BH | *Beech Hill Advisors*

September 2016

Dear Clients,

The S&P 500 rose approximately 3.8% for the 3rd quarter of 2016 bringing the year to date return to 7.7%. US markets continue to show resilience and provide steady tempered gains, shrugging off geopolitical concerns in Syria, the threat of imminent benchmark interest rates hikes, and concerns over potential unconfined Zika outbreaks. Domestically, our ongoing economic expansion endures with positive employment, housing and consumer spending data as well as low gasoline prices, providing support for further fiscal expansion. Markets continue to reflect the gradual improvement and equity investors continue to be rewarded as participants.

Our portfolios once again finished much in line with the index for both the quarter and the year. Sector-wise we saw a rotation away from dividend leaders with utilities, telecom services, REITS, and consumer staples lagging the index. Valuations in those groups have become elevated due to their strong appreciation over the past few quarters as investors bid them up due to their attractive relative yields and consistent, albeit slow, revenue growth. Additionally, the healthcare segment, which has provided strong gains in the past, was flat for the quarter. Concerns on pharmaceutical pricing and disappointing results in the managed care industry as a result of the mandated insurance accompanying the Affordable Care Act muted investor enthusiasm. As such we have taken gains and trimmed positions in these sectors. Positively, the technology segment continues to provide strong gains and lead all groups for the quarter. We continue to position portfolios to benefit from technological advances as new businesses are created and old business models evolve in the age of the IoT (Internet of Things). Additions to our portfolios were in the energy, materials and consumer discretionary areas as we diversify our sector participation and add positions with attractive valuations and improving fundamentals.

The US Fed continues to warn markets that rate hikes are in the offing and with economic data improving we feel we are finally nearing that inflection point. This also provides further support for the aforementioned sector shift. We believe we are in a transition phase in which an interest rate driven market rewarding higher yielding equities will be replaced with an economic growth market rewarding those companies exhibiting both better comparable top line revenue and earnings growth. Recent portfolio additions reflect this criterion.

Seasonally, we are entering a historically favorable time for positive investment returns. We also have a rather divisive and contentious presidential election that will dominate the headlines and influence financial markets depending on the current poll leadership. Third quarter earnings reports will also begin to trickle in providing insight into the confidence of our corporate leaders and their projections. There will be much to monitor and evaluate in the portfolio management process.

As always, please do not hesitate to call if you have any questions on anything discussed.

Best regards,

Beech Hill Advisors