

Q2

Quarterly Market Review

Second Quarter 2017

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This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

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Quarterly Market Commentary

Second Quarter 2017 – July 7, 2017

How many new ways are there for the same old market forecasters to twist a timeless truth:

None of us has any idea what the markets will do next.

Consider the following quote from a recent *Wall Street Journal* article entitled, “Global Stocks Post Strongest First Half in Years, Worrying Investors.”

“The question for stock investors is whether the strong first six months [of 2017] heralds a choppy second half or the start of a multiyear upswing. The data on global rallies offers a mixed record.”

Let’s translate that into plain-speak:

“We have no clue whether high-flying markets will go up or down the rest of the year. Heads or tails, we can’t call it either way.”

The article also reports: “All but four of the 30 major indexes representing the world’s biggest stock markets by value have risen this year, a first-half performance unmatched since 2009.”

What should we make of this data point? Or debates on whether U.S. equities are over-valued? Or the mixed signals on rising versus stay-put interest rates?

And by the way, why would strong returns *worry* investors, as the WSJ article title suggests? Shouldn’t we celebrate them?

Rather than try to answer unanswerable questions about a wonderful or worrisome future, here’s a more useful question to consider:

Does your low-cost globally diversified portfolio still reflect your goals and risk tolerances?

If the answer is yes, that’s great news. There is no sure-fire investment approach that guarantees you’ll come out ahead. As Nobel laureate Eugene Fama has observed, “The probability that you can lose money never goes away ... It’s the nature of the beast.” That said, you are already doing all you can to capture expected market returns while managing the risks involved.

But what if your portfolio seems off-track from your carefully crafted plans? Perhaps your own goals have changed. Or recent market surges may have shifted your portfolio’s target allocations, so you’re now holding a little too much of a good thing. That’s nice as long as those high-flying assets continue to soar, but it can set you up for an overly hard fall when they stumble.







Because prudent portfolio management calls for maintaining your balance in good markets and bad, we focus on questions of a different sort. Questions like: How can we best employ upfront asset allocation and ongoing rebalancing to keep your portfolio on track toward your personal financial goals?

If you ask us, that’s a better question than what the rest of 2017 has in store for us as investors. For all the clever ways there are to phrase a forecast, that’s anybody’s guess.

David Bromelkamp
President and CEO
Chief Investment Officer

Market Summary

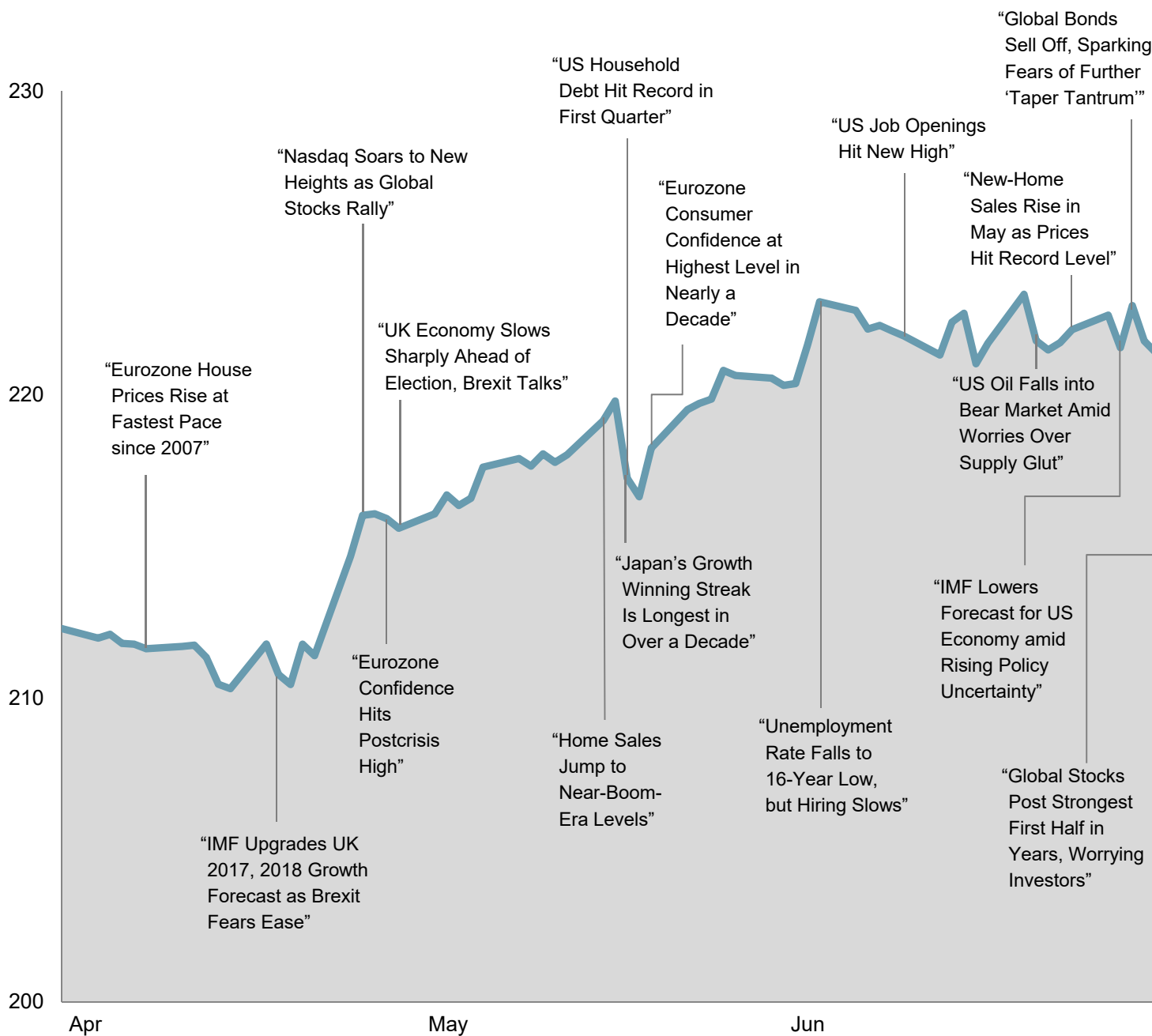
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2017	STOCKS				BONDS	
	3.02%	5.63%	6.27%	1.67%	1.45%	0.60%
						
Since Jan. 2001						
Avg. Quarterly Return	1.9%	1.5%	3.1%	2.7%	1.2%	1.1%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	5.5% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-3.0% Q4 2016	-3.2% Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citi WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2017, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citi fixed income indices copyright 2017 by Citigroup.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2017



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

Short Term (Q3 2016–Q2 2017)



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights reserved.

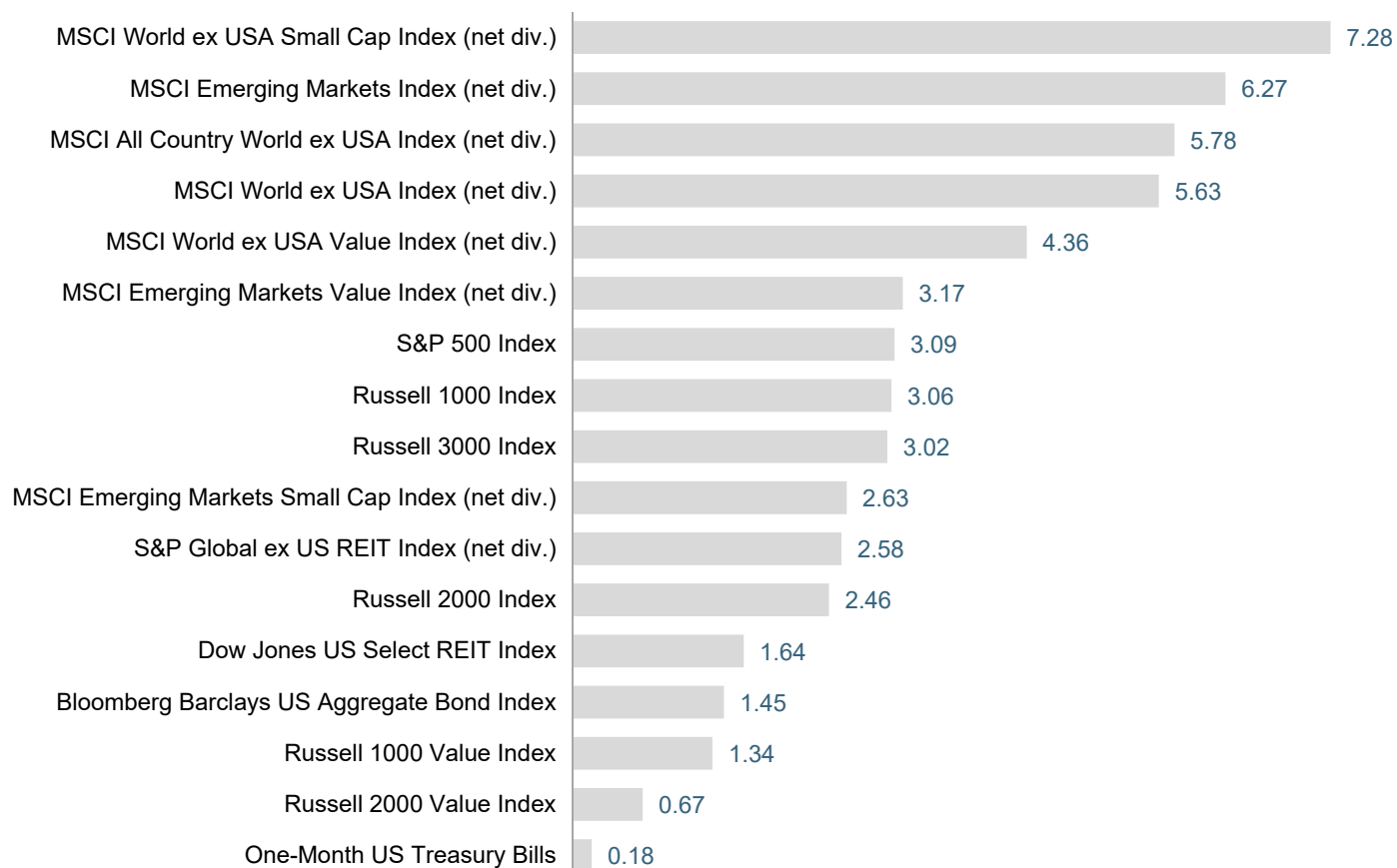
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World Asset Classes

Second Quarter 2017 Index Returns (%)

Looking at broad market indices, non-US developed markets and emerging markets recorded similar returns, outperforming the US during the quarter.

The value effect was negative in the US, non-US, and emerging markets. Small caps outperformed large caps in non-US developed markets but underperformed in the US and emerging markets.



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US Stocks

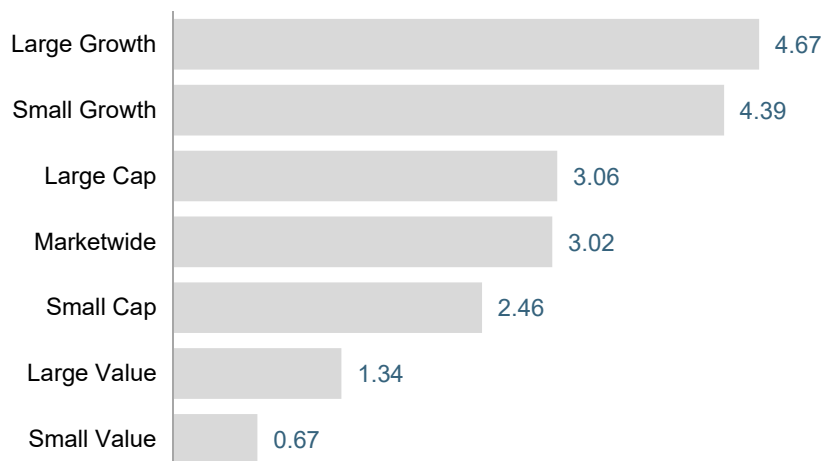
Second Quarter 2017 Index Returns

The broad US equity market posted positive returns for the quarter but underperformed both non-US developed and emerging markets.

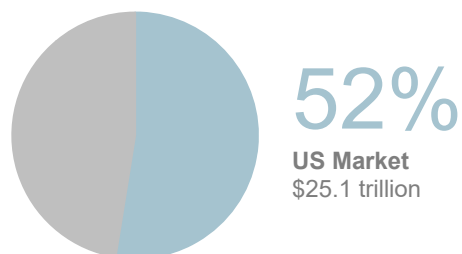
Value underperformed growth indices in the US across all size ranges.

Small caps in the US underperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	8.93	18.51	9.10	14.58	7.26
Large Cap	9.27	18.03	9.26	14.67	7.29
Large Value	4.66	15.53	7.36	13.94	5.57
Large Growth	13.99	20.42	11.11	15.30	8.91
Small Cap	4.99	24.60	7.36	13.70	6.92
Small Value	0.54	24.86	7.02	13.39	5.92
Small Growth	9.97	24.40	7.64	13.98	7.82

* Annualized

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2017, all rights reserved.

International Developed Stocks

Second Quarter 2017 Index Returns

In US dollar terms, developed markets outperformed the US equity market and had similar performance to emerging markets indices during the quarter.

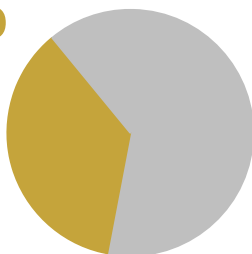
Looking at broad market indices, the value effect was negative across all size ranges in non-US developed markets.

Small caps outperformed large caps in non-US developed markets.

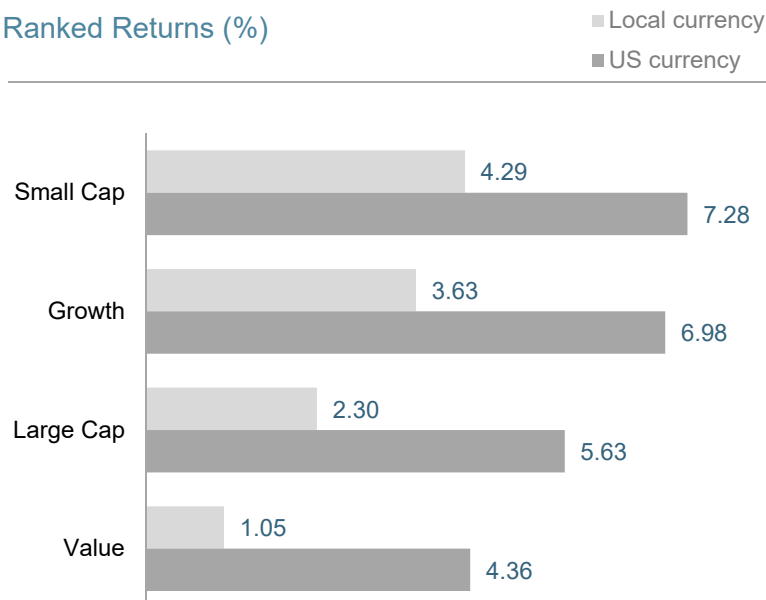
World Market Capitalization— International Developed

36%

International
Developed
Market
\$17.5 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	12.82	19.49	0.67	8.15	1.00
Small Cap	15.45	21.26	4.02	11.43	2.92
Value	10.27	24.24	-0.94	7.69	0.09
Growth	15.57	14.90	2.22	8.54	1.84

* Annualized

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Emerging Markets Stocks

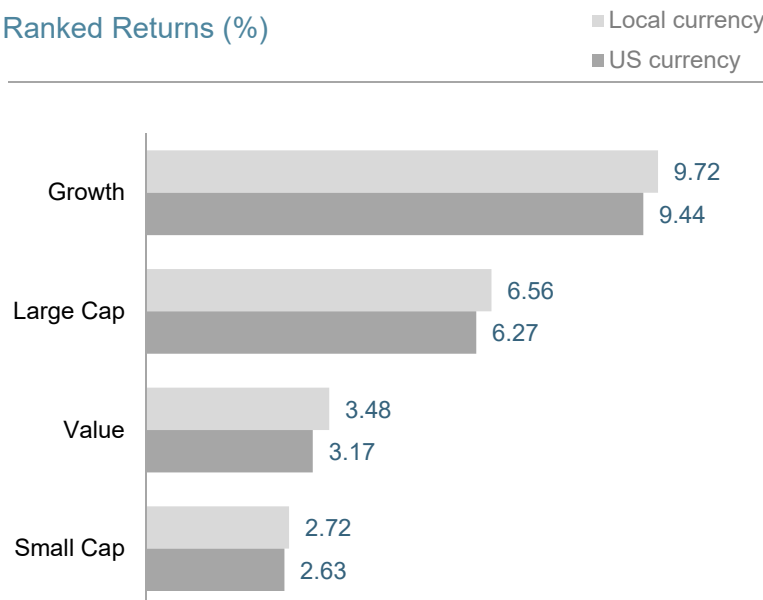
Second Quarter 2017 Index Returns

In US dollar terms, emerging markets indices outperformed the US and recorded similar performance to developed markets outside the US.

Looking at broad market indices, the value effect was negative across all size ranges in emerging markets.

Small caps underperformed large caps in emerging markets.

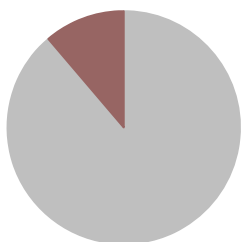
Ranked Returns (%)



World Market Capitalization— Emerging Markets

11%

Emerging Markets
\$5.4 trillion



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	18.43	23.75	1.07	3.96	1.91
Small Cap	15.99	17.03	0.81	5.15	2.17
Value	13.65	21.57	-1.33	1.67	1.53
Growth	23.45	25.99	3.42	6.18	2.22

* Annualized

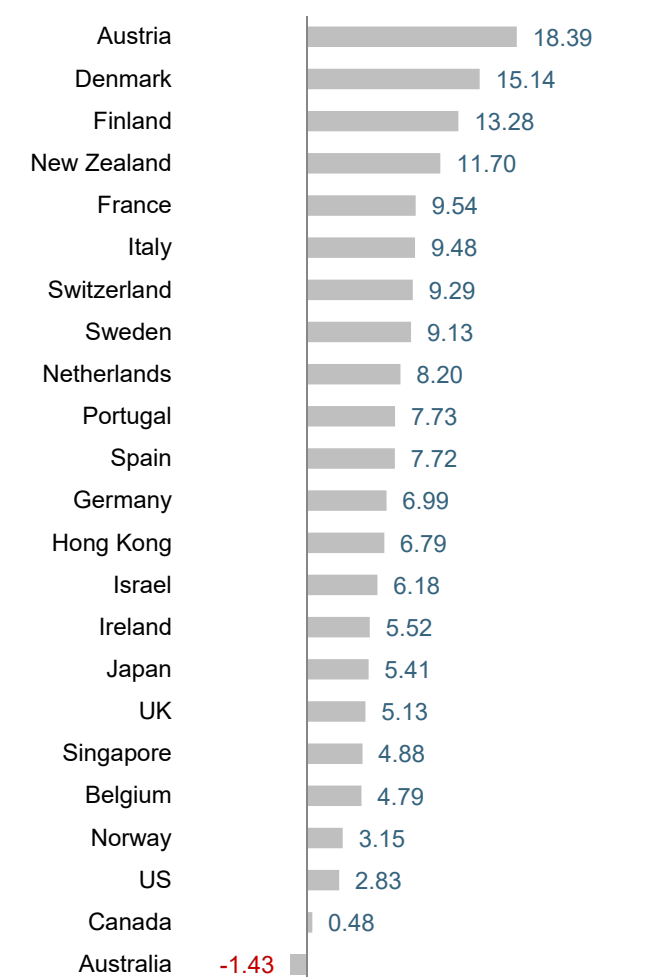
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Select Country Performance

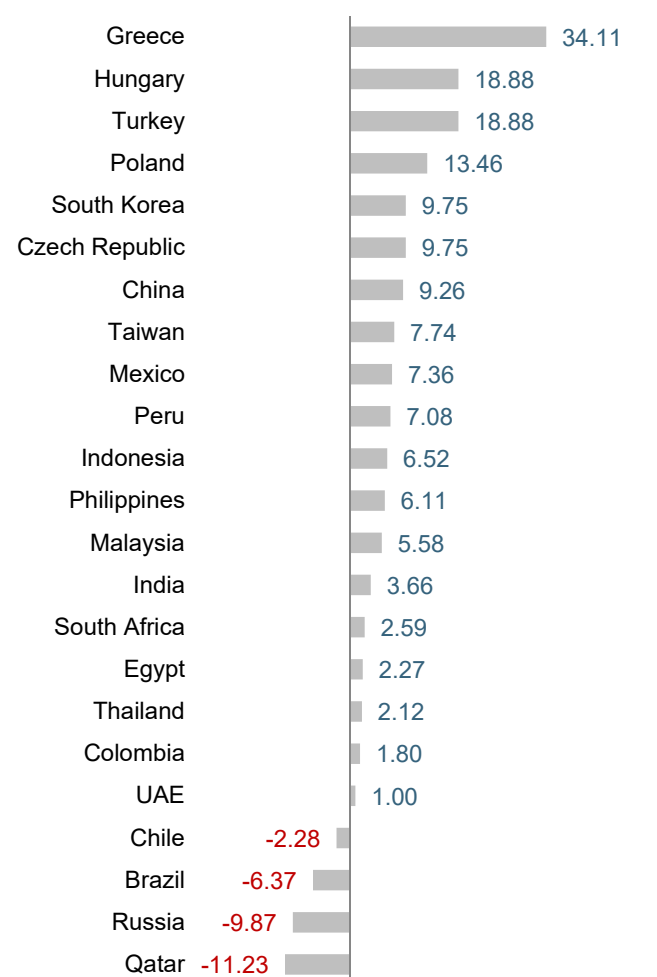
Second Quarter 2017 Index Returns

In US dollar terms, Austria and Denmark recorded the highest country performance in developed markets, while Australia and Canada posted the lowest returns for the quarter. In emerging markets, Greece, Hungary, and Turkey posted the highest country returns, while Qatar and Russia had the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



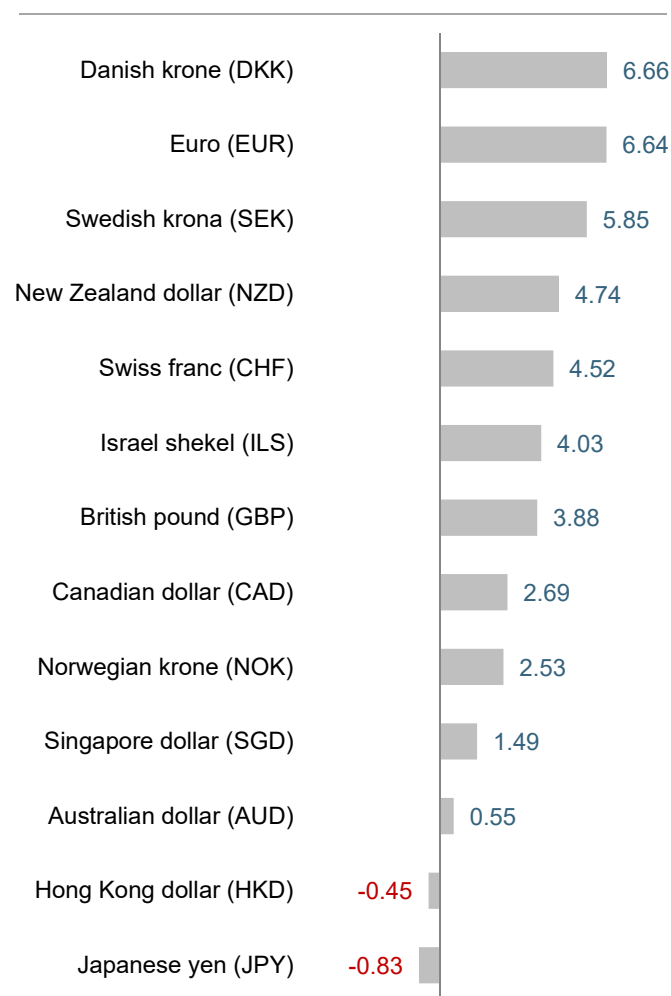
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Select Currency Performance vs. US Dollar

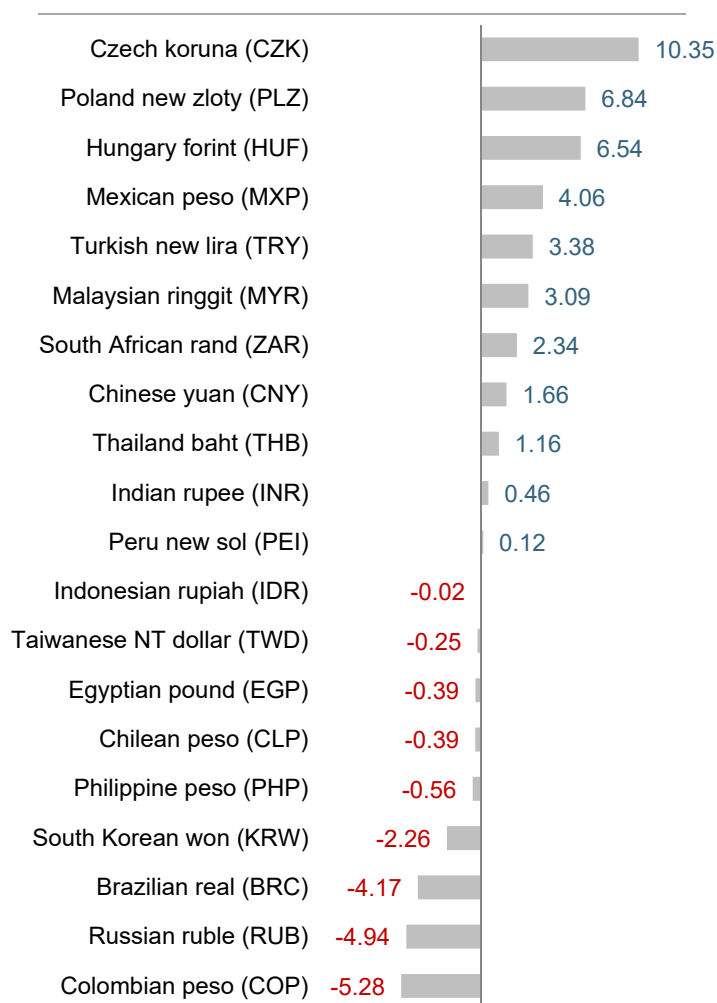
Second Quarter 2017

Most non-US developed currencies appreciated against the US dollar during the quarter, with the Danish krone and the euro experiencing the biggest gains. Emerging markets currencies were mixed vs. the US dollar. The Czech koruna appreciated by more than 10%, while the Russian ruble, Brazilian real, and Colombian peso depreciated by more than 4%.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)

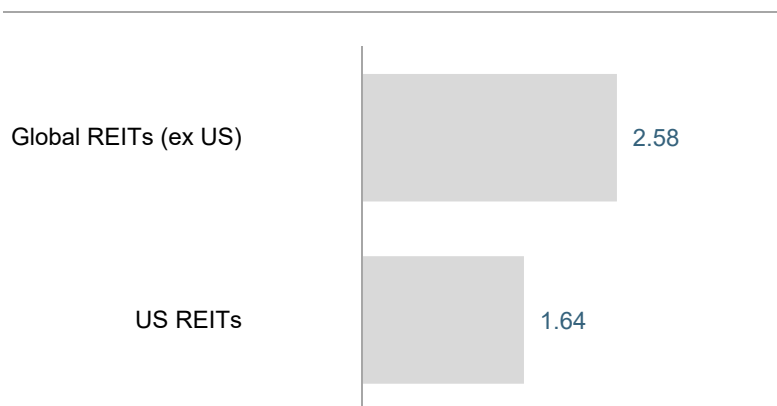


Real Estate Investment Trusts (REITs)

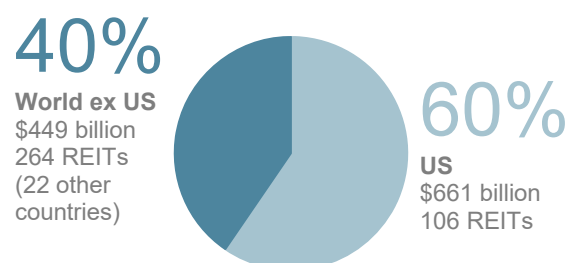
Second Quarter 2017 Index Returns

Non-US real estate investment trusts outperformed US REITs.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	1.36	-2.43	8.04	9.00	5.42
Global REITs (ex US)	6.30	-0.37	1.13	6.86	0.20

* Annualized

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Commodities

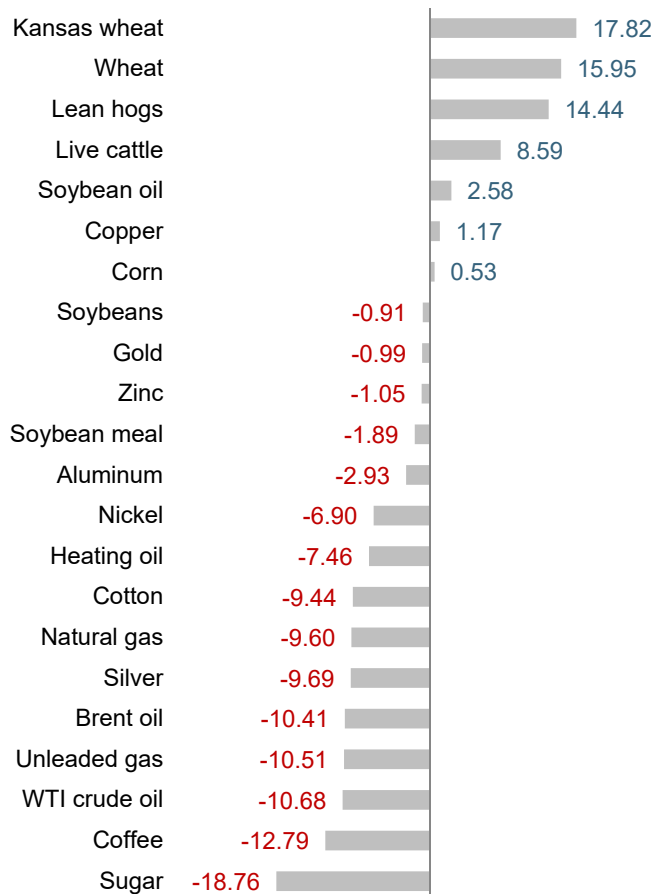
Second Quarter 2017 Index Returns

The Bloomberg Commodity Index Total Return declined 3.00% during the second quarter.

The livestock and grains complexes led quarterly performance, with lean hogs returning 14.44%, live cattle 8.59%, wheat (Chicago) 15.95%, and wheat (Kansas) 17.82%.

Softs was the worst-performing complex, with sugar and coffee declining 18.76% and 12.79%, respectively. Cotton also experienced a decline, losing 9.44%.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-5.26	-6.50	-14.81	-9.25	-6.49

* Annualized

Fixed Income

Second Quarter 2017 Index Returns

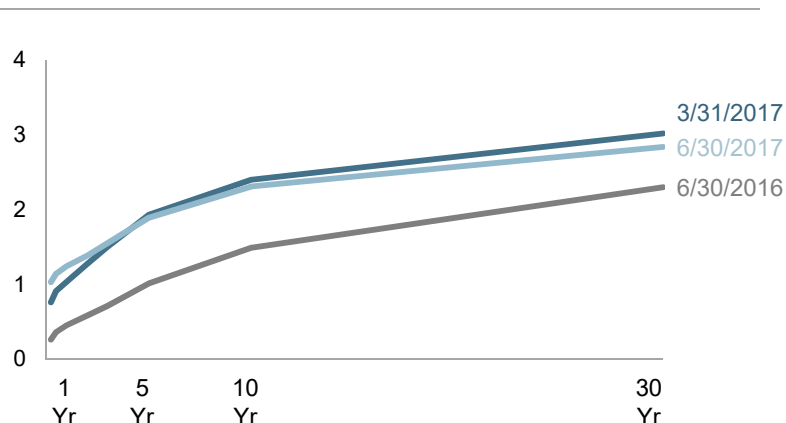
Interest rates were mixed across the US fixed income market during the second quarter. The yield on the 5-year Treasury note decreased 4 basis points (bps) to 1.89%. The yield on the 10-year Treasury note decreased 9 bps to 2.31%. The 30-year Treasury bond yield decreased 18 bps to finish at 2.84%.

The yield on the 1-year Treasury bill rose 21 bps to 1.24%, and the 2-year Treasury note yield rose 11 bps to 1.38%. The yield on the 3-month Treasury bill climbed 27 bps to 1.03%, while the 6-month Treasury bill yield increased 23 bps to 1.14%.

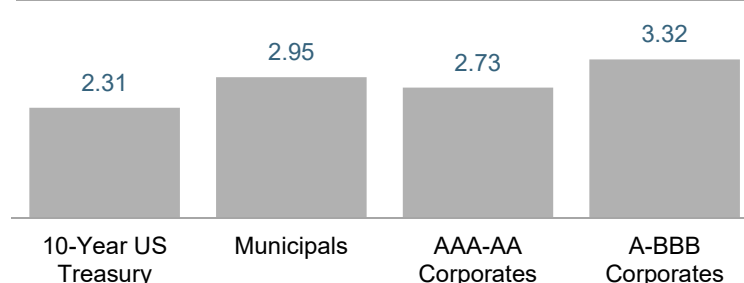
In terms of total returns, short-term corporate bonds gained 0.59% and intermediate corporates gained 1.49%.

Short-term municipal bonds gained 0.56%, while intermediate muni bonds returned 1.97%. Revenue bonds gained 2.19%, outperforming general obligation bonds by 39 bps.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Government Bond Index	5.44	-6.96	5.54	2.82	7.27
Bloomberg Barclays Municipal Bond Index	3.57	-0.49	3.33	3.26	4.60
Bloomberg Barclays US Aggregate Bond Index	2.27	-0.31	2.48	2.21	4.48
Bloomberg Barclays US Corporate High Yield Index	4.93	12.70	4.48	6.89	7.67
Bloomberg Barclays US TIPS Index	0.85	-0.63	0.63	0.27	4.27
BofA Merrill Lynch 1-Year US Treasury Note Index	0.30	0.40	0.41	0.37	1.21
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.31	0.49	0.23	0.17	0.58
Citi World Government Bond Index 1-5 Years (hedged to USD)	0.65	0.28	1.30	1.37	2.52

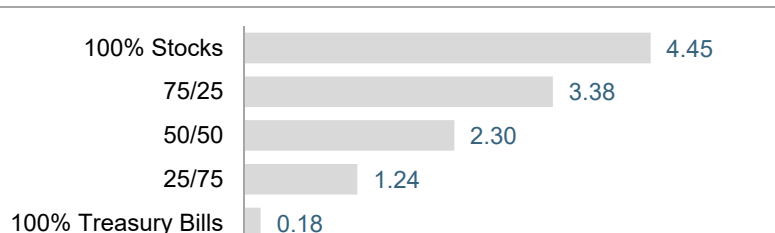
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Impact of Diversification

Second Quarter 2017 Index Returns

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)

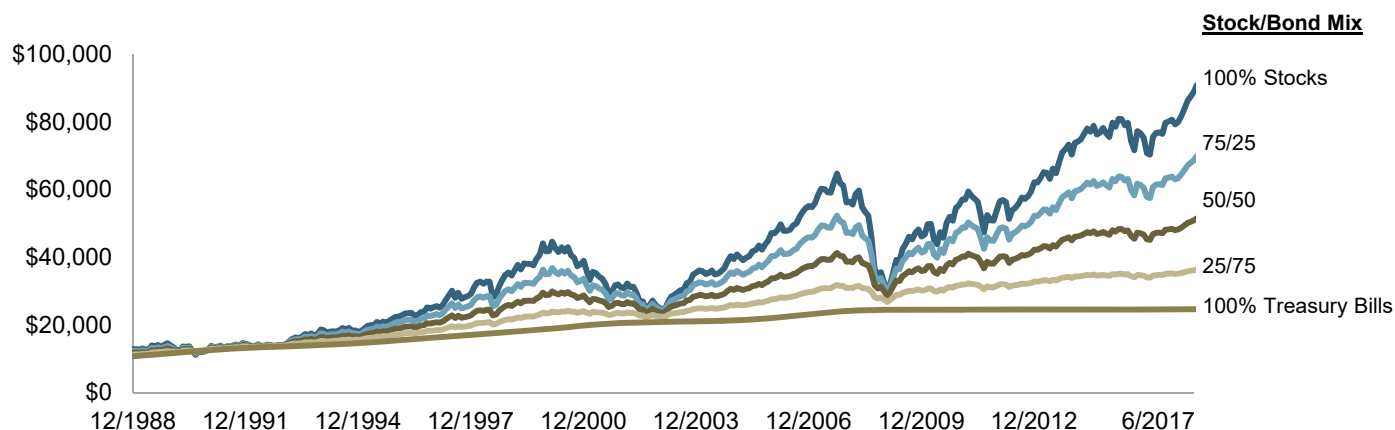


Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year
						STDEV ¹
100% Stocks	11.82	19.42	5.39	11.14	4.27	16.96
75/25	8.84	14.41	4.17	8.38	3.60	12.71
50/50	5.93	9.57	2.89	5.62	2.73	8.46
25/75	3.08	4.90	1.56	2.87	1.68	4.22
100% Treasury Bills	0.29	0.40	0.17	0.12	0.45	0.29

* Annualized

Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2017, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).