Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

5177 Richmond Avenue, Suite 700
Houston, Texas 77056

Phone: (713) 599-1777
Toll free: (877) 599-1778
Fax: (713) 599-1811
www.goodmanfinancial.com

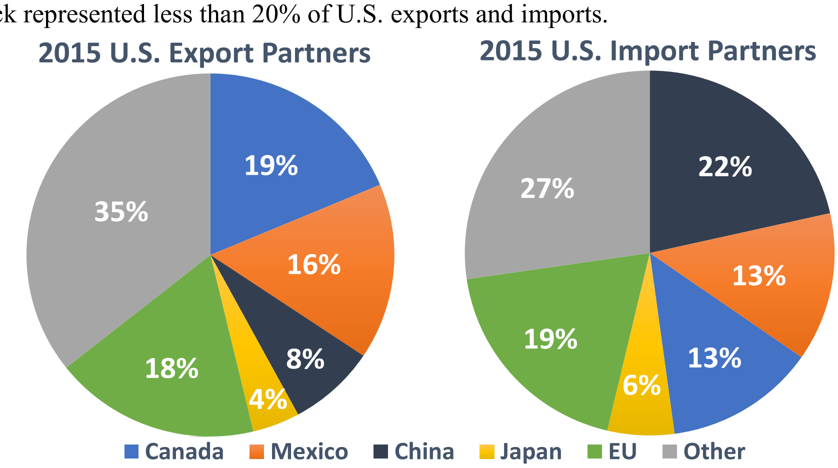
SECOND QUARTER 2016 MARKET & ECONOMIC REVIEW

Major Equity Market Indices: Second Quarter 2016

		Second Quarter 2016*				
Index	Description	3/31/16	High	Low	6/30/16	QTD Return
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	17,685.09	18,096.27	17,140.24	17,929.99	↑ 1.38%
S&P 500	A market-capitalization weighted index of the 500 largest U.S. companies.	2,059.74	2,119.12	2,000.54	2,098.86	↑ 1.90%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	4,869.85	4,974.64	4,594.44	4,842.67	↓ -0.56%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies.	16,758.67	17,572.49	14,952.02	15,575.92	↓ -7.06%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	836.80	855.38	783.21	835.43	↓ -0.16%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom.	337.54	350.75	308.75	329.88	↓ -2.27%

* Excludes effects of dividends — Sources: YCharts, MSCI.com, MarketWatch.com

- U.S. markets faired well relative to the rest of the world. The Nasdaq suffered from its overweighting in tech stocks.
- The Stoxx Europe 600 fell 10.9% in the two trading days following the Brexit vote, yet it ended the quarter down only 4.8% from the close of the market on the day of the Brexit vote.
- The Nikkei ended the furthest down of the indices shown here due to a strengthening yen and a stagnant economy. Yields on Japanese government debt were pushed further into negative territory as the country struggles to promote investment. Japan’s GDP growth has been subdued for 20 years. Further complicating matters is the recent strengthening of the yen as investors buy it as a safe haven currency. This pushes up its value, making Japanese exports more expensive and ultimately slowing economic growth.
- Investors’ fear about Britain and the EU’s future is understandable though somewhat inflated, likely due to the media’s coverage of Brexit. While the U.S.’s geopolitical relationship with Europe is crucial, it is important to note that North America and Asia are more prominent as it relates to trade. In 2015 China, Mexico, Canada, and Japan combined to account for 47% of exports and 54% of imports. On the other hand, the U.K. and Germany, the U.S.’s largest European trading partners, each contributed less than 6% to imports and less than 4% to exports. These numbers are similar to South Korea’s value of trade with the U.S. The entire 28-country EU block represented less than 20% of U.S. exports and imports.



Source: U.S. Dept. of Commerce

Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

5177 Richmond Avenue, Suite 700
Houston, Texas 77056

Phone: (713) 599-1777
Toll free: (877) 599-1778
Fax: (713) 599-1811
www.goodmanfinancial.com

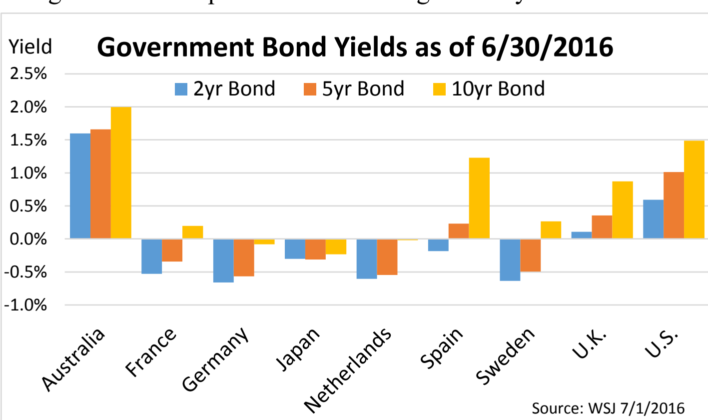
SECOND QUARTER 2016 MARKET & ECONOMIC REVIEW

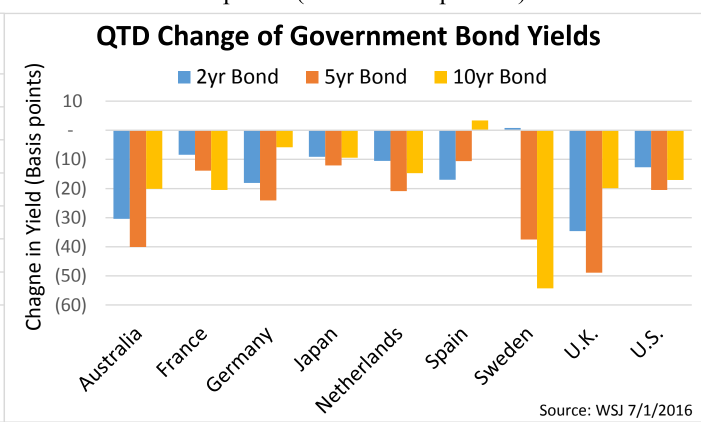
Fixed Income: Second Quarter 2016

	Second Quarter 2016				52-Week Range		
Description	3/31/16	6/30/16	in Basis Points*	Description	6/30/16	Low	High
90 Day Treasury Bill	0.21%	0.26%	↑ 5	Federal Funds Rate Target	0.25-0.50%	0.00%-0.25%	0.25%-0.50%
10 Yr. Treasury Note	1.78%	1.49%	↓ -29	Prime Rate (U.S.)	3.50%	3.25%	3.50%
30 Yr. Treasury Bond	2.61%	2.30%	↓ -31	LIBOR (3-Month)	0.65%	0.28%	0.69%
15 Yr. Mortgage Rate	2.98%	2.78%	↓ -20	5-Year CD	1.23%	1.21%	1.53%
30 Yr. Mortgage Rate	3.71%	3.48%	↓ -23	HELOC ($30,000)	4.76%	4.29%	5.01%

* One basis point is equal to 1/100th of 1%, or 0.01% Sources: Wall Street Journal & YCharts

- Fixed income prices have increased virtually across the board—recall that bond yields and prices move inversely to each other. This market condition generally translates into good news for borrowers and lowered yields for investors.
- The 10-year U.S. treasury bond set an all-time low at the end of the quarter yielding just 1.49%. This time last year, it yielded 2.35%, and at the end of 2015, it yielded 2.27%. Subsequent to the end of the quarter, the yield has continued to fall.
- Due to concerns about the pace of economic growth, skittish markets, the fallout of Brexit, and various economic indicators being only marginally improved, an increase in the Fed Funds Rate of more than 0.25% during 2016 appears unlikely.
- Central banks' quantitative easing programs and investors searching for safety are driving down yields on government bonds. The charts below give a look into the sovereign debt markets. Already low yields continue to sink. Accounting for inflation, nominally positive rates below about 2% may effectively be negative depending on the maturity of the bond.
- The chart below on the left shows the yields of 2-, 5-, and 10-year bonds of select developed countries. The chart below on the right shows the quarter-to-date change in the yields of those bonds in terms of basis points (1/100th of a percent).





- Corporate bond yields across all ratings and maturities have similarly fallen along with government bonds.
- An index compiled by Bank of America Merrill Lynch of all dollar-denominated, BBB-rated corporate bonds of any maturity issued in the U.S. indicates a composite yield of 3.44%. This is near the lowest reading in the 20 years of the index.
- Investors in shorter-term maturity BBB-rated bonds have recently had to settle for yields-to-maturity around 2%. Longer-maturity bonds are less attractive in this environment as their yields do not offset the risk associated with an extended maturity. Bonds rated A– and above provide even less attractive yields.

Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

5177 Richmond Avenue, Suite 700
Houston, Texas 77056

Phone: (713) 599-1777
Toll free: (877) 599-1778
Fax: (713) 599-1811
www.goodmanfinancial.com

SECOND QUARTER 2016 MARKET & ECONOMIC REVIEW

Economic Indicators: Second Quarter 2016

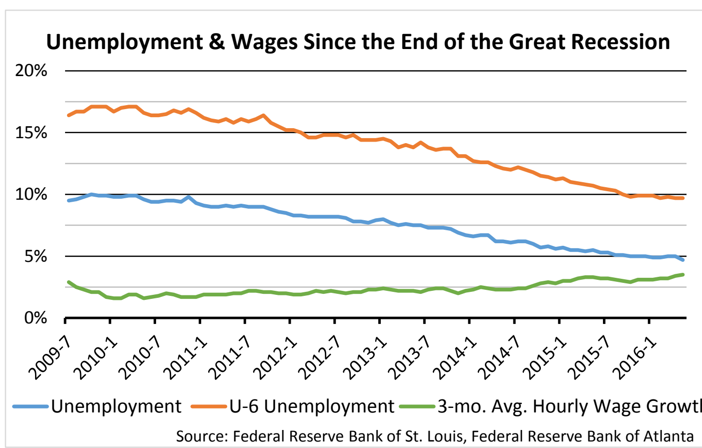
Indicator	Description	3/31/16	6/30/16	QTD Change
Average Weekly Initial Claims for Unemployment Insurance	The number of new filings for unemployment insurance benefits. **An increase in the number of claims suggests some layoffs.** *Most economists believe claims below 300,000 indicate a healthy labor market environment.*	266,000	270,000	↑ 1.50%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. **The unemployment rate has decreased during the quarter.**	5.00%	4.90%	↓ -10 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Average weekly earnings slightly increased. This suggests more disposable income for consumers.**	$875	$881	↑ 0.63%
Index of Consumer Confidence	This index reflects consumer attitudes towards the state of the economy. **Consumer confidence finished the quarter up, a positive sign for the economy.**	96.2	98.0	↑ 1.87%
Manufacturers' New Orders for Consumer Goods and Materials (Millions) *	The number of new orders placed for consumer goods. **More new orders indicates higher demand for consumer goods in the near term.**	$181,543	$183,279	↑ 0.96%
Manufacturers' New Orders for Nondefense Capital Goods, Excluding Aircraft (Millions) *	This index is the producer's counterpart of new orders of consumer goods and materials. **New orders for nondefense capital goods decreased during the quarter, suggesting lower demand for durable goods.**	$63,109	$62,407	↓ -1.11%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Capacity utilization ticked down slightly, suggesting some slow down in demand.**	75.10%	74.80%	↓ -30 bps

*These items are as of May 31, 2016, the date of the most recently published statistics

Sources: YCharts, Federal Reserve Bank of St. Louis, The Conference Board

U.S. Economic Health

Since the Great Recession ended, the U.S. economy has been slow to recover. A common refrain heard in the media is that what recovery there has been has benefited "the 1%." There is nothing inherently wrong about the wealthy doing well, but there is something positive to be said about the working class in particular seeing similar prosperity. This is because the working class, for whom hourly wage earners serve as a proxy, tend to be those on the lower end of the economic scale. These individuals tend to spend (as opposed to save or invest) more per dollar of income on consumer goods than those making a higher income. The reason this is an important factor in our recovery is because the U.S. is a consumer economy. The chart on the right shows that over the last 18 months, there has been a meaningful recovery in terms of both general employment and in the wages of hourly workers.



Unemployment has recently fallen below 5% for the first time since 2007. U-6 unemployment, which is the unemployment rate plus those who desire to work but who have not looked for jobs in the past 4 weeks and those who work part-time but desire full-time employment, as shown by the orange line has fallen below 10%. That's a material improvement, but it's still above pre-recession levels dating back to 2004. The difference is explained by people dropping out of the labor force. While the labor participation rate is not itself improving, the tightening of the labor market has proven to be a positive for those still in it.

Wages for hourly employees are increasing at an increasing rate, as depicted above by the green line. This is generally a sign of an improving economy. Employees are finally able to exercise some negotiating power and employers are finally able to make investments in talent. Far from being a call to redistribute wealth directly, this is a sign that markets are working and that businesses are feeling at least somewhat secure in the recovery.