TIMONIER

Wealth Beyond Financial™

From the Engine Room

2nd Quarter 2016

Quarterly Market Review

Second Quarter 2016

This report features world capital market performance and a timeline of events for the past 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 performance of globally diversified portfolios and features a quarterly topic.

"The best way to predict the future...is to create it!"

Overview:

A Chance of a Lifetime: Taking Advantage of Fear

"A society that puts equality -– in the sense of equality of outcomes --- ahead of freedom will end up with neither equality nor freedom. The use of force to achieve equality will destroy freedom, and the force, introduced for good purposes, will end up in the hands of people who use it to promote their own interests."

~ Milton and Rose Friedman, Free to Choose: A Personal Statement

Much like the forces that created the Great Depression, were the forces that culminated in the Great Financial Collapse we all experienced just seven short years ago. The ruminations of fear continue to cycle through the emotional psyche of the global investor and government leaders alike. For the American investor evidence is shown in the dollars he and she have stuffed into their mattresses. For the first time in history, US citizens collectively have over $12 trillion in cash deposit accounts. Earning near ZERO returns! When you consider that we just experienced a 2.25% trailing year of inflation…they actually booked a loss of -2.25% on their purchasing power. Not to be outdone, Central Banks around the world have held down interest rates through Quantitative Easing programs and exercising shear dovish tactics by refusing to raise overnight lending rates in spite of rationale to do so. As long as people are allowed to move about freely capitalism will survive. With minimal government oversight and regulations, it thrives. Ideas, sweat, and use of technologies are the engine of entrepreneurship that lead to life's wonders, not government. But for the moment, their polices and theatrics have led to a once in a lifetime opportunity. My message this quarter will be brief. For I don't want anything to drown out your personal attention to this matter!

I will say, for those most conservative at heart, that there is no need for debt on the balance sheet. AND…I will now say that for those that do have mortgages or other debt, that this is a historic moment. One that transcends even the recovery of the Great Depression. Fifteen and Thirty-year mortgage rates have never been lower and I want you to double and triple check all of your costs of debt. A client of ours recently qualified for a 30 year 3.375% jumbo loan. There were no points and no origination costs associated with this transaction. After deducting the mortgage interest, the after tax cost of borrowing will be about 2.25%! An even better cost of borrowing than a 30-year mortgage, is to consider the 15-year mortgage market. **As I write, the 15-year national mortgage rates are in the 2.66% range.** After deducting the mortgage interest cost against your taxable income, it will result in a net borrowing cost in the 1.65% range. If you have more than 5 years left on your borrowed monies, even a one quarter of one percent lowering of your loans will be worth the hassles of refinancing and any costs associated with the process.

You will want to initiate your research of offerings by giving your current mortgage lender a call and simply say, "I am looking to refinance my mortgage and I am curious if you have a desire to keep my business?" Then, check with one or two local or national lenders. It's not that difficult. And…it's a financially beneficial exercise. Each of you have a unique situation and set of goals. And a discussion with a qualified mortgage broker may save you thousands of dollars on the low end and perhaps tens of thousands or more on the high end, over the life of the loan. **Just give our office a call to vet out the noise, if the sales people or the process gets confusing.**

"Peace comes not from the absence of conflict, but from the ability to cope with it."
~Source Unknown

Mortgages have been mentioned in English common law documents that date back as far as 1190 AD, but to this day only in the United States and Denmark, are long term fixed mortgages prevalent. Most countries issue shorter-term and variable rate mortgages…where the costs of borrowing are not deductible and require a much larger down payment. One thing I have come to know about our human species is they like certainty. A low fixed rate whether it's 10 years, 15 years, or 30 years provides that certainty.

AND now…the caveat of cheap mortgage rates!

If it is great to be a borrower of monies…it's not the best times to be a lender of monies. And that is the position an investor takes when he or she invests in bonds. A bond buyer…IS in the position of being a lender of monies. Mortgage rates topped out in October 1981 with a 30-year fixed rate of 18.45% (ouch). It was almost unthinkable. But that was the reality for home buyers in a year when the average rate was almost 17%. Unlike today, in the early 1980's, the Federal Reserve was waging a war on inflation and in an effort to tame double-digit inflation, the hawkish Central Bank drove interest rates higher. If you, as an investor, were providing that loan for our client mentioned above, you would have been earning the 18.45% return gross of admin costs for 30 years or until the loan was paid off through the refinancing or sale of the property. Our clients' cost of borrowing was steep. If this were a $1 million mortgage, his principal and interest payments would have been a staggering $14,018.20 a month! *It was a phenomenal time to be a buyer of bonds then.*

But today, the economic conditions are turned upside down. Instead of trying to dampen down inflation, the government is trying to stimulate inflation. Today, if you as an investor, are providing that loan for our client…you are receiving a 3.375% return, gross of admin costs for a 30-year loan. At that rate, our clients' principal and interest payments on his $1 million mortgage are a modest $4,014.23 per month. Further, as the loaner of the funds, the bond investor…is locked into receiving a yield of 3.375% for thirty years that will be taxed at his full federal and state tax rates…and subjected to the ongoing inflation (now at 2.25%) that the government is trying to flame into the economic system. And that my friend, is not very safe OR secure. What a stunning turnaround!

"Right now, I am not buying high yield bonds. There is great temptation to buy them for their attractive yields. But the spread in yield over government treasuries considering their default rates, leave them very risky. Especially, in an environment where one day those rates will rise. In fact, right now, I am shorting high yield bonds…meaning, I am a seller of bonds as an investor!"
~ Bill Gross, Janus Capital Fund Manager and noted as one of history's all time bond experts

I think that says it all…to both borrowers and lenders!

"The stock market is a highly efficient mechanism for the transfer of wealth…from the Impatient to the patient."
Warren Buffett

I am **in gratitude** each day of you allowing Timonier to be a part of this journey with you. **Remain focused on your goals…and not the passing storms and detours that arise from time to time.** Know that we are accountable as your fiduciaries. And our collaborative team of advisors look forward to assisting you in making conscious choices for this one great life you deserve to live. Please contact us any time, if we haven't contacted you first. And in the meantime, *put on the media blinders as a portfolio meditation technique!*

Namaste',

Tim L. Baker, CIMA, GFS

"Every family I have observed that is successfully preserving its wealth is a reflection of the five virtues of truth, beauty, goodness, community, and compassion. Transcending all of these is its reflection of love. Families who preserve their wealth successfully reflect these virtues in their relationships both with family members and with all persons outside the family. I am convinced that without this spiritual component, a family cannot succeed in preserving itself, since its value system will fail and with that failure…will come disintegration."

~ James E. Hughes, Jr., Family Wealth, author

Market Summary

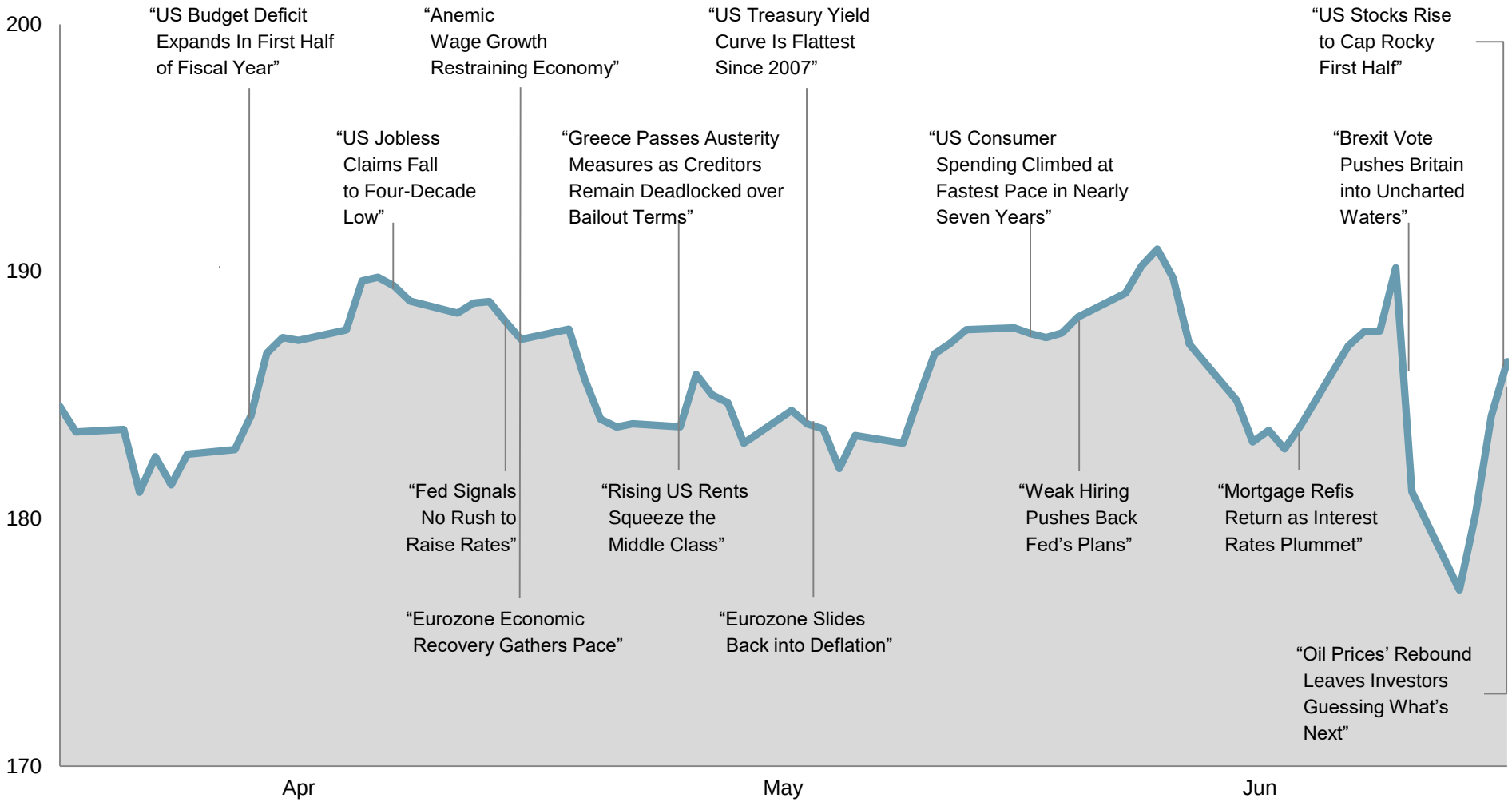
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2Q 2016	**STOCKS**				**BONDS**	
	2.63%	**-1.05%**	**0.66%**	**4.48%**	**2.21%**	**3.11%**
Since Jan. 2001						
Avg. Quarterly Return	1.7%	1.3%	2.9%	2.9%	1.3%	1.2%
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**	-2.4% **Q2 2004**	-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), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup 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 2016, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2016 by Citigroup.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2016

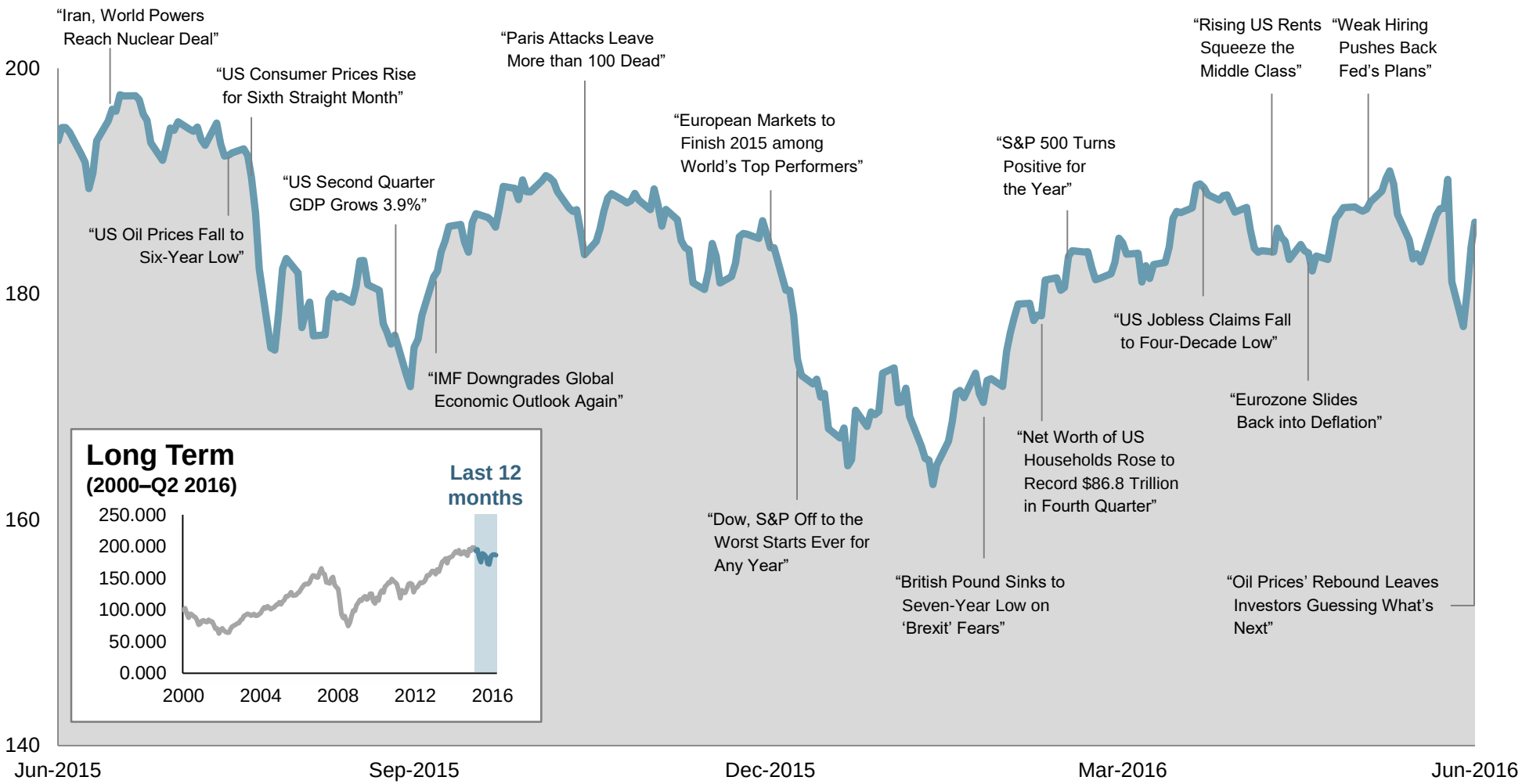


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index.
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



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Graph Source: MSCI ACWI Index. MSCI data © MSCI 2016, all rights reserved.
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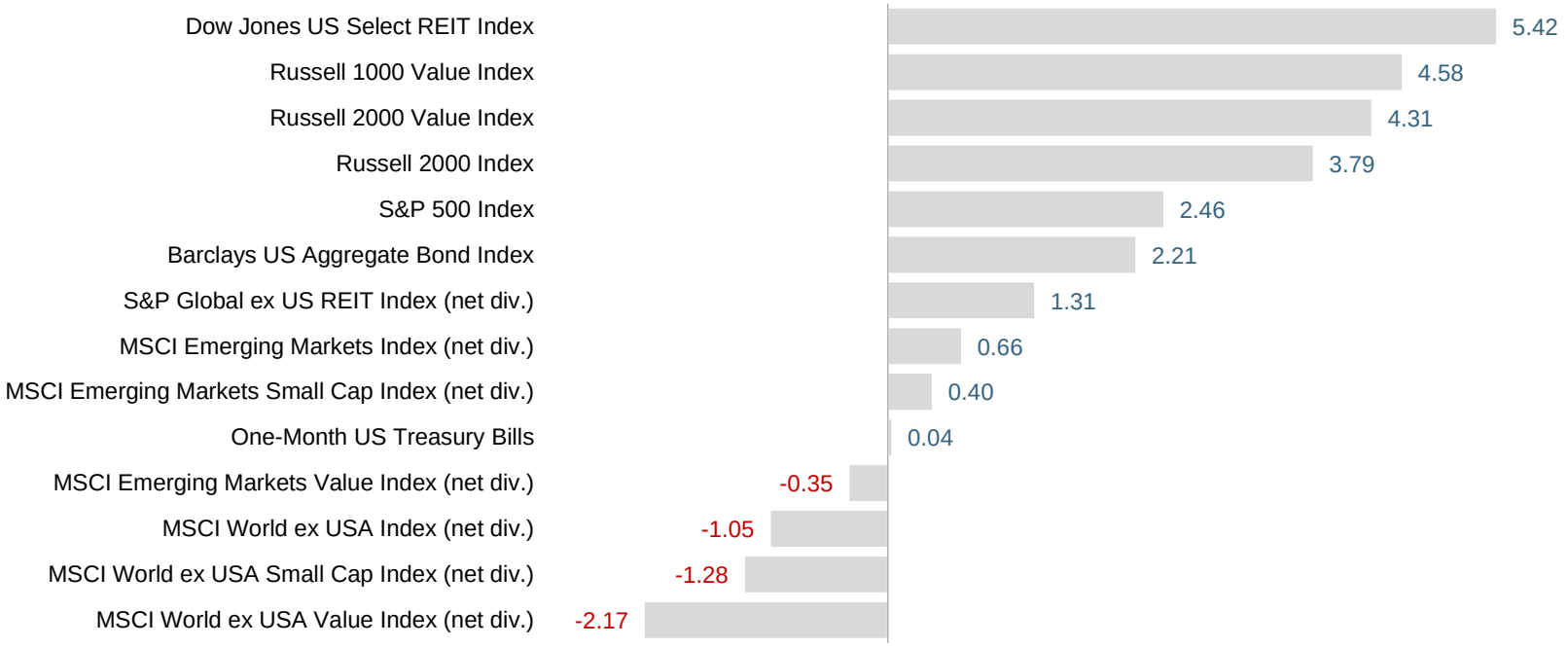
World Asset Classes

Second Quarter 2016 Index Returns (%)

Looking at broad market indices, the US outperformed developed markets outside the US and emerging markets. US REITs recorded the highest returns, outperforming the broad equity market.

The value effect was positive in the US but negative in developed and emerging markets. Small caps outperformed large caps in the US but slightly underperformed in the developed and emerging markets.



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US Stocks

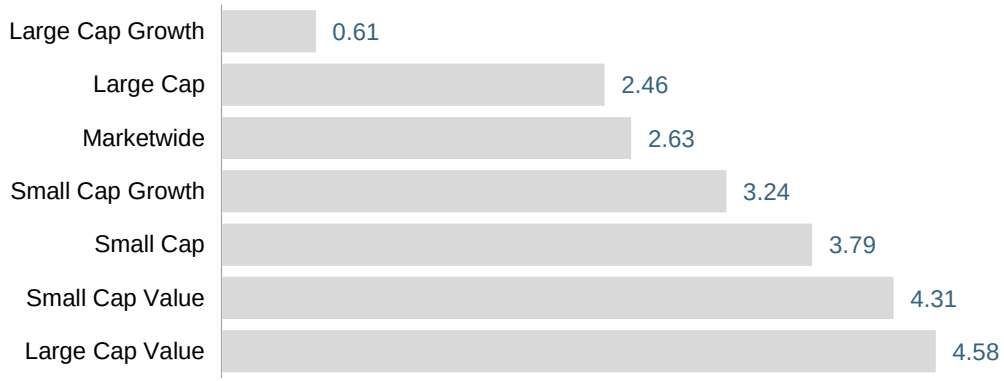
Second Quarter 2016 Index Returns

The broad US equity market recorded positive absolute performance for the quarter.

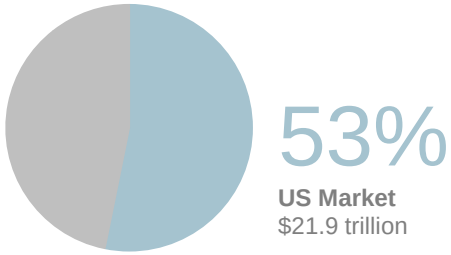
Value indices outperformed growth indices across all size ranges.

Small caps outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	3.62	2.14	11.13	11.60	7.40
Large Cap	3.84	3.99	11.66	12.10	7.42
Large Cap Value	6.30	2.86	9.87	11.35	6.13
Large Cap Growth	1.36	3.02	13.07	12.35	8.78
Small Cap	2.22	-6.73	7.09	8.35	6.20
Small Cap Value	6.08	-2.58	6.36	8.15	5.15
Small Cap Growth	-1.59	-10.75	7.74	8.51	7.15

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 (S&P 500 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. The S&P data are provided by Standard & Poor's Index Services Group.

International Developed Stocks

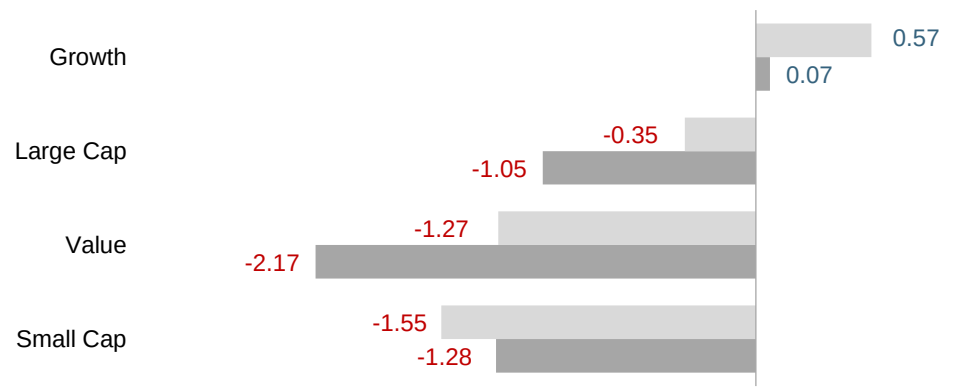
Second Quarter 2016 Index Returns

In US dollar terms, developed markets outside the US lagged both the US equity market and emerging markets indices during the quarter.

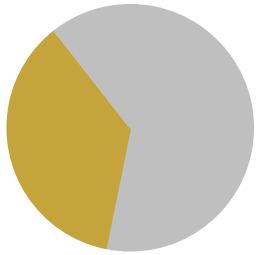
Small caps slightly underperformed large caps in non-US developed markets.

The value effect was negative in non-US developed markets using broad market indices across all size ranges.

Ranked Returns (%)



World Market Capitalization—International Developed



36%

International Developed Market
$14.9 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-2.98	-9.84	1.88	1.23	1.63
Small Cap	-0.69	-3.35	6.34	3.61	3.33
Value	-4.68	-14.35	-0.24	-0.17	0.43
Growth	-1.29	-5.25	3.94	2.58	2.75

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Emerging Markets Stocks

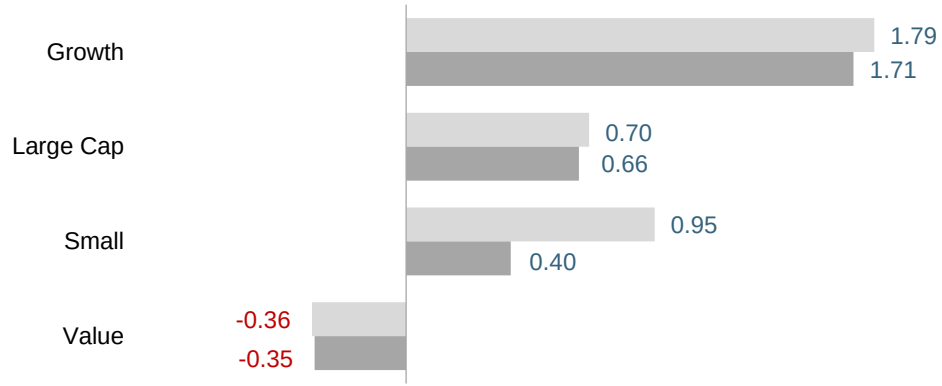
Second Quarter 2016 Index Returns

In US dollar terms, emerging markets indices underperformed the US but outperformed developed markets outside the US.

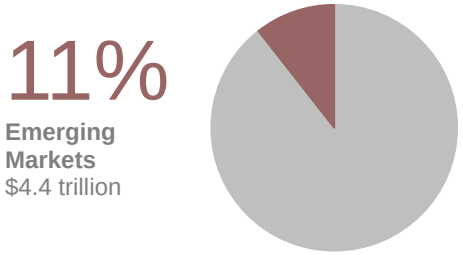
The value effect was negative in emerging markets using broad market indices. Large cap value indices underperformed large cap growth indices. The opposite was true among small caps: Small cap value indices outperformed small cap growth indices.

Small cap indices slightly underperformed large cap indices in emerging markets.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	6.41	-12.05	-1.56	-3.78	3.54
Small Cap	1.38	-12.76	-0.01	-2.29	5.98
Value	7.41	-14.41	-3.30	-5.53	3.29
Growth	5.43	-9.83	0.08	-2.11	3.71

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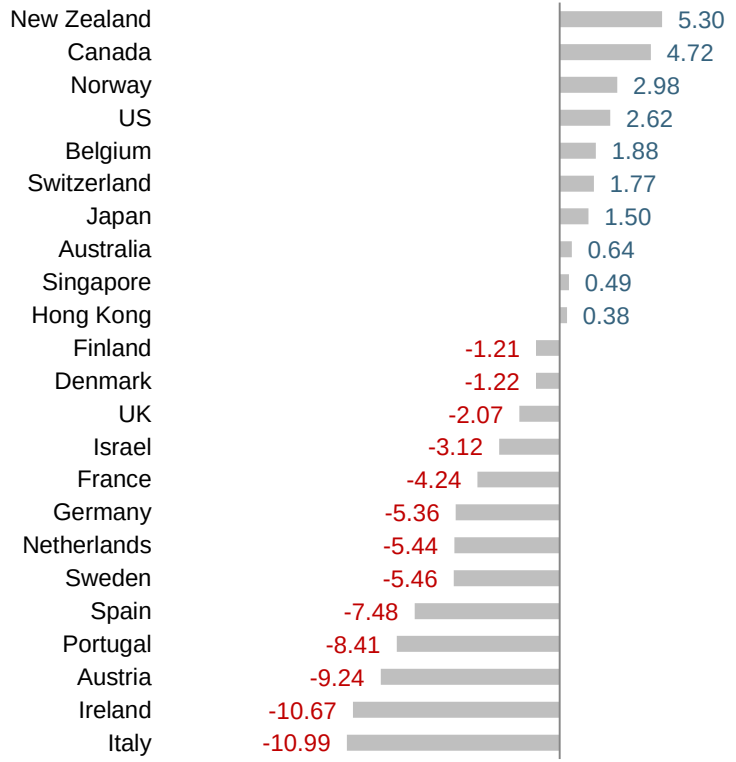
Select Country Performance

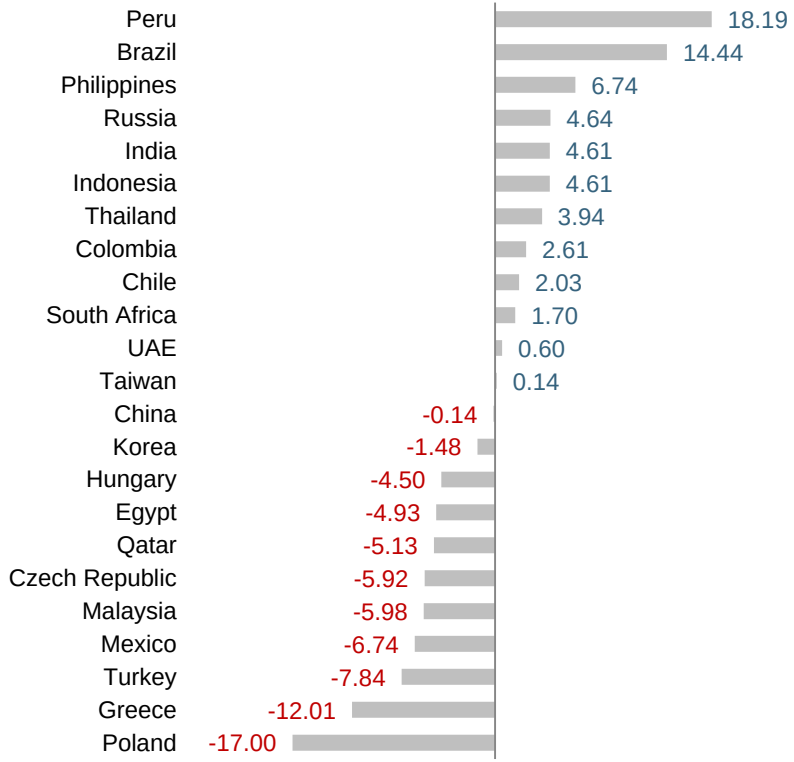
Second Quarter 2016 Index Returns

New Zealand recorded the highest country performance in developed markets, while Italy and Ireland posted the lowest performance for the quarter. In emerging markets, Peru and Brazil again posted the highest country returns, while Poland and Greece recorded the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



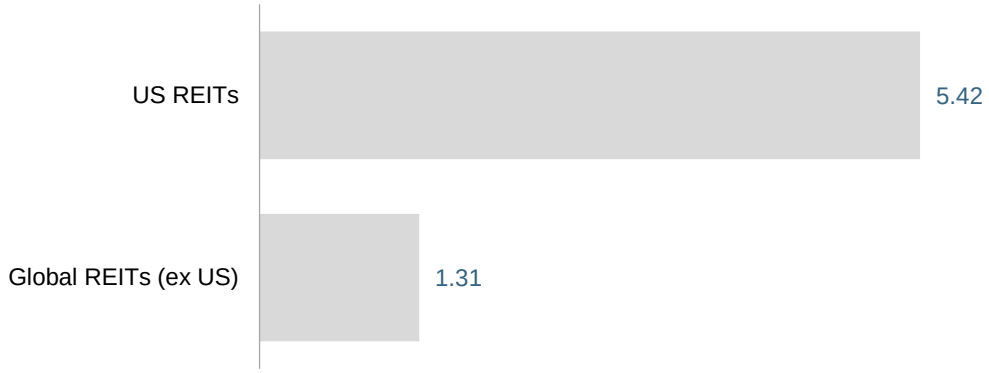
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Real Estate Investment Trusts (REITs)

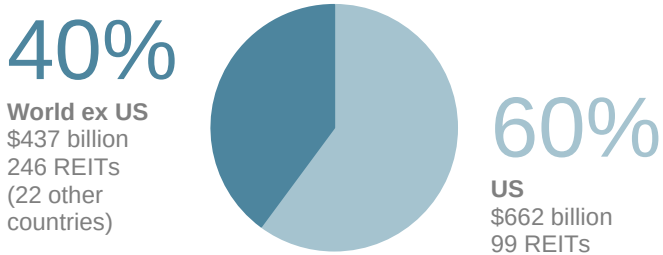
Second Quarter 2016 Index Returns

US REITs had very strong positive returns for the quarter, outperforming the broad equity market. REITs in developed markets recorded positive returns, also outperforming broad developed equity markets indices.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	10.82	22.85	13.55	12.30	6.86
Global REITs (ex US)	10.02	7.25	6.96	5.91	3.31

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. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2016.

Commodities

Second Quarter 2016 Index Returns

Commodities were broadly positive during the quarter. The Bloomberg Commodity Index Total Return gained 12.78%. Energy turned positive with natural gas gaining 30.88%, Brent crude oil 19.51%, and WTI crude oil 18.64%.

The Softs complex was also positive with sugar gaining 29.84%, coffee 10.90%, and cotton 10.29%.

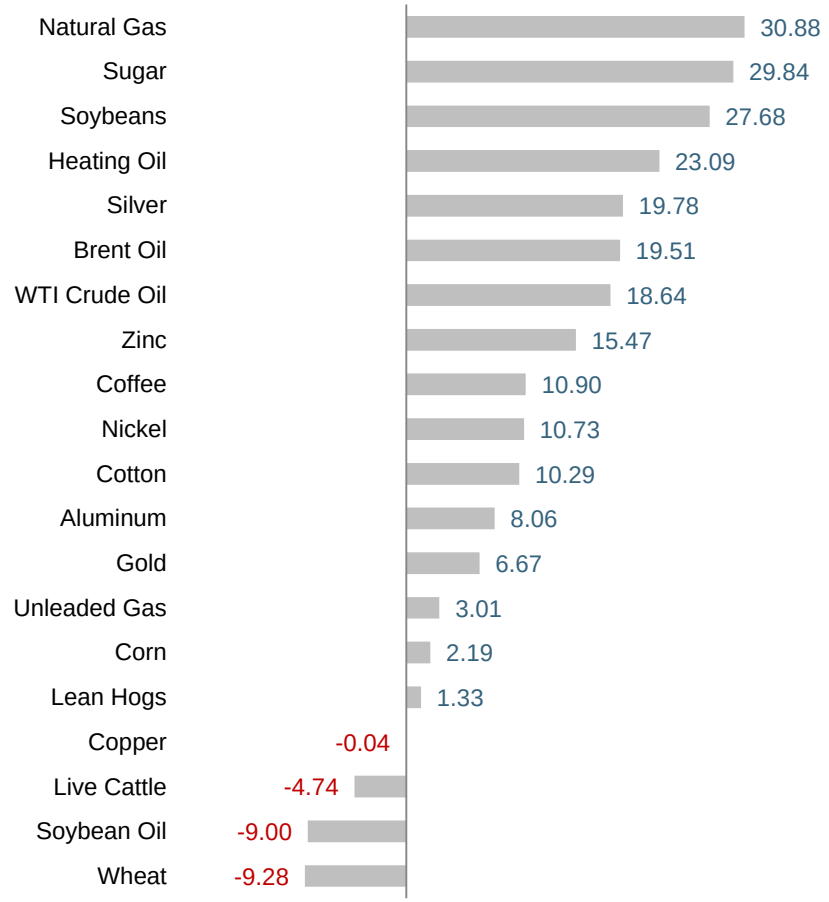
Grains were mixed: Soybeans returned 27.68%, yet Kansas wheat and Chicago wheat declined 16.26% and 9.28%, respectively.

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	13.25	-13.32	-10.55	-10.82	-5.59

Ranked Returns for Individual Commodities (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
All index returns are net of withholding tax on dividends. Securities and commodities data provided by Bloomberg.

Fixed Income

Second Quarter 2016 Index Returns

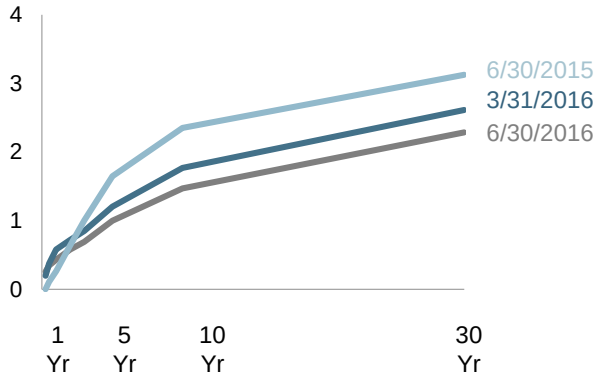
Interest rates across the US markets generally decreased during the quarter. The yield on the 5-year Treasury note fell 20 basis points (bps) to end at 1.01%. The yield on the 10-year T-note decreased 29 bps to 1.49%. The 30-year Treasury bond declined 31 bps to finish with a yield of 2.30%.

The 1-year T-bill ended the quarter yielding 0.45% and the 2-year T-note finished at 0.58%, for declines of 14 and 15 bps, respectively. The 3-month T-bill increased 5 bps to yield 0.26%, while the 6-month T-bill dipped 3 bps to 0.36%.

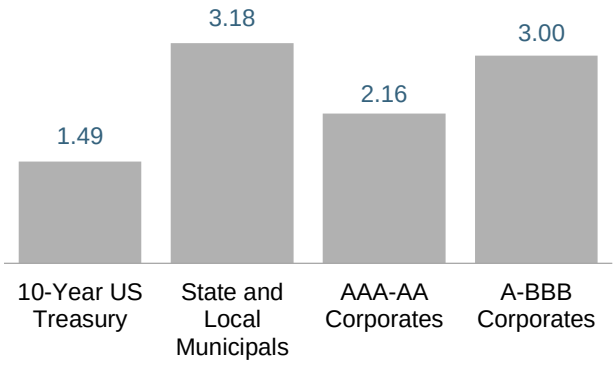
Short-term corporate bonds gained 1.05%. Intermediate-term corporates returned 2.24%, while long-term corporate bonds returned 6.64%.[1]

Short-term municipal bonds returned 0.66%, while intermediate-term municipal bonds gained 1.84%. Revenue bonds slightly outperformed general obligation bonds.[2]

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.15	0.19	0.09	0.09	1.04
BofA Merrill Lynch 1-Year US Treasury Note Index	0.65	0.59	0.38	0.34	1.69
Citigroup WGBI 1–5 Years (hedged to USD)	1.86	2.36	1.82	1.84	2.98
Barclays Long US Government Bond Index	14.94	18.98	10.38	10.17	8.69
Barclays US Aggregate Bond Index	5.31	6.00	4.06	3.76	5.13
Barclays US Corporate High Yield Index	9.06	1.62	4.18	5.84	7.56
Barclays Municipal Bond Index	4.33	7.65	5.58	5.33	5.13
Barclays US TIPS Index	6.24	4.35	2.31	2.63	4.76

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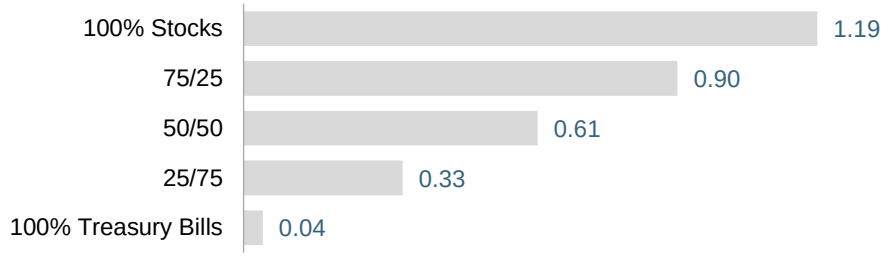
1. Barclays US Corporate Bond Index. 2. Barclays Municipal Bond Index. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Citigroup bond indices © 2016 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2016 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

Global Diversification

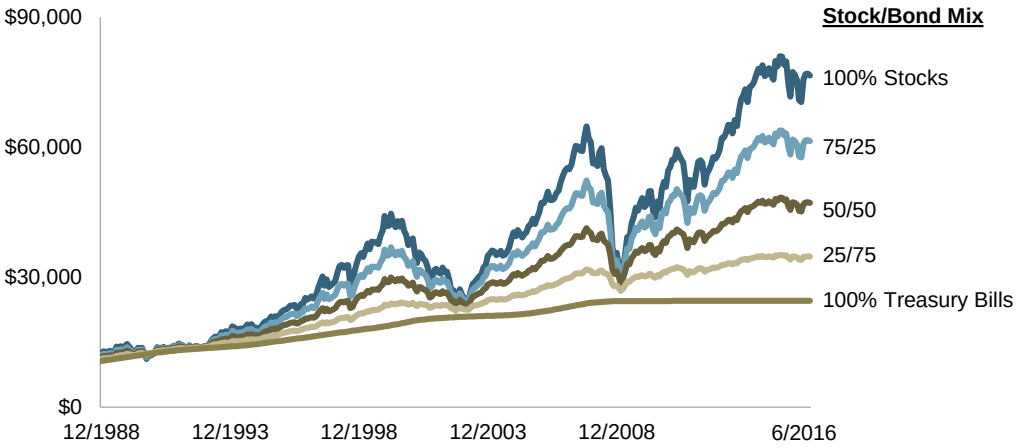
Second Quarter 2016 Index Returns

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 (%)



Growth of Wealth: The Relationship between Risk and Return



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	1.58	-3.17	6.60	5.95	4.82
75/25	1.29	-2.16	5.06	4.62	4.12
50/50	0.95	-1.28	3.45	3.19	3.23
25/75	0.54	-0.52	1.78	1.66	2.16
100% Treasury Bills	0.09	0.10	0.04	0.04	0.91

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 2016, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

So…Are We Keeping Pace with the Indices?

Our financial forecasts developed in our ***MasterPlan*** reports are predicated on achieving investment returns as illustrated by globally diversified indices. Below are the primary equity asset class structures that we use to design our investment portfolios. Their returns are compared to the benchmark of stocks that they have a high degree of correlation with (as noted by R^2). In order for our forecasts to have validity we need to at least match the indices returns ***in aggregate***. **So far so good!** The results are illustrated for the past 5 and 10 years and since inception. By example, the US Micro Cap Portfolio has outperformed the Russell Microcap / Russell 2000 Index by 165 basis points per year since 1982. 165 basis points is equal to 1.65% of outperformance on average per year.

Performance against Conventional Benchmarks

As of June 30, 2016

Annualized difference (100 bps equals 1.0%)

Dimensional Structured Stock Portfolio	Inception	Conventional Benchmark Indices	Last 5 Years	Last 10 Years	Since Inception	R^2
US Micro Cap Portfolio	1982	Russell Microcap / 2000 Index	158	25	165	0.93
US Small Cap Portfolio	1992	Russell 2000 Index	136	124	145	0.98
US Small Cap Value Portfolio	1993	Russell 2000 Value Index	39	32	169	0.94
US Targeted Value Portfolio	2000	Russell 2000 Value Index	79	104	199	0.95
US Large Cap Value Portfolio	1993	Russell 1000 Value Index	-26	14	33	0.93
International Small Company Portfolio	1996	MSCI World ex USA Small Cap Index	37	93	85	0.96
International Small Cap Value Portfolio	1995	MSCI World ex USA Small Cap Index	43	59	157	0.93
International Value Portfolio	1994	MSCI World ex USA Index	-238	-89	106	0.92
Emerging Markets Small Cap Portfolio	1998	MSCI Emerging Markets Index	323	411	491	0.90
Emerging Markets Value Portfolio	1998	MSCI Emerging Markets Index	-195	27	356	0.92
Emerging Markets Portfolio	1994	MSCI Emerging Markets Index	64	100	146	0.94

* Long-term outperformance of popular benchmarks with reasonable tracking (as noted by R^2)

10 Reasons to be Cheerful

Jim Parker, Outside the Flags
Dimensional Fund Advisors, Vice President

Do you ever listen to the news and find yourself thinking that the world has gone to the dogs? The roll call of depressing headlines seems endless. But look beyond what the media calls news, and there also are a lot of things going right.

It's true the world faces challenges in many areas, and the headlines reflect that. Europe has been grappling with a flood of refugees; as of May, the Chinese local A-share market declined by almost 20 percent[1]; and the US is in the middle of a sometimes rancorous election campaign.

More recently, citizens of the United Kingdom voted to leave the European Union, creating significant uncertainty in markets over the long-term implications.

But it's also easy to overlook the significant advances made in raising the living standards of millions, increasing global cooperation on various issues, and improving access to healthcare and other services across the world.

Many of the 10 developments cited below don't tend to make the front pages of daily newspapers or the lead items in the TV news, but they're worth keeping in mind on those occasions when you feel overwhelmed by all the grim headlines.

So here's an alternative news bulletin:

1. Over the last 25 years ending May 2016, one dollar invested in a global portfolio of stocks would have grown to more than five and a half dollars.[2]

2. Over the last 25 years, 2 billion people globally have moved out of extreme poverty, according to the latest United Nations Human Development Report.[3]

3. Over the same period, mortality rates among children under the age of 5 have fallen by 53%, from 91 deaths per 1000 to 43 deaths per 1000.

4. Globally, life expectancy has been improving. From 2000 to 2015, according to the World Health Organization, the global increase was 5.0 years, with an even larger increase of 9.4 years in parts of Africa.[4]

5. Global trade has expanded as a proportion of GDP from 20% in 1995 to 30% by 2014, signaling greater global integration.[5]

6. Access to financial services has greatly expanded in developing countries. According to the World Bank, among adults in the poorest 40% of households within developing economies, the share without a bank account fell by 17 percentage points on average between 2011 and 2014.[6]

7. The world's biggest economy, the US, has been recovering. Unemployment has halved in six years from nearly 10% to 5%.[7]

8. The world is exploring new sources of renewable energy. According to the International Energy Agency, in 2014, renewable energy such as wind and solar expanded at its fastest rate to date and accounted for more than 45% of net additions to world capacity in the power sector.[8]

9. We live in an era of innovation. One report estimates the digital economy now accounts for 22.5% of global economic output.[9]

10. The growing speed and scale of data is increasing global connectedness. According to a report by McKinsey & Company, cross-border bandwidth has grown by a factor of 45 in the past decade, boosting productivity and GDP.[10]

No doubt many of these advances will lead to new business and investment opportunities. Of course, not all will succeed. But the important point is that science and innovation are evolving in ways that may help mankind.

The world is far from perfect. The human race faces challenges. But just as it is important to be realistic and aware of the downside of our condition, we must also recognize the major advances that we are making.

Just as there is reason for caution, there is always room for hope. And keeping those good things in mind can help when you feel overwhelmed by all the bad news.

"Logic will get you from A to B. Imagination will take you everywhere."
~ Albert Einstein