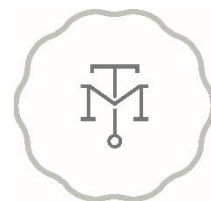


TIMONIER

Wealth Beyond Financial™

From the Engine Room

3rd Quarter 2017



Quarterly Market Review

Third Quarter 2017

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.

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

Overview:

Letter: Our Way of Service

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Select Currency Performance vs. US Dollar

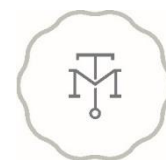
Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Impact of Diversification

Quarterly Topic: Stop Monkeying Around!



Our Way of Serving

“Our deepest fear is not that we are inadequate. Our deepest fear is that we are powerful beyond measure. It is our light, not our darkness that most frightens us. We ask ourselves, Who am I to be brilliant, gorgeous, talented, fabulous? Actually, who are you not to be? Your playing small does not serve the world. There is nothing enlightened about shrinking so that others won’t feel insecure around you. We are all meant to shine. And as we let our own light shine, we unconsciously give others permission to do the same. As we are liberated from our own fear, our presence automatically liberates others.”

~ Marianne Williamson, author

It is with much gratitude that with this letter Timonier marks its 20th anniversary as a multi-family office. I will take advantage of the ever-plodding growth of global investment markets to direct my few comments unrelated to portfolio returns. While the outer world sees hurricanes, earthquakes, mass migrations of fellow humans, military battles, threats of nuclear war, and political systems which seem broken, the underlying economies of the world are growing synchronistic-ally with the vibrant trade of goods and services. You will see the solid and positive results of capitalism through its powerful structure of global public ownership in the report ahead.

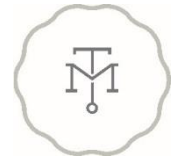
Having spent fifteen plus years with in-depth training and experience in the areas of insurance, real estate, investment management, and financial planning at traditional financial institutional settings, I embarked to develop **A Way** of serving our clients with an unconventional offering. While I began with just an assistant offering financial planning services for a multi-generational experience, I had a vision for much greater. The financial service offerings within our society through the many decades has been nothing short of Financial Terrorism which continues thriving today. I will save this topic for a blog post, but you are witness to the results of its wrath in the media on a daily basis. Adam Smith, Scottish professor of moral philosophy and 1776 author of *The Wealth of Nations*, would roll over in his grave at the actions of business conduct today. I knew there was a method of aligning advice and a client’s need for expert guidance...and I was going to provide that. Perhaps I was channeling Adam Smith.

My vision 20 years ago was to lay a foundational offering of services centered around each individual, each family, and each fiduciary that we served. Our mission was to provide a guiding support system around the aspirational heartfelt goals of our clients. When there is a “Why” to our goal, there is a stronger commitment to following through the process when times get tested. We wanted to assist in consciously harnessing of all available resources in the very best way for this one great life we know we have in front of us. And sometimes, that means letting go of things that no longer serve us. It’s sometimes difficult to let go of things we are familiar with, but we acknowledge that the art of letting go is the path for growth. This trait applies to not only physical world attachments, but behavioral patterns that no longer serve us as well.

Our format and processes are simple. Privacy and non-judgement are our promises which lay a foundation of trust. For without trust, there really is no healthy partnership. We are fiduciaries for **your goals**. We have NO compensation relationship with any institutions that we work with on your behalf. You can also know that we will not be compensated for any transaction occurring in our relationship with you. We provide professional advice and guidance from a centralized office with multi-disciplinary degrees in a collaborative environment. Your team of advisors are philosophically aligned and open communication is a pillar to our clients’ success. Our office should be your sanctuary in supporting the affairs that you are passionate about.

“A reliable way to make people believe in falsehoods is frequent repetition, because familiarity is not easily distinguished from truth. Authoritarian institutions and marketers have always known this fact.”

Daniel Kahneman, Psychologist



We've turned the delivery of traditional financial services model inside out...literally and figuratively. Our approach incorporates the development and sustainability of wealth by focusing on aspects of Human Capital, Intellectual Capital, and Financial Capital. Human Capital involves the development of a foundational spiritual and moral character. Intellectual Capital is developing that individual with an education towards talents and services that they are passionate about. The third aspect, Financial Capital is the fruit of ones' labors and stewardship of assets that they are blessed to honor. Without the proper development of the Human Capital and/or the Intellectual Capital the Financial Capital will never be accumulated. And if inherited, will soon be squandered. So, while we have developed an organization to assist our clients in living their lives in their own unique way, we also have embarked in recent years in better assisting them by recognizing their inherent and learned behaviors, strengths and blind spots. We recognize that not only the financial balance sheet must be managed, but also too, the inner balance sheet. The inner economy must be as strong if not stronger, than the outer economy. We support the idea that we are all a product of our choices and that we are all connected.

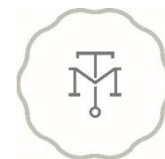
For many, co-creating this journey together, is as simple as understanding the rules and efficiently making choices through advisement, education, and cognitive learning. A body of work that avails the techniques we use to assist our clients when our financial environment isn't matching up with our goals is behavioral finance. By understanding that our client may be expressing an "endowment effect" by valuing investments they already held more highly than similar assets not currently owned, may assist our client in making the decision of letting go of those things that no longer serve them. By understanding that our client may be expressing "loss aversion" by wanting to hold on to an investment which is below the purchase price thus believing that unrecognized losses, are superior to recognized losses, can assist a client in moving forward with good portfolio management principles in place. By understanding that our client may be expressing a "confirmation" bias by only focusing on evidence that confirms existing beliefs, we can assist our client in recognizing another perspective in the weighty facts of evidence based studies. *These cognitive lessons are important to understand, but for others, they are not enough!*

Recently, another method for understanding the human condition has been unveiled to support the human experience in the area of wealth management. This method theorizes that our foundational belief systems were developed prenatal and through the age of 7, and therefore these beliefs have become the software for how we behave in our lives. The information that we collected in our childhood when our minds were absorbing all of the information provided by our environment without question, is stored in the subconscious mind. These unconscious beliefs have found their way into how we live our financial lives. These money scripts, which shape our behavior, were often just partial truths, passed down from generation to generation, and are responsible for our financial outcomes. Like fractal patterns seen throughout the cosmos and in all of nature, we remain infinite repeating patterns of behavior until something shifts. Quite typically, that shift is a pain event. It is the events such as that of a heart attack, that we are given a chance to awaken to the cause, and begin anew a pattern of behavior that will serve our health and well-being in a better way.

It is in the works, from the likes of Swiss psychiatrist, Carl Jung with his studies of human archetypes and Israeli-American psychologist and Nobel Prize winner in Economics, Daniel Kahneman that a field of awareness has been created to support the positive aspects of the human condition and behavior, and bring awareness to traits not supporting our human experience. We all embody a human archetypal pattern or Personality Profile that defines much of our behavioral patterns. It is helpful in the self-assessment of who we are that can enable change for the better. For to be able to label something gives us the best chance to change those traits not serving us. It is now being understood through independent studies that 93.6% of the wealth building/or wealth destruction

"Who looks outside, dreams; who looks inside, awakens."

Carl Jung



journey is the behavioral management of the individual. It is in the hands of each individual to be the bearer of his/her financial experience. We offer to be that guide, that coach, that pause to reflect before acting in the critical moments when storms appear on the horizon or there are sudden shocks to your emotional foundation. For those of interest, we will begin to introduce this body of work through self-assessments and discussions. We believe it will significantly enhance the development and experience of our Family Trees.



So, while we have completed our 20th year of service, we are only at the doorstep of our work. There are many worlds to discover and experience. I am blessed to have the talented and dedicated colleagues beside me in our work. They are beautiful people blessed with innate high character and morals. It is a most unique setting to house the disciplines of risk management, investment management, real estate, accounting, wealth transfer, financial planning, and life coaching under one roof. We are dedicated to providing support and guidance to you and your families to come. We are guided to do all we can to support love and healing to the world.

Namaste'

Tim L. Baker, CIMA, GFS

Notice of Special Event...and YOU and your friends are invited!

We will be Celebrating with you and our friends our 20th Anniversary

Wednesday December 6th, 2017 (Doors will open at 5 pm)

Held at SECCA on 750 Marguerite Dr. Winston-Salem, NC

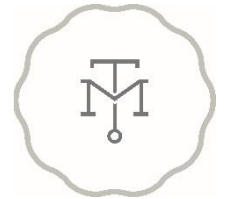
Organic Juices, adult beverages, and Hors d'oeuvres

You will enjoy an amazing presentation of life journey and healing like never before from Dr. Joe Dispenza. He is an international lecturer, researcher, corporate consultant, author, and educator who has been invited to speak in more than 32 countries on five continents. As a lecturer and educator, he is driven by the conviction that each of us has the potential for greatness and unlimited abilities. In his easy-to-understand, encouraging, and compassionate style, he has educated thousands of people, detailing how they can rewire their brains and recondition their bodies to make lasting changes.

"Of all the incredible individuals and retreats that I have attended on my journey, I find Dr. Joe to be one of the most impactful and relatable teachers to the world at this time. I am blessed that he will share his journey and philosophies with us on this special occasion. I hope you and your friends have a chance to attend." Tim







“Never give your children cash. Give them highly appreciated stock. At least you can avoid one of these two taxing transactions and provide a lesson as well!”

Tim Baker



Market Summary

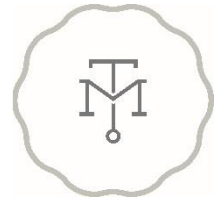
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
Q3 2017	STOCKS					BONDS	
	4.57%	5.62%	7.89%	1.13%		0.85%	0.70%
							
Since Jan. 2001							
Avg. Quarterly Return	1.9%	1.6%	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.

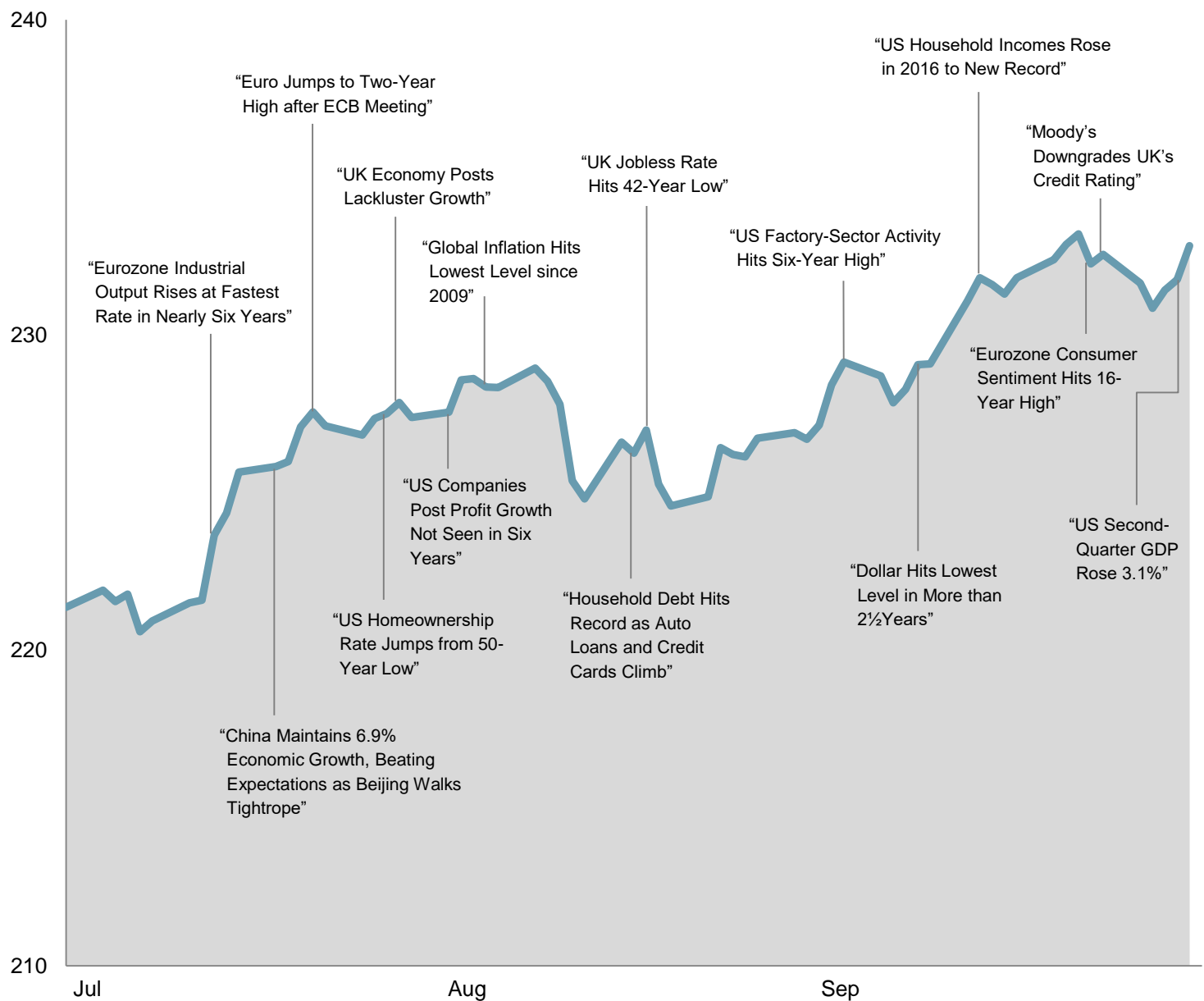
"Don't gamble. Take all your savings...buy some good stocks and hold them until they go up...then sell. If they don't go up, don't buy them!"

Mark Twain



World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2017

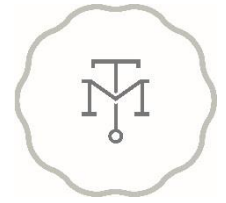


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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.

"If you can't control your MIND, everything and everyone else will."
Dr. Joe Dispenza



World Stock Market Performance

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

Short Term (Q4 2016–Q3 2017)

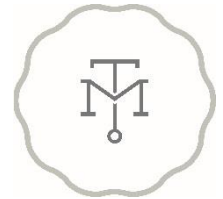


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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.

“The illusion that we understand the past fosters overconfidence in our ability to predict the future.”
Daniel Kahneman, *Thinking Fast and Slow*

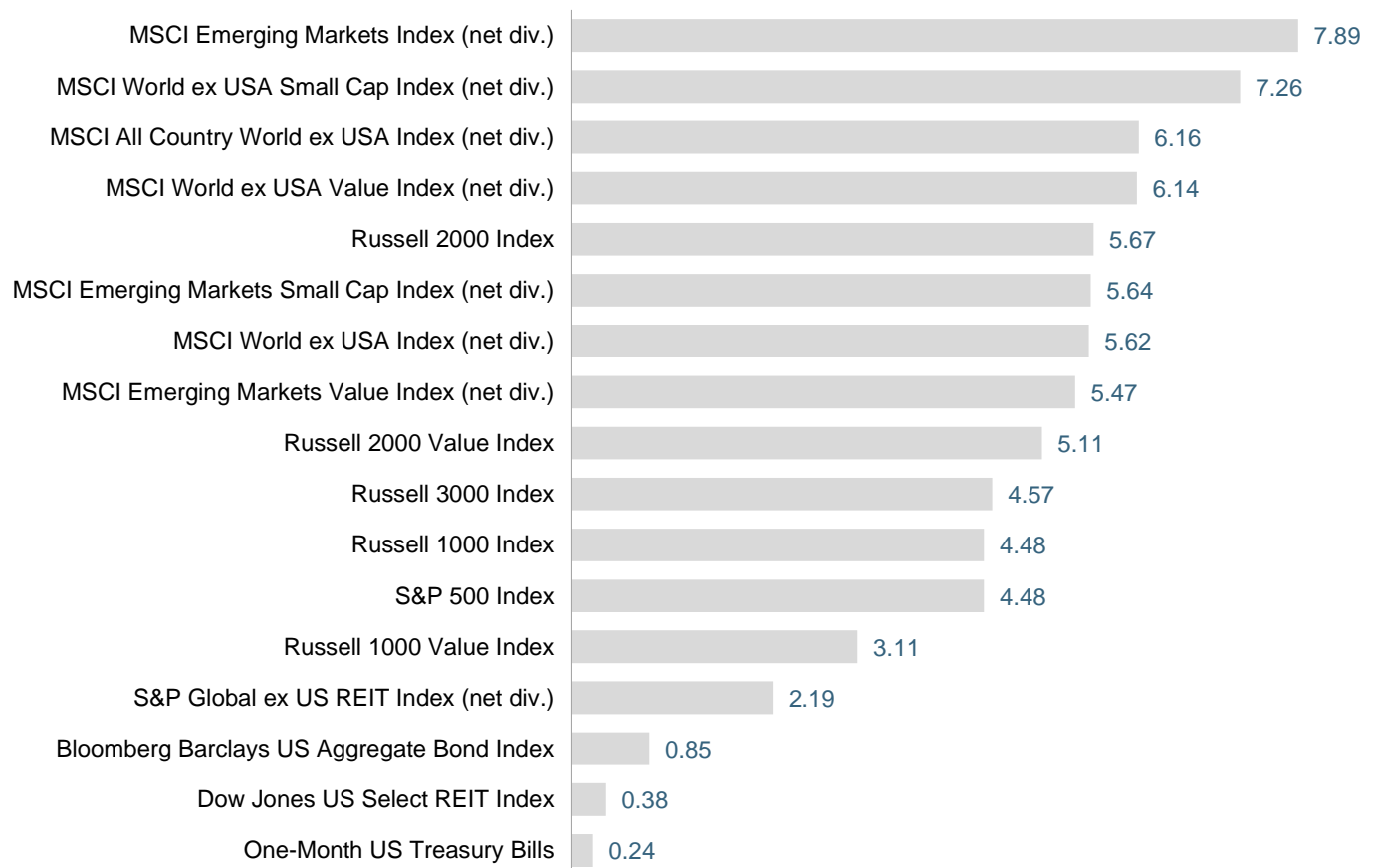


World Asset Classes

Third Quarter 2017 Index Returns (%)

With broad market indices used as proxies, emerging markets outperformed developed markets, including the US, during the quarter.

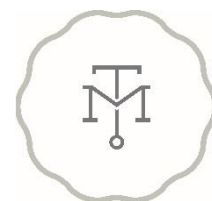
The value effect was positive in non-US developed markets but negative in the US and emerging markets. Small caps outperformed large caps in US and non-US developed markets but underperformed in emerging markets.



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"You have never lost money in stocks over any 20-year period, but you have wiped out half your portfolio in bonds (after inflation). So which is the riskier asset?"

Jeremy Siegel, Professor of Finance at The Wharton School of Business



US Stocks

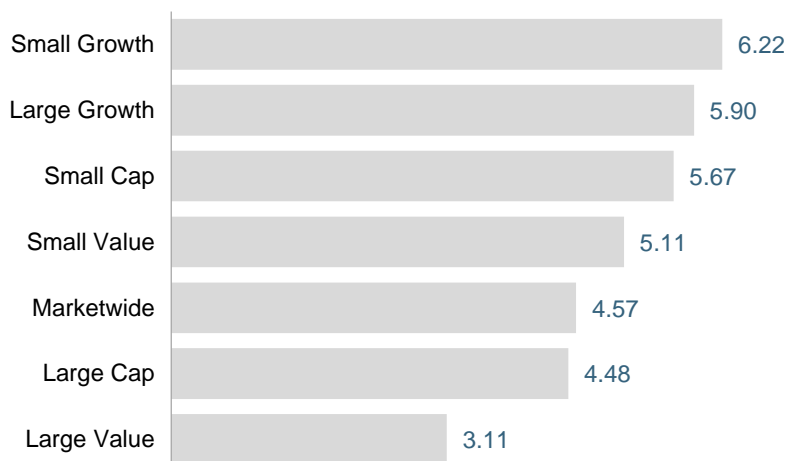
Third Quarter 2017 Index Returns

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

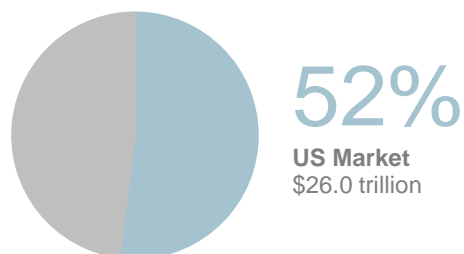
Value underperformed growth indices in the US across all size ranges.

Small caps in the US outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

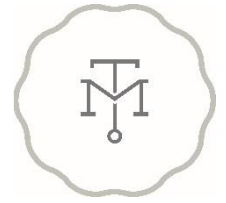
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	13.91	18.71	10.74	14.23	7.57
Large Cap	14.17	18.54	10.63	14.27	7.55
Large Value	7.92	15.12	8.53	13.20	5.92
Large Growth	20.72	21.94	12.69	15.26	9.08
Small Cap	10.94	20.74	12.18	13.79	7.85
Small Value	5.68	20.55	12.12	13.27	7.14
Small Growth	16.81	20.98	12.17	14.28	8.47

* 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.

“To better avoid errors, you should talk to people who disagree with you and you should talk to people who are not in the same emotional situation you are.”

Daniel Kahneman



International Developed Stocks

Third Quarter 2017 Index Returns

In US dollar terms, developed markets outperformed US equity indices but underperformed emerging markets indices during the quarter.

With broad market indices used as proxies, the value effect was positive. The value effect was positive in large caps but negative in mid and small caps.

Overall, small caps outperformed large caps in non-US developed markets.

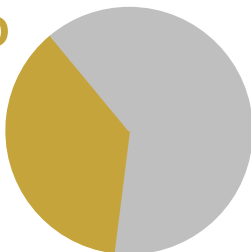
Ranked Returns (%)



World Market Capitalization— International Developed

37%

International
Developed
Market
\$18.5 trillion



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	19.17	18.73	4.57	7.81	1.28
Small Cap	23.82	20.42	9.59	11.16	4.04
Value	17.05	22.46	3.24	7.36	0.64
Growth	21.47	15.04	5.82	8.19	1.86

* Annualized

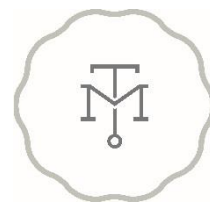
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In 2006, as I was entering immigration at Chennai Airport in India, I saw on the wall:
"Seek to perform your duty...But lay not claim to its fruits."

3000 years ago

St. Augustya

Tim Baker, on tour of ancient temples



Emerging Markets Stocks

Third Quarter 2017 Index Returns

In US dollar terms, emerging markets indices outperformed developed market indices, including the US, during the quarter.

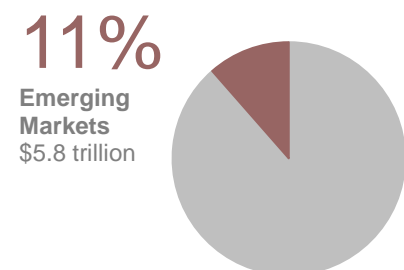
With broad market indices used as proxies, the value effect was negative. Across the size spectrum in the large and mid cap space, the value effect was negative; however, in the small cap space, the effect was positive.

Overall, small caps underperformed large caps in emerging markets.

Ranked Returns (%)



World Market Capitalization— Emerging Markets



Period Returns (%)

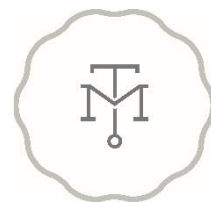
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	27.78	22.46	4.90	3.99	1.32
Small Cap	22.53	14.89	3.14	4.60	1.74
Value	19.87	18.55	1.62	1.34	0.67
Growth	36.03	26.35	8.12	6.55	1.88

* Annualized

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"The non-believer spends...The believer buys money market funds and bonds...The knower buys stocks!"

Tim Baker, April 11, 2013

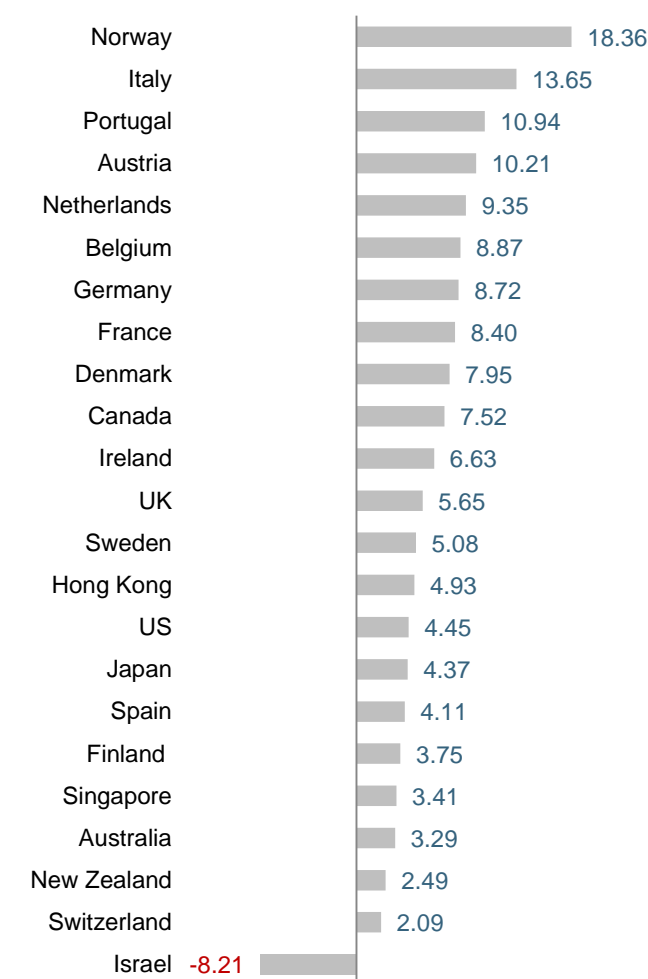


Select Country Performance

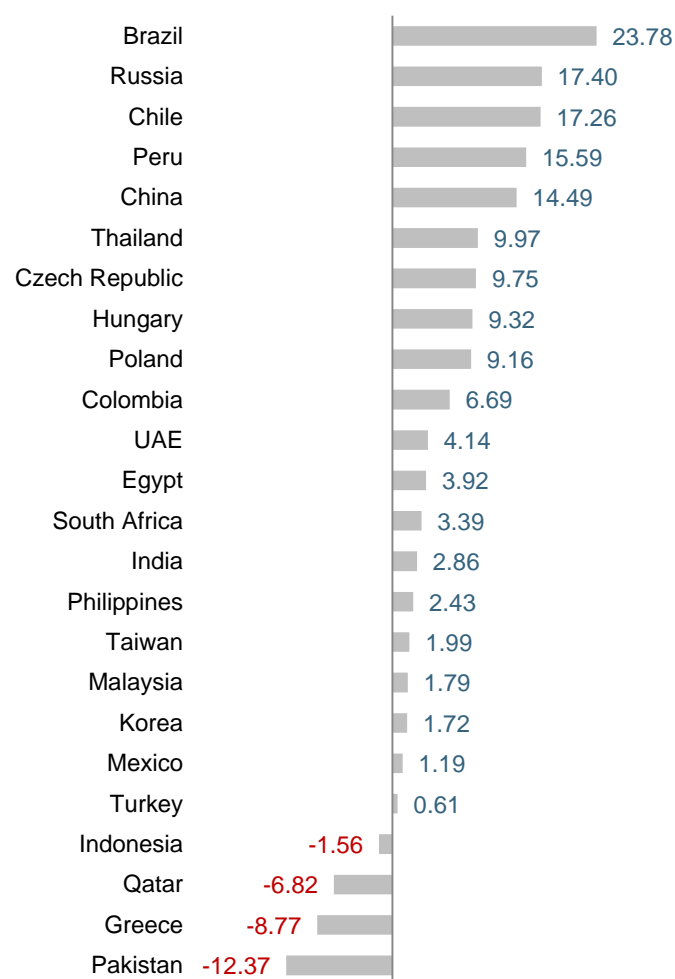
Third Quarter 2017 Index Returns

In US dollar terms, Norway and Italy recorded the highest country performance in developed markets, while Israel posted the lowest—and only negative—return in developed markets. In emerging markets, Brazil, Russia, and Chile posted the highest returns, while Pakistan and Greece had the lowest performance.

Ranked Developed Markets Returns (%)

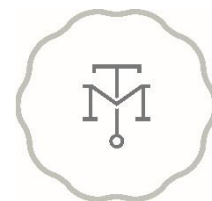


Ranked Emerging Markets Returns (%)



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), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2017, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

*"No man has a chance to enjoy permanent success until he begins
to look in a mirror for the real cause of all his mistakes."*
Napolean Hill

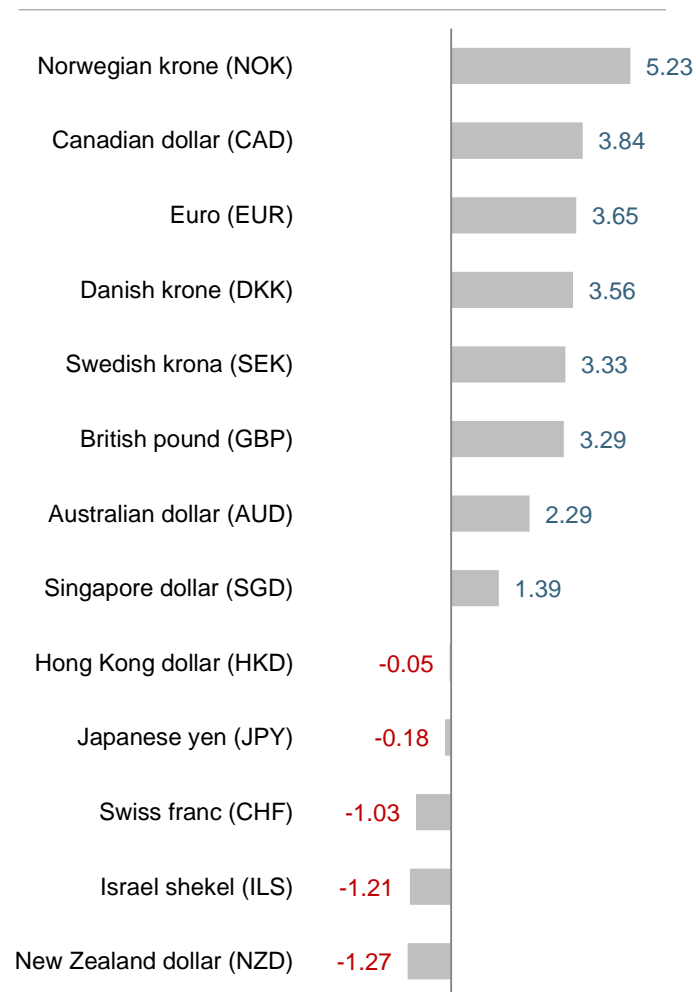


Select Currency Performance vs. US Dollar

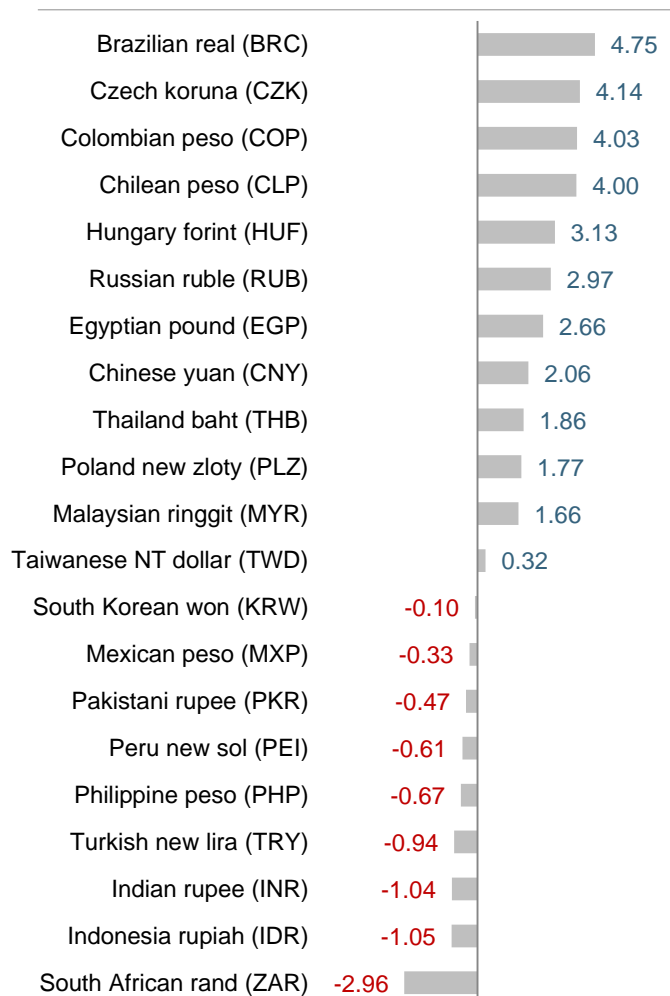
Third Quarter 2017

Currency performance was mixed in both developed and emerging markets. Among developed markets currencies, the Norwegian krone appreciated by 5%, while the Israeli shekel and the New Zealand dollar depreciated by approximately 1%. In emerging markets, the Brazilian real appreciated by almost 5%, while the South African rand depreciated by almost 3%.

Ranked Developed Markets Returns (%)

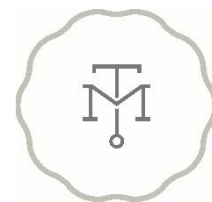


Ranked Emerging Markets Returns (%)



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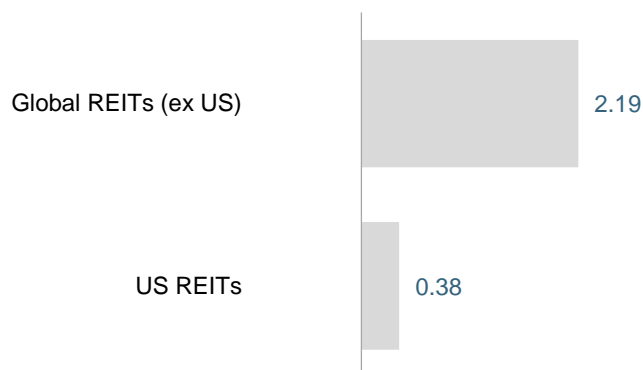


Real Estate Investment Trusts (REITs)

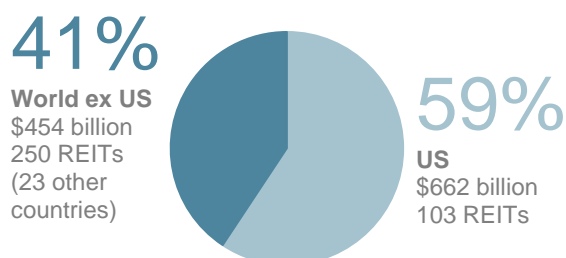
Third Quarter 2017 Index Returns

Non-US real estate investment trusts outperformed US REITs.

Ranked Returns (%)



Total Value of REIT Stocks



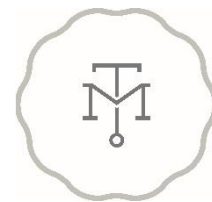
Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	1.75	-0.83	9.28	9.16	5.31
Global REITs (ex US)	8.63	-0.45	3.63	5.44	0.27

* 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. 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 © 2017.

"Simplicity is the result of long, hard work...not the starting point!"
Frederick Maitland, English historian and attorney
 (we won't hold that against you Frederick)



Commodities

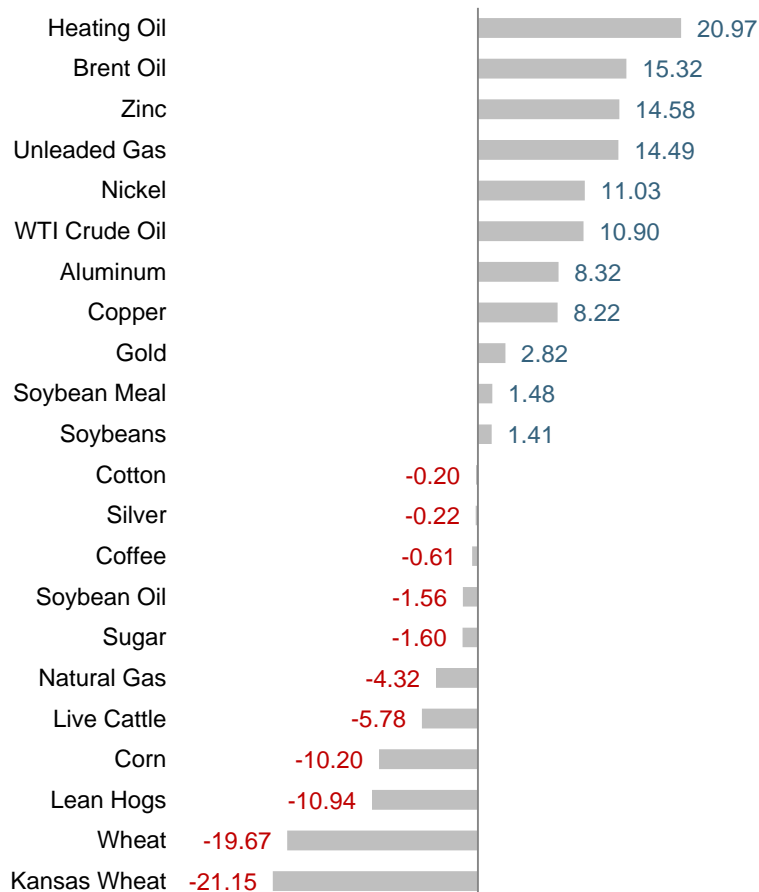
Third Quarter 2017 Index Returns

The Bloomberg Commodity Index Total Return gained 2.52% during the third quarter.

The energy complex led advancing commodities, with heating oil returning 20.97%, Brent crude oil 15.32%, unleaded gas 14.49%, and WTI crude oil 10.90%.

Grains was the worst-performing complex, with Kansas wheat and Chicago wheat declining 21.15% and 19.67%, respectively. Lean hogs also experienced a decline, decreasing by 10.94%.

Ranked Returns for Individual Commodities (%)

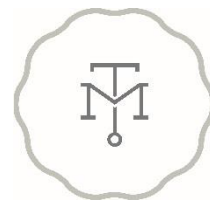


Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-2.87	-0.29	-10.41	-10.47	-6.83
* Annualized					

"An economic forecaster is like a cross-eyed javelin thrower; they don't win many accuracy contests, but they keep the crowd's attention."

Yogi Berra



Fixed Income

Third Quarter 2017 Index Returns

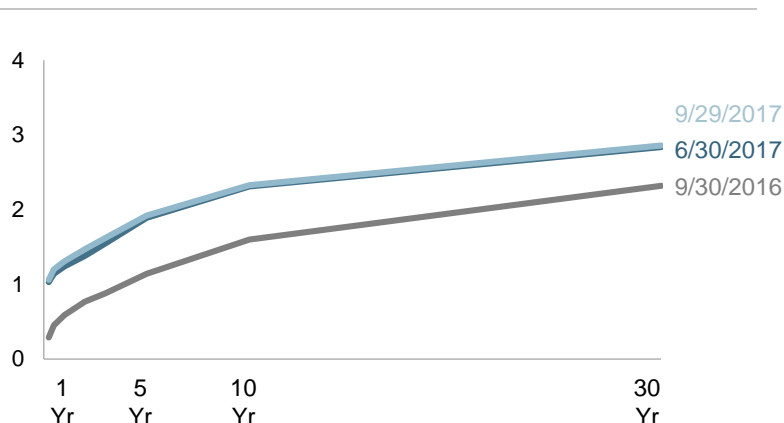
Interest rates increased across the US fixed income market for the quarter. The yield on the 5-year Treasury note increased by 3 basis points (bps) to 1.92%. The yield on the 10-year Treasury note increased by 2 bps to 2.33%. The 30-year Treasury bond yield increased by 2 bps to finish at 2.86%.

The yield on the 1-year Treasury bill rose 7 bps to 1.31%, and the 2-year Treasury note yield rose 9 bps to 1.47%. The yield on the 3-month Treasury bill increased 3 bps to 1.06%, while the 6-month Treasury bill yield increased 6 bps to 1.20%.

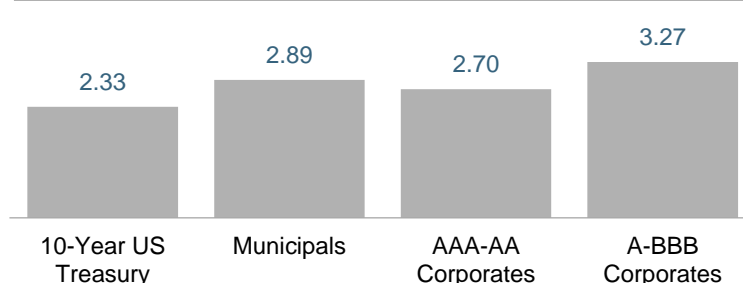
In terms of total returns, short-term corporate bonds gained 0.59%, and intermediate-term corporates gained 1.05%.

Short-term municipal bonds generated a total return of 0.49%, while intermediate-term municipal bonds returned 0.83%. General obligation bonds gained 1.14%, outperforming revenue bonds by 4 bps.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



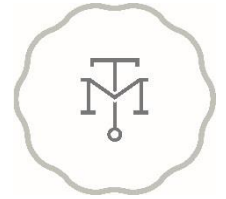
Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Government Bond Index	6.06	-6.14	4.84	2.87	6.83
Bloomberg Barclays Municipal Bond Index	4.66	0.87	3.19	3.01	4.52
Bloomberg Barclays US Aggregate Bond Index	3.14	0.07	2.71	2.06	4.27
Bloomberg Barclays US TIPS Index	1.72	-0.73	1.62	0.02	3.90
BofA Merrill Lynch 1-Year US Treasury Note Index	0.55	0.60	0.46	0.39	1.05
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.57	0.66	0.32	0.22	0.47
Citi World Government Bond Index 1-5 Years (hedged to USD)	1.07	0.59	1.35	1.30	2.32

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. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. 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. Bloomberg Barclays data provided by Bloomberg. 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. Sinquefeld). Citi fixed income indices copyright 2017 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2017 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. The S&P data are provided by Standard & Poor's Index Services Group.

“If you don’t stand for something...you’ll fall for anything.”

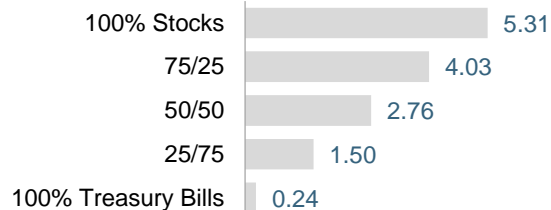


Impact of Diversification

Third 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 (%)

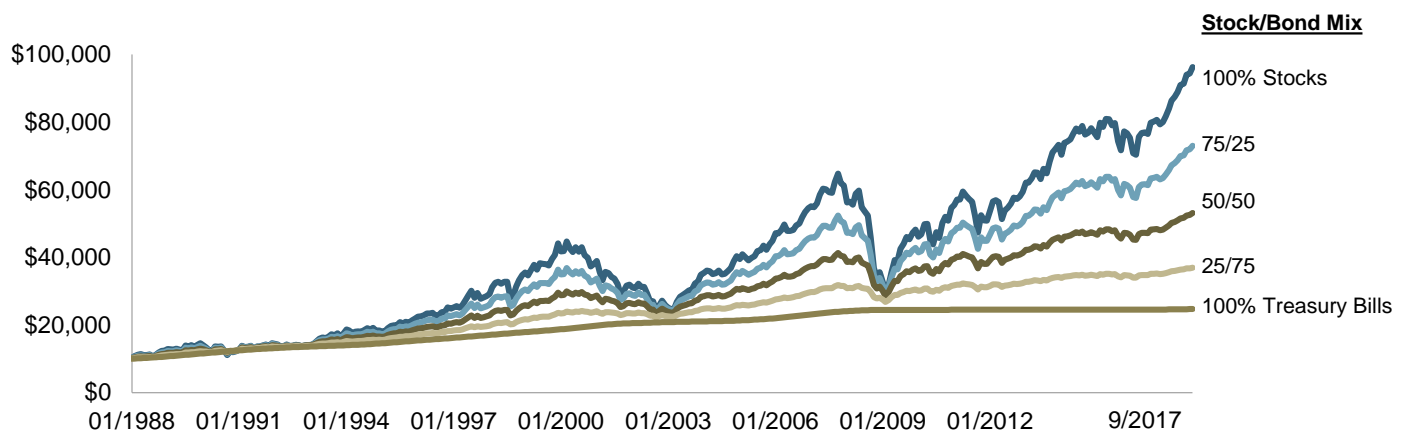


Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Stocks	17.75	19.29	8.02	10.79	4.45	16.90
75/25	13.22	14.35	6.13	8.14	3.70	12.66
50/50	8.85	9.60	4.21	5.48	2.76	8.43
25/75	4.62	5.01	2.25	2.82	1.65	4.20
100% Treasury Bills	0.53	0.58	0.25	0.16	0.36	0.22

Growth of Wealth: The Relationship between Risk and Return

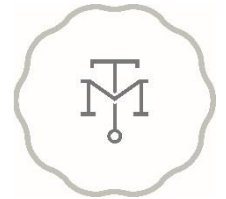


1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

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).

"Only in quiet waters things mirror themselves undistorted. Only in a quiet mind is adequate perception of the world revealed."

Hans Margolius, American author



Quit Monkeying Around!

Third Quarter 2017

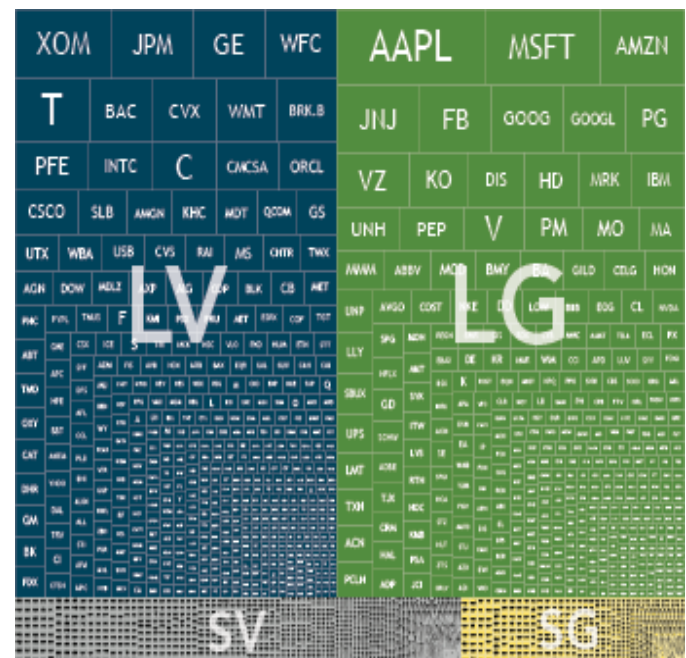
In the world of investment management there is an oft-discussed idea that blindfolded monkeys throwing darts at pages of stock listings can select portfolios that will do just as well, if not better, than both the market and the average portfolio constructed by professional money managers. If this is true, why might it be the case?

The Dart Board

Exhibit 1 shows the components of the Russell 3000 Index (regarded as a good proxy for the US stock market) as of December 31, 2016. Each stock in the index is represented by a box, and the size of each box represents the stock's market capitalization (share price multiplied by shares outstanding) or "market cap" in the index. For example, Apple (AAPL) is the largest box since it has the largest market cap in the index. The boxes get smaller as you move from the top to the bottom of the exhibit, from larger stocks to smaller stocks. The boxes are also color coded based on their market cap and whether they are value or growth stocks. Value stocks have lower relative prices (as measured by, for instance the price-to-book ratio) and growth stocks tend to have higher relative prices. In the exhibit, blue represents large cap value stocks (LV), green is large cap growth stocks (LG), gray is small cap value stocks (SV), and yellow is small cap growth stocks (SG).

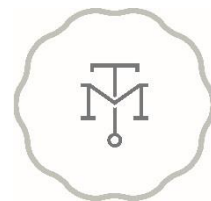
For the purposes of this analogy you can think of Exhibit 1 as a proxy for the overall stock market and therefore similar to a portfolio that, in aggregate, professional money managers hold in their competition with their simian challengers. Because for every investor holding an overweight to a stock (relative to its market cap weighting) there must also be an investor underweight that same stock, this means that, in aggregate, the average dollar invested holds a portfolio that looks like the overall market.¹

Exhibit 1. US Stocks Sized by Market Capitalization



For illustrative purposes only. Illustration includes constituents of the Russell 3000 Index as of December 31, 2016, on a market-cap weighted basis segmented into Large Value, Large Growth, Small Value, and Small Growth. Source: Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Please see Appendix for additional information.

1. For more on this concept, please see "The Arithmetic of Active Management" by William Sharpe.



Quit Monkeying Around!

(continued from page 19)

Exhibit 2, on the other hand, represents the dart board the monkeys are using to play their game. Here, the boxes represent the same stocks shown in Exhibit 1, but instead of weighting each company by market cap, the companies are weighted equally. For example, in this case, Apple's box is the same size as every other company in the index regardless of its market cap. If one were to pin up pages of newspaper stock listings to throw darts at, Exhibit 2 would be much more representative of what the target would look like.

When looking at Exhibits 1 and 2, the significant differences between the two are clear. In Exhibit 1, the surface area is dominated by large value and large growth (blue and green) stocks. In Exhibit 2, however, small cap value stocks dominate (gray). Why does this matter? Research has shown that, historically over time, small company stocks have had excess returns relative to large company stocks. Research has also shown that, historically over time, value (or low relative price) stocks have had excess returns relative to growth (or high relative price) stocks. Because Exhibit 2 has a greater proportion of its surface area dedicated to small cap value stocks, it is more likely that a portfolio of stocks selected at random by throwing darts would end up being tilted towards stocks which research has shown to have had higher returns when compared to the market.

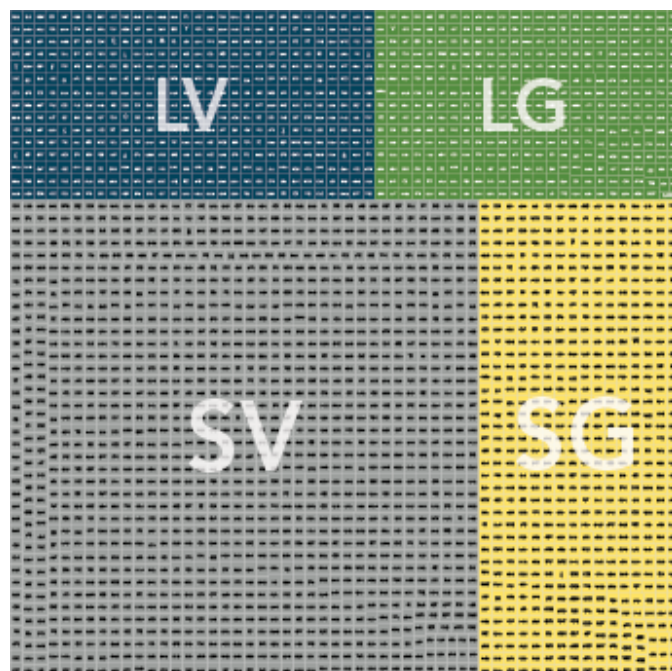
So...Throw Away?

This does not mean, however, that haphazardly selecting stocks by the toss of a dart is an efficient or reliable way to invest. For one thing, it ignores the complexities that arise in competitive markets.

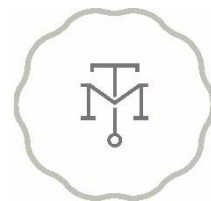
Consider as an example something seemingly as straightforward as a strategy that holds every stock in the Russell 3000 Index at an equal weight (the equivalent of buying the whole dart board in Exhibit 2). In order to

maintain an equal weight in all 3,000 securities, an investor would have to rebalance frequently, buying shares of companies that have gone down in price and selling shares that have gone up. This is because as prices change, so will each individual holding's respective weight in the portfolio. By not considering whether or not these frequent trades add value over and above the costs they generate, investors are opening themselves up to a potentially less than desirable outcome.

Exhibit 2. US Stocks Sized Equally



For illustrative purposes only. Illustration includes the constituents of the Russell 3000 Index as of December 31, 2016 on an equal-weighted basis segmented into Large Value, Large Growth, Small Value, and Small Growth. Source: Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Please see Appendix for additional information.



Quit Monkeying Around!

(continued from page 20)

Instead, if there are well-known relationships that explain differences in expected returns across stocks, using a systematic and purposeful approach that takes into consideration real-world constraints is more likely to increase your chances for investment success. Considerations for such an approach include things like: understanding the drivers of returns and how to best design a portfolio to capture them, what a sufficient level of diversification is, how to appropriately rebalance, and last but not least, how to manage the costs associated with pursuing such a strategy.

The Long Game

Finally, the importance of having an asset allocation well suited for your objectives and risk tolerance, as well as being able to remain focused on the long term, cannot be overemphasized. Even well-constructed portfolios pursuing higher expected returns will have periods of disappointing results. A financial advisor can help an investor decide on an appropriate asset allocation, stay the course during periods of disappointing results, and carefully weigh the considerations mentioned above to help investors decide if a given investment strategy is the right one for them.

Conclusion

So what insights can investors glean from this analysis? First, by tilting a portfolio towards sources of higher expected returns, investors can potentially outperform the market without needing to outguess market prices. Second, implementation and patience are paramount. If one is going to pursue higher expected returns, it is important to do so in a cost-effective manner and to stay focused on the long term.

Appendix

Large cap is defined as the top 90% of market cap (small cap is the bottom 10%), while value is defined as the 50% of market cap of the lowest relative price stocks (growth is the 50% of market cap of the highest relative price stocks). For educational and informational purposes only and does not constitute a recommendation of any security. The determinations of Large Value, Large Growth, Small Value, and Small Growth do not represent any determinations Dimensional Fund Advisors may make in assessing any of the securities shown.



Wall Streets'
Active Manager

Source: Dimensional Fund Advisors LP.

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