Altus

Wealth Management, LLC

Reaching Higher

Market & Portfolio Update

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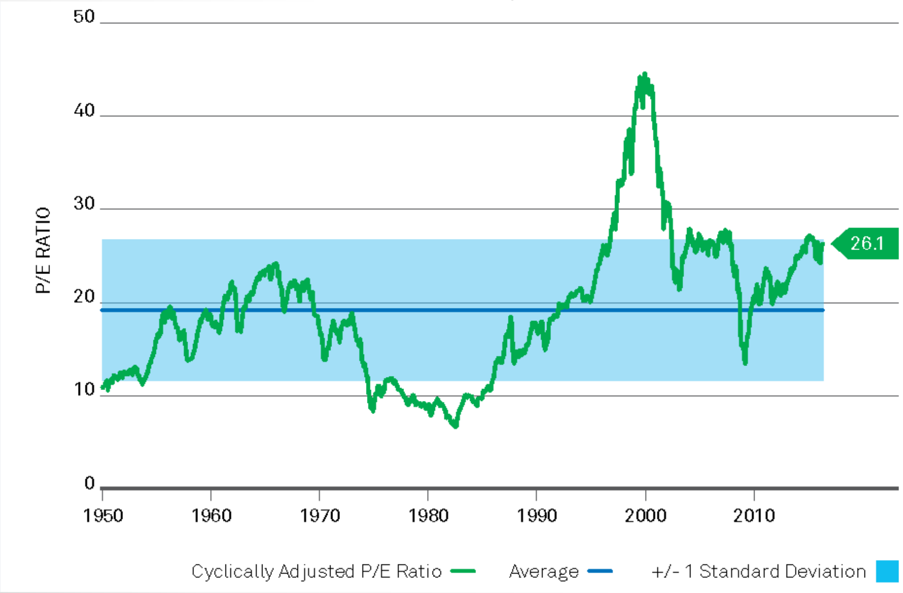
Market Update

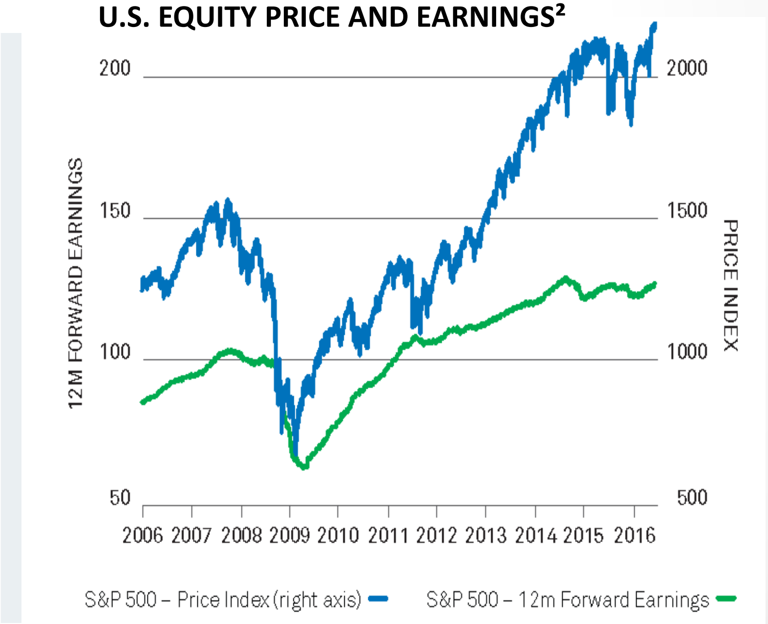
Fundamental View –

Investing is a relative game. Negative yielding foreign debt and uncertainty in global markets has led U.S and global investors into U.S. equities, especially dividend payers. This occurs against a backdrop of a U.S. economy that has been sputtering all year with mixed economic data blowing hot and cold. As the second quarter earnings announcement period wraps up, earnings have declined for the S&P 500 for five consecutive quarters, the worst such period since 2008-2009. Flat to declining earnings and rising stock prices have caused Price to Earnings (P/E) ratios to become elevated. This is known as multiple expansion. See both charts below. Typically this happens when growth, or expectations of growth, are robust. Hardly the case now.

S&P 500 CYCLICALLY ADJUSTED P/E RATIO[1]



U.S. EQUITY PRICE AND EARNINGS[2]



[1]Thomson Reuters Datastream, Robert Shiller and BlackRock Investment Institute, as of 8/31/2016. Note: The green line shows the cyclically adjusted P/E ratio, which is the price divided by the 10-year moving average of earnings.

[2]Thomson Reuters Datastream, IBES, MSCI, BlackRock Investment Institute, 8/10/16

Market Update

Fundamental View – continued

There are several different ways to measure the P/E ratio. Many analysts are now citing forward P/E ratios to justify current valuations. The current P/E expansion cycle is now one of the largest in history. Since September 2011, the S&P 500 forward P/E has grown by 73% (from 10x to 18x earnings). This expansion has only been surpassed twice since 1976, when the multiple rose by 111% from 1984-1987 and by 115% from 1994-1999. During the nine previous P/E expansion cycles, the multiple typically climbed by 50%. The S&P 500 Index now trades at a forward P/E of 17.3 times earnings, ranking in the 97th percentile since 1976.

The most common bullish argument for a continuation of the equity rally is that low interest rates support higher stock prices because historically, extended periods of falling bond yields have typically been associated with rising valuations. This is fraught with risk as forward estimates of corporate earnings also assume that everything in the world goes like roses and companies are able to actually grow earnings in 2017. This is against a backdrop where the latest read on GDP growth was revised even lower to 1.1%*

When it comes to the economy, and thus world markets, we are not “doomsayers” by any stretch of the imagination. However, reversion to the mean is a concern for us and the primary reason we remain defensively positioned. The P/E ratio ALWAYS comes back in line, either by an acceleration in corporate earnings or declining prices. We are hopeful for the former but prepared for the latter.

** U.S. Bureau of Labor Statistics*

Market Update

Technical View

Stocks have made a nice recovery since the "Brexit" vote and the volatility that ensued. In our last update we stated, "in order for the bull market to remain in tact we need to see the market take out the high water mark set in May, 2015." The S&P 500 has reached to new all-time highs ending the month of August approximately 2% higher than the previous high set on May 18, 2015. While this certainly is a positive development, overall the market has made little progress over the last 18 months. Along the way, we have also experience some rather painful volatility. We believe caution is still warranted.

Portfolio Strategy

Tactical Allocation

While still maintaining a defensive stance, we feel a pull back in stock prices to the previous highs (see chart on previous page) will provide enough support to give us an opportunity to add equity exposure to your portfolio. Considering the contentious U.S. election is less than 70 days away, we expect more volatility to come. We will continue to look for opportunities to invest the cash in your accounts, but only when the risk/reward ratio is more favorable.

We will continue to monitor and analyze all available data from both a fundamental and a technical basis to assist us in our decision making. We hope you find this information useful. As always, we encourage you to reach out to your advisor if you would like to talk further about any of the information presented.

Sincerely,
Your Altus Team

The views expressed in this material are the views of Altus Wealth Management through the period August 31, 2016, and are subject to change based on market and other conditions. This document contains certain statements that maybe deemed forward-looking statements. Please note such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

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The index comparisons in this presentation are provided for informational purposes only and should not be used as the basis for making an investment decision.

Past performance does not guarantee future results. All investments involve the risk of loss, including the possible loss of all principal invested and any return thereon.