

## Overview

While economic conditions were relatively unchanged during the quarter the equity markets did manage solid gains. For the first time in several quarters small cap stocks and indices such as the NASDAQ and Russell 2000 outpaced the large cap S&P 500 Index by considerable margins. For the quarter, the S&P 500 gained 3.85% and closed the quarter 7.84% higher for the year. The Intelligent Index Model Portfolio rallied 4.64% for the quarter and stood 10.25% higher for the year.

Below is a breakdown of the relevant indices:<sup>1</sup>

### Intelligent Index Model Portfolio Returns (ETF Returns)

*As of September 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>
<b>Intelligent Index (Gross)</b>	<b>4.97%</b>	<b>11.28%</b>	<b>16.40%</b>	<b>9.63%</b>	<b>16.59%</b>	<b>8.62%</b>	<b>8.14%</b>
<b>Intelligent Index (Net)</b>	<b>4.64%</b>	<b>10.25%</b>	<b>14.95%</b>	<b>8.27%</b>	<b>15.15%</b>	<b>7.27%</b>	<b>6.80%</b>
S&P 500 Index	3.85%	7.84%	15.43%	11.16%	16.37%	7.24%	5.26%
Russell 3000 EW Index	9.39%	13.10%	17.80%	7.05%	16.19%	9.01%	9.30%
S&P Citi Small-Cap Value Index	7.23%	16.62%	20.94%	8.66%	18.09%	7.77%	9.43%
S&P Citi Small-Cap Growth Index	7.17%	11.39%	15.61%	9.39%	17.63%	9.65%	9.14%
S&P Citi Mid-Cap Value Index	4.52%	15.24%	17.79%	9.28%	17.33%	8.29%	9.57%
S&P Citi Mid-Cap Growth Index	3.73%	9.59%	12.78%	9.26%	15.60%	9.87%	7.73%
S&P Citi Large-Cap Value Index	2.94%	9.36%	15.98%	9.34%	15.87%	5.53%	5.03%
S&P Citi Large-Cap Growth Index	4.76%	6.38%	14.74%	12.75%	16.81%	8.84%	5.33%

\*Inception date 1/1/2001

Source: Morningstar Direct

With all indices as well as the S&P 500 being positive for the quarter, no changes were made to our allocation, and the Intelligent Index Model Portfolio maintained equal weight between growth and value.<sup>2</sup>

## Quarter in Review

Despite the crazy election rhetoric, the third quarter was the best of the year so far for the market and while economic data was mixed, consumer confidence reached post-recession highs. Increases in employment, personal

<sup>1</sup> Please see disclosure on final page for description of fees.

<sup>2</sup> 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.

income and household net worth have contributed to consumers' willingness to spend. The consumer's resiliency has also been aided by accommodative interest rates and low energy and commodity prices. It appears that the consumer needed convincing that energy prices would remain low before they were willing to spend the low energy prices "dividend".

The two elephants in the room at this point are obviously next week's election and if December finally sees an interest rate increase. The lack of volatility in the market suggests to many that a Clinton victory as well as a 25 basis point rise in interest rates is pretty much baked into stock prices. Economic policy under a Clinton administration may be deemed somewhat status quo rather than be radically different; however the election results and future policy remain to be seen.

## Looking Forward

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With the market trading in the vicinity of 17 times next year's earnings, corporate earnings after 5 consecutive quarters of decline will need to improve for the market to sustain these elevated levels and buffer the headwinds that will accompany higher interest rates. Fortunately, third quarter earnings to date have shown signs of accelerating, with Thomson Reuters reporting S&P 500 Index earnings growth of +3.6% so far for the quarter, with 300 of 500 companies having reported.<sup>3</sup>

As of now, the market seems to have come to terms with the modest GDP growth and a gradual rise in interest rates. But, in order for stock markets to make a sustained move higher, earnings growth will need to continue to exceed forward looking estimates and become the main driver of index performance.

We look forward to updating you at the end of the fourth 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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<sup>3</sup> Gilmartin, Brian. "Q3 '16 S&P 500 Earnings Look Healthy (With Or Without Energy)." Investing.com. 30 October 2016. <http://www.investing.com/analysis/q3-16-sp-500-earnings-3.6;-ex-energy-6.7-200161490>



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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.