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Excerpts from Quarterly Report written by Investment Partners Asset Management – Q2 2016

"**"**Simply put, if history is any guide, incumbent parties tend to win if the stock market is rising when voters head to the polls, and challengers' chances increase if the indices are falling in the months and years prior to the national election. With markets at all-time highs, despite all the turmoil, chaos, and six consecutive quarterly earnings declines for the S&P 500, we believe the Democrats should hold office if the past is prologue.

So, the next obvious question is "Will a Democratic Party victory be well received by the markets?" In our opinion, the answer in the short-to-intermediate term is likely, yes, if for no other reason that Clinton is the "Devil We Know." Although increased taxes and regulation are likely in the cards, if she wins, we at least expect a continuity of benign monetary policy, and possibly an increase in fiscal-policy stimulus. This is what the market currently seems to expect, and this is our base-case scenario. As for a potential regime change associated with the candidacy of "The Donald", we think his effects on capital markets are far less certain – and markets hate uncertainty. It is clear that his message resonates with a relatively large portion of the US population, but we believe if he were actually to be successful at promoting some of his economic policies, the consequences (intended or otherwise) could, on the balance, have a negative effect on the economy and the markets. While his corporate tax plan may have some merit (particularly with respect to repatriation of foreign capital), in our opinion, his stances are decidedly protectionist and untested within the framework of the modern global monetary system. The most recent example of comparable, broad-based protectionism we could remember was that of the Smoot Hawley tariffs in the 1930s. The intended objective, at that time, was similarly motivated by a populist effort to preserve American jobs. However well intended it may have been, Smoot Hawley not only failed to stabilize the labor market, it severely damaged international relations, decreased global demand for American products, and led to massive domestic unemployment – just when the country needed to pull itself out of the Great Depression. One would expect this cautionary history lesson to serve as a guide for anyone intending to become an architect of economic policy, but the message seemingly disappeared into the ether at some point over the past 86 years.

Aside from the rancor of the election, though, we have noticed that there recently has been a dearth of earth-shaking narratives to roil markets. This is largely in contrast to the past twelve months, in which we have been treated to things like "Brexit," the meltdown in the oil and high-yield markets, the supposed Fed-tightening cycle, the Chinese slowdown, and Japanese deflation worries to name a few. Amazingly, and we do mean amazingly, each of these issues barely lasted the 24-hour news cycle before being fixed by some central bank action in some corner of the world……like magic. Markets have therefore been able to absorb these systemic shocks, in series, as they've come up.

With the volatility index and bond yields hovering near all-time lows, and US stock indices near all-time highs, it is unclear if markets can remain resilient if future bogeymen emerge - perhaps this time in parallel with one another. We suspect that markets will eventually focus on some of the downside risks and become more volatile later this year - perhaps once vacations and the Olympics are over. As such, we remain somewhat cautious about the markets' ability to continue the recent upward trajectory."

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