

Q3

Quarterly Market Review

Third Quarter 2016

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

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

Quarterly Topic: Presidential Elections and the Stock Market

Market Summary

Timeline of Events: Third Quarter 2016

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

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Quotes

Presidential Elections and the Stock Market

Third Quarter 2016

Next month, Americans will head to the polls to elect the next president of the United States. While the outcome is unknown, one thing is for certain: There will be a steady stream of opinions from pundits and prognosticators about how the election will impact the stock market.

As we explain below, investors would be well-served to avoid the temptation to make significant changes to a long-term investment plan based upon these sorts of predictions.

Short-Term Trading and Presidential Election Results

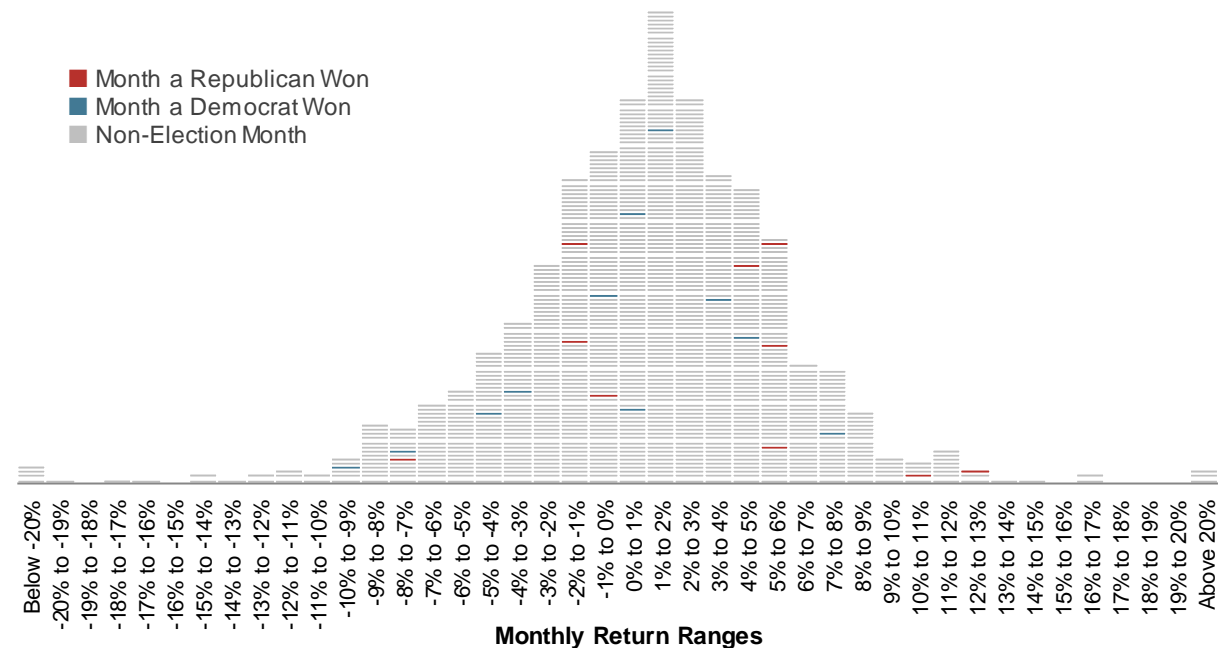
Trying to outguess the market is often a losing game. Current market prices offer an up-to-the-minute snapshot of the aggregate expectations of market participants. This includes expectations about the outcome and impact of elections. While unanticipated future events—surprises relative to those expectations—may trigger price changes in the future, the nature of these surprises cannot be known by investors today. As a result, it is difficult, if not impossible, to systematically benefit from trying to identify mispriced securities.

This suggests it is unlikely that investors can gain an edge by attempting to predict what will happen to the stock market after a presidential election.

Exhibit 1 shows the frequency of monthly returns (expressed in 1% increments) for the S&P 500 Index from January 1926 to June 2016. Each horizontal dash represents one month, and each vertical bar shows the cumulative number of months for which returns were within a given 1% range (e.g., the tallest bar shows all months where returns were between 1% and 2%). The

blue and red horizontal lines represent months during which a presidential election was held. Red corresponds with a resulting win for the Republican Party and blue with a win for the Democratic Party. This graphic illustrates that election month returns were well within the typical range of returns, regardless of which party won the election. *(continues on page 4)*

Exhibit 1. Presidential Elections and S&P 500 Returns Histogram of Monthly Returns, January 1926–June 2016



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their 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.

Presidential Elections and the Stock Market

(continued from page 3)

Long-Term Investing:

Bulls & Bears ≠ Donkeys & Elephants

Predictions about presidential elections and the stock market often focus on which party or candidate will be “better for the market” over the long run. Exhibit 2 shows the growth of one dollar invested in the S&P 500 Index over nine decades and 15 presidencies (from Coolidge to Obama). This data does not suggest an obvious pattern of long-term stock market performance based upon which party holds the Oval Office. The key takeaway here is that over the long run, the market has provided substantial returns regardless of who controlled the executive branch.

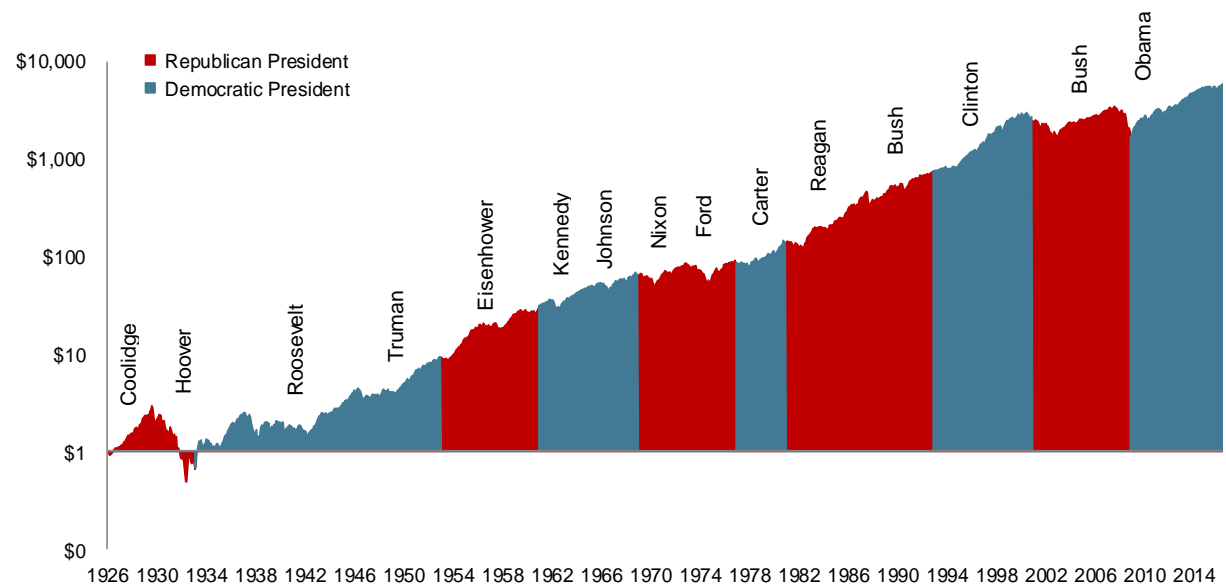
Conclusion

Equity markets can help investors grow their assets, but investing is a long-term endeavor. Trying to make investment decisions based upon the outcome of presidential elections is unlikely to result in reliable excess returns for investors.

At best, any positive outcome based on such a strategy will likely be the result of random luck. At worst, it can lead to costly mistakes.

Accordingly, there is a strong case for investors to rely on patience and portfolio structure, rather than trying to outguess the market, in order to pursue investment returns.

Exhibit 2. Growth of a Dollar Invested in the S&P 500, January 1926–June 2016









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Source: Dimensional Fund Advisors LP.

All expressions of opinion are subject to change. This information is intended for educational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Diversification does not eliminate the risk of market loss. Investment risks include loss of principal and fluctuating value. There is no guarantee an investing strategy will be successful. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their 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.

Market Summary

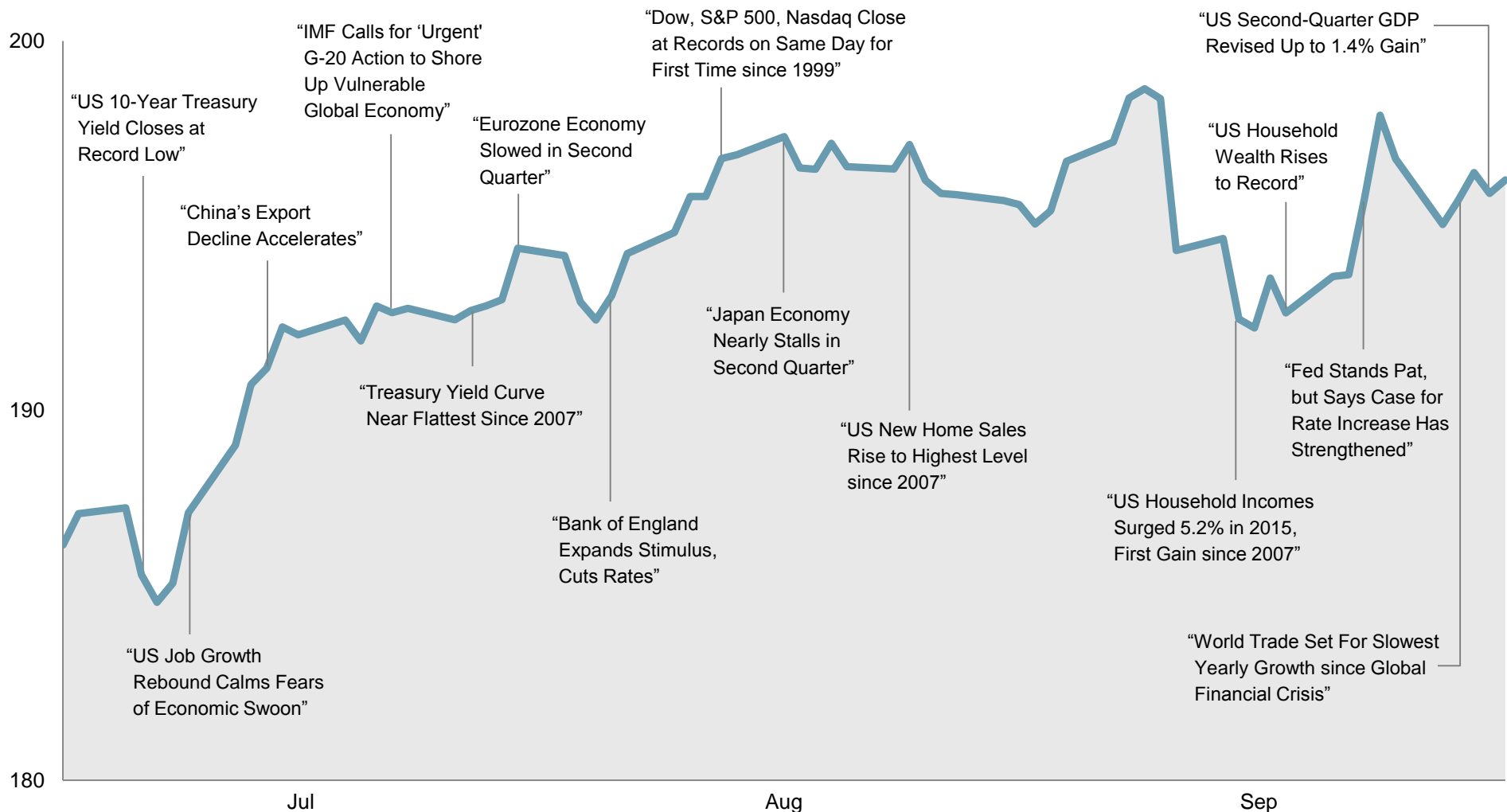
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
3Q 2016	STOCKS				BONDS	
	4.40% 	6.29% 	9.03% 	-0.23% 	0.46% 	0.10% 
Since Jan. 2001						
Avg. Quarterly Return	1.8%	1.4%	3.0%	2.8%	1.3%	1.2%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	5.5% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-2.4% Q2 2004	-3.2% Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citigroup bond indices © 2016 by Citigroup.

Timeline of Events: A Quarter in Review

Third Quarter 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.

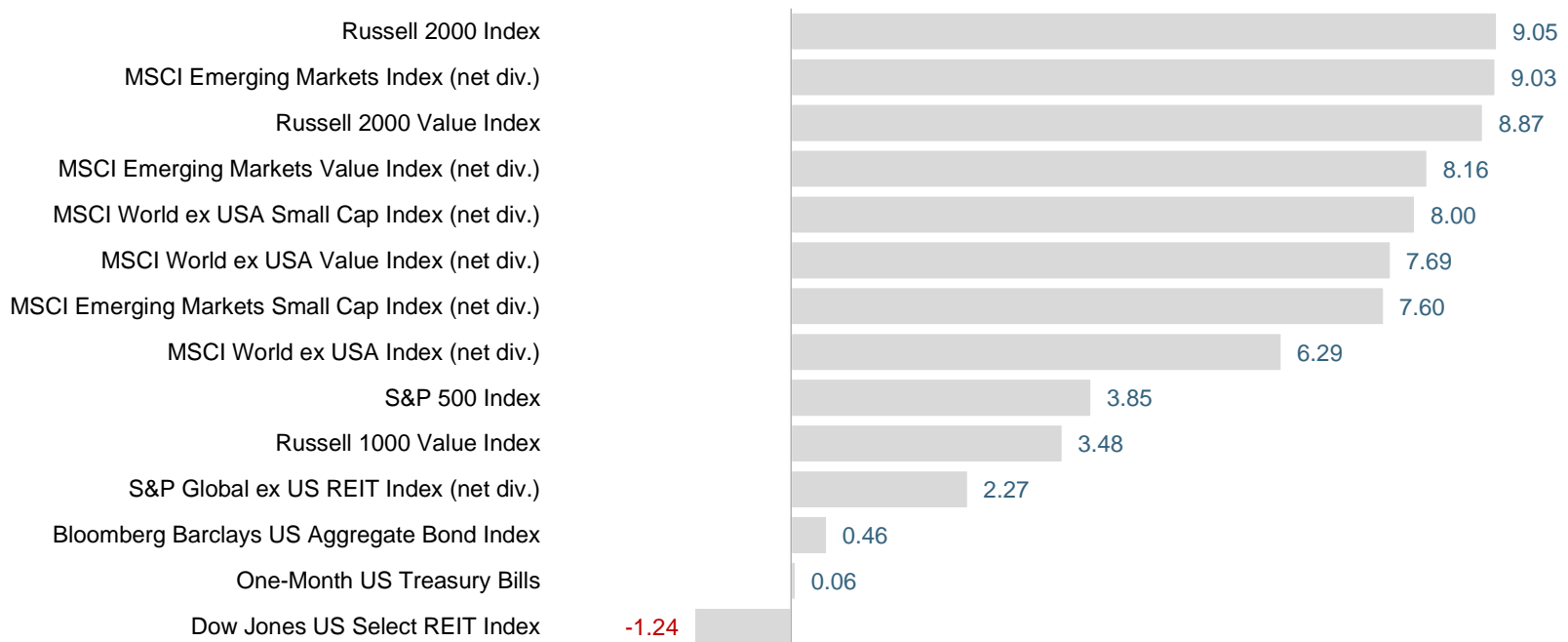
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

Third Quarter 2016 Index Returns (%)

Looking at broad market indices, emerging markets outperformed all other equity markets during the quarter. The US equity market lagged developed markets outside the US. US real estate investment trusts (REITs) recorded negative absolute returns and lagged the US equity market.

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



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. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indices. Bloomberg Barclays data provided by Bloomberg.

US Stocks

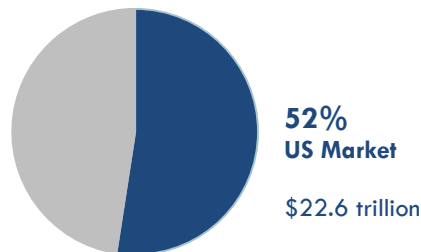
Third Quarter 2016 Index Returns

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

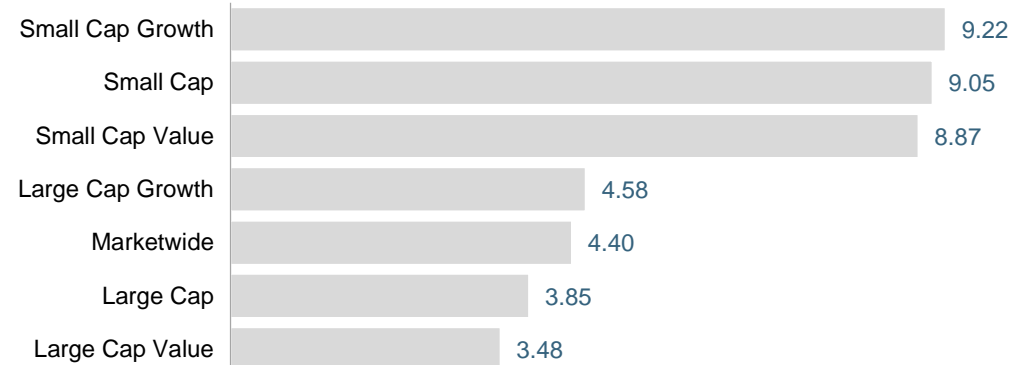
Value indices underperformed growth indices across all size ranges.

Small caps outperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	8.18	14.96	10.44	16.36	7.37
Large Cap	7.84	15.43	11.16	16.37	7.24
Large Cap Value	10.00	16.20	9.70	16.15	5.85
Large Cap Growth	6.00	13.76	11.83	16.60	8.85
Small Cap	11.46	15.47	6.71	15.82	7.07
Small Cap Value	15.49	18.81	6.77	15.45	5.78
Small Cap Growth	7.48	12.12	6.58	16.15	8.29

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. The S&P data are provided by Standard & Poor's Index Services Group.

International Developed Stocks

Third Quarter 2016 Index Returns

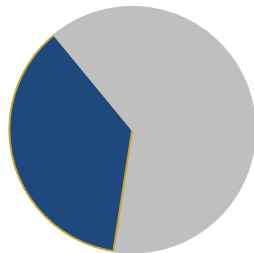
In US dollar terms, developed markets outside the US outperformed the US equity market but underperformed emerging markets indices during the quarter.

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

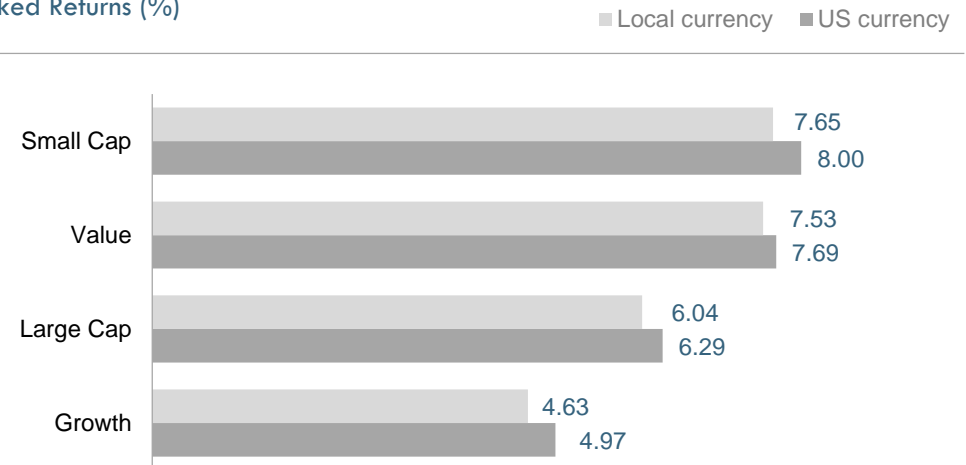
Looking at broad market indices across all size ranges, the value effect was positive in non-US developed markets.

World Market Capitalization—International Developed

37%
International
Developed
Market
\$15.8 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	3.12	7.16	0.33	6.89	1.88
Small Cap	7.26	13.50	4.15	9.72	4.11
Value	2.64	4.87	-1.69	5.64	0.66
Growth	3.61	9.42	2.30	8.08	3.04

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Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market. MSCI data © MSCI 2016, all rights reserved.

Emerging Markets Stocks

Third Quarter 2016 Index Returns

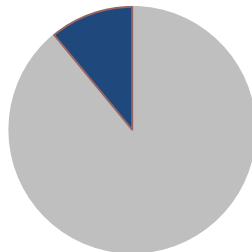
In US dollar terms, emerging markets indices outperformed both the US market and developed markets outside the US.

Using broad market indices as proxies, the value effect was negative in emerging markets. Large cap value indices underperformed large cap growth indices. The opposite was true among small caps; small cap value indices outperformed small cap growth indices.

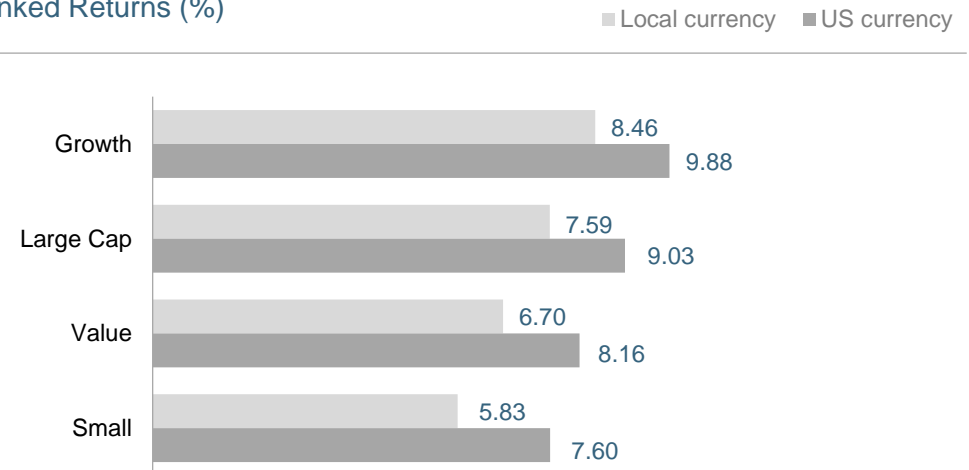
Large cap indices outperformed small cap indices.

World Market Capitalization—Emerging Markets

11%
Emerging
Markets
\$4.7 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Cap	16.02	16.78	-0.56	3.03	3.95
Small Cap	9.08	12.65	1.29	4.72	5.97
Value	16.18	14.50	-3.00	0.79	3.77
Growth	15.84	18.92	1.81	5.19	4.03

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Fixed Income

Third Quarter 2016 Index Returns

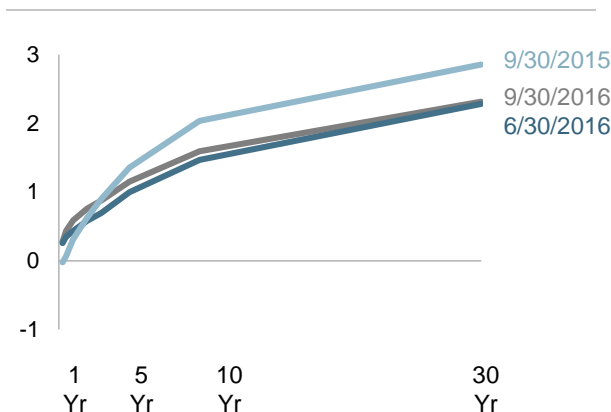
Interest rates across the US fixed income markets generally increased in the third quarter. The yield on the 5-year Treasury note rose 13 basis points (bps) to 1.14%. The yield on the 10-year Treasury note rose 11 bps to 1.60%. The 30-year Treasury bond increased 2 bps to finish with a yield of 2.32%.

The 1-year Treasury bill yield rose 14 bps to 0.59%, and the 2-year Treasury note yield increased 19 bps to 0.77%. The yield on the 3-month Treasury bill rose 3 bps to 0.29%, while the 6-month Treasury bill was up 9 bps to 0.45%.

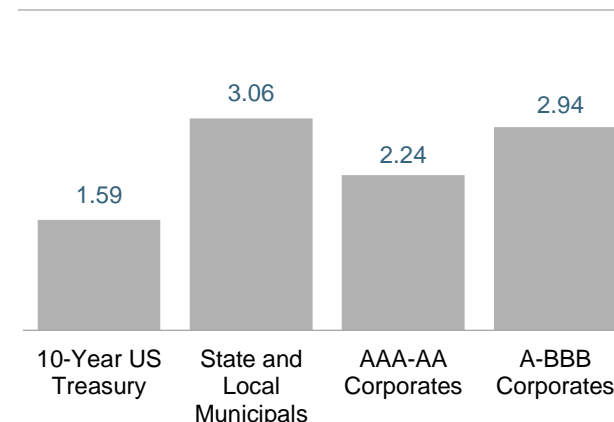
Short-term corporate bonds gained 0.32%. Intermediate-term corporates rose 0.89%, while long-term corporate bonds gained 2.56%.¹

Short-term municipal bonds returned -0.21%, while intermediate-term municipal bonds were unchanged. Revenue bonds slightly outperformed general obligation bonds.²

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch 1-Year US Treasury Note Index	0.71	0.54	0.35	0.33	1.53
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.24	0.27	0.12	0.10	0.92
Citigroup WGBI 1-5 Years (hedged to USD)	1.98	1.89	1.70	1.60	2.78
Bloomberg Barclays Long US Government Bond Index	14.61	13.02	11.07	5.48	7.97
Bloomberg Barclays Municipal Bond Index	4.01	5.58	5.54	4.48	4.75
Bloomberg Barclays US Aggregate Bond Index	5.80	5.19	4.03	3.08	4.79
Bloomberg Barclays US Corporate High Yield Index	15.11	12.73	5.28	8.34	7.71
Bloomberg Barclays US TIPS Index	7.27	6.58	2.40	1.93	4.48

* Annualized

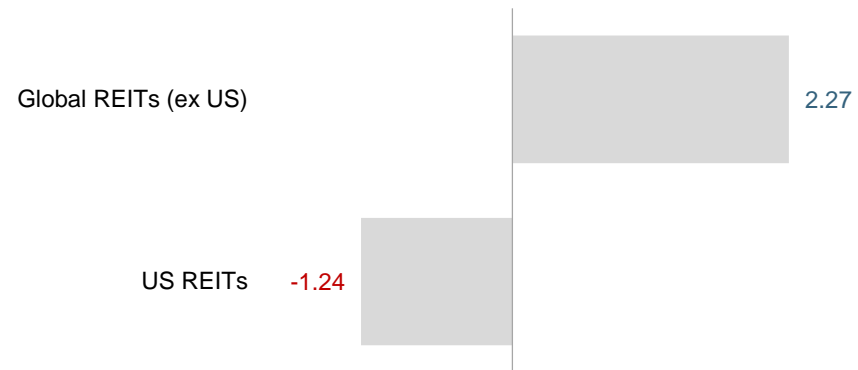
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. 1. Bloomberg Barclays US Corporate Bond Index. 2. Bloomberg Barclays Municipal Bond Index. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBII) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices © 2016 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2016 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

Real Estate Investment Trusts (REITs)

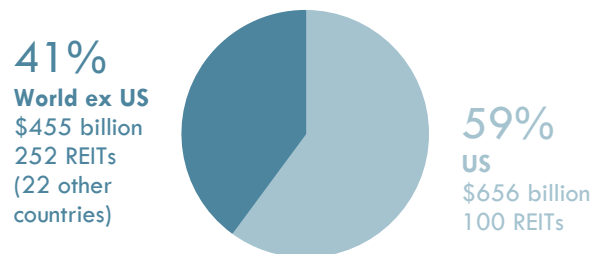
Third Quarter 2016 Index Returns

US REITs posted negative absolute performance for the quarter, lagging the broad equity market. REITs in developed markets recorded positive absolute returns but underperformed broad developed markets equity indices.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	9.45	17.70	14.29	15.60	5.80
Global REITs (ex US)	12.52	14.61	6.03	10.46	2.55

* Annualized

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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 © 2016.

Quotes

Third Quarter 2016

“It was inevitable that the Standard & Poor’s 500-Stock Index would reach new high ground. The only question was when. Now we have the answer.”

-Nick Murray Interactive, August 2016

“In the past 15 years, total foreign currency reserves world-wide rose from under \$3 trillion to \$11 trillion. Nearly two-thirds of those reserves are held in dollars, a share that has barely changed in decades. *Nearly 90% of global trade transactions involve dollars, even in deals without an American party. A Korean company selling TVs in Brazil, for instance, will generally ask for payment in dollars.*”

-Ruchir Sharma, chief global strategist at Morgan Stanley Investment Management, in a WSJ op-ed, “The dollar-and the Fed still rule,” July 29, 2016

“The collapse of oil prices that began two years ago, from just over \$100/bbl to just under \$30/bbl...arguable subtracted half a percentage point of growth per year from the US economy...It now appears that the negative effects of the oil price collapse have passed. Drilling activity appears to have recovered...and oil prices have bounced from under \$30/bbl to almost \$47 today. High-yield energy bond spreads are back down...and the S&P 500 Index is up almost 20% since mid-February. What awaits us is the boost to economic activity that is likely to be fueled by cheaper and more stable energy prices.”

-Scott Grannis, “The oil slump has passed,” August 16, 2016

“For the record, Ben Bernanke and Janet Yellen have never fracked a well or pulled an all-nighter writing an app, and those who call the stock market a bubble are actually slapping entrepreneurs and innovators in the face. QE did not create the cloud or Big Data. Entrepreneurs did! The stock market, jobs, incomes and profits are all up because of these new technologies.”

-Brian Wesbury, “Beware of Popular Narratives,” August 15, 2016

“All the money that has ever been “lost” in all the temporary equity market declines of all time has now been returned-albeit to other people: long-term investors with faith in the future, patience, and the discipline to continue working their long-term plan. *The tragedy of pessimism is once again complete.*”

- Nick Murray Interactive, September 2016

“Despite being one of the longest and strongest bull markets of the post-war era...the U.S. stock market is still at worst fairly priced and even cheap relative to its post-war trend line. By comparison, the other two major bull markets since WWII (i.e., during the 1950s-60s and again in the 1980s-90s) both ended only after U.S. stocks rose significantly above trend for several years...”

Indeed, the total U.S. stock market is currently priced comparably to the early-1950s or the early-1980s. Perhaps equally important, even the popular S&P Index is not nearly as richly-priced today as it was in the 1960s or the 1990s.”

-Jim Paulsen, “Is the trend a friend?” August 31, 2016

“Success consists of going from failure to failure without loss of enthusiasm.”

-Winston Churchill

“Integrity without knowledge is weak and useless, and knowledge without integrity is dangerous and dreadful.”

-Samuel Johnson