" investment, thereby selling the "loser" and buying the "winner". This is a version of "buy high, sell low" and can lead to relatively poor results.

(Our Sell Philosophy cont.)

Fundamental change in investment thesis

An investment that has undergone a material negative fundamental change should be considered for sale. Some examples include a company dramatically cutting its dividend, a business model undergoing a technological disruption, or a change in customer preferences. Determining whether an investment has materially changed for the worse requires a deep understanding of the investment and the ability to separate noise (i.e. negative, but immaterial changes) from truly fundamental changes that will affect the investment`s long-term prospects. If you sell every time a company misses earnings by a penny or an insider sells some shares, then the odds are high that you will have a high cost/low return portfolio.

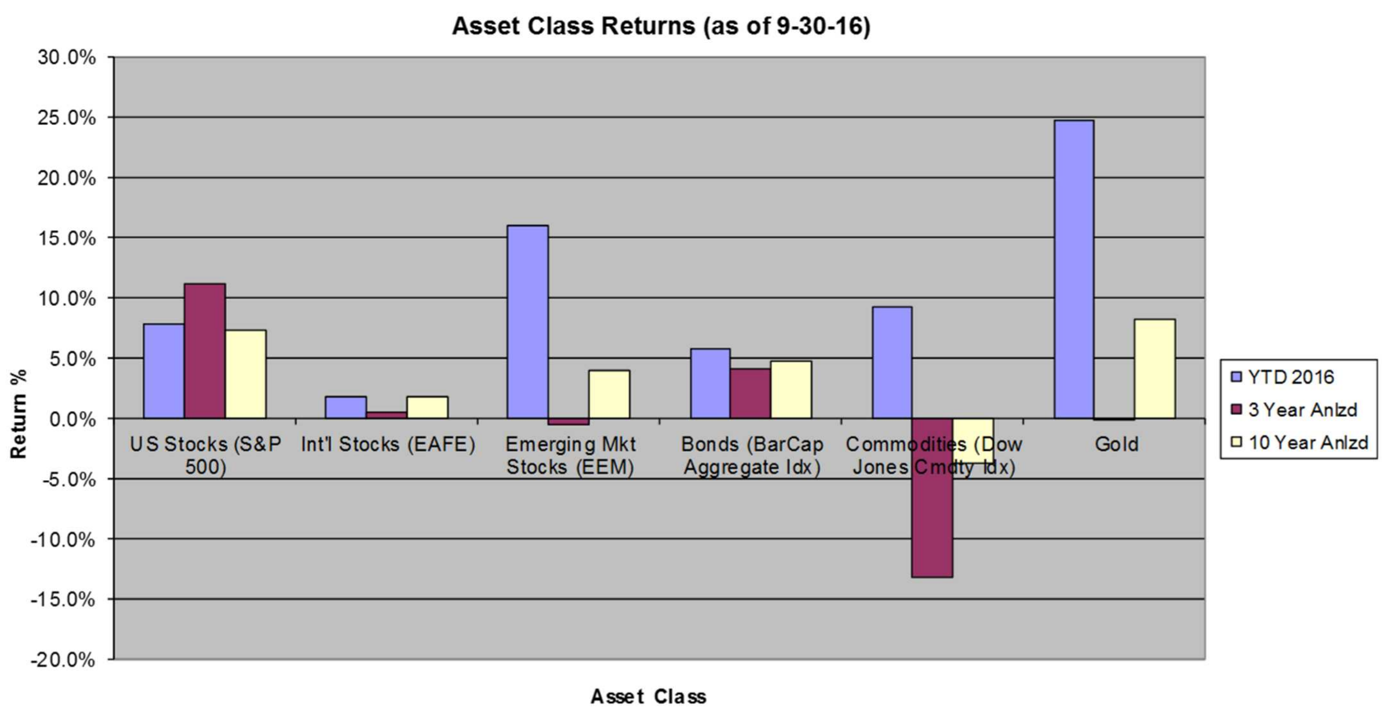
Overvaluation

An investment trading well above its economic value is a candidate for sale; however, this must be weighed against the potential tax consequences of selling, the level of overvaluation, and alternative investments. Valuation includes information both objective (financial statement) and subjective (quality of underlying business model, business prospects, etc.) and varies greatly among the investing public. In essence, variant views on valuation is what makes a market; or, to put it another way, one man`s trash is another man`s treasure. This means that if you make a sell decision based *purely* on valuation, you must be very confident that your assessment of value is better than the person buying from you!

YTD 2016 Review ~ Asset Class Outlook

Year to date through 9/30/16, domestic stocks (S&P 500) increased 7.8%, developed international stocks (EAFE) increased 1.7%, and emerging market stocks increased 16%. Bonds (Bar Cap Agg Idx) gained 5.8%, commodities (DJ Commodity Idx) gained 9.2%, and gold increased 24.8%. We have updated our asset class return chart (Exhibit B) to reflect YTD 2016 along with three and ten year annualized returns for the aforementioned asset classes.

Exhibit B



(Our Sell Philosophy cont.)

While US stocks are near all-time highs, they have undergone a fairly long period of sideways consolidation. The S&P first broke above 2000 two years ago and has experienced three declines of more than 7% since then (each time selling off to the mid-1800s). While we do not view domestic stocks as inexpensive at current levels, it is important to note that the investment allocation decision is about weighing one asset against alternatives. From that vantage point, US stocks look relatively better than choosing to overweight to bonds at near record low interest rates. Since bond prices move inverse to bond interest rates, a rise in rates is certain to negatively impact prices. For this reason, we continue to avoid longer term bonds in favor of shorter and intermediate term bonds for our clients' fixed income allocation.

Perhaps the most attractive asset classes from a pure valuation perspective are international and emerging market stocks. However, the attractive valuations must be weighed against the accompanying risks of investing internationally including exchange rate risk, geopolitical concerns and country specific issues. In diversified asset allocation strategies, we are investing directly in these markets via mutual and/or exchange traded funds. For pure stock oriented portfolios, we continue to get the bulk of our international exposure via the investment in US domiciled multinationals.

Lastly, both gold and commodities have fared well this year but have a long way to go to overcome the poor returns of the last several years. As we have written in the past, we have primarily used these assets as an inflation hedge and diversifier in our broad asset allocation strategies. While inflation has remained stubbornly low over the last few years, we believe that ultimately a long period of below average inflation will pave the way to higher inflation. In this environment, we would expect these assets to shine (pun intended).

**Individual accounts will vary based on a client's stated objectives, risk tolerance and time frame. We manage several different portfolio strategies, so not every client has exposure to the securities, asset classes or trading strategies discussed above. In addition to growth and/or income oriented asset allocation strategies, we also manage more concentrated equity portfolios that generally carry a higher degree of risk and volatility. Please contact us if you want to discuss your portfolio strategy in greater detail.*

Should you have any questions regarding your investment account(s) or, if there have been any recent changes to your investment and/or retirement objectives, please do not hesitate to contact our office. We can also provide you with a current copy of our SEC Form ADV Part II, at your request.

As always, we thank you for entrusting AMM to help you achieve your investment and retirement objectives.

Your Portfolio Management Team

Gabriel Wisdom *Managing Director*	Michael Moore *Chief Investment Officer*	Glenn Busch *Portfolio Manager*	Vicki Ohara *Operations Manager*	Jim Rhodes, CFA *Executive Director*
Mike Green *Portfolio Manager*	Adele Canetti *Portfolio Manager*	Robert Frazier *Investment Advisor*	John Nyaradi *Investment Advisor*	Bree Carlson *Administration*

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