NATIONAL WEALTH ADVISORS Inc.

Business & Personal Financial Planning

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SUMMIT FINANCIAL RESOURCES, INC.

Investment Newsletter Second Quarter 2016

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EXECUTIVE SUMMARY

As if making up for lost time, a quarter that initially distinguished itself for tight trading ranges and a lack of volatility ended on a completely different note. The catalyst for what can only be described as gut wrenching volatility was the June 23 U.K. referendum to leave the European Union. The vote, otherwise known as Brexit, drove foreign exchange markets to their most volatile single day in history. British sterling, for its part, had its greatest one-day decline ever. Global stock markets lost $3 trillion over the course of two days, and worldwide government bond yields plumbed unprecedented lows. The S&P Global Broad Markets index had its most significant two-day decline in history and $12.7 trillion (36%) of global sovereign debt traded at negative yields by quarter end — an 80% jump from the amount at the start of the quarter.

Cooler heads rapidly prevailed and markets did an about-face. Stock market declines nearly evaporated over the next four days. The U.S. stock market experienced its greatest weekly gain of the year. As a matter of fact, by the time of this writing, the U.S. stock market has not only regained pre-Brexit levels, it has reached a new all-time high.

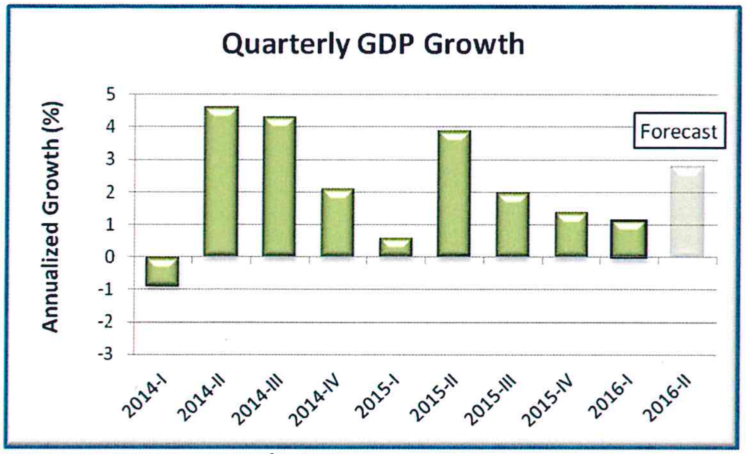
For now, Brexit seems to be reasonably discounted by markets, and investors will digest new information as it comes. In the meantime, U.S. fundamentals are reasonably positive, and a strong June payrolls report laid to rest the largest concern for both investors and the Federal Reserve. Thus, the labor market remains healthy and continues to advance. The consumer is in good shape as well. Confidence is strong, and inflation adjusted wage gains have been on the rise for years. The savings rate hit a low for the year in May, driving retail sales to the largest two-month jump in over two years. Housing remains a key driver of economic growth and is likely to only improve with the dramatic drop in mortgage rates this year. Manufacturing has improved from weakness that began late in 2015, and inflation (presently desired) is on the rise. Modest dollar weakness will also be a positive for exporters, manufacturers, and multinational companies.

International fundamentals are more of a mixed bag. The World Bank and the International Monetary Fund (IMF) acknowledged a stabilization and rebound in China. They suggest the nation's situation has become less dire. China's exports are increasing again, imports are down (in value but not volume), and the consumer is holding up well. Unfortunately, the same cannot be said of Japan, which has experienced unfavorable developments. Deflation is once again a problem and economic growth remains a challenge. A Brexit induced flight to quality has also driven the yen dramatically higher. This negatively impacts inflation, exports, and corporate earnings. Of course, Europe is likely to be negatively impacted as the region works its way through Brexit and related challenges.

In light of broad global weakness, and despite a preponderance of negative and low rates already, central banks are expected to accelerate stimulus measures. The Bank of England, Bank of Japan, European Central Bank, and People's Bank of China have all announced a willingness and inclination to do more, in many cases as early as this month. For now, the belief in "muddle through it" economies and confidence in accommodative central banks to the rescue have appeased investors. Indeed, many global stock and bond market indexes are at or near all-time highs. Considering tepid growth, elevated valuations, and low interest rates, go-forward return expectations should be modest.

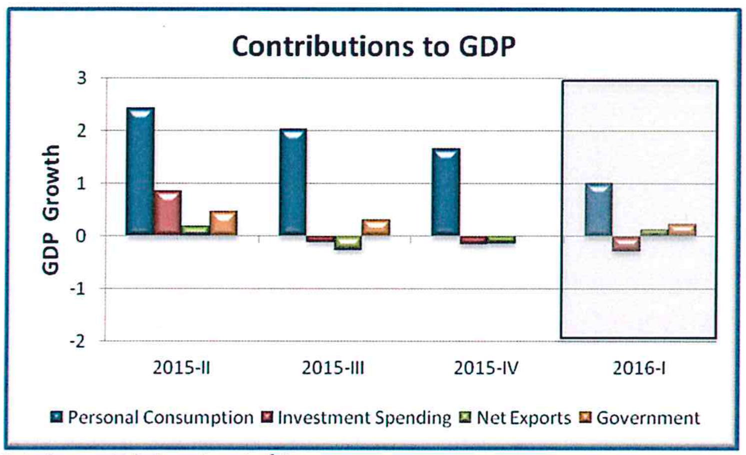
ECONOMIC REVIEW AND OUTLOOK

Key Economic Fundamentals



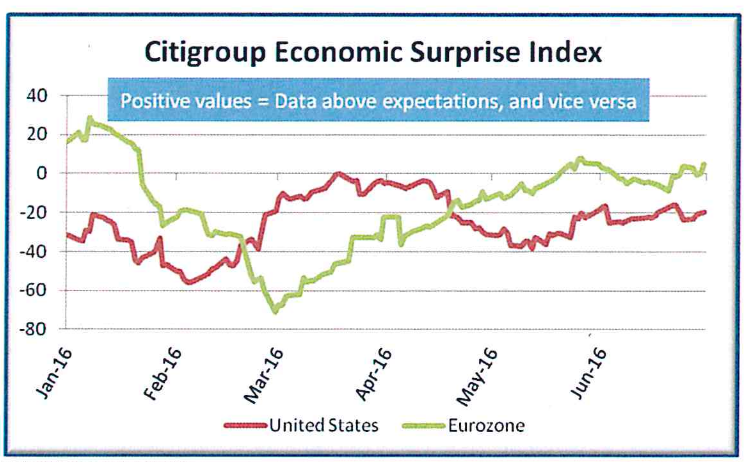
Data Source: U.S. Department of Commerce

Following the pattern of the past two years, acceleration in second quarter growth is expected to compensate for a slow start to 2016. Key drivers to the improvement include a modest pullback in the dollar, an uptick in manufacturing activity, and a seemingly reinvigorated consumer.



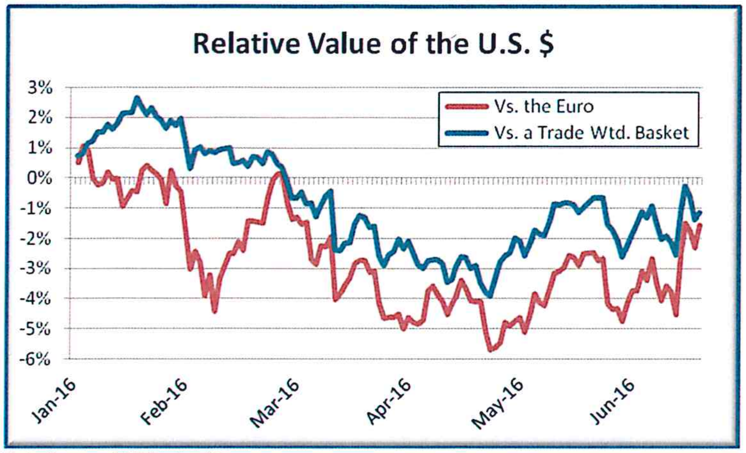
Data Source: U.S. Department of Commerce

As with the second half of 2015, growth in the first three months of 2016 was driven exclusively by the consumer. Outside of continued favorable growth in housing, investment spending was a drag. Of particular note, business spending on equipment had its worst showing since the height of the financial crisis.



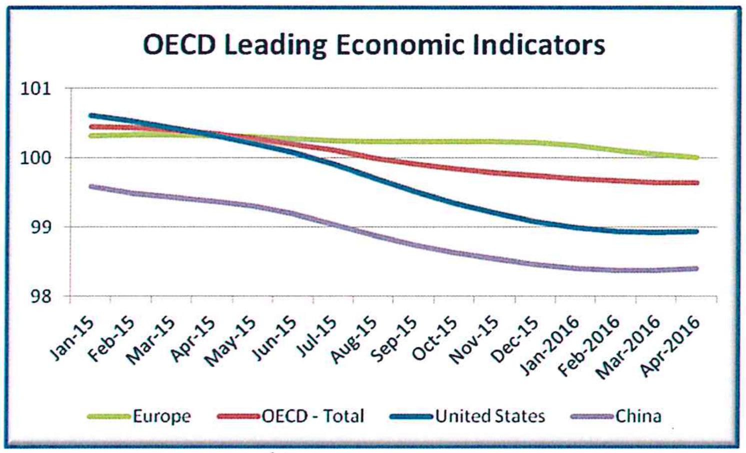
Data Source: Citigroup

Directionally speaking, economic results came in a bit weaker than expected in Q2, particularly for the U.S. That said, forecasts were fairly accurate relative to previous periods and the trends in both Europe and the U.S. were positive. Brexit related uncertainty will no doubt drive greater forecasting error, and market volatility, in coming periods.



Data Source: U.S. Federal Reserve

Dollar weakness early in the year reversed modestly over the past two months. That said, the dollar's net decline through the first half of 2016 has been a welcome respite for manufacturers, multinational companies, U.S. policymakers, and globally diversified investors.



Data Source: U.S. Department of Commerce

Through April, weakening trends in leading economic indicators seemed to have stabilized. Rebounding commodity prices, currency stability, and aggressive central banks have no doubt been key factors. Going forward, Brexit uncertainty, currency wars, and a worldwide epidemic of negative interest rates will be key economic drivers.

Global Growth Rates[1] (%)

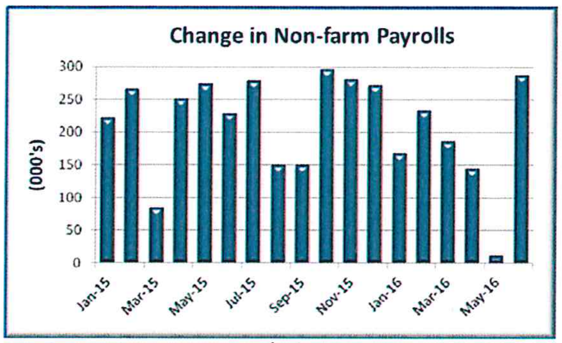
	Q1 2016	Q2 2016	Q3 2016	2015	2016	2017
Advanced	**1.7**	**1.7**	**1.7**	**2.0**	**1.7**	**1.7**
Euro[2]	2.2	0.6	0.5	1.6	1.3	1.2
U.S.[2]	1.1	2.6	2.0	2.4	1.9	2.0
Japan[2]	1.9	0.3	0.7	0.5	0.4	0.7
U.K.[2]	1.4	1.3	0.8	2.3	1.5	0.2
Canada[2]	2.1	2.2	2.2	1.2	2.0	1.8
Emerging	**4.4**	**4.6**	**4.7**	**4.3**	**4.6**	**5.3**
China	6.7	6.7	6.5	6.9	6.6	6.4
India	7.9	7.8	7.9	7.5	7.8	8.0
Russia	-0.2	1.4	2.3	-3.7	0.5	3.0
Brazil	-5.4	-3.6	-2.3	-3.8	-3.1	1.1
World	**3.0**	**3.1**	**3.2**	**3.1**	**3.1**	**3.5**

Data Source: Goldman Sachs, Central Intelligence Agency
[1]Q1 2016 and 2015 are actual, all others are forecasts
[2]Quarterly numbers are sequential annualized, others are year-over-year

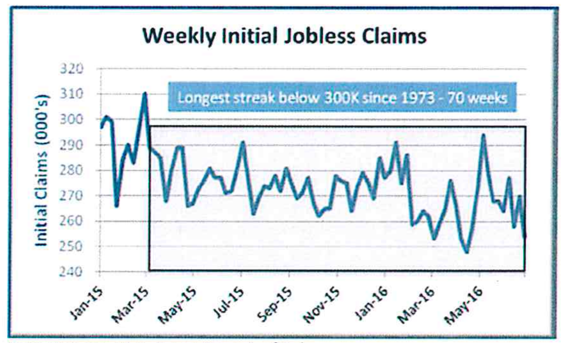
Economic growth in the four largest economies (Euro zone, U.S., China, and Japan) is expected to slow in 2016. Forecasts of a net deceleration in advanced economies is expected to be offset by emerging nations. Strong and accelerating growth in India would be a key driver as would "less bad" results out of Russia and Brazil.

Employment

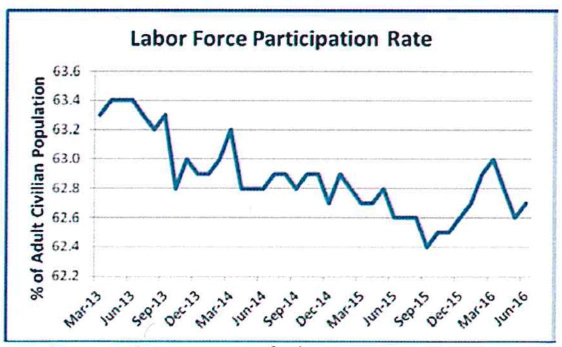
A weak payrolls report for May gave investors pause and stayed the hand of a Federal Reserve otherwise inclined to tighten monetary policy. A dramatic rebound in June, however, suggests an aberrant May result. Absent Brexit uncertainties, it would seem the Fed could get back to the task of rate normalization. Meanwhile, other statistics confirm steady labor market improvement. Weekly jobless claims continue to impress and the labor force participation rate seems to be stabilizing, albeit at a disappointing level. The unemployment rate, already below the Federal Reserve's target, is widely expected to fall further, and labor market slack continues to improve as well. Lastly, an absurd, if not comical, amount of ink has been spilled of late to extol the nearly imperceptible uptick in nominal wage gains (see red line below) in recent months. In truth, far more impressive, and meaningful, *inflation adjusted* wage gains have been taking place dating back to the middle of 2011!



Data Source: U.S. Department of Labor



Data Source: U.S. Department of Labor



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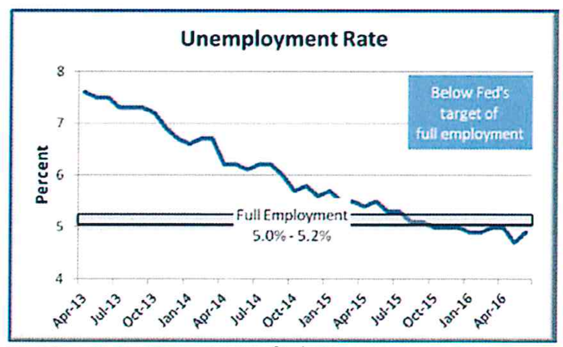

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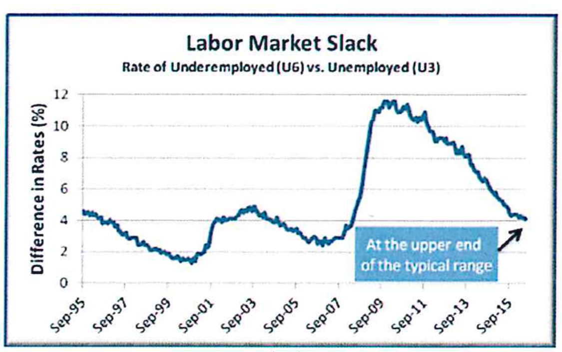

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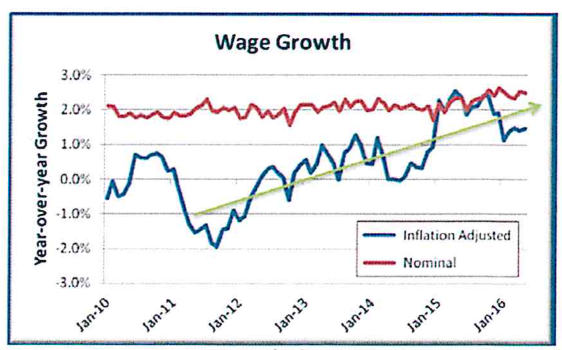
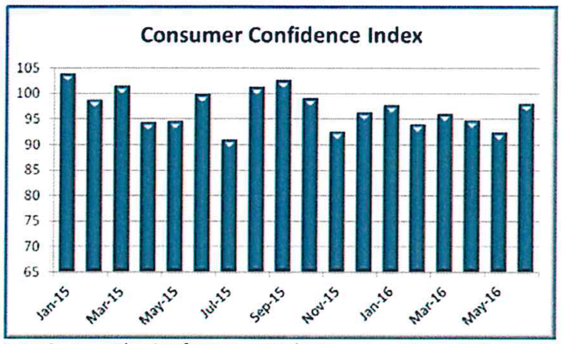


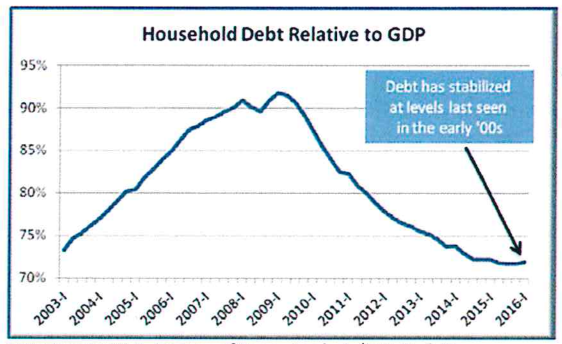
Data Source: U.S. Department of Labor

Consumer

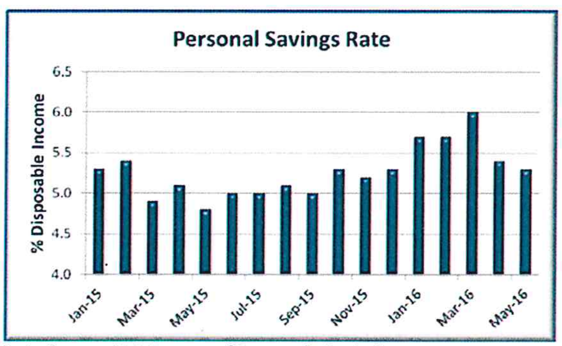
Low interest rates, housing market gains, favorable labor market dynamics, and cheap gasoline have all contributed to the U.S. consumer remaining resilient and confident. Balance sheets are strong, debt levels are reasonable, and household net worth continues to hit new highs. Considering positive fundamentals, particularly cheap gasoline, the rise in household savings rates from May 2015 through March 2016 has baffled economists. Fortunately, consumer behavior, of late, has been more in line with logical expectations. The savings rate has dropped, and retail sales in April and May grew at the fastest two-month pace in over two years. Auto sales, while somewhat off earlier highs, also continue at a robust pace.



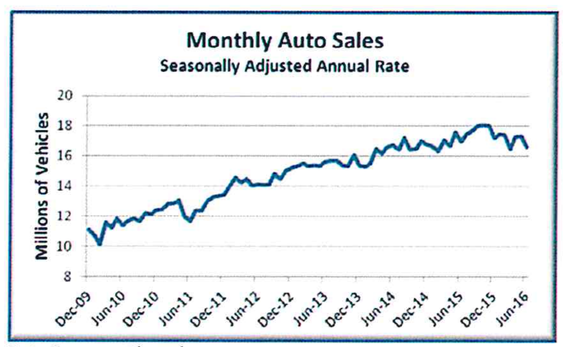
Data Source: The Conference Board



Data Source: U.S. Bureau of Econ. Analysis/U.S. Fed. Reserve



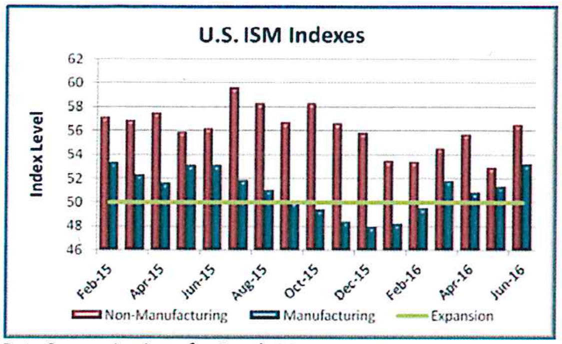
Data Source: U.S. Bureau of Economic Analysis



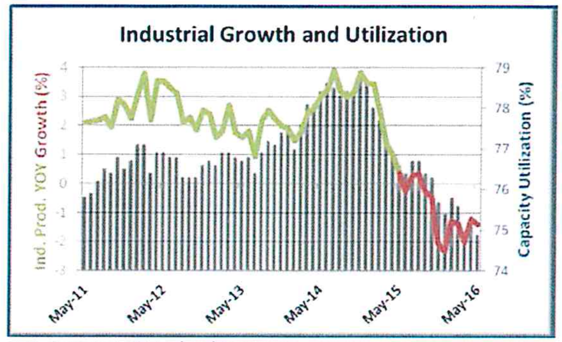
Data Sources: Bloomberg

Business Activity

As shown by the ISM graph on the following page, the service sector is in reasonable shape and manufacturing activity continues to improve following a contraction that began late last year. Dollar strength and low energy prices had been key culprits behind manufacturing weakness and a stunning 16 month decline in the utilization of U.S. manufacturing, mining, and utility infrastructure. Recent dollar weakness, particularly in the first quarter, and a jump in energy prices have helped to stabilize the manufacturing sector. That said, industrial production has still experienced year-over-year declines for the past 10 out of 12 months and capacity utilization, while possibly stabilizing, shows no signs yet of improvement. The dollar's recent rebound and continued weak global growth (both likely accentuated by Brexit fallout) do not bode well for manufacturing or exports.



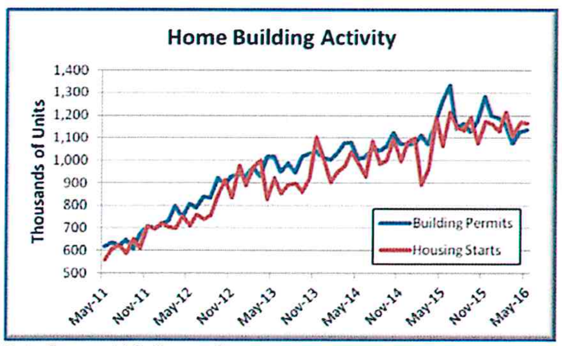
Data Source: Institute for Supply Management



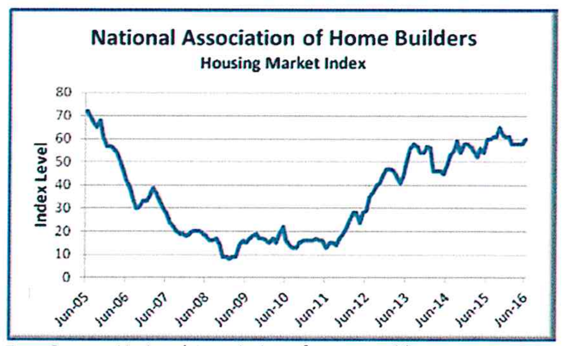
Data Source: U.S. Federal Reserve

Real Estate

The two pillars of U.S. economic strength, of late, have been the consumer and housing. As a contributor to GDP, investment in residential housing has grown at an annualized rate of 8% or better for the last seven out of eight quarters. Over half of these quarters registered annualized gains in excess of 10% and growth in Q1 clocked in at 15.6%! Building activity has steadily increased in recent years, home builder sentiment hit new post-crisis highs in recent months, and annual home price gains have accelerated over the past year. Mortgage rates, already attractive, have plummeted in 2016 to the lowest level since May 2013. Provided buyers are not priced out of the rising market, and builders manage to find adequate labor and land (increasingly a challenge), housing should continue to be a positive.

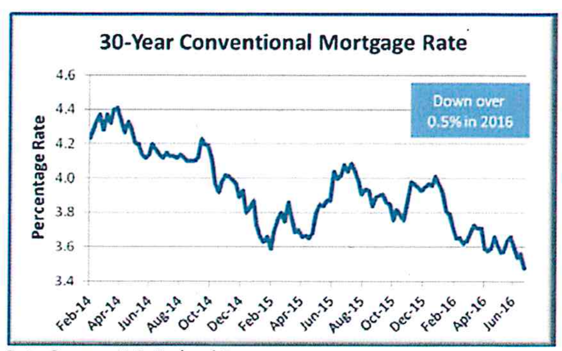


Data Source: U.S. Census Bureau



Data Source: National Association of Home Builders

Data Source: S&P/Case-Shiller



Data Source: U.S. Federal Reserve

CAPITAL MARKETS REVIEW

Returns

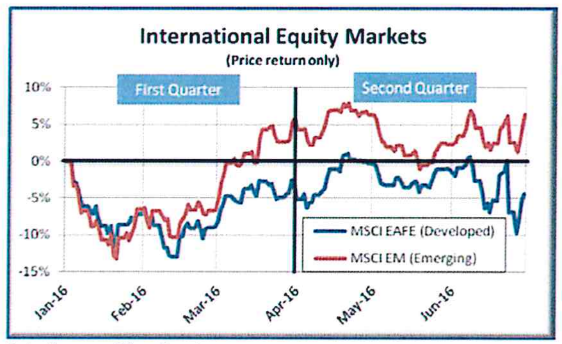
	2nd Qtr 2016	YTD 2016
Cash and Fixed Income		
U.S. Treasury Bills	0.1%	0.1%
Barclays U.S. Aggregate Bond	2.2%	5.3%
Barclays Municipal Bond	2.6%	4.3%
Barclays Global Agg. ex. U.S.	3.4%	11.9%
Hedge Funds and Alts.		
Bloomberg Commodity	12.8%	13.3%
DJ US Real Estate	6.8%	12.3%
HFRI FOF Composite	-0.3%	-2.4%

Data Sources: Morningstar & Hedge Fund Research, Inc.

	2nd Qtr 2016	YTD 2016
Domestic Equities		
Wilshire 5000	2.8%	4.0%
S&P 500	2.5%	3.8%
Russell 2000	3.8%	2.2%
International Equities		
MSCI ACWI ex. U.S.	-0.7%	-0.9%
MSCI EAFE (Developed)	-1.5%	-4.4%
MSCI EM (Emerging)	0.7%	6.4%

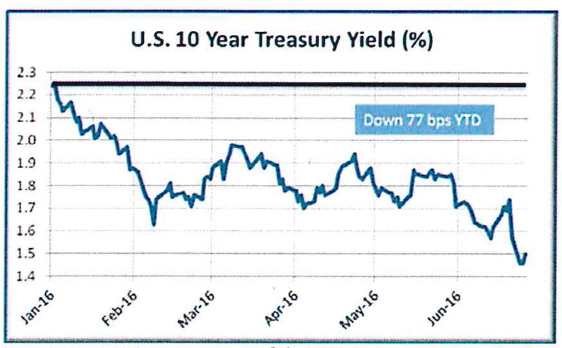
Equity Markets

Data Source: S&P Dow Jones Indices LLC

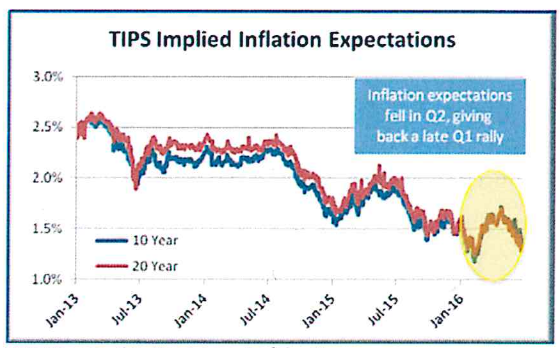


Data Source: Morningstar

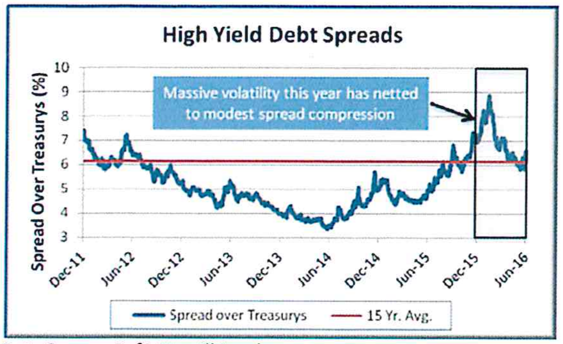
Fixed Income Markets



Data Source: U.S. Department of the Treasury



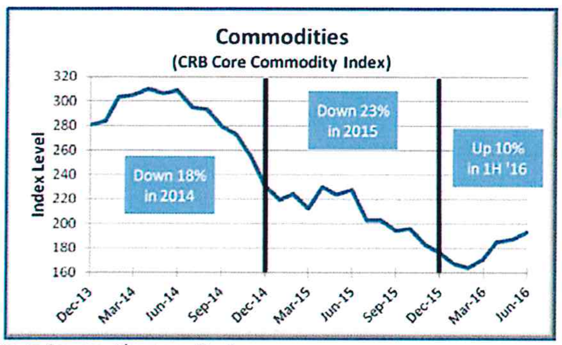
Data Source: U.S. Department of the Treasury



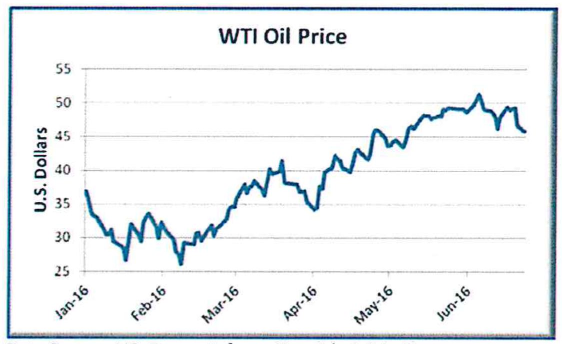
Data Source: BofA Merrill Lynch

Data Sources: U.S. Department of the Treasury

Alternatives



Data Source: Thomson Reuters



Data Source: US. Energy Information Administration

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