



Q1

Quarterly Market Review

First Quarter 2016

# Quarterly Market Review

First Quarter 2016

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 performance of globally diversified portfolios and features a quarterly topic.

## Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities







Fixed Income

Global Diversification

Quarterly Topic: Free Throws

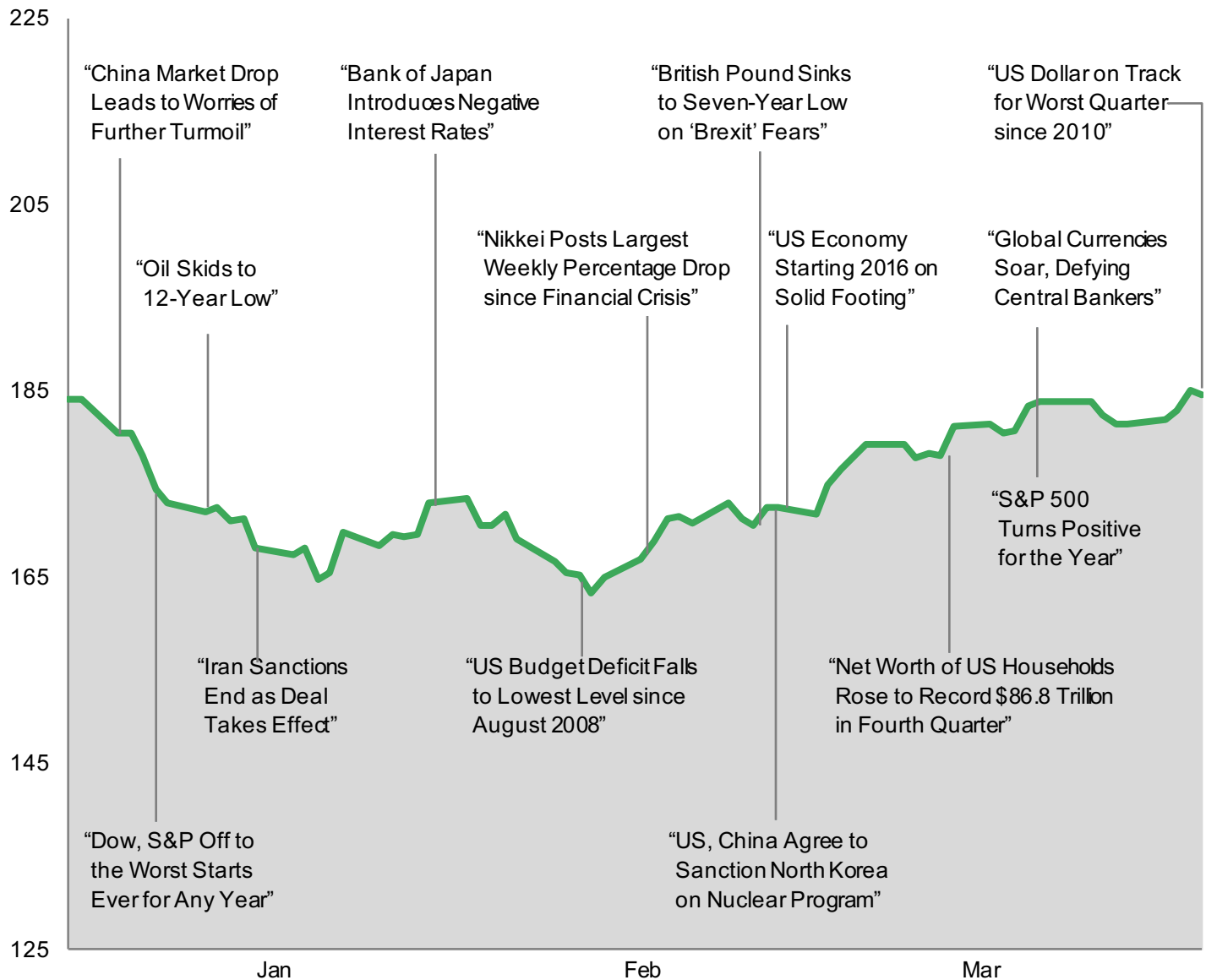
# Market Summary

## Index Returns

|                        | US Stock Market  | International Developed Stocks   | Emerging Markets Stocks  | Global Real Estate  | US Bond Market   | Global Bond Market ex US   |
|------------------------|--|--|--|---|--|--|
| <b>1Q 2016</b>         | <b>STOCKS</b>  |  |  |   | <b>BONDS</b>   |  |
|                        | 0.97%  | -1.95%   | 5.71%  | 6.94%   | 3.03%  | 4.16%  |
|                        |  |  |  |  |  |  |
| <b>Since Jan. 2001</b> |  |  |  |   |  |  |
| Avg. Quarterly Return  | 1.7%   | 1.3%   | 2.9%   | 2.9%  | 1.3%   | 1.2%   |
| Best Quarter           | 16.8%<br>Q2 2009   | 25.9%<br>Q2 2009   | 34.7%<br>Q2 2009   | 32.3%<br>Q3 2009  | 4.6%<br>Q3 2001  | 5.5%<br>Q4 2008  |
| Worst Quarter          | -22.8%<br>Q4 2008  | -21.2%<br>Q4 2008  | -27.6%<br>Q4 2008  | -36.1%<br>Q4 2008   | -2.4%<br>Q2 2004   | -3.2%<br>Q2 2015   |

# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2016

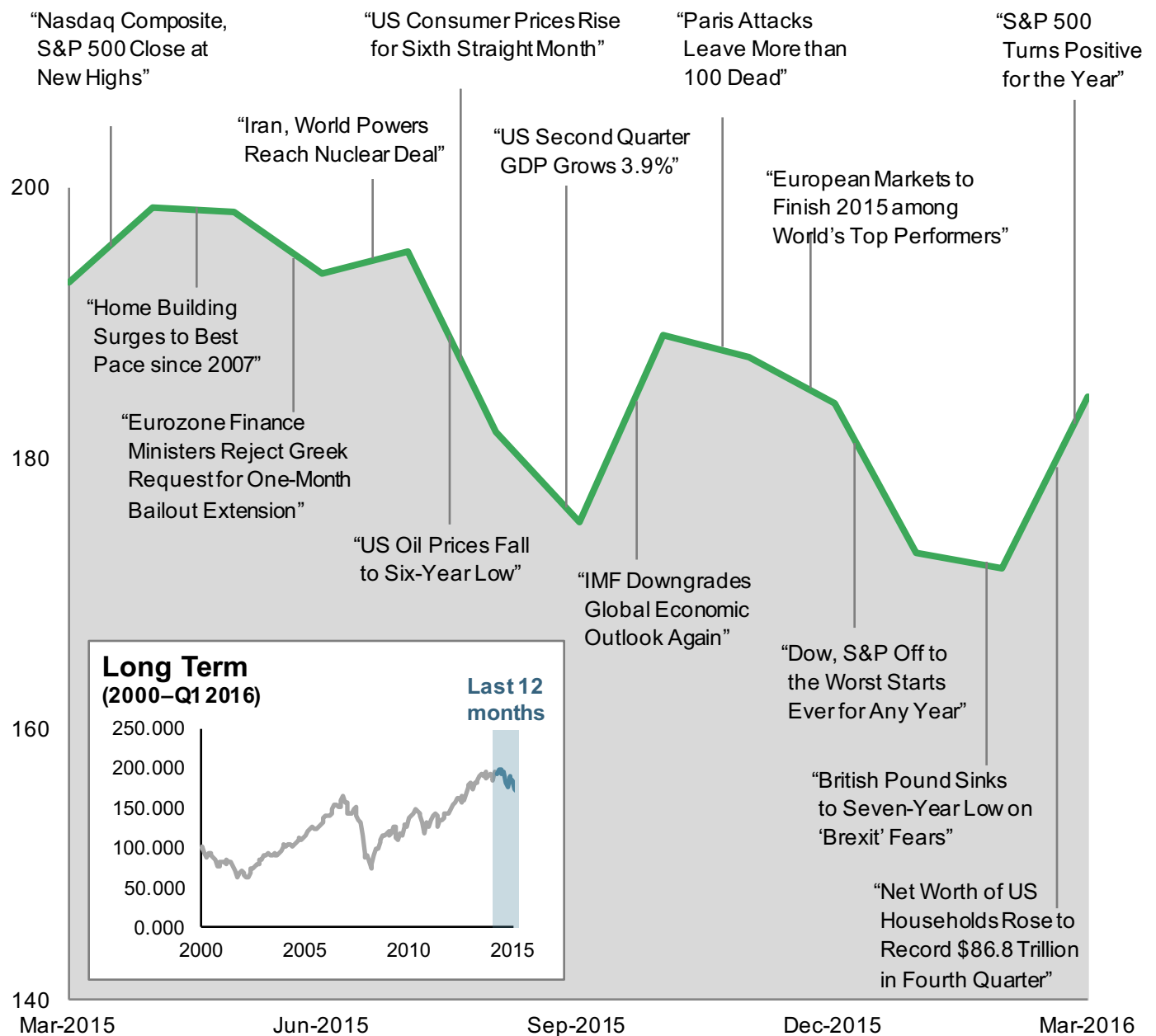


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

# World Stock Market Performance

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

## Short Term (Q2 2015–Q1 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. MSCI data © MSCI 2016, all rights reserved.

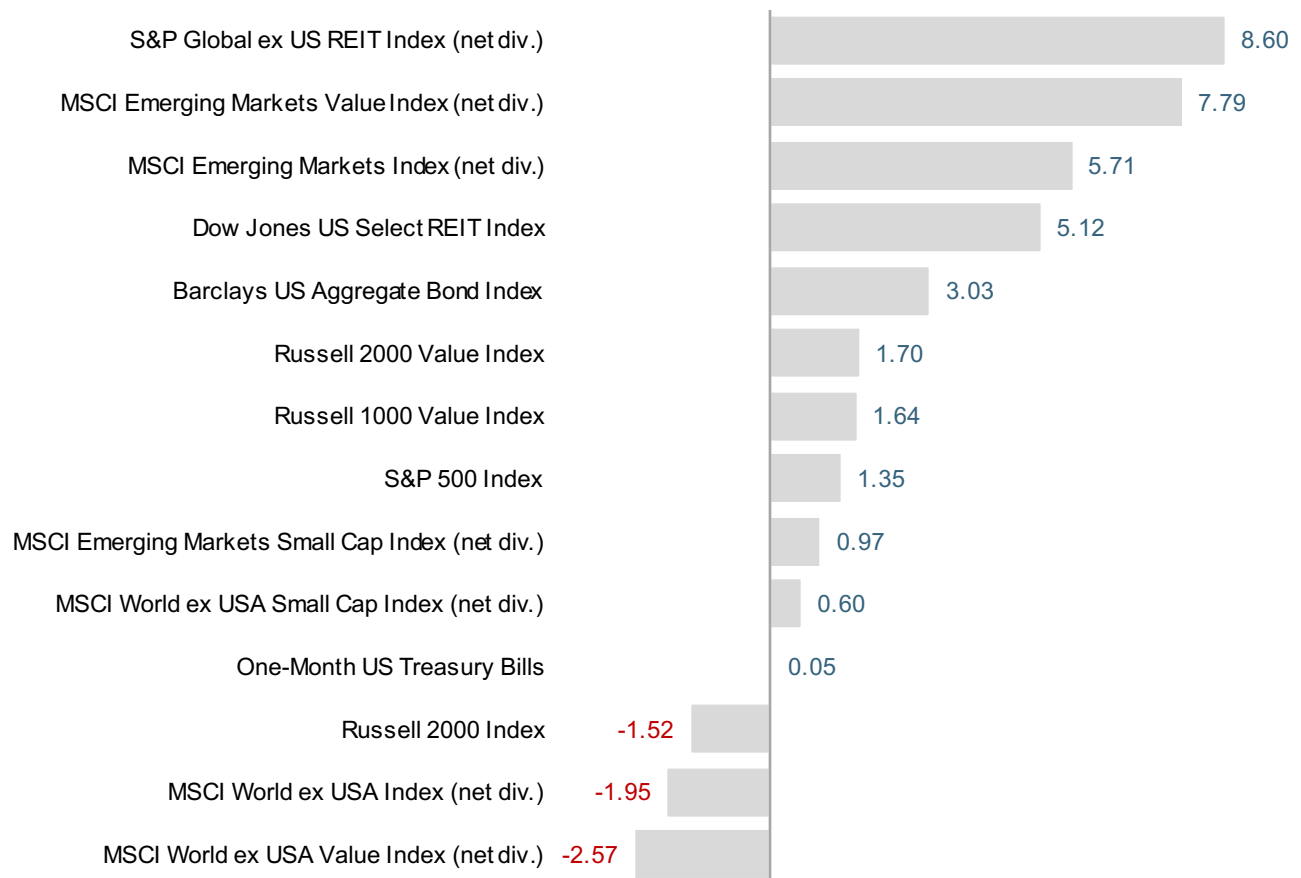
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

# World Asset Classes

## First Quarter 2016 Index Returns (%)

Looking at broad market indices, emerging markets outperformed developed markets, including the US. Developed markets REITs recorded the highest returns.

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



# US Stocks

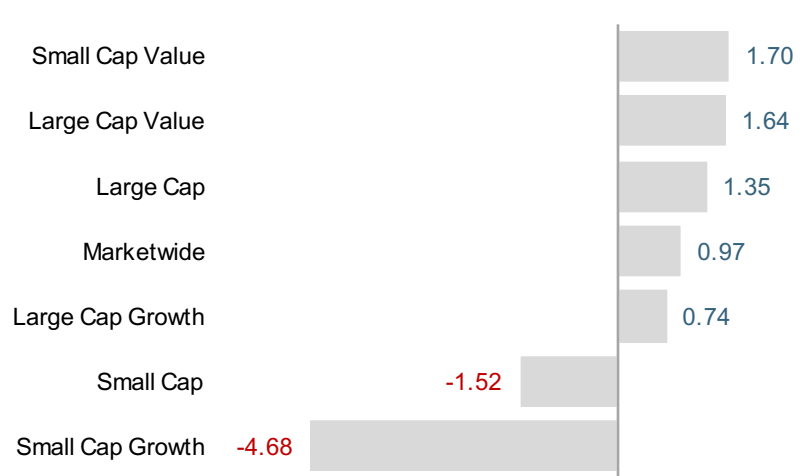
## First Quarter 2016 Index Returns

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

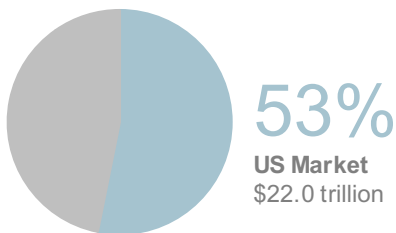
Value indices outperformed growth indices across all size ranges.

Small caps underperformed large caps.

### Ranked Returns for the Quarter (%)



### World Market Capitalization—US



### Period Returns (%)

| Asset Class      | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|------------------|-------|--------|----------|----------|-----------|
| Marketwide       | 0.97  | -0.34  | 11.15    | 11.01    | 6.90      |
| Large Cap        | 1.35  | 1.78   | 11.82    | 11.58    | 7.01      |
| Large Cap Value  | 1.64  | -1.54  | 9.38     | 10.25    | 5.72      |
| Large Cap Growth | 0.74  | 2.52   | 13.61    | 12.38    | 8.28      |
| Small Cap        | -1.52 | -9.76  | 6.84     | 7.20     | 5.26      |
| Small Cap Value  | 1.70  | -7.72  | 5.73     | 6.67     | 4.42      |
| Small Cap Growth | -4.68 | -11.84 | 7.91     | 7.70     | 6.00      |

\* Annualized

# International Developed Stocks

## First 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.

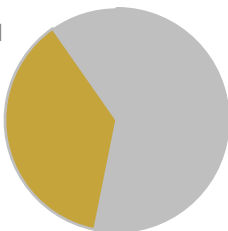
Small caps outperformed large caps in non-US developed markets.

The value effect was negative in non-US developed markets using broad market indices. Large cap value indices underperformed large cap growth indices. The opposite was true in small caps; small cap value indices outperformed small cap growth indices.

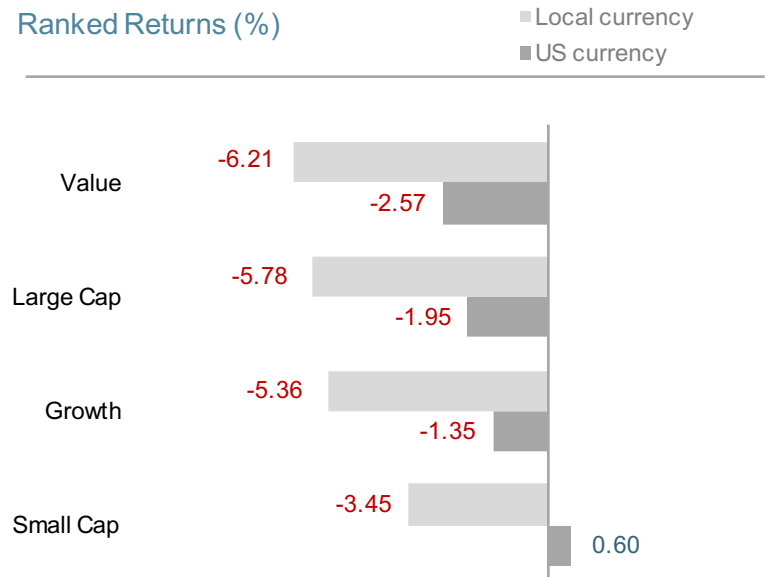
### World Market Capitalization— International Developed

**37%**

International  
Developed  
Markets  
\$15.1 trillion



### Ranked Returns (%)



### Period Returns (%)

| Asset Class | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Large Cap   | -1.95 | -8.44  | 1.69     | 1.62     | 1.80      |
| Small Cap   | 0.60  | 1.99   | 5.54     | 3.84     | 3.09      |
| Value       | -2.57 | -12.34 | 0.07     | 0.37     | 0.76      |
| Growth      | -1.35 | -4.52  | 3.24     | 2.81     | 2.77      |

\* Annualized



# Emerging Markets Stocks

## First Quarter 2016 Index Returns

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

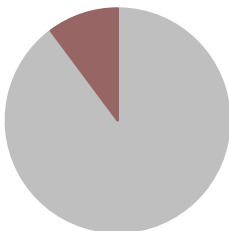
Value outperformed growth across all size ranges.

Small cap indices underperformed large cap indices.

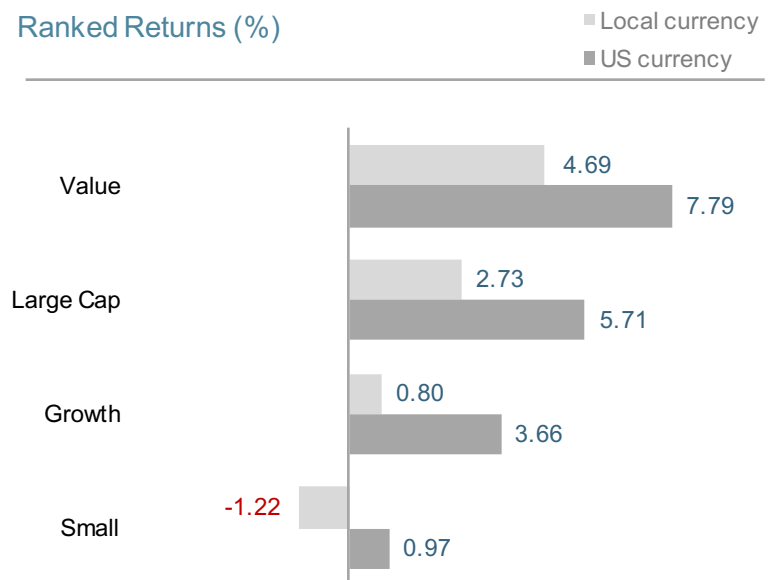
### World Market Capitalization— Emerging Markets

**10%**

Emerging Markets  
\$4.2 trillion



### Ranked Returns (%)



### Period Returns (%)

| Asset Class | YTD  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|------|--------|----------|----------|-----------|
| Large Cap   | 5.71 | -12.03 | -4.50    | -4.13    | 3.02      |
| Small Cap   | 0.97 | -9.20  | -2.69    | -2.56    | 5.08      |
| Value       | 7.79 | -12.56 | -6.46    | -5.86    | 2.96      |
| Growth      | 3.66 | -11.60 | -2.66    | -2.48    | 2.99      |

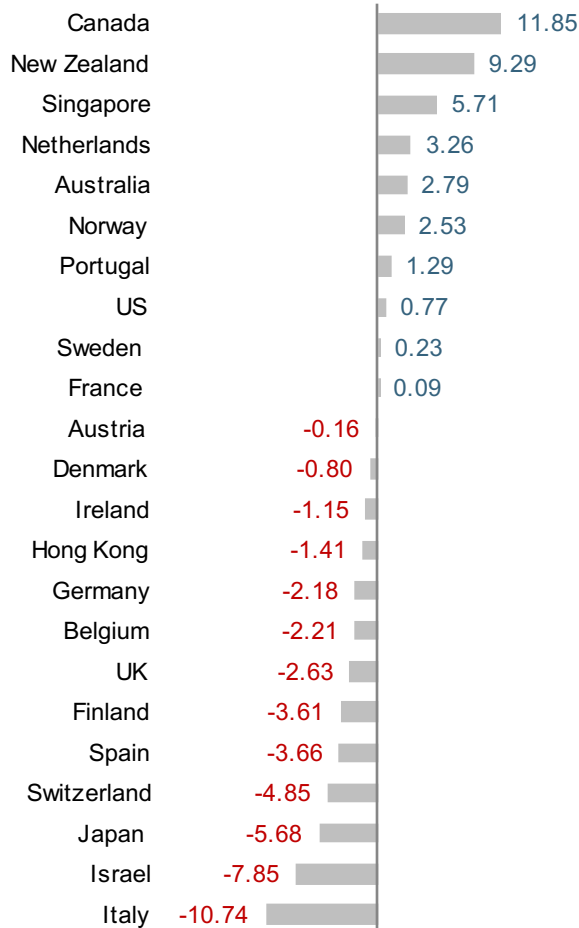
\* Annualized

# Select Country Performance

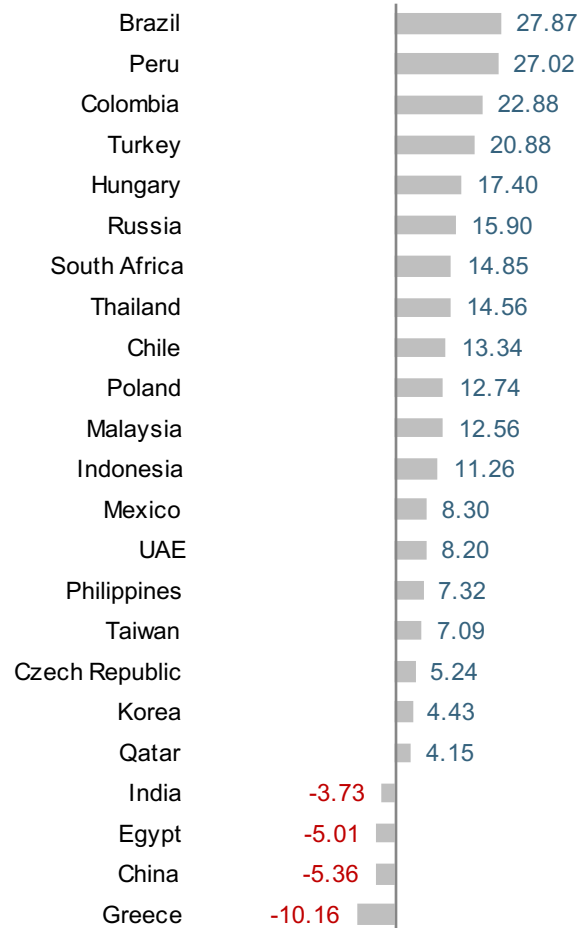
## First Quarter 2016 Index Returns

Canada recorded the highest country performance in developed markets, while Israel and Italy posted the lowest returns for the quarter. In emerging markets, Brazil and Peru recorded the highest country returns, while China and Greece recorded the lowest.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)

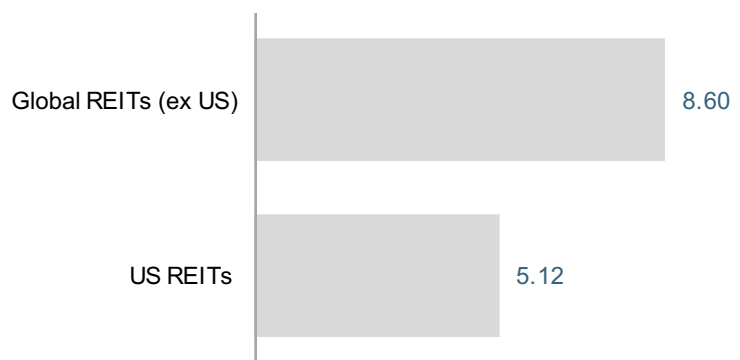


# Real Estate Investment Trusts (REITs)

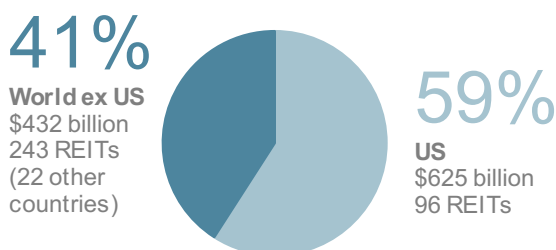
## First Quarter 2016 Index Returns

REITs in developed markets posted very strong performance for the quarter. US REITs outperformed broad market US equity indices.

### Ranked Returns (%)



### Total Value of REIT Stocks



### Period Returns (%)

| Asset Class          | YTD  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|----------------------|------|--------|----------|----------|-----------|
| US REITs             | 5.12 | 4.88   | 11.09    | 11.99    | 6.17      |
| Global REITs (ex US) | 8.60 | 2.53   | 3.46     | 6.58     | 3.49      |

\* Annualized

# Commodities

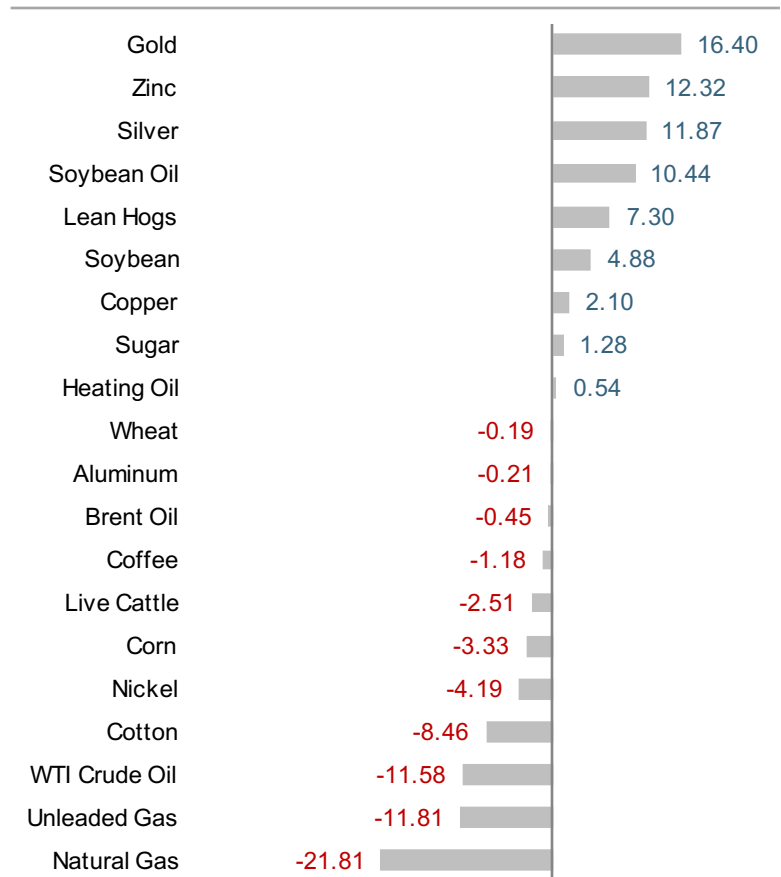
## First Quarter 2016 Index Returns

Commodities were mixed during the first quarter. The Bloomberg Commodity Index Total Return gained 0.42%. Precious metals led the index with gold returning 16.40% and silver returning 11.87%.

Energy was the worst-performing complex. Natural gas fell 21.81%, while unleaded gas declined 11.81%. WTI crude oil was down 11.58%.

Grains were slightly positive. Soybean oil gained 10.44%, but corn fell 3.33%. Livestock was mixed. Lean hogs gained 7.30%, while live cattle fell 2.51%.

### Ranked Returns for Individual Commodities (%)



### Period Returns (%)

| Asset Class | YTD  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|------|--------|----------|----------|-----------|
| Commodities | 0.42 | -19.56 | -16.87   | -14.15   | -6.16     |

\* Annualized

# Fixed Income

## First Quarter 2016 Index Returns

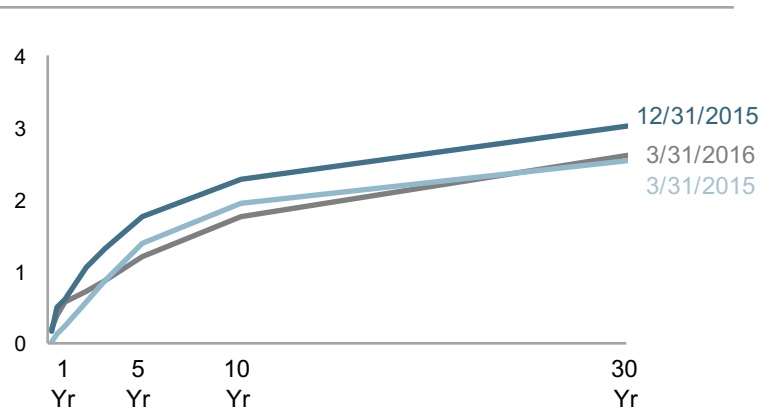
Interest rates across the US fixed income markets generally decreased during the first quarter. The yield on the 5-year Treasury note fell 55 basis points (bps) to 1.21%. The yield on the 10-year Treasury note decreased 49 bps to 1.78%. The 30-year Treasury bond declined 40 bps to finish at 2.61%.

The yield on the 1-year Treasury bill dipped 6 bps to 0.59%, and the 2-year Treasury note declined 33 bps to 0.73%. The 3-month T-bill increased 5 bps to yield 0.21%, while the 6-month T-bill decreased 10 bps to 0.39%.

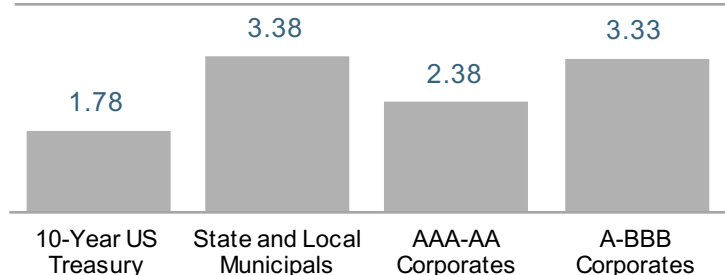
For the quarter, short-term corporate bonds gained 1.16%, intermediate-term corporate bonds returned 2.76%, and long-term corporate bonds returned 6.83%.<sup>1</sup>

Short-term municipal bonds returned 0.71% while intermediate-term munis gained 1.55%. Revenue bonds slightly outperformed general obligation bonds for the quarter.<sup>2</sup>

### US Treasury Yield Curve (%)



### Bond Yields across Issuers (%)



### Period Returns (%)

\* Annualized

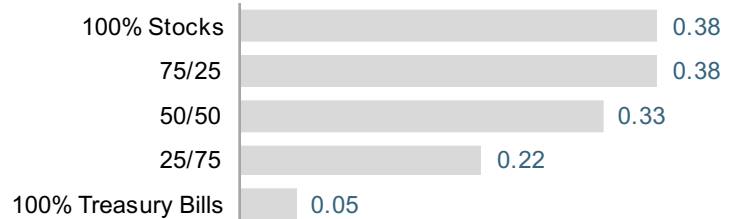
| Asset Class   | YTD  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|------|--------|----------|----------|-----------|
| BofA Merrill Lynch Three-Month US Treasury Bill Index | 0.07 | 0.12   | 0.07     | 0.08     | 1.15      |
| BofA Merrill Lynch 1-Year US Treasury Note Index      | 0.36 | 0.40   | 0.29     | 0.32     | 1.74      |
| Citigroup WGBI 1-5 Years (hedged to USD)              | 1.14 | 1.52   | 1.47     | 1.86     | 3.00      |
| Barclays Long US Government Bond Index                | 8.06 | 2.80   | 6.04     | 9.52     | 7.88      |
| Barclays US Aggregate Bond Index                      | 3.03 | 1.96   | 2.50     | 3.78     | 4.90      |
| Barclays US Corporate High Yield Index                | 3.35 | -3.69  | 1.84     | 4.93     | 7.01      |
| Barclays Municipal Bond Index                         | 1.67 | 3.98   | 3.63     | 5.59     | 4.86      |
| Barclays US TIPS Index                                | 4.46 | 1.51   | -0.71    | 3.02     | 4.63      |

# Global Diversification

## First 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 (%)

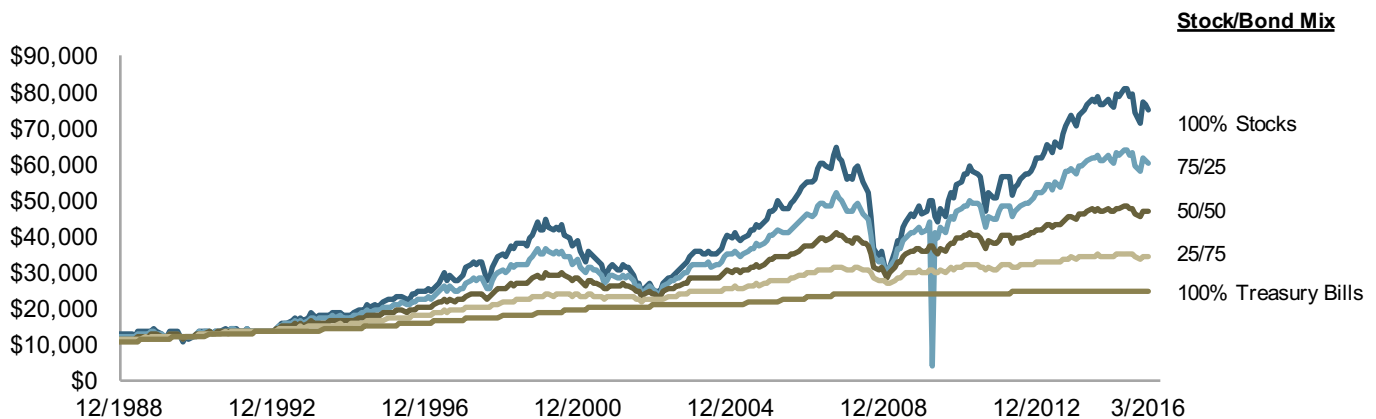


### Period Returns (%)

\* Annualized

| Asset Class         | YTD  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---------------------|------|--------|----------|----------|-----------|
| 100% Stocks         | 0.38 | -3.81  | 6.10     | 5.80     | 4.63      |
| 75/25               | 0.38 | -2.64  | 4.69     | 4.51     | 4.01      |
| 50/50               | 0.33 | -1.61  | 3.20     | 3.12     | 3.20      |
| 25/75               | 0.22 | -0.71  | 1.65     | 1.62     | 2.20      |
| 100% Treasury Bills | 0.05 | 0.06   | 0.03     | 0.04     | 1.03      |

## Growth of Wealth: The Relationship between Risk and Return



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. Sinquefeld).

## Free Throws

Dave Butler offers a sports example to help investors apply discipline in a stressful market

***“What do you regard as the most difficult period in the financial markets during your 25 years in the investment business?”***

I am often asked this question, usually by people who already have a framework and opinion as a result of living through one or several market downturns. For example, many older advisors and their clients regard the 1973–1974 bear market as the toughest period in their investment lifetime. Middle-aged investors may consider the tech boom and bust of the late 1990s and early 2000s to be the bellwether event for a generation of investors who assumed they could get rich on one great stock pick. Today, just about everyone remembers the 2008–2009 global financial crisis, having experienced the anxiety of declining investment accounts themselves or knowing someone who did.

The market decline in early 2016 has much of the same feel as past events. Times like these are never easy for clients or advisors, who must confront their concern that “things just might be different this time.” When in the midst of a market decline, it is natural to sense that the volatility is lasting longer and is

worse than anything before. As a result, advisors spend a lot of time talking to their clients in an effort to alleviate elevated concerns and fears.

How do we find the words that might help minimize the fear and anxiety advisors’ clients feel about their investment portfolios and retirement security? As you know, no single word or story can ease their concerns—and certainly not overnight. The more effective course may be for advisors to steadily lead clients down a path from worry to calm through a conversational approach that emphasizes the importance of sticking with their plan.

### **LINKING PROCESS TO DISCIPLINE**

I had the opportunity a few weeks ago to speak at an advisor’s client event in California. As I was driving to the event, I thought about how to make the presentation conversational and ensure the concepts of process and discipline resonate with the audience.

The audience was a sports-oriented crowd, and I had about 15 minutes to get across one important concept that might help them navigate the

choppy markets. Then I remembered an article I read about world-class athletes and their approach to success. The author described how the greatest athletes, from Olympians to all-star professionals, focus on process rather than outcome when competing at the highest level. I thought about this in context of my own college athletic experience, which, although not at the Olympic level, involved the same need for calm and focus during high-pressure moments in a basketball game.

Imagine yourself playing in a championship basketball game. Your team is trailing by one point. You are fouled just as the game clock goes to zero. You have two free throws. Make both and you win. Miss them and you lose.

What do you do to contain the pressure and focus on the task? The great athletes look to process. While each process may be different, each one reflects a personal routine a player has performed thousands of times in practice. For instance, you start your routine as you approach the free throw line; you take a deep  
*(CONTINUED ON PAGE 16)*

## Free Throws (continued from page 15)

### Dave Butler offers a sports example to help investors apply discipline in a stressful market

breath and imagine the ball going through the hoop; you step to the line and find the exact spot (usually a nail right behind the painted line) where your right foot will anchor; you look at the back (or front) of the rim and notice the paint peeling or the net missing a connecting loop—or anything else to help you concentrate and calm your mind; and you take the ball from the referee and continue your routine. You dribble twice and flip the ball in the air, take a couple of knee bends, find the grooves on the ball, and spread your fingers across it. You feel the texture of the ball, the rough orange leather and the smooth black rubber on the grooves, and finally time the motion so that your body, the release of the ball, and the follow-through of your hand are all in perfect synch as the ball elevates and descends to the basket.

The effective athlete does not hope for an outcome or get nervous or scared as the moment approaches. He or she immediately falls back on the tried and tested routine performed countless times in a more serene environment (practice). Following the routine dulls the noise of the crowd and brings clarity of mind.

The same lessons apply to the seasoned investor. A chaotic market is akin to what the visiting team experiences in a gym, where opposing fans and players are doing everything possible to distract you. You stay focused on a routine burned into your nature through coaching and repetitive practice.

The components of the seasoned investor's routine are similar: the investment policy statement, the regular review of family goals and liquidity needs, and the regular calls an advisor makes during good and bad markets. These and other actions are all part of the process developed to summon that muscle memory needed in stressful times. Just as the great athlete navigates through the moments of pressure in any athletic event, the actions are part of the routine that allows the individual to navigate through a chaotic market like we have today.

I believe there are many stories and anecdotes that parallel the basic needs of an investor, but it is up to the advisor to find one that resonates with a particular client or audience. The example could involve a great violinist, a world-class chef, or even a gardener. In each case, there is a story of

discipline behind the person who continually works to perfect the craft and a reminder of how a successful investor can do the same.

Statistics and data are the bedrock for the insights we gain about the capital markets, but it is often the conversational story that can help clients of advisors focus on the simplest and most important tenets of investment success. Regardless of the market or time period, advisors can encourage their clients to maintain the discipline needed to follow a process, which can lead to a great investment experience.