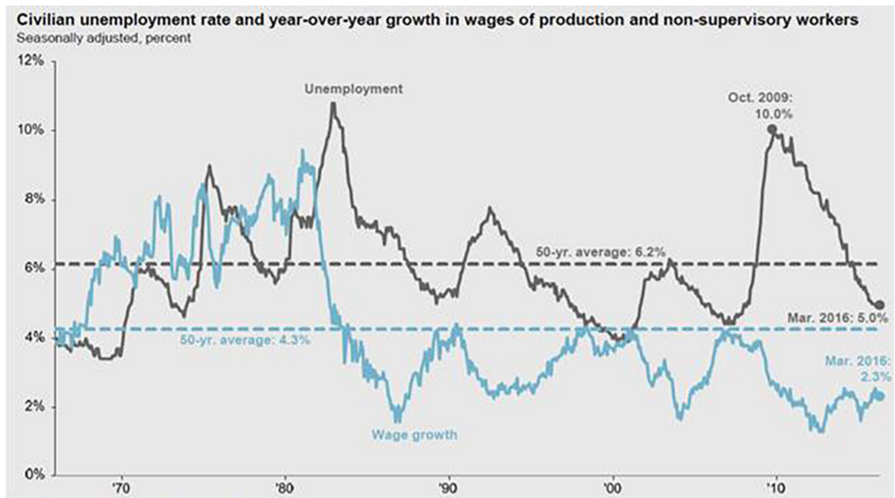
FIRST QUARTER 2016

THE PACIFIC FINANCIAL GROUP INC.

Quarterly

Volume XXX, Issue 1 | www.tpfg.com

AS WE SEE IT...



Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of March 31, 2016.

The year started off full of surprises. Stocks plunged out of the gate, selling off 10.5%, only to stage a substantial comeback. Fears of both a global and a domestic recession pushed stocks substantially lower and into correction territory in the first six weeks of the year. However, anxiety eased in mid-February, and the market then rallied 12.5% off lows to post a gain of 1.4% for the quarter. Economic data that was reported over this period pointed to the global economy continuing along a modest growth path. Commodities also staged a nice turnaround, aided by a flattish to slightly weaker US dollar.

Strength in the labor market reinforced our view that the economy remains in solid shape. The monthly jobs report for March was mostly good news, as payrolls increased by 215,000 and the unemployment rate ticked up to 5%. The data suggested that more folks were actually looking for jobs. Average hourly earnings were better-than-expected too, climbing 2.3% for the quarter on an annualized rate. Manufacturing might be finally shifting into a higher gear, as the March ISM Index beat expectations by rising to 51.8. This was the highest level since last July. Overall, the data suggests that, while the economy may not be accelerating rapidly, it is growing.

The Fed's decision in January to maintain the policy rate unchanged reflected concerns about the impact of global financial market turmoil on the US economy. More recently, Janet Yellen's comments indicated that, while she acknowledges improvements in the economy, she is also focused on weaker international growth. Clearly, the Fed is in no hurry to raise rates again. Forecasts of as many as four rate hikes in 2016 were cut back to two or less. Investors believe that conditions might be in place for the Fed to resume raising the Fed funds target in the second quarter to fulfill its mandate of achieving full employment and price stability over the medium term.

News overseas was heart shattering, as Europe was hit again with terrorist attacks in Brussels. The sophistication of the attacks amid tightened security has once again raised questions about Europe's borders and added fuel to the immigration debate. Economically, the markets were not materially impacted. What caused the markets to decline was underwhelming economic data and corporate earnings. The European Central Bank (ECB) cut interest rates and expanded their bond purchase agreement. The Bank of Japan followed the ECB by lowering interest rates into negative territory, and expanded their asset purchases. The hope was to spur growth, but there is growing concern that monetary policy effectiveness may be beginning to wane.

The first quarter was a roller coaster, with stocks experiencing extreme volatility, but ultimately ending up back where they started. We continue to believe US stocks are in a secular bull market but in a more mature phase, which will be marked with volatility and pullbacks. It is important not to overreact to these short term market dislocations. Focus on long term goals, and stick to your financial plan.

KEY TAKEAWAYS

- Stable economic growth
- Steady improvement in employment data
- The ISM Manufacturing Index rebounded
- The Fed maintained the policy rate unchanged
- Monetary policy effectiveness may be beginning to wane

PORTFOLIO COMMENTARY

Equity Portfolios: Equity and Strategic Multi-Cap

The S&P 500 finished the first quarter with a gain of 1.35%, however the path it took to get there was anything but smooth. Equities began the year by falling sharply on concerns over a slowing Chinese economy, low oil prices, and a soft patch in US economic data. By mid-February, the outlook for equities made a complete turnaround and a rally ensued which pushed the S&P 500 into positive territory for the quarter.

Performance among sectors was perhaps even more intriguing than overall equity performance. Telecom Services was the clear winner for the first quarter with a whopping gain of 16.6%, whereas Healthcare, which has been a favorite among many investors, ended with a loss of -5.6%. Value stocks, which have been out of favor since mid-2007, outperformed growth stocks. We believe these short-term moves in the market are unlikely to be sustained. Given the uncertainty in the market, we made some tactical shifts in our Equity Strategies early in the quarter in an effort to reduce volatility. Some of these changes included introducing a new position to the Strategy which performs well during heightened volatility, and increasing holdings in defensive sectors, such as Consumer Staples. We continue to remain cautious, however as economic data improved during the quarter, we reduced our tilt toward defensive positions by the quarter end.

Income Portfolios: Total Return and Cash Yield

Fixed income investors enjoyed a broad rally across higher quality sectors, with the Barclays US Intermediate Govt/Credit Bond Index finishing the quarter up 2.45%. More economically sensitive sectors, such as high yield bonds and REITs, shook off some early weakness to finish the quarter with strong results. The best performing asset class was long term Treasury bonds, as yields declined and the yield curve flattened. Investors sought safety in the sector during the global growth scare in January. Treasury yields also got support from accommodative statements from the Federal Reserve, which point to fewer rate hikes than originally forecasted. The rebound in corporate bonds was propelled by an increased optimism in the economy, along with a rebound in commodity prices.

In the Income Total Return strategy, we focused on increasing exposure to higher quality sectors and reducing volatility. Exposure to Treasuries contributed to returns, while multi-alternatives boosted returns later in the quarter. We made similar changes to Income Cash Yield, with a focus on risk reduction. We continue to maintain a broadly diversified yield profile.

Balanced Portfolio

Fixed income provided investors with stable returns over the quarter, with the Barclays US Intermediate Govt/Credit Bond Index up 2.45%. Equities enjoyed a strong rally in March, which helped them finish the quarter in positive territory, with the S&P 500 posting a 1.35% gain. Global stock markets experienced a sharp decline in January due to fears of a global recession and the impact of low oil prices on energy companies. However, fears abated as economic data remained moderately positive and markets rallied to finish the quarter in positive territory. In equities, value took the lead over growth, with Telecom, Utilities and Consumer Staples providing the strongest sector performance. In bonds, long term U.S. Treasuries were among the strongest performing sectors, as investors sought safety and the Federal Reserve reduced their forecast for potential interest rate hikes in 2016.

We continue to favor equities over fixed income, as we expect moderate growth to continue, however the overweight was a detractor this past quarter. We reduced some of the more volatile holdings, as we expect volatility to remain at mid/late cycle levels. As designed, our multi-alternatives provided some downside protection during the drawdown in January.

Absolute Return Portfolio

Volatility in returns of most asset classes spiked to above average levels in the first six weeks of this year as investors' fears of both a global and domestic recession pushed stocks substantially lower into correction territory. But by mid-February, recession fears faded with better data, and volatility fell to below-average levels by the end of March. We believe that we may have entered a new phase of more frequent, yet more historically normal, bouts of volatility. As a result, our allocation to equity has been reduced while our allocation to alternatives, as well as fixed-income investments, has been increased to mitigate some of the volatility risk.

Faith & Values Portfolio

Investors began the quarter with concerns about global growth, with equities selling off quite dramatically. However, economic data showed concerns were overstated and risk assets rallied, with domestic equities finishing the quarter in positive territory. Value stocks outperformed growth stocks, with Telecom, Utilities and Consumer Staples leading the way. U.S. Treasuries rallied as investors

looked to take risk off the table and a dovish outlook from the Federal Reserve. More economically sensitive fixed income sectors, such as corporate bonds, found support and provided strong returns for investors.

We maintained a tilt towards equities, as we believe the intermediate term outlook favors equities over fixed income. Several small changes were made to the portfolio during the quarter. We increased exposure to large cap value, reallocated funds to a stronger performing mid/small cap position and added a global equity manager. No changes were made to the fixed income holdings, as these holdings performed within expectations.

Global Portfolio

Global equities returned -3.01% for the first quarter, as measured by the MSCI EAFE NR Index. The year began on a volatile note as the US, international developed, and emerging-market stock market indexes all lost more than 10% in the first six weeks of the year, and then bounced back dramatically. Investors found little comfort in economic data and focused on the risks to the global outlook associated with slower Chinese demand, falling commodity prices, the prospect of the UK leaving the European Union, and an expected divergence in monetary policy across central banks. In Europe, the ECB has cut interest rates and expanded their bond purchase agreement. We see accommodative monetary policy as a positive trend, along with a competitive euro, and solid service sectors that will continue to underpin the Eurozone's mid-cycle expansion. Japan followed Europe as the BOJ surprised investors with a move to a negative interest rate policy. Some of the headwinds facing Japan is due to the slowdown in China, yet attractive relative value and improving corporate governance could push Japanese equities higher. In addition, Japan's composite Purchasing Manager's Index has moved incrementally further into expansionary territory during the past few months. Overall, we think global growth will stay positive but likely to remain slow. While we see plenty of opportunities in this environment, we continue to favor developed markets over emerging markets.

WHAT'S IN THE FUTURE? *continued from page 4*

monetary policy stimulus and negative interest rates have boosted asset prices, but achieved little in the way of real growth and demand. An appreciating yen in the face of ultra-accommodative policy actions brings to mind an image of depleting ammunition within the walls of the Alamo. The softer dollar has taken away some of the pressure from emerging markets recently. It is less clear whether it is enough, given their weaker earnings outlooks.

Politics have been prominent in the media, as we wade through primaries and caucuses toward party conventions and, eventually, the actual Presidential election. Although sensational aspects of the race have intrigued many more people than past election cycles, the real effect on markets has historically been negligible. The economy and stock markets have grown during both party's leadership.

Spring is a great time of year, and we believe markets are still able to generate positive returns for investors. Rates may go up a little bit, but stocks should as well. Put aside your worries, and go outside and enjoy yourself.

KEY TAKEAWAYS

- Recession risk is still low
- Employment is expected to keep improving, driving unemployment lower
- Lower expectations for Fed rate increases have reduced the upward pressure on the dollar

Has anything happened we should know about? If there are any changes in your financial situation, investment objectives or specific restrictions, please contact your investment advisor or The Pacific Financial Group, Inc. It is critical to the achievement of your investment goals and the success of our relationship to discuss any changes in your financial needs.

Our clients receive quarterly performance on their accounts. For performance on any of our strategies, please contact your Investment Advisor.

WHAT'S IN THE FUTURE?

Spring is a favorite season for many of us. The air is warmer, and color replaces the drab grey of winter. That is how we see the current market environment as well. Economic conditions support growth, and markets are expected to respond.

The domestic economy is expected to keep growing. The current expansion is the fourth longest in history at 81 months, but we don't think it succumbs just from old age. Recession risk still appears low. Witness the recent expansion of manufacturing and gains in the labor market. Conditions which normally precede a recession have not materialized. This should keep pushing unemployment lower, since the labor force is unable to expand at the same pace as the need for new hires.

Employment has steadily improved, and appears likely to reach full employment levels by year end. The unemployment rate is expected to keep going lower, while wages rise slowly. The job gains over the past six months would have pushed the headline unemployment rate down to 4%, had it not been for the 0.6 point gain in labor force participation. While these continue to be welcome gains, slack is getting absorbed.

We believe the improving job market is an area of focus for the FOMC's data dependency assessment. Their recent reining-in of forecasted rate hikes for 2016 from 4 to 2 appears to be realistic in this context. Market participants still seem to expect just one, but, should employment continue on this pace, two hikes would not be out of the question. Inflation has run below the Fed's target 2% for 45 consecutive months, a factor keeping the central bank from raising rates aggressively.

Monetary policy divergence appears to be slowing or narrowing. European and Japanese central banks may be reaching the limits of current policy, and the Fed is likely to raise rates at an even more gradual pace than originally intended. Lower expectations for Fed rate increases has reduced the upward pressure on the dollar. A range-bound or declining dollar removes some headwinds on earnings for multi-national corporations as well as emerging market currencies. These developments would bode well for markets.

For now, we see interest rates rising, though we expect them to climb slowly and remain low for a while. The extent of the rate rise should be fairly well contained, particularly at the long end of the curve. The aggregate supply of global fixed income is still just moderately higher, while the demand for product is still very high. Foreign central bank easing continues to put downward pressure on global rates, which is spilling over into US Treasury rates.

We expect the yield curve to remain fairly flat with the front end adjusting more than the long end. Historically, the shape of the yield curve has tracked closely with changes to the Fed Funds Rate…the higher the FFR, the flatter the curve, and vice versa. We would expect the long end to also remain relatively subdued as a reflection of low inflation expectations.

Inflation has not been much of a problem to date. In many global regions, the lack of inflation has been more problematic. This may be changing, however. Core CPI has picked up and is likely to continue rising. Wage growth has edged higher, and the dollar's rise has abated. We expect to hear more throughout the year about growing inflationary forces.

Oil is stabilizing, but it is likely to take more time to regain balance. Supply remains too high. Further stress in energy and metals/mining sectors is quite possible. Even with the modest rebound in the price of oil, many energy companies are operating at distressed levels, and, at a minimum, some will experience downgrades in credit rating, while others will be forced to even more drastic actions such as default and/or bankruptcy.

International markets are mixed. The outlook appears more promising for Europe and China than Japan. European growth comes in fits and starts, but it is going in the right direction. Unemployment has been coming down, and bank lending is turning back up. China's well publicized growing pains have contributed to increased uncertainty, but we believe the government has the capacity to remain on course toward growth. Improvements in Korea and Taiwan also lend credibility to an improving picture in China. Japan has a steeper hill to climb, and we question whether they have adequate conditioning. Massive

continued on page 3

FIRST QUARTER 2016

RETIREMENT AND ANNUITY COMMENTARY

Aggressive Strategy

The Aggressive Strategy is offered through our retirement plan program and is designed to provide the investor long-term capital appreciation. As its name suggests, the Portfolio seeks higher returns by typically accepting a higher level of risk/volatility than the broader market.

Global equity markets went on a roller coaster ride in first quarter, yet most indexes finished close to where they began. After a prodigious drop through the first three weeks of January, markets rebounded on improving economic data and stability in commodity prices. Emerging markets led the way higher after several years in the cellar. The MSCI EM Index gained 5.71%. In developed markets, domestic indices outperformed international. The S&P 500 rose 1.35%, and the MSCI EAFE Index (Europe, Australasia and the Far East) finished the quarter down -3%.

Sector performance was strongly influenced by a softer dollar in first quarter, with value sectors beating growth. Utilities and Telecom finished at the top of pack. Financials and health care pulled the average lower, finishing below the broader index.

The modest pace of US economic growth is expected to continue in 2016, however inflation may be at an inflection point. The Fed has signaled that rate hikes are highly unlikely at the next FOMC meeting, maybe two, removing some headwinds to earnings and pushing the dollar lower versus other currencies. Our Aggressive Strategy normally holds a blend of large, mid, and small cap stocks due to the long-term nature of this strategy. Value style was increased in the strategy, and select international exposure is becoming more attractive.

Moderately Aggressive Strategy

The Moderately Aggressive Strategy is offered through our variable annuity optimization program, as well as our retirement plan programs. The Moderately Aggressive Strategy is designed to provide long-term capital appreciation with a moderately high level of risk/volatility.

Equity markets overcame a sharp down draft in the first half of January to finish in positive territory at the end of first quarter. Mid-caps were the top gainer for the first time in nine quarters, with the S&P 400 rising 3.78%. Small-caps were not far behind, with the S&P 600 adding 2.66%. The S&P 500 Index increased 1.35%. The US economy has maintained a slow but steady path of growth, which is expected to continue. The job market remains solid, and housing keeps improving. Monetary policy efficacy may be reaching its limits, as foreign currencies defied global accommodative actions and the dollar softened. Growth style was de-emphasized in the strategy, with value increased. Our Moderate Aggressive Strategy usually holds a blend of large, mid, and small cap stocks due to the long-term nature of this strategy. International stocks have played a smaller role in the strategy, but are added as global potential becomes more attractive.

Moderate Strategy

The Moderate Strategy is offered through our variable annuity optimization program, as well as our retirement plan programs. The Moderate Strategy is designed for more conservative investors who wish to have income and capital appreciation through a blend of fixed income and equity securities.

Equity and fixed income markets finished first quarter fairly closely clustered, yet their paths were markedly different with equities experiencing much more volatility. Global growth concerns pressured equities until mid-February. Stabilization in commodity prices went a long way to soothe investors mid-quarter which spurred a multi-week rally. The Barclays Intermediate Government Credit Index finished with a slight advantage over equities, gaining 2.45%. Large caps, as measured by the S&P 500, gained 1.35%.

While the Fed began to normalize policy with a rate hike in December, they revised their forecasts going forward, indicating an even more gradual pace for potential fed funds rate increases. The slower pace plus expectations for low inflation should cause the yield curve to gradually flatten further. Corporate fundamentals outside of commodity-related sectors are supportive for certain investment grade credit and municipal bonds, as well as equities. Higher credit quality is more attractive to us. Allocations remain modestly tilted toward equity over fixed income, however the differential has decreased.

continued on reverse

Moderately Conservative Strategy

The Moderately Conservative Strategy is offered through our retirement plan program and is designed to provide the investor income and long-term capital appreciation. As its name suggests, the Portfolio typically has a low level of risk/volatility with the primary goal being capital preservation. Typically, this Portfolio does not hold more than 20% equities, with the remaining amount allocated to fixed income securities.

While the Fed began to normalize policy with a rate hike in December, they revised their forecasts going forward, indicating an even more gradual pace for potential fed funds rate increases. The slower pace plus expectations for low inflation should cause the yield curve to gradually flatten further. Corporate fundamentals outside of commodity-related sectors are supportive for certain investment grade credit and municipal bonds. Despite elevated volatility, we don't believe the US economy is on the brink of recession. Even so, this does not appear to be the time to stretch for income at any cost. Higher credit quality is more attractive to us. Bonds, as measured by the Barclays Intermediate Government Credit Index, finished the quarter up 2.45%.

Q1 2016 HIGHLIGHTS

- *GDP grew at a 1.4% annual rate in the fourth quarter of 2015, exceeding expectations.*
- *Employment data continues to show steady improvement, with 168,000 jobs created in January, 245,000 in February and 215,000 in March.*
- *The unemployment rate held steady, finishing at 5.0% in March.*
- *Initial jobless claims were range bound, with the 4-week average finishing at 276,000.*
- *Consumer Sentiment remained firm, posting a 91 in March.*
- *Existing home sales posted three straight months of over 5 million units.*
- *Housing starts remain strong, with 1,178,000 starts in February.*
- *Construction spending has been inconsistent, with 2.1% growth in January and -0.5% growth in February.*
- *Home prices, as measured by the S&P/Case-Shiller Home Price Index: Composite 20, remain on trend, up 5.8% in January versus one year ago.*
- *Inflation trended higher, with the Core Consumer Price Index increasing 2.3% in February.*
- *Durable goods orders struggled to find momentum with a strong January, up 4.2%, and a weak February, down 2.8%.*
- *Retail sales growth has been lackluster, posting -0.1% in February.*
- *The ISM Manufacturing Index rebounded with a strong reading of 51.8 in March.*
- *The Manufacturing Purchasing Managers' Index (PMI) has been flat, posting a 51.5 in March.*
- *Non-Manufacturing PMI held steady at 53.4 in February.*
- *Personal spending has expanded for 13 straight months, increasing 0.1% in February.*
- *Personal income growth is solid, posting a 0.2% increase in February.*

THE PACIFIC FINANCIAL GROUP, INC.

777 – 108TH AVENUE NE | SUITE 2100 | BELLEVUE, WA 98004 | TOLL FREE 800-735-7199 | SALES 866-583-8734 | WWW.TPFG.COM