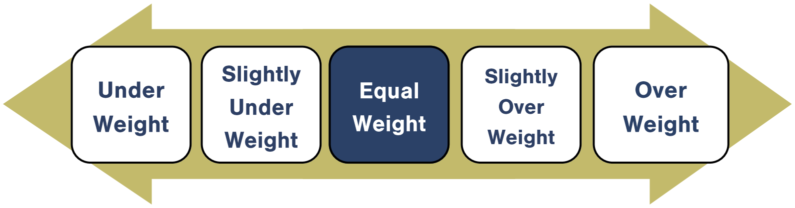
WEALTH ADVISORS

AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE - JUNE 2016

SFMG MARKET RISK SIGNAL—EQUITY ALLOCATION



CURRENT ASSET CLASS ALLOCATIONS

The U.S. equity markets remain in a long-term uptrend. We are maintaining our equity exposure and are **Equal weight** to stocks. The allocation mix of bonds vs. equities depends on our risk signals that shift our weightings accordingly.

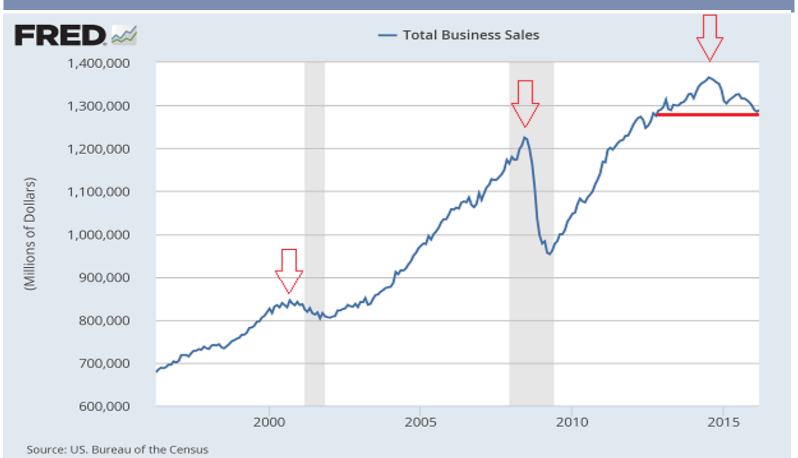
ECONOMIC NEWS

- The “Brexit” referendum last week resulted in a majority vote for the United Kingdom to leave the European Union. Despite the vote, nothing is legally binding at this point and a formal withdrawal process must now take place.
- U.S. Retail Sales rose more than expected in May, marking the second straight month of increases. Improved consumer spending has raised expectations for stronger economic growth in the second quarter.
- After weak job creation last month, current workers will need to increase productivity in order to pick up the slack and boost economic growth.

MARKET NEWS

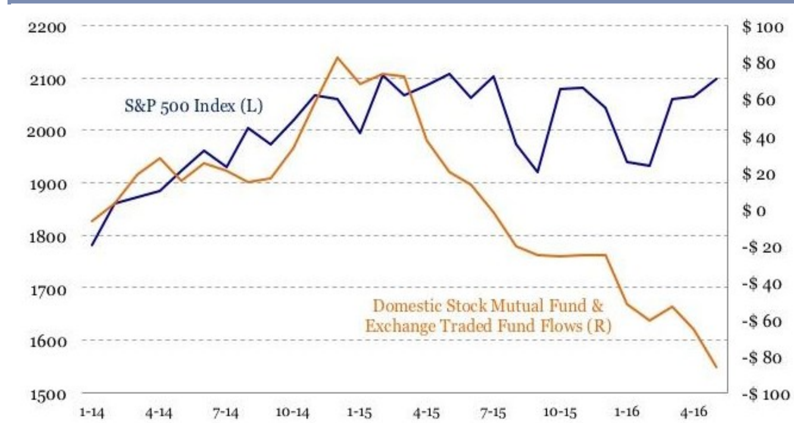
- The U.S. Federal Reserve has pledged to work with other central banks around the world in providing liquidity to the global financial system to ease pressures caused by the UK referendum outcome.
- Bond purchasing stimulus by the European Central Bank and increased market volatility have pushed German 10-year government bond yields into negative territory for the first time ever, underscoring heightened risks in Europe.
- Volatility has increased in U.S. markets as well, which not only increased demand for bonds, but other ‘safe haven assets’ such as gold, which topped $1,300 an ounce.

PEAKS IN TOTAL BUSINESS SALES



Peaks in business sales are not necessarily an indicator of a recessionary period ahead, but typically after peaks and subsequent declines in sales, stock prices tend to follow suit. This makes the recent disconnect between stock prices and revenues concerning.

EQUITY OUTFLOWS CONTINUE



Source: Gerring Capital Partners, Yahoo Finance, Investment Company Institute

Capital flows into U.S. equity Mutual Funds and Exchange Traded Funds began to steadily decline roughly around the market’s all time high in May 2015. Despite the S&P 500’s bounce backs after the recent correction, capital movement out of equities persists.

CURRENT THOUGHTS

Markets have been focused on the implications of the Brexit vote, most of which are still very uncertain. The impact on the U.S. is also still in question, but there are important factors already at play domestically. May’s non-farm payroll report was a disappointment, showing only 38,000 jobs being added. This was the lowest number of monthly jobs added in six years. As expected, the weak report along with refreshed concerns over disappointing labor productivity led Janet Yellen to delay a hike in rates. Recent volatility will likely push higher rates out even further. Although rates have remained low, the number of companies issuing debt to buyback their own stock is slowing. The announced buybacks by companies in the first 4 months of this year declined by 40% compared to last year. This is important as corporations have been the largest net buyers of their own stock, helping offset institutional outflows from equities. Without those corporate buyers, stock prices could see more volatility. Exacerbating all of this will be the next steps following the Brexit. The UK must now submit “Article 50”, which is a formal notification to the EU of their exit and starts the withdrawal process. Until Article 50 is submitted, nothing has legally changed and it is entirely up the UK on when and if they submit. If this happens, the EU will likely make the subsequent negotiations involving trade agreements difficult for the UK in an effort to dissuade other member countries from leaving in similar fashion. Caution is still warranted until many of these uncertainties become more clear.

Contact one of our Wealth Management professionals today at **972.960.6460** or visit us online at **www.SFMG.com**