



UNITED
Asset Strategies, Inc.

Dear clients and friends,

October 2016

While volatility continues, the third quarter was generally a positive quarter across most markets, with the S&P 500 Index returning 3.3% and the EAFE Index up 5.8% in a post-BREXIT rally. Not all U.S. sectors participated in the third quarter rally, as there was an internal rotation away from yield-oriented sectors such as Telecomm and Utilities, which were among the top performing sectors in 1H16. This reversal was fueled by concerns about valuations of yield-oriented stocks amid the growing expectation for a Federal Reserve rate increase in 2H16. The Federal Reserve has indicated that its decision to raise rates will be data-dependent, and the plurality of U.S. economic data, in our view, does support such an increase in December. Bond markets lagged stocks in the third quarter, with the Corporate Bond index +1.4% and the Municipal Bond index -1.8% for the quarter.

Equity markets have risen, but corporate earnings growth has not kept pace, resulting in valuations that have become extended. To quantify this, the S&P 500 Index price/earnings (P/E) ratio has risen from 22x at year-end 2015 to 25x at present, approaching 5-year highs. As valuations have moved upward, large-cap value stocks have begun to outperform large-cap growth stocks. Our own concerns about sector valuations resulted in some rotation within our strategies away from the more expensive sectors into those that are more attractively valued. In addition, we began to raise some cash during the quarter, as overall equity market valuations have become stretched. We are also concerned about perceived complacency among investors, particularly with political risks looming in the fourth quarter.

Looking to the fourth quarter, we see three events that are likely to create uncertainty and therefore volatility: the U.S. election in November, a constitutional reform referendum in Italy and the Federal Reserve meeting, both in December. As of the writing of this piece, polls are pointing to a Hillary Clinton victory on November 8, although the two remaining presidential debates are likely to meaningfully influence the outcome. In addition, the Democrats are poised to pick up seats in the Senate, with a modest possibility of regaining the majority, depending on the outcome in a few key swing states. The GOP is likely to maintain its majority in the House, with Paul Ryan therefore continuing as Speaker of the House. In this scenario (Clinton presidency, neutral Senate, GOP House), we will continue to have balanced government, characterized by ongoing gridlock and the lack of meaningful progress on key reform measures, such as health care and tax reform.

We continue to monitor developments around the globe that could impact markets, including the Italian referendum on constitutional reform, which is expected to garner a vote on December 4. Italian Prime Minister Matteo Renzi has staked his leadership on the outcome, and Italy's fragile economy can ill afford the political upheaval that could follow a failed referendum. BREXIT is moving forward, with Britain's Prime Minister Theresa May indicating that she will trigger Article 50 of the Lisbon Treaty before March 2017 to continue the divorce from the European Union (EU). There remains much uncertainty about the ultimate impact of BREXIT on Britain, the EU and the broader European economy.

On a more positive note, we are proud to announce that United Asset Strategies has been named one of Forbes Top 200 Wealth Advisors across the country (coming in at #182) from a field of over 11,000 advisors considered.

Reminder that October is shredding month! We have once again brought in an extra "secure" trash bin and placed it in the conference room to allow our clients access to dispose of their sensitive financial documents in a secure fashion.

Finally, income tax planning is now in full swing, and we could use your help in gathering information such as tax loss carry forwards or any other substantial changes to your tax situation, so that we can manage the tax efficiency of your accounts at United. Feel free to reach out with any questions you may have.

Respectfully submitted by the Professional Staff at United Asset Strategies, Inc.