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"Better to remain silent and be thought a fool, than to speak out and remove all doubt."
- Abraham Lincoln

Overall the third quarter proved rather uneventful. As a result, the equity and fixed income markets traded sideways for the majority of the quarter. It was not until mid-September that we started to experience any noteworthy volatility. In this edition of Viewpointe, we discuss how economic growth picked up early in the third quarter only to lose steam as the quarter wound down. We will also talk about what transpired in both the equity and fixed income markets during the quarter, and provide our thoughts for the remainder of the year. In the asset allocation section, we set out the changes we implemented in our model portfolios. In the financial planning section, we cover the basics regarding required minimum distributions in retirement accounts.

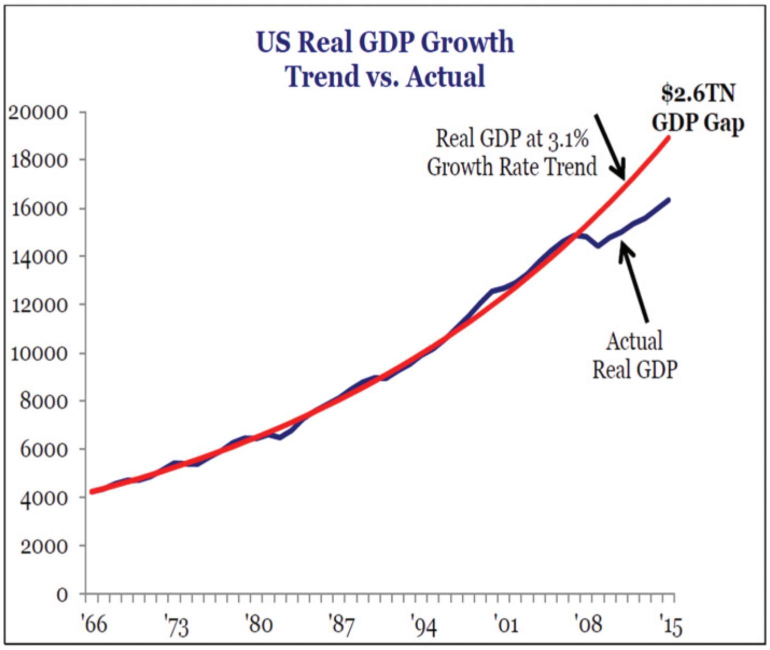
Economic Review - Treading Water

It was hard to find anything terribly wrong with the U.S. economy upon reviewing the July and August economic readings. The U.S. consumer, which makes up roughly 69% of gross domestic product (GDP), received support from continued job gains and wage hikes. In addition, we also received some solid housing sector reports. All in all we expect third quarter GDP to fall somewhere around 3%. Unfortunately, we do not expect 3% growth to carry into the fourth quarter.

With first quarter GDP now at .8% and second quarter GDP revised down to 1.1%, a third quarter 3% growth rate arguably puts us in position to fall within our 1.8% to 2.3% 2016 growth forecast. Unfortunately, recent softness in economic data indicates that the fourth quarter may be softer than what is required to fall within our full year growth range. In short, we expect the fourth quarter growth rate to come in somewhere around 2%. That is not sufficient to overcome the weak first half of the year. As a result, we are **lowering our 2016 growth estimate to 1.5%- 2%.** Please note that this results in only a .3% reduction on both ends of our range. In short, the muddle through economy continues.

As can be seen in Figure I, the U.S. economy dropped below its long-term 3.1% trend growth rate back in 2008 and has muddled along around 2% ever since. **We expect these muddle through growth levels to continue until we experience a lasting change in productivity.** Non-farm business productivity fell at an annual rate of .5% in the second quarter. This marked the third consecutive quarterly decline, resulting in the longest downward streak since 1979.

Figure I



Productivity is measured by dividing output (oftentimes measured as GDP) by hours worked. Unfortunately, productivity growth has been painfully slow, growing only 1.3% annually from 2007 to 2015. That represents approximately half the growth rate experienced from 2000 to 2007.

Productivity is a key driver of improvements in living standards and global competitiveness. Increased productivity helps support higher wages at little or no cost for employers. In

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addition, a worker's ability to produce more goods and services at cheaper prices helps determine market share in the global economy. Hence, the slowdown in productivity in recent years helps explain why wages have been stagnant, despite a healthy employment picture, and why corporate earnings have also been disappointing.

So, what led to this prolonged slowdown in productivity? There are two primary schools of thought. The first deals with what we discussed in the previous edition of Viewpointe. This school of thought is based on the premise that the opportunities for increased productivity are becoming scarce. In short, the low hanging fruit that was harvested following the industrial revolutions and the internet revolution has already been picked and future gains will be harder to come by. As a result, future economic growth is likely to continue at a slower pace.

The second school of thought views this slow growth pattern as temporary. It contends that the great recession had a long-lasting effect on reducing investment in research and development spending. This school of thought believes productivity will again pick up once companies ramp up research and development investment.

While we hope the slower growth trend is temporary, until we identify a new driver of productivity, we remain cautiously optimistic. At the present time, a few areas we are watching closely include 3D printing and artificial intelligence. Some commentators claim that these two areas just may hold the key to future productivity growth

Fixed Income Commentary - Just a Little Longer

The Federal Reserve (Fed) left rates unchanged at their September meeting. The Fed's decision to wait on a hike was generally expected given the lackluster August employment report and the closeness to the November 8th election. Those factors, coupled with a subdued inflation environment, seemed to all point in the direction of waiting this one out.

While expectations for rate hikes have gone down substantially since the beginning of the year, we still believe the Fed's December meeting carries about a 50/50 chance of a hike. Our reasoning for this is as follows:

1) The Fed has many tools to tighten, yet it has few tools in which to ease. As the business cycle matures the likelihood of a recession increases. To stimulate the economy out of a recession one of the Fed's primary tools is to reduce interest rates. At the present time, low interest rates provide the Fed with little room to stimulate the economy. Several Fed Governors have made statements regarding the benefits of raising rates in order to provide them with something to cut in the event of an economic slowdown.

2) A couple .25% rate hikes are not likely to have much of a lasting impact on intermediate and long-term rates. This is particularly true given the level of rates overseas. Even if the Fed hikes .50%, an uptick in intermediate and long-term rates is likely to be short lived as foreign investors flock into lock in those higher rates. This increased demand should drive fixed income prices higher, which in turn, should bring rates back down.

3) Several Fed Governors hinted that providing signals of rate hikes without following through has made many investors discount risk. As a result, investors are willing to take on more and more risk which creates an environment prone to asset bubbles. Asset bubbles form when asset prices are driven to unjustifiable levels that exceed what the underlying fundamentals support. Unfortunately, when these bubbles burst the consequences can be widespread. A not so distant example includes the housing bubble of 2008. Some argue a surprise hike or two would force investors to take risks more seriously and help reduce the risk of an asset bubble forming.

4) The economy appears to be on solid enough ground to withstand slightly higher rates. While the economy is growing below the historical trend level of 3%, slower growth may in fact be the new norm. If so, we may be at or near full growth potential at the present time and thus slightly higher rates may be justified.

5) In December, the election will be out of the way. The Fed tends to avoid policy changes during the two-month period between Labor Day and Election Day. No sense of making the incumbent party angry with a surprise rate hike just weeks before a major election.

In conclusion, we think there is a **decent probability of a .25% rate hike at the Fed's December meeting. In addition, we would not be surprised by an additional .25% hike in 2017.**

Equity Commentary - Strong Start/Flat Middle/Slow End

After sharply recovering from the end of June pullback, the S&P 500 plateaued around mid-July and remained in a historically tight trading range up until mid-September. In September, equity markets experienced an increase in volatility and downside pressure as the Bank of Japan hinted around making some changes to their monetary policy in order to induce a steeper yield curve. Unfortunately, the Bank of Japan's statements provided very little detail and rumors began to fly regarding what the bank of Japan might implement and how it might reflect on the actions taken by other central banks. This created an increase in uncertainty as equity investors fretted over what form such policy might take.

In our opinion, **monetary policy remains the primary driver of equity values.** As mentioned in the past, global monetary policy has led to higher equity prices as the result of both direct and indirect central bank actions. Countries such as Japan, Switzerland, Israel and the

Czech Republic have directly purchased equity securities, driving prices up. There is also some speculation that the U.S. has made purchases via various proxies. From an indirect perspective, by creating a globalized low interest rate environment, central banks have forced entities, such as pension funds, into larger equity weightings in order to increase the probability of meeting their return assumptions. When viewed in this light it should come as no surprise that talk of a potential monetary policy shift would send ripples through the equity markets as investors worried that new policy may not offer the same degree of equity market support.

From a fundamental perspective, corporate revenues and earnings failed to provide a catalyst for U.S. stocks during the third quarter. Second quarter corporate results were once again soft. According to RBC Capital Markets, revenues declined about 1% year over year, marking the sixth-consecutive poor quarter. Earnings dropped 3.8% year over year marking the seventh-consecutive lackluster quarter on a year over year basis. Earnings per share also saw a decline of 1.6% despite an increase in share buybacks of 2.2% during the second quarter. The good news is that some of our sources are of the opinion that revenues and earnings may be bottoming in the third quarter and are calling for a slight rebound in the fourth quarter. All in all, the **fundamentals seem to be supporting a rather range bound domestic equity market.**

Asset Allocation -
Time to Trim

We rebalanced our Lakepointe Classic and Lakepointe Premier model portfolios in mid-August. This rebalance was driven by our view that downside risks in the equity space increased. After recovering from the June pullback, domestic equities traded in an extremely tight trading range for roughly a month's time. During this period several indicators that we monitor began to signal downside risk was growing, while material upside potential seemed less likely. As a result, we decided to reduce our target equity percentages by 2%. For example, while our balanced portfolio equity target had been 46%, we reduced it to 44%. Due to the equity market appreciation that we experienced earlier in the year, we ultimately implemented about a 5% reduction in our equity position. We reinvested the proceeds from these sales in various fixed income vehicles as well as our money market position. Thus far, this strategy has paid off since domestic equities have traded down from their mid-August levels.

On the Classic front, we implemented this equity reduction across all of our equity funds with each fund retaining the same overall percentage of equity allocation. In the Classics, we simply reinvested the proceeds in our current fixed income positions. While we had considered slightly tweaking the weightings amongst our fixed income fund positions, we ultimately retained the strategy we implemented back in January. This strategy results in a fixed income portfolio duration just slightly below benchmark.

On the Premier front, we implemented a similar equity fund strategy to what was done in the Classics. Within the Premier individual stock portfolio we trimmed several of our individual stock positions and totally eliminated two. The two names that we eliminated were Cracker Barrel and National Oilwell Varco. With the summer driving season behind us we were concerned regarding Cracker Barrel's earnings potential for the remainder of the year. These concerns proved true when Cracker Barrel announced disappointing earnings in Mid-September. These weaker than expected earnings resulted in a significant drop in the company's stock price.

We decided to liquidate our position in National Oil Well Varco as a result of their exposure to deep water drilling. This is an area that underperformed as a result of the drop in crude oil prices that began back in 2014. Ultimately, oil prices remained at lower levels than what we had initially anticipated. Perhaps more concerning, however, is the efficiency improvements that have taken place in the fracking space recently. Higher efficiency in fracking makes us question whether deep water drilling is going to make sense even when oil prices recover. In conclusion, the company's stock has been trading sideways throughout 2016 and we decided there were better places to allocate our portfolios.

Financial Planning -
What are Required Minimum Distributions (RMDs)?

A question that comes up with great frequency deals with Required Minimum Distributions, often referred to as RMDs. RMDs are amounts that the federal government requires you to withdraw annually from traditional IRAs and employer-sponsored retirement plans after you reach age 70½ (Or, in some cases, after you retire). You can always withdraw more than the minimum amount from your IRA or plan in any year, but if you withdraw less than the required minimum, you will be subject to a federal penalty.

The RMD rules are calculated to spread out the distribution of your entire interest in an IRA or plan account over your lifetime. The purpose of the RMD rules are to ensure that people do not just accumulate retirement accounts or defer taxation, and leave these retirement funds as an inheritance. Instead, required minimum distributions generally have the effect of producing taxable income during your lifetime.

Which Retirement Savings Vehicles are Subject to the RMD Rules?

In addition to traditional IRAs, simplified employee pension (SEP) IRAs and SIMPLE IRAs are subject to the RMD rules. Roth IRAs, however, are not subject to these rules while you are alive. Although, you are not required to take any distributions from your Roth IRAs during your lifetime, your beneficiary will generally be required to take distributions from the Roth IRA after your death.

Employer-sponsored retirement plans that are subject to the RMD rules include qualified pension plans, qualified stock bonus plans, and qualified profit-sharing plans, including 401(k) plans. Section 457(b) plans and Section 403(b) plans are also generally subject to these rules. If you are uncertain whether the RMD rules apply to your employer-sponsored plan, you should consult your plan administrator or a tax professional.

When Must RMDs Be Taken?

Your first required distribution from an IRA or retirement plan is for the year you reach age 70½. However, you have some flexibility as to when you actually have to take this first-year distribution. You can take it during the year you reach age 70½, or you can delay it until April 1st of the following year.

Since this first distribution generally must be taken no later than April 1st following the year you reach age 70½, this April 1st date is known as your required beginning date. Required distributions for subsequent years must be taken no later than December 31st of each calendar year until you die or your balance is reduced to zero. This means that if you opt to delay your first distribution until April 1st of the following year, you will be required to take two distributions during that year--your first year's required distribution and your second year's required distribution.

There is one situation in which your required beginning date can be later than described above. If you continue working past age 70½, and are still participating in your employer's retirement plan, your required beginning date under the plan of your current employer can be as late as April 1st following the calendar year in which you retire (if the retirement plan allows this and you own 5 percent or less of the company). Again, subsequent distributions must be taken no later than December 31st of each calendar year.

How are RMDs Calculated?

RMDs are calculated by dividing your traditional IRA or retirement plan account balance by a life expectancy factor specified in IRS tables. Your account balance is usually calculated as of December 31st of the year preceding the calendar year for which the distribution is required to be made.

Uniform Lifetime Table

For use by:

- **Unmarried owners**
- **Married owner whose spouse is not more than 10 years younger**
- **Married owner whose spouse is not the sole beneficiary**

Age	Distribution period	Age	Distribution period	Age	Distribution period
70	27.4	85	14.8	100	6.3
71	26.5	86	14.1	101	5.9
72	25.6	87	13.4	102	5.5
73	24.7	88	12.7	103	5.2
74	23.8	89	12.0	104	4.9
75	22.9	90	11.4	105	4.5
76	22.0	91	10.8	106	4.2
77	21.2	92	10.2	107	3.9
78	20.3	93	9.6	108	3.7
79	19.5	94	9.1	109	3.4
80	18.7	95	8.6	110	3.1
81	17.9	96	8.1	111	2.9
82	17.1	97	7.6	112	2.6
83	16.3	98	7.1	113	2.4
84	15.5	99	6.7	114	2.1
				115 and over	1.9

Caution: *When calculating the RMD amount for your second distribution year, you base the calculation on the IRA or plan balance as of December 31st of the first distribution year (the year you reached age 70½) regardless of whether or not you waited until April 1 of the following year to take your first required distribution.*

For most taxpayers, calculating RMDs is straightforward. For each calendar year, simply divide your account balance as of December 31st of the prior calendar year by your distribution period, determined under the Uniform Lifetime Table (See Uniform Lifetime Table) using your attained age in that calendar year. This life expectancy table is based on the assumption that you have designated a beneficiary who is exactly 10 years younger than you are. Every IRA owner's and plan participant's calculation is based on the same assumption.

There is one exception to the procedure described above--the younger spouse rule. If your sole designated beneficiary is your spouse, and he or she is more than 10 years younger than you, the calculation of your RMDs may be based on the longer joint and survivor life expectancy of you and your spouse. Consequently, if your spouse is your designated beneficiary and is more than 10 years younger than you, then you may take your RMDs over a longer payout period than under the Uniform Lifetime Table. If your beneficiary is not your spouse, or a spouse who is not more than 10 years younger than you, then you must use the shorter payout period specified in the Uniform Lifetime Table.

If you have multiple IRAs, an RMD is calculated separately for each IRA. However, you can withdraw the required amount from any one or more IRAs. Inherited IRAs are not included with your own for this purpose. (Similar rules apply to Section 403(b) accounts.) If you participate in more than one employer retirement plan, your RMD is calculated separately for each plan and must be paid from that plan.

What if You Fail to Take RMDs as Required?

You can always withdraw more than you are required to from your IRAs and retirement plans. However, if you fail to take at least the RMD for any year (or if you take it too late), you will be subject to a federal penalty. The penalty is a 50 percent excise tax on the amount by which the RMD exceeds the distributions actually made to you during the taxable year.

Example: *You own one traditional IRA and compute your RMD for year one to be $7,000. You take only $2,000 as a year-one distribution from the IRA by the date required. Since you are required to take at least $7,000 as a distribution, but have only taken $2,000, your RMD exceeds the amount of your actual distribution by $5,000 ($7,000 minus $2,000). You are, therefore, subject to an excise tax of $2,500 (50 percent of $5,000).*

- The above commentary is for informational purposes only and is not intended to be utilized as tax advice.