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QUARTERLY COMMENTARY

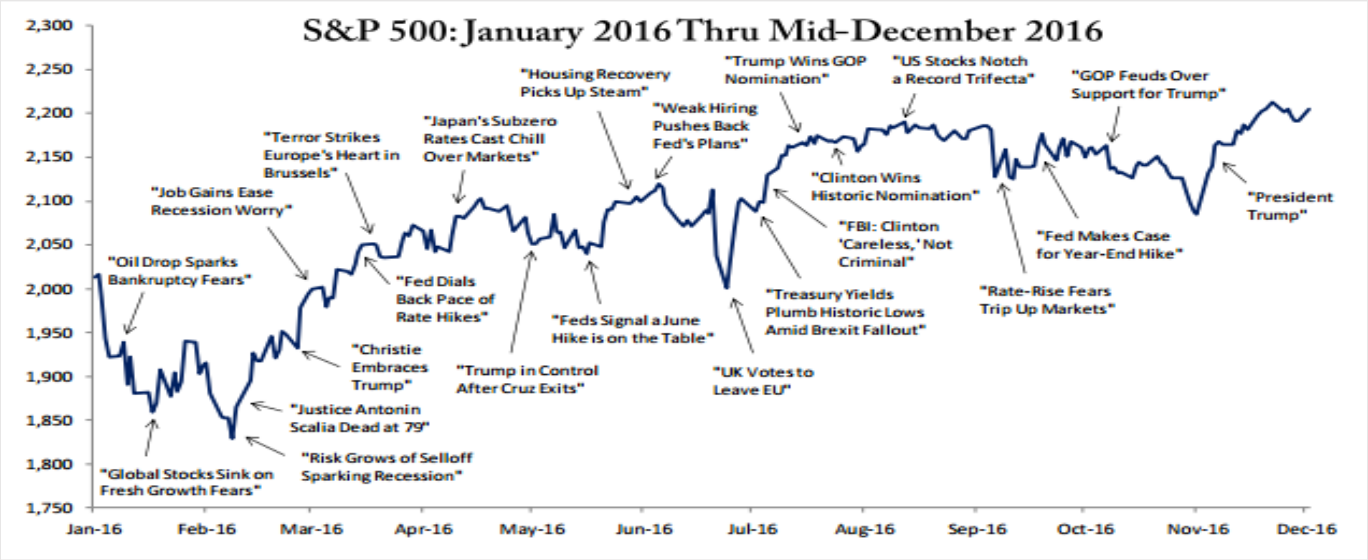
4TH QUARTER 2016

2016 was an eventful year to say the least. We began the first two months of the year with a large decline in US Stocks with the S&P 500 declining 10.5% through mid-February, the worst start to the year in the history of the stock market. Oil also traded below $30/barrel to a 12 year low and fears of a global recession were high. As the year drew on, the unexpected referendum vote in the UK to leave the Eurozone began to hint a new wave of populism that was capped off by the surprising election of Donald Trump in November. Along the way, we watched the Federal Reserve continually back away from planned rate hikes due to "global events'. By the start of the fourth quarter the Fed began to hint about a December rate hike and after the uncertainty of the U.S. elections were behind us, the Fed did finally raise its benchmark rate by 0.25% at the December meeting.

Equities

During the quarter the U.S. stock market drifted sideways and then ultimately lower heading into the November U.S. election. The post-election response was volatile, with the overnight move in the futures market decidedly negative (down 800 points at the lows of the evening). By morning cooler heads had prevailed and markets rose amid the belief that the new administration would encourage economic growth with fiscal stimulus measures and lower regulatory burden on companies. All four major U.S. Stock indexes, the S&P 500, the Dow Jones Industrial Average, the NASDAQ, and the Russell 2000 (U.S. Small Caps) all reached new all-time highs during the quarter. The S&P 500 advanced 3.82% for the quarter finishing the year with an 11.96% gain, while the small caps gained 8.83% during the quarter finishing the year up 21.31%. Bond yields did spike post-election and U.S. bond prices, as measured by the Bloomberg Barclays U.S. Aggregate, posted their worse quarterly return in 32 years finishing down 2.96%. Developed International Stocks lagged the U.S. markets for a second straight year with the MSCI World ex-US index finishing up 3.75%.

The Year in News



Source: Bespoke

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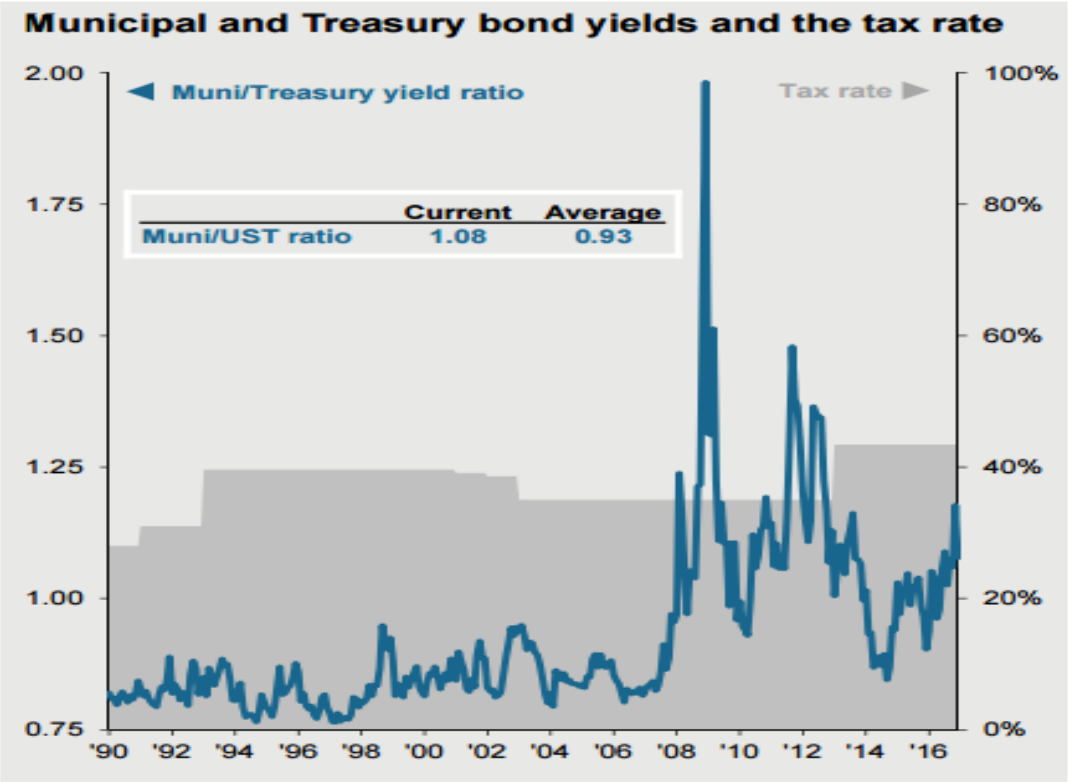
Fixed Income

We began 2016 on a clear path towards interest rate normalization by the US Federal Reserve but after several unnerving global events we managed to end the year with only one, .25% rate hike. After raising rates for the 1st time in nearly a decade at its December 2015 meeting, the Federal Reserve made it clear that it desired an end to its extraordinarily accommodative monetary policy. Most analysts entered the year thinking we were in store for three to four quarter point rate hikes. Unfortunately global events such as the equity market downturn, Brexit, and uncertainty around the U.S. elections left the Fed on the sidelines until its December 2016 meeting where they raised the Fed Funds rate by .25% and projected two to three additional hikes in 2017. Q4 saw a sharp post-election stock rally which coupled with the Fed rate hike saw investors dump bonds in favor of stocks. For the quarter core fixed income (as represented by the Bloomberg Barclay's U.S. Aggregate Index) had its worse quarterly return in nearly 36 years, end the year with a -2.96% decline for the quarter, while managing to eke out a gain for the year, finish the year up 2.65% for 2016. Municipal bonds (as measured by the Bloomberg Barclays Municipal Bond Index) faired a little worse for both the quarter and the year ending with a loss of -3.62% for the quarter with a 0.25% gain for the year.

As we head into 2017 we will carefully watch how new tax law changes (most notably the Affordable Care Act taxes) effect demand for municipal bonds and their tax free advantage over other types of fixed income. In our view supply of municipal bonds will likely continue to remain subdued which should help to offset any negative effects of tax law changes that may occur through the year.



Source: J.P. Morgan Asset Management; (Left) FactSet, Barclays, FRB; (Right) BEA.
Guide to the Markets – U.S. Data are as of December 31, 2016.

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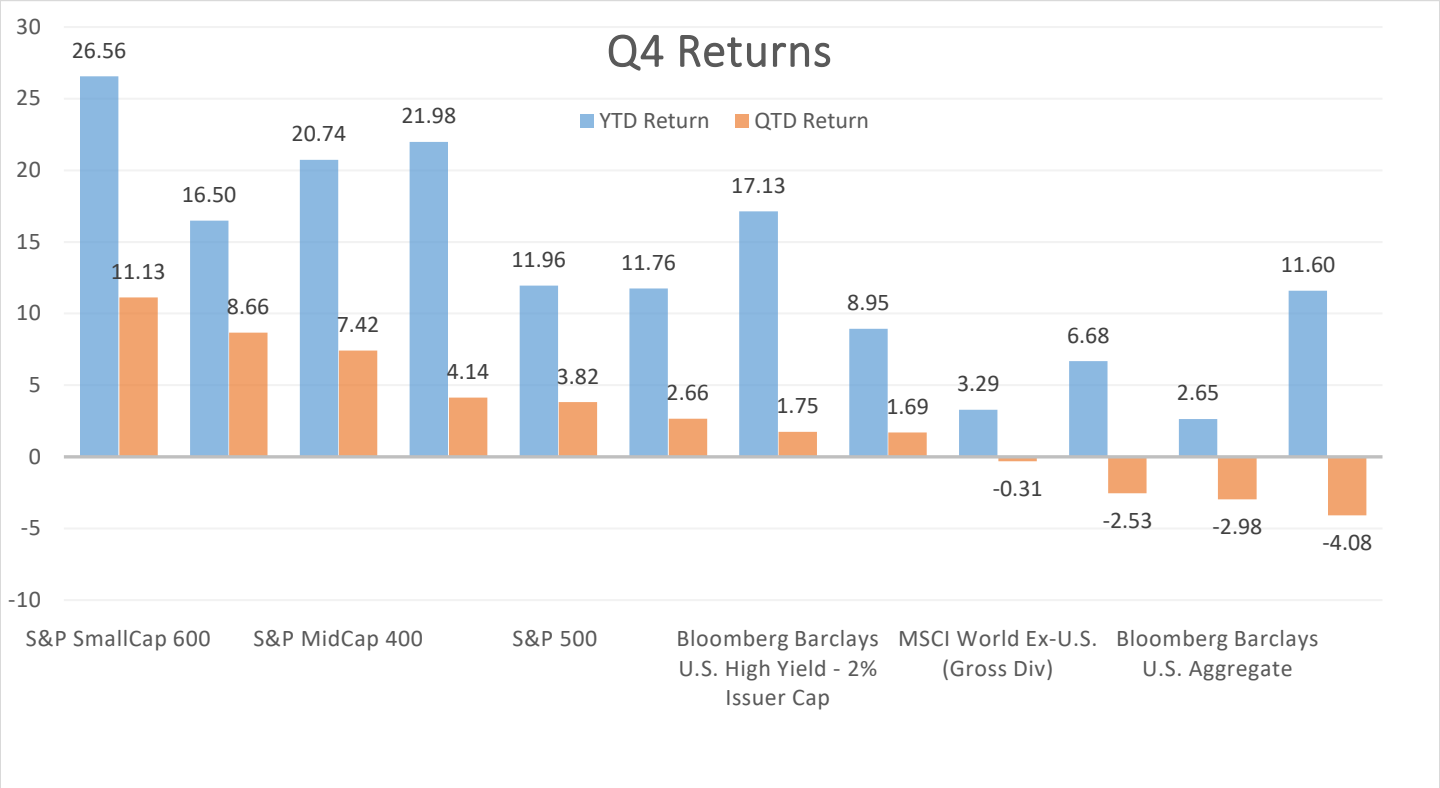
Q4 Market Statistics



Source Thomson Reuters

EQUITY*	As of 12/31/2016*	4Q 2016 Return**	12-Month Return*
Dow Jones Industrial Average	19,762	8.66%	16.50%
S&P 500	2,238.83	3.82%	11.96%
NASDAQ	5,383.12	1.66%	8.87%
MSCI EAFE	1,684.00	-0.71%	1.00%
RATES	As of 12/31/2016	As of 9/30/2016	As of 12/31/2015
Fed Funds Target Rate	0.50 - 0.75	0.25 – 0.50	0.25 – 0.50
10-Year Treasury	2.49%	1.56%	2.27%
30-Year Mortgage	4.32%	3.42%	4.01%
Commodities	As of 12/31/2016*	4Q 2016 Return**	12-Month Return*
Gold	$1,145.90	-13.35%	8.10%
Crude Oil	$53.72	11.36%	45.03%

Source Raymond James Investment Strategy Quarterly Q1 2017

**Price Level, ** Total Return*

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The process of rebalancing may result in tax consequences. Holding stocks for the long-term does not insure a profitable outcome. Investing in stocks always involves risk, including the possibility of losing one's entire investment. 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 companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

There is an inverse relationship between interest rate movements and fixed income prices and bond prices. Generally, when interest rates rise, fixed income and bond prices fall and when interest rates fall, fixed income prices rise.

International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

Investing in emerging and frontier markets can be riskier than investing in well-established foreign markets.

Investing in small- and mid-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

INDEX DEFINITIONS

Inclusion of these 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.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The Barclays Capital US Aggregate Index is an unmanaged market value weighted performance benchmark for investment grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.

The MSCI All Country World Index (ACWI) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world and is comprised of stocks from both developed and emerging markets. There are 23 countries classified as developed markets and 23 countries considered emerging markets.

The S&P SmallCap 600® measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

Dow Jones U.S. Select Dividend Index is represents the country's leading stocks by dividend yield and is made up of one hundred stocks which are selected to the index by dividend yield, subject to screens for dividend-per-share growth rate, dividend payout ratio and average daily dollar trading volume.

MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indexes. The index's three largest industries are materials, energy, and banks.

NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis.

The S&P 500 Dividend Aristocrats measures companies in the S&P 500 who have increased their dividends for at least 25 consecutive years. The S&P 500 Dividend Aristocrats index tracks their performance, and is mainly comprised of large, well-known blue-chip companies. Standard & Poors will remove companies from the index if they fail to increase their dividends from the previous year. The index is updated annually in January. The Russell 2000 (U.S. Small Cap) measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Raymond James Equity Research Strong Buy (SB1) stocks are expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months. Raymond James Equity Research Outperform (MO2) stocks are expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where they are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.