



Quarterly Insight

Johnson Private Client Group | Johnson Trust Company | Johnson Institutional Management

Third Quarter 2016

Market Update

Stocks and Bonds Move Higher

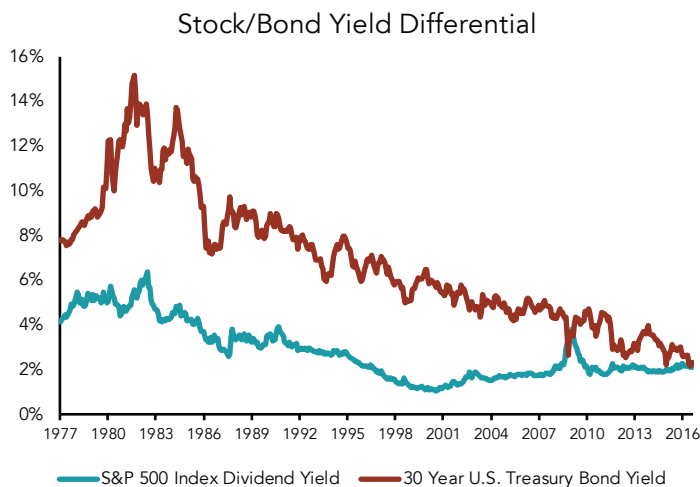
Stocks advanced around the world in the third quarter. The rally in early July was followed by a quiet two-month stretch of very low trading volume and volatility. Emerging market stocks rallied the most, gaining 9.1%. Developed market international stocks also had a great quarter, gaining 6.5%. Small and mid cap stocks outperformed large cap in the quarter, surpassing them on a year-to-date basis after falling behind earlier in the year. Bonds ended slightly higher.

Technology stocks were the best performers in the U.S. After underperforming the S&P 500 Index by 4.2% in the first half of the year, the sector outperformed by 9.0% in the third quarter. Apple, which accounts for about 16% of the sector, was a major reason for the outperformance. Introduction of the iPhone 7 drove the stock higher, outpacing the index by 15.0%. The financials sector finished second, as expectations of a rate hike later in the year led to optimism regarding bank profitability. On the other side of that coin, utilities, real estate, and consumer staples stocks were the worst performers. These

sectors have reacted negatively to expectations of higher rates, which would reduce their appeal. Real estate stocks, formerly included in the financials sector, were split out and now constitute their own sector in the S&P 500 Index.

Earnings Growth Hard to Come By

This quarter's gains came despite earnings declining on a year-over-year basis for the 6th straight quarter. The overall earnings growth figure has been dragged down by losses in the energy sector, but still highlights the weak environment in the U.S. and abroad. With earnings slowing, rising stock prices have led to higher valuations. At higher valuations, investors prefer to see better earnings and sales growth to justify further gains. However, for others, attractive dividend yields have been enough incentive to



Source: Bloomberg

Featuring

- > Market Update
pages 1 & 2
- > Cybersecurity
- > *Barron's* Ranks JIC #12
in the Nation
page 3
- > JIC News
page 4

TOTAL RETURNS

	3Q2016	2016
S&P 500	3.9%	7.8%
Dow Jones Industrial Average	2.8%	7.2%
NASDAQ	10.0%	7.2%
Russell 2000	9.0%	11.4%
MSCI EAFE (International)	6.5%	2.1%
Barclays Aggregate Bond Index	0.5%	5.8%



► Market Update (continued from page 1)

continue buying stocks. Investors unsatisfied with the low yields on bonds have been looking for more income. As the nearby chart demonstrates, bond yields have fallen so much that the yield on the 30-year U.S. Treasury bond fell below that of the S&P 500 Index. In some cases, investors have been buying stocks that pay big dividends despite little or no earnings growth. Some of these stocks have expensive valuations as a result. One risk to the stock market is if bond yields begin to rise, investors may choose to sell these stocks in favor of bonds.

Federal Reserve Holds Steady

The September meeting of the Federal Reserve (Fed) ended in familiar fashion. The committee voted to hold interest rates steady, buying additional time to validate the improvement in the domestic economy. In taking no action the Fed also avoided surprising the market on the eve of the election. While the outcome was unsurprising, the vote count and the press conference held by Janet Yellen afterward gave some clues about the current thinking. The Fed has been hesitant to increase rates, fearing it could stunt the economy's growth. However, more members of the committee are ready to make another move, surmising that the persistently-low level of interest rates is becoming counterproductive. For now market odds favor a December rate increase, but the Fed continues to stress it will depend on the most recent readings on the strength of the economy.

The Fed meeting also highlighted the downward shift in expectations among committee members for the level at which interest rates will peak. Historically, as the economy recovered from a slowdown and entered the expansion phase, the Fed would gradually raise the Fed Funds rate. Then, as the economy showed signs of slowing, the Fed would begin to lower rates. The point at which the Fed Funds rate peaks is referred to as the terminal rate. In recent history, the terminal rate has been between 4% and 5%. This time around, expectations are lower. The recent meeting shed light on where committee members expect the terminal rate to be in this cycle, and the consensus is somewhere around 3%. This demonstrates the slow, shallow nature of the current economic recovery. It is also evidence of the Fed's acceptance of a persistently-weak global economic environment.

Calls for Fiscal Stimulus Grow

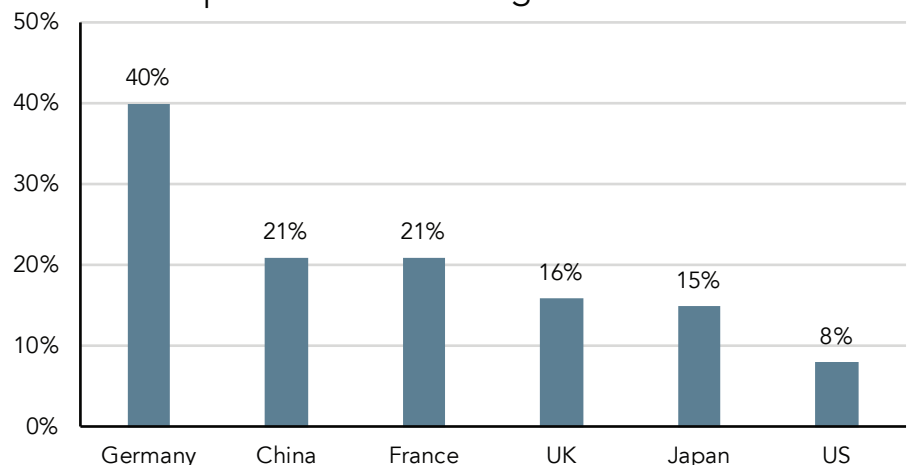
The Fed has been under the microscope since 2008, but investors have also been heavily focused on the Bank of Japan and the European Central Bank. Each continues to struggle to stoke faster growth. In Japan and Europe their efforts have failed to move the needle much. Both economies are anemic, leading to calls for more impactful

solutions. One such solution being suggested is more fiscal stimulus. Fiscal stimulus refers to efforts by governments, not central banks, to boost the economy in more direct fashion. The presidential campaign in the U.S. has drawn some attention to this concept. Both candidates have called for increased infrastructure spending, which in theory leads to more jobs and industrial activity. Other forms of increased spending or tax cuts are being proposed as well.

Global Trade in Focus

Trade policy is another economic topic that has drawn attention in this election cycle. The candidates have different ideas, but their ability to implement their plans depends in part on the outcome of congressional elections. Globalization has for many years been viewed by a majority of voters as a positive force that has fostered growth at home and abroad. However, not everyone has been convinced, and in this election cycle there is more negative rhetoric surrounding free trade than in past cycles. As a result, the election outcome could likely impact the way the

Exports as a Percentage of 2015 GDP



Source: International Monetary Fund

U.S. does business with the rest of the world. Still, the U.S. relies less on trade than most other nations, with exports representing less than 10% of GDP.

Political uncertainty has been a drag on confidence and growth at home and abroad. Brexit negotiations continue in Europe, and Election Day in the U.S. is only a month away. The uncertainty of both of these outcomes, along with upcoming elections in other countries, leaves investors waiting and watching. Investors and business leaders are more confident in making decisions when they have more visibility of the political landscape. The removal of the uncertainty at least partially explains why stock markets have often reacted favorably in the wake of elections.

► Cybersecurity: Protecting Your Identity, Your Data, and Your Assets

Cybercrime has become one of the most significant threats to our society. High-profile data breaches are frequently in the news, affecting some of the nation's largest companies. Many dread having their identity stolen, but sadly identity theft is the fastest growing crime in America today. According to the Bureau of Justice Statistics, more than 17 million people were victims of identity theft in 2014. The amount of money stolen in the past six years totals \$112 billion. The average loss per incident is just shy of \$5,000. Adding insult to injury, the amount of time and energy spent undoing the damage is enormous.

Cybercrime takes on many forms, but 70% of cyberattacks use some combination of phishing and hacking. Email account takeover is one of the most common tactics of fraudsters and is frequently used to solicit funds from financial institutions. Fraudsters use other tactics, such as malware, credential replay, social engineering, call forwarding, and spoofing, to name a few.

As unsettling as the situation may be, fortunately there are many ways to take action to protect yourself from the threat. By taking preemptive action and remaining vigilant, you can reduce the probability of loss from such attacks.

What Can You Do?

Most confirmed data breaches were made possible by weak, default, or stolen passwords. Using strong passwords is the first line of defense against identity theft. A strong password contains 8-12 characters, upper and lowercase letters, numbers, and symbols. Using unique passwords for each account is an added layer of protection. It's also good to change your passwords every 90 days, even when not required to do so. Additionally, don't use information that can be easily guessed about yourself (like your birthday), and don't share your passwords with others. If the option is available, use two-factor authentication, which makes it much more difficult for hackers to compromise.

In addition to using strong passwords, only use wireless networks you trust, and be cautious about using public computers. Be careful about what software you download. Understand that secure websites start with "https," not "http." Log out completely when finished using a website. Hover over questionable links to reveal the actual website destination. Always be careful about what websites you visit and what emails you open, and limit the information you share online and via social media. Finally, keep your equipment and anti-virus software up to date.

Keeping watch over bank and credit card statements is critical. Review them regularly to look for any suspicious activity. Never transfer personal or account information via email or text, and don't respond to requests for personal information via email or unknown incoming caller.

What Does Johnson Investment Counsel Do?

We take cybersecurity and all forms of fraud prevention seriously. We have a comprehensive cybersecurity program, and we frequently test and review our systems, policies, and procedures to ensure the integrity of our defenses. We make it a priority to raise awareness among employees, training and educating all of our people to defend against fraud. We also thoroughly vet all staff and vendors prior to engaging them to ensure the safety of sensitive information. We pride ourselves on providing excellent client service, and protecting your information and assets is a critical part of our job.



Barron's Ranks JIC #12 in the Nation

We are excited to share the news that *Barron's*, the country's leading financial industry magazine, has ranked Johnson Investment Counsel 12th among all independent advisory firms in the U.S.

This award puts us in rare company, as there were only 20 firms selected. The ranking is based on stringent criteria including assets under management, client retention, and various factors that reflect the firms' ability to provide broad and consistent services to clients. It's gratifying to be recognized in this way, and we believe this ranking reflects the trust our clients have placed in us for over 50 years.

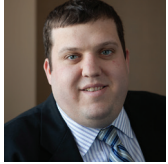


New CFA Charterholders and Promotions

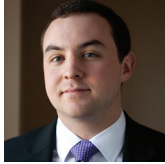
Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. We are pleased to announce that Alex Bey, Max Monk, and Aliya Riddle recently passed the Level III exam of the Chartered Financial Analyst (CFA) Program.

The CFA designation is globally recognized and attests to a charterholder's success in a rigorous and comprehensive study and testing program in the field of investment management and research analysis. JIC currently has a total of 33 CFA Charterholders on staff.

In addition to the new designations, we are pleased to announce that Alex, Max, and Aliya have been promoted to Associate Portfolio Manager. These new roles reflect their ability, expertise, and commitment to serving people.



Alex Bey



Max Monk



Aliya Riddle

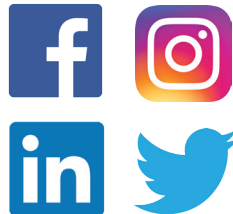
JIC Gets Social

We are excited to announce that JIC has joined Facebook, Twitter, Instagram, and LinkedIn. We invite you to follow us to receive useful information, glimpses into our culture and community involvement, and company news. Thanks for joining us on this new journey.

Let us know what you'd like to see on JIC's social media accounts. Email socialmedia@johnsoninv.com with your thoughts.

Follow or Like us on:

- > Facebook - @johnsoninv
- > Instagram - @johnsoninvestmentcounsel
- > LinkedIn - Johnson Investment Counsel
- > Twitter - @johnsoninv



2016 Patrick Chong Memorial Scholarships

Johnson Investment Counsel established the Patrick Chong Memorial Scholarship in remembrance of Patrick Chong, a Portfolio Manager Assistant at JIC, who died of colon cancer in 2002 at the age of 31. JIC annually awards two \$2,500 academic scholarships to children of our employees. This year, we are pleased to honor two outstanding students: Matthew Cornell and Elisabeth Stanis. Matthew is the son of Portfolio Manager Jeff Cornell and his wife Monica. He plans to attend the University of Dayton and major in Engineering. Elisabeth is the daughter of Portfolio Manager Michael Stanis and his wife Jennifer. Elisabeth will be attending DePaul University and major in Animation.



Matthew Cornell, Jason Jackman, and Elisabeth Stanis

Offices

Cincinnati
3777 West Fork Road
Cincinnati, OH 45247
Tel: 513.661.3100
Tel: 800.541.0170
Fax: 513.661.3160

Columbus
100 E. Broad Street, Ste 2300
Columbus, OH 43215
Tel: 614.365.9103
Tel: 866.365.4523
Fax: 614.365.9943

Dayton
40 North Main Street, Ste 2110
Dayton, OH 45423
Tel: 937.461.3790
Tel: 800.851.9114
Fax: 937.461.2969

About Us

Johnson Investment Counsel, Inc. is Ohio's largest independent wealth management firm, managing over \$8 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs and more. Johnson Investment Counsel has built strong, long-term relationships with individuals and families, charitable organizations, foundations and corporations through three divisions: Johnson Private Client Group, Johnson Trust Company, and Johnson Institutional Management.

Divisions

- Johnson Private Client Group
- Johnson Trust Company
- Johnson Institutional Management

Services

- Stock Portfolios
- Bond Portfolios
- Balanced Portfolios
- Integrated Wealth Management
- Trust Accounts
- Pension & Profit Sharing Plans
- Individual Retirement Accounts
- 401(k) Plans
- Foundations
- Endowments
- Johnson Mutual Funds
- Johnson Charitable Gift Fund



www.johnsoninv.com