



Table of Contents

Brexit—What is it?	Pages 1 - 2
Fiduciary Rule	Page 3
Our Outlook	Page 4
Risk + Volatility	Page 5
Financial Times 300	Page 6

2016 2nd Qtr Market Returns (through 6/30/2016)

Index

S&P 500	2.5%
Dow Jones Industrial Average	2.5%
Russell 2000	3.8%
MSCI EAFE (Int'l Stock Index)	-1.5%
Cohen & Steers Real Estate Index	5.8%
Emerging Market Stock Index	0.7%
Barclays Bond Aggregate Index	2.2%
Dow Jones UBS Commodity Index	12.8%

Brexit - What is it and how will it affect us?



No doubt, by the time you read this you will have heard innumerable discussions regarding Brexit. Here is our take on the issue.

First of all, what is it? Brexit refers to a national vote in the United Kingdom (held on June 24, 2016) whereby the citizenry could vote on whether the UK should stay in the European Union (EU) or exit the EU (hence the moniker Brexit). The citizens of the UK voted and; by a 52%-48% margin they voted to leave the EU. The voter turnout was high at 70%. For some perspective, the largest turnout for a US presidential election in the last 100 years was 60% (in 1960). The vote to

leave was a big deal.

Prior to the vote the UK was a member of the EU (it remains a member until the divorce is finalized). The EU is a confederation of 28 primarily European nations including big countries such as Germany, England, France and Italy and small countries such as Estonia, Cyprus and Malta. This confederation has a central decision making body, headquartered in Brussels, that makes various rules regarding trade, regulations and free travel among the member countries. Aside from the UK, the members share a common currency, the Euro. The purpose for all of this is to facilitate commerce among the countries. Generally with simplicity comes more value added which in turn leads to an increasing standard of living for the residents of the 28 countries. Things have worked reasonably well for the last 60 years. Prior to this recent vote, the only country to ever leave the EU (or one of the EU's predecessors) was Greenland and that occurred in 1985. On an elementary level the EU has similarities with the US, in that there is a central governing body and related states. Trade and travel among the states is relatively seamless. The EU's central governing body is not elected.

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Brexit - What is it?

(continued from page 1)

The primary reasons cited as to why the UK voted to leave were regulations and free travel. The citizens of the UK apparently were fed up with a non-elected ruling body in Brussels making decisions for them; in sense they felt it was like taxation without representation. In addition, as everyone is aware, a huge issue in Europe is refugee immigration due to the ongoing humanitarian disaster in the Middle East. Members of the EU cannot deny free travel to citizens/refugees of the other member countries. It is safe to say that parts of England are unrecognizable from twenty years ago.

What happens next? The voters spoke and now the politicians need to figure out step two. When the new UK Prime Minister is elected in October/November of this year, it is assumed the formal notice of withdrawal (Article 50) will be presented to the EU and a process that could take years begins. It will be a little easier for the UK to do this because they always kept their currency (the Pound) rather than converting to the Euro currency (like all the rest of the members). Nonetheless, this will not happen quickly. Thousands of new trade agreements will need to be ratified and new travel rules will need to be created. Bureaucracies move slowly.

The world's markets expected a "stay" vote. When the vote turned out to the contrary, investors around the world panicked and indiscriminately sold stocks and bonds and bought US Treasury Notes, gold and US dollars. The concern is that there will now be more, perhaps much more, trade friction between the UK (the second largest economy in the EU) and the EU members. It is believed that an increase in friction will lower economic growth (especially in the UK) in a region that is already mired in slow to no economic growth. Slower economic growth increases the chance of a recession, thus investors initially piled into vehicles offering safety (or at least the appearance of safety). As a result on Friday, June 24, and Monday, 27, the S&P 500 Index (the US stock market) was down over 5%. At the time of this writing, Friday, July 1, the decline was almost entirely recovered. Apparently global investors now think Brexit is a manageable event.



Irrespective of the Brexit vote, our investing outlook is to be defensive and we have had that bias for a few years now. We favor investing in large, financially strong US based companies. Will they be materially affected by Brexit? No one knows for sure but it is likely these companies will weather the storm and "figure it out".

The primary lesson from all of this is to own quality and invest for the long term. Four years ago in the summer of 2012 the credit rating for the US Federal Government was cut to AA from AAA. At the time there was a mini panic in markets as stocks fell almost 20%. But after three months the cloud of fear lifted and stock prices regained their losses. We think the Brexit vote will be a similar event as it relates to US markets.

Drew Swenson

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Department of Labor - Fiduciary Rule

In April of this year the Department of Labor (DOL) announced their new “best interest” standard for retirement advice. The new rule will impact all those who provide retirement advice (brokerages; insurance companies; and advisors). The rule seeks to hold retirement advisors to the same standard as doctors, lawyers, or accountants - known as a “fiduciary” standard - which requires people in positions of trust to always act in their client’s best interest. In what should come as no surprise there has been significant pushback from those parties who stand to be adversely affected by the new rule.



The Department of Labor has been working since 2010 to come up with the new rule. The purpose of the rule is to protect investors from expensive products and inappropriate advice that is estimated to cost them \$17 billion of dollars in lost savings annually. The final rule that went into effect in April of this year provides firms with one year to implement the new regulations.

The new, higher fiduciary standard imposed by the DOLs “best interest” rule on those providing retirement advice is very disruptive to the business structures of brokerages and insurance companies who have built their businesses around charging high fees and commissions. Their business structures in and of themselves create an inherent conflict of interest with what is best for investors. Given the billions of dollars at stake those companies who benefit under the current system and their lobbyist have worked hard to undermine the new Department of Labor rule.

Over the next year, we expect there to be lots of “noise” by those companies who will be adversely affected and those who receive money from them (politicians). If it were not such an important topic it would almost be comical. How can anyone in their right mind argue that it is a bad idea to require those who get paid to provide retirement advice to do what is in the clients best interest? Only in Washington.

GLADLY AND WITHOUT REGRET - ARS Wealth Advisors has always been setup as an SEC Registered Investment Advisor (RIA) governed by the Investment Advisors Act of 1940, as such we are already held to a Fiduciary standard in all circumstances with all clients 24/7. Brokerages and brokers are governed by a different law, the Securities and Exchange of 1934, and held to a different, lower suitability standard of care. Insurance companies and insurance agents are regulated at the state level and are also held to a different, lower standard of care. This helps explain how these other providers of advice can get away with selling high commission products and why the new DOL rule is so important. While I applaud the effort to try and “clean-up” the industry, I unfortunately don’t expect there to be significant headway made, given the enormous amount of money at stake.

In the meantime, ARS will continue to do what we have always done which is put our client’s best interest first by acting in a fiduciary capacity and avoiding any potential conflicts of interest.

Sincerely,

Tony Anderson
ARS Wealth Advisors - Your Fiduciary Advisor

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Does Brexit Change Our Outlook?

Markets don't move in a straight line, there will always be events that cause markets to sell off. No one enjoys it but there is no way to avoid all sell-offs particularly when it is an exogenous event. One of our responsibilities as investment advisors is to analyze information and try to position portfolios in the most attractive investments based on the current environment.

There are times when it makes sense to be aggressive and there are also times where it makes sense to be more defensive. For the last twelve months we have been positioning accounts more and more defensively. This defensive positioning has been happening across asset classes. In fixed income, we have been selling higher risk investments and replacing them with lower risk fixed income instruments.



On the equity side we have been overweighting defensive sectors including healthcare and consumer staples. In addition to overweighting defensive sectors we have been reducing our international, emerging markets, and small cap exposure. We have primarily been buying domestic large capitalization companies that pay dividends, have durable competitive advantages, excellent balance sheets, and generate plenty of free cash flow.

Since we have already been positioning accounts defensively to limit volatility and take some risk off the table, Brexit, won't have an impact on how we are positioning accounts. However, it has slightly changed our outlook for some markets.

We think that interest rates will remain low. We expect that the Fed will remain cautious about raising rates this year unless we get very strong U.S. economic data. Another reason we expect rates to remain low is domestic rates look attractive compared to the rest of the world. We anticipate that money will continue to flow into the safety of U.S. treasury bonds.

We expect the U.S economy to continue to grow slowly and do not expect a recession this year. We think that the vote to leave the EU will have an adverse impact on the economy of Great Britain, which will weaken, and perhaps go into recession. It will also have a negative impact on the economies of the other nations of the EU and could cause some to go into a recession.

We will continue to overweight domestic assets and stay defensive in our portfolio allocations until we feel that we are being compensated fairly for taking on additional risk. The investment landscape is constantly changing so we will continue to adjust our holdings based on our interpretation of available data. If you have questions or would like to discuss our outlook further please give us a call.

Mike Murray, CFA



Risk = Volatility

The stock market as indicated by the S&P 500 peaked over a year ago and has since trended sideways with lots of volatility.

S&P 500 (2 year chart)



It is important to understand volatility which our industry defines as “*risk*”. In other words how much an investment moves up or down indicates the level of risk of that investment. Stocks have historically experienced higher volatility than bonds and, therefore, are considered higher risk. This is one of the reasons bonds can provide stability to a portfolio.

When viewing daily, weekly or even monthly moves in the stock market, volatility over the past year has increased. During 2015 the market fell 11.2% from August 17th through August 25th (7 trading days!). Then from December 29th through February 18th, 2016 it fell 11.72%. These moves were quick and painful to stock-only investors. During the most recent December-February correction the average ARS portfolio was down mid-single digits, less than half the drop in the stock market for two reasons: 1. Our stock investments are more defensive and safe, and; 2. Our bond allocation experienced a positive return over that timeframe. This is one of the primary objectives for owning bonds. The role they play in helping stabilize a portfolio’s value during times of heightened volatility is crucial.

One more example...during the two-day “Brexit” scare the S&P 500 fell 5.3% in 2 days yet most client portfolios were breakeven with some portfolios slightly up depending on their bond exposure. During the “good” times stocks significantly outperform, but during times of economic uncertainty or “fear” exposure to bonds can provide a source of stability and peace of mind.

Moving forward we will continue to position clients with a meaningful allocation to high-quality, fixed income investments that should provide a cushion against a backdrop of increased global risk.

Kurt Ulrich, CFA

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ARS Wealth Advisors Named to Financial Times Top 300 List



Top
**Financial
Advisers**
2016

FT 300 Ranking June 2016

For the second year in a row, ARS Wealth Advisors is pleased to announce that on June 16, 2016, it had been named to the Financial Times 300 Top Registered Investment Advisers list. The list recognizes top independent RIA firms from across the U.S. The FT 300 list is produced by the Financial Times, which is an international daily newspaper based in London with an emphasis on business and economic news.

The “average” FT 300 firm has been in existence for 22 years and manages \$2.6 billion in assets. The 300 top RIAs hail from 34 states and Washington, D.C. Below is an excerpt from The Financial Times publication:

This third edition of the Financial Times 300 has assessed registered investment advisers (RIAs) on desirable traits for investors. To ensure a list of established companies with deep, institutional expertise, we examine the database of RIAs registered with the US Securities and Exchange Commission and select those that reported to the SEC that they have \$300 million or more in assets under management (AUM). The Financial Times’ methodology is quantifiable and objective. The RIAs had no subjective input. Neither the RIA firms nor their employees pay a fee to The Financial Times in exchange for inclusion in the FT 300.

The FT invited qualifying RIA companies – more than 1,500 – to complete a lengthy application that gave us more information about them. We added to this with our own research into their practices, including data from regulatory filings.

The formula the FT uses to grade advisers is based on six broad factors and calculates a numeric score for each adviser. Areas of consideration include adviser AUM, asset growth, the company’s age, industry certifications of key employees, SEC compliance record, and online accessibility. The reasons these were chosen are as follows:

- AUM signals experience managing money and client trust.
- AUM growth rate can be a proxy for performance, as well as for asset retention and the ability to generate new business. We assessed companies on both one year and two year growth rates.
- Companies’ years in existence indicates reliability and experience of managing assets through different market environments.
- Compliance record provides evidence of past client disputes; a string of complaints can signal potential problems.
- Industry certifications (CFA, CFP, etc.) shows the company’s staff has technical and industry knowledge, and signals a professional commitment to investment skills.
- Online accessibility demonstrates a desire to provide easy access and transparent contact information.

We present the FT 300 as an elite group, not a competitive ranking of one to 300. This is the fairest way to identify the industry’s elite advisers while accounting for the firms’ different approaches and different specializations.

It is an incredible honor to be recognized by the Financial Times as one of the Top Registered Investment Advisory firms in America for the second year in a row. It is truly a team recognition and could only be possible with the hard work and dedication of the entire ARS staff and our loyal clients.

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FT 300 Ranking June 2016

Who We Are

OUR MISSION:

ARS Wealth Advisors is dedicated to providing truly personalized, expert financial advice customized to each client's unique circumstances.

OUR VISION:

To assemble a team of highly qualified professionals capable of helping individuals and families prepare for life's most important financial decisions through every stage of life.

OUR CORE VALUES:

Teamwork; Engagement; Respect; Honesty;

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If you would like a copy of the most recent version of our Form ADV Part II, one is always available to you upon written request

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