CCA Investment Update

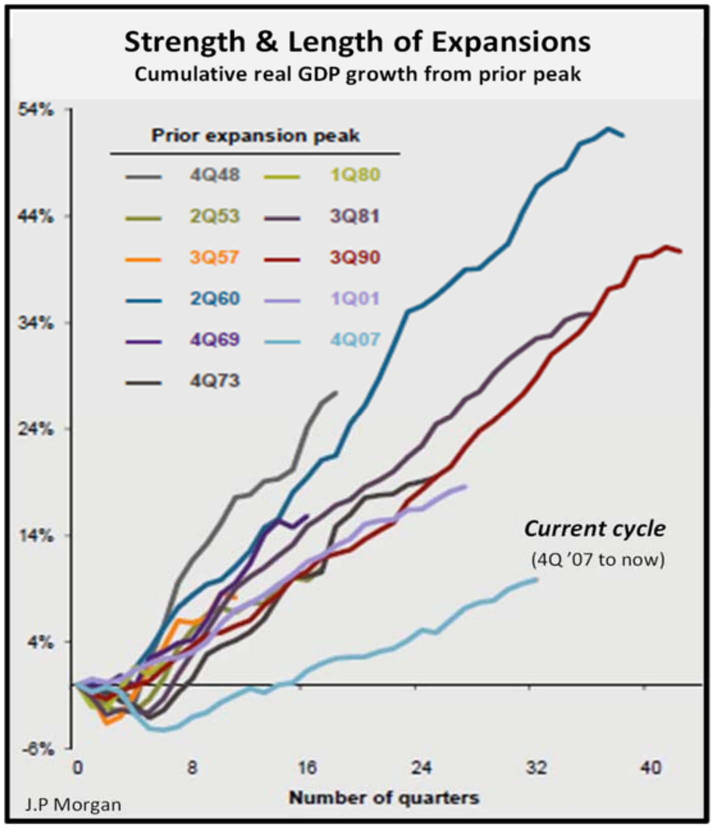
Investment Brief

April 25, 2016

COBBLESTONE CAPITAL ADVISORS, LLC

A Dramatic Start

The tumultuous opening months of 2016 have set the stage for what likely lies ahead: further sluggish growth, further gains, and further bouts of fear and volatility. Gradually improving economic conditions here and abroad should push risk assets higher, but secular headwinds, divergent Central Bank policies, and political uncertainty are likely to limit growth and buffet markets for the foreseeable future. Despite the frustratingly slow pace of the economy, the odds of recession remain very low; as evident in the adjacent chart, tortoise-like growth is contributing to tortoise-like longevity. We also expect growth overseas to remain stagnant but positive, supported by aggressive Central Bank policies. But higher valuations, occasional growth scares, political uncertainty, and on-again off-again worries about higher interest rates boost the odds that sell-offs occur with greater frequency. The quip about stocks climbing a "wall of worry" seems appropriate for the stretch ahead.



Central Banks in a Leading Role

Last quarter's early sell-off was a sharp, sudden, and jarring reminder of the impact that Central Banks can have on capital markets; the Federal Reserve's decision to boost short-term rates last December unleashed a surge in the value of the U.S. Dollar, a move that pummeled the price of oil and forced other Central Banks to adjust their own policies. Global turmoil ensued, with U.S. stocks declining nearly 20% by mid February and foreign stocks falling even further. Just as quickly, however, stocks reversed course when oil prices stabilized and the Fed backtracked on the timing and magnitude of further policy decisions. We expect Central Bank policy decisions, and their impact on interest rates and currencies, to be a major source of ongoing volatility.

A Successful Debut

Throughout the turmoil last quarter, our Recession Probability Monitor was at odds with the prevailing fear of recession, indicating instead that the expansion was likely to persist, and underpinning our view that the sell-off in risk assets was an opportunity. Our

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Total Return Ending 3/31/2016				Annualized		
	Qtr	YTD	1 Year	3 Years	5 Years	10 Years
MSCI All Country World Index	**0.24%**	**0.24%**	**-4.31%**	**5.51%**	**5.20%**	**4.06%**
Russell 3000 Stock Index	0.97%	0.97%	-0.34%	11.09%	10.97%	6.88%
S&P 500 Stock Index	**1.35%**	**1.35%**	**1.77%**	**11.76%**	**11.53%**	**6.98%**
Russell 2000 (Small Cap Stocks)	-1.52%	-1.52%	-9.69%	6.81%	7.17%	5.24%
MSCI EAFE (International Stocks)	**-3.01%**	**-3.01%**	**-8.21%**	**2.22%**	**2.29%**	**1.79%**
MSCI EMF (Emerging Markets)	5.71%	5.71%	-11.94%	-4.48%	-4.12%	3.01%
Barclays US Aggregate Index	**3.03%**	**3.03%**	**1.95%**	**2.49%**	**3.76%**	**4.88%**
FTSE NAREIT All Equity REITs	5.84%	5.84%	4.63%	9.80%	11.51%	6.49%
CPI (through February 2016)	**0.2%**	**0.2%**	**1.0%**	**0.7%**	**1.4%**	**1.9%**

2016 marks Cobblestone's 30th year serving you, our clients.

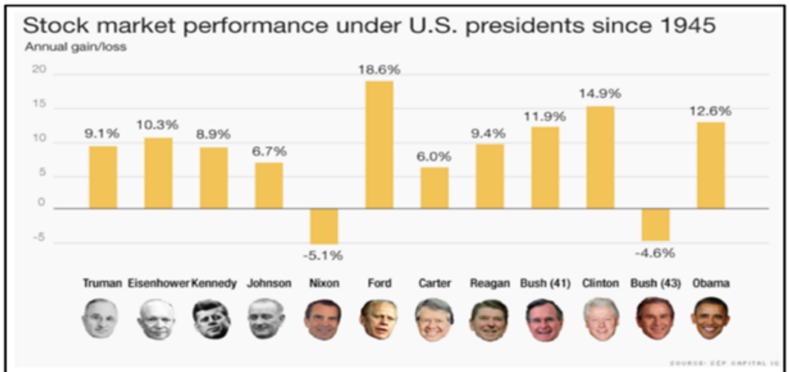
In celebration of this anniversary, and in recognition of the growth of our services, team, and clientele, we will soon be launching a new look to our materials and a new website.

You can expect to hear and see more about this in the next couple of months!

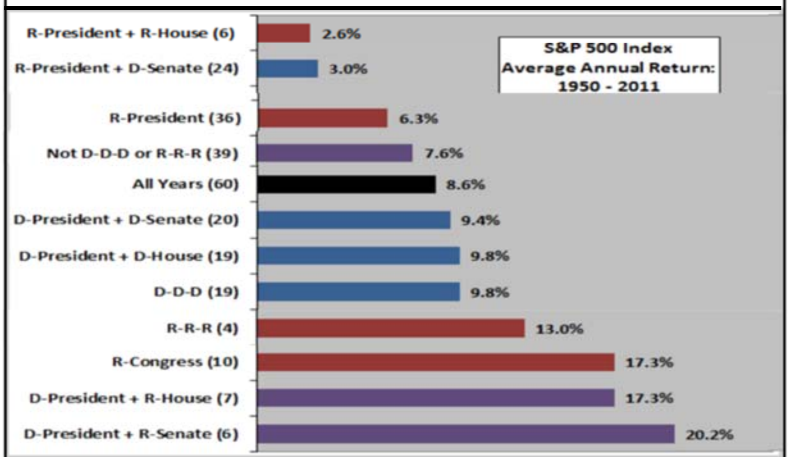
monitor tracks 6 economic and 4 financial indicators that, when combined, have done an excellent job of forecasting economic downturns. Today, it continues to indicate a very high likelihood that the expansion has further to go.

All the World's a Stage

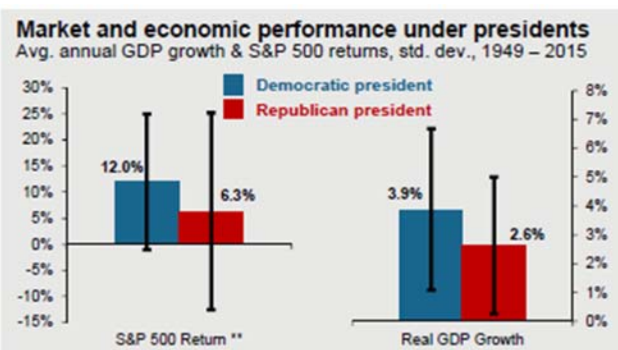
Along with further policy shifts by Central Banks, the upcoming election provides another source of considerable uncertainty. The President has begun to lean in, making the case for the status quo. And the population is deeply divided, with animosities fueled by economic stagnation and a sense that the system is not working. Of course, we're referring to the June 23 Brexit vote! The British vote to determine whether it remains a member of the European Union is, in many ways, reflective of votes and elections occurring throughout the developed world, including our Presidential election in November. Angry electorates are frustrated by post-crisis economic stagnation and the apparent inability of current politicians to make things better. Change is in the air.



Source: S&P Capital IQ



Source: CXO Advisory "Party in Power and Stock Returns"



Source: J.P. Morgan

The charts above detail the market history of past Presidential elections, with the one immediately above indicating that Democratic Presidents have enjoyed better GDP growth and better market returns than Republican Presidents during the post-war era. The stock market's performance during each of the post-war administrations is detailed in the upper right-hand chart. A more nuanced look at the data in the lower right-hand chart reveals that the very best returns occur when government is divided, perhaps because public-sector activism is limited and more centrist than otherwise is the case when one party or another holds all authority.

It seems clear that this election season is unlike any seen in recent decades and investors rightly question what impact it may have on capital markets. Our view is that it ultimately will come down to the policies actually enacted and their impact on our economy, rather than on which politician gets elected. Our baseline assumption of further, sluggish growth should support further gains. But we will be adjusting our outlook for better or worse depending upon whether the victor this November has majority support in Congress, and on whether their policies will meaningfully impact the outlook for growth, profitability, and inflation. Between now and then, we'll be watching our monitors, assessing data, and looking for new opportunities.

In Summary Continued growth in the U.S. should support equity markets. The U.S. will support sluggish economic activity overseas. Volatility will persist as doubts remain about global growth.

Asset Mix

Growth Assets - Prepared to shift lower, to normal weightings, if markets advance too rapidly. Maintain U.S. equity exposure with modest overweight to European and Pacific-Rim equities.

Capital Preservation Assets - Carry extra cash for opportunities that arise during sell-offs. Emphasize corporate & mortgage-based U.S. dollar-denominated issuers.

Inflation Protection Assets - Modestly below normal weightings. TIPs are attractively priced.