Q2

Quarterly Market Review

Second Quarter 2019

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ADVISORS

WEALTHSTONE ADVISORS

Quarterly Market Review

Second 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.

Overview:

WEALTHSTONE Client Letter

Executive Summary

In the second quarter of 2019, equity markets hit all-time highs, fixed income markets continued their strong performance, and the Federal Reserve indicated that they would take a far more dovish stance than anticipated last year. The continuing uncertainty around trade led to significant market turbulence in May and was followed by a quick rebound in June as optimism around the Federal Reserve interest policy boosted equity and fixed income prices.[i] As discussed in previous letters, this illustrates the power of monetary policy on stabilizing and boosting market performance. ***With the Federal Reserve indicating they are willing to take a patient approach, we believe the best course of action is to stay the course.***

We are seeing an interesting divergence between earnings and valuations, particularly in growth stocks, which continue to outperform value stocks.[ii] For example, the information technology sector is forecasted to have one of the biggest declines in earnings this year, and yet it has significantly outperformed the broader market index.[iii] Additionally, over the past year, the percentage of US-listed IPOs that lost money in their trailing 12-months hit an all-time high of 83%, even higher than in the Dot-Com Boom.[iv]

Many of these companies are businesses that are built on their potential for growth and while they may succeed, we believe their business models and valuation are too speculative. In the long-run, we believe earnings will eventually matter for share price growth as they have for all of history. ***Thus, as long-term, fundamental investors, we feel comfortable staying the course with our tilts towards value, small-cap, and profitability stocks***.

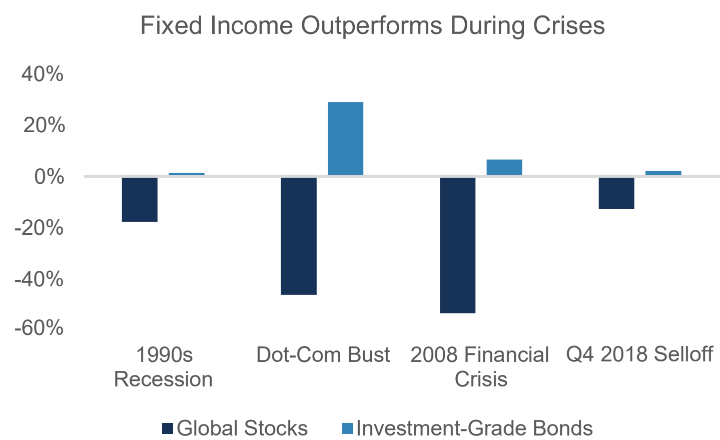
Most of our newsletters focus on equity markets, which is sensible given that it comprises the lion's share of your portfolio risk. However, this has been a particularly interesting year for investment-grade fixed income, which is off to a blistering start (for fixed income) at 6.1%.[v] Much of this has been driven by macroeconomic variables and dovish central bank policy, a reversal from the turbulence of Q4 2018. Additionally, we have seen global negative-yielding debt hit all-time highs. The combination of these variables and what it means for your portfolio will be discussed later in the letter. ***For now, we'd like to reiterate that fixed income acts as the ballast of your portfolio and serves a particularly valuable role in turbulent and deflationary environments***.

Risk Type	Asset Class	Asset	QTD	YTD	1-Yr
Risk Asset	*Equities*	MSCI ACWI	3.8%	16.6%	6.4%
		S&P 500 Index	4.3%	18.5%	10.4%
		MSCI ACWI ex-US Index	3.2%	14.0%	1.9%
		MSCI EAFE Index	3.9%	14.5%	1.7%
		MSCI Emerging Markets Index	0.7%	10.7%	1.5%
		MSCI AC Asia Pacific Index	0.9%	10.8%	0.6%
	Commodities	S&P GSCI TR Index	-1.4%	13.3%	-11.5%
		WTI Crude Oil TR Index	2.9%	26.9%	19.2%
Risk Mitigator	*Fixed Income*	Barclays Agg Index	3.1%	6.1%	7.9%
		Muni Bond Index	2.3%	5.1%	6.6%
		Barclays US Treasury TR Index	3.0%	5.2%	7.3%
		Barclays TIPS Index	2.9%	6.2%	4.9%

Quarterly Commentary: ***The Role of Fixed Income; Negative-Yielding Debt***

Investment-grade ("IG") fixed income has significantly underperformed equities over the past decade as central banks around the developed world thrust zero-interest rate policies ("ZIRP") onto their respective regions. As yields fell, many investors searched for ways to increase the overall return to their portfolios and were "forced" into higher-risk asset classes such as US and global equities. Over the past ten years, the IG bond index underperformed the global equity and US equity indices annually by 6.8% and 10.7% respectively![vi] It is through this backdrop that we want to revisit the role of fixed income in your portfolio.

Our investment philosophy is built around preserving and growing your capital, and we believe a conservative and patient approach is the optimal solution for the long-term growth of your wealth. As the ballast of your portfolio, fixed income generally outperforms equities in turbulent environments, sometimes significantly so. In 2008, for example, investment-grade fixed income outperformed global equities by over 50%![vii] In all negative global equity months since 1990, the Barclays Aggregate Index has delivered positive returns over 60% of the time.[viii] This is a remarkable difference that illustrates how valuable fixed income can be in times of crisis as a portfolio stabilizer, a driver of positive returns, and a mechanism that helps clients stick with their investment plans. In other words, the primary benefit of your fixed income portfolio is its ability to protect and diversify your portfolio, not generate high returns.



One particularly interesting phenomenon in this ultra-dovish, post-2008 world is the emergence and rapid growth of ***negative yielding debt***, which just hit an all-time high of *$12.9 trillion* this quarter.[ix] The mechanism works exactly as it sounds—the lender *pays* money to lend out their money. In economic theory, this should never happen in any material form. The rapid growth of this debt points to an elevated risk of deflation as investors believe future growth must be muted for rates to fall so low. In this environment, the 2.5% yield on U.S. investment-grade fixed income doesn't seem that bad.[x] ***Thus, the bond allocation of your portfolio remains at its strategic target, effectively acting as the ballast of your portfolio while also generating income***.

Critical Issue: ***Externalities of The Trade War***

One of the dominant headlines in the second quarter of 2019 has been the ongoing trade war, which in our view ***goes beyond the concept of pure trade to issues such as intellectual property theft, the technology arms race, and national security***. On May 5th, news that the Trump administration was going to raise tariffs on Chinese goods catalyzed a market selloff.[xi] In the short term, markets are highly reactionary to sentiment, and as long-term investors, we digest these movements and evaluate the strategic implications on your portfolio. ***When it comes to the trade war, we believe that the direct nominal impact is relatively low, and the stabilizing mechanisms in markets outweigh the potential drag of tariffs***.

Since the 2016 election, the balance of trade in aggregate has moved even more negative despite the rhetoric.[xii] In other words, price increases on certain goods were passed on to the consumer, but their behavior did not dramatically change. While imports from China have decreased, the aggregate impact of tariffs have displaced rather than removed the trade imbalance as imports from China's neighboring countries have commensurately increased.[xiii]

Ben Bernanke famously commented that "subprime is contained" shortly before the 2008 Financial Crisis. Though a massive spike in mortgage default rates catalyzed the crisis, it was the multiple layers of externalities—such as the massive and unprecedented securitization of mortgages, the malinvestment of granting bad loans, and the irresponsible insurance sold on the assumption that housing would always go up—that magnified a crisis to potential catastrophe.

In a similar way, the trade war is a headwind to markets but not likely to cause any prolonged crisis. However, the externalities of the trade war—such as lower investor confidence, reduced business investment, and increased risk of a second cold war—may catalyze recession more than the direct economic impact itself. ***However, the Federal Reserve has acted as a market stabilizer, which has contributed to new all-time highs without trade resolution***.

Regarding China, the trade war transcends the deficit to issues such as national security, intellectual property rights, and espionage. Huawei, a Chinese multinational technology company and national champion, is front and center. Last November, Huawei's CFO was detained in Canada and continues to fight against extradition to the US.[xiv] The Trump administration has banned Huawei from 5G networks in the US and had cut the company off from US proprietary software and components needed for its smartphones and other equipment.[xv]

Accusations of espionage and intellectual property theft abound, and the idea of entrusting Huawei to build out 5G networks—which could be used for driverless cars—across the world is anathema to the current administration. Huawei sales and marketing managers have also indicated they expect smart phone sales to decrease by 40-60 million phones this year, a material chunk of the total 206 million the company moved in 2018.[xvi] The trade war will harm individual companies, but the loss to one company often means a boon to others, as phones will still be purchased and 5G networks will still be built. In aggregate, ***we believe the direct impact of the trade war comes more from displacement rather than impairment, and the damage from externalities, while potentially significant, is counterbalanced by dovish monetary policy***.

ADV Part 2

A copy of WealthStone's ADV Part 2A and 2B is always available upon request. This document is a detailed filing with the SEC that outlines our entire asset management operation.

Disclosures

This was prepared by WEALTHSTONE Advisors, a federally registered investment adviser under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. For more information please visit: https://adviserinfo.sec.gov/ and search for our firm name. This is for informational purposes only. Past performance is not indicative of future results.

All opinions and estimates constitute the firm's judgment as of the date of this report and are subject to change without notice. The information herein was obtained from various sources. We do not guarantee the accuracy or completeness of such information provided by third parties. The information given is as of the date indicated and believed to be reliable. WEALTHSTONE Advisors assumes no obligation to update this information, or to advise on further developments relating to it.

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. An investor cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

Equities

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

The **MSCI ACWI (All Country World Index) Ex-US** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the U.S.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets (EM) Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI AC Asia Pacific Index Fixed Income (Australiasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 5 developed market countries, and emerging market countries in the Asia Pacific region.

Commodities

The **S&P GSCI TR Index** is calculated primarily on a world production-weighted basis and measures the principal physical commodities that are the subject of active, liquid futures markets.

The **Bloomberg WTI Crude Oil TR Index** is a single commodity subindex of the Bloomberg Commodity Index composed of futures contracts on crude oil. It reflects the return of underlying commodity futures price movement.

Fixed Income

The **Bloomberg Barclays (BC) US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency).

The **Bloomberg Barclays (BC) Muni Bond Index** measures the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The **Bloomberg Barclays (BC) US Treasury Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

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[i] *Source: Bloomberg. MSCI ACWI returned -5.9% in May, +6.6% in June.*

[ii] *Source: Bloomberg. YTD returns as of 6/30/2019.* Russell 3000 Value +16.0%; Russell 3000 Growth +21.4%.

[iii] *Source: FactSet Insights. Bloomberg.*

[iv] *Source: WSJ. "IPO Market Has Never Been This Forgiving to Money-Losing Firms."*

[v] *Source: Bloomberg. YTD Returns for the Barclays Aggregate Index as of 6/30/2019.*

[vi] *Source: Bloomberg. 10-Year Returns Ending 6/30/2019.*

[vii] *Source: Bloomberg. MSCI ACWI returned -41.8%, and the Barclays Aggregate Index returned +7.9% in 2008.*

[viii] *Source: Bloomberg. MSCI ACWI Total Returns Index represents global equities. Barclays Aggregate Total Return Unhedged Index represents US bonds.*
[ix] *Source: Bloomberg Barclays.*
[x] *Source: Bloomberg. YTW of the Barclays US Aggregate Bond Index is ~2.5%*
[xi] *Source: Twitter.* "For 10 months, China has been paying Tariffs to the USA…the 10% will go up to 25% on Friday."
[xii] *Source: US Census Bureau*.
[xiii] *Source: Wall Street Journal. https://www.wsj.com/articles/the-real-winners-from-trumps-tariffs-are-chinas-neighbors-11559120403.*
[xiv] *Source: The Guardian.* https://www.theguardian.com/technology/2019/jun/13/canada-china-huawei-meng-wanzhou-extradition
[xv] *Source: The Wall Street Journal.* https://www.wsj.com/articles/trumps-china-feud-threatens-5g-growth-in-u-s-11559035804
[xvi] *Source: Bloomberg.* "Huawei Braces for Phone Sales Drop of Up to 60 Million Overseas."

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Market Summary

Index Returns

Q2 2019	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	4.10%	**3.79%**	**0.61%**	**1.29%**	**3.08%**	**2.75%**
Since Jan. 2001						
Avg. Quarterly Return	2.0%	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]).

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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
1 Year	STOCKS				BONDS	
	8.98%	1.29%	1.21%	8.81%	7.87%	7.61%
5 Years	10.19%	2.04%	2.49%	5.29%	2.95%	4.43%
10 Years	14.67%	6.75%	5.81%	12.19%	3.90%	4.44%

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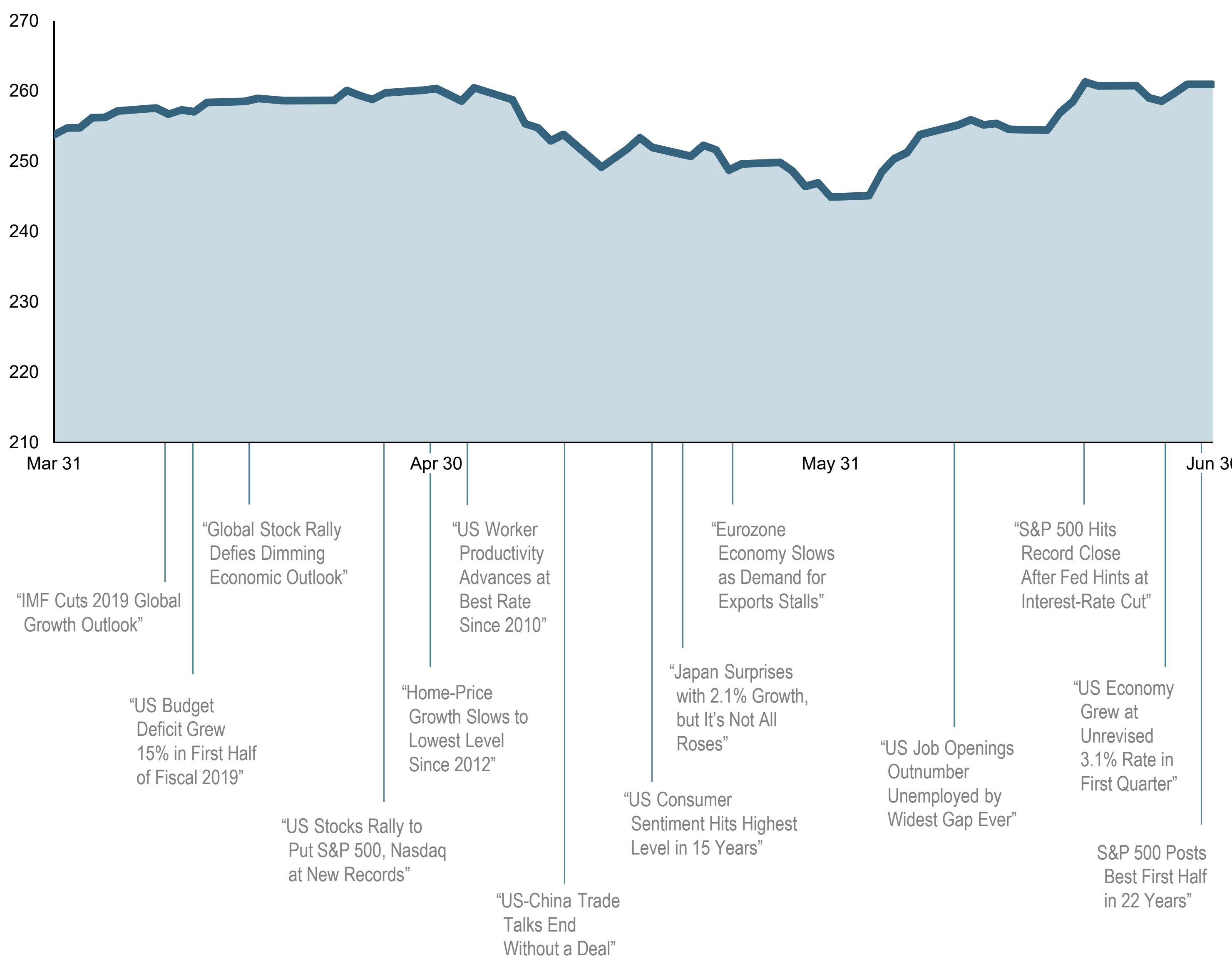
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 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.**

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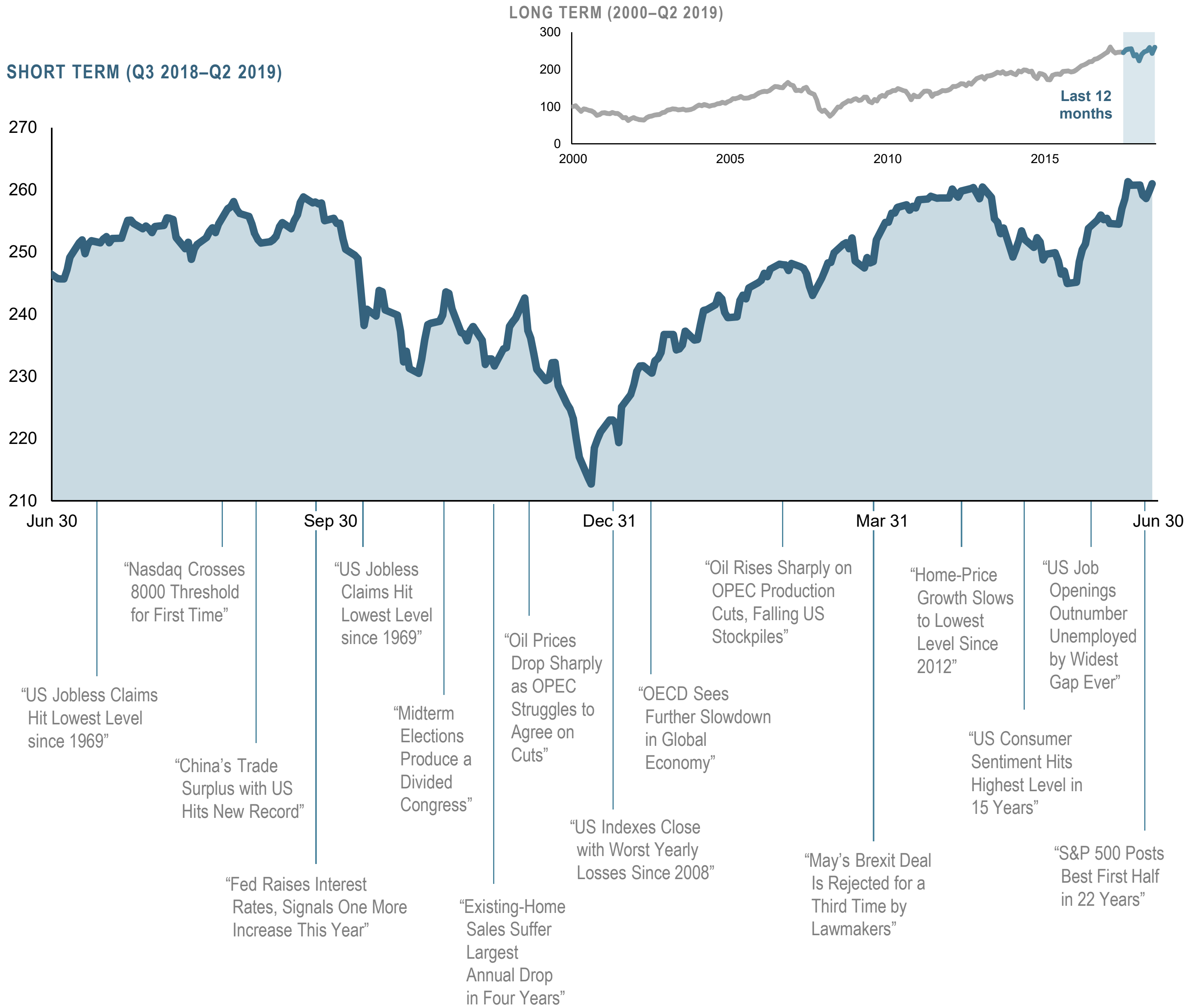
World Stock Market Performance

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



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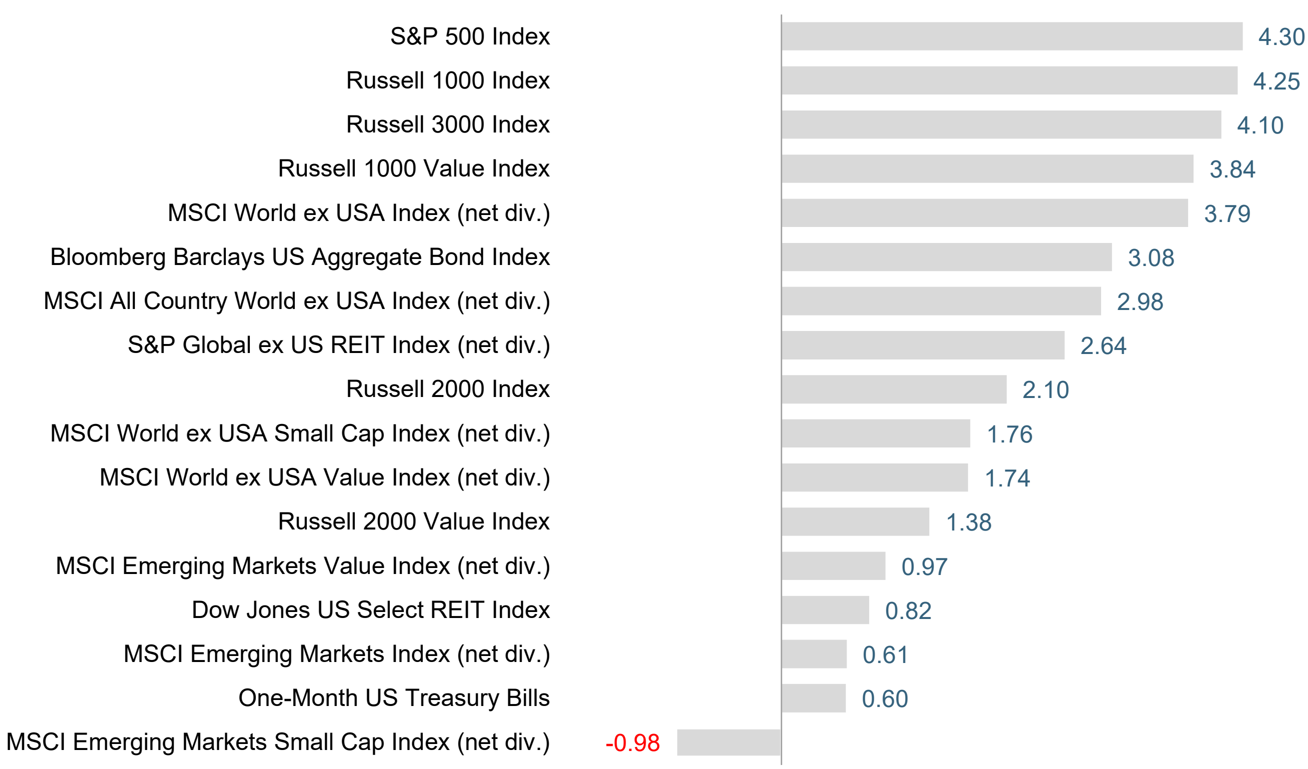
World Asset Classes

Second Quarter 2019 Index Returns (%)

Equity markets around the globe posted positive returns for the quarter. Looking at broad market indices, US equities outperformed non-US developed and emerging markets during the quarter.

Value stocks outperformed growth stocks in emerging markets but underperformed in developed markets, including the US. Small caps underperformed large caps in all regions.

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



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US Stocks

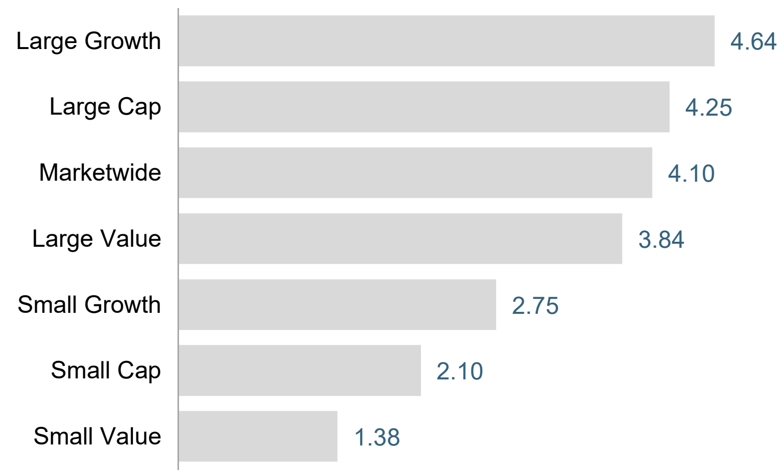
Second Quarter 2019 Index Returns

US equities outperformed both non-US developed and emerging markets equities.

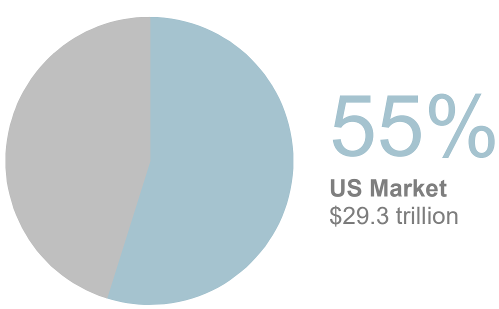
Small caps underperformed large caps in the US.

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

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	21.49	11.56	18.07	13.39	16.28
Small Growth	20.36	-0.49	14.69	8.63	14.41
Large Cap	18.84	10.02	14.15	10.45	14.77
Marketwide	18.71	8.98	14.02	10.19	14.67
Small Cap	16.98	-3.31	12.30	7.06	13.45
Large Value	16.24	8.46	10.19	7.46	13.19
Small Value	13.47	-6.24	9.81	5.39	12.40

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

International Developed Stocks

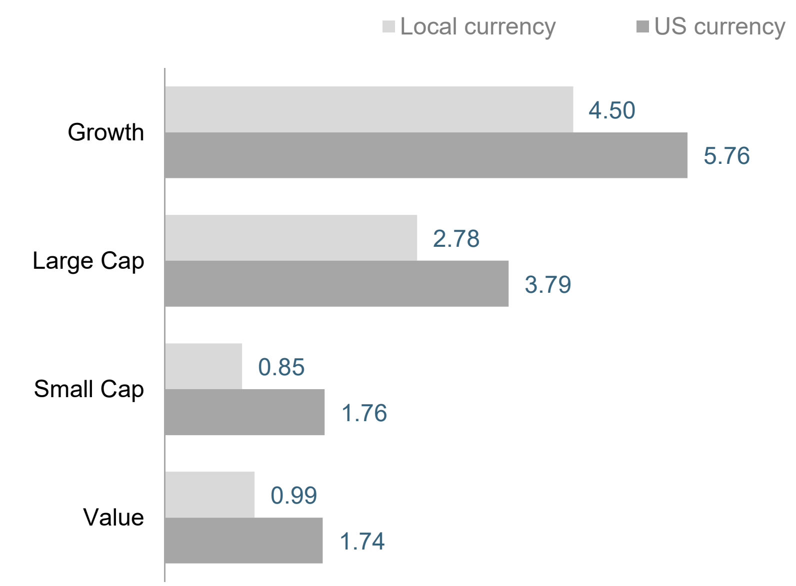
Second Quarter 2019 Index Returns

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

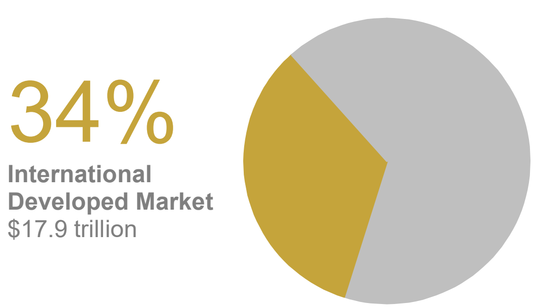
Small caps underperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

Ranked Returns for the Quarter (%)



World Market Capitalization—International Developed



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	18.89	4.36	9.42	4.02	7.81
Large Cap	14.64	1.29	9.01	2.04	6.75
Small Cap	12.88	-6.17	8.38	3.39	9.19
Value	10.38	-1.80	8.54	0.01	5.62

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Emerging Markets Stocks

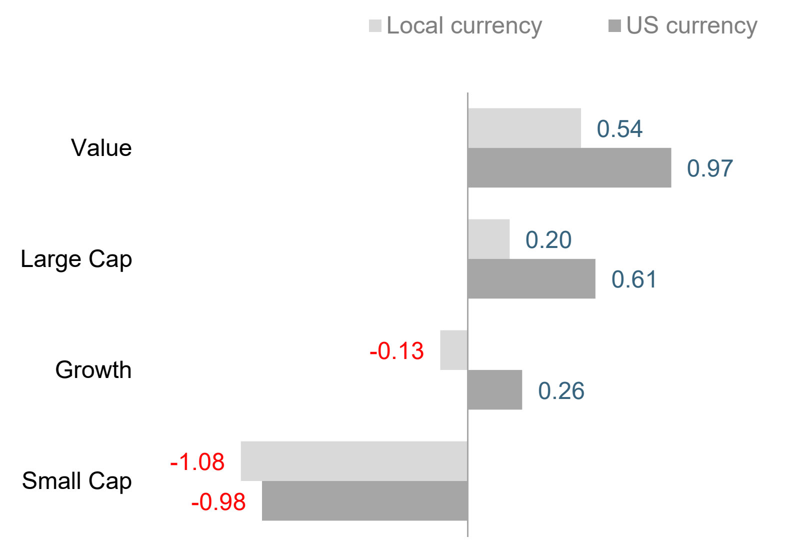
Second Quarter 2019 Index Returns

In US dollar terms, emerging markets underperformed developed markets, including the US.

Value stocks generally outperformed growth stocks.

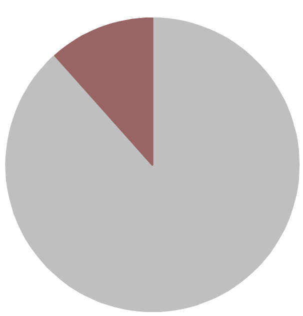
Small caps underperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—Emerging Markets

12%
Emerging Markets
$6.2 trillion



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	12.33	-2.44	11.22	3.85	6.94
Large Cap	10.58	1.21	10.66	2.49	5.81
Value	8.87	5.04	10.02	1.03	4.60
Small Cap	6.70	-5.12	5.46	0.53	5.86

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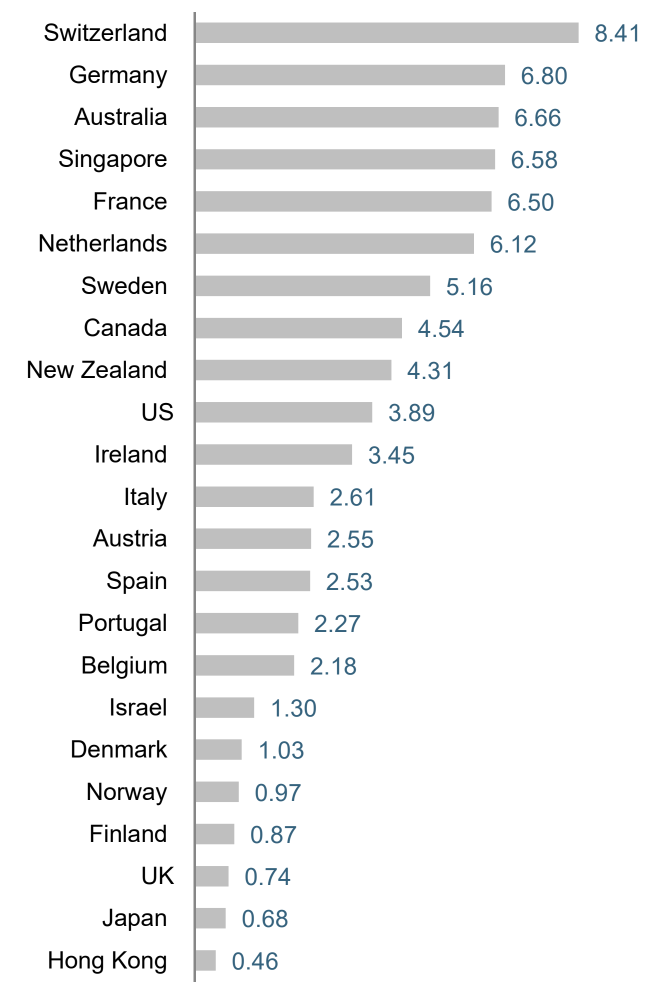
Select Market Performance

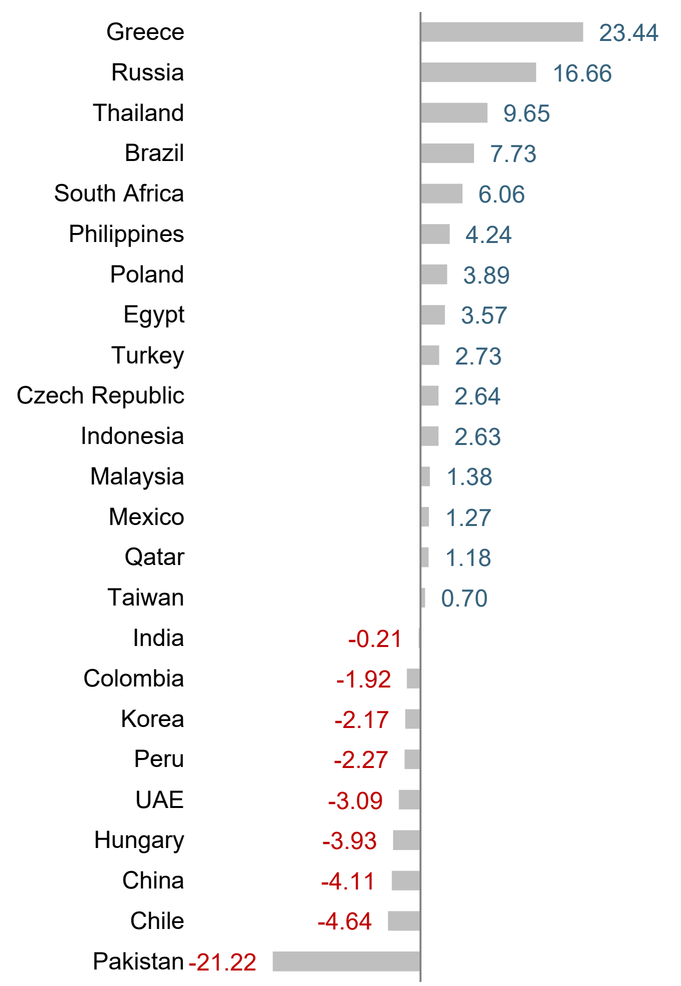
Second Quarter 2019 Index Returns

In US dollar terms, Switzerland and Germany recorded the highest country performance in developed markets, while Hong Kong and Japan posted the lowest returns for the quarter. There was a wide dispersion in returns across emerging markets. Greece recorded the highest country performance with a gain of 23%, while Pakistan posted the lowest performance, declining 21%.

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 2019, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

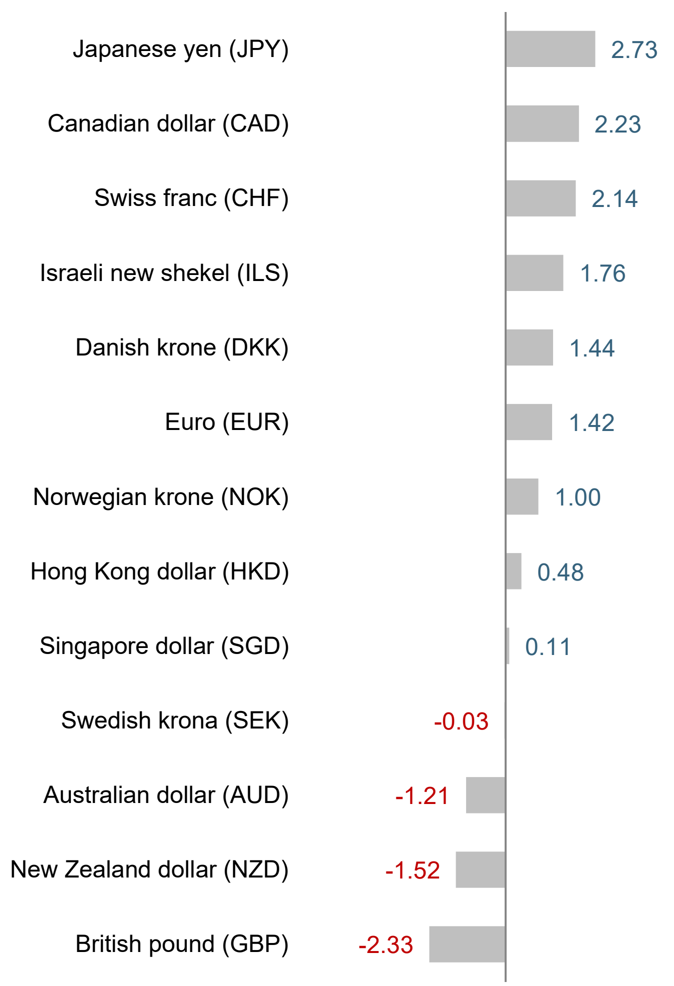
Select Currency Performance vs. US Dollar

Select Currency Performance vs. US Dollar

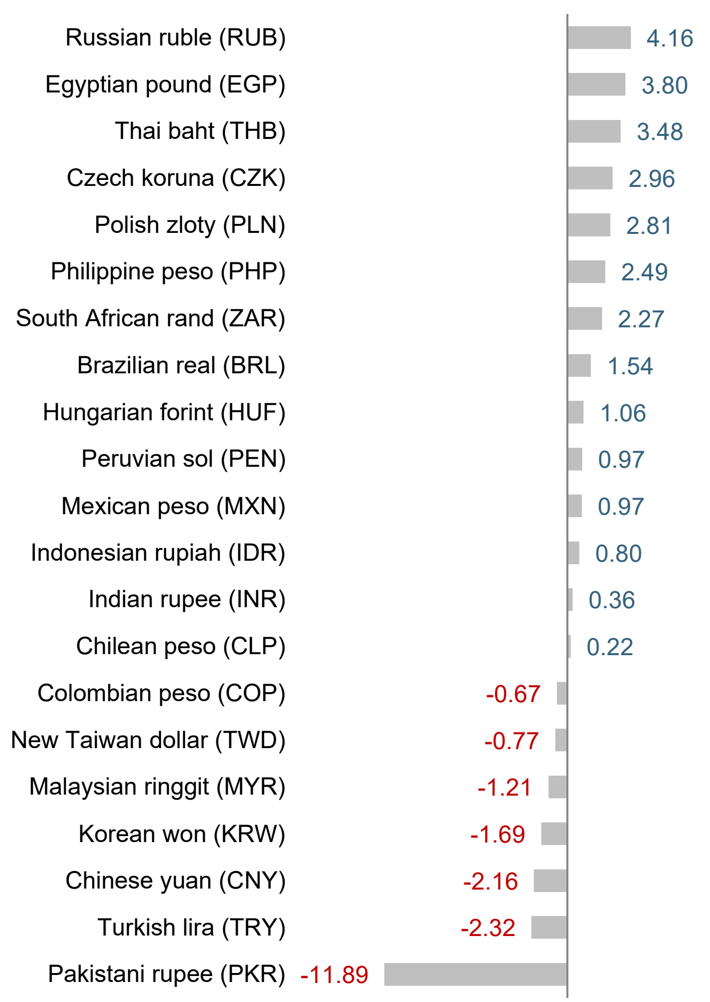
Second Quarter 2019

In both developed and emerging markets, currencies were mixed against the US dollar.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



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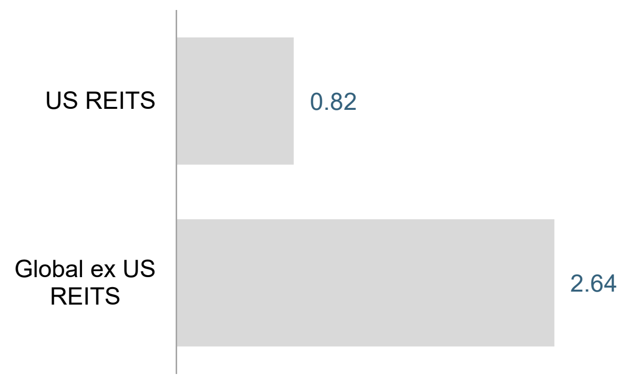
Real Estate Investment Trusts (REITs)

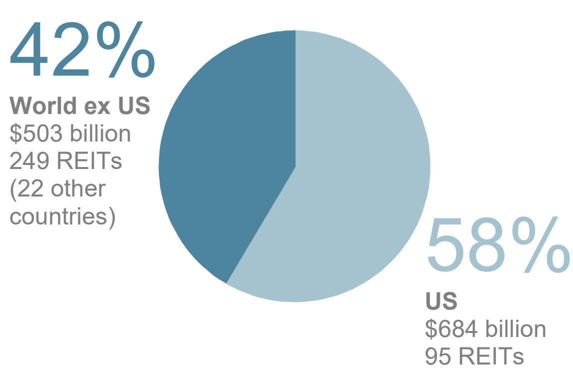
Second Quarter 2019 Index Returns

Non-US real estate investment trusts outperformed US REITs in US dollar terms.

Ranked Returns for the Quarter (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	16.67	9.75	3.73	7.61	15.40
Global ex US REITS	14.68	7.78	4.79	3.62	9.84

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data

Commodities

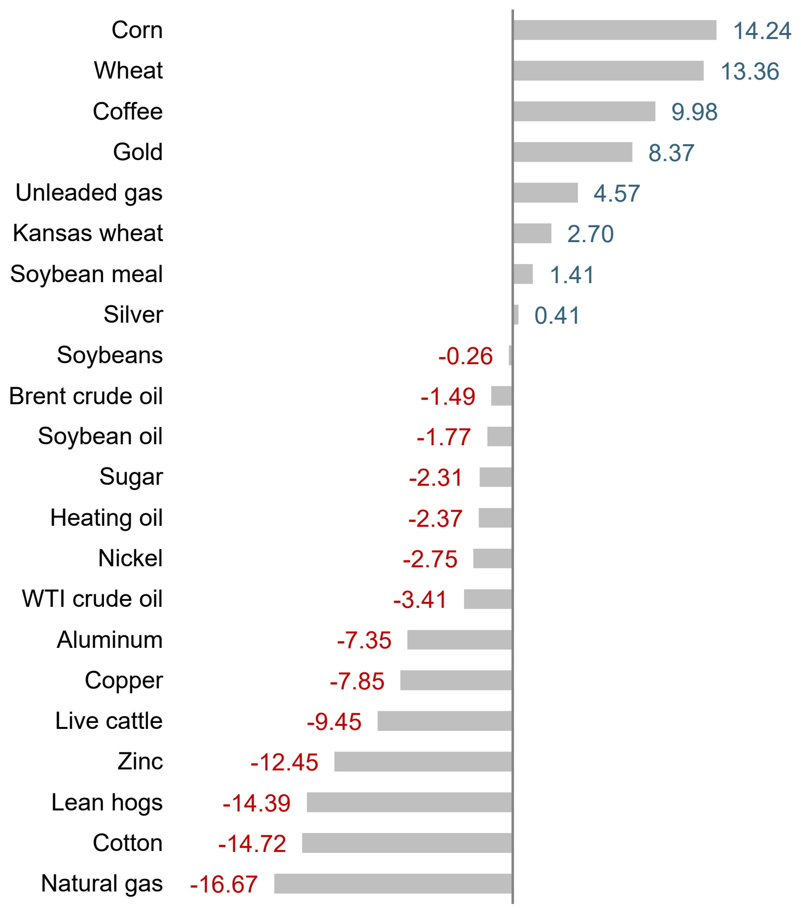
Second Quarter 2019 Index Returns

The Bloomberg Commodity Index Total Return declined 1.19% in the second quarter of 2019.

Corn and wheat led performance, returning 14.24% and 13.36%, respectively.

Natural gas and cotton were the worst performers, declining by 16.67% and 14.72%, respectively.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

** Annualized*

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-1.19	5.06	-6.75	-2.18	-9.15	-3.74

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.

WEALTHSTONE
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Fixed Income

Second Quarter 2019 Index Returns

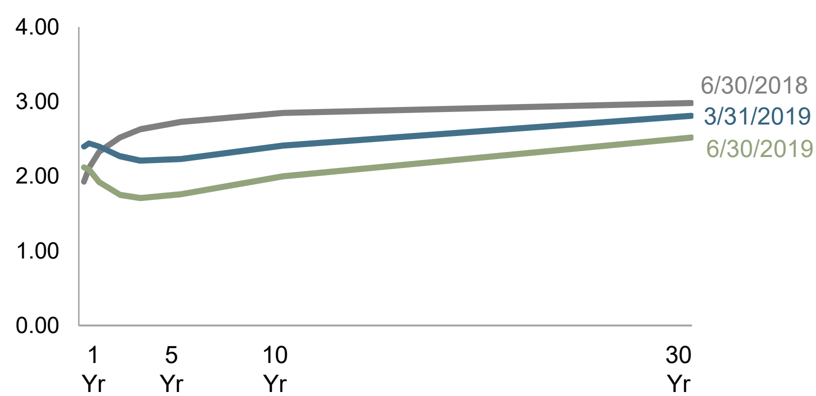
Interest rates decreased in the US Treasury fixed income market during the second quarter. The yield on the 5-year Treasury note declined by 47 basis points (bps), ending at 1.76%. The yield on the 10-year Treasury note fell by 41 bps to 2.00%. The 30-year Treasury bond yield decreased by 29 bps to finish at 2.52%.

On the short end of the curve, the 1-month Treasury bill yield decreased to 2.18%, while the 1-year T-bill yield decreased by 48 bps to 1.92%. The 2-year T-note yield finished at 1.75%, decreasing 52 bps.

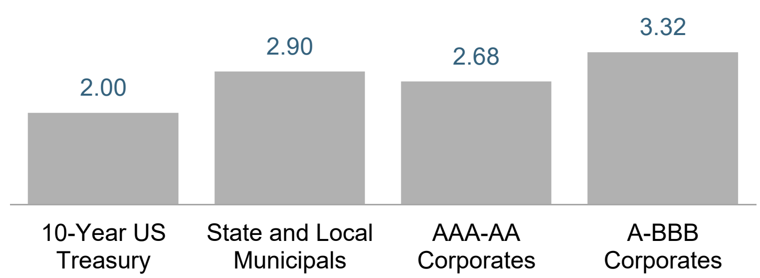
In terms of total returns, short-term corporate bonds increased by 2.09%. Intermediate-term corporate bonds had a total return of 3.13%.

The total return for short-term municipal bonds was 1.12%, while intermediate munis returned 1.98%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	6.00	10.92	12.28	1.42	5.68	6.54
Bloomberg Barclays US Aggregate Bond Index	3.08	6.11	7.87	2.31	2.95	3.90
Bloomberg Barclays US TIPS Index	2.86	6.15	4.84	2.08	1.76	3.64
Bloomberg Barclays US High Yield Corporate Bond Index	2.50	9.94	7.48	7.52	4.70	9.24
Bloomberg Barclays Municipal Bond Index	2.14	5.09	6.71	2.55	3.64	4.72
FTSE World Government Bond Index 1-5 Years	1.92	2.27	2.57	0.67	-0.76	0.53
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.51	2.69	4.44	1.85	1.84	1.86
ICE BofAML 1-Year US Treasury Note Index	0.94	1.76	2.98	1.43	1.02	0.76
ICE BofAML US 3-Month Treasury Bill Index	0.64	1.24	2.31	1.38	0.87	0.49

One basis point 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 BofAML US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofAML 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

Second Quarter 2019 Yield Curves

Interest rates in the global developed markets generally decreased during the quarter.

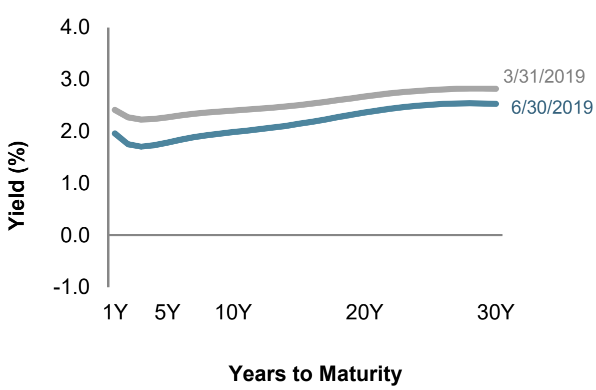
Longer-term bonds generally outperformed shorter-term bonds in global developed markets.

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

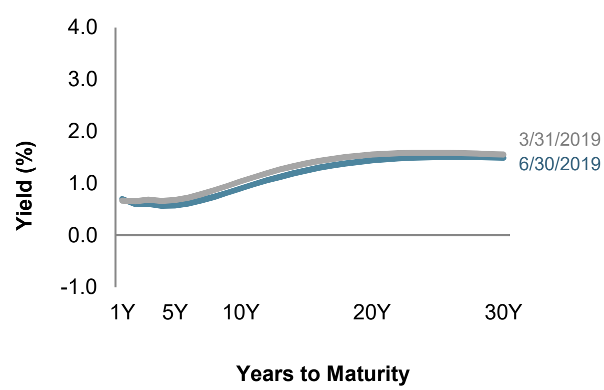
Changes in Yields (bps) since 3/31/2019

	1Y	5Y	10Y	20Y	30Y
US	-45.3	-48.8	-41.4	-30.9	-29.0
UK	2.8	-10.5	-13.6	-11.0	-6.0
Germany	-8.5	-19.3	-24.0	-30.1	-29.9
Japan	-0.9	-5.8	-6.7	-11.0	-15.0

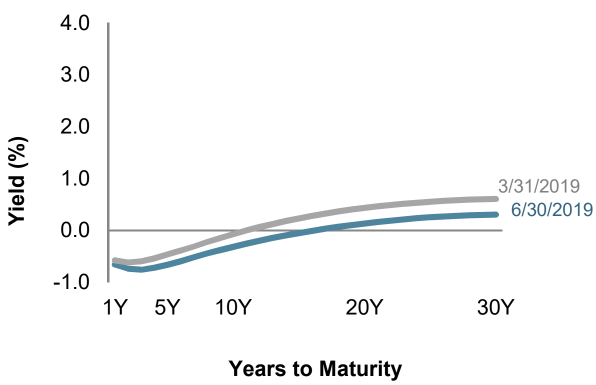
US



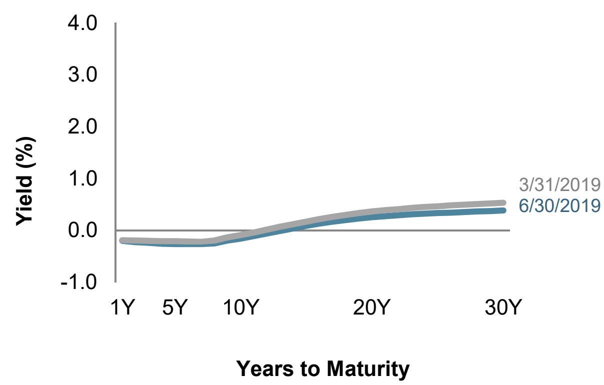
UK



Germany



Japan



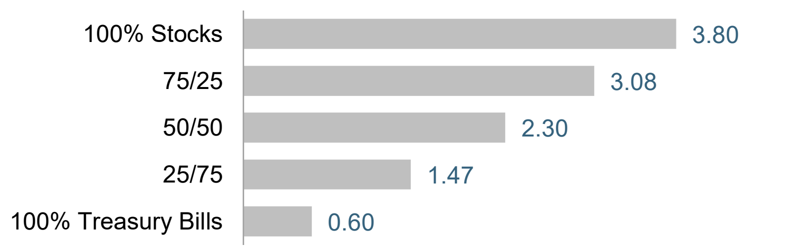
One basis point equals 0.01%. Source: ICE BofAML government yield.

Impact of Diversification

Second Quarter 2019 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 for the Quarter (%)

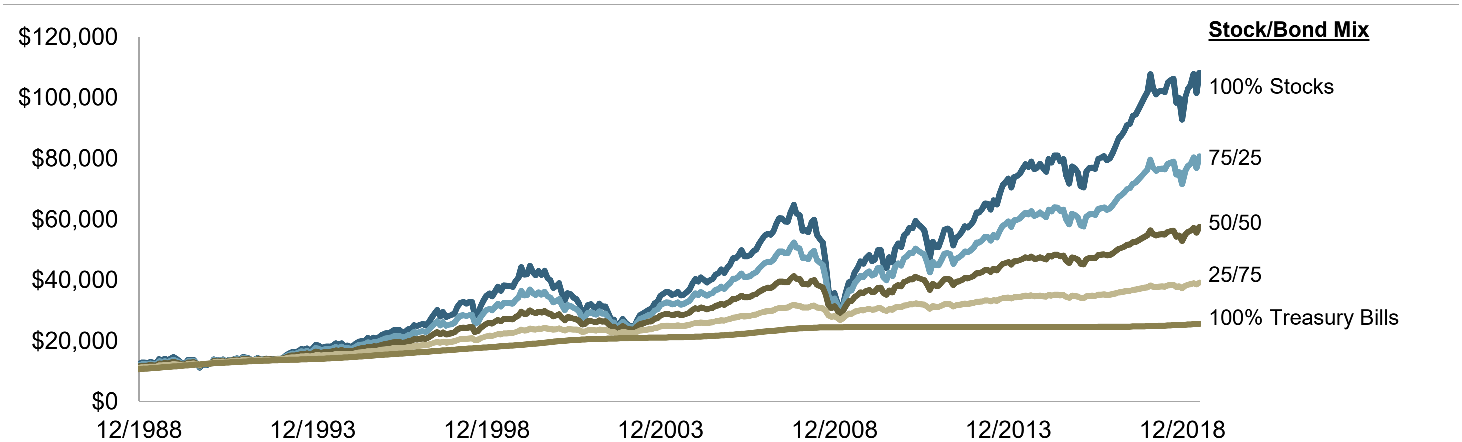


Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Stocks	16.60	6.32	12.22	6.74	10.73	13.48
75/25	12.69	5.56	9.53	5.36	8.25	10.11
50/50	8.82	4.62	6.80	3.91	5.70	6.74
25/75	4.98	3.51	4.06	2.39	3.09	3.37
100% Treasury Bills	1.18	2.23	1.30	0.80	0.43	0.21

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 2019, 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).

The Uncommon Average

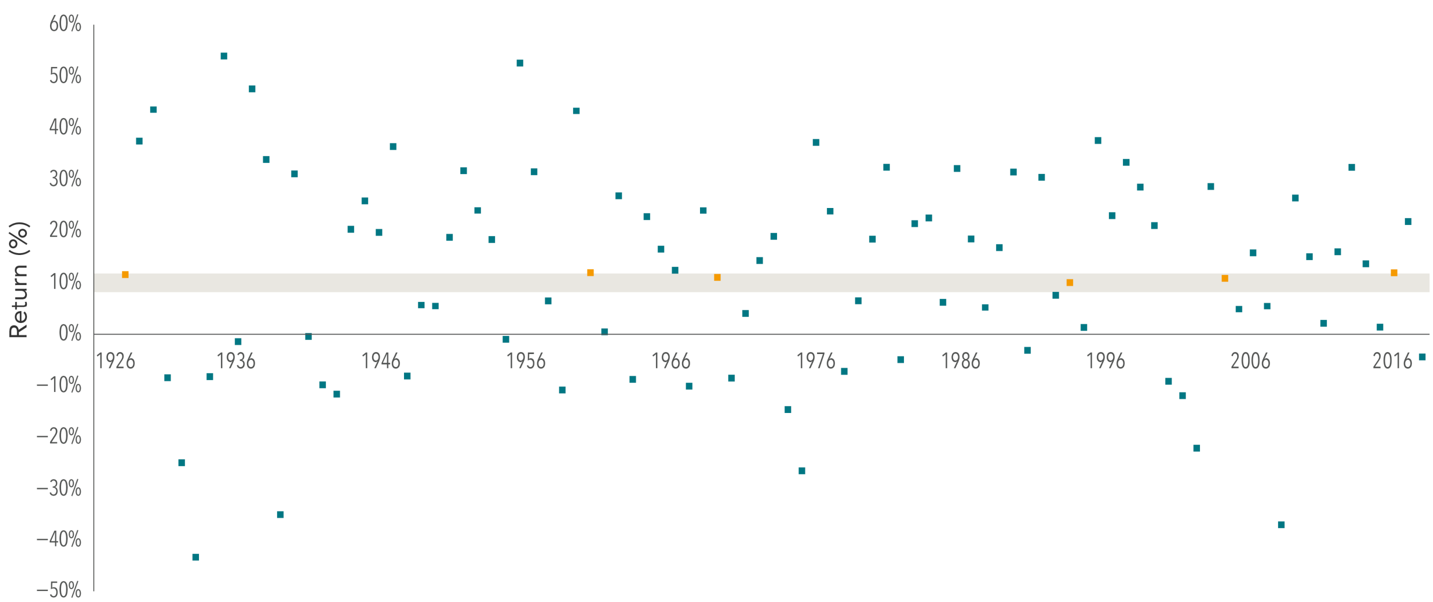
Second Quarter 2019

"I have found that the importance of having an investment philosophy—
one that is robust and that you can stick with— cannot be overstated."
—David Booth

The US stock market has delivered an average annual return of around 10% since 1926. But short-term results may vary, and in any given period stock returns can be positive, negative, or flat. When setting expectations, it's helpful to see the range of outcomes experienced by investors historically. For example, how often have the stock market's annual returns actually aligned with its long-term average?

Exhibit 1 shows calendar year returns for the S&P 500 Index since 1926. The shaded band marks the historical average of 10%, plus or minus 2 percentage points. The S&P 500 Index had a return within this range in only six of the past 93 calendar years. In most years, the index's return was outside of the range—often above or below by a wide margin—with no obvious pattern. For investors, the data highlight the importance of looking beyond average returns and being aware of the range of potential outcomes.

Exhibit 1. S&P 500 Index Annual Returns
1926–2018



In US dollars. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

The Uncommon Average

(continued from page 18)

TUNING IN TO DIFFERENT FREQUENCIES

Despite the year-to-year volatility, investors can potentially increase their chances of having a positive outcome by maintaining a long-term focus. **Exhibit 2** documents the historical frequency of positive returns over rolling periods of one, five, and 10 years in the US market. The data show that, while positive performance is never assured, investors' odds improve over longer time horizons.

CONCLUSION

While some investors might find it easy to stay the course in years with above average returns, periods of disappointing results may test an investor's faith in equity markets. Being aware of the range of potential outcomes can help investors remain disciplined, which in the long term can increase the odds of a successful investment experience. What can help investors endure the ups and downs? While there is no silver bullet, understanding how markets work and trusting market prices are good starting points. An asset allocation that aligns with personal risk tolerances and investment goals is also valuable. By thoughtfully considering these and other issues, investors may be better prepared to stay focused on their long-term goals during different market environments.

Exhibit 2. Frequency of Positive Returns in the S&P 500 Index
Overlapping Periods: 1926–2018

In US dollars. From January 1926–December 2018, there are 997 overlapping 10-year periods, 1,057 overlapping 5-year periods, and 1,105 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

Source: Dimensional Fund Advisors LP.