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Second Quarter 2016

Enclosed are your Portfolio Statement, showing your portfolio's holdings and asset allocation, Performance Analysis, displaying investment returns for your portfolio, and Statement of Management Fees for the third quarter of 2016.

We are pleased to announce that Joseph Aliotta has joined Bernard Wealth Management as an Investment Analyst. Joey earned a Bachelor's degree in Finance at Kalamazoo College while playing for their baseball team, and he has interned at two local investment firms. He will be responsible for investment research and monitoring, and providing our clients with timely and responsive service. Joey can be reached at our office at 248-556-2900 or via email: joe@bernard-wealth.com.

Fig. 1 – S&P 500

Fig. 2 – MSCI Emerging Markets

Stocks continued to move higher in the second quarter, although there was sufficient news-driven volatility to test investors' nerves. The S&P 500 index (**Figure** 1) posted total returns of +2.5% for the quarter and +3.8% for the first half of the year. Small cap stocks played catch-up, with the Russell 2000 rising +3.8% after losing -1.5% in the first quarter. International indices generally slumped in the quarter. The developed world outside the U.S. continued to lag, dropping -1.5%. Emerging markets stalled (**Figure 2**), losing -0.3%, but in aggregate are still +5% in 2016. European stocks were among the biggest losers, falling -2.7% for the quarter, punctuated by the United Kingdom's vote to exit the European Union (Brexit).

In the 1st quarter of 2016, S&P 500 aggregate earnings declined for the fourth straight quarter. It was the first such decline since the third quarter of 2009, when the Great Recession was coming to an end. The current earnings decline has hit some sectors much harder than others, but has impacted most sectors of the economy. According to Factset, energy (-107.2%) and materials (-14.4%) again had the largest declines. However, six of ten S&P 500 sectors did post lower earnings than in the prior year. Analysts are again forecasting a decline in earnings for the second quarter. However, the forecast pace of decline has slowed, which may provide some indication of a return to profit growth. Any acceleration in earnings growth is likely to be positive for stocks.

The second quarter will primarily be remembered for the British vote to exit the European Union. As the June 23rd vote approached, markets appeared to discount the possibility of a "Brexit", and odds posted by local bookmakers predicted a "remain" victory. Stocks rose in anticipation, after stumbling for much of the quarter. The vote to exit was enough of a surprise to cause rapid, widespread selling over two days. However, by the end of the following week, many stock indices had recovered from their losses.

Index returns taken from Morningstar.com and MSCI.com

The Brexit decision is a concern for some market watchers. Great Britain is currently the world's 5th largest economy, so the decision to leave such an important political and economic partnership may have serious consequences. In addition, it raises the possibility that other European countries may exit the European Monetary Union, giving up the euro currency. At this time, it is impossible to forecast the impact of the vote; the significance will be felt over a long period of time, through which economies, markets and businesses will adjust. Any negative effects are much more likely to be felt in Great Britain than in the U.S. The end result for investors may be, as Barron's wrote (June 18, 2016), a non-event, quite a bit like Y2K.

Growth in the United States slowed further in the first quarter, expanding only 1.1% after growth of 1.4% in the fourth quarter. Businesses continued to add workers each month, but job growth fell short of expectations in May and June. Hiring may be slowing as the economy moves closer to full employment. Also, some hiring decisions may have been delayed as companies weighed the uncertainty overseas from the Brexit vote. At this time, there is little evidence of job cuts in either announced layoffs or weekly initial claims. In addition, wages continued to rise during the quarter, helping to sustain solid consumer sentiment surveys. Housing data remained strong but somewhat erratic. Home prices rose at a roughly 5% annual pace, but housing starts missed expectations at the end of the quarter. The jobs picture, wage growth and stable housing market all point to a strong consumer, and appear to support future consumption growth. This should provide continued support for retailers in the coming quarters (**Figure 3**).

After a small pickup at the end of the first quarter, manufacturing weakened again in April and May. Durable goods orders were generally lower than expected. Again, the Brexit overhang may have been a factor in slowing business capital expenditures. Purchasing manager surveys did show growth in new orders every month. Historically, this has signaled stronger manufacturing production, which would of course benefit the industrials sector (**Figure 4**). U.S. industrial companies may also be aided by a slightly weaker dollar, in competing with European and Asian exporters.

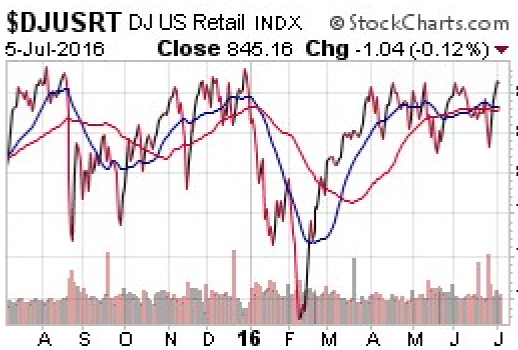

Fig. 3 – Dow Jones U.S. Retail Index

Fig. 4 – Dow Jones U.S. Industrials Index

We will continue to search for investment opportunities across sectors, with a particular focus this year on cyclicals like the industrials, which have lagged the overall market, and appear to offer attractive valuations. Investors who maintain their positions through volatile times are likely to be rewarded for their patience.

We hope that your summer is going well, and look forward to speaking with you soon.

Sincerely,

Kenneth M. Bernard, CFA