The spread of computers and the Internet will put jobs in two categories. People who tell computers what to do, and people who are told by computers what to do.
- Marc Andreessen, Venture Capitalist

Dear Friends and Family,

As the 2016 election year picks up steam, the intensity of media coverage has induced a rise in share of mind dedicated to our next President and his/her impact on our lives. Much of the analysis on TV or in newspapers will continue to focus on recent events and current public opinion. We believe there is value in examining the cause and effect through a broader historical lens and the resultant impact on your Advisor's asset allocation choices.

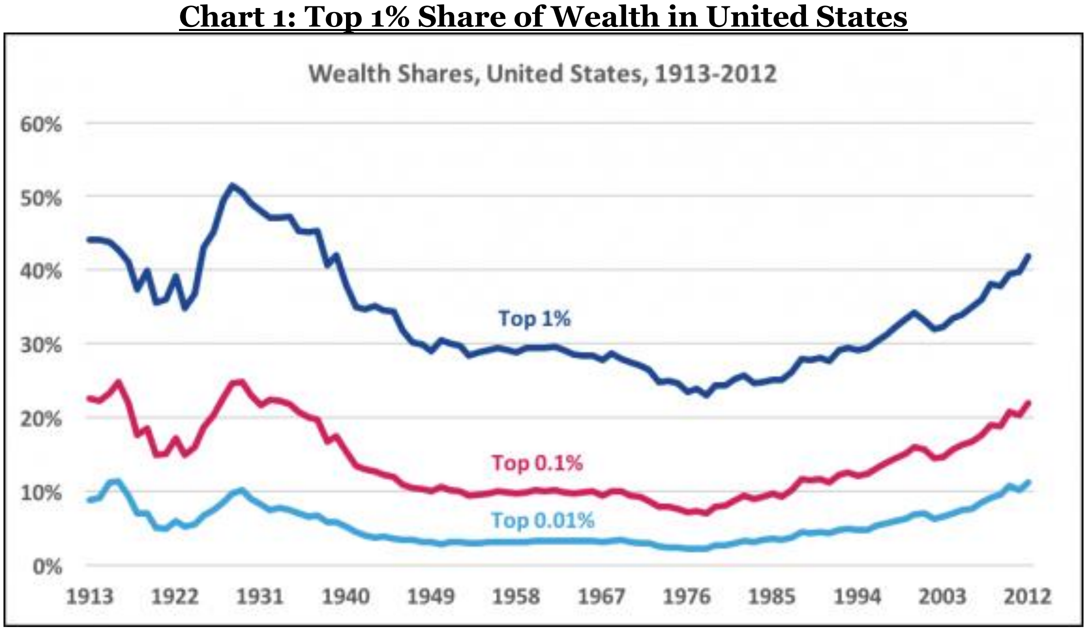
One of the central economic issues of the 2016 election cycle is income inequality. Both the Democratic and Republican nominees have purported that they can solve this problem.

In light of the political rhetoric, many investors are wondering how future policies could impact our nation's economy, financial markets, and the achievement of their long-term financial objectives. This letter from your Advisor seeks to shed some light on these matters.

THE RISE OF INCOME INEQUALITY SINCE 1980

While income inequality has become a central topic of public debate in recent years, the data suggests that disparities in income began to widen in the early 1980's (as seen in Chart 1). The concentration of wealth among the top 1% of households, although not at record levels, is rapidly approaching a high watermark. Your Advisor believes that the two main drivers of this trend are technology and globalization.

Chart 1: Top 1% Share of Wealth in United States



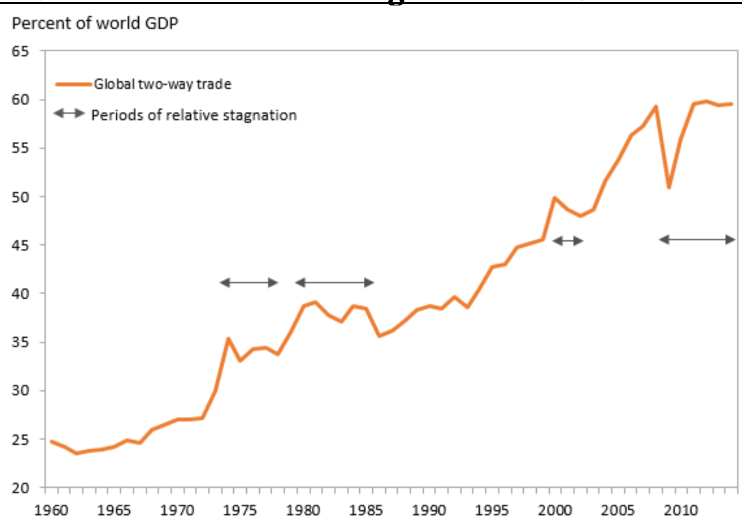
Source: Economist

On the technology front, dramatic advances in fields such as electronics, logistics, automated manufacturing, and the Internet have vastly changed how our society operates. We are now able to communicate more effectively, track immense amounts of data, and automate tasks through computers and robots.

Advances in technology since 1980
1981: IBM begins selling "personal computer"
1985: DNA fingerprinting is invented
1993: The Internet is made available to users with dial-up
1994: The US military starts to use drones
1997: Business e-mail volume surpasses regular postal delivery
2000: Text messaging is made available, GPS goes mainstream
2007: Apple releases first iPhone

Simultaneously, global trade has grown particularly fast since the mid-1980's. Multinational companies now maintain global supply chains because they are able to manufacture their products using cheaper international labor. Global trade growth has also accelerated due to the passage of NAFTA and other free trade agreements, as well as through the efforts of the World Trade Organization. After a brief setback in 2008-2009, global trade has now reached record levels.

<u>Chart 2 - Global Trade as a Percentage of World Gross Domestic Product</u>

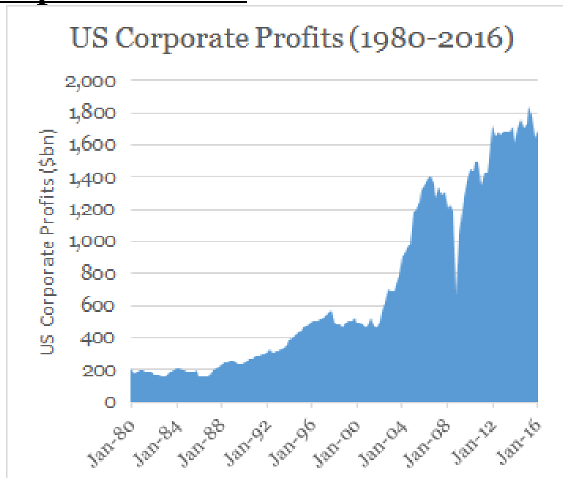


Source: World Bank World Development Indicators database

The combination of better technology and increased globalization has had a detrimental impact on U.S. factory workers, who are now placed into job competition with laborers in developing nations willing to accept one-tenth of our domestic pay rate. The number of Americans employed in manufacturing has declined from 17.6 million in 1998 to 11.5 million in 2010. Furthermore, only 20% of the 2.8 million manufacturing jobs lost during the 2008-2009 recession have been replaced.

On the other hand, increased trade has had broad benefits that are often overlooked. These include lower costs for many goods and higher profitability for businesses. Arguably, the better educated and wealthy, particularly corporate executives and shareholders have benefited the most. Aggregate profits among U.S. businesses recently exceeded $1.8 trillion. This figure represents a record high 10% of the country's total output (as measured by Gross Domestic Product). Higher profitability has allowed executives to reward themselves handsomely, as the top 1% income earner currently garners 24% of the nation's income (up from 9% in 1976).

Charts 3 and 4: Corporate Profits



Source: St. Louis Federal Reserve

The need to retrain the U.S. labor force to better deal with unmitigated technology and globalization trends is clear. But, we can't put the metaphorical genie of progress back in the bottle. We are neither wired for it nor is such an attempt going to improve the long-term quality of our lives.

In the current election cycle, both the Democratic and Republican parties have increased rhetoric about broad changes to the system in order to combat income inequality. Their message is resonating with many across the country. Similar campaigns have impacted policy making overseas. The recent "Brexit" vote, where the United Kingdom elected to leave the European Union, is a primary example of a major country attempting to shift away from global trade to protect its labor force. While the longer term results of this Brexit referendum are not yet clear, we can look to the historical example of the Industrial Revolution to see how this played out in a parallel example.

THE INDUSTRIAL REVOLUTION

Prior to the Industrial Revolution, the world economy was largely based on farming and low-scale, hand-crafted products. Societies often were built in rural towns instead of dense urban environments. For example, a skilled weaver could work on textiles inside of his home and raise farm animals or crops on his land to sustain a comfortable lifestyle.

The Industrial Revolution, which began in the 18th century, ushered in an era of rapid change. Mass production lines, special purpose machinery, and innovations such as the steam engine dramatically changed the nature of the economy and disrupted the labor market.

While industrialization increased productivity and economic output, it also led to poor working and living conditions for the average laborer. Since mass production factories became dominant, skilled workers were forced to move to crowded cities to obtain positions with little job security and lower incomes.

The economic benefits of the Industrial Revolution certainly flowed to the elite class of industrialists. For example, Andrew Carnegie and John D. Rockefeller respectively amassed large fortunes by dominating steel and oil refining industries. However, over time, industrialization benefitted society more broadly, including helping to bring on the emergence of the middle class. Just over a century ago, Henry Ford offered assembly line workers the then-princely wage of $5 an hour -- about twice the average manufacturing wage -- to work on his assembly lines. In doing so, Ford secured a stable and more productive workforce. Many Ford employees then proceeded to purchase the very automobiles they were manufacturing.

Much like the present economic trends of technological implementation and globalization, the growth of the industrial workforce brought about both general prosperity, but also increasing political pressure for redistribution of the proverbial economic pie. Labor protests, riots, and strikes were commonplace. In addition, workers formed unions and socialist parties gained political clout.

In response to these developments, politicians reacted with a combination of higher progressive taxes, increased regulation, and new social protection programs.

Early 20th Century Government Policies Designed to Reduce Income Inequality

- ***Increased Regulation:*** *Presidents Theodore Roosevelt and William H. Taft began an era of breaking up monopolies during their presidencies (1901-1913)*
- ***Progressive Taxes:*** *The income tax was created in 1913*
- ***Education:*** *Starting around 1910, the U.S. made substantial investments in public high schools with the objective of leveling the income earning potential of workers*
- ***Social Programs:*** *In the 1930s, the New Deal created Social Security, Disability, and Unemployment Insurance*

Due in part to these government measures, the income gap did narrow somewhat. Overall though, the impact of policy was limited.

In analyzing the policies enacted in the early 20th century, it becomes evident that our current presidential candidates have not brought any novel, creative solutions to the forefront. Whether it is Hillary Clinton's proposals on education or Trump's promises to provide better regulation, the ideas are largely recycled versions of policies that were tried before with de-minimis short-term impact.

As we approach the November U.S. elections and the start of the new presidential term, there is no crystal ball that can predict exactly how tax rates or other government policies might change. That said, it is clear that politicians will struggle to reverse several decades of growing income inequality, especially with a highly divided Congress.

CONCLUSION AND YOUR ADVISOR'S RESPONSE

Your Advisor places great emphasis on a long-term, value driven, holistic approach to managing investments. What is generally perceived as bad news often results in future opportunity. For example, immediately following Brexit (The U.K.'s vote to leave the European Union), the headlines included predictions such as "No Clear End to Financial Uncertainty After Brexit Vote" and "Stocks to Provide Bumpy Ride Amid Brexit Turmoil". Equity prices across the globe lost almost 10% of their value in just three days, only then to subsequently recover and achieve even higher levels. This example underscores the folly of trying to predict short-term market moves. However, we can and do use such declines as favorable entry points for investing.

The average annual return on common stocks since 1920, as measured by the S&P 500, has exceeded 7% during Presidential election years. That includes periods when an actor and a peanut farmer won the highest office and polarizing figures such as Barry Goldwater and George McGovern sought the Presidency. We are not trying to minimize the looming shadow and strong sense of potential danger that any election cycle can bring to our collective psyche. The country faces serious challenges. That said, we believe in the resiliency of our system of government and think that the American people have the will to carry out needed change. We like what Warren Buffett wrote in the 2016 Berkshire Hathaway annual report:

> *"It's an election year, and candidates can't stop speaking about our country's problems (which, of course, only they can solve). As a result of this negative drumbeat, many Americans now believe that their children will not live as well as they themselves do. That view is dead wrong: The babies being born in America today are the luckiest crop in history." For 240 years it's been a terrible mistake to bet against America, and now is no time to start. America's golden goose of commerce and innovation will continue to lay more and larger eggs. America's social security promises will be honored and perhaps made more generous."*

Roundview Capital partners with its clients in three important ways.

1. **Asset Management** - Client portfolios reflect our best thinking on asset class diversification and selection of undervalued securities with favorable long-term futures. As we have highlighted in previous letters, investors earn the best returns when they are willing to endure short-term volatility and focus on long-term business values.

2. **Financial Planning** - In considering long-term time horizons, it's important to model for a wide range of potential outcomes. For example, in creating a long-term retirement plan, we stress test for different future investment returns, tax rates, and spending needs. We also blend estate planning, risk management, philanthropy, and generational wealth transfer into our process.

3. **Family CFO Services** - If it impacts your financial life, we want to be your first call. When a family goes through a major life event (a sale of business, real estate purchase, partnership negotiation), Roundview Capital serves as a financial concierge to make sure that the best possible life outcomes can be achieved.

We appreciate your confidence and look forward to speaking with you soon.

Please note that an updated copy of our Firm Brochure (ADV Part 2A & B) is included with this report and can also be accessed via our website.

With Best Regards,

Howard Alter Stephen Shueh Andrew Lieu Matthew Wallack