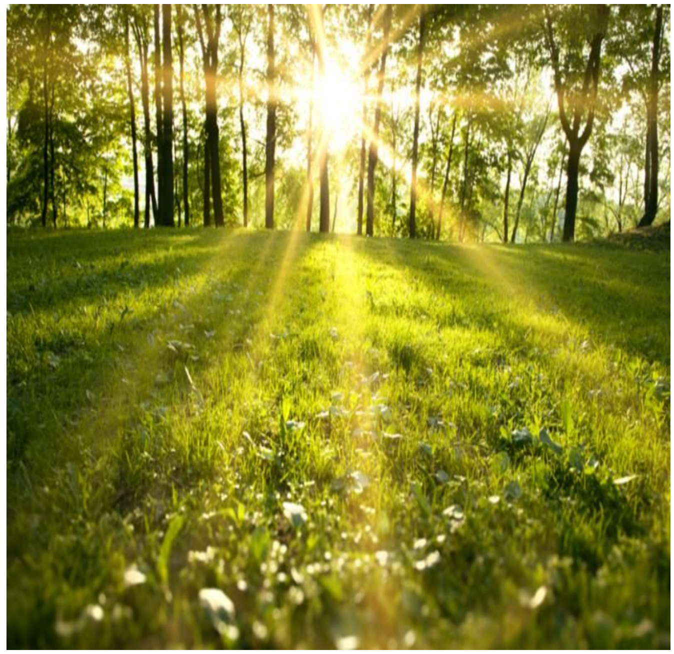
MCCARTHY GRITTINGER
FINANCIAL GROUP LLC

Economic Review and GDP Spotlight

Dear Valued Clients & Friends:



"If owning stocks is a long-term project for you, following their changes constantly is a very, very bad idea. It's the worst possible thing you can do, because people are so sensitive to short-term losses. If you count your money every day, you'll be miserable."- Daniel Kahneman

Daniel Kahneman, the winner of the Nobel Prize in Economics and author of the New York Times bestseller, *Thinking, Fast and Slow,* has helped investors better understand their thought biases in the hopes of creating a better investment experience. Even though we like to believe our decision making is rational, we are all susceptible to biases. The power lies in knowing that these biases exist.

Every day we are forced to deal with our investment biases. As we discuss later in the newsletter, we can learn to deal with our biases partly by practicing our investment routines and sticking to the core investment principles. But, first, our review of the current economy and markets.

Economic Review-GDP Spotlight

The real gross domestic product (GDP) is closely followed by the Federal Reserve Board members and is one of the four variables that is presented each quarter in their economic projections (the other three being unemployment rate, Personal Consumption Expenditure (PCE) inflation, and Core PCE inflation). GDP is an important gauge on the growth of the economy and a factor in the determination of the monetary policy instituted by the Federal Reserve. Although there is no timing strategy associated with knowing the GDP rate, investors can use this information when making other reasonable assumptions about future growth rates.

According to the U.S. Bureau of Economic Analysis (BEA), the 2015 real gross domestic product (GDP) grew at a seasonally adjusted annual rate of 2%. The latest 2016 projection numbers released last month have the median range at 2.1%. Put in context, at this time last year the Federal Reserve Board was projecting a growth rate range of 2.2% to 3.0%. Thus, growth expectations have trended down and expectations are for this growth rate to be at 2% for the foreseeable future.

The result of this low projected real GDP growth rate is interest rates should stay lower for a longer period of time. When GDP growth rate eventually increases, this will presumably create a quicker normalization of interest rates. However, this is the delicate balance that the Federal Reserve Board is trying to navigate. In other words, raise interest rates too fast before GDP growth picks up steam and they risk squashing the economic growth they are trying to encourage. It is within this context that investors are reminded of the importance of diversification. Both the fixed income (bonds and cash) and stock markets are priced according to the most probable outcome based on data currently available. To the extent this data changes, the respective markets will adjust as well. Although these low interest rates can be frustrating for savers and investor, investors need to accept them and forego adjusting their asset allocation in an attempt to market time the higher yielding assets.

2016 First Quarter Financial Review

Fixed income investments, as measured by the Barclays US Aggregate Bond Index, had the highest investment return when compared against other broad equity benchmarks. Prices on bonds by and large rose as interest rates across the US fixed income markets generally decreased during the quarter. The yield on the 10-year Treasury note declined 49 bps to 1.78%. In addition, lower credit bonds generally outperformed higher quality bonds. Within equities in US dollar terms, US large cap stocks continued to outperform US small cap stocks and international developed markets stocks. However, emerging markets stocks outperformed both the US and international developed markets.

Index Through 3/31/2016	1Q	1 YR	3 YR	5 YR
S&P 500 (large-caps)	1.35	1.78	11.82	11.58
Russell 2000 (small-caps)	-1.52	-9.76	6.84	7.20
MSCI EAFE NR USD (foreign)	-3.01	-8.27	2.23	2.29
MSCI All Country World Index (Foreign and US)	0.24	-4.34	5.54	5.22
Barclays US Aggregate Bond	3.03	1.96	2.50	3.78
*Source: Morningstar. All calculations represent total return and are annualized for periods exceeding one year.				

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns are not *representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: The S&P data is provided by Standard & Poor's Index Services Group.*

Observations-Process and Probabilities (Matt Miler)

As a coach and leader in youth activities, I find we are constantly discussing the importance of good preparation, the power of muscle memory, and trusting in the long-term process. We preach that good habits will eventually lead to success. As you can imagine, kids have difficulty seeing the long-term benefits of doing basic, routine drills at every practice or activity. They would much prefer to practice the low-probability, high-risk activities such as shooting the half-court shots they see being made on the latest ESPN highlight (*for some reason ESPN does not spend much time showing all the half-court misses for any particular night*). It is only human nature to be drawn to such low-probability, high risk achievements. Unfortunately, those highlight reel moments are not the reason teams or individuals win or lose. It is the other hundred plays, which were perfected through endless hours of routine drills that most likely determined success.

The other benefit of routines is the mental security it provides in nervous moments. We use mental exercises that help the kids stay in the moment during the game and not get caught up in winning or losing the game. If they are in the batter's box or on the free throw line, they go through their routine that they have practiced time and time again. This keeps the noise (i.e. what if I miss and what are my teammates, coaches and family going to think) from affecting their performance. Their focus is on executing the routine (**for those golfers out there see note below*).

So what does youth sports have in common with investing? Surprisingly, quite a bit as I have discovered. As investors, we too have to be continually reminded about the importance of the seemingly routine, simple process. It is not uncommon for us to read about someone who made the "half-court shot" or someone proclaiming that now is the time to get in or out of the market. If not focused on our investment routine, we can get distracted and change course at the wrong time for the wrong reasons.

As your investment advisors, we have a job similar to coaches. At McCarthy Grittinger Financial Group, we need to do the research to put a game plan in place that, if followed, allows investors to have the best probabilistic chance of success. The game plan needs to include a routine that can be understood and easily followed. Our research continually points to a routine that focuses on asset allocation, diversification, costs, and taxes as the keys to having a successful investment experience. Our hope is that this routine and process helps mitigate much of the noise that investors must encounter in their everyday lives. Individuals and "teams" will undoubtedly be tested when the stressful moments do occur and we will be there to remind you of the routine.

In Conclusion

As always, we appreciate your business and stand ready to discuss and review any changes or updates in your personal situation. If someone you know would benefit from this newsletter, please feel free to pass it along. We look forward to continuing to serve you in all of your investment and planning needs.

Your Anxiety Removal Team®

*Note: Jordan Spieth's Sunday performance on the back nine at The Masters was a great example of losing touch with the routine. Certainly easier said than done, but had he stuck to his routine there may have been a different ending to that day. What is great about Jordan is that he acknowledged the error and undoubtedly will work even harder at his routine to make sure it holds in future situations.

Scott D. Grittinger, CFP®
Matthew T. Miler, CPA, CFP®
Jacqueline A. Schneider, CFP®
Amy L. Finley
Alicia A. Nordwig, AAMS®
Robert P. Kult, CPA
Maggie Mayer
John T. McCarthy Ambassador