

Overview

The March rally continued into the second quarter, albeit at a slower pace, as equity markets rose steadily. This rise was disrupted in late June as the UK voted to leave the European Union, which saw global markets take a nosedive. However, US stocks quickly snapped back, and finished the quarter near all-time highs. For the quarter, the benchmark S&P 500 gained 2.46% while the Intelligent Index Model Portfolio advanced 3.01% largely on the strength of small-cap and mid-cap stocks.

Below is a breakdown of the relevant indices:

Intelligent Index Model Portfolio Returns (ETF Returns)

As of June 30, 2016

	<u>Q2 2016</u>	<u>YTD 2016</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>Inception*</u>
Intelligent Index (Gross)	3.32%	6.02%	1.78%	10.67%	10.88%	8.20%	7.95%
Intelligent Index (Net)	3.01%	5.41%	0.64%	9.42%	9.67%	7.00%	6.78%
S&P 500 Index	2.46%	3.84%	3.99%	11.66%	12.10%	7.42%	5.09%
Russell 3000 EW Index	4.03%	3.39%	(5.96%)	7.08%	8.65%	8.17%	8.83%
S&P Citi Small-Cap Value Index	3.40%	8.76%	0.72%	9.43%	11.36%	7.08%	9.09%
S&P Citi Small-Cap Growth Index	3.55%	3.94%	(0.63%)	11.00%	11.05%	8.63%	8.81%
S&P Citi Mid-Cap Value Index	3.67%	10.26%	1.28%	10.13%	10.96%	7.75%	9.42%
S&P Citi Mid-Cap Growth Index	4.35%	5.65%	1.17%	10.77%	10.07%	9.29%	7.60%
S&P Citi Large-Cap Value Index	3.96%	6.24%	3.38%	9.66%	11.18%	5.77%	4.92%
S&P Citi Large-Cap Growth Index	1.01%	1.55%	4.24%	13.41%	12.92%	8.97%	5.11%

*Inception date 1/1/2001

Source: Morningstar Direct

The Intelligent Index Model Portfolio maintained equal weight between growth and value for the second quarter of 2016.¹

Quarter in Review

As noted, the result of the UK's referendum on whether to leave the EU was the biggest surprise during the quarter. Most market participants were positioned for a win by the "Remain" camp, which was widely anticipated. When that did not turn out to be the case, stocks worldwide began a severe decline driven by risk-off sentiment. The sell-off continued for another day, but the markets quickly realized that the world was not falling apart and that there would likely only be minor repercussions in the short-term for the US if any.

¹ Please see disclosure on final page for description of fees.

² The Intelligent Index Model Portfolio considers changes of less than 50 basis points, either positive or negative, to be statistically irrelevant, as such small variations can be the result of bid-ask spreads only or other last minute quarter-end institutional trading for proprietary purposes.

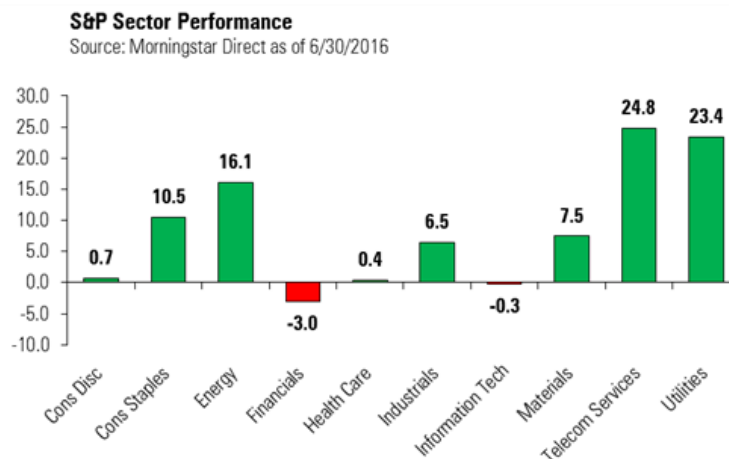
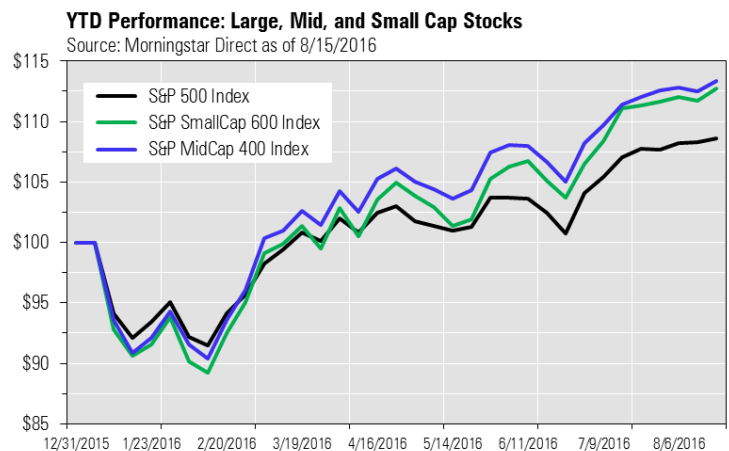
During the quarter, US economic data was mixed but generally positive. The labor market continued to tighten, retail sales surprised on the upside, and we saw improvement in the manufacturing sector, which had been a big drag on growth previously. While energy prices did rebound, they remain relatively low and continue to support consumer spending.

The Federal Reserve refrained from raising rates in its June meeting, which was a positive for stocks given the uncertainty created by the UK referendum and a weak May jobs report (which appears to have been an aberration). With inflation remaining stable, the Fed can be patient in normalizing interest rates, with gradual and telegraphed rate hikes being ideal. However, the picture overseas is uncertain, as Europe and Japan are really struggling to generate growth and continue to push quantitative easing measures in hopes of stimulating their economies. Uncertainty overseas is likely to be incorporated into any Fed decision to raise interest rates, and any deterioration in the economic outlook in Europe and/or Japan will probably put the Fed on hold for a further period of time.

Second quarter earnings have proven to be solid, helped along by a stable US dollar and a recovery in energy prices. The US dollar had been rising steadily for several quarters, which puts pressure on the earnings of multinational firms who sell goods in other currencies. The appreciation of the USD has largely ceased so far this year, boosting profits. In addition, aggregate reported earnings have been depressed due to the energy sector, which has been a huge drag because of the decline in oil prices. A sharp rebound in oil prices over the past several months should see the energy sector start to be a positive contributor again. Earnings should normalize moving forward as both of these factors become less of a headwind.

As mentioned in our Q1 newsletter, coming into 2016 small-cap and mid-cap stocks had underperformed large-cap stocks for quite some time. This trend reversed last quarter, and only accelerated since, with small-cap and mid-cap stocks outperforming. The Intelligent Index is now up 10% year-to-date as of August 15th, versus a gain of 8.3% for the S&P 500 Index. While periodic flights to quality do occur, where investors crowd into larger more defensive names (as seen in 2015), we believe that small and mid-cap stocks remain a central component of a diversified equity portfolio and will be key drivers of return over the long-run.

Performance across sectors varied widely, as illustrated in the chart to the right. Investors have flocked to consumer staples, utility, and telecom stocks this year, and all three sectors have enjoyed strong returns (although the telecom and utility sectors make up only a small fraction of the S&P 500 Index). This move was driven by a couple of reasons – the perceived safety of these sectors given the uncertainty in the markets, and their relatively high dividend yields in a low interest rate environment. However, these sectors all now sport hefty valuations considering their generally limited growth prospects, and are susceptible when interest rates eventually do rise.



The worst performing sector, healthcare, has been held back by a number of political issues, with increased scrutiny over drug pricing practices as well as an aggressive justice department which has blocked several large mergers.

Looking Forward

The equity market is likely to be subject to increased volatility in the coming months, given the uncertainty surrounding a great number of things. The US election, Federal Reserve policy, outlook for energy prices, the UK's exit from the EU – the list goes on, and all have the potential to have a large impact on markets. Coupled with this is the fact that US equities appear expensive relative to the rest of the world, and the bull market is in advanced age.

However, our economy continues to be one of the most attractive in a world of low growth, and has proven resilient in the face of headwinds overseas. Corporate earnings have been solid, equity valuations don't appear too stretched, and the US consumer remains strong supported by low interest rates and energy prices. While forward looking returns will almost certainly be lower than in the recent past, we are cautiously optimistic that equities can continue to grind higher in line with economic fundamentals.

We look forward to updating you at the end of the third quarter. As always, please feel free to contact us with any thoughts or questions you may have.

Sincerely,

Richard W. Greene
Managing Principal Emeritus



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The Intelligent Index Model Portfolio allocates its investments in BlackRock iShares ETF index funds designed to track the following indexes: S&P 600 Small Cap Value Index, S&P 600 Small Cap Growth Index, S&P 400 Mid-Cap Value Index, S&P 400 Mid-Cap Growth Index, S&P 500 Large Cap Value Index, and S&P 500 Large Cap Growth Index. The portfolio is systematically rebalanced to maintain the target weightings of its asset allocations based on a rule-based formula and determined on a quarterly basis. There can be no guarantee that rebalancing will achieve its intended result. The risks associated with an investment in the Intelligent Index Model Portfolio and equities in general may not be suitable for all investors.

Performance results for the Intelligent Index Model Portfolio are based on the performance results of the BlackRock iShares ETF index funds. All annualized return figures consist of both capital appreciation and dividends reinvested. "Gross" returns refer only to the deduction of the underlying ETF administrative fees charged by BlackRock. "Net" returns refer to the deduction of 1) the underlying ETF administrative fees charged by BlackRock, and 2) advisory fees charged by Centerpoint Advisors, which assumes a maximum annual rate of 1.25% for Intelligent Index Model Portfolio clients. Advisory fees for other types of investments vary depending upon the market value of the assets under management and the type of investments managed. Please see our Firm Disclosure Brochure for more information. The only source of compensation from client investments for discretionary accounts is obtained from asset based advisory fees paid by the client. All Intelligent Index Model Portfolio clients are fee based only and execution for these clients will not result in commission compensation. In addition to our advisory fee and BlackRock's administrative fee, you may also incur certain charges imposed by additional unaffiliated third parties, including, but not limited to, custodial fees, transaction fees, or other expenses charged by broker-dealers, which reduce returns.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's principal amount of invested shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Investing involves risk, including possible loss of principal. Diversification does not protect against loss.

S&P 500 Index: Measures the performance of the largest 500 U.S. common equity securities. S&P 500 Large Cap Growth Index: An unmanaged index consisting of stocks within the S&P 500 Index that exhibit strong growth characteristics. The S&P 500 Large Cap Value Index: An unmanaged index consisting of stocks within the S&P 500 Index that exhibit strong value characteristics. The S&P 400 Mid Cap Growth Index: An unmanaged index consisting of stocks within the S&P 400 Index that exhibit strong growth characteristics. The S&P 400 Mid Cap Value Index: An unmanaged index consisting of stocks within the S&P 400 Index that exhibit strong value characteristics. The S&P 600 Small Cap Growth Index: An unmanaged index consisting of stocks within the S&P 600 Index that exhibit strong growth characteristics. The S&P 600 Small Cap Value Index: An unmanaged index consisting of stocks within the S&P 600 Index that exhibit strong value characteristics. Russell 3000 EW (equal weight) Index: An unmanaged index consisting of the largest 3,000 US stocks by market capitalization. The index is equally weighted among its constituents.