D|A|DAVIDSON
D.A. Davidson & Co. member SIPC

3Q 2016

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

Dear Fellow Investors,

In about 1 month we will determine the 45th President of the United States of America. We've been discussing what a Clinton / Trump / or even Johnson win might mean for the economy & markets. We've also heard "What should we do if ______________wins?" from several clients. We thought it best to put our thoughts down on paper and share them as we head down the home stretch. Please keep in mind we are agnostic as to who actually wins the election.

- We believe the markets are pricing in a Hilary victory. Someone other than Hilary would most likely be seen as a surprise and we do know that the market does not like surprises. We would expect volatility if the election is extremely close and undecided for some time.

- It is very difficult to tie stock market returns to the political party in the White House. Just looking at the returns and the party of the President shows the market does better under Democratic control. However, it cannot be determined how much a new President benefits or is hurt by policies put in place from the last President. Tying stock market returns to political parties seems like a losing proposition to us.

- Governments can implement policies in an attempt to encourage business & investment but when it comes down to it, the US economy is led by the American entrepreneur. Our government does not produce revenue. Instead, their ability to promote new ideas, make new investments, & borrow additional funds is a direct result of the strength of our economy. Government policy can promote & enhance investment but it is not the fundamental driver of the economy – the fundamental driver remains creativity & innovation.

- We do not see signs of a bubble. There has been talk that the only reason the stock market is near all-time highs is because the Fed has kept interest rates so low. While we hear this narrative we don't buy into it. Just 10 years ago the 10 year US Treasury bond yielded 5% and the market traded at 15 times earnings. Today, the 10 year bond yields just over 1.5% and the market trades at just over 16 times forward earnings estimates – hardly bubble valuations in our opinion. We believe interest rate hikes will be done in a slow, measured path eventually leading to a "normalized" level. This would still not be seen as anything restrictive and would remain a positive environment for the stock market.

This past week Elon Musk laid out his plan to get humans to Mars. The plan called for reusable rocket boosters, refueling the space ship in orbit, & eventually figuring out how to set up refineries on Mars to use their atmosphere to make fuel on the planet to power spacecraft back to Earth. The way Mr. Musk sees it is humans either become an interplanetary species or face some extinction event at some point in the future. We assure you that in preparing his plan Mr. Musk consulted his talented staff of engineers and not President Obama or presidential candidates Trump & Clinton. Rest assured, innovation, vision, & creativity remain alive and well in the US economy.

Sincerely,

Blake Todd, CWS
Portfolio Manager

Jarrett Perez, CFA
Portfolio Manager

Important Disclosures

- The information contained in this report has been taken from trade and statistical services and other sources, which we deem reliable. We do not represent that it is accurate or complete and it should not be relied upon as such.

- The opinions expressed herein are those of the authors and Montecito Investment Portfolios at this date, are subject to change, and are not necessarily that of DA Davidson & Co. The same is true of statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and statements described may not be suitable for all investors.

- This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for accounting, legal or tax advice. Reference to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

- Neither this presentation, nor any chart or graphs within this presentation may be used, in or of themselves, to constitute investment advice, to determine which securities to buy or sell, or when to buy or sell such securities.

- There are risks inherent in any investment and there is no assurance that any money manager, asset class, style or index will provide positive performance over time.