Market Commentary

The stock and bond markets were generally subdued in the third quarter, despite the short-term volatility and media blitz associated with Brexit at the end of June. In fact, the S&P 500 moved in excess of 1% only five days during the quarter. The S&P 500 posted a gain of 3.8% during the quarter while small cap stocks outperformed and returned 6.4%. International stocks also performed well and were up 6.9% this quarter. Bond yields were mostly unchanged this quarter and remain near historical lows, allowing the Aggregate U.S. Bond Index to rise 0.4%. Although the Federal Reserve left the federal funds rate unchanged at their September meeting, expectations project a 0.25% increase at the December meeting. This increase in December will likely have a minimal impact on financial markets aside from short-term volatility immediately surrounding the announcement.

Presidential Candidate Tax Proposals

Both presidential candidates have proposed major changes to the tax code, which would have significant ramifications for investors. However, unless the next presidency and both branches of Congress are controlled by the same party, tax policy will likely be slow to change and look very different from the current proposals shown in the chart below.

Tax Type	Donald Trump	Hillary Clinton
Income Tax	Reduce brackets from seven to three and cut top rate from 39.6% to 33%; Repeal 3.8% Net Investment Income Tax and AMT	4% surcharge for earnings above $5 million in addition to 39.6% rate; Minimum 30% rate for those making $1 million
Corporate Tax Rate	Cut rate from 35% to 15%	Maintain 35% rate; Reduce deductibility of interest; Restrict companies from moving offshore
Estate Tax	Eliminate estate tax but tax capital gains at death	Reduce estate tax exclusion from $5.45 million per person to $3.5 million; Raise rate from 40% to 50% for individuals with estates over $10 million and to 65% for those with estates over $500 million; Eliminate step-up in basis upon death
Capital Gains Taxes	Retain current rates	Increase holding period to six years for full capital gains treatment; Limit like-kind exchanges

IRS Takes Aim at Asset Valuation Discounts

One tax policy that is likely to change irrespective of the new president is the application of valuation discounts related to lack of marketability and lack of control when gifting assets. Valuation discounts have been integral tools in estate planning to reduce taxes when transferring assets to heirs. Historically, savvy discounting has achieved a reduction in taxable asset values by upwards of 40%, making this tactic a popular and effective tax mitigation strategy. Newly proposed IRS regulations attempt to dramatically reduce the application of this type of discounting to increase the value of taxable estates and therefore increase estate taxes. A public hearing will take place on December 1st to debate the changes with implementation occurring as soon as January 2017. Individuals contemplating gifting assets to heirs in the future should consider acting expeditiously before the rules are changed.

Comparative Returns

	Q3 2016 Returns	Annualized Performance			
		1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks(1)	3.8%	15.3%	11.0%	16.2%	7.2%
Small Cap U.S. Stocks(2)	6.4%	13.7%	6.5%	15.0%	6.7%
International Stocks(3)	6.9%	9.3%	0.2%	6.0%	2.2%
Real Estate(4)	-1.5%	19.7%	14.0%	15.7%	6.5%
U.S. Bonds(5)	0.4%	5.3%	4.0%	3.0%	4.8%

1. *Measured by the S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy.*
2. *Measured by the MSCI U.S. Small Cap Index.*
3. *Measured by the MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets.*
4. *Measured by the MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks.*
5. *Measured by the Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market.*

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