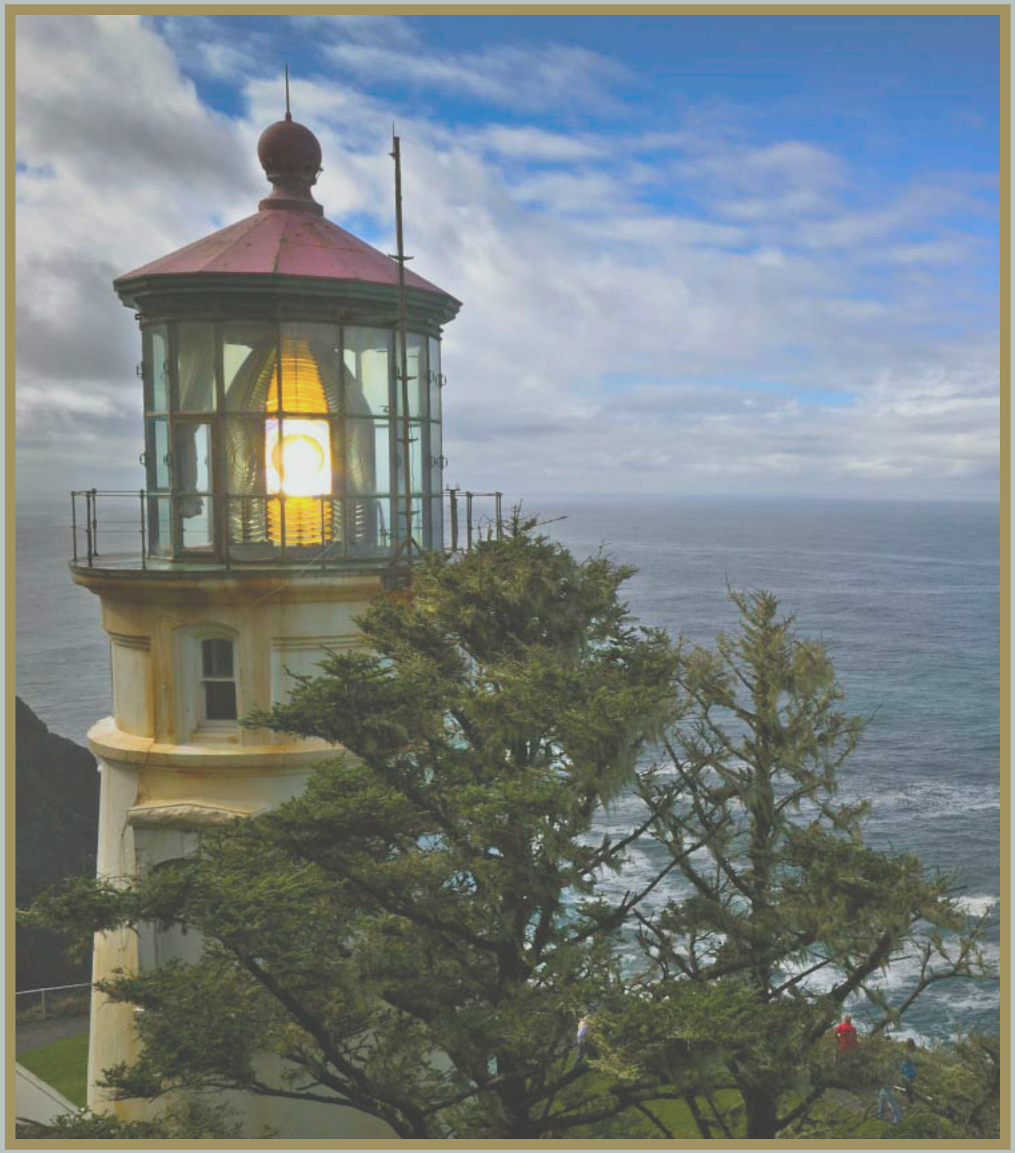

WESCOTT
FINANCIAL ADVISORY GROUP LLC

Wealth Management • Portfolio Management • Investment Research

Wescott:
A History of Our Advice

August 2016

Achieving Client Goals

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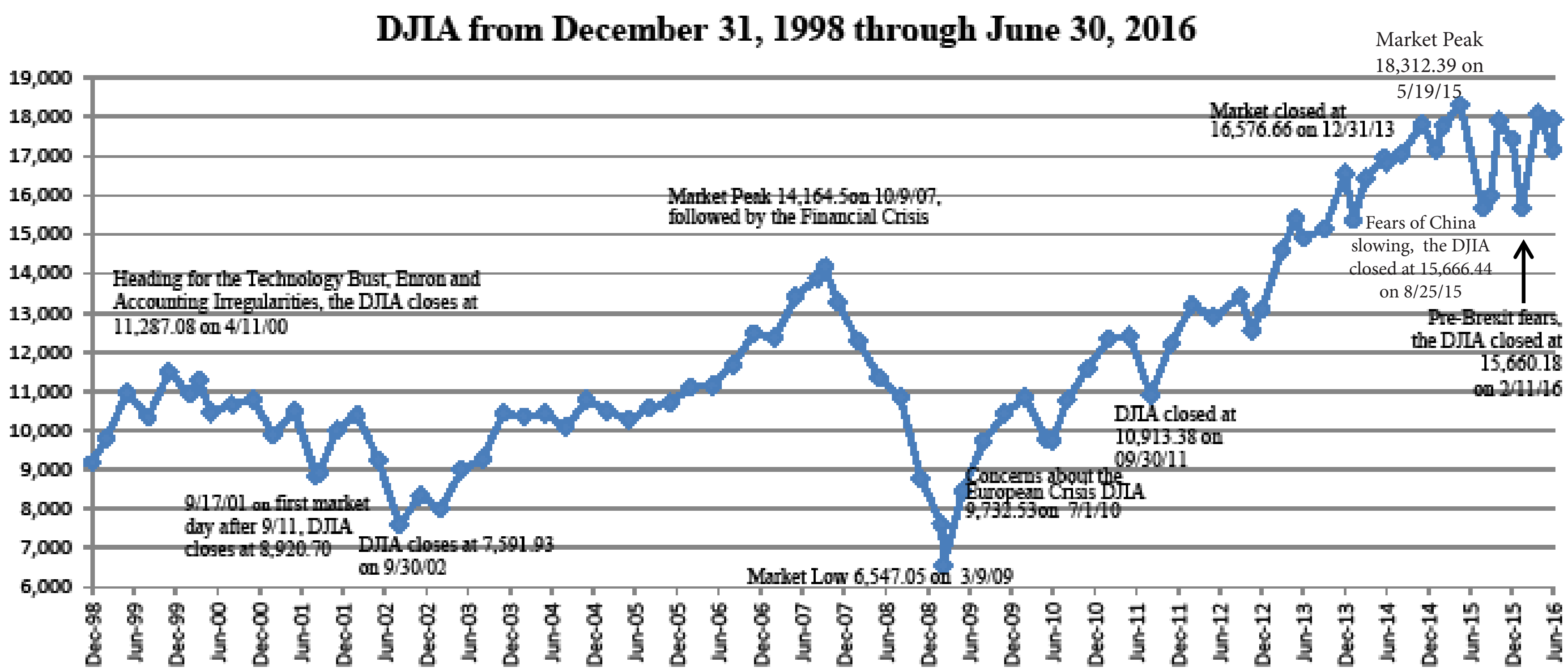
Wescott: A History of Our Advice | August 2016

For your consideration, we have assembled a collection of excerpts from past *Wescott Investment Commentary*. Throughout a series of bull and bear market cycles, our clients have been able to weather the turbulence due to our adherence to asset allocation, our emphasis on having adequate liquidity to ride out the storms, and our rebalancing strategies that pared equities on strength.



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The early 1990s were filled with concerns about the recession, Persian Gulf War, rising unemployment and global risks (the Mexican peso crisis of 1994 shocked global markets). In 1995, investors had no clue that the most extraordinary period in stock market history was about to begin. By late 1999, we were concerned by the market's euphoria, and rebalanced to harvest gains and add to our value-style managers. Since the technology bubble deflated, there have been innovations and accomplishments, and a series of crises that have shaken investors. It has been a decade since the terrorist attacks of September 11, 2001; and the 49% market decline from March 2000 through October 2002 is a distant memory.

According to the Business Cycle Dating Committee of the National Bureau of Economic Research, our most recent recession began in December 2007 and ended in June 2009. There have been many headwinds—conditions in the Middle East, the war in Iraq, the subprime mortgage fallout and financial crisis, $4 per gallon gas prices, concerns about Europe's willingness to deal with its sovereign debt crisis, natural disasters (including the 2011 earthquake and tsunami that hit Japan and damaged several nuclear reactors), and our frustration with Washington in addressing the deficit and long-term budgetary issues.

We were timely in our concerns about creative accounting, auditors, fraud and threats to earnings and avoided the severe losses as the technology bubble burst. Our emphasis on diversified portfolios has dampened the impact of bubbles in real estate, the financial sector and commodities. We were cautious about the instability of the bond market, focused on short-term high quality bonds rather than stretching for yield, and this protected portfolios from losses from subprime mortgages and junk bonds. Our global perspective has prepared portfolios for a lower return environment for U.S. businesses and a time of unprecedented opportunity in non-U.S. markets. Of particular note is our Global Asset Allocation Policy which was implemented from 2005 through 2006.

We are grateful for and very proud of the confidence that our clients placed in us and in our process during a series of market cycles and periodic extremes. We thought our clients might enjoy a reminder of how our conviction to stay the course dramatically helped returns. We share the following so that you may place in context the thoughts underpinning Wescott's investment results and recommendations.

The Technology Bubble

As we climbed to the market peak in March 2000, we shared the following recommendations:

We consider it time for another "lifeboat drill" and are recommending that most aggregate equity positions be no more than 70%...In times of raging speculation, it is prudent to take some money off the table to have the liquidity to buy into times of weakness.

Year-End 1998 | DJIA 9,181.43

Is the market ready to shift away from the popular growth stocks? We believe that even new paradigms must contend with the business cycle and investor behavior.

First Quarter 1999 | DJIA 9,786.16

We have yet to be convinced that a New Paradigm makes the principles of asset allocation obsolete.

Year-End 1999 | DJIA 11,497.12

The fear of loss, or awareness of the risk incurred, has seemed frighteningly absent as it concerns the most popular and speculative "New Economy Companies."

First Quarter 2000 | DJIA 10,921.92

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Creative Accounting 2001-2002

We wrote about our concerns with auditors and creative accounting rules before Enron, WorldCom and others disclosed the depth of their problems late in 2001 and throughout 2002:

The drive to provide investors with "better numbers" has encouraged companies to be even more aggressive in their accounting and financial reporting. We urge skepticism of management's promises and caution in reviewing the rosy outlook of analysts. Peel behind the forecasts and you often find unreasonable expectations for growth.

Year-End 1999 | DJIA 11,497.12

Even a reputable accounting firm listed as auditor is no assurance that the financial statements are accurate.

First Quarter 2000 | DJIA 10,921.92

The market bubble has many contributors, and the greed of investors was among them…many are the indicators that investors were manipulated and that investment bankers played a part in creating the supply of what now appears to be "damaged goods." Unfortunately, Wall Street underwriters have a "no returns" policy in dealing with investor losses.

First Quarter 2001 | DJIA 9,878.78

Earnings management strategies are undermining the integrity of the process used by investors to make well informed investment decisions...we are troubled by the frequency of pro-forma earnings announcements which exclude expenses just because management doesn't like the way the numbers look with the costs accurately reflected….All is not as it seems when it comes to earnings reports.

Second Quarter 2001 | DJIA 10,502.40

On September 10th, the DJIA closed at 9,605.51. The markets were closed for several days following September 11th. The DJIA closed at 8,920.70 on September 17th, the first day of trading after the attacks, and closed at 8,235.81 on September 21st.

The pension gains which helped major corporations in the 1990s have become pension liabilities that will likely detract from earnings for the next several years.

Year-End 2001 | DJIA 10,021.57

September 11, 2001

We shared our perspective and actions in response to September 11, 2001:

We have been in contact with our managers and/or have reviewed material which they have provided. All are safe; none were headquartered in the World Trade Towers. None are given to panic or wholesale sales and continue to marshal their resources to understand the events and manage your investments accordingly...It is true that this event will impact an already difficult 3rd quarter, as well as the 4th quarter. There is no escape from this. We have weathered these difficult economic times before and we will this one, too.

September 13, 2001 Client Advisory

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THE BEAR MARKET 2000-2002

We shared our outlook during the Bear Market that followed the Technology Bust:

During each of the craziest periods in U.S. market history, the investor best positioned is the one with cash to invest after the bubble bursts and who does not rush in to buy just because companies look cheap in relation to what they were. Cheap stocks can become cheaper.

Year-End 2001 | DJIA 10,021.57

We do not expect a sudden rebound for equities but do believe that the market bottom is getting much nearer.

Second Quarter 2002 | DJIA 9,243.26

The DJIA closed at 7,286.77 on October 9, 2002.

We now believe that stocks have returned to favorable valuations and that it is an opportune time to return some of the proceeds we rebalanced to defensive bonds in 1999 and 2000.

Third Quarter 2002 | DJIA 7,591.93

THE BULL MARKET 2002-2007

We were poised for the Market Cycle and Return of the Bull Market that ended October 9, 2007:

We do believe that the next bull market is in its earliest phase and want our clients to be rebalancing during periods of market uncertainty, as these are the times of greatest bargains for those with discipline.

Year-End 2002 | DJIA 8,341.63

We see positive signs that the economy is stabilizing and setting the foundation for another period of growth…. Decisions based upon fear are always ill-timed. Consider the market swings experienced during the quarter as investors speculated about the implications of war….We continue to expect that equity returns will be positive in 2003.

First Quarter 2003 | DJIA 7,992.13

Our optimism for the U.S. market is tempered by a concern that Fourth Quarter gains had so much momentum, and valuations may have become too high in some areas……We believe the U.S. economy is strengthening, that labor trends, while in transition, will improve, and that we will look back upon this period as "one of the best of times."

Year-End 2003 | DJIA 10,453.92

While headlines will likely blame any stock market pullback on rising interest rates, it will also be a sign that the U.S. economy is on solid footing when the Federal Reserve brings interest rates back to more normalized levels…..As we explained at year-end 2003, we believe that large American companies will be most challenged by competitive pressures on a global basis. For small and mid-sized companies, the cost to expand their reach globally continues to decline.

First Quarter 2004 | DJIA 10,357.70

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In 2003, the S&P 500 was up 28.69%, the DJIA was up 28.28%, and Nasdaq was up 50.01%.

A topic of current interest is the fear that we are entering a period of low equity returns, which would suggest a change to asset allocation policy. Looking forward to a period during which interest rates and inflation are coming off extremely low levels, it is our perspective that the key question should be "which asset class best protects investors in the projected environment?"....We remain convinced that over the long term, equities will outperform cash and bonds on a real (after inflation) return basis.....A low return environment for the S&P 500 does not mean that companies of all sizes will do poorly.

Second Quarter 2004 | DJIA 10,139.71

Regardless of the outcome of the November 2nd [2004] election, the equity market appears ready for an enthusiastic response. Political campaigns, even ugly ones, end in a spirit of cooperation. The economy will move forward, as it has always done. Businesses will assess the environment in which they will exist for the next several years, and most are likely to discover that little is expected to affect bottom line decision making. Good business decisions, and good investment decisions, consider, but are not dictated by, tax related decisions or politics.

Third Quarter 2004 | DJIA 10,080.27

We expect that the pace of business expansion will accelerate as 2005 progresses, which will result in jobs growth and strategic acquisitions. *Our outlook is most optimistic for global companies; we are maintaining full target weights to international investments*....We never know what group is ready to take the lead, nor do we know which will stumble. We will always have distractions in the form of commodity prices, currency valuations and geopolitical events. Yet even in the bleakest of times, there are companies and sectors that do well.

Year-End 2004 | DJIA 10,783.01

Many investors continue to wait for large companies to outperform smaller companies. As we discussed in our *Third Quarter 2006 Commentary*, small companies have growth patterns and attributes that make them attractive investments during all market cycles. *We believe an investor should have allocations to companies of all sizes as trying to time the next surge for large companies can be detrimental to one's wealth.*

First Quarter 2007 | DJIA 12,354.35

We are experiencing conditions for which history provides no guidance except to remind us that all extreme conditions eventually revert back to more normalized levels, but often after great pain has been inflicted. We are not market timers, and we are not pessimists. We are cautious and thoughtful in our asset allocations and are monitoring equity allocation ranges and liquidity levels to ensure that our portfolios are buffered against the turbulence we expect during the second half of this year.

The DJIA closed at 14,164.53 on October 9, 2007, which was its record high.

Second Quarter 2007 | DJIA 13,408.62

We may look fondly back at 2007 as the year that interest rates, inflation and unemployment rates were all low at the same time. The global economy has shown its resilience and ability to adapt. *Short-term turbulence should be expected and may come from any source. Long-term investors, however, use periods of uncertainty to position portfolios for the future.*

Third Quarter 2007 | DJIA 13,895.63

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Global Asset Allocation Policy 2005-2006

We developed a Global Asset Allocation Policy to be prepared for a changing world:

During 2005 we will be raising the non-U.S. allocation to 30% of the equity allocation in all our models....*Our pending allocation changes are not being made because we feel that the U.S. economy is on the brink of disaster. Quite the contrary*.....There is a huge market developing, as citizens of other countries experience rising standards of living....As other areas of the world develop and benefit from the advances in technology, health care and sanitation, there will be new global leaders emerging.

First Quarter 2005 | DJIA 10,503.76

It is our intention to increase the Non-U.S. allocation further in 2006...*From our focus on diversification has evolved a belief that to be defensive in a changing global environment, one must diversify globally*....Regardless of the outcome of the events that make headlines and influence our outlook about the world, businesses will be reporting their results and looking for ways to grow their revenues and profits.

Second Quarter 2005 | DJIA 10,274.97

Our revised *Asset Allocation models* reflect an allocation of 40% to Non-U.S. companies, well diversified by managers, company size and geography.....Our Global Asset Allocation Policy has been motivated by our observations of global opportunities, and what we believe will be a dynamic environment for investors in the years and decades ahead....We no longer believe it defensive to invest primarily in a country that represents approximately 48% of the world's equity market capitalization, 20% of global GDP and only 5% of the world's population.

Second Quarter 2006 | DJIA 11,150.22

For equities we continue to anticipate highly positive trends from globalization. Sectors that are struggling in the United States are doing well elsewhere, making it more critical that stock analysts have a global perspective and understanding of the companies within each sector and industry group. Non-U.S. customers have become more significant to American and foreign companies. We remain committed to a global asset allocation policy.

First Quarter 2007 | DJIA 12,354.35

We increased our allocation to Non-U.S. equities to be 40% of our clients' equity allocation. This was done in anticipation of the time when the U.S. economy would slow, and in consideration of the changing (and diminishing) role that the U.S. will have in the global equity market and economy going forward. The U.S. equity market represented 47.7% of the MSCI All Country World Index at year-end 2006, and only 42% of the Index at year-end 2007.

Year-End 2007 | DJIA 13,264.82

We've Addressed Many Risks Over the Years:

Real Estate

For those who are looking to real estate because they believe that the returns for real estate will be greater than what will be able to generate from investing in equities, they are hoping that 'it will be different this time.'....*Even if a property has no debt, does not*

We have three themes for the coming year. First, follow the pessimism to find investment opportunities. Use the fears of others to your advantage as an investor.

Second, think small.... we believe that more opportunities exist among small and mid-sized companies which have less coverage by analysts. They are the companies in which innovation often incubates behind the scenes for many years.

Third, think globally.... If investors limit their investments to companies headquartered in the United States, they may need to skip industries or settle for the weakest companies.

Year-End 2005
DJIA 10,717.50

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rely on rental income and has the cash flow to cover all costs, real estate has a high level of liquidity risk as prices soften and decline. There is the risk that you could be 'trapped' owning the property for far longer than you intended.

Third Quarter 2005 | DJIA 10,568.70

Aggressive Debt Financing

With the proliferation of esoteric mortgages (interest only, adjustable rate mortgages, "hybrid" mortgages and numerous other arrangements) property owners may be vulnerable if property values soften. Higher interest rates will reveal the aggressive loan-to-value strategies. Owners of highly leveraged residential and commercial properties are more likely to default if the value of the property, net of all selling expenses, becomes less than the outstanding debt.

Third Quarter 2005 | DJIA 10,568.70

Bird Flu

Frequent articles about the Avian Flu, also known as 'Bird Flu' and 'H5N1' virus, have caused feelings of alarm that a resultant pandemic could cripple the world's economy. We do not share these fears.....The global economy has survived a series of pandemics, including HIV/AIDS which remains a global threat. From an investment perspective, the risk of a pandemic is only one of the potential reasons that Wescott has a Disaster Recovery & Contingency Plan, as do our custodians.

Year-End 2005 | DJIA 10,717.50

Market Volatility

Risk and volatility are often confused. Admittedly, periods of high volatility are the most unsettling for investors....The recent turmoil in the global markets prompted fear-based selling and investment opportunities for those who know how to discern values....Our conviction to invest in areas of the market that are underperforming, and to invest in Non-U.S. companies, helped to reduce our clients' overall portfolio volatility during the extreme swings of the past ten years..... Risks cannot be eliminated, but many risks can be managed.

Second Quarter 2006 | DJIA 11,150.22

Inflation

Ironically, the renewed interest in alternative energy sources, including bio-fuels, has caused escalating prices for corn and agricultural products, which in turn results in higher food prices.

We do not expect overall inflation to be problematic for the foreseeable future, due to technology and productivity gains that trace back to innovations developed since the late 1990s. Competitive pricing and negotiation by giant retailers, led by Wal-Mart, also counter normal inflationary forces. However, supply and demand for energy, commodities and health care can create volatile conditions and cause short-term spikes in prices that offset the cost controls in other areas. It takes higher prices to curb demand and to spur investments in alternatives.

Year-End 2006 | DJIA 12,463.15

The Financial Crisis 2008-2009

We wrote about our concerns about the bond market and derivatives before the crisis captured headlines:

Once upon a time, bonds were an alternative for those who desired to protect and preserve their capital. Bonds offered a way to avoid the volatile stock market and

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We realize that the past three months may have been very unsettling. After more than five years of strong equity returns, and a period of above average economic growth, we were due for a pullback. Recessions and down periods of the market are to be expected, however, the idea of a market correction is easier to understand than it is to experience. Short term reactions to current events "whipsaw" portfolios, whereas a strategy developed in advance is the best defense for disruptions in the market and for periodic market corrections and recessions.

March 13, 2008
Client Advisory

receive a steady and consistent source of income until the bond's maturity. Today's bond market has evolved into a complex entity with attributes and volatility patterns that are common to the stock market, with possibly much greater risk, and which has much less regulation.

Third Quarter 2005 | DJIA 10,568.70

It is when the market is euphoric that we perceive the market risk to be greatest, and take advantage of the higher share prices to rebalance clients' portfolios…*Market volatility is not limited to the stock markets around the world; the bond markets can make the volatility of stocks look tame.* We continue to be concerned about the risks inherent in the bond market, and the additional risks attributable to leveraged hedge funds and traders in derivatives.

Second Quarter 2006 | DJIA 11,150.22

We continue to believe that the bond market has poor fundamentals, with prices higher than they deserve to be, and market interest rates lower than they should be. The market has priced in everything good that can happen for bonds, and has ignored the hazards, much like equity investors did with technology stocks in late 1999. We maintain allocations to short-term bonds as a source of liquidity reserves and are focused on protecting principal. Our focus is on maintaining the target levels of cash flow desired by our clients, which we are able to accomplish without yield-motivated strategies that involve hidden risks.

Year-End 2006 | DJIA 12,463.15

In our due diligence and research of bond managers, we emphasize experience and an understanding of what can go wrong with the securities in which they invest. *We reject portfolios that focus on getting the maximum yield out of our belief that preserving capital is much more important.* This applies to subprime mortgages, and all other high yield bonds (referred to as "junk bonds" for their greater default risk)…*The subprime mortgage market will survive.* Subprime lending is typically very profitable for companies who offer these loans, as long as they are priced appropriately. The dangers today arise from lax underwriting standards and predatory lending practices. Lenders deserve to be held accountable for issuing or selling bad loans…it's hard to feel sorry for an industry coming off record earnings because they issued these loans to begin with.

First Quarter 2007 | DJIA 12,354.35

Record low spreads have led to extraordinary amounts of debt issued in the past several years, much of it to finance private equity mergers and acquisitions. With much at stake when the market shifts gears are those who may have unwittingly invested in "bridge loans" extended by banks as an interim source of financing for LBOs until long-term loans can be arranged. The banks "syndicate" these loans by selling them to institutional investors and to special purpose vehicles called "collateralized debt obligations" ("CDOs"). However, if deals begin to sour before the loans can be packaged and sold, the bank could end up holding the loans longer than expected.

Second Quarter 2007 | DJIA 13,408.62

We are in the midst of addressing a mess that has its origins in a loosening of credit standards and a lack of regard for the consequences of being paid too little for taking too much risk. It is not the first time. The market tends to overreact to both good and bad news, hurting those who respond to short-term news on impulse. There are investors willing to buy pools of distressed mortgages at attractive prices.

Third Quarter 2007 | DJIA 13,895.63

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For the bond market, we need to see a return of the risk premium. It is a dangerous web that was woven by mortgage companies, investment banks, brokerage firms, ratings agencies and others. Investors in bonds have relied on ratings companies, and ratings companies have relied upon models which understated the risk of putting together a pool of risky bonds. In 2008 there will be much loss taking by those who should have known better.

Year-End 2007 | DJIA 13,264.82

Gains in the bond market are made by those who can take advantage of market fears to acquire the securities of highest quality that are being priced the same as those of the poorest quality.

First Quarter 2008 | DJIA 12,262.89

Many of the well performing areas of the economy are being overshadowed by the underperforming sectors that have an overweight impact on benchmark returns…chemicals, fertilizer and agricultural equipment; tankers and shipping containers; infrastructure for airports and seaports; and materials for roads, bridges and communities in Asia and the developing economies…have very attractive prospects due to demographic changes well underway. Some Dow constituents stand to benefit most from these trends, yet there are many more companies not represented in either the S&P 500 or the Dow.

Second Quarter 2008 | DJIA 11,350.01

We have not seen such consolidation in the financial sector since the late 1980s, in the days before we had 24 hours of news coverage and personal computers on our desktops. The barrage of news announcements from the Treasury in 2008 has led to concerns, and even "runs on the banks." In confronting the spreading crisis within the credit markets, the Treasury has been more proactive than it has ever been. Actions have included seized entities, forced mergers, sales, and loans or capital in exchange for ownership stakes. The typically weekend announcements are designed to result in the least disruption for depositors, but it has left investors with no break from disturbing financial news.

Bear markets are not easy to experience, but they are necessary for the creation of wealth. The confusion of bear markets unsettles investors, leads to panicked selling, and to structural changes, some of which can be described as a periodic process of 'Creative Destruction' during which the strong get stronger."

Third Quarter 2008 | DJIA 10,850.66
November 20, 2008 | DJIA 7,552.29

We admit that our Outlook for 2008 did not anticipate the intensity of the financial fallout and panic that infiltrated all areas of investments. Had we been dealing with only a sub-prime crisis, we continue to believe that the market impact would have been contained. As news unfolded…we came to realize that the hazards were not limited to sub-prime lending, but had infected the securitization process to the point where even our worst fears about credit default swaps and derivative securities were too optimistic.

In 2008, the stock market reacted to a series of jolts.

In March, there was the forced sale of Bear Stearns to JPMorganChase.

In July, IndyMac was placed under conservatorship, and filed for bankruptcy in August.

In September, Fannie Mae and Freddie Mac were placed under conservatorship. On the 15th, Lehman Brothers declared bankruptcy. Also that day, there was the 'shot gun' wedding of Merrill Lynch and Bank of America. On the 16th, AIG received an $85 billion loan from the Treasury. On the 25th, Washington Mutual was taken over by the Office of Thrift Supervision after a run on the bank. The FDIC sold most of its assets to JPMorgan Chase.

In October, there was the merger of Wachovia and Wells Fargo.

On December 11th, the world learned that Bernie Madoff had defrauded his investors, many of whom had trusted him with all their assets.

The Financial Crisis was underway.

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On March 9, 2009, the DJIA closed at 6,547.05, which was the low for the market cycle. The DJIA closed at 10,428.05 on December 31, 2009.

We are not predicting a swift and immediate recovery. We are expecting that the investments our managers have made, and will make for as long as the market sees no reason to go up, are laying the groundwork for the next strong cycle of stock market returns. **Our conviction is that the opportunity to recover what has been lost in market value lies in the stock market, not in alternative places where the risks are less visible."**

Year-End 2008 | DJIA 8,776.39

The Bear Market Ends in March 2009

In the past we formed a safe "bunker" by investing in the highest quality corner of the bond market. We believe it is now time to venture out to the more attractive and broader universe of taxable fixed income. The price dislocations in bonds have created some extraordinary opportunities to buy high quality securities that are expected to generate a higher return (including potential appreciation) than Government securities, which outperformed in 2008.

Our approach to investment management is to delegate to our managers the tactical decisions they must make while implementing their discipline and process. The activity of "buying low" and "selling high" is fundamentally a tactical process of moving from where the opportunities were perceived to be in order to go to the areas of expected future opportunity.

First Quarter 2009 | DJIA 7,608.92

The Bumpy Economic Recovery: 2009-?

We do not expect U.S. consumers to be the global drivers of spending on consumer goods and discretionary products going forward. It is the domestic demand we see building in the emerging markets, particularly in Asia, which we expect to pull the global economy forward.

Second Quarter 2009 | DJIA 8,447.00

Situations during which panic overtakes fundamentals provide highly unusual and lucrative opportunities. We think the chances are very good for a three to five year recovery period if clients maintain a long-term asset allocation policy. A sudden reduction in equity exposure makes the recovery period longer, as less of the portfolio is exposed to the recovering asset classes.

Third Quarter 2009 | DJIA 10,788.05

The longer term unemployment situation will take the longest to solve. Many old jobs have become obsolete. Transition points in the economy are very difficult to navigate, and require people to commit to new training for the jobs that are being created.

Year-End 2009 | DJIA 10,428.05

For equities, you have to take a bumpy road to your destination. We expect ongoing volatility…It could be several years of unsettling news, during which companies will continue to operate, generate earnings and innovate.

First Quarter 2010 | DJIA 10,856.63

Spring 2010

Confronted with dismal reports about the economy, the risk of spreading sovereign debt defaults in Europe, 24 hour coverage of oil leaking from the underwater well in the Gulf of Mexico, and the May 6th Flash Crash, investors fled to the perceived safety of bonds. The DJIA closed at 9,774.02 on June 30, 2010. We expanded our use of Energy Master Limited Partnerships, using separate accounts at Credit Suisse, for clients for whom these investments are suitable.

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Corporate spending in some areas has been deferred due to uncertainty about the economy and political landscape. Our view is that businesses will adapt, as they have always done in the past. Some of the managers with whom we have spoken see companies entering a "Golden Age" of earnings growth to fund capital projects, new resources and hiring.

Third Quarter 2010 | DJIA 10,788.05

The population and economic trends we anticipated have progressed to the stage at which we think it is important to add Global Real Estate to our Model. We expect that real estate will be developed at a faster pace in the developing countries than in the U.S. and other developed countries…in the developing world, the supply is low, there has not been the same reliance on leverage for real estate, and there is demand as people move from rural areas to cities and suburbs.

Year-End 2010 | DJIA 11,577.51

While challenges remain, primarily in housing, we are seeing modest improvements in unemployment, interest rates remain low for corporate borrowing, and merger and acquisition activity has picked up. Innovations developed during the recession are generating profits, with the technology and industrial sectors gaining momentum. These are all strong indicators for the equity markets.

First Quarter 2011 | DJIA 12,319.73

The foundation has been set for the global economy to move ahead…We believe the market will eventually recognize the improvements that are underway, and reward companies who are disciplined, are growing smartly, and are providing the goods and services that consumers need and want.

Second Quarter 2011 | DJIA 12,414.34

An investor would not be well served trying to time in and out of the market each time Congress struggles over the budget and debt ceiling. We realize that there could be market turbulence and growing anxiety about what the implications will be if this Congress decides to be the first in our country's history to force a downgrading of our debt, or a default. We believe that the most defensive steps an investor can take during times like these is to make sure liquidity can last through the disruption, that the portfolio is broadly diversified, and that expert managers are poised to take advantage of temporary dislocations in the market.

July 27, 2011 | Client Advisory

The August 5th downgrade announcement by Standard & Poor's has not helped market sentiment...The market declines of the past two weeks are not a reason to panic. We have never put our client's assets in a position that would force the sale of securities during periods of market turmoil.

Regarding the decision of Standard and Poor's to reduce the rating of US debt to AA+ at this time, they are entitled to their opinion… Today, Moody's confirmed that they are maintaining the top tier Aaa rating for the US, based upon …"the unparalleled diversity and size of the US economy and its long record of relatively solid economic growth, based on both demographics and productivity." They also cite the important role that the dollar plays in giving us "unmatched access to financing"—this is certainly evident today, with the stock markets off sharply and the 10 year Treasury yield in the range of 2.35%. Investors in our Treasury securities have no safer alternative. We remain the largest, most liquid and stable sovereign debt market in the world. Since most US consumer interest rates move in the direction of the 10 year Treasury, we do not foresee a sudden spike in consumer interest rates near-term.

August 8, 2011 | Client Advisory

Second Quarter 2011
It was a case of déjà vu: the issues of a year ago (the Greek crisis and financial troubles of the PIIGS (Portugal, Italy, Ireland, Greece and Spain) resurfaced as threats, with the added drama of the August 2nd deadline for Congress to raise the debt ceiling. On April 29, 2011, the DJIA closed at

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In our view, companies with the greatest prospects are those related to energy and the domestic demand being created in the developing world. The energy sector is booming with new discoveries, and global energy use is projected to increase 53% by 2035. In Ohio, a new steel plant is being built in Youngstown, U.S. Steel is expanding its plant in Lorain, and Timken Co. is improving its plants in Canton. The plants make steel tubes for the energy market. Many sectors stand to benefit from growing domestic demand in the developing markets. We are positioning our portfolios to take advantage of the trends we see developing, and are looking for cash flow beyond bonds, with an emphasis on sources of income that tend to outpace inflation over time. *Investments made today may not show results near-term, however, pessimism brings good prices for those with discipline and conviction – our managers have both.*

Third Quarter 2011 | DJIA 10,913.38

Americans should have greater empathy for what the European Union is experiencing – we can look to our own history for inspiration that, if we could overcome the disagreements, series of crises and defaults, and even a Civil War, they might be able to get through this too. Our founders did not have the Internet and real-time news to contend with, however. We encourage you to read a recently released essay, Fiscal Federalism: US History for Architects of Europe's Fiscal Union by C. Randall Henning and Martin Kessler, as part of the Bruegel Essay and Lecture Series. bit.ly/Aat5d6

Year-End 2011 | DJIA 12,217.56

In addition to changing the risk profile of the Fed's balance sheet, low interest rates have encouraged investors searching for yield to buy longer term bonds, also putting the balance sheets of yield-oriented investors at risk. *Bubbles seldom end well, or in a controlled manner.* When the primary buyers disappear, prices tend to fall unless there are other buyers ready to take their place. In the Fed's February 2012 Monetary Policy Report to the Congress, there were discussions about the possibility of extending Operation Twist if the economy deteriorates, with one participant suggesting they could end the program early. The Fed anticipates that it will be able to return its balance sheet to pre-crisis levels by 2017, using a combination of redemptions and sales. One of the great uncertainties for bond investors is "what happens when the Fed stops buying?" and later, "what happens when they start selling?".

First Quarter 2012 | DJIA 13,312.04

Investing based on politics and election cycles has its risks. We can never predict the countervailing forces that will affect a president's term and how Congress will respond to the challenges it faces. Our best advice about the election is to vote for the candidate(s) you believe will serve us best, and to invest as a political agnostic. The challenges we face in this country seem daunting. There is little that either presidential candidate can do without the cooperation of Congress. This will be a very interesting election, however, the outcome will not change the need to maintain a long-term focus in looking for attractively valued companies.

It has been our experience that strategies that try to be ahead of tax rate changes and/or election results can backfire. Congress can make retroactive adjustments, pass new laws, and/or change their minds. We will be carefully monitoring year-end developments. We will consider strategies to accelerate gains to 2012 if it is clear that the capital gains rate will increase from 15% in 2012 to 20% in 2013. One must also consider market conditions, however; we would not participate in a year-end selling frenzy to avoid a modest increase in capital gains rates if the market pricing made it unwise to sell.

Second Quarter 2012 | DJIA 12,880.09

> "…for the first time in history, our capabilities have begun to catch up with our ambitions. Humanity is now entering a period of radical transformation in which technology has the potential to significantly raise the basic standards of living for every man, woman, and child on the planet. Within a generation, we will be able to provide goods and services, once reserved for the very wealthy few, to any and all who need them. Or desire them. Abundance for all is actually within our grasp."
>
> Peter H. Diamandis and Steven Kotler
> *Abundance, The Future Is Better Than You Think*
> (the book is available on Amazon.com)

Six Years After the Market's 2007 Peak

October 9th marked the five-year anniversary of the last bull market's peak. The equity market benchmarks have yet to return to their 2007 levels, but we are much closer than we were earlier this year. The DJIA closed at 14,164.53 on October 9, 2007. That leaves us within 5% as of September 30, 2012. Many investors remain on the sidelines, skeptical about the future for equities. Given the current state of the bond market and the Fed's intervention, we believe that equities will be the best-performing category going forward.

Third Quarter 2012 | DJIA 13,437.13

There are many excellent reasons to invest in bonds, which remain an important part of a balanced portfolio. There are also many compelling reasons to control all the risks that can be managed in a bond portfolio, in order to reduce the portfolio's exposure to loss. It is our perspective that conditions in the bond market cannot continue and investors should prepare for a bear market for bonds.

Small and mid-sized companies are usually less in favor when investors flee stocks, giving these categories the greatest potential when a new bull market is underway. Smaller companies are also the most nimble and innovative companies that bring new services and products to market. Yes, the U.S. stock market barometers are nearing all-time highs after five years of being out of favor. However, we believe that the strength and prospects for corporate America remain underestimated, and that opportunities are prevalent in the stock market.

We believe there are also more gains to come from non-U.S. companies, also overlooked during the past several years. It is difficult to call a move to over-priced Treasury bonds a "flight to safety." What we have observed is a "flight to the familiar" which has left many non-U.S. companies very attractively valued.

Year-End 2012 | DJIA 13,104.14

The market clawed back in four years from the March 2009 lows, much faster than pundits had predicted. Until recently, it didn't even feel like a bull market—we have recovered but not yet surged forward. The next five years may present different challenges, and also opportunities to reverse course with smarter government spending and a fairer tax system that can be understood by most taxpayers. Capitalism has its flaws, but it is the best system to encourage innovation and business investment. We do not share Stockman's view that "crony capitalism left us state-wrecked". Rather, we see capitalism as the way out of this mess, as it gives an investor a place to seek profits from sound businesses.

Finally, we believe in prudence. A prudent investor has a balanced asset allocation. If one tilts too much to cash and bonds, the interest rate and inflation risks are the hidden dangers. In today's low interest rate environment, a person living on only interest income is being disadvantaged and made to pay for the Fed's actions. On the other hand, if you tilt too much towards equities, the variability and periodic corrections (and occasional steep declines) can lead to sleepless nights and put financial independence at risk. Cash is for storing liquidity, and provides insurance to prevent selling at the worst of times, but it is not an investment.

First Quarter 2013 | DJIA 14,578.54

The first half of this year has been the strongest for equities since 1999. The S&P 500 closed above 1,600 for the first time on May 3rd, and closed at a record high of 1,669.16 on May 21st. The Dow Jones Industrial Average closed above 15,000 for the first time on May 7th, and closed at its peak level of 15,409.39 on May 28th.

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We are optimistic that the economic stability and recovery is sustainable. We believe that we are at the beginning of a new phase during which the innovation of the past decade will become visible and make a real difference in how we feel about the health of the global economy, despite the media's best efforts to focus on the negatives.

Challenges remain, and we expect market retreats for the opportunities they bring. The non-U.S. portion of our equity portfolio remains the most attractively valued, with emerging markets the most undervalued. The emerging markets are transitioning from export-led economies to consumer-led economies, and this will take time. The market turbulence is giving our managers great opportunities to invest in non-U.S. businesses.

We have been well served by being defensively positioned in short-term high quality bonds, and our diversified exposure to fixed income. We continue to explore additional fixed income strategies, however, we will not compromise our focus on principal protection. We have not allocated to U.S. high yield or emerging market debt in order to maintain stability in our bond allocations. We remain disciplined in having an appropriate allocation for our clients' cash flow and liquidity needs.

Gold has not been a reliable hedge against inflation or safe haven. The speculation by hedge funds and ETF traders has changed the dynamics of gold pricing, driving the gold bubble to its peak in September 2011, and contributing to its sharp decline in 2013. We recognize the long-term needs for gold within a global economy, however, we prefer to rely on the judgment of our managers to determine the underlying allocation to gold within the broader category of commodities, based on the fundamentals of pricing and trends in supply and demand.

Second Quarter 2013 | DJIA 14,909.60

The question about which both bond and equity markets are most concerned is the timing and process of reducing the $85 billion of monthly buying that has kept interest rates low. With the ongoing uncertainty about the budget and debt ceiling, the Fed may further postpone tapering until early 2014 unless they find they can no longer ignore the strength of economic indicators.

We have seen the likely end of the recession in Europe and improving economic conditions. There has been an incredible amount of under recognized innovation that has taken place during the past decade in technology, health care, energy and agriculture. We remain optimistic about the long term strength of the global economy and are adding several defensive strategies to be prepared for the choppy times that are part of all market cycles.

Third Quarter 2013 | DJIA 15,129.67

"Something really big happened in the world's wiring in the last decade, but it was obscured by the financial crisis and post-9/11. We went from a connected world to a hyper-connected world. I'm always struck that Facebook, Twitter, 4G, iPhones, iPads, high-speed broadband, ubiquitous wireless and Web-enabled cellphones, the cloud, Big Data, cellphone apps and Skype did not exist or were in their infancy a decade ago when I wrote a book called *The World is Flat*. All of that came since then, and the combination of these tools of connectivity and creativity has created a global education, commercial, communication and innovation platform on which more people can start stuff, collaborate on stuff, learn stuff, make stuff (and destroy stuff) with more people than ever before"

Thomas L. Friedman
The New York Times
May 1, 2013

The Drivers of the New Market Cycle—The Equity Markets Reached New Highs, While Investors Kept Buying Bonds

In 2013, the S&P 500 had its best year since 1997, and the DJIA posted its best year since 1995, with 52 record-high closings in 2013. The markets are likely to be bumpy in 2014. By late February we expect to have another showdown in Washington over the debt ceiling limit, and it may not be the only time we will struggle over this during the year. Mid-term elections in 2014 could alter the political landscape. While we are optimistic about the long-term prospects for global equities, we remain very disciplined with our annual rebalancing to ensure that equity allocations remain in target ranges. Our introduction of several alternative investment strategies was motivated by the objective of having additional defensive positioning for market turbulence; these new strategies are "buffers" in times of stress, and will have less upside during strong bull markets.

As we have often stated, the next severe bear market appears headed for the bond market. During the 1980s, the yield on the 10 year Treasury was over 10% for the first five years, and kept falling from a range of 14% in 1981 to 8.5% in 1989. During the 1990s, the 10 year yield fell steadily from 8.6% in 1990 to 5.7% in 1999. Yields continued to fall in the 2000s, from 6% to 3.3% in 2009. At year-end 2013, this benchmark yield was a paltry 2.35%. As yields rise, bond prices fall. And as inflation creeps up, the net real return gets further squeezed. It has been over thirty years since bond investors have experienced the impact of persistently higher interest rates; in 2013 we saw just the first inning.

Year-End 2013 | DJIA 15,576.66

Through 2013, the U.S. market outperformed the MSCI All Country World ex-USA (MSCI ACWI Ex USA) in only four of the 11 years since 2003 (2008, 2010, 2011 and 2013). The past several years have seen non-U.S. markets out of favor, much like they were in the late 1990s. The global market declines of early 2000-2002 and the 2008 financial crisis did not leave these markets unscathed. However, it is during out of favor times that our managers have more opportunities to buy great companies at cheap prices. We believe that a globally diversified portfolio gives you the probability of having something undervalued at all times. Our investments in non-U.S. companies allow us to participate in the dynamic changes taking place. Since inception, our allocation to non-U.S. equities has been an overall contributor to our results.

Wescott's 2013 Global Asset Allocation Perspective, Revised February 2014

Our Perspective on Treasury Inflation Adjusted Securities (TIPS)

TIPS offer some of the best examples of negative real yields accepted at auctions in 2012, since the demand for them has far exceeded the available supply. Every TIPS Note (mature in 10 years and less) auction in 2012 executed at negative yields; the three TIPS Bond (mature in more than 10 years) auctions resulted in yields of less than 1%.

2013 Wescott Perspective on TIPS

We have long been concerned that TIPS were vulnerable to a correction since investors seemed to put little emphasis on valuations and price. **In 2013 TIPS had their worst annual return since they were launched in 1997.** TIPS were negatively impacted by a modest rise in interest rates during 2013, and the persistence of low inflation. TIPS were the second worst-performing bond category, with the Barclays U.S. Treasury Inflation Protected Series (TIPS) Index *down 8.6%* in 2013. TIPS offer some of the best examples of negative real yields accepted at auctions in 2013, since the demand for them has far exceeded the available supply. Six of the nine TIPS Note auction in 2013 executed at negative yields; one TIPS Bond auction resulted in a yield of less than 1% for a 30 year maturity.

The *McKinsey Quarterly* 2013 Number 3, "China's Next Chapter" (www.mckinsey.com/quarterly) provides statistics of great interest to consumer-related companies:

Chinese consumers will be the source of demand for "more than one-third of the money spent around the world on high-end bags, shoes, watches, jewelry and ready-to wear clothing" by 2015.

The new middles class in China includes Generation 2 consumers (the most Westernized to date) that will be almost three times as large as the baby-boomer population that has driven U.S. consumption

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We may incorporate a TIPS strategy within our fixed income allocations in the future. Until then, we consider a dedicated allocation to TIPS as too volatile and too low yielding to make sense for investors seeking safety of principal. Keep in mind that TIPS are taxed on the non-cash annual inflation adjustments and on the income for federal income taxes. Effective January 1, 2013, the 3.8% additional Medicare tax on taxable investment income began to affect investors; the pain was first felt in filing 2013 income tax returns when income exceeded the thresholds. For these reasons, we would consider a TIPS strategy more appropriate for tax-deferred accounts when prices become reasonable.

2014 Wescott Perspective on TIPS

Our Thoughts About Bitcoin

The first thing to know about bitcoin (and all virtual currencies) is that this is unregulated territory. There is no Central Bank oversight, no FDIC, and no proof of ownership other than what the owner retains on a computer or in a "key" identifier. There is no one standing by to help when a trading firm goes bust. When it comes to virtual currency, users want it virtual, not lost. While there are a growing number of small businesses that are accepting bitcoin as payment, it is too early to give up other payment methods. You cannot seamlessly travel or conduct everyday life using bitcoin. We advise against seeing it or any other crypto-currency as an investment. **Consider it as an experiment in a lab in which periodic explosions are likely.** The element of secrecy that made bitcoin appealing may prove to be its fatal flaw.

> "Perhaps the very fact we've been growing slower means we haven't burnt out all the fuel," said Michael Feroli, chief U.S. economist at J.P. Morgan Chase. "By a lot of metrics, the expansion still has quite a bit of room to run."
>
> *The Wall Street Journal*
> April 21, 2014

Post-Crisis Recovery

We remain optimistic. The first quarter was held back by weather-related issues in the U.S., and we view the second quarter as the transition between skepticism and realism, with better market conditions expected during the second half of the year. Investors remain unconvinced that the economy is improving. The opportunities within equities continue to grow with new companies joining the public markets as Initial Public Offering (IPOs). The first quarter saw $47.2 billion of new stock issuance by companies globally; up 98% from a year earlier. Of that, the U.S. had 64 companies raising $10.6 billion of capital – the busiest first quarter since 2000. **It is interesting to note that company formation has been strongest in the non-U.S. markets, with $36.6 billion or 77.5% raised outside of the U.S.**

First Quarter 2014 | DJIA 16,457.66

As we have discussed in prior Commentary, investors seem entitled to their skepticism in light of the series of market events since the technology bubble burst. We decided to examine current market levels, using the DJIA at the 17,000 level, from Gilligan's perspective. In the television series Gilligan's Island (which aired from 1964-1967, with a movie in 1978, and sequels in 1979 and 1981), the Skipper, Gilligan and their "three hour tour" guests were blown off course and lived on a deserted island. What if investors had all lost connectivity to market data during the credit and liquidity crisis? Would current market levels seem high? In the chart below we illustrate the annualized returns for the Dow based on several investment periods. An investor in 2006 who stayed invested has seen the market recover and start a new leg of growth. For the opportunistic investor who put new money to work in January 2011, they have been well rewarded.

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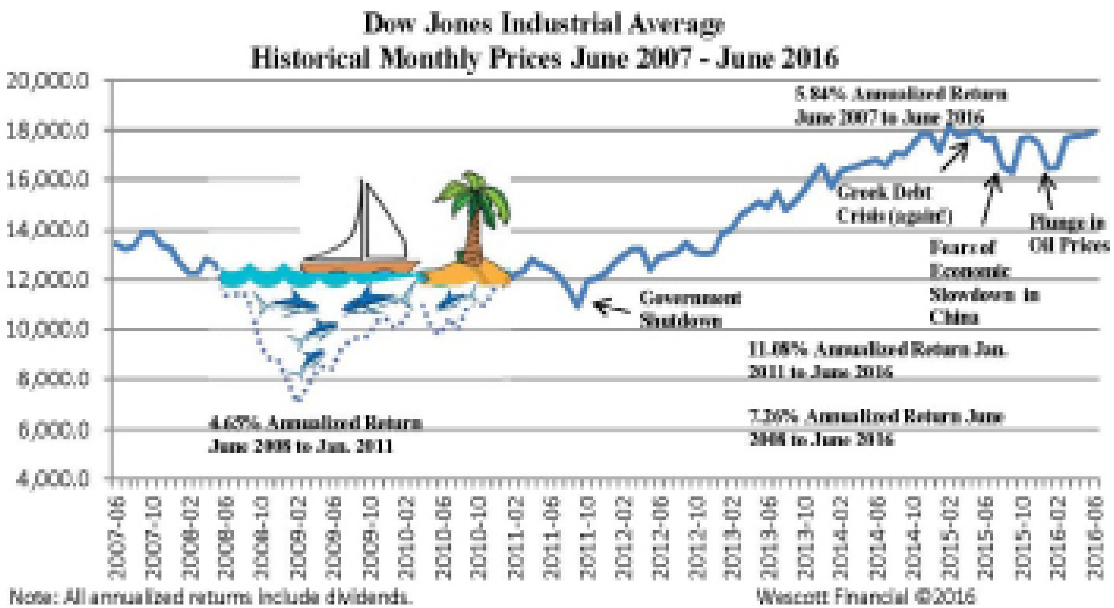

Second Quarter 2015 | DJIA 17,619.51
Second Quarter 2016 | DJIA 17,929.99

The market seems fixated on the inevitable slowing in the Chinese economy, while ignoring the pace of growth in India that has picked up speed in 2014. India's new Prime Minister Narendra Modi is reform-minded, and his impact is already being felt with the second quarter GDP annual growth rate of 5.7%, an improvement over 4.6% in the first quarter. Within several years, India is projected to have a higher growth rate than China, and has many years of catching up to do in terms of infrastructure, particularly for energy. When you consider the large number of the emerging middle class in these two countries, growth rates in single digits result in very large numbers.

Fear has pervaded the start of the fourth quarter. Concerns that were overlooked or ignored during the year suddenly became daunting. We agree that there are risks and a great deal of uncertainty. The market needs to periodically pause to correct imbalances in pricing, and sometimes the sell-offs escalate to a panicked frenzy on no new information. Investors should always be cautious as well as prepared to take advantage of panicked selling that makes prices too compelling to ignore.

Third Quarter 2014 | DJIA 17,042.90

The strengthening of the U.S. dollar in 2014 was one of the year's surprises. A strong dollar does not make many American businesses happy since it makes our goods and services more expensive, negatively impacting our exporting companies. A weaker currency in the Euro bloc and Japan helps those companies that export to us. Central banks are motivated to narrow the spread in exchange rates to keep their economies stable. In the past, the strength of the dollar has moved in line with the direction of interest rates. These have not been normal times, with central banks outdoing themselves to bring yields to record lows, and even to negative territory.

This imbalance may last a little longer because of the scramble by the non-U.S. central banks to keep stimulating their economies. Short-term currency fluctuations can be unpredictable and at crosshairs.

Fourth Quarter 2014 | DJIA 17,823.07

In 2015, the Millennials surpass the Baby Boomers as our country's largest living generation, numbering 75.3 million (versus 74.9 Boomers, ages 51 to 69). The Millennials have delayed marriage, home ownership and children. The clock has been ticking, and the oldest of this population are starting to impact the economy. This is a group with a higher burden of student loans than Gen X before them, which may be a near-term barrier to home ownership; the multifamily rental market stands to benefit from Millennials ready to have their own place before they commit to a mortgage. For those who can afford a mortgage, it's a great time to buy.

In Europe, strange things are happening this year. We have entered the Twilight Zone of negative yields (paying to lend money). The trigger was the January announcement of the European Central Bank's Quantitative Easing (QE) program (which began in March); the ECB plans to buy €60 billion per month through September 2016 and Mario Draghi indicated that he is willing to buy bonds that pay negative interest rates. On January 15th, the Swiss Central Bank started a series of rate and currency gyrations by removing support for the euro relative to the franc, and lowering its key interest rate from **-0.25%** to **-0.75%**. Denmark followed by cutting rates it pays on Certificates of Deposits from **-0.05%** to **-0.20%** **(charging customers for keeping their money on deposit)** and also cut its key interest rate to **-0.75%** **(paying borrowers to borrow)**.

This is the most bizarre period we have ever witnessed in the fixed income markets.

First Quarter 2015 | DJIA 17,776.12

We are confident that the euro will survive; the European Union has had more than five years to prepare for the possibility. We do not view a "Grexit" from the euro as a viable solution for Greece, which must import most of what it consumes. A drachma will not be worth much for citizens who rely on imported food, medicine and fuel—who will accept a currency from a bankrupt country? The incentives are strong for both sides to keep the Greek economy from imploding.

The Fed had signaled that its first move might be in September, however the situation in Greece may lead them to delay making a move until the fourth quarter. Investors should be prepared for volatility in the bond market for the remainder of the year.

Second Quarter 2015 | DJIA 17,619.51

August 24th was an extraordinary day in the stock market: we have yet to fully understand what prompted the Dow Jones Industrial Average (DJIA) to plummet 1,089 points (6.6%) in a matter of minutes, even before many stocks had started trading. The Dow struggled to recover and came within 102 points of its open, but then closed down 588 points (3.57%) that day. Overnight news about an 8.5% drop in China's Shanghai Composite likely triggered automated trading programs that are designed to sell stocks when they appear most risky, that is, when they are falling; some of these approaches are called "risk-parity" strategies…Going into mid-August, we knew that China's economy was slowing (but still growing faster than we were), that the Fed would be raising interest rates at some point near-term (probably using small incremental moves), and that Greece was in trouble and was again being supported by the European Union. The market's downturn during the second half of August might have nothing to do with these factors, or it could have been an overreaction to them, resulting in an oversold market. What is clear is that human judgment continues to have value, and there is no turning back on how many trading strategies have become more automated…The best thing to do when you do not understand why something is happening is to do nothing. Our managers are in the best position to assess the relevance of what is happening and how to exploit the opportunities.

Third Quarter 201| DJIA 16,284.70

Our 2015 diversified equity performance was negatively impacted by a broad sell-off in commodities during the third and fourth quarters…During the fourth quarter, we saw indiscriminate selling of anything related to energy. It appears that the only thing the stock market has cared about is the price of oil, with market movements in tandem with oil prices. For our portfolio, the hardest hit categories were global natural resources, energy master limited partnerships (MLPs) and by association, the emerging markets, which in the aggregate represent 15% of our equity allocation. We remained disciplined in our diversification of value and growth, active and passive, large, mid- and small cap companies, and in U.S. and in non-U.S. exposure. We recognize that investors have not benefited from diversification in recent years, but it has been proven to be the best defense against concentrated markets and excessive valuations. There are periods during which fundamentals matter less to investors, until they suddenly do. Our portfolio is positioned for a return to the fundamentals of a company's valuation (its balance sheet, profitability, strong management and sustainable business model)…The presidential election cycle, Syrian refugee crisis and the barbaric terrorist attacks by ISIS are very strong headwinds that can keep investors unsettled and anxious. During such unsettled times, many opportunities present themselves to those who recognize that the rewards may not be seen for a year or more.

Fourth Quarter 2015 | DJIA 17,425.03

Since February 11th, the stock market has shed its overhang of fear, but this does not mean that we have seen an end to volatility. It has been encouraging to see a rebound in the asset classes that were most out of favor in 2015 (small companies, energy MLPs, natural resources and the emerging markets). We realize that markets will have periodic pullbacks, and that economies move from expansion to recession. For 2016, we expect more buying opportunities when the market pauses and retreats, but improving economic conditions make a recession unlikely. We are using the first quarter Investment Commentary edition to remind our clients that all is not doom and gloom, and that there are many positive developments that can propel the market...Crowded out by the noise of the political debates and speeches is an inspiring realization that the pace of innovation is accelerating. It has been happening so seamlessly and behind the scenes that we often forget that innovation is affecting our everyday lives.

First Quarter 2016 | DJIA 17,685.09

On Brexit

As we wrote on June 30th, the volatile trading that followed the surprise Leave vote by the British has shown us how little is really understood about the U.K. and its vote to depart the European Union (EU). Gains of the year that evaporated in two days returned in the closing days of the second quarter. We have been hearing some common themes from our managers… The consensus is that there should be little impact on the U.S. economy and that the markets oversold on emotion rather than economics. Several have noted that the market had taken back what it had gained in the week leading up to the vote, but was still at better levels than in February, and that the British sterling was also not far off from where it traded at that time.

(The DJIA closed at a 2016 low of 15,660.18 on February 11th versus 17,400.75 on June 24th and 17,140.24 on June 27th.)

On the Presidential Election

The outcome of the presidential election is the biggest issue confounding investors as we head into the second half of the year. The word "unconventional" is inadequate to describe the historic ascent of businessman Donald Trump to be the Republican candidate for president. The Democratic candidate, former U.S. senator from New York and former Secretary of State, Hillary Clinton, had far fewer competitors for the position. Fear percolates about both major party candidates and investors are concerned about the risks for the markets and economy in "what-if" scenarios… In the 14 election years from 1960 through 2012, seven Democrats and seven Republicans have won. There are so many situations that have confronted our past presidents, and none escaped a crisis during their term. What we can discern from the short-term response of the DJIA is that you cannot predict who will be better for the stock market in the months leading up to or following the election.

Second Quarter 2016 | DJIA 17,929.99

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We are very encouraged by the global trends that will stimulate commerce and elevate living standards around the world. There will always be risks, particularly geopolitical risks. Since early 2011, we have witnessed extraordinary events in Tunisia, Egypt and the Middle East, and we do not know how these developments will affect us going forward—will it bring us a greater sense of security, or less? We cannot predict. In 2014 the focus was on Russia's annexation of Crimea and tensions in the Ukraine, deteriorating conditions in Iraq, and escalating tension between Hamas and Israel. In 2015, the focus has returned to Greece and China.

"As much as we might wish it, our world is not becoming more stable or easier to comprehend. We are entering, in short, a revolutionary age.....On the one hand, this revolution is creating unprecedented disruption and dislocation. But it is also creating new fortunes, new power, fresh hope, and a new global order.

Revolutions, after all, don't produce only losers. They also, and this is the heart of the story I want to tell here – produce a whole new set of historical champions."

The Age of the Unthinkable
Joshua Cooper Ramo

For the dynamic conditions that Joshua Cooper Ramo speaks of, we must be prepared to develop new strategies and ways of revolutionary thinking to adapt to an era of "surprise and innovation". As the world grows more interdependent, there will be opportunities for companies who are geared up for a new generation of customers, some of whom have been oppressed for decades, and who are now connected through social media Internet sites that can topple regimes.

Many global equity markets remain very speculative, and for these investments we rely upon our managers who are seasoned investors in non-U.S. companies to determine the best opportunities at the lowest risk. All markets are vulnerable to overheating, which also requires our managers to move in and out of sectors and regions in response to changing valuations, market conditions, and political developments.

Wescott's Manager and Model Changes Since 2007

Wescott made several changes to its Model and to its managers during this period. We responded to the financial crisis and market low of March 2009 by reviewing our manager's capabilities, which resulted in changes to our managers, and changes to our Model to be positioned strategically for the future.

In 2007, our bond portfolio was substantially biased to short-term government securities and short-term municipal bonds. We had perceived (and wrote about at that time) the poor credit quality of many of the popular bond offerings and sought to keep our portfolios pure. This move provided outstanding ballast in the credit down draft.

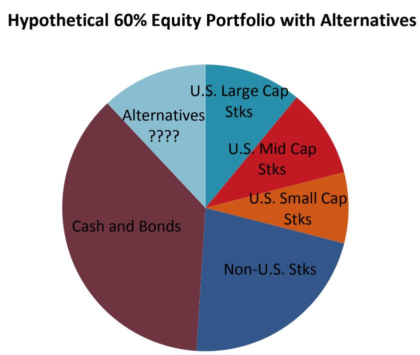
As the bond market settled down in the 2nd quarter of 2009, and it was evident where the capital losses were to be, we added three bond strategies (intermediate bond, core corporate and high quality distressed priced mortgage) to our blended allocations. This opportunity shift was very timely and resulted in a significant double digit return in the bond portion for the remainder of 2009, and higher than market bond returns in 2010.

Early in 2010, we added two new short/intermediate bond strategies – one taxable and one tax-exempt. During 2010, we exited positions in two equity managers who we felt were not well positioned to perform.

Early in 2011, we made an additional two changes to our Model: a new allocation to global real estate, using a passive manager, and an allocation to energy MLPs for those who could meet a negotiated reduced minimum for a separately managed account. (Such allocation had previously been available only to our clients with portfolios of $10 million and up.) We replaced two equity managers with our January 2011 rebalancing.

Emerging Markets have always been volatile but usually they move in the same direction as the global market. In times of crisis, however, money tends to flee these markets which makes their valuations even more compelling. During the Fourth Quarter 2014 we increased our allocation to the emerging markets in the Wescott Equity Model, from 5% to 8% (an increase of 3%) in order to be more aligned with the current breakdown of the global total market capitalization of 11%. Keeping our allocation at 8% gives us a margin for our non-U.S. equity managers to make allocations in the region without risk of us inadvertently becoming overweight in the emerging markets. This shift is also consistent with our Global Asset Allocation Perspective that the developing world is the driver of the global economy.

We are looking for a combination of cash flow generators, inflation hedges, and long-term growth potential. We have never invested purely for yield or tax benefits. Our model changes are forward looking to be strategically positioned for the next five to ten year period, during which we expect extraordinary changes to occur.



The Role of Alternative Investment Strategies in Wescott Portfolios

We have monitored and advised on private equity and multi-strategy investments for many years. Until fairly recently, access to alternative investments has been limited to those with the ability to meet substantial minimum investments (of $500,000 or more per strategy) in illiquid vehicles that offered little in the way of transparency. During 2013, new opportunities allowed a more reasonable minimum to multiple strategies to further diversify our bond and equity portfolio.

Our objectives in adding new strategies were: *lower volatility* of the overall portfolio, *new sources of investment return* that were not previously available in liquid form, and disciplined *risk management* for each underlying strategy.

Our focus is on managers and strategies that can provide *a buffer in down markets that are sure to come again*, and that focus on risk controls in all aspects of their process. Our recommended allocations to alternative investments and strategies vary based upon portfolio size, liquidity and cash flow needs.

We continue to avoid the esoteric and "black box" strategies that we have seen blow-up in the past. History is littered with "Absolute Return" strategies that became "No Return," and "Market Neutral" portfolios that became "Permanent Capital Loss." Our skepticism has served us well in the past, and we believe that the lure of investments that promise positive absolute performance 100% of the time is a danger to any portfolio. Risks can be assessed, embraced and allocated but never completely avoided.

The opinions expressed herein were formulated based upon facts and conditions known as of the dates listed.
Subsequent changes in facts and conditions affect our analyses, opinions and actions.