

Q2

**Quarterly Market Review**

Second Quarter 2015

# Quarterly Market Review

Second Quarter 2015

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

The report also illustrates the performance of globally diversified portfolios and features a topic of the quarter.

Quarterly Topic: The Seven Roles of an Advisor

Market Summary

Timeline of Events: Second Quarter 2015

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Fixed Income

Real Estate Investment Trusts (REITs)

Quotes

# The Seven Roles of an Advisor

Second Quarter 2015

What is a financial advisor for? One view is that advisors have unique insights into market direction that give their clients an advantage. But of the many roles a professional advisor should play, soothsayer is not one of them.

The truth is that no one knows what will happen next in investment markets. And if anyone really did have a working crystal ball, it is unlikely they would be plying their trade as an advisor, broker, analyst, or financial journalist.

Some folks may still think an advisor's role is to deliver market-beating returns year after year. Generally, those are the same people who believe good advice equates to making accurate forecasts.

But in reality, the value a professional advisor brings is not dependent on the state of markets. Indeed, their value can be even more evident when volatility and emotions are running high.

The best of this new breed play multiple and nuanced roles with their clients. None of these roles involve making forecasts about markets or economies. Indeed, there are at least seven hats an advisor can wear to help clients without ever once having to look into a crystal ball:

**1. The Expert:** Investors need advisors who can provide client-centered expertise in assessing the state of their finances and developing risk-aware strategies to help them meet their goals.

**2. The Independent Voice:** The global financial turmoil of recent years demonstrated the value of an independent and objective voice in a world full of product pushers and salespeople.

**3. The Listener:** A good advisor will listen to clients' fears, tease out the issues driving those feelings, and provide practical, long-term answers.

**4. The Teacher:** Getting beyond the fear-and-flight phase often is just a matter of teaching investors about risk and return, diversification, the role of asset allocation, and the virtue of discipline.

**5. The Architect:** Once these lessons are understood, the advisor becomes an architect, building a long-term wealth management strategy that matches each person's risk appetites and lifetime goals.

**6. The Coach:** Even when the strategy is in place, doubts and fears inevitably arise. At this point, the advisor becomes a coach, reinforcing first principles and keeping the client on track.

**7. The Guardian:** Beyond these experiences is a long-term role for the advisor as a kind of lighthouse keeper, scanning the horizon for issues that may affect the client and keeping them informed.

These are just seven valuable roles an advisor can play in understanding and responding to clients' whole-of-life needs, which are a world away from the old notions of selling product off the shelf or making forecasts.

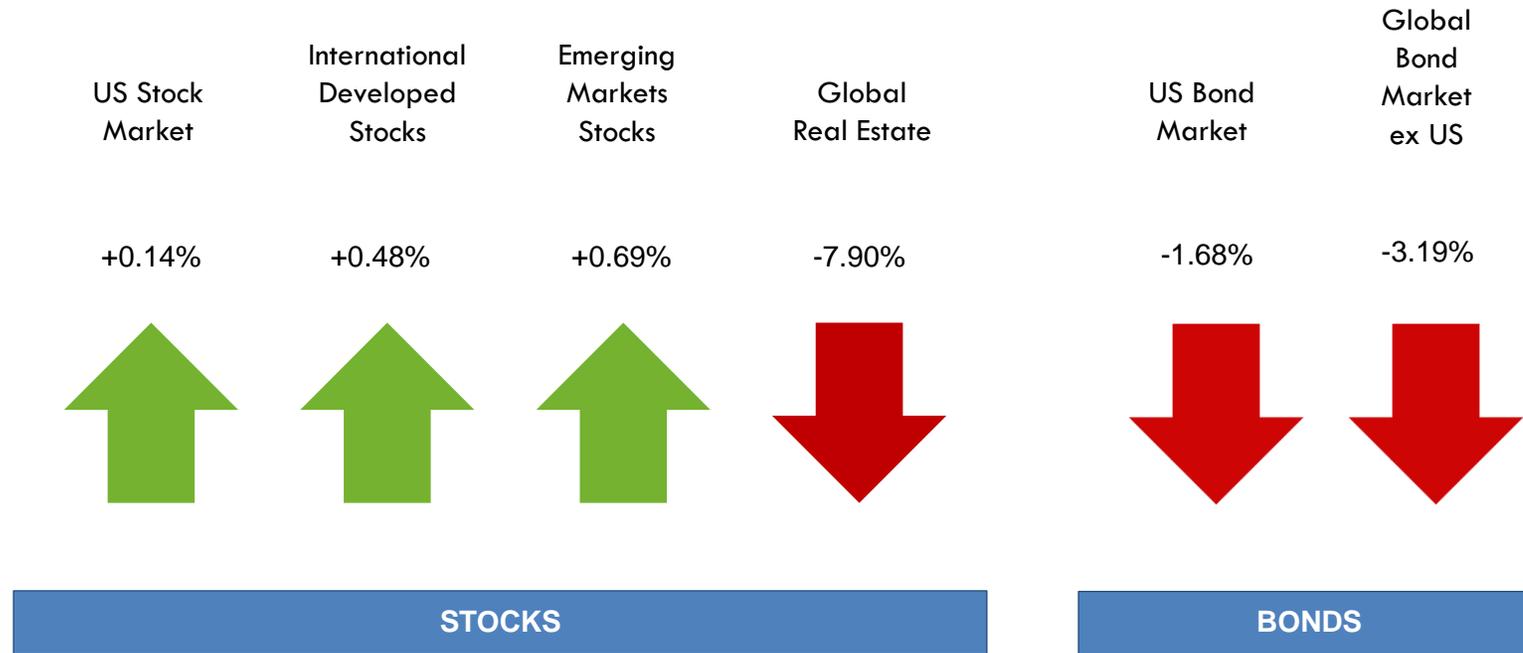
Knowing the advisor is independent—and not plugging product—can lead the client to trust the advisor as a listener or sounding board. From this point, the listener can become the teacher, architect, coach, and, ultimately, the guardian. Just as people's needs and circumstances change over time, the nature of the advice service evolves.

However you characterize these various roles, good financial advice ultimately is defined by the patient building of a long-term relationship founded on the values of trust and independence and knowledge of each individual.

Now, how can you put a price on that?

# Market Summary

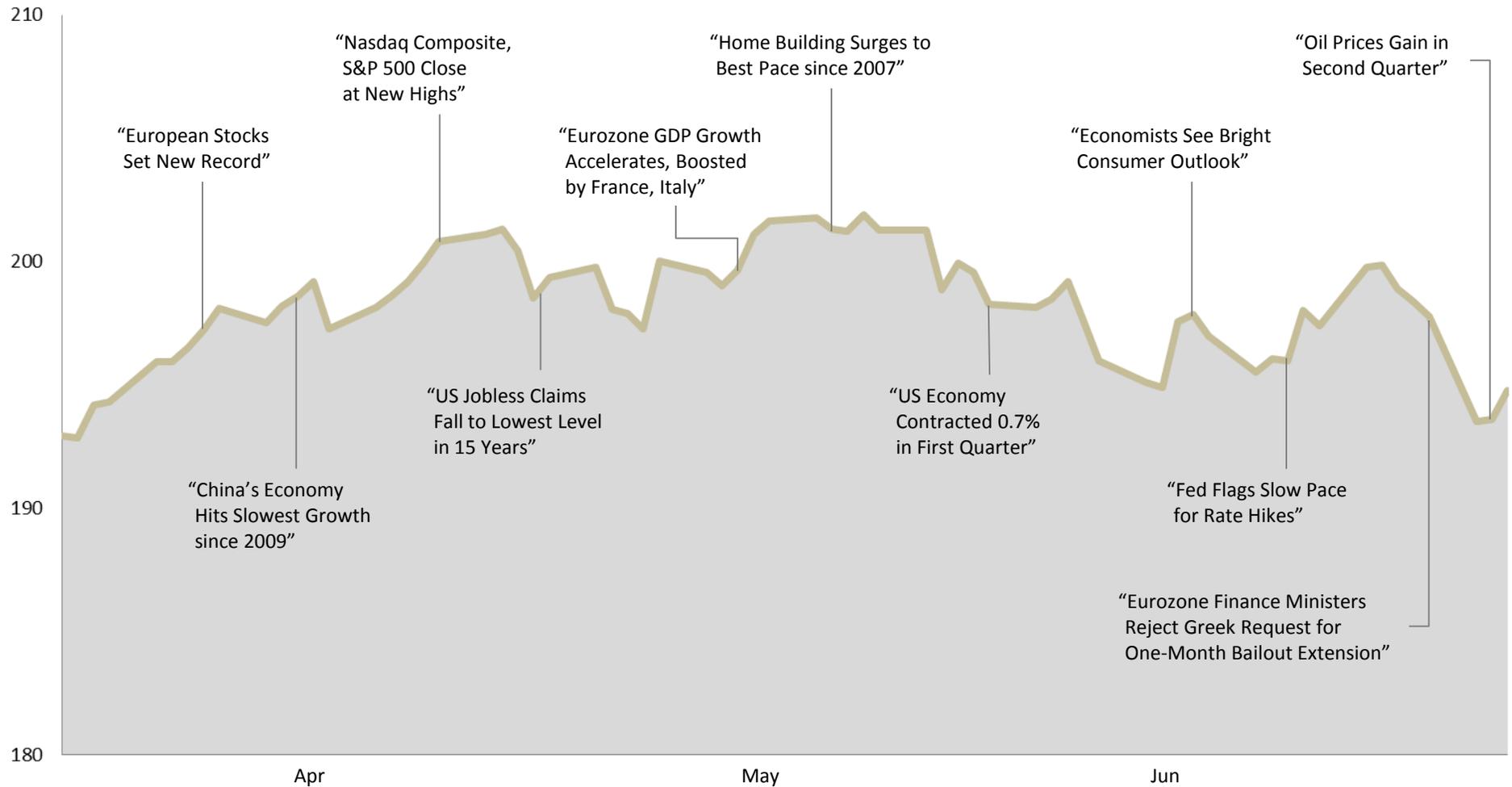
Second Quarter 2015 Index Returns



**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.** Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995-2015, all rights reserved. MSCI data © MSCI 2015, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2014 by Citigroup.

# Timeline of Events: A Quarter in Review

Second Quarter 2015



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 2015, 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

## Second Quarter 2015 Index Returns

Looking at broad market indices, emerging markets outperformed both the US and developed ex US markets in US dollars during the quarter. REITs recorded the lowest performance in developed markets, including the US.

The value effect was positive in emerging markets but negative in developed markets, including the US. Small caps outperformed large caps in the US, non-US developed markets, and emerging markets. The US dollar had mixed performance during the quarter.



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. The S&P data is provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995–2015, all rights reserved. MSCI data © MSCI 2015, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays data provided by Barclays Bank PLC.

# US Stocks

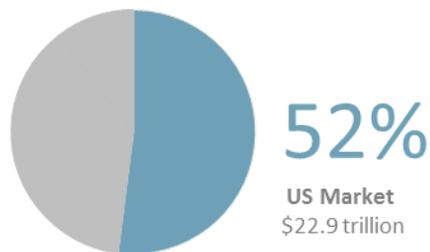
## Second Quarter 2015 Index Returns

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

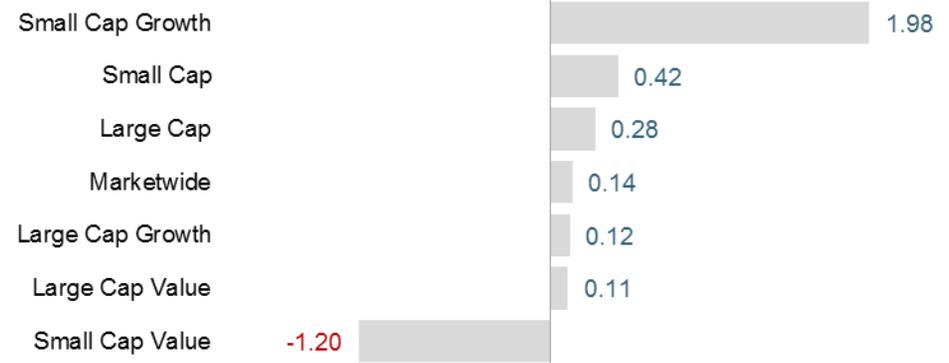
Small caps outperformed large caps, helped by the strong performance of micro cap stocks. Mid caps recorded the lowest return across the size ranges.

Value underperformed growth marketwide. Large value and large growth recorded similar performance, while the mid cap value and small cap value indices underperformed their growth counterparts.

### World Market Capitalization—US



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Marketwide	1.94	7.29	17.73	17.54	8.15
Large Cap	1.23	7.42	17.31	17.34	7.89
Large Cap Value	-0.61	4.13	17.34	16.50	7.05
Large Cap Growth	3.96	10.56	17.99	18.59	9.10
Small Cap	4.75	6.49	17.81	17.08	8.40
Small Cap Value	0.76	0.78	15.50	14.81	6.87
Small Cap Growth	8.74	12.34	20.11	19.33	9.86

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# International Developed Stocks

## Second Quarter 2015 Index Returns

Developed markets outside the US outperformed the US equity market but underperformed emerging markets indices in US dollar terms.

Small caps significantly outperformed large caps.

Value underperformed growth indices across all size ranges, and particularly in small caps.

### World Market Capitalization—International Developed

37%

International  
Developed  
Market  
\$16.5 trillion



### Ranked Returns (%)



### Period Returns (%)

Asset Class	YTD	* Annualized			
		1 Year	3 Years*	5 Years*	10 Years*
Large Cap	4.34	-5.28	11.15	8.97	5.16
Small Cap	8.36	-3.96	13.60	11.10	6.30
Value	2.74	-8.66	10.82	8.42	4.49
Growth	5.90	-1.87	11.43	9.47	5.76

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# Emerging Markets Stocks

## Second Quarter 2015 Index Returns

Emerging markets indices outperformed developed markets indices, including the US, in US dollar terms during the quarter.

Small cap indices significantly outperformed large cap indices for the quarter.

Value outperformed growth marketwide, influenced by the strong performance of large caps. Value indices underperformed growth indices in both mid caps and small caps.

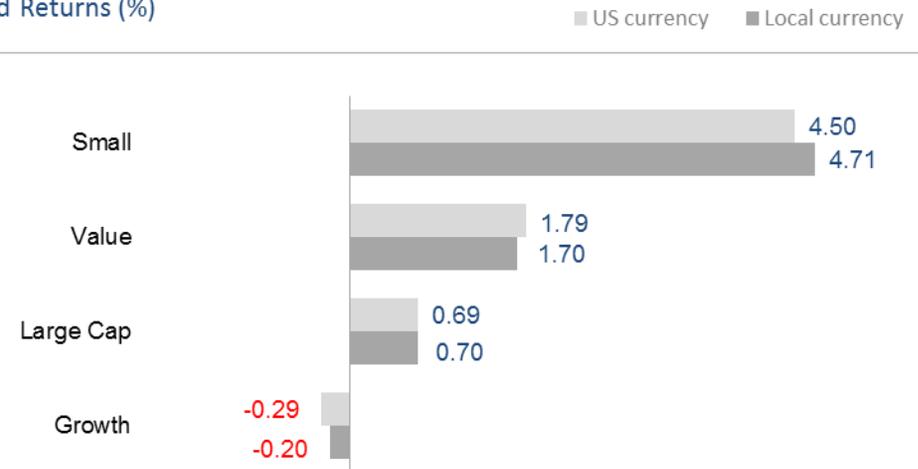
### World Market Capitalization—Emerging Markets

11%

Emerging Markets  
\$4.7 trillion



### Ranked Returns (%)



### Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	2.95	-5.12	3.71	3.68	8.11
Small Cap	8.25	0.34	7.98	5.04	9.96
Value	2.18	-7.67	1.44	2.14	8.16
Growth	3.66	-2.64	5.92	5.17	8.01

\* Annualized

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# Fixed Income

## Second Quarter 2015 Index Returns

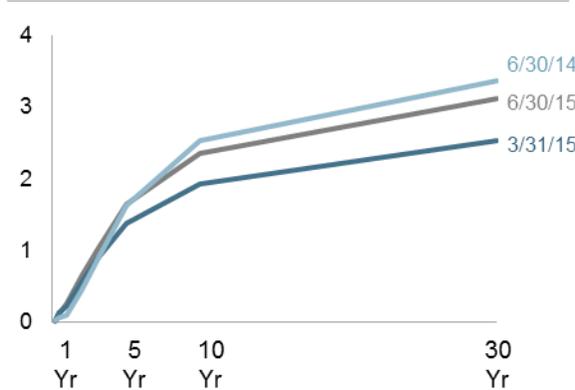
Interest rates across the US fixed income markets generally increased during the second quarter. The 5-year Treasury note added 25 basis points to end the period yielding 1.63%. The 10-year Treasury note increased 42 basis points to end the quarter at 2.35%. The 30-year Treasury bond added 56 basis points to finish with a yield of 3.10%.

On the short end of the curve, the 2-year Treasury note added 8 basis points to finish at 0.64%. Yields on securities within one year to maturity were generally lower by 2 basis points.

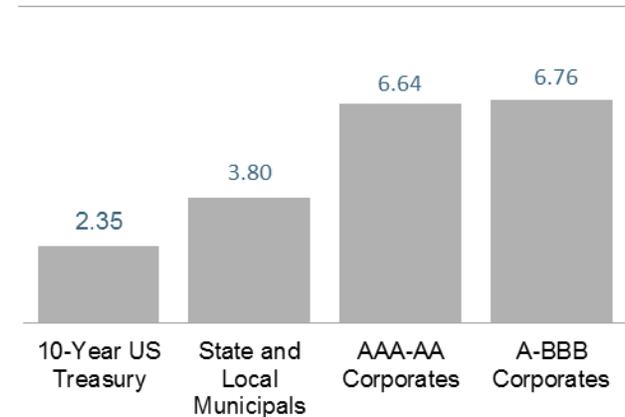
Short-term corporate bonds gained 0.06%, while intermediate-term corporate bonds lost 1.09%.

Short-term municipal bonds were relatively unchanged, but intermediate municipal bonds declined 0.89%. Municipal general obligation and revenue bonds experienced similar returns.

### US Treasury Yield Curve



### Bond Yields across Issuers



### Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.01	0.02	0.06	0.08	1.42
BofA Merrill Lynch 1-Year US Treasury Note Index	0.21	0.24	0.28	0.36	1.92
Citigroup WGBI 1-5 Years (hedged to USD)	0.51	1.27	1.40	1.54	2.93
Barclays Long US Government Bond Index	-4.52	6.20	1.25	6.23	6.12
Barclays US Aggregate Bond Index	-0.10	1.86	1.83	3.35	4.44
Barclays US Corporate High Yield Index	2.53	-0.40	6.81	8.61	7.89
Barclays Municipal Bond Index	0.11	3.00	3.10	4.50	4.45
Barclays US TIPS Index	0.34	-1.73	-0.76	3.29	4.14

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 Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices © 2014 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2014 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.

# Real Estate Investment Trusts (REITs)

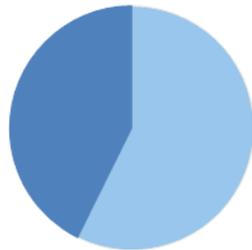
## Second Quarter 2015 Index Returns

REITs both in the US and non-US markets significantly underperformed the broad equity markets during the quarter.

### Total Value of REIT Stocks

43%

World ex US \$409 billion  
236 REITs  
(22 other countries)



57%

US \$549 billion  
92 REITs

### Ranked Returns (%)

Global REITs (ex US)

-3.15

US REITs

-10.00

### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	-5.75	5.21	8.67	14.43	6.78
Global REITs (ex US)	-1.05	-3.21	9.24	11.93	4.01

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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 © 2014.

# Quotes

Second Quarter 2015

“Wealth is what you accumulate, not what you spend.”

**-Thomas J. Stanley, Ph.D., 1944-2015**

“Although the returns in the last five years have been extraordinary, these returns came on the heels of the deepest bear market in 75 years that resulted in stocks trading at extremely undervalued levels.

**-Jeremy Siegel, *Barron's*, January 10, 2015**

“90% of what passes for brilliance or incompetence in investing is the ebb and flow of investment style.”

**-Jeremy Grantham**

“Ignore economic and financial forecasts. Their purpose is to keep forecasters employed. Most professional economists were blindsided in 2008 by the biggest financial collapse in 70 years – and by the stock market’s recovery.”

**-Brett Arends, *The Wall Street Journal*, February 7, 2015**

“The evidence on investment managers’ success with market timing is impressive – and overwhelmingly negative.”

**-Charles D. Ellis**

“It’s not what you don’t know that gets you in trouble, but what you know for certain that just ain’t true.”

**-Mark Twain**