TIMONIER

Wealth Beyond Financial™

# From the Engine Room

## An investment focused report

**4th Quarter 2019**

# Quarterly Market Review

Fourth Quarter 2019

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 impact of globally diversified portfolios and features a quarterly topic.

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

**Overview:**

# Eliminating Stress with a Plan & Gratitude

*"Progress is invisible to most people because they don't get their understanding of the world from numbers; they get it from headlines. Journalism by its very nature conceals progress, because it presents sudden events rather than gradual trends. Most things that happen suddenly are bad: a war, a shooting, an epidemic, a scandal, a financial collapse. Most things that are good consist either of nothing happening — like a nation that is free of war or famine — or things that happen gradually but compound over the years, such as declines in poverty, illiteracy and disease."*

~***Steven Pinker, Financial Times, December 27, 2019***

***T***he start of a new year is traditionally, a time to reflect and plan. For wealth managers of family offices, this means providing information to our clients about upcoming changes to the tax code, matters affecting wills and trust, the investment markets and economy, reviewing intentional goals, and reminding our relationships of the evidence based principles of investing. This opportunity to quietly reflect, especially after a year of spectacular investment returns, is a rare gift. After all, we will no doubt be bombarded by day-to-day ***Breaking News*** headlines throughout the year to come.

**Principles in Review**

At the most foundational level, our overall principles of wealth management are goal-focused and planning driven, and are sharply contrasted to an approach that is market-focused and current-event-driven. Long-term investment success comes from *continuously acting on a plan* seeded by inner aspirations that are aligned with our resonance (who we are). Investment failure and frustrations unfold from *continually reacting to outside current events* in the economy, with geopolitics, and the investment markets.

Unlike Wall Street Brokerage houses, we embrace the return and volatility attributes of owning businesses around the globe. Owning companies through the publicly traded market place is a gift to human-kind and wealth creation...and should not be a forum for short-term bets. Stocks will always own a continuous seat in our house. To propose a strategy to do otherwise, is supporting an ego in denial of historical evidence. A substantial portion of our family's portfolios are comprised of global businesses. These investments provide the necessary returns for the achievement of their most cherished lifetime and post-lifetime goals. We make no attempt to forecast economic or market results, much less time when to be in or out of the global stock markets; indeed we believe these attempts to be fool's errands.

Since we accept that global stock markets cannot be consistently timed by us or anyone else, we believe that the only way to be sure of capturing the full premium return of publicly traded companies is to ride out their frequent but ultimately temporary declines.

There have been 15 "bear markets" (as defined by a 20% market price decline) in publicly traded stocks since the end of World War II...an average of one in every five years or so. The average depth of these declines was approximately 30%. In 1945, the proxy for the S&P 500 Stock Index was priced at 16. This Index closed this past year on December 31st at a price of 3,231. Thus, at least historically, the permanent advance has triumphed over the temporary declines. And collectively, since 1871, the average time it takes for the stock market to recover (from top to trough to top again) is a mere 7.9 months. *But please know, we don't rely on averages and we routinely stress test for extreme conditions. Our Cash/Bond Reserve Strategy, for those in distribution years, is the safety net for these expected occasions.*

*“Looking behind, I’m filled with gratitude, looking forward,
I am filled with vision, looking upwards I am filled with
strength, looking within, I discover peace.”*

**Queio Apache Prayer**

Our essential principles of mindful goal-focused wealth management remain unchanged since the beginning of our careers in 1981. The short-term (under 10 years) performance of an investment portfolio relative to a benchmark is largely irrelevant to lifetime financial success. The primary benchmark we should care about is the one that indicates whether we are on track to accomplish our aspirational financial goals. ***Risk should be measured as the probability that we won’t achieve our goals. Investing should have the exclusive goal of minimizing this risk.***

**2019 in Review**

Two thousand nineteen was, in important ways, the mirror image of the previous year. In spite of two thousand eighteen’s banner year for the American economy, corporate earnings (up 20%), and dividend payouts (up 8%), the US stock market as represented by the S&P 500 ended year down -4.75%, which included a rude decline of -19.8% at year end. This past year was the exact opposite; an exceptionally good year for stock market prices, up 31.5% for the S&P 500 despite a manufacturing slowdown, global economic uncertainties, and a sliver of positive earnings growth (1% estimate).

Without laboring the market’s course over the entire year, it was in essence a sequence of three important forays into new high ground. First, it made up all of 2018’s decline and even broke out at the end of April. It then corrected sharply to the downside, about which more will be commented on shortly. Another series of new highs followed in June-July, and consolidated/stabilized into the fall. The third and most dramatic breakout took place at the end of October and continued through year end.

These three successive waves of new highs seem to have attended upon a slowly growing realization that widespread fears of major disaster...trade wars tipping the economy into recession, a significant year-over-year downtick in earnings, and a constitutional crisis regarding impeachment, were overblown. This is particularly true, with respect in the late October surge in stock prices and the virtual melt-up that followed. That upswing was ignited by a third quarter earnings decline that proved far milder than almost anyone had forecast, and not one but two successive blowout monthly jobs reports. Trends in 2019 market pricing supports the old saying that Mr. Market is always forecasting outcomes six months before they arrive.

With those dry facts out of the way, let’s return to the above-mentioned May-June decline, which lasted about a month, and took the S&P 500 down about 7% in price. Technically, this can’t even be classified as a “correction,” as the Index didn’t close anywhere near 10% down. It was, nonetheless, a full-blown panic attack, set off by one of President Trump’s most bellicose tweets regarding China.

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

It is the way investors reacted to this relatively brief, relatively shallow drawdown which captured our attention. Simply stated, net liquidations of US stock mutual funds and ETF's (exchange traded funds)...absolutely, and especially contrasted with bond funds ***inflows***, soared to levels not seen since the Great Recession of 2008. *This needs repeating,* **a one-month, 7% drawdown set off a flight from stocks equivalent to the existential financial crisis of our time.**

Although the figures are still incomplete, 2019 almost certainly saw the greatest stock fund/ETF net liquidations on record going back to 1992, according to Refinitiv/Lipper. It is difficult for us to regard these data as anything but, *a powerfully suggestive contrary indicator!*

Set aside momentarily, if you can, the headline issues of the day; the trade situation, an aging economic expansion, impeachment/election uncertainty, and the like. These are not merely imponderable; they're irrelevant to long-term, goal-focused investors like us!

Instead, I would invite you to consider on what seems to be the default setting of the investing public, which I would describe as pessimism verging occasionally into sheer panic. All my reading and all my experience suggest that very meaningful market setbacks have not historically begun during huge waves of public pessimism and fear. **Quite the contrary.**

This is not to be taken as a stock market forecast. We are planners/wealth architects not prognosticators. It is simply an invitation, as we look into the new year, to take some comfort from the rampant fear abroad in the land, even after a decade and more of stellar returns. To wit, there is still $14.4 trillion of investor money still sitting in cash, savings, and money market accounts earning near zero returns. This represents about 70% of our economy's nominal gross domestic product (GDP) and contrasts with historical time deposits representing 55% of GDP. The American investor is still rolled up in a financial fetal position afraid to put their money to work in the worlds greatest companies. You will have ample time to begin worrying when the stock market once again becomes cocktail party conversation, and everyone around us is excitedly bullish!

Take to heart, it is overwhelmingly probable, as financial journalism has been shrieking of late, that 2020 will not match the returns of the past year. Few years ever do; that is both manifestly true, *and wholly irrelevant*. The fact...or, more properly, the truth...is that we goal-focused, wealth architects had an exceptional year in 2019. It was so not by forecasting this year's returns...nor by jumping into the market just in time to get them...but by patiently hewing, to our lifetime stock investing discipline. That, to us, is the clear lesson of this genuinely great year.

*"If the only prayer you ever say in your entire life is thank you, it will be enough."*

**~Meister Eckhart, German theologian**

It is truly our desire to not only be your guide as you journey to achieve your mindful and intentional goals, but to do so in a way that you experience it with peace, harmony, and joy. It is a known fact that 90% of chronic disease is created through stress. Money and family relationship issues make up the vast majority of creating that stress. There are many approaches to reduce this suffering. And we will tap into the inner resources of them all. We are even in the early planning phase of incorporating a *Wellbeing Program* with highly trained professionals into our service offering as a 2020 goal. In the meantime, I would like to offer up a quote...a recognition to counter balance the avalanche of negativity in our environment. It will also offset those fight or flight instincts you get when market prices fluctuate and our fear to survive overwhelms our reactions and state of mind.

*"Nothing can stand up to gratitude. There's no negative emotion—not fear, not self-doubt, not sadness, and certainly not anger—that can survive exposure to the radiance of gratitude."*

**~ Nick Murray, author**

I am **in gratitude** each day of you allowing Timonier to be a part of this journey with you. **Remain focused on your intentional 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

*"The main purpose of meditation is to remove your attention from the environment, your body, and the passage of time so that what you intend, what you think, becomes your focus instead of these externals. You can then change your internal state independent of the outside world."*

**Dr. Joe Dispenza, Neuroscientist-Author-Teacher**

# Quarterly Market Summary

Index Returns

| 4Q 2019 | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| | STOCKS | | | | BONDS | |
| | 9.10% | 7.86% | 11.84% | 0.80% | 0.18% | -1.11% |

| Since Jan. 2001 | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| Avg. Quarterly Return | 2.1% | 1.5% | 2.9% | 2.6% | 1.2% | 1.1% |
| Best Quarter | 16.8% **2009 Q2** | 25.9% **2009 Q2** | 34.7% **2009 Q2** | 32.3% **2009 Q3** | 4.6% **2001 Q3** | 4.6% **2008 Q4** |
| Worst Quarter | -22.8% **2008 Q4** | -21.1% **2008 Q4** | -27.6% **2008 Q4** | -36.1% **2008 Q4** | -3.0% **2016 Q4** | -2.7% **2015 Q2** |

**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 Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). 

# Long-Term Market Summary

Index Returns

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|---|---|---|---|---|---|---|
| | STOCKS | | | | BONDS | |
| 1 Year | 31.02% | 22.49% | 18.42% | 23.12% | 8.72% | 7.57% |
| 5 Years | 11.24% | 5.42% | 5.61% | 5.56% | 3.05% | 3.87% |
| 10 Years | 13.42% | 5.32% | 3.68% | 9.31% | 3.75% | 4.29% |

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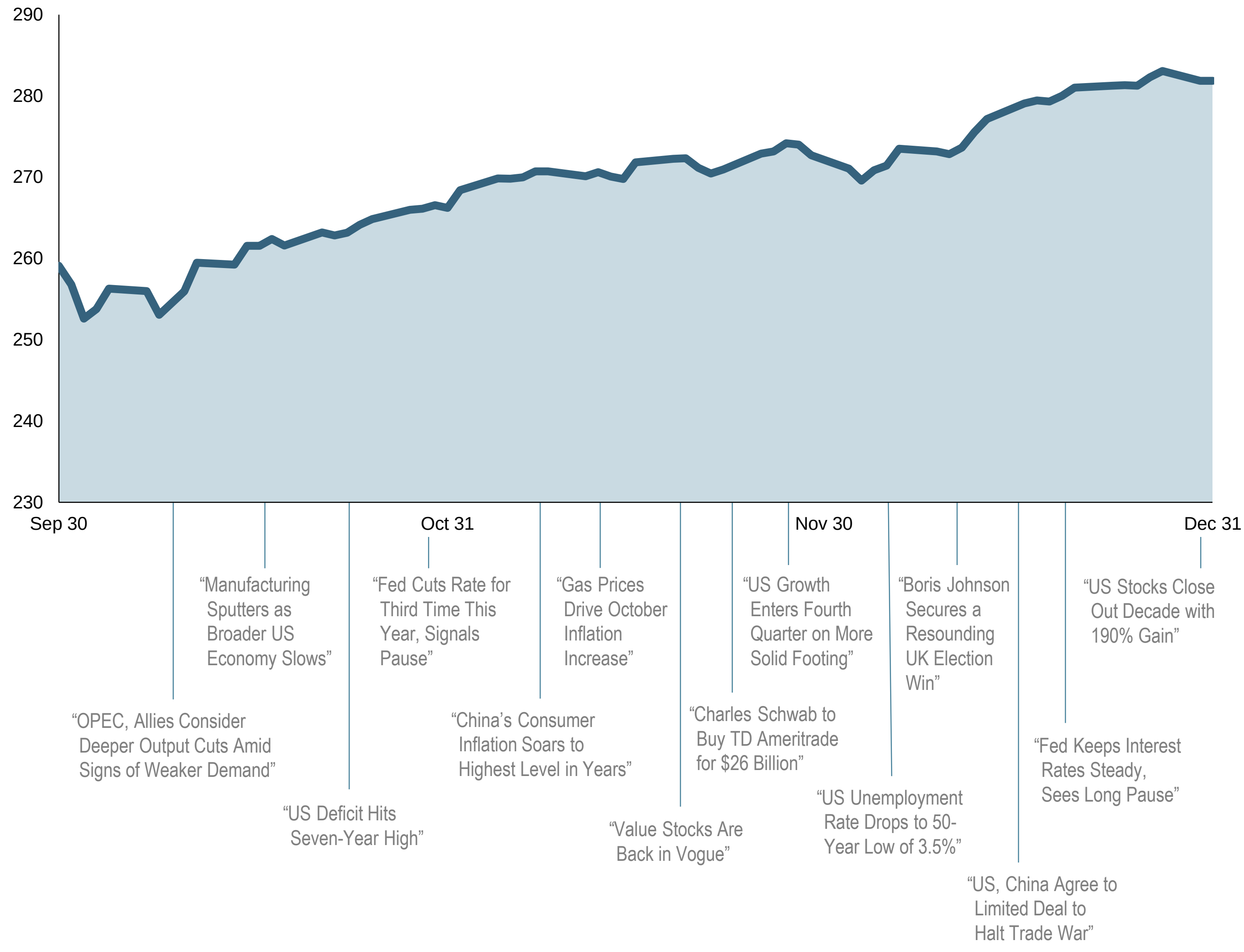
# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2019

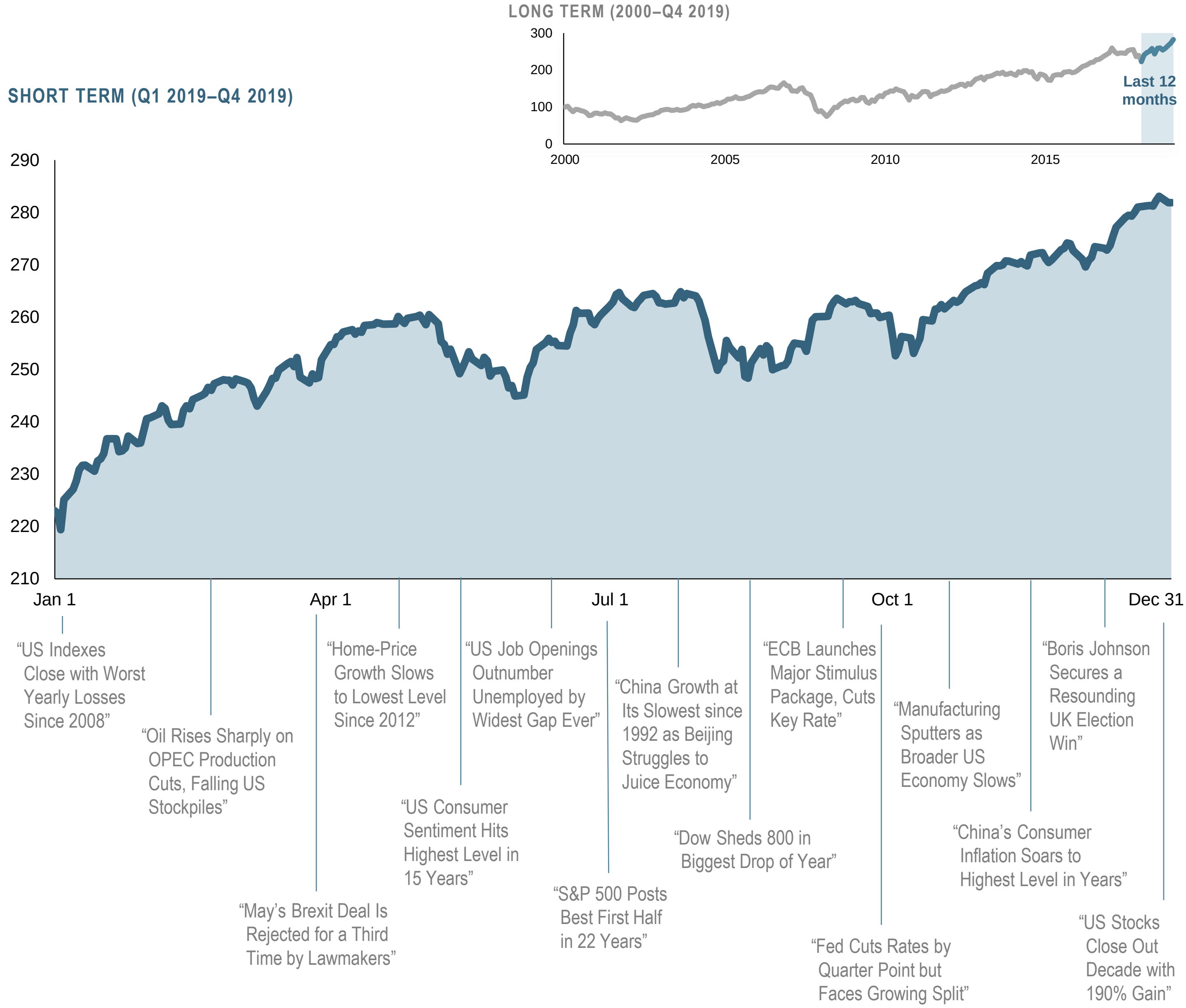



***These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.***

Graph Source: MSCI ACWI Index [net div.]. 
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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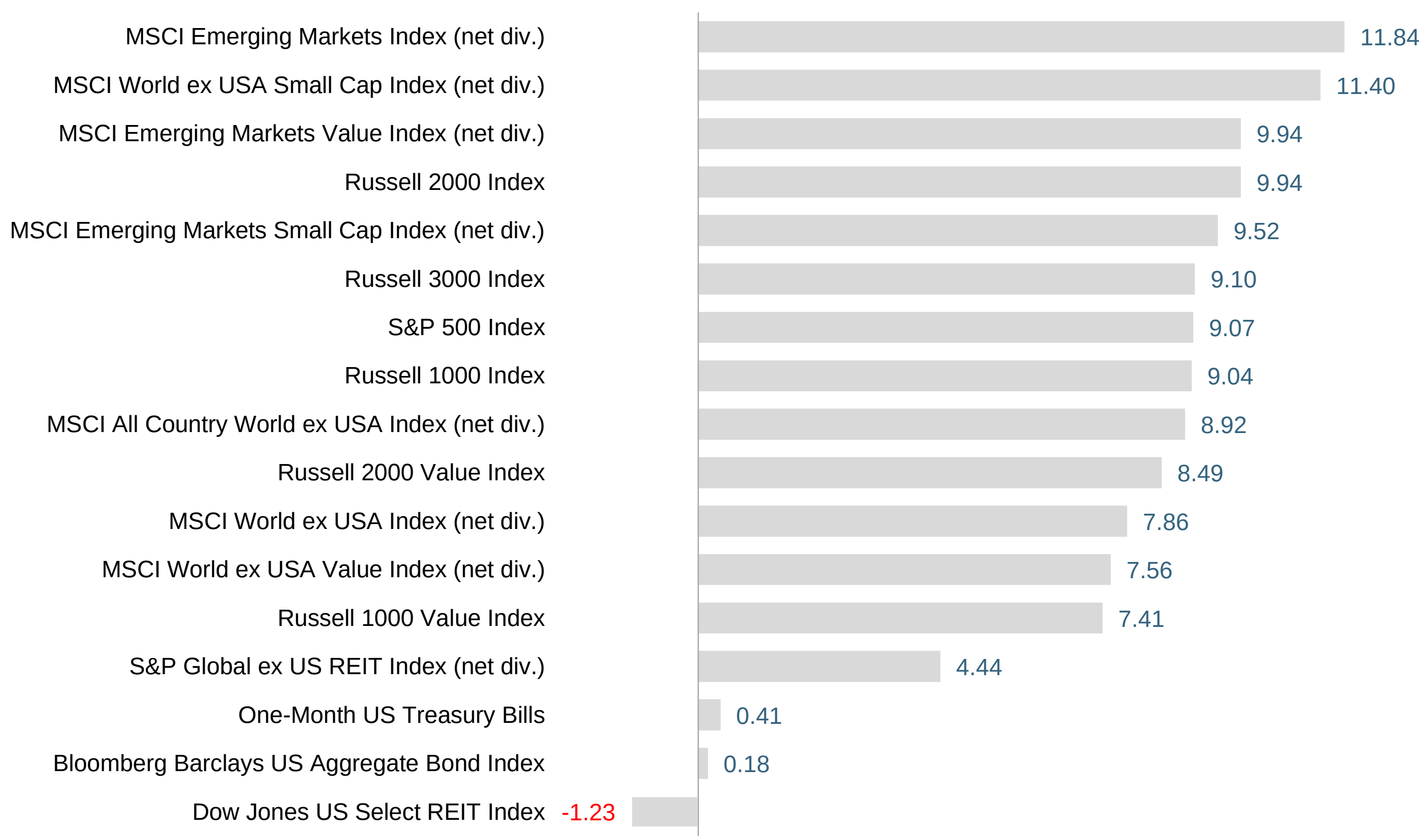
# World Asset Classes

## Fourth Quarter 2019 Index Returns (%)

Equity markets around the globe posted positive returns in the fourth quarter. Looking at broad market indices, US equities outperformed non-US developed markets but underperformed emerging markets.

Value stocks underperformed growth stocks in all regions. Small caps outperformed large caps in the US and non-US developed markets but underperformed in emerging markets.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



# US Stocks

Fourth Quarter 2019 Index Returns

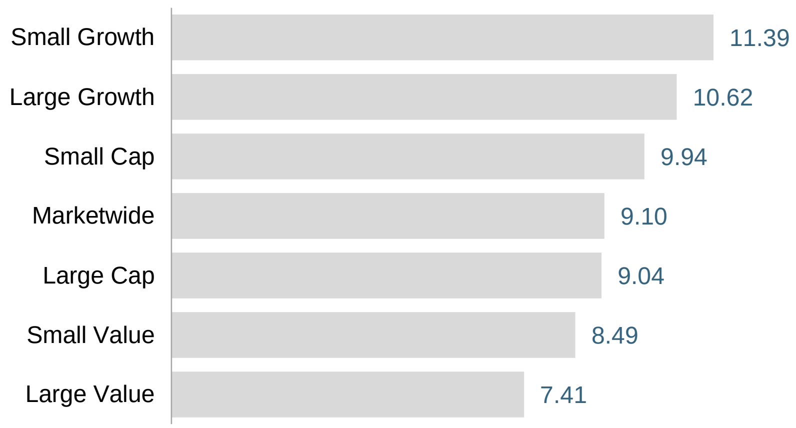
US equities outperformed non-US developed equities but underperformed emerging markets stocks in the fourth quarter.

Value underperformed growth in the US across large and small cap stocks.

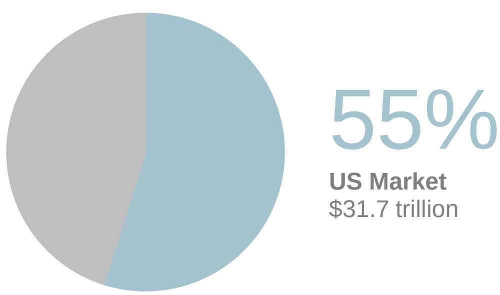
Small caps outperformed large caps in the US.

REIT indices underperformed equity market indices.

### Ranked Returns (%)




### World Market Capitalization—US




### Period Returns (%)

** Annualized*

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Small Growth | 11.39 | 28.48 | 12.49 | 9.34 | 13.01 |
| Large Growth | 10.62 | 36.39 | 20.49 | 14.63 | 15.22 |
| Small Cap | 9.94 | 25.52 | 8.59 | 8.23 | 11.83 |
| Marketwide | 9.10 | 31.02 | 14.57 | 11.24 | 13.42 |
| Large Cap | 9.04 | 31.43 | 15.05 | 11.48 | 13.54 |
| Small Value | 8.49 | 22.39 | 4.77 | 6.99 | 10.56 |
| Large Value | 7.41 | 26.54 | 9.68 | 8.29 | 11.80 |

**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. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is source and owner of trademarks, service marks, and copyrights related to Russell Indexes. 

# International Developed Stocks

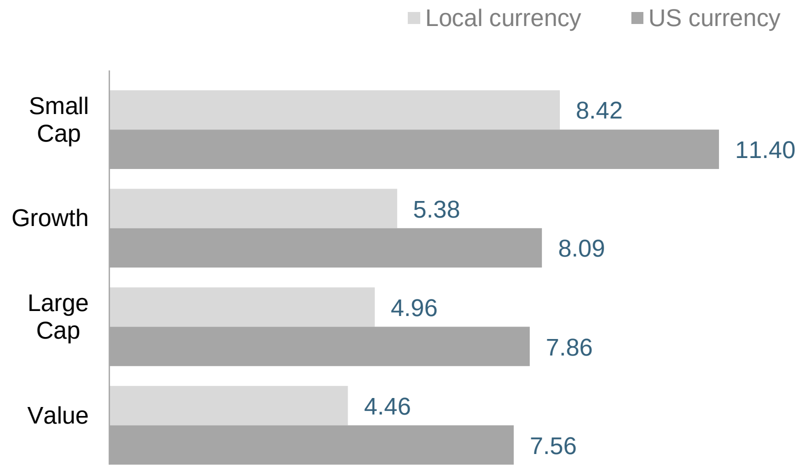
Fourth Quarter 2019 Index Returns

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

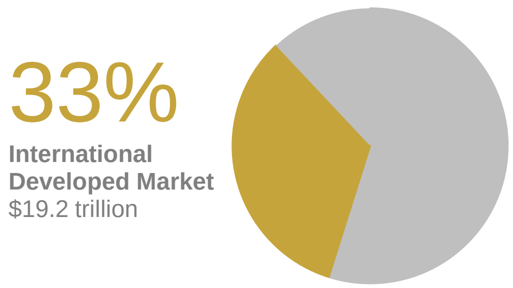
Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

**Ranked Returns (%)**




**World Market Capitalization—International Developed**




**Period Returns (%)**

** Annualized*

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Small Cap | 11.40 | 25.41 | 10.42 | 8.17 | 8.04 |
| Growth | 8.09 | 27.92 | 12.34 | 7.18 | 6.51 |
| Large Cap | 7.86 | 22.49 | 9.34 | 5.42 | 5.32 |
| Value | 7.56 | 17.02 | 6.36 | 3.59 | 4.05 |

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# Emerging Markets Stocks

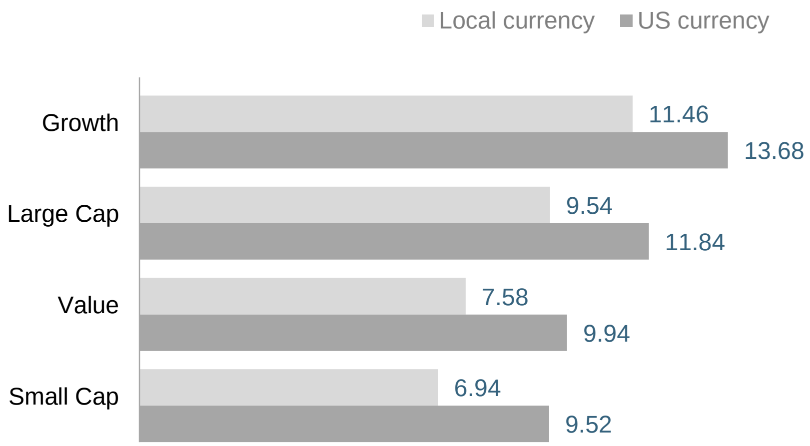
Fourth Quarter 2019 Index Returns

In US dollar terms, emerging markets outperformed developed markets, including the US, in the fourth quarter.

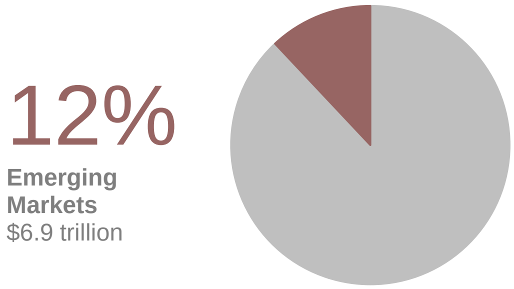
Value stocks underperformed growth stocks.

Small caps underperformed large caps.

### Ranked Returns (%)




### World Market Capitalization—Emerging Markets




### Period Returns (%)

** Annualized*

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Growth | 13.68 | 25.10 | 14.50 | 7.45 | 5.20 |
| Large Cap | 11.84 | 18.42 | 11.57 | 5.61 | 3.68 |
| Value | 9.94 | 11.94 | 8.57 | 3.67 | 2.08 |
| Small Cap | 9.52 | 11.50 | 6.70 | 2.97 | 2.95 |

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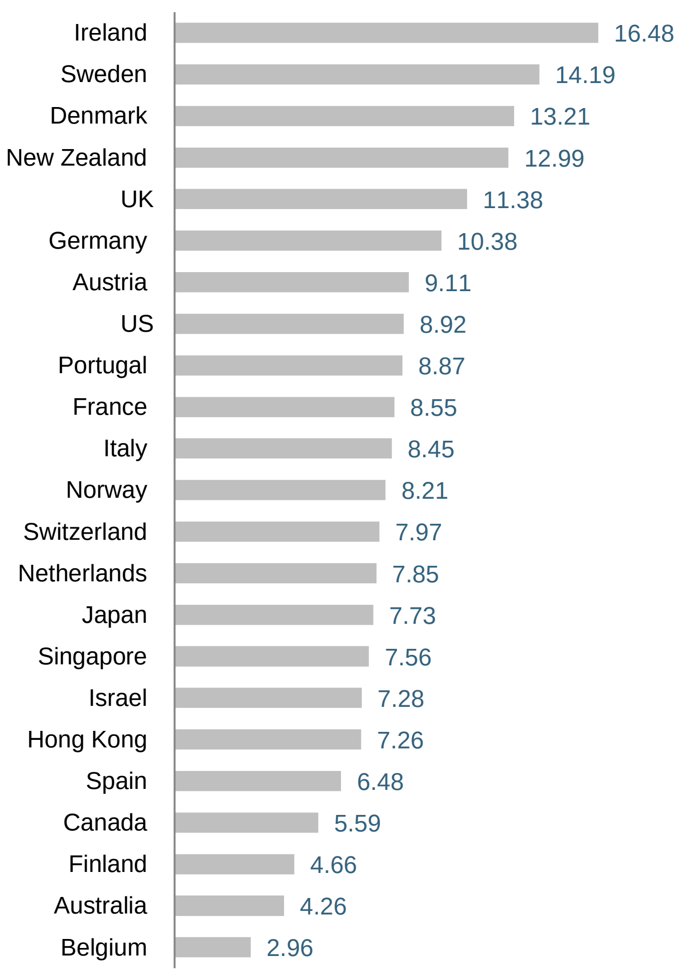
# Select Market Performance

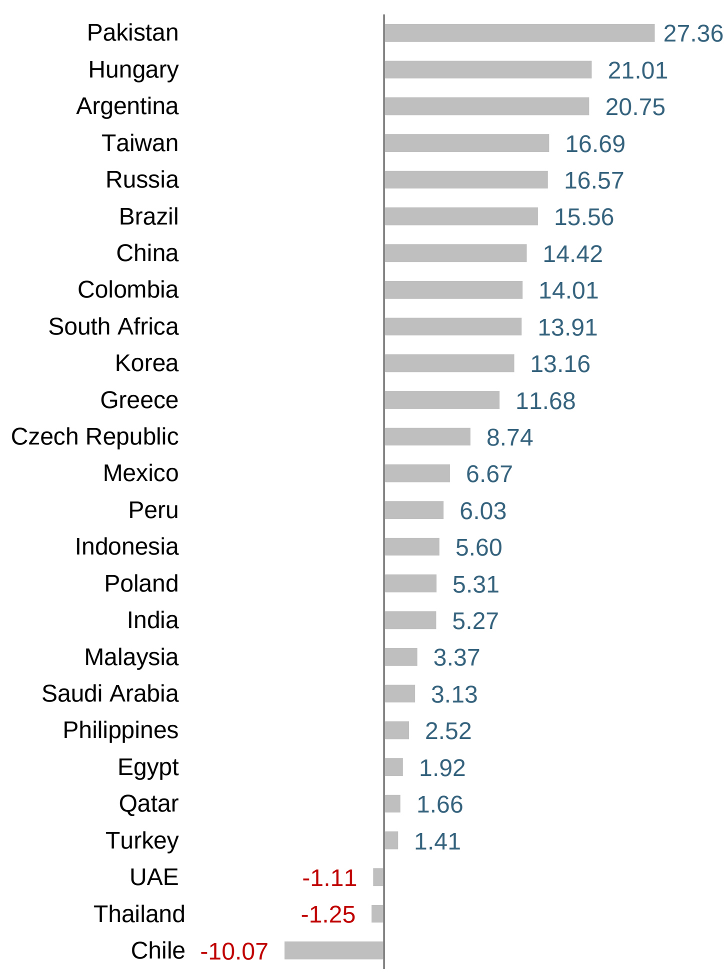
Fourth Quarter 2019 Index Returns

In US dollar terms, Ireland and Sweden recorded the highest country performance in developed markets during the fourth quarter, while Australia and Belgium posted the lowest returns. In emerging markets, Pakistan and Hungary were the top performers, while Chile and Thailand posted the lowest performance.

### Ranked Developed Markets Returns (%)




### Ranked Emerging Markets Returns (%)



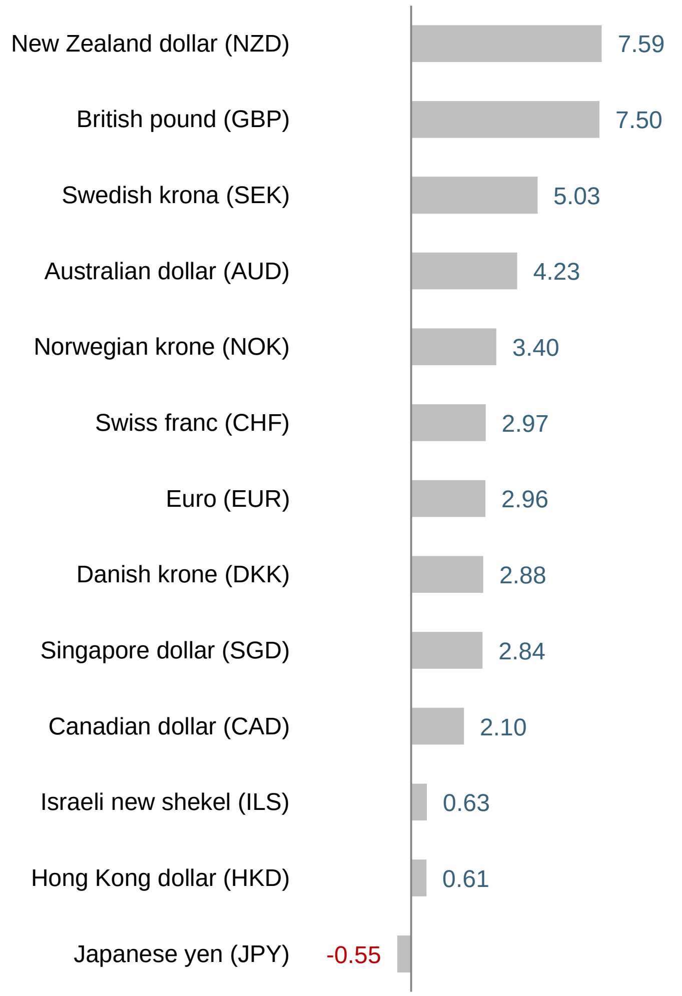

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Country performance based on respective indices in the MSCI World ex US IMI Index (for developed 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 2020, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014. Saudi Arabia and Argentina have been reclassified as emerging markets by MSCI, effective May 2019.

# Select Currency Performance vs. US Dollar

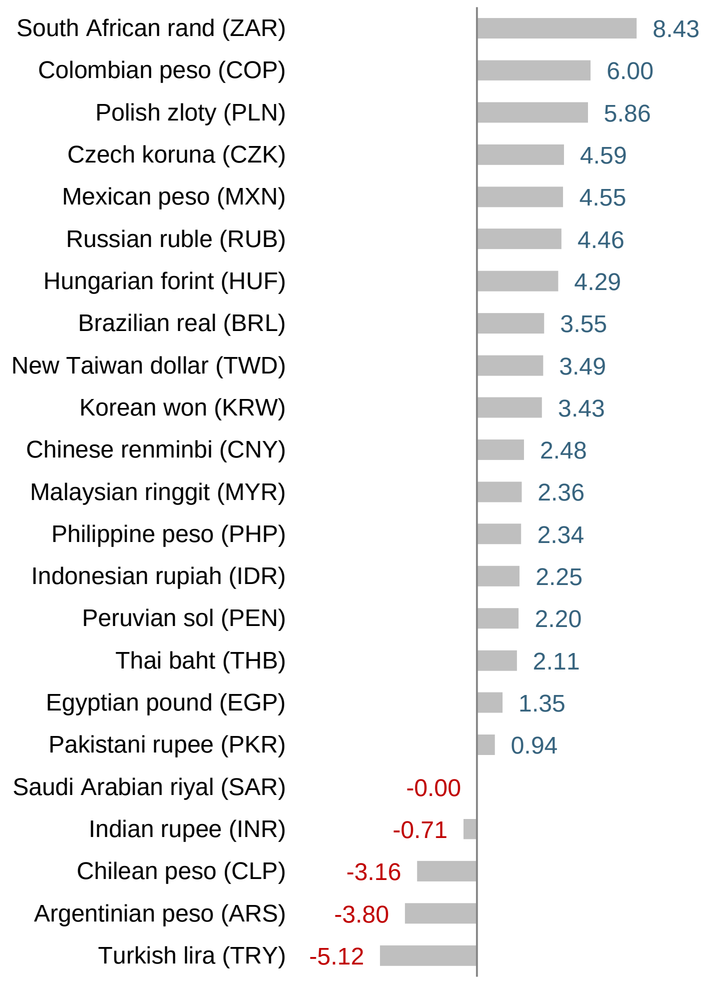
Fourth Quarter 2019

In developed and emerging markets, most currencies appreciated vs. the US dollar. The few exceptions included the Japanese yen and the Turkish lira.

### Ranked Developed Markets Returns (%)




### Ranked Emerging Markets Returns (%)



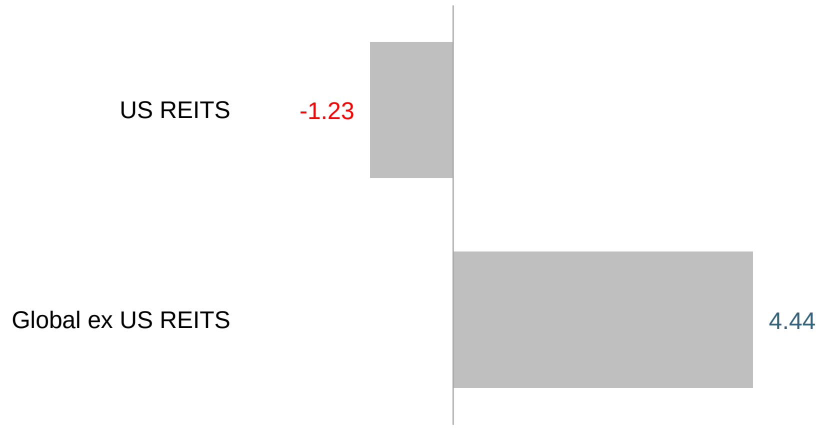

**Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio**.

# Real Estate Investment Trusts (REITs)

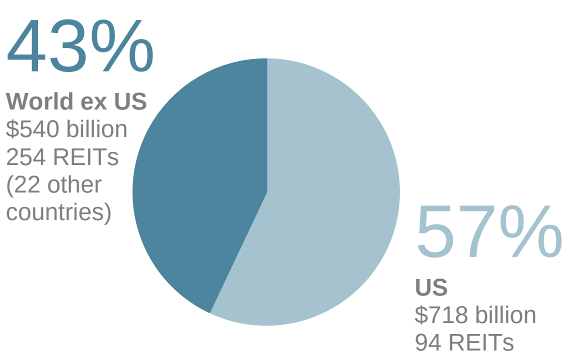
Fourth Quarter 2019 Index Returns

US real estate investment trusts (REITs) underperformed non-US REITs in US dollar terms during the fourth quarter.

## Ranked Returns (%)




## Total Value of REIT Stocks




## Period Returns (%)

** Annualized*

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Global ex US REITS | 4.44 | 23.59 | 9.79 | 5.65 | 7.74 |
| US REITS | -1.23 | 23.10 | 6.95 | 6.40 | 11.57 |

**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. 

# Commodities

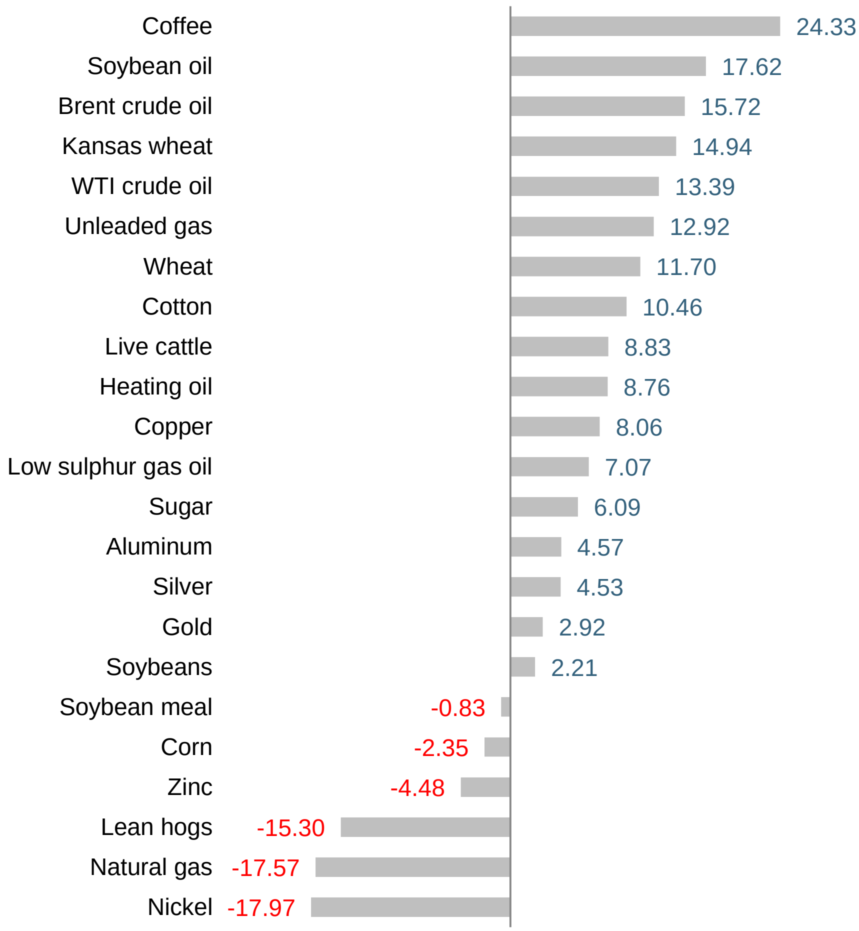
## Fourth Quarter 2019 Index Returns

The Bloomberg Commodity Index Total Return increased 4.42% in the fourth quarter.

Coffee and soybean oil were the top performers, gaining 24.33% and 17.62%, respectively.

Nickel and natural gas were the worst performers, declining by 17.97% and 17.57%, respectively.

### Ranked Returns (%)




### Period Returns (%)

** Annualized*

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| Commodities | 4.42 | 7.69 | -0.94 | -3.92 | -4.73 |

**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.** Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

# Fixed Income

## Fourth Quarter 2019 Index Returns

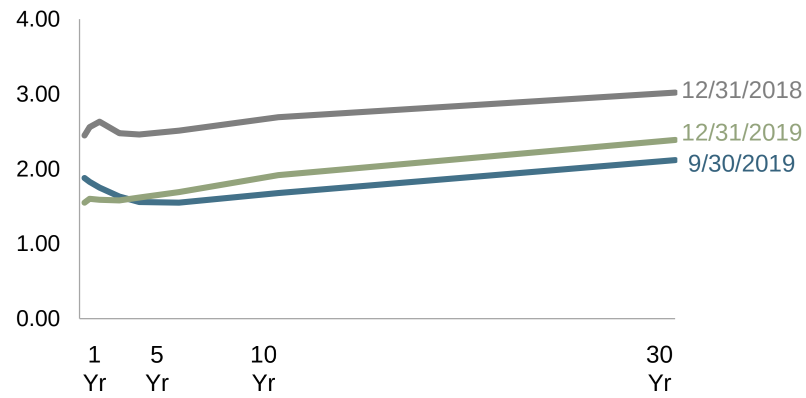
Interest rate changes were mixed in the US Treasury market during the fourth quarter. The yield on the 5-year Treasury note increased 14 basis points (bps), ending at 1.69%. The yield on the 10-year note rose 24 bps to 1.92%. The 30-year Treasury bond yield increased 27 bps to 2.39%.

On the short end of the yield curve, the 1-month Treasury bill yield decreased to 1.48%, while the yield on the 1-year bill dipped 16 bps to 1.59%. The 2-year note yield finished at 1.58% after a decrease of 5 bps.

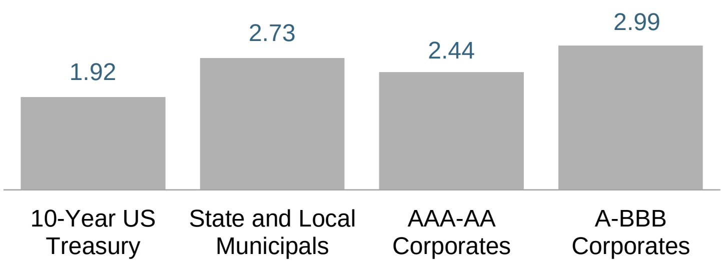
In terms of total returns, short-term corporate bonds gained 0.95%. Intermediate corporate bonds had a total return of 1.10%.

The total return for short-term municipal bonds was 0.84%, while intermediate-term munis returned 0.93%. General obligation bonds outperformed revenue bonds.

### US Treasury Yield Curve (%)




### Bond Yields across Issuers (%)




### Period Returns (%)

*Annualized

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|
| FTSE World Government Bond Index 1-5 Years | 1.01 | 2.43 | 2.40 | 0.74 | 0.19 |
| Bloomberg Barclays US TIPS Index | 0.79 | 8.43 | 3.32 | 2.62 | 3.36 |
| Bloomberg Barclays Municipal Bond Index | 0.74 | 7.54 | 4.72 | 3.53 | 4.34 |
| ICE BofA 1-Year US Treasury Note Index | 0.59 | 2.93 | 1.78 | 1.25 | 0.83 |
| ICE BofA US 3-Month Treasury Bill Index | 0.46 | 2.28 | 1.67 | 1.07 | 0.58 |
| Bloomberg Barclays US Aggregate Bond Index | 0.18 | 8.72 | 4.03 | 3.05 | 3.75 |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 0.18 | 3.86 | 2.37 | 1.92 | 1.85 |
| Bloomberg Barclays US Government Bond Index Long | -4.06 | 14.75 | 6.95 | 4.16 | 6.97 |

One basis point (bps) equals 0.01%. **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 ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA 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. Sinquefield). 

# Global Fixed Income

## Fourth Quarter 2019 Yield Curves

Interest rates in global developed markets generally increased during the fourth quarter.

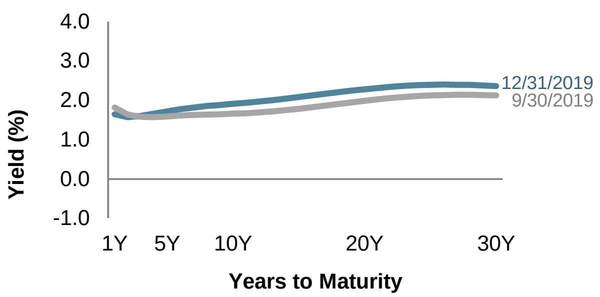
Longer-term bonds generally underperformed shorter-term bonds in the global developed markets.

Short- and intermediate-term nominal rates are negative in Japan and Germany.

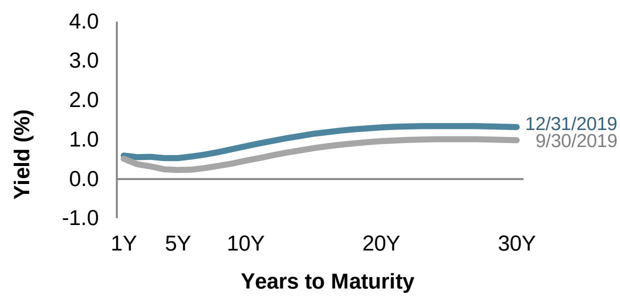
Changes in Yields (bps) since 9/30/2019

| | 1Y | 5Y | 10Y | 20Y | 30Y |
|---|---|---|---|---|---|
| US | -17.2 | 12.7 | 25.4 | 29.3 | 24.1 |
| UK | 8.2 | 30.6 | 36.8 | 34.9 | 33.1 |
| Germany | -1.4 | 32.2 | 40.9 | 42.7 | 40.3 |
| Japan | 16.9 | 23.8 | 19.6 | 7.0 | 3.9 |
| Canada | 3.0 | 29.0 | 33.7 | 22.7 | 21.0 |
| Australia | 13.7 | 27.4 | 36.2 | 36.7 | 35.3 |

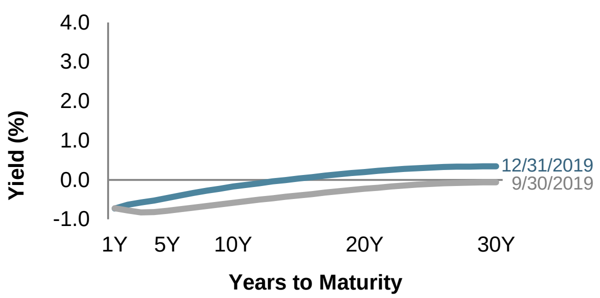
### US



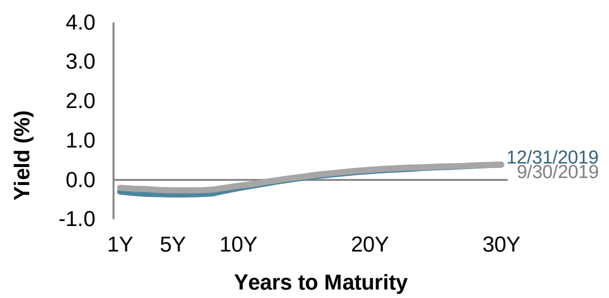

### UK



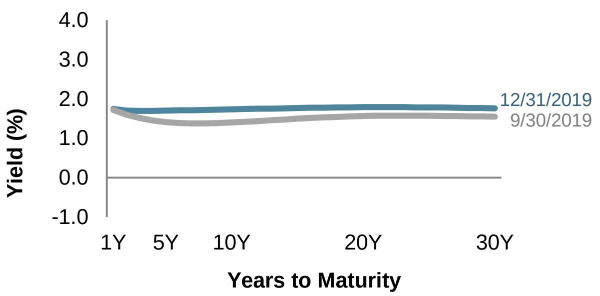

### Germany



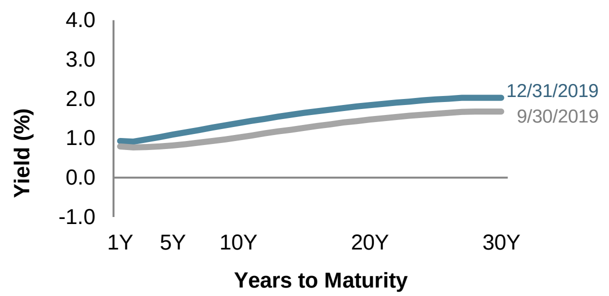

### Japan




### Canada




### Australia





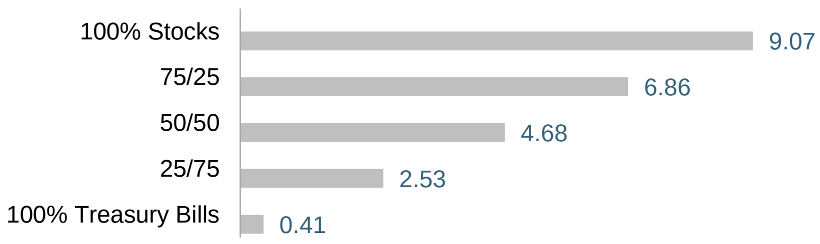

One basis point (bps) equals 0.01%. Source: ICE BofA government yield. 

# Impact of Diversification

Fourth Quarter 2019

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 (%)

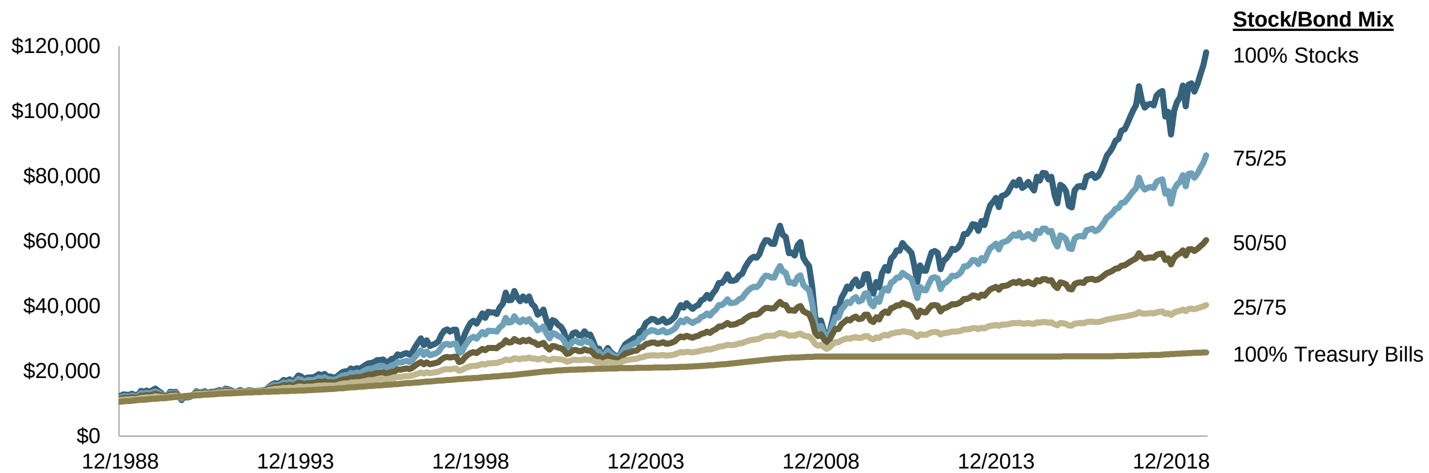



### Period Returns (%)

** Annualized*

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* | 10-Year STDEV[1] |
|---|---|---|---|---|---|---|
| 100% Stocks | 9.07 | 27.30 | 13.05 | 9.00 | 9.37 | 13.18 |
| 75/25 | 6.86 | 20.69 | 10.21 | 7.08 | 7.27 | 9.89 |
| 50/50 | 4.68 | 14.29 | 7.35 | 5.10 | 5.09 | 6.59 |
| 25/75 | 2.53 | 8.11 | 4.47 | 3.07 | 2.83 | 3.30 |
| 100% Treasury Bills | 0.41 | 2.14 | 1.58 | 0.99 | 0.52 | 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 2020, 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).

# Tuning Out the Noise

Fourth Quarter 2019

When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested.

For investors, it can be easy to feel overwhelmed by the relentless stream of news about markets. Being bombarded with data and headlines presented as impactful to your financial well-being can evoke strong emotional responses from even the most experienced investors. Headlines from the "lost decade"[1] can help illustrate several periods that may have led market participants to question their approach.

**May 1999:**
Dow Jones Industrial Average Closes Above 11,000 for the First Time

**March 2000:**
Nasdaq Stock Exchange Index Reaches an All-Time High of 5,048

**April 2000:**
In Less Than a Month, Nearly a Trillion Dollars of Stock Value Evaporates

**October 2002:**
Nasdaq Hits a Bear-Market Low of 1,114

**September 2005:**
Home Prices Post Record Gains

**September 2008:**
Lehman Files for Bankruptcy, Merrill Is Sold

While these events are now a decade or more behind us, they can still serve as an important reminder for investors today. For many, feelings of elation or despair can accompany headlines like these. We should remember that markets can be volatile and recognize that, in the moment, doing nothing may feel paralyzing. Throughout these ups and downs, however, if one had hypothetically invested $10,000 in US stocks in May 1999 and stayed invested, that investment would be worth approximately $28,000 today.[2]

When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested. While no one has a crystal ball, adopting a long-term perspective can help change how investors view market volatility and help them look beyond the headlines.

**The Value of a Trusted Advisor**

Part of being able to avoid giving in to emotion during periods of uncertainty is having an appropriate asset allocation that is aligned with an investor's willingness and ability to bear risk. It also helps to remember that if returns were guaranteed, you would not expect to earn a premium. Creating a portfolio investors are comfortable with, understanding that uncertainty is a part of investing, and sticking to a plan may ultimately lead to a better investment experience.

1. For the US stock market, this is generally understood as the period inclusive of 1999–2009.
2. In USD. As measured by the S&P 500 Index. A hypothetical portfolio of $10,000 invested on April 30, 1999, and tracking the S&P 500 Index, would have grown to $28,408 on March 31, 2018. However, performance of a hypothetical investment does not reflect transaction costs, taxes, or returns that any investor actually attained and may not reflect the true costs, including management fees, of an actual portfolio. Changes in any assumption may have a material impact on the hypothetical returns presented. It is not possible to invest directly in an index.

# Tuning Out the Noise

(continued from page 22)

However, as with many aspects of life, we can all benefit from a bit of help in reaching our goals. The best athletes in the world work closely with a coach to increase their odds of winning, and many successful professionals rely on the assistance of a mentor or career coach to help them manage the obstacles that arise during a career. Why? They understand that the wisdom of an experienced professional, combined with the discipline to forge ahead during challenging times, can keep them on the right track. The right financial advisor can play this vital role for an investor. A financial advisor can provide the expertise, perspective, and encouragement to keep you focused on your destination and in your seat when it matters most.

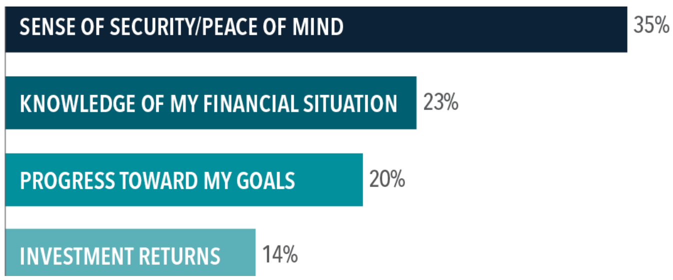
A recent survey conducted by Dimensional Fund Advisors (see Exhibit 1) found that, along with progress towards their goals, investors place a high value on the sense of security they receive from their relationship with a financial advisor.

Having a strong relationship with an advisor can help you be better prepared to live your life through the ups and downs of the market. That's the value of discipline, perspective, and calm. That's the difference the right financial advisor makes.

EXHIBIT 1

**How Do You Primarily Measure the Value Received from Your Advisor?**

*Top Four Responses*




*"Everything…absolutely everything …that happens in our lives has a spiritual cause. Mental, emotional, and physical events are only effects."*

**Albert Einstein**

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Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. There is no guarantee investment strategies will be successful. Investing involves risks including possible loss of principal. Investors should talk to their financial advisor prior to making any investment decision. There is always the risk that an investor may lose money. A long-term investment approach cannot guarantee a profit.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd, Dimensional Ireland Limited, Dimensional Japan Ltd., and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.