THIRD QUARTER 2016

THE PACIFIC FINANCIAL GROUP INC.

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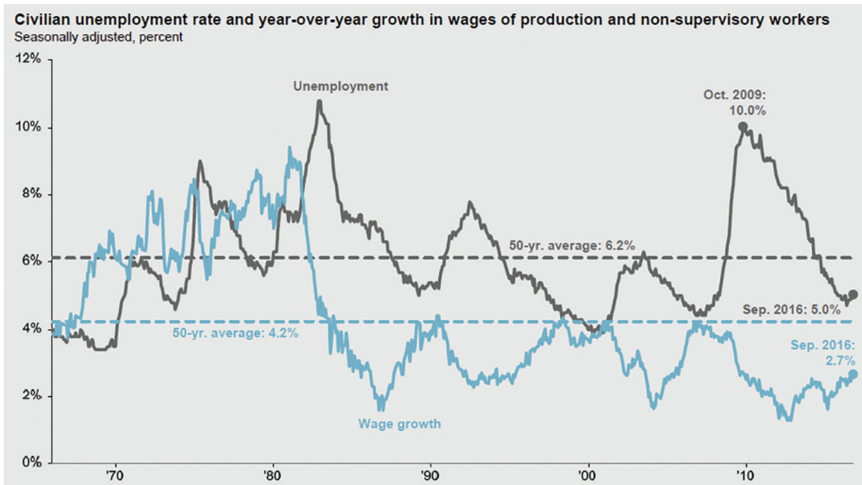
AS WE SEE IT...



Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2016.

Stocks headed higher again this quarter. The S&P 500 Index posted quarterly gains for the fourth consecutive quarter, gaining 3.9%. Despite the gains, the quarter was relatively quiet in terms of news. Stocks moved sideways for August and September, with investors focusing on the November election and the latest Federal Reserve (Fed) meeting, which took place in September. The Fed kept interest rates unchanged at their policy meeting, however, the committee's discussion of the economy was largely positive.

The U.S. economy has continued to make headway, with final revisions for Q2 GDP rising at a 1.4% annual rate, up from Q1's 1.1% annual rate. A pickup in consumer spending boosted the economy, as real median household income grew at a 5.2% annual rate in August. Underpinning the consumers' spending spree was an additional firming in labor market conditions, adding an average of 225,000 jobs for the previous three months through August. The gains have helped maintain the unemployment rate at 4.9%. Additionally, jobless claims extended the trend of below the key 300,000 level, a threshold associated with a strong jobs market, the longest such streak since 1973. Overall, we think the household sector fundamentals remain sound, and job growth has remained strong.

Overseas, international risks were largely subdued in third quarter. Investors' immediate fears about the Brexit vote repercussions were set aside, and their attention was turned towards actions from central bankers around the world. Japanese equities had a strong quarter, which might be attributable to two factors: continued accommodative monetary policy by the Bank of Japan (BOJ), and companies buying back stock. Yet, economic data continues to show that Japan is still coping with their deflationary issues from the past two decades. In Europe, the UK's Brexit referendum has been a smaller shock than initially feared, as European stocks made gains in the third quarter. Generally encouraging second quarter earnings reporting seasons also supported Eurozone stocks. However, economic data continued to indicate lackluster growth and low inflation. In the UK, reports on activity in the post-referendum period point to a significant slowing in economic activity. Investors have revised down forecasts for trade and business investment in the UK and in the Euro-area economies. This latest wave of uncertainty reinforced central banks' propensity to keep policy very accommodative. Not surprisingly, the Bank of England launched a series of monetary easing measures, whereas the European Central Bank left its monetary policy unchanged during the period.

Overall, it was a generally positive quarter for markets, and volatility was lower compared to recent quarters. Our investment strategy outlook at the end of the third quarter is broadly unchanged as we continue to remain cautious, yet positive. We continue to expect heightened volatility and a somewhat challenging investment backdrop going forward, as we believe the outlook for economic global growth will be sluggish.

KEY TAKEAWAYS:

- Positive quarter for markets
- US labor market continued to tighten
- The UK's Brexit referendum had smaller shock than initially feared
- Significant stimulus measures by central banks in Europe and Japan

PORTFOLIO COMMENTARY

Equity Portfolios: Equity and Strategic Multi-Cap

Economic momentum continued in the third quarter, helping to propel the S&P 500 up 3.85% for the quarter. Small-caps, as measured by the S&P 600, and mid-caps, as measured by the S&P 400, were up 7.2% and 4.14%, respectively during the quarter. Technology, the best performing sector of the market, was up 12.9%, whereas Utilities was the worst sector, falling 5.9%.

The economy appears to be on more solid footing. However while things have improved, we must balance this against equity valuations that remain high relative to long-term averages, as well as potential volatility from the upcoming Presidential election. To achieve this balance, we have remained relatively neutral in terms of sector exposure as well as capitalization exposure between large, mid and small-cap stocks. Changes to the Strategy included trimming Consumer Defensive stocks in favor of an increase in Technology; reducing large caps in favor of mid-caps, and slightly reducing Energy in favor of Real Estate. Looking ahead, we expect the drag on earnings from low oil prices and a strong dollar will continue to abate, which should provide an opportunity for continued modest gains in equities.

Income Portfolios: Total Return and Cash Yield

Bond investors were comfortable adding credit risk during the third quarter, with corporate bonds, emerging market debt and preferred securities among the leaders, as spreads moved tighter across these sectors. Treasury yields trended lower in the beginning of the quarter, due to the risk off sentiment from the Brexit vote. However, yields then moved gradually higher, with the 10 Yr Treasury finishing at 1.60%. Overall, the Barclays U.S. Intermediate Govt/Credit Index finished with a slight positive return of 0.16%. The Federal Reserve met twice over the last three months, with a high level of attention focused on the September meeting. As expected, no changes were made to monetary policy. However, Fed officials indicated, if economic data remains firm, an interest rate hike is still a possibility in 2016. The Fed is attempting to strike the right balance of normalizing interest rates in a modest growth environment.

In the Income Total Return portfolio, we took profits in a municipal bond ETF and allocated those proceeds to a floating rate strategy. We made no changes in the Cash Yield portfolio. We remain broadly diversified in both strategies, with interest rate risk lower than the broad bond index. Intermediate bond managers and preferred securities were the top contributors, while alternative strategies detracted slightly.

Balanced Portfolio

Equity markets began the quarter with strong gains in July, as fears over Brexit receded, and then added small gains over the next two months. Overall the S&P 500 Index was up 3.85%. Small caps led all market caps, while Technology was the best performing sector. There was a wide dispersion of returns in fixed income, with credit sensitive sectors leading and Treasuries down slightly. Broad bond indices were modestly positive.

Economic data remains supportive of a slight preference for risk assets. However, we are mindful of the impact of low yields on future returns for the fixed income portion of the portfolio. In order to prepare for this, we increased our exposure to uncorrelated alternative strategies during the quarter. These include market neutral and managed futures managers. We continually examine the portfolio to ensure the level of risk remains at the appropriate level. Moderate allocation managers and exposure to small caps contributed to performance.

Absolute Return Portfolio

It was a positive quarter for markets, and volatility across equities and fixed income was lower compared to recent quarters. The recent data indicates that the global economy appears to be recovering, and will likely remain at low levels. It would not be unusual to see volatility levels increase going forward. Throughout the quarter, we made some changes to our strategy by slightly reducing the overall allocation to the fixed income, and increasing our allocation to the alternative. We believe this change will optimize this Portfolio's risk adjusted returns by mitigating some of the instability in the markets.

Faith & Values Portfolio

Equities jumped out to a strong lead over fixed income in July, as stocks rallied and broad bond indices moved sideways. The majority of assets classes then moved sideways for the remainder of the quarter. Within the Faith & Values universe, screened to meet our criteria, the strongest equity returns were found outside the U.S. in emerging markets and foreign large cap stocks. While these returns look attractive, these sectors can be subject to much higher levels of volatility and sharp drawdowns. We are focused on optimizing the universe to provide risk and return in-line with a moderate risk tolerance. Overall, we made some small changes to the portfolio. We reduced exposure to large cap equites, while increasing exposure to mid and small caps. We also added a new multi-asset allocation manager with a strong track record. Overall, we retained a slight preference for equities, which contributed to performance.

Global Portfolio

Global markets had their best quarterly returns since 2014 during the third quarter. Stocks outside of the U.S. outpaced the S&P 500 with the MSCI EAFE NR Index finishing the quarter up 6.43%. In Europe, the economic recovery remains sluggish and post-Brexit shocks have yet to materialize. The European Central Bank (ECB) is buying about $90 billion per month in government and corporate bonds. This has pushed interest rates to historically low levels, shifting investors up the risk curve in search of returns, which has helped European stocks. The MSCI Europe Index was up 5.4% during third quarter, with German and Spanish markets leading the way. In Japan, stocks continue to move higher, delivering 8.6% for the third quarter. This can largely be attributed to continued accommodative monetary policy as the Bank of Japan (BOJ) is buying ETFs to raise asset prices, and is quickly becoming the largest shareholder in the Nikkei 225 Index. Emerging markets continued to produce strong performance, led by China and Brazil, as both regions were up 14% and 11.4%, respectively. Throughout the quarter, we made minor adjustments by shifting weights to our strongest active managers. While we are cautious on developed market equities, we continue to hold our overweight position to U.S. equities relative to our benchmark.

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

Member countries are notorious for cheating on these output targets, so the real effect could be minimal, but market participants are encouraged.

As always, risks to our outlook exist. Elevated debt levels in conjunction with negative interest rates in Europe have been harsh to their banking sector. Government intercession is a growing likelihood. Many economists forecast a bounce back in corporate earnings. Investor anxiety would likely rise with another disappointing quarter.

We believe that positive developments continue to outweigh uncertainty, and look forward to a good end to the year.

KEY TAKEAWAYS

- No recession in the near future
- Inflation modestly increases
- Election volatility would be short term
- Fed wants to hike in December

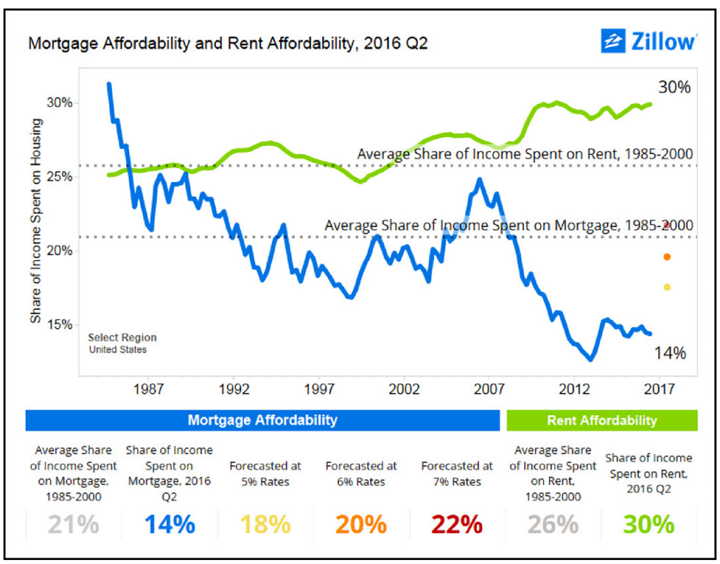
Has anything happened we should know about? If there are any changes in your financial situation, investment objectives or specific restrictions, please contact your investment advisor or The Pacific Financial Group, Inc. It is critical to the achievement of your investment goals and the success of our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

We see reasons for optimism on the global economic outlook. Developed market economies have made significant progress in recovering from the financial crisis, and impulses for growth have turned more positive. No recession is forecast in the near future. Domestic GDP growth is expected to remain positive, and potentially rebound above the 2% threshold this quarter. Housing is strengthening overall, and leading economic indicators are trending higher. Employment has continued to improve. The U.S. economy is a picture of steady resiliency.

Inflation in the U.S. is expected to remain under control, in aggregate, and continue its slow ascent. It has slowly obeyed the ministrations of the Fed's accommodative policy and inched higher, not unlike a cobra's slow rise due to the mesmerizing efforts of a snake-charmer. Consumers will feel the pinch in certain areas, however the overall levels should stay on a gradual course. Almost unheard of outside of a recession, food prices have fallen for nine straight months in the U.S. It's the longest streak of food deflation since 1960. Analysts cite low oil and grain prices, as well as cutthroat competition from discounters. Property renters are not as fortunate. Per Zillow, share of income spent on rent in 2016 has reached a high of 30%. Mortgages, on the other hand, are still quite reasonable at 14%. Health care costs have also been on the rise. We believe these types of counter-balancing forces will result in only modest increases in inflation.



Source: Zillow

The looming presidential election could easily boost market volatility. A Trump victory could be met with a gap down in international markets, which could trigger a temporary domestic sell-off. Conversely, there was a sense of relief in markets following the first Trump/Clinton debate, in which many commentators suggested Clinton came away in better shape, which was partially expressed via higher prices. Historically, election outcomes have not had a lasting effect on markets, and we believe that any reactionary movements will be short term. Our system of checks and balances limits what any president can do.

The Federal Reserve has signaled their desire to raise their target interest rate before year end, and most likely at the December FOMC meeting. Softening late-summer economic data is giving way, once again, to growth metrics that support a hike, and we expect it to continue. Fed Chief Yellen said at her post-meeting conference in September that "most" policymakers already thought the time was appropriate for a rate hike, but that it wouldn't hurt to wait a little while before doing so. The next FOMC meeting is actually in November, however it falls only six days before the election. It strikes us as unlikely that Fed members want that kind of attention from either investors OR the new president so close to Election Day. The economy can handle a .25% hike, and the Fed appears ready. Even with a hike, we expect government bond yields to remain very low in much of the developed world over the next few years, especially in Japan and the Euro-zone where monetary policy is likely to remain highly, if not exceptionally, accommodative.

Energy markets have stabilized, and are expected to represent much less of a drag on markets and earnings. The global oil market continues to rebalance excess supply with demand levels, yet progress has been made. The Organization of the Petroleum Exporting Countries (OPEC) recently announced an agreement among member countries to cut oil production by roughly 500 million barrels a day by 2017. The decision caught markets by surprise, as evidenced by the rise in spot oil price and market rally.

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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.

Third quarter proved to be positive for financial markets, with positive returns and lower overall volatility. Equity returns outside of the U.S. regained some momentum, outpacing domestic indices, with the MSCI EAFE NR Index (Europe, Australasia and the Far East) gaining 6.43%. Emerging Markets were also fine performers, with the MSCI Emerging Market Index rising 9.03% over the past three months. In the U.S., mid and small caps once again outperformed large caps, with all three ending with positive returns.

Technology led the way as the best performing sector, rising 12.9%. Tech sector leaders have delivered an enviable double whammy of above-consensus earnings guidance, while possessing a safety cushion of large cash positions. Utilities was at the other end of the spectrum, losing -5.9%. In style, growth took back its advantage over value in small and large caps, while value jumped to the advantage over growth right at quarter end in mid-caps.

Our Aggressive Strategy normally holds a blend of large, mid, and small cap stocks due to the long-term nature of this strategy. Large cap growth and international exposure had the highest quarterly returns in the strategy.

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.

Equities spent the first two months of the quarter posting positive gains with historically low volatility, followed by a much bouncier ride in September. Even so, the S&P 500 Index finished the last month at nearly its starting point. The S&P 500 rose 3.85%, while small-caps, as measured by the S&P 600, and mid-caps, as measured by the S&P 400, were up 7.2% and 4.14%, respectively. Central bank activity once again stepped onto center stage, as markets watched and hoped for additional stimulus. While the policy decisions were not always what was expected, market participants were comfortable enough to favor risk assets. Technology and small cap exposure was modestly increased in the strategy.

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, although exposure has increased where suitable investments are available.

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.

Equities ended the quarter with an advantage over most fixed income sectors, with high yield being the exception. A global scarcity of yield continued to coax market participants out the risk spectrum as a quest to meet income and return requirements. Credit sectors outperformed governments, and small and mid-caps outpaced large caps. The Barclays Intermediate Government Credit Index was nearly flat with a gain of 0.16%. Large caps, as measured by the S&P 500, gained 3.85%.

Economic data supports a slight preference for risk assets. Allocations remain modestly tilted toward equity over fixed income. Government bond exposure was reduced during the quarter, with an increase in credit. Small and mid caps were also increased.

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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.

There was a wide dispersion of returns in fixed income, with credit sensitive sectors leading and Treasuries down slightly. Broad bond indices were modestly positive. Bonds, as measured by the Barclays Intermediate Government Credit Index, finished the quarter up 0.16%. The remarkably low yield environment abroad continues to spur demand for positive yielding U.S. dollar-denominated assets. The Fed has intimated a desire to hike rates before year end. Government bond exposure was reduced during the quarter.

Q2 2016 HIGHLIGHTS

- *GDP growth for Q2 2016 was revised up to 1.4%, with business investment posting the strongest gains in three quarters. Consumer Consumption continued to boost growth, while inventories dropped for the first time since 2011.*
- *The U.S. Consumer Price Index (CPI) increased 0.20% in August.*
- *Unemployed persons and labor force participation held steady throughout the quarter, with the unemployment rate holding at 4.9% in August.*
- *Consumer Sentiment increased in September to 91.2, beating expectations.*
- *Personal income increased by 0.2% in August, the smallest gain since February.*
- *Personal savings held steady at 5.7% in August.*
- *Retail Sales declined in August by 0.3%, reflecting the first drop in 5 months. Sales for almost all stores decreased with the exception of grocers and clothing.*
- *New Home Sales declined, coming off the highest rate since 2007 set in July.*
- *Home prices, as measured by the S&P/Case-Shiller Home Price Index: Composite 20, have steadily climbed this year, up 5% in July over one year ago.*
- *Housing starts dropped in August, down to a seasonally adjusted annualized rate of 5.8%. Permits for future housing dropped by 0.4%.*
- *Construction spending dropped by 0.7% in August, driven by a 2% decline in public construction spending.*
- *The Markit Manufacturing PMI decreased over the quarter, ending at 51.5 in September. This is up from the all-time low set in May.*
- *The ISM non-Manufacturing PMI index bounced to 57.1, its highest level since October 2015, after dropping to 51.4 in August.*
- *The ISM Manufacturing PMI increased to 51.5 in September, boosted by new orders and production.*

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