

Investment Review

The Episcopal Diocese of Vermont

June 30, 2019

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Quarterly Performance Summary

The Episcopal Diocese Unit Fund gained 5.76% in the second quarter, resulting in investment gains of \$1,618,264. This compares very favorably to the basic benchmark return of 3.94% and the alternative (customized) benchmark return of 3.77%. This outperformance was largely driven by exceptional results from the large company US stock exposure, which gained 7.92% during the quarter compared to the Standard & Poor's 500 return of 4.30%.

For the first six months of the year, the Unit Fund gained 16.34%, or \$4.1 million. Again, this is very favorable compared to the basic benchmark, which gained 14.49%, and the alternative (customized) benchmark, which gained 13.22%. The large company US stock exposure gained 21.51% on a year-to-date basis compared to the Standard & Poor's 500 return of 18.54%.

During the quarter, Abbvie was sold and Medtronic was purchased in its place. Additional changes to the portfolio during the quarter included a reduction of foreign stock exposure, a reduction in gold exposure, a reduction in exposure to Voyager Therapeutics, the addition of a preferred stock position, increases in the Apple position, and the introduction of Berkshire Hathaway. Lastly, in early April, we sold calls against the large Apple exposure to generate additional return.

Investment Return Summary

Due to the IPS change in March 2016, periods beginning prior to 3/31/16 do not reflect current investments and are omitted.

Second Quarter 2019

March 31, 2019 Value:	\$27,201,033
Net Cash Flows:	(\$173,000)
Investment Gain:	\$1,618,264
June 30, 2019 Value:	\$28,646,297

Second Quarter Return:	5.76%
Basic Benchmark Return:*	3.94%
Alternative Benchmark Return:*	3.77%

Year-to-Date Period (12/31/2018 - 06/30/2019)

Investment Gain:	\$4,100,156
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Year-to-Date Return:	16.34%
Basic Benchmark Return:*	14.49%
Alternative Benchmark Return:*	13.22%

One-Year Period (06/30/2018 - 06/30/2019)

Investment Gain:	\$2,876,317
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One-Year Return:	10.50%
Basic Benchmark Return:*	10.10%
Alternative Benchmark Return:*	8.27%

*The Basic Benchmark is weighted to the Standard & Poor's 500 Index and the Bloomberg Barclays US Aggregate Bond Index based on the actual portfolio allocation. The Alternative Benchmark is weighted among the Standard & Poor's 500 Index, the Bloomberg Barclays US Aggregate Bond Index, the Russell 2000 Index, the MSCI EAFE Index, the Bloomberg Barclays US Intermediate Credit Index, the Bloomberg Barclays US 1-3 Year Government/Credit Index, the Citi 1-Month Treasury Bill Index, the S&P GSCI Gold Spot Index, and the PHLX Gold & Silver Index based on the actual portfolio allocation.

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Account Activity Summary

Due to the IPS change in March 2016, periods beginning prior to 3/31/16 do not reflect current investments and are omitted.

	Second Quarter	YTD	One-Year	Three-Year	Five-Year	Ten-Year
Beginning Market Value	\$27,201,033	\$24,858,729	\$26,791,955	\$23,972,231	-	-
Contributions						
Parish Deposits	\$172,030	\$348,454	\$389,971	\$1,378,710	-	-
Withdrawals						
Parish Withdrawals	(\$2,637)	(\$26,668)	(\$104,894)	(\$800,081)	-	-
Parish Dividends	(\$296,260)	(\$581,083)	(\$1,162,355)	(\$3,372,004)	-	-
Foreign Taxes Withheld	(\$4,045)	(\$5,977)	(\$9,544)	(\$28,642)	-	-
Management Expenses	(\$42,089)	(\$47,314)	(\$135,153)	(\$454,162)	-	-
Net Cash Flows	(\$173,000)	(\$312,588)	(\$1,021,974)	(\$3,276,179)	-	-
Income						
Interest / Dividends	\$215,415	\$465,370	\$889,376	\$2,170,681	-	-
Gains (Losses)	\$1,402,849	\$3,634,787	\$1,986,941	\$5,779,564	-	-
Total Earnings	\$1,618,264	\$4,100,156	\$2,876,317	\$7,950,244	-	-
Ending Market Value	\$28,646,297	\$28,646,297	\$28,646,297	\$28,646,297	-	-
Portfolio Return (Gross of Fees)	5.91%	16.51%	10.99%	10.60%	-	-
Management Expenses	-0.147%	-0.165%	-0.472%	-1.585%	-	-
Portfolio Return (Net of Fees)	5.76%	16.34%	10.50%	10.02%	-	-
Basic Benchmark Return	3.94%	14.49%	10.10%	10.40%	-	-
Alternative Benchmark Return	3.77%	13.22%	8.27%	9.07%	-	-

Parish Deposits: The total amount deposited by the parishes for investment into the Unit Fund subaccounts.

Parish Withdrawals: The total principal amount withdrawn by the parishes from the Unit Fund subaccounts.

Parish Dividends: The total Unit Fund dividends paid directly to the parishes and not reinvested or used for loan repayment.

Foreign Taxes Withheld: The total foreign income taxes automatically withheld on dividends paid by non-US companies.

Management Expenses: The total expenses paid by the Unit Fund for investment, accounting, account maintenance, statement preparation, and reporting purposes. The percentage is calculated as the expense amount divided by the beginning value.

Interest / Dividends: The total interest and dividends generated by the investments of the Unit Fund.

Gains (Losses): The total rise or fall of the market value of the investments in the Unit Fund.

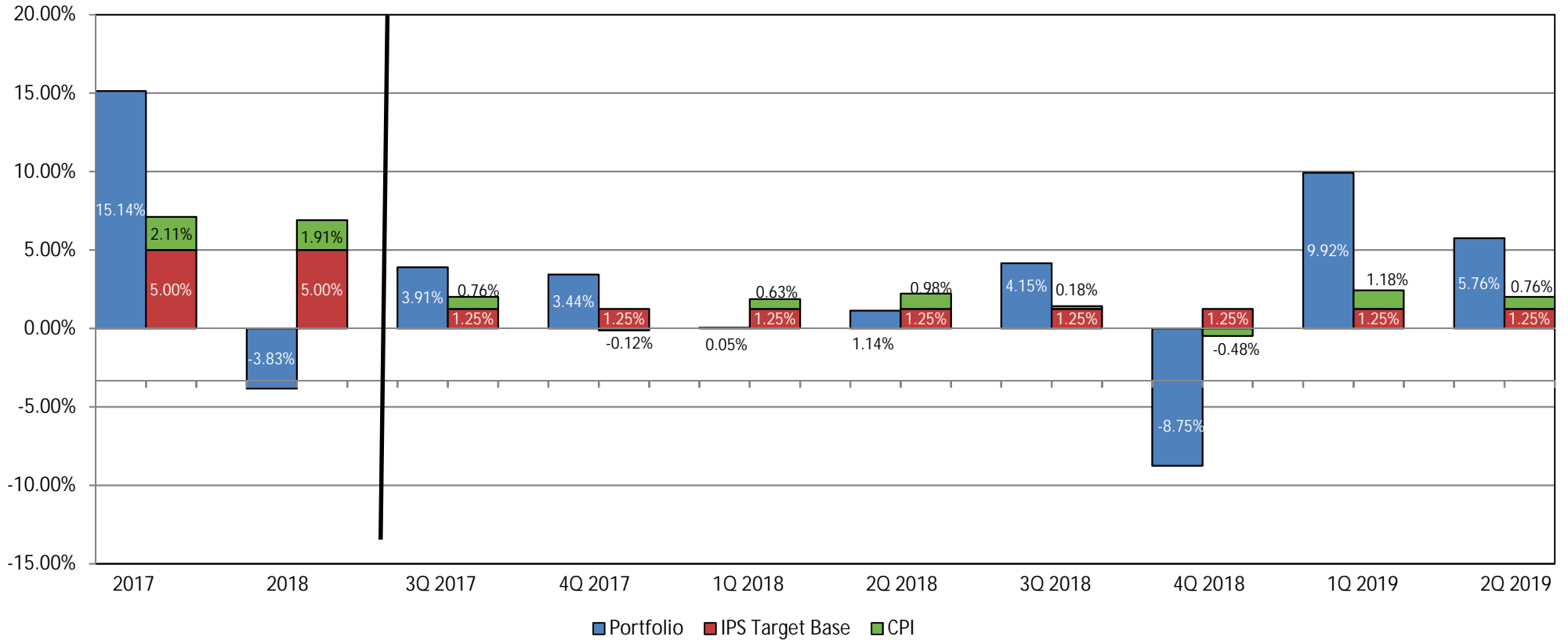
Portfolio Return: The time-weighted rate of return earned by the Unit Fund investments before (gross) and after (net) the management expenses are deducted.

*The Basic Benchmark is weighted to the Standard & Poor's 500 Index and the Bloomberg Barclays US Aggregate Bond Index based on the actual portfolio allocation. The Alternative Benchmark is weighted among the Standard & Poor's 500 Index, the Bloomberg Barclays US Aggregate Bond Index, the Russell 2000 Index, the MSCI EAFE Index, the Bloomberg Barclays US Intermediate Credit Index, the Bloomberg Barclays US 1-3 Year Government/Credit Index, the Citi 1-Month Treasury Bill Index, the S&P GSCI Gold Spot Index, and the PHLX Gold & Silver Index based on the actual portfolio allocation.

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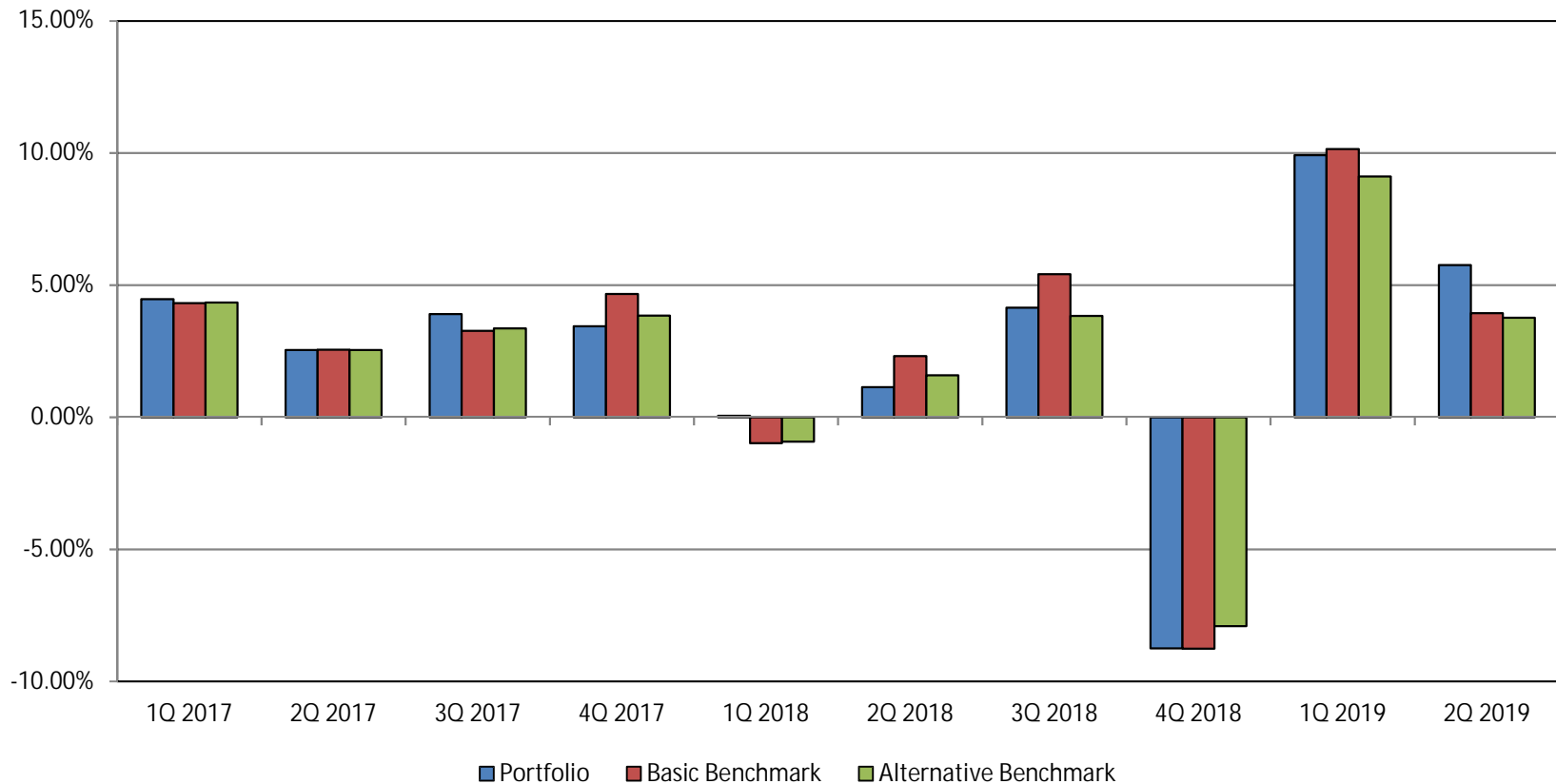
Quarterly Portfolio and IPS Target Returns

The IPS changed in March 2016. Periods prior to 3/31/16 reflect the former investment strategy.



The IPS Target Return is comprised of the quarterly non-seasonally-adjusted (NSA) CPI + 1.25%. This equates to an annual target return of CPI + 5%. The CPI figure is not available until the 15th of the month or later. Portfolio returns are calculated net of fees. This report is not a replacement for the official customer account statements from Raymond James or other custodians. Investors are reminded to compare the findings in this report to their official customer account statements. In the event of a discrepancy, the custodian's valuation shall prevail. This data is furnished to you as a courtesy and for informational purposes only. This report may include assets that the firm does not hold on your behalf and which are not included on the firm's books and records. Although this data is derived from information which we believe to be accurate (including, in some cases information provided to us by you) we cannot guarantee its accuracy. This information is not intended and should not be used for any official tax, lending, legal, or other non-financial planning purposes and should not be relied upon by third parties. Performance data quoted represents past performance and does not guarantee future results. The investment return and principal of an investment will fluctuate so that an investor's shares when redeemed may be worth more or less than the original cost. The values represented in this report may not reflect the true original cost of the client's initial investment. Please contact your financial representative if there has been a change in your investment objectives, special restrictions, or financial circumstances.

Comparative Returns for the Last 10 Quarters

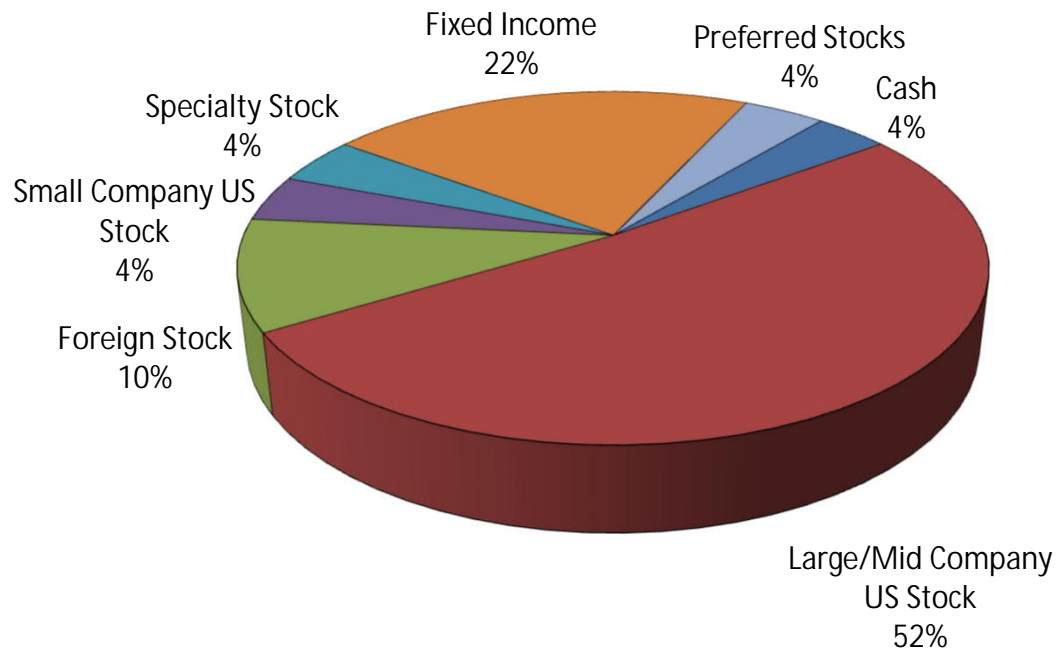


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Portfolio Allocation

(70% Equities, 30% Fixed Investments)



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GLOBAL MARKET OBSERVATIONS

Quarterly Economic & Market Commentary
Q2 2019

Taylor Krystkowiak, Investment Strategy Analyst

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RAYMOND JAMES

DOMESTIC MARKETS



The American stock market reached new all-time highs in the wake of thawing trade tensions and dovish monetary policy. Shaking off fears of a looming recession and slowing job growth, the economy appears poised to continue its expansion. However, headwinds remain. Corporate confidence has waned and profits have begun to plateau.

Getting Ahead of Itself?
Page 4

EMERGING MARKETS



Turkey has been buffeted by economic malaise and political pandemonium for much of the past year. In yet another shock, Murat Çetinkaya, the governor of the country’s central bank, has been sacked by President Recep Tayyip Erdoğan. This risks exacerbating an already precarious currency crisis.

Those Responsible Have Been Sacked
Page 6

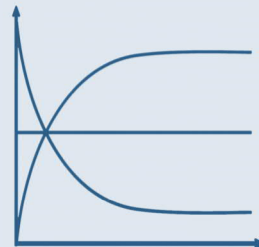
DEVELOPED MARKETS



UK Prime Minister Theresa May has resigned her post, triggering a battle of succession which has injected yet more uncertainty into the already muddled Brexit process. Meanwhile, the EU is also on a collision course with Italy regarding the latter’s budget and burgeoning public debt. Another showdown between Brussels and the populists appears ever more likely.

Much Ado About Nothing
Page 5

CREDIT MARKETS



Relative to its stance a year ago, the Federal Reserve has come full circle and become decidedly dovish. Equity, bond, and currency markets have quickly priced in the effect of lower rates. At this point, any surprises or delays in cutting rates would likely prove to be a significant upset to markets.

The Doves Come Home to Roost
Page 7

ASSET CLASS RETURNS OVER Q2 2019 (%)

GLOBAL MARKET OBSERVATIONS – Q2 2019

Returns for Key Indices – Trailing 12 Months and the Second Quarter of 2019 – Ranked in Order of Performance (Best to Worst)

Broad Asset Class Total Returns		Domestic Equity Total Returns		S&P 500 Equity Sector Total Returns		International Equity Total Returns		Fixed Income Total Returns	
T12	Q2	T12	Q2	T12	Q2	T12	Q2	T12	Q2
U.S. Equity 8.98	U.S. Equity 4.10	Mid Growth 13.94	Mid Growth 5.40	Utilities 19.03	Financials 8.00	EM Eastern Europe 21.85	EM Eastern Europe 12.35	Long-Term Bond 13.82	Long-Term Bond 6.59
Global Real Estate 8.10	Blended Portfolio 3.61	Large Growth 11.56	Large Growth 4.64	Real Estate 16.80	Materials 6.31	EM Latin America 18.45	Europe ex-UK 5.82	Emerging Mkt Bond 11.68	Emerging Mkt Bond 4.36
U.S. Fixed Income 7.87	U.S. Fixed Income 3.08	Large Blend 10.02	Large Blend 4.25	Cons Staples 16.39	Info Tech 6.06	U.S. Large Cap 10.42	Pacific ex-Japan 5.16	Credit 10.34	Credit 4.27
Blended Portfolio 7.78	Non-U.S. Equity 2.98	Large Value 8.46	Mid Blend 4.13	Info Tech 14.34	Cons Disc 5.28	Pacific ex-Japan 8.06	EM Latin America 4.44	Aggregate Bond 7.87	Global Bond ex-U.S. 3.42
Cash & Cash Alternatives 2.30	Cash & Cash Alternatives 0.61	Mid Blend 7.83	Large Value 3.84	Comm. Serv. 13.66	Comm. Serv. 4.49	Europe ex-UK 3.39	U.S. Large Cap 4.30	High Yield 7.48	Aggregate Bond 3.08
Non-U.S. Equity 1.29	Global Real Estate 0.11	Mid Value 3.68	Mid Value 3.19	Health Care 12.99	S&P 500 4.30	Emerging Markets 1.21	Developed Markets 3.68	Treasury 7.24	Treasury 3.01
Commodities -6.75	Commodities -1.19	Small Growth -0.49	Small Growth 2.75	Industrials 10.43	Cons Staples 3.72	Developed Markets 1.08	Japan 1.02	Municipal 6.71	U.S. Tips 2.86
		Small Blend -3.31	Small Blend 2.10	S&P 500 10.42	Industrials 3.57	United Kingdom -2.05	United Kingdom 0.91	MBS 6.22	High Yield 2.50
		Small Value -6.24	Small Value 1.38	Cons Disc 10.17	Utilities 3.48	EM Asia -2.29	Emerging Markets 0.61	Agency 6.13	Agency 2.32
				Financials 6.31	Real Estate 2.46	Japan -4.19	EM Asia -1.25	U.S. Tips 4.84	Municipal 2.14
				Materials 3.20	Health Care 1.38			Short-Term Bond 4.27	MBS 1.96
				Energy -13.25	Energy -2.83			Global Bond ex-U.S. 4.10	Short-Term Bond 1.48
								T-Bill 2.30	T-Bill 0.61

BEST
↑
↓
WORST

Assume all asset classes are U.S. unless otherwise noted | Data as of 06/30/2019 | Ranked in order of performances (best to worst)

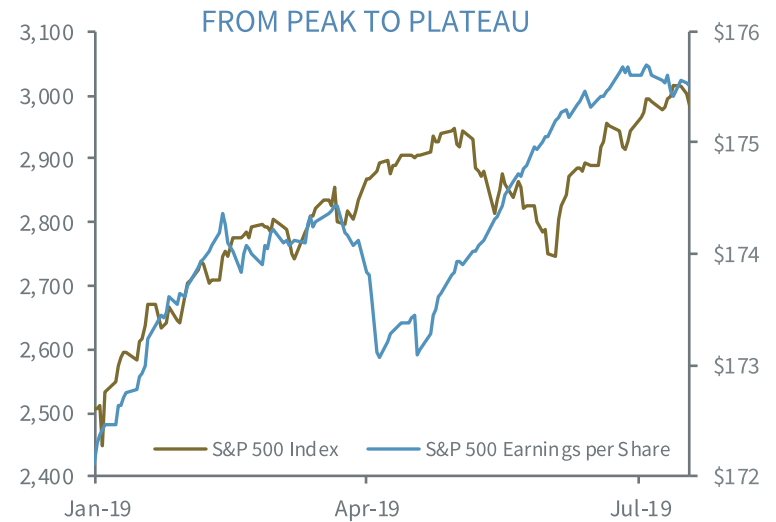
All investing involves risk and you may incur a profit or a loss. Past performance is not a guarantee of future results. This material is for informational purposes only and should not be used or construed as a recommendation regarding any security. Indices are unmanaged and cannot accommodate direct investments. An individual who purchases an investment product which attempts to mimic the performance of an index will incur expenses such as management fees and transaction costs which reduce returns. Returns are cumulative total return for stated period, including reinvestment of dividends. Dividends are not guaranteed and a company's future ability to pay dividends may be limited. Source: Morningstar Direct

GETTING AHEAD OF ITSELF?

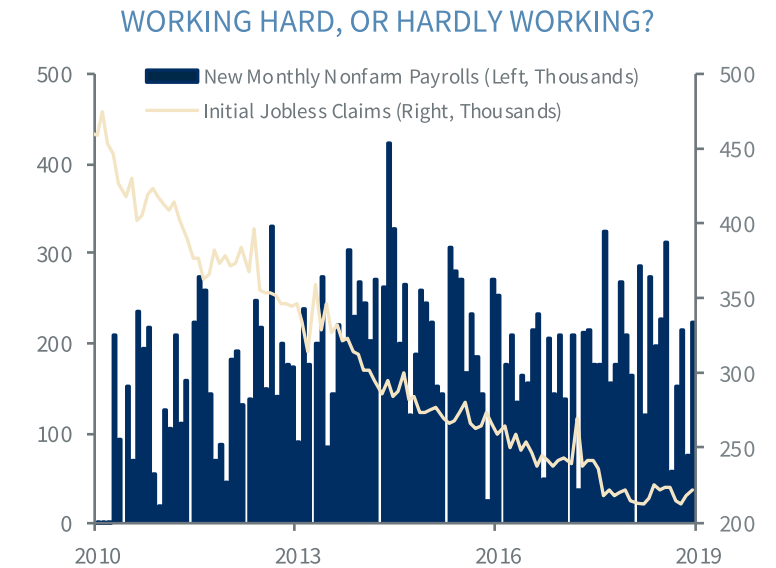
Following one of their best starts to the year, equities tumbled early in the quarter on renewed trade tensions with China. As noted by the last edition of this quarterly commentary, uncertainty surrounding the trade war between the U.S. and China had not been fully quelled, despite assurances from Treasury Secretary Steven Mnuchin that the two countries were close to a deal (see *Mnuchin on the Minutia*, Q2 2019 Global Market Observations). On May 5, President Trump threatened to place yet more tariffs on the remaining balance of imports from China (valued at over \$300 billion) to the tune of 25%. Markets promptly sold off on the news. In June, preliminary estimates from the Bureau of Labor Statistics showed that the U.S. economy only added 75,000 jobs in May, far below the consensus forecast of 180,000. This further fueled fears that the trade war was taking a greater toll than otherwise expected. Given that the current economic expansion has grown long in the tooth (and is now the longest on record) with over nine years of uninterrupted job growth and the lowest number of jobless claims in half a century (see chart), many investors began worrying that a recession was drawing closer.

Yet, such fears were promptly allayed by a flurry of factors. Following his earlier threats, Mr. Trump changed his tack with China. He announced that he would hold off on implementing further tariffs and that the two were back on track to resume talks ahead of the G20 summit at the end of June. At the summit, a face-to-face meeting between Mr. Trump and Chinese President Xi Jinping ultimately yielded a tentative truce and an agreement to restart negotiations. While the two countries remain far apart on the terms of a final deal, markets nevertheless heralded the news as positive progress. Additionally, the Federal Reserve (Fed) conveyed it would be more accommodative in setting future monetary policy, including its willingness to cut interest rates (see p. 7, *The Doves Come Home to Roost*). As measured by the S&P 500, this lifted equities to new all-time highs.

However, headwinds remain. Earnings have begun to plateau and are projected to decline relative to previous quarters (see chart). Broad corporate confidence has waned significantly. Many executives reference the protracted trade war with China as their top concern. While the U.S. and China may have agreed to an armistice, tariffs are still in effect and continue to impact supply chains and the global economy as a whole (see p. 8, *Focus on the Fallout*). As was the case in April, time will tell whether the market has gotten a bit too far ahead of itself.



Source: FactSet as of 07/15/2019



Source: U.S. Bureau of Labor Statistics as of 07/15/2018

MUCH ADO ABOUT NOTHING

After a protracted parley with Parliament over her beleaguered Brexit deal, UK Prime Minister Theresa May announced that she would resign as head of government, sparking a battle of succession. The leading candidate to succeed her is Boris Johnson, the former foreign secretary. However, he has infused yet more uncertainty into the already massively muddled mess that is Brexit. Mr. Johnson has built his appeal on delivering Brexit by its new October 31 deadline, with or without a deal and irrespective of the cost. “Do or die” has become his preferred byword. He hopes to either renegotiate the terms of the deal with the EU secured by Mrs. May (a scenario which the EU has already ruled out) or, barring a deal, continue a free-trade arrangement with the EU under the auspices of World Trade Organization (WTO) rules (a scenario deemed infeasible by both the UK trade secretary and the head of the WTO). Barring either scenario, Mr. Johnson seems content to proceed with a no-deal Brexit, an outcome Parliament has vehemently opposed. Given that Mrs. May’s successor will assume office on July 23, there will not be much room to maneuver before the October 31 deadline. The pound has continued to fall against the dollar as the Brexit process drags on with ever less clarity (see chart).

Meanwhile, the continent has problems of its own apart from Brexit. Matteo Salvini, Italy’s populist deputy prime minister, and his *Lega Nord* party have continued to enjoy ever increasing support, much to the chagrin of the EU establishment. The grand coalition of the European People’s Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D), which together have dominated the European Parliament since its inception, lost their long-held majority in the most recent parliamentary elections held in May. While populists like Mr. Salvini and Britain’s Nigel Farage (leader of the UK Independence Party) made significant gains, neither garnered enough seats to command a majority. Suffice to say, the balance of power has shifted in Brussels. This division was evident during the selection of the new presidents of the European Commission (the EU’s top executive) and the European Central Bank. After multiple failed nominations, Ursula von der Leyen and Christine Lagarde emerged as compromise candidates for each respective post. Both will be faced with keeping an increasingly fragmented EU together, and Italy tops the list of its most pressing problems. As was the case last year, Italy’s burgeoning debt and widening fiscal deficits put it on yet another direct collision course with Brussels. Italian bond yields have since fallen since the last budgetary fallout with the EU (see chart). However, it remains to be seen whether Rome will find common ground with Brussels, which will necessitate either Mr. Salvini and his government pushing through unpopular budget reforms (including cuts to entitlements and/or tax increases) or the EU making concessions on its stringent budgetary mandates. Yet, as with Brexit, so far there has been much ado about nothing.

RACE TO THE BOTTOM



Source: FactSet as of 07/15/2019

PAX ROMANA?



Source: FactSet as of 07/15/2019

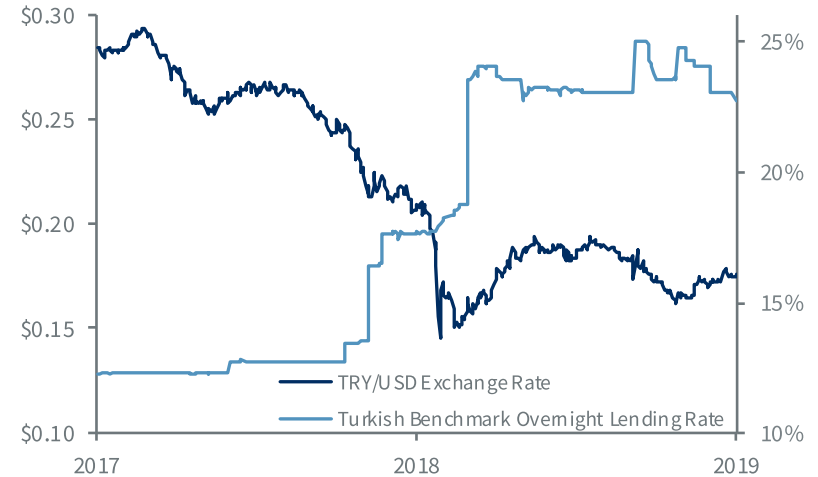
THOSE RESPONSIBLE HAVE BEEN SACKED

In an apparent culmination of an economic crisis years in the making, Turkish President Recep Tayyip Erdoğan has sacked Murat Çetinkaya, the governor of the country’s central bank. Amongst emerging markets, no country (save perhaps Argentina) has been buffeted by the same economic malaise and political pandemonium that has plagued Turkey. Though its financial markets were some of the highest fliers in 2017 (returning over 22%), Turkey’s performance and economic expansion were underpinned by an inherently unstable and unsustainable foundation: easy money.

Unfettered access to cheap capital, abetted in part by low interest rates set by Turkey’s central bank at the behest of Mr. Erdoğan, fueled a ballooning current account deficit. When foreign investor confidence waned and their flows of capital began to dry up, Turkey’s currency, the lira, plummeted and prices spiked (see charts). Given that many Turkish firms had taken loans denominated in foreign currencies, the fall in the lira made servicing such debts exponentially more expensive. This, in turn, spurred ‘stagflation,’ a crisis characterized by both economic stagnation and high inflation. Given the challenges posed by crippling inflation and a collapsing currency, Mr. Çetinkaya stood firm in his conviction that setting high interest rates (a conventional monetary maxim) would ballast Turkey’s economy, stabilize the lira, and quell the country’s rapidly rising prices. As expected, a high benchmark lending rate set by the central bank shored up the lira and tamed inflation from a high of 25% to 16%.

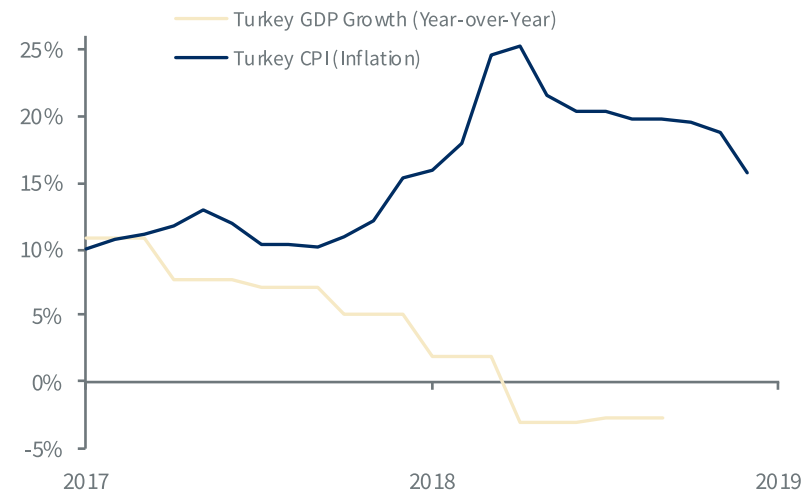
Yet, Mr. Erdoğan remained unsatisfied. As had been the case throughout his long tenure in office, the Turkish president once again took to meddling in monetary policy. Convinced that lowering interest rates would precipitate a fall in inflation, Mr. Erdoğan sacked Mr. Çetinkaya for his refusal to lower the benchmark lending rate. Mr. Erdoğan now risks reigniting yet another currency crisis. The lira fell substantially on the news. Should Mr. Çetinkaya’s successor cave to pressure from Mr. Erdoğan, rate cuts are likely to precipitate further plunges. Should this come to pass, those responsible for the sacking may very well be sacked themselves, either by investors or voters at the next election.

CURRENCY CHAOS



Source: FactSet as of 07/15/2019

BREAKDOWN AT THE BOSPHORUS



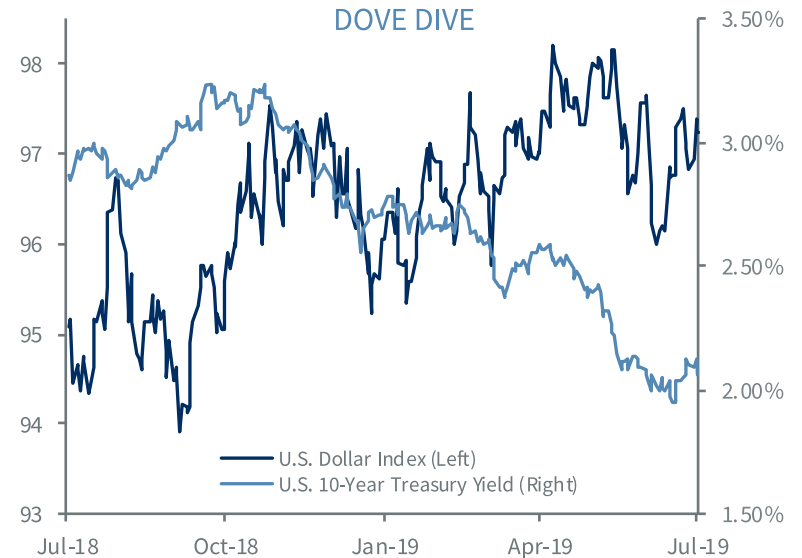
Source: FactSet as of 07/15/2019

THE DOVES COME HOME TO ROOST

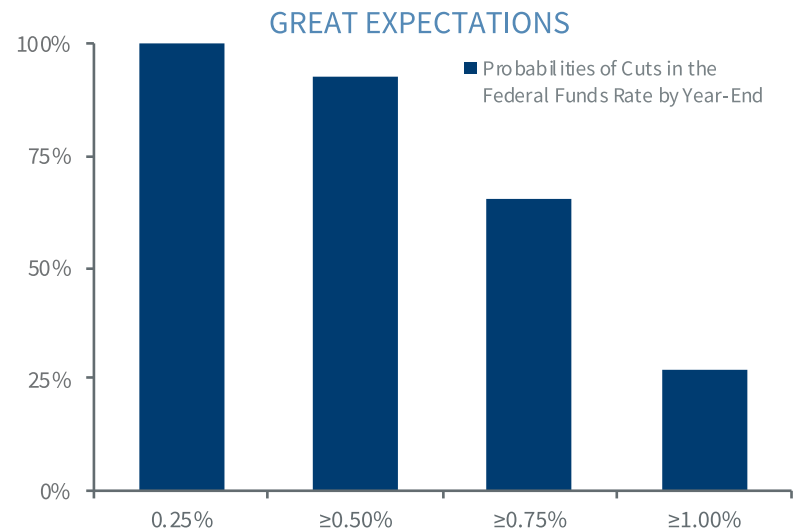
Relative to its stance a year ago, the Federal Reserve (Fed) has come full circle. Where it had once been markedly hawkish in calling for multiple interest rate hikes in 2019, the Fed has since turned decidedly dovish. Recent messaging from the Fed and its chairman, Jerome Powell, has signaled that economic weakness abroad and the continued fallout of the yet unresolved trade war between the U.S. and China have prompted the central bank to consider cutting its benchmark lending rate. Though no cut has yet taken place, equity, bond, and currency markets were quick to price in the effect of lower rates; stocks soared to new all-time highs while bond yields and the value of the dollar fell (see chart). Markets figure that, by year-end, there is now a 100% probability that the Fed will cut rates by 0.25% and a 90% chance that the Fed will cut rates by 0.50% or more (see chart). Most believe these cuts will be announced during the Federal Open Market Committee’s (FOMC) next two meetings in July and September. Given that investors have largely priced in the expectation of these future cuts, any surprises or delays in cutting rates would likely prove to be a significant upset to markets.

Yet the Fed is not just under pressure from great market expectations. Breaking with long-standing tradition set by former U.S. presidents who refrained from meddling in matters of monetary policy, President Donald Trump has taken to openly and publicly criticizing Fed policy. Not unlike Turkish President Erdoğan (see p. 6, *Those Responsible Have Been Sacked*), Mr. Trump believes interest rates have been much too high. While Mr. Trump stopped short of sacking Mr. Powell (though he was rumored to have previously explored the possibility), such political incursions into the otherwise technocratic domain of monetary policy bear mentioning. Even so, the Fed has continued to fiercely defend its independence in setting policy.

This dovish tilt by the Fed and its increasing amenability to accommodative monetary policy has brought the central bank back in sync with its peers. Mario Draghi, the president of the European Central Bank (ECB), reiterated the central bank’s commitment to the continuation of accommodative policy. Though he is due to vacate his post soon, Christine Lagarde, the former head of the International Monetary Fund (IMF) and Mr. Draghi’s successor, is expected to maintain the ECB’s dovish approach. For now, the doves appear to have come home to roost.



Source: FactSet as of 07/15/2019



Source: CME Group as of 07/15/2019

FOCUS ON THE FALLOUT

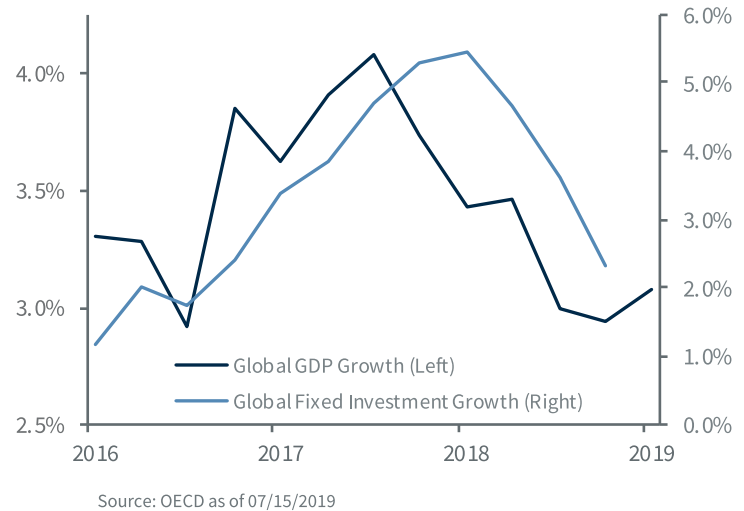
Exogenous factors often move markets. U.S. tax cuts, Brexit, and the Federal Reserve (Fed) are prominent recent examples. Yet, rarely have global financial markets traded with such a singular focus for such a sustained period of time. Trade has become the Trump administration’s preferred theatre of engagement and the application of tariffs has been its rallying cry. Global financial markets have watched the escalation of trade tensions from the edge of their seats. In short, trade has been the largest source of volatility-inducing uncertainty. Most all selloffs and rallies since 2018 have been triggered by the announcement or abatement of tariffs. Most recently, markets jumped following a commitment by Presidents Trump and Xi to restart trade negotiations at the recent G20 summit (even though both countries remain far apart on the terms of a deal). Even in the event that the U.S. and China are able to strike a deal that would end their openly hostile trade war, it will not erase the lasting economic effects caused by the sustained use of tariffs. The full extent of the collateral damage will not become fully apparent for some time. The Organization for Economic Cooperation and Development (OECD) has already issued warnings in its most recent economic outlook on the long-term effects of tariffs on trade volumes, business investment, and global economic growth (see charts). Suffice to say that the future focus of markets will be on the fallout, rather than the resolution, of trade tensions.

Terms like ‘nuclear option’ and ‘fallout’ are aptly applied to the current trade conflict. In many ways, trade wars and tariffs bear many similarities to nuclear reactors and radiation. Much like the global economy and financial markets, a nuclear reactor depends on proper balance. The instability inherent in today’s trade tensions is not unlike the instability inherent in the uranium fuel of a nuclear reactor. When kept in check by control rods, the reactor is able to operate without the risk of meltdown. The Fed’s recent volte-face to a more dovish stance has provided this crucial counterbalance (see p. 7, *The Doves Come Home to Roost*). However, if the instability of the uranium cannot be properly contained, the consequences can be cataclysmic. Due to its long half-life, the resulting fallout is far-reaching. The same can be said of tariffs. Much as radioactive isotopes are harmful in high dosages or over prolonged periods of exposure, so too are tariffs harmful in proportion to their magnitude and the length of time they remain in place. Averting a serious market downturn and global economic slowdown will depend upon the deescalation or prompt resolution to present trade tensions and the removal of tariffs.

CRY TARIFFS FOR TRADE...



...THE ECONOMY, AND THE GLOBE



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High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

Investing in small- and mid-cap stocks are riskier investments which include price volatility, less liquidity and the threat of competition.

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BROAD ASSET CLASSES

U.S. EQUITY | Russell 3000 Total Return Index: This index represents 3000 large U.S. companies, ranked by market capitalization. It represents approximately 98% of the U.S. equity market. This index includes the effects of reinvested dividends.

NON-U.S. EQUITY | MSCI ACWI Ex USA Net Return Index: The index is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The index includes both developed and emerging markets.

GLOBAL REAL ESTATE | FTSE EPRA/NAREIT Global Net Return Index: This index is designed to track the performance of listed real estate companies and REITs in both developed and emerging markets. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products. Prior to 2009, this asset class was represented by the NASDAQ Global Real Estate Index.

CASH & CASH ALTERNATIVES | FTSE 3 Month U.S. Treasury-Bill Total Return Index: This index is a measurement of the movement of 3-month T-Bills. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.

FIXED INCOME | Bloomberg Barclays Capital Aggregate Bond Total Return Index: This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

COMMODITIES | Bloomberg Commodity Total Return Index: The index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components). The weightings for each commodity included in the Bloomberg Commodity Index are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity. Annual rebalancing and reweighting ensure that diversity is maintained over time.

DOMESTIC EQUITY

LARGE GROWTH | Russell 1000 Growth Total Return Index: This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

MID GROWTH | Russell Mid Cap Growth Total Return Index: This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

SMALL GROWTH | Russell 2000 Growth Total Return Index: This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

LARGE BLEND | Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

MID BLEND | Russell Mid Cap Total Return Index: This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

SMALL BLEND | Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest U.S. companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | Russell 1000 Value Total Return Index: This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

DOMESTIC EQUITY (CONT.)

MID VALUE | Russell Mid Cap Value Total Return Index: This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

SMALL VALUE | Russell 2000 Value Total Return Index: This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME

AGGREGATE BOND | Bloomberg Barclays US Agg Bond Total Return Index: The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | Bloomberg Barclays US Corporate High Yield Total Return Index: The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | Bloomberg Barclays U.S. Credit Total Return Index: The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supnationals and local authorities.

SHORT-TERM BOND | Bloomberg Barclays US Govt/Credit 1-3 Yr Total Return Index: The index is the 1-3 year component of the Bloomberg Barclays U.S. Government/Credit Index. The Bloomberg Barclays U.S. Government/Credit Index covers treasuries, agencies, publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

LONG-TERM BOND | Bloomberg Barclays US Govt/Credit Long Total Return Index: The index is a measure of domestic fixed income securities, including Treasury issues and corporate debt issues, that are rated investment grade (Baa by Moody's Investors Service and BBB by Standard and Poor's) and with maturities of ten years or greater.

MBS | Bloomberg Barclays US MBS Total Return Index: The index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.

TREASURY | Bloomberg Barclays US Treasury Total Return Index: The index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

U.S. TIPS | Bloomberg Barclays US Treasury US TIPS Total Return Index: The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

GLOBAL BOND EX U.S. | Bloomberg Barclays Gbl Agg Ex USD Total Return Index: The index provides a broad-based measure of the global investment grade fixed-rate debt markets, excluding the United States. Currency exposure is hedged to the US dollar.

T-BILLS | FTSE Treasury Bill 3 Mon Total Return Index: This index is a measurement of the movement of 3-month T-Bills. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.

EMERGING MKT BOND | J.P. Morgan EMBI Plus Total Return Index: The index tracks total returns for traded external debt instruments (external meaning foreign currency denominated fixed income) in the emerging markets.

AGENCY | Bloomberg Barclays US Agency Total Return Index: The index includes native currency agency debentures from issuers such as Fannie Mae, Freddie Mac, and Federal Home Loan Bank. It is a subcomponent of the Government-Related Index (which also includes non-native currency agency bonds, sovereigns, supnationals, and local authority debt) and the U.S. Government Index (which also includes U.S. Treasury debt). The index includes callable and non-callable agency securities that are publicly issued by U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government (such as USAID securities).

FIXED INCOME (CONT.)

MUNICIPAL | Bloomberg Barclays Municipal Total Return Index: The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

INTERNATIONAL EQUITY

EMERGING MARKETS EASTERN EUROPE | MSCI EM Eastern Europe Net Return Index: The index captures large and mid cap representation across 4 Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | MSCI EM Asia Net Return Index: The index captures large and mid cap representation across 8 Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | MSCI EM Latin America Net Return Index: The index captures large and mid cap representation across 5 Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | MSCI Emerging Markets Net Return Index: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | MSCI Pacific Ex Japan Net Return Index: The index captures large and mid cap representation across 4 of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

UNITED KINGDOM | MSCI Pacific Ex Japan Net Return Index: The index captures large and mid cap representation across 4 of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

U.S. LARGE CAP | S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

JAPAN | MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | MSCI EAFE Net Return Index: This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | MSCI Europe Ex UK Net Return Index: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

EQUITY SECTORS

ENERGY | S&P 500 Sec/Energy Total Return Index: The S&P 500® Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Energy sector.

MATERIALS | S&P 500 Sec/Materials Total Return Index: The S&P 500® Materials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Materials sector.

UTILITIES | S&P 500 Sec/Utilities Total Return Index: The S&P 500® Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Utilities sector.

INFO TECH | S&P 500 Sec/Information Technology Total Return Index: The S&P 500® Info Tech Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Info Tech sector.

EQUITY SECTORS (CONT.)

CONS STAPLES | S&P 500 Sec/Cons Staples Total Return Index: The S&P 500® Consumer Staples Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

INDUSTRIALS | S&P 500 Sec/Industrials Total Return Index: The S&P 500® Industrials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Industrials sector.

HEALTH CARE | S&P 500 Sec/Health Care Total Return Index: The S&P 500® Health Care Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Health Care sector.

S&P 500 | S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

CONS DISC | S&P 500 Sec/Cons Disc Total Return Index: The S&P 500® Consumer Discretionary Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Consumer Discretionary sector.

REAL ESTATE | S&P 500 Sec/Real Estate Total Return Index: The S&P 500® Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Real Estate sector.

FINANCIALS | S&P 500 Sec/Financials Total Return Index: The S&P 500® Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Financials sector.

Appendix

Portfolio and Individual Account Investment Returns

Due to the IPS change in March 2016, periods beginning prior to 3/31/16 do not reflect current investments and are omitted.

	Market Value	Current Allocation	One-Month	Three-Month	Six-Month	YTD	One-Year	Two-Year	Three-Year	Five-Year	Seven-Year	Inception
Overall Portfolio	\$28,646,298		5.51%	5.76%	16.34%	16.34%	10.50%	9.63%	10.02%	-	-	-
Basic Benchmark*			5.32%	3.94%	14.49%	14.49%	10.10%	9.80%	10.40%	-	-	-
Alternative Benchmark*			5.45%	3.77%	13.22%	13.22%	8.27%	8.16%	9.07%	-	-	-
Individual Stock Account	\$16,466,483	57%	7.59%	7.92%	21.51%	21.51%	15.70%	14.19%	14.46%	-	-	-
Index: S&P 500			7.05%	4.30%	18.54%	18.54%	10.42%	12.37%	14.19%	-	-	-
Clarkston SMID-Cap Equity	\$3,130,205	11%	4.25%	3.13%	14.17%	14.17%	2.79%	7.45%	9.70%	-	-	-
Index: Russell 2000			7.07%	2.10%	16.98%	16.98%	-3.31%	6.62%	12.30%	-	-	-
Boston Company Int'l Equity	\$2,218,809	8%	6.16%	3.70%	13.93%	13.93%	-0.11%	4.34%	9.35%	-	-	-
Index: MSCI EAFE			5.93%	3.68%	14.03%	14.03%	1.08%	3.92%	9.11%	-	-	-
Individual Bond Account	\$6,830,801	24%	1.18%	2.58%	6.89%	6.89%	6.79%	3.21%	1.70%	-	-	-
Index: Bloomberg Barclays US Int Credit			1.49%	2.99%	6.65%	6.65%	8.23%	3.85%	3.01%	-	-	-

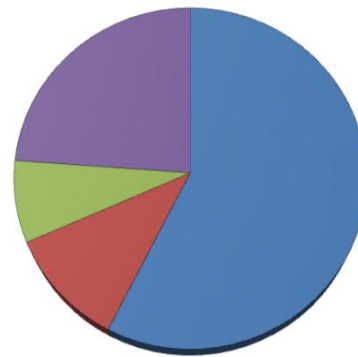
*The Basic Benchmark is weighted to the Standard & Poor's 500 Index and the Bloomberg Barclays US Aggregate Bond Index based on the actual portfolio allocation. The Alternative Benchmark is weighted among the Standard & Poor's 500 Index, the Bloomberg Barclays US Aggregate Bond Index, the Russell 2000 Index, the MSCI EAFE Index, the Bloomberg Barclays US Intermediate Credit Index, the Bloomberg Barclays US 1-3 Year Government/Credit Index, the Citi 1-Month Treasury Bill Index, the S&P GSCI Gold Spot Index, and the PHLX Gold & Silver Index based on the actual portfolio allocation.

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Investment Returns By Account

Account	Value	Weighting	Contribution to Overall Portfolio Return			
			Second Quarter	Year-to-Date	One-Year	Three-Year
Individual Stock Account (large company stocks)	\$16,466,483	57%	4.55%	12.36%	9.02%	8.31%
Clarkston SMID-Cap Equity (small/mid company stocks)	\$3,130,205	11%	0.34%	1.55%	0.30%	1.06%
Boston Company International Equity (foreign stocks)	\$2,218,809	8%	0.29%	1.08%	-0.01%	0.72%
Individual Bond Account (fixed income)	\$6,830,801	24%	0.62%	1.64%	1.62%	0.41%
Overall Portfolio	\$28,646,298		5.76%	16.34%	10.50%	10.02%

Composition by Account



- Individual Stock Account (large company stocks)
- Clarkston SMID-Cap Equity (small/mid company stocks)
- Boston Company International Equity (foreign stocks)
- Individual Bond Account (fixed income)

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INDEX DEFINITIONS

S&P 500 - an index that includes 500 leading companies in leading industries of the U.S. economy. Although the S&P 500® focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is generally considered representative of the U.S. stock market.

MSCI EAFE - an index comprised of stocks in Europe, Australasia, and the Far East and is generally considered representative of the international stock market. International investing involves special risks including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Russell 2000 - an index comprised of approximately 2,000 of the smallest companies of the Russell 3000 index (which represents the largest 3,000 companies). Small cap stocks generally involve greater risks, and therefore, may not be appropriate for every investor.

NASDAQ Composite - a market value weighted index of all common stocks listed on the NASDAQ system.

Bloomberg Barclays US Aggregate Bond - The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency).

S&P MidCap 400 - a market capitalization-weighted index composed of 400 stocks, including reinvestment of dividends, that is generally considered representative of mid-sized US companies.

S&P SmallCap 600 - a market capitalization-weighted index composed of 600 stocks, including reinvestment of dividends, that is generally considered representative of small-sized US companies.

PHLX Gold & Silver - an index comprised of thirty precious metal mining companies that are traded on the Philadelphia Stock Exchange. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

Balanced Benchmark - a calculated weighted benchmark comprised of 60% S&P 500 Index and 40% Bloomberg Barclays US Aggregate Bond Index. Inclusion of indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

SECURITIES DEFINITIONS

U.S. Government Bonds and Treasury Bills - Debt obligations issued and guaranteed by the U.S. government which, if held to maturity, offer a fixed rate of interest and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term (less than one-year) obligations of the U. S. government.

CDs - Time deposits offering FDIC insurance and a fixed rate of interest. Both principal and yield of investment securities will fluctuate with changes in market conditions. The current FDIC deposit insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Corporate Bonds - Debt obligations of the issuing corporation offering a fixed rate of interest. Both principal and yield of investment securities will fluctuate with changes in market conditions. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

INVESTMENT STYLE DESCRIPTIONS

Growth Investing - A style of investment strategy. Those who follow this style, known as *growth investors*, invest in companies that exhibit signs of above-average growth, even if the share price appears expensive in terms of metrics such as price-to-earning or price-to-book ratios.

Value Investing - A style of investment strategy from the so-called "Graham & Dodd" School. Followers of this style, known as *value investors*, generally invest in companies whose shares appear underpriced by some forms of fundamental analysis

Blend Investing - Some mutual funds invest in stocks from both the growth and the value styles. This may provide style diversification within one fund.

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Portfolio Snapshot Report

Disclosure Statement

General

Investment portfolios illustrated in this report can be scheduled or unscheduled. With an "unscheduled" portfolio, the user inputs only the portfolio holdings and their current allocations. Morningstar calculates returns using the given allocations assuming monthly rebalancing. Taxes, loads, and sales charges are not taken into account.

With "scheduled" portfolios, users input the date and amount for all investments into and withdrawals from each holding, as well as tax rates, loads, and other factors that would have affected portfolio performance. A hypothetical illustration is one type of scheduled portfolio.

Both scheduled and unscheduled portfolios are theoretical, for illustrative purposes only, and are not reflective of an investor's actual experience. For both scheduled and unscheduled portfolios, the performance data given represents past performance and should not be considered indicative of future results. Principal value and investment return of stocks, mutual funds, and variable annuity/life products will fluctuate, and an investor's shares/units when redeemed will be worth more or less than the original investment. Stocks, mutual funds, and variable annuity/life products are not FDIC-insured, may lose value, and are not guaranteed by a bank or other financial institution. Portfolio statistics change over time.

Used as supplemental sales literature, the Portfolio Snapshot report must be preceded or accompanied by the fund/policy's current prospectus or equivalent. In all cases, this disclosure statement should accompany the Portfolio Snapshot report. Morningstar is not itself a FINRA-member firm.

The underlying holdings of the portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution. Investment in securities involve investment risks including possible loss of principal and fluctuation in value.

The information contained in this report is from the most recent information available to Morningstar as of the release date, and may or may not be an accurate reflection of the current composition of the securities included in the portfolio. There is no assurance that the weightings, composition and ratios will remain the same.

Items to Note Regarding Certain Underlying Securities

A closed-end fund is an investment company, which typically makes one public offering of a fixed number of shares. Thereafter, shares are traded on a secondary market such as the New York Stock Exchange. As a result, the secondary market price may be higher or lower than the closed-end fund's net asset value (NAV). If these shares trade at a price above their NAV, they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

An exchange-traded fund (ETF) is an investment company that typically has an investment objective of striving to achieve a similar return as a particular market index. The ETF will invest in either all or a representative sample of the securities included in the index it is seeking to imitate. Like closed-end funds, ETFs can be traded on a secondary market and thus have a market price that may be higher or lower than its net asset value. If these shares trade at a price

above their NAV, they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

A money market fund is an investment company that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid securities, and pays money market rates of interest. Money markets are not FDIC-insured, may lose money, and are not guaranteed by a bank or other financial institution. Although the money market seeks to preserve a stable per share value (i.e. \$1.00 per share), it is possible to lose money by investment in the fund.

Unit investment trust (UIT) is an investment company organized under a trust agreement between a sponsor and trustee. UITs typically purchase a fixed portfolio of securities and then sell units in the trust to investors. The major difference between a UIT and a mutual fund is that a mutual fund is actively managed, while a UIT is not. On a periodic basis, UITs usually distribute to the unit holder their pro rata share of the trust's net investment income and net realized capital gains, if any. If the trust is one that invests only in tax-free securities, then the income from the trust is also tax-free. UITs generally make one public offering of a fixed number of units. However, in some cases, the sponsor will maintain a secondary market that allows existing unit holders to sell their units and for new investors to buy units.

Variable annuities are tax-deferred investments structured to convert a sum of money into a series of payments over time. Variable annuity policies have limitations and are not viewed as short-term liquid investments. An insurance company's fulfillment of a commitment to pay a minimum death benefit, a schedule of payments, a fixed investment account guaranteed by the insurance company, or another form of guarantee depends on the claims-paying ability of the issuing insurance company. Any such guarantee does not affect or apply to the investment return or principal value of the separate account and its subaccount. The financial ratings quoted for an insurance company do not apply to the separate account and its subaccount. If the variable annuity subaccount is invested in a money-market fund, although it seeks to preserve a stable per share value (i.e. \$1.00 per share), it is possible to lose money by investment in the fund.

Variable life insurance is a cash-value life insurance that has a variable cash value and/or death benefit depending on the investment performance of the subaccount into which premium payments are invested. Unlike traditional life insurance, variable life insurance has inherent risks associated with it, including market volatility, and is not viewed as a short-term liquid investment. For more information on a variable life product, including each subaccount, please read the current prospectus. Please note, the financial ratings noted on the report are quoted for an insurance company and do not apply to the separate account and its subaccount. If the variable life subaccount is invested in a money-market fund, although it seeks to preserve a stable per share value (i.e. \$1.00 per share), it is possible to lose money by investment in the fund.

Pre-inception Returns

The analysis in this report may be based, in part, on adjusted historical returns for periods prior to the fund's actual inception. These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect the fees and expenses of this share class. These fees and expenses are referenced in the report's list of holdings and again on the standardized returns page. When pre-inception data are presented in the report, the header at the top of the report will indicate this and the affected data elements will be displayed in italics.

While the inclusion of pre-inception data provides valuable insight into the probable long-term behavior of newer share classes of a fund, investors should be aware that an adjusted historical return can only provide an approximation of that behavior. For example, the fee structures between a retail share class will vary from that of an institutional share class, as retail shares tend to have higher operating expenses and sales charges. These adjusted historical returns are not actual returns. Calculation methodologies utilized by Morningstar may differ from those applied by other entities, including the fund itself.

Portfolio Snapshot Report Disclosure Statement (continued)

Scheduled Portfolio Trailing Returns

Scheduled Portfolios are customized by the user to account for loads, taxes, cash flows, and specific investment dates. Scheduled portfolios use the portfolio's investment history to calculate final market values and returns. For scheduled portfolios, both individual holding and portfolio returns are internal-rate-of-return calculations that reflect the timing and dollar size of all purchases and sales. For stocks and mutual funds, sales charges and tax rates are taken into account as specified by the user (except in the pre-tax returns, which reflect the impact of sales charges but not taxes). Note that in some scheduled portfolio illustrations, dividends and capital gains distributions, if applicable, are reinvested at the end of the month in which they are made at the month-end closing price. This can cause discrepancies between calculated returns and actual investor experience.

Scheduled Portfolio Returns-Based Performance Data

For scheduled portfolios, the monthly returns used to calculate alphas, betas, R-squareds, standard deviations, Sharpe ratios, and best/worst time-period data are internal rates of return.

Important VA Disclosure for Scheduled Portfolios

For variable annuity products, policy level charges (other than front-end loads, if input by the advisor) are not factored into returns. When withdrawals and liquidations are made, increases in value over the purchase price are taxed at the capital gains rate that currently is in effect. This is not reflective of the actual tax treatment for these products, which requires the entire withdrawal to be taxed at the income tax rate. If adjusted for sales charges and the effects of taxation, the subaccount returns would be reduced.

Scheduled Portfolio Investment Activity Graph

The historic portfolio values that are graphed are those used to track the portfolio when calculating returns.

Unscheduled Portfolio Returns

Monthly total returns for unscheduled portfolios are calculated by applying the ending period holding weightings supplied by the user to an individual holding's monthly returns. When monthly returns are unavailable for a holding (ie. Due to it not being in existence during the historical period being reported), the remaining portfolio holdings are re-weighted to maintain consistent proportions. Inception dates are listed in the Disclosure for Standardized and Tax Adjusted Returns. Trailing returns are calculated by geometrically linking these weighted-average monthly returns. Unscheduled portfolio returns thus assume monthly rebalancing. Returns for individual holdings are simple time-weighted trailing returns. Neither portfolio returns nor holding returns are adjusted for loads or taxes, and if adjusted for, would reduce the returns stated. The returns stated assume the reinvestment of dividends and capital gains. Mutual fund returns include all ongoing fund expenses. VA/VL returns reflect subaccount level fund expenses, including M&E expenses, administration fees, and actual ongoing fund level expenses.

Unscheduled Portfolio Investment Activity Graph

The historic performance data graphed is extrapolated from the ending portfolio value based on the monthly returns.

Benchmark Returns

Benchmark returns may or may not be adjusted to reflect ongoing expenses such as sales charges. An investment's portfolio may differ significantly from the securities in the benchmark.

Returns for custom benchmarks are calculated by applying user-supplied weightings to each benchmark's returns every month. Trailing returns are calculated by geometrically linking these weighted-average monthly returns. Custom benchmark returns thus assume monthly rebalancing.

Standardized Returns

For mutual funds, standardized return is total return adjusted for sales charges, and reflects all ongoing fund expenses. Following this disclosure statement, standardized returns for each portfolio holding are shown.

For money market mutual funds, standardized return is total return adjusted for sales charges and reflects all ongoing fund expenses. Current 7-day yield more closely reflects the current earnings of the money market fund than the total return quotation.

For VA subaccounts, standardized return is total return based on its inception date within the separate account and is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administration fees, and actual ongoing fund-level expenses.

For ETFs, the standardized returns reflect performance, both at market price and NAV price, without adjusting for the effects of taxation or brokers commissions. These returns are adjusted to reflect all ongoing ETF expenses and assume reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performance quoted.

The charges and expenses used in the standardized returns are obtained from the most recent prospectus and/or shareholder report available to Morningstar. For mutual funds and VAs, all dividends and capital gains are assumed to be reinvested. For stocks, stock acquired via divestitures is assumed to be liquidated and reinvested in the original holding.

Non-Standardized Returns

For mutual funds, total return is not adjusted for sales charges and reflects all ongoing fund expenses for various time periods. These returns assume reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the mutual fund returns would be reduced. Please note these returns can include pre-inception data and if included, this data will be represented in italics.

For money market funds, total return is not adjusted for sales charges and reflects all ongoing fund expenses for various time periods. These returns assume reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the money market returns would be reduced.

For VA and VL subaccounts, non-standardized returns illustrate performance that is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administrative fees and underlying fund-level expenses for various time periods. Non-Standardized performance returns assume reinvestment of dividends and capital gains. If adjusted for the effects of taxation, the subaccount returns would be significantly reduced. Please note that these returns can include pre-inception data and if included, this data will be represented in italics.

Investment Advisory Fees

The investment(s) returns do not necessarily reflect the deduction of all investment advisory fees. Client investment returns will be reduced if additional advisory fees are incurred such as deferred loads, redemption fees, wrap fees, or other account charges.

Portfolio Snapshot Report Disclosure Statement (continued)

Investment Style

The Morningstar Style Box combines the various funds investment strategies. For the equity style box, the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth). For the fixed-income style box, the vertical axis shows the average credit quality of the bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's duration (short, intermediate, or long).

Risk and Return

Standard deviation is a statistical measure of the volatility of a portfolio's returns around its mean.

Sharpe ratio uses a portfolio's standard deviation and total return to determine reward per unit of risk.

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its beta and the actual returns of the benchmark index. Alpha is often seen as a measurement of the value added or subtracted by a portfolio's manager.

Beta is a measure of the degree of change in value one can expect in a portfolio given a change in value in a benchmark index. A portfolio with a beta greater than one is generally more volatile than its benchmark index, and a portfolio with a beta of less than one is generally less volatile than its benchmark index.

R-squared reflects the percentage of a portfolio's movements that are explained by movements in its benchmark index, showing the degree of correlation between the portfolio and a benchmark. This figure is also helpful in assessing how likely it is that alpha and beta are statistically significant.

Fundamental Analysis

The below referenced data elements are a weighted average of the equity holdings in the portfolio.

The median market capitalization of a subaccount's equity portfolio gives you a measure of the size of the companies in which the subaccount invests.

The Price/Cash Flow ratio is a weighted average of the price/cash-flow ratios of the stocks in a subaccount's portfolio. Price/cash-flow shows the ability of a business to generate cash and acts as a gauge of liquidity and solvency.

The Price/Book ratio is a weighted average of the price/book ratios of all the stocks in the underlying fund's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

The Price/Earnings ratio is a weighted average of the price/earnings ratios of the stocks in the underlying fund's portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. In computing the average, Morningstar weights each portfolio holding by the percentage of equity assets it represents.

The Price/Sales ratio is a weighted average of the price/sales ratios of the stocks in the underlying fund's portfolio. The P/S ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' revenues per share. In computing the average, Morningstar weights each portfolio holding by the percentage of equity assets it represents.

The return on assets (ROA) is the percentage a company earns on its assets in a given year. The calculation is net income divided by end-of-year total assets, multiplied by 100.

The Return on Equity (ROE) is the percentage a company earns on its shareholders' equity in a given year. The calculation is net income divided by end-of-year net worth, multiplied by 100.

Market Maturity shows the percentage of a holding's common stocks that are domiciled in developed and emerging markets.

The below referenced data elements listed below are a weighted average of the fixed income holdings in the portfolio.

The average credit quality is derived by taking the weighted average of the credit rating for each bond in the portfolio.

Average maturity is used for holdings in the taxable fixed-income category, this is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each maturity date by the market value of the security. Credit quality breakdowns are shown for corporate-bond holdings and depicts the quality of bonds in the underlying portfolio. The analysis reveals the percentage of fixed-income securities that fall within each credit-quality rating as assigned by Standard & Poor's or Moody's. (debt). This figure is not provided for financial companies.

Debt as a percentage of capital is calculated by dividing long-term debt by total capitalization (the sum of common equity plus preferred equity plus long-term debt). This figure is not provided for financial companies.

Duration is a time measure of a bond's interest-rate sensitivity.

Net Margin is a measure of profitability. It is equal to annual net income divided by revenues from the same period for the past five fiscal years, multiplied by 100.

Type Weightings divide the stocks in a given holding's portfolio into eight type designations each of which defines a broad category of investment characteristics. Not all stocks in a given holding's portfolio are assigned a type. These stocks are grouped under NA.

The below referenced data elements listed below are a weighted average of the total holdings in the portfolio.

The average expense ratio is the percentage of assets deducted each year for operating expenses, management fees, and all other asset-based costs incurred by the fund, excluding brokerage fees. Please note for mutual funds, variable annuities/life, ETF and closed-end funds we use the gross prospectus ratio as provided in the prospectus. For separate accounts and stocks we pull the audited expense ratio from the annual report.

Potential capital gains exposure is the percentage of a holding's total assets that represent capital appreciation.

Investment Risk

Market Price Risk: The market price of ETF's traded on the secondary market is subject to the forces of supply and demand and thus independent of the ETF's NAV. This can result in the market price trading at a premium or discount to the NAV which will affect an investors value.

Market Risk: The market prices of ETF's can fluctuate as to the result of several factors such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the ETF market price.

Portfolio Snapshot Report Disclosure Statement (continued)

International Emerging Market Funds/Subaccounts: The investor should note that funds and subaccounts that invest in international securities take on special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets normally accentuates these risks.

Sector Funds/Subaccounts: The investor should note that funds and subaccounts that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

Non-Diversified Funds/Subaccounts: The investor should note that funds or subaccounts that invest more of their assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

Small Cap Funds/Subaccounts: The investor should note that funds and subaccounts that invest in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of price volatility than the overall market average.

Mid Cap Funds/Subaccounts: The investor should note that funds and subaccounts that invest in companies with market capitalizations below \$10 billion involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

High-Yield Bond Funds/Subaccounts: The investor should note that funds and subaccounts that invest in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility and increased risk of default.

Tax-Free Municipal Bond Funds: The investor should note that the income from tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.