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EYE ON THE MARKET

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COMMENTARY ON SPECIFIC MARKET ISSUES AND ACTIONABLE IDEAS TO CONSIDER

VALUE-ORIENTED INVESTING:

Just Like a Box of Chocolates

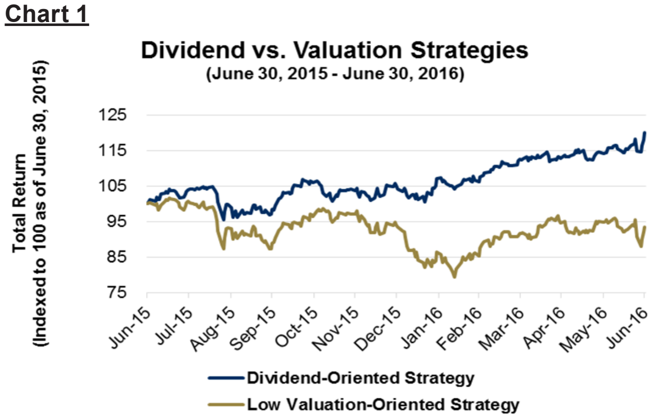
One of the most memorable lines in the 1994 film *Forrest Gump*, is "My momma always said, life was like a box of chocolates. You never know what you're gonna get." While Eye on the Market ("EOTM") does appreciate guessing whether the chocolate will be filled with nuts, caramel, or jam, I personally enjoy a more predictable path when investing. To that end, Mutual Fund Research & Marketing ("MFRM") has received numerous inquiries as to why there has been a wide dispersion of results over the trailing twelve months within value-oriented strategies. During this period, those strategies that are more dividend focused have outperformed their valuation focused peers.

RUN, FORREST! RUN!

As a brief refresher, value-oriented strategies typically invest in companies that are trading at a discount and/or are not experiencing high levels of growth. It is not essential for value-oriented companies to pay a dividend, but it is more common as compared to faster growing companies that typically reinvest profits in the company rather than pay out to shareholders.

Chart 1 clearly shows that dividend-oriented strategies outperformed valuation-oriented strategies over the last twelve months. While Forrest Gump ran for three years, two months, 14 days, and 16 hours, EOTM does not know how long this period of dividend-strategy outperformance will last. That being the case, an investor might be best served by allocating across the style spectrum, including both dividend- and low valuation-oriented portfolios.

Chart 1



Source: Morningstar Direct and Raymond James

Diversifying strategies within the same asset class might also allow investors to participate in gains, regardless of what strategy is outperforming at the time. Additionally, having a long-term focus should reduce the likelihood of making a knee-jerk reaction to short-term underperformance.

YOU'VE GOT TO PUT THE PAST BEHIND YOU BEFORE YOU CAN MOVE ON

A common mistake among investors is the "crowded trade," where investors chase securities that have most recently outperformed. Behavioral finance suggests that investors often base expectations on past experience. While following this process may work initially, eventually the trend will reverse and the investor will look for the next hot pick.

Table 1 highlights the performance of the S&P 500 for dividend-paying companies over the last 12 months and the last ten years. The highest dividend-yielding securities, included in the fourth and fifth quintiles, significantly outperformed the lower quintiles in the short term but had mixed results over the long term with the lowest dividend-yielding securities earning the most.

Table 1

Trailing Total Return (%) - as of June 30, 2016				
		S&P 500 - Dividend Quintiles	Twelve Months	Ten Years
Dividend Yield	High	Fifth Quintile	14.50	7.22
		Fourth Quintile	11.64	8.65
		Third Quintile	-1.01	8.21
	Low	Second Quintile	-5.07	3.95
		First Quintile	1.67	9.16

Source: Morningstar Direct and Raymond James

A similar theme is evidenced on Table 2, as companies with higher valuations, as measured by the price-to-earnings ratio, outperformed over the last year. Over the last 10 years, returns were more evenly distributed across quintiles. An investor who had allocated to both styles would have benefitted from diversification, as compared to an investor who only allocated to one style (past performance does not guarantee future results. There is no assurance these trends will continue.

Table 2

		S&P 500 - Price-to-Earnings Quintiles	Trailing Twelve Months	Trailing Ten Years
P/E Ratio	High	Fifth Quintile	8.61	4.06
		Fourth Quintile	11.44	7.42
		Third Quintile	7.94	8.38
	Low	Second Quintile	2.17	5.94
		First Quintile	-12.06	6.41

Source: Morningstar Direct and Raymond James. Data as of June 30, 2016.

HE'S VERY SMART, HE'S ONE OF THE SMARTEST IN HIS CLASS

Table 3 highlights the sizable total returns earned by dividend-oriented strategies with overweights to favorable sectors (circled in yellow), as well as those strategies holding sizeable allocations to unfavorable sectors (circled in red). This translated into negative returns over the last year, as exhibited on the lower portion of Table 3.

Table 3

Allocation (%) (Trailing 12 Months)			
Sector	Dividend-Oriented Strategy	Low Valuation-Oriented Strategy	Russell 1000 Value Index
Consumer Discretionary	4.41	15.45	5.26
Consumer Staples	33.26	5.00	7.05
Energy	11.20	14.09	13.11
Financials	5.29	27.69	29.50
Healthcare	11.53	10.96	11.85
Industrials	0.00	6.79	10.20
Information Technology	0.00	12.95	11.26
Materials	0.00	1.62	2.77
Telecom Services	15.10	0.81	2.61
Utilities	17.70	1.10	6.39
Total Return (%) (Trailing 12 Months)			
Sector	**Dividend-Oriented Strategy**	**Low Valuation-Oriented Strategy**	**Russell 1000 Value Index**
Consumer Discretionary	30.62	-9.80	-10.10
Consumer Staples	31.94	10.97	13.22
Energy	-1.79	-11.98	-5.15
Financials	40.23	-16.04	-4.70
Healthcare	7.28	-2.92	5.11
Industrials	0.00	6.45	8.12
Information Technology	0.00	4.77	7.16
Materials	0.00	-11.39	1.19
Telecom Services	15.50	8.51	22.27
Utilities	27.78	24.52	31.53

Source: Morningstar Direct and Raymond James. Data as of June 30, 2016.

"A common mistake among investors is the 'crowded trade,' where investors chase securities that have most recently outperformed."

AVOIDING "STUPID IS AS STUPID DOES"

If asked, an investor would likely state that he is disciplined enough to avoid the herd mentality and not buy and/or sell just as his peers were doing. For this to hold, he needs to establish what his expectations are for a given investment as well as the underlying market environment. When done effectively, this may provide him an opportunity to capitalize on the fear of others by remaining disciplined, and allows him to buy when the market is trading at a discount, or sell when it is trading at a premium. On the other hand, if he does get caught up in the prevailing market sentiment, he may be asking himself why "stupid is as stupid does."

SIDE NOTE

Tom Hanks is best known for his roles in *Big*, *Forrest Gump*, *Saving Private Ryan*, and the *Toy Story* series. Based on box office sales data, it is estimated that his films have grossed $8.58 billion worldwide as of March 29, 2016. For all of his successes in dramas, it is worth noting he was initially focused on more comedic roles, including the sitcom *Bosom Buddies* and movies such as *Bachelor Party*, *Money Pit*, and *Splash*.

Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds and ETFs before investing. The prospectus contains this and other information about mutual funds and ETFs. The prospectus is available by contacting the fund family and should be read carefully before investing.

Diversification and strategic asset allocation do not ensure a profit or protect against a loss. The process of rebalancing may carry tax consequences.

The views expressed in this newsletter are subject to change, and no forecasts can be guaranteed. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Material is provided for informational purposes only and does not constitute recommendations, investment advice or an indication of trading intent. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success.

Past performance does not guarantee future results. There is no assurance these trends will continue.

The Russell 1000 Index measures the large-cap segment of the U.S. equity universe representing approximately 92% of the U.S. market. The index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected. The index includes the largest 1000 securities in the Russell 3000.

The S&P 500 is an unmanaged index of 500 widely held stocks. It is not possible to invest directly in an index.