Q1

Quarterly Market Review

First Quarter 2018

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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 impact of globally diversified portfolios and features a quarterly topic.

Overview:

Quarterly Market Commentary

First Quarter 2018 – April 5, 2018

If you were a member of the popular press, you'd probably be happy with 2018's first quarter performance. At last – some volatility-fueling news in early February, with plenty of enticing "largest," "fastest," and "worst" market superlatives to savor after a long, languid lull.

As usual, there are plenty of potential culprits to point to among current events: global trade wars heating up, the arrival of quantitative tightening (rising interest rates), troubles in tech-land over data privacy concerns, ongoing Brexit talks, and some interesting events over in the Koreas. At quarter-end, one hopeful journalist asked, "[Is the Bear Market Here Yet?]" Another [observed]: "[T]he number of [Dow Jones Industrial Average] sessions with a 1% move so far in 2018 are more than double 2017's tally, and it isn't even April."

Has the coverage left you wondering about *your* investments? Most markets have been steaming ahead so well for so long, even a modest misstep may have you questioning whether you should "do something," in case the ride gets rougher still.

If we've done our job of preparing you and your portfolio for market jitters, you might be able to cite back to us why you've already done all you can do to manage the volatility, and why it's ultimately expected to be good news for evidence-based investors anyway. Remember, if there were never any real market risk, you couldn't expect extra returns for your risk tolerance.

That said, you may have forgotten – or never experienced – how awful the last round of extreme volatility felt during the Great Recession. Insights from behavioral finance tell us that our brain's ingrained biases cause us to gloss over those painful times, and panic all over again when they recur, long before our rational resolve has time to kick in.

A constructive way to think about recent market performance is as a telling preview of what the next, worse market downturn might feel like. How are you doing so far, and how can we help?

If you noticed the news, but you're okay with where you're at, that's great. If the volatility is bothering you, let's talk; we may be able to ease your angst. If you continue to struggle with whether you made the right decisions during quieter markets, let's plan a rational shift to better reflect your real risk tolerances and cash-flow requirements. Not only is your peace of mind at least as important as the dollars in your account, you could end up worse off if you've taken on more risk than you can bear in pursuit of higher expected returns.

As *Wall Street Journal* columnist Jason Zweig said during the February dip: "A happy few investors … may have long-term thinking built into them by nature. The rest of us have to cultivate it by nurture." We couldn't agree more, and we consider it our duty and privilege to advise you accordingly, through every market clime.

David Bromelkamp
President and CEO
Chief Investment Officer

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Market Summary

Index Returns

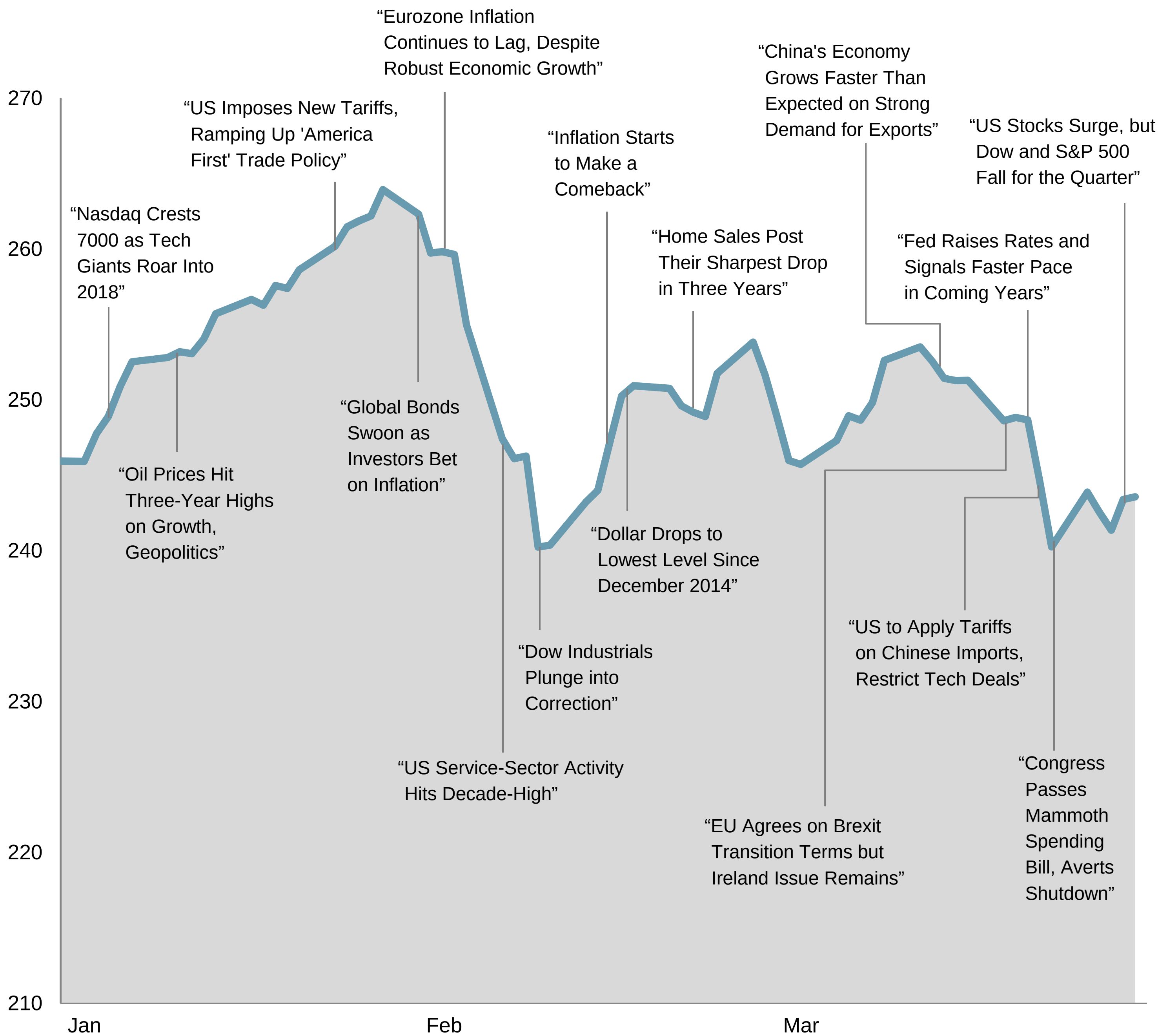
Q1 2018	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	-0.64%	-2.04%	1.42%	-5.79%	-1.46%	0.94%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	1.9%	1.5%	3.2%	2.5%	1.1%	1.1%
Best Quarter	16.8% **Q2 2009**	25.9% **Q2 2009**	34.7% **Q2 2009**	32.3% **Q3 2009**	4.6% **Q3 2001**	4.6% **Q4 2008**
Worst Quarter	-22.8% **Q4 2008**	-21.2% **Q4 2008**	-27.6% **Q4 2008**	-36.1% **Q4 2008**	-3.0% **Q4 2016**	-2.7% **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 [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (FTSE WGBI ex USA 1−30 Years [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2018



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.]. MSCI data © MSCI 2018, 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 Stock Market Performance

World Stock Market Performance

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

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.]. MSCI data © MSCI 2018, all rights reserved.

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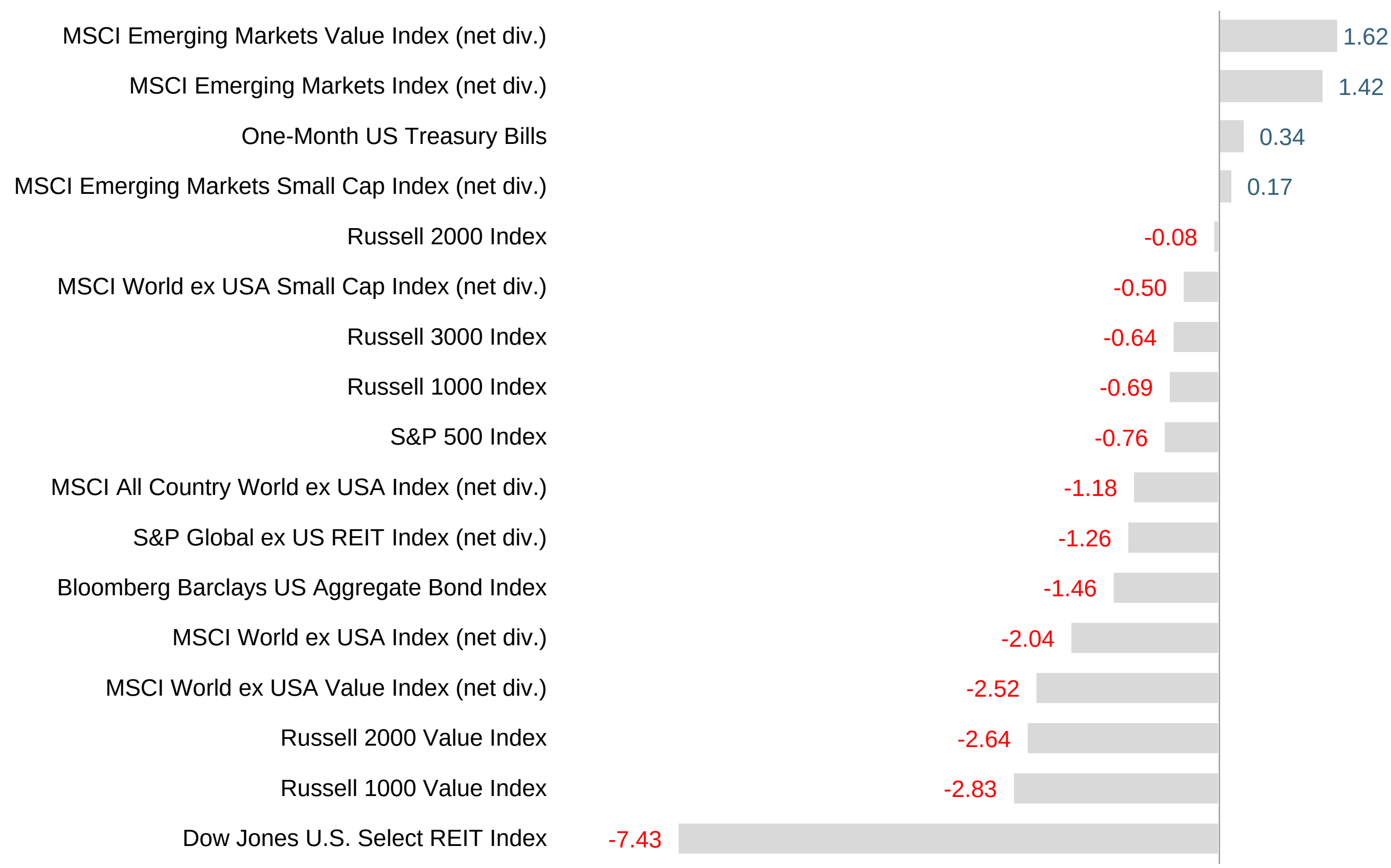
World Asset Classes

First Quarter 2018 Index Returns (%)

Looking at broad market indices, emerging markets outperformed developed markets, including the US, in the first quarter.

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



US Stocks

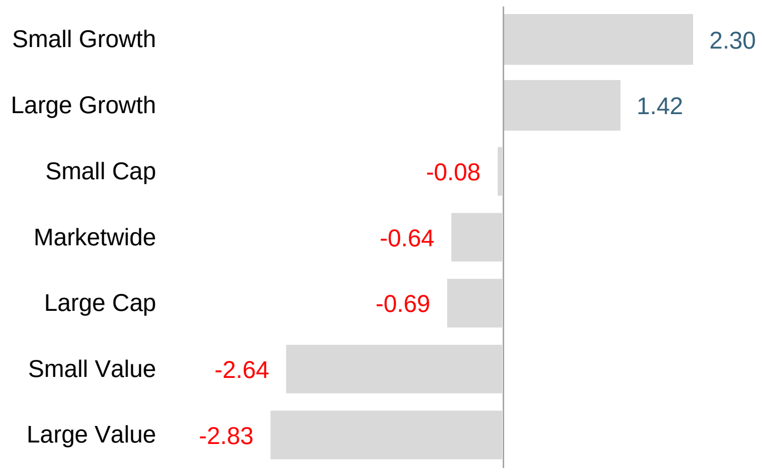
First Quarter 2018 Index Returns

The US equity market posted a negative return for the quarter.

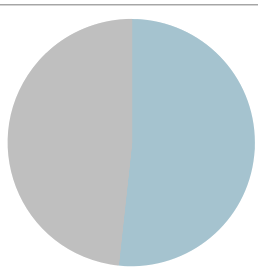
Value underperformed growth across large and small cap indices.

Small caps outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	13.81	10.22	13.03	9.62
Large Cap	13.98	10.39	13.17	9.61
Large Value	6.95	7.88	10.78	7.78
Large Growth	21.25	12.90	15.53	11.34
Small Cap	11.79	8.39	11.47	9.84
Small Value	5.13	7.87	9.96	8.61
Small Growth	18.63	8.77	12.90	10.95

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International Developed Stocks

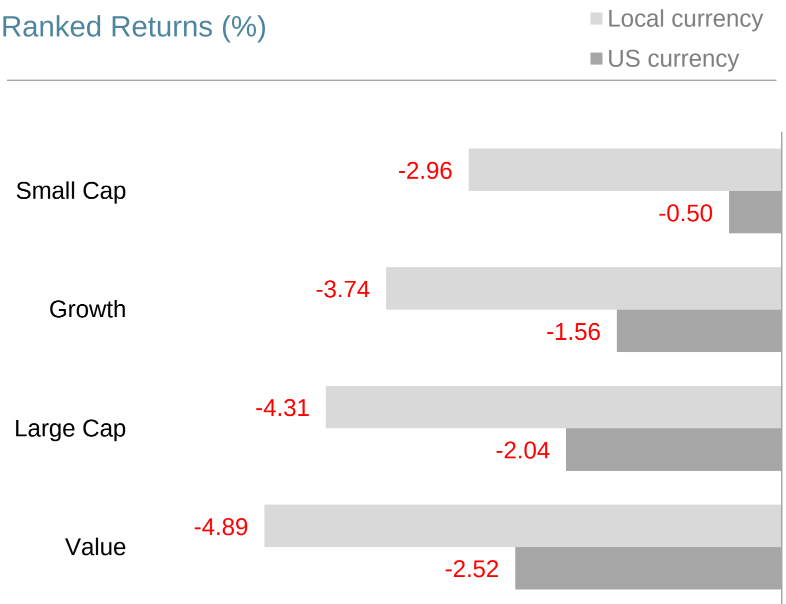
First Quarter 2018 Index Returns

In US dollar terms, developed markets outside the US underperformed the US and emerging markets during the quarter.

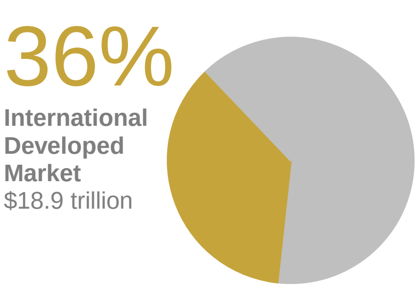
Value underperformed growth in non-US developed markets across large and small cap indices.

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

Ranked Returns (%)



World Market Capitalization—International Developed



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	13.92	5.30	6.04	2.59
Small Cap	21.16	11.30	9.71	5.81
Value	11.66	4.46	5.44	2.08
Growth	16.28	6.06	6.58	3.03

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Emerging Markets Stocks

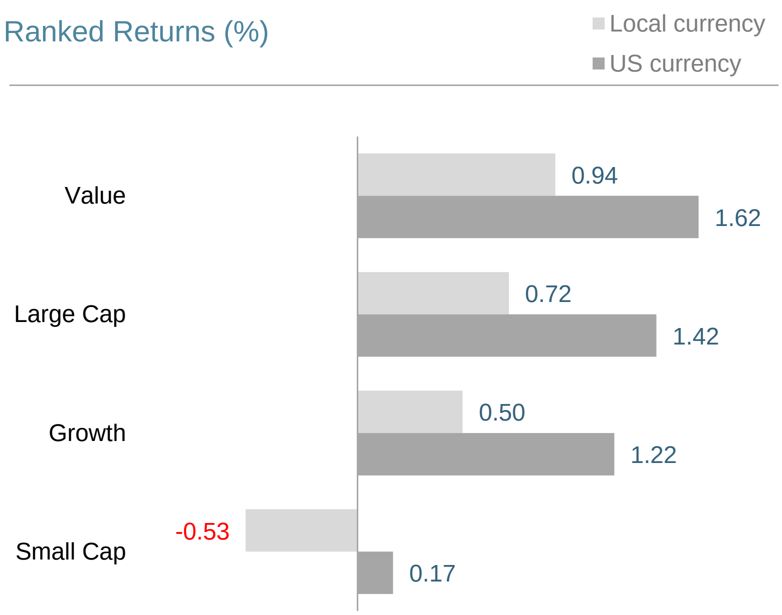
First Quarter 2018 Index Returns

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

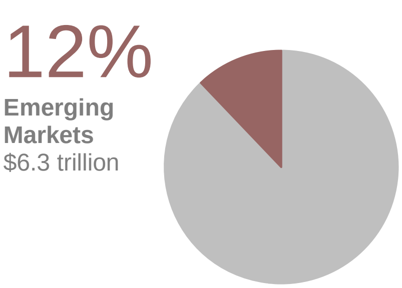
The value effect was positive in large cap indices but negative in small cap indices within emerging markets.

Small caps underperformed large caps in emerging markets.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	24.93	8.81	4.99	3.02
Small Cap	18.62	7.23	4.58	4.36
Value	18.14	6.65	2.57	2.07
Growth	31.73	10.89	7.30	3.87

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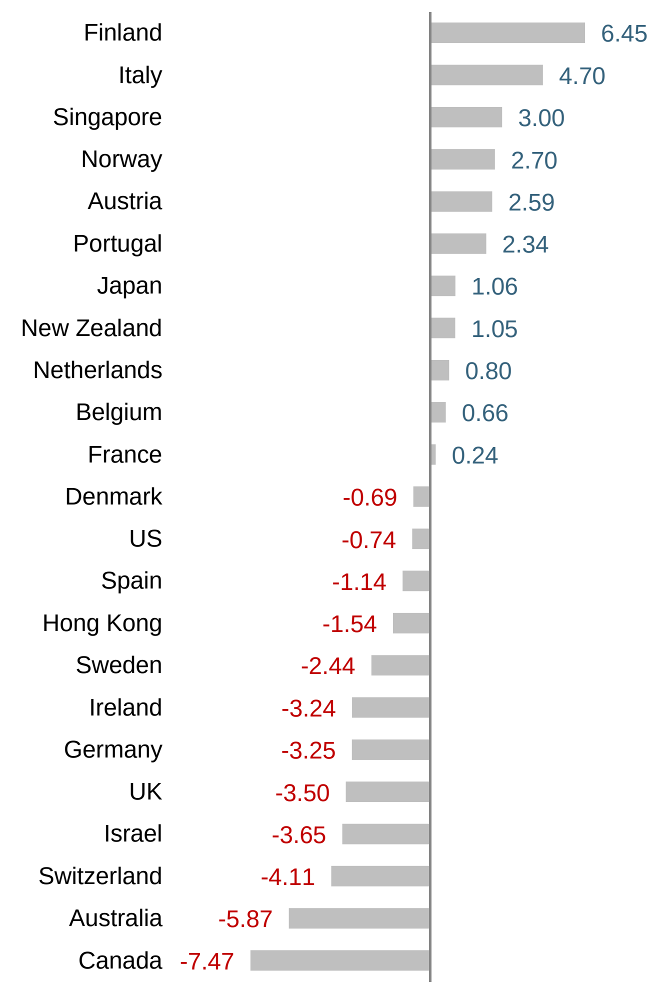
Select Country Performance

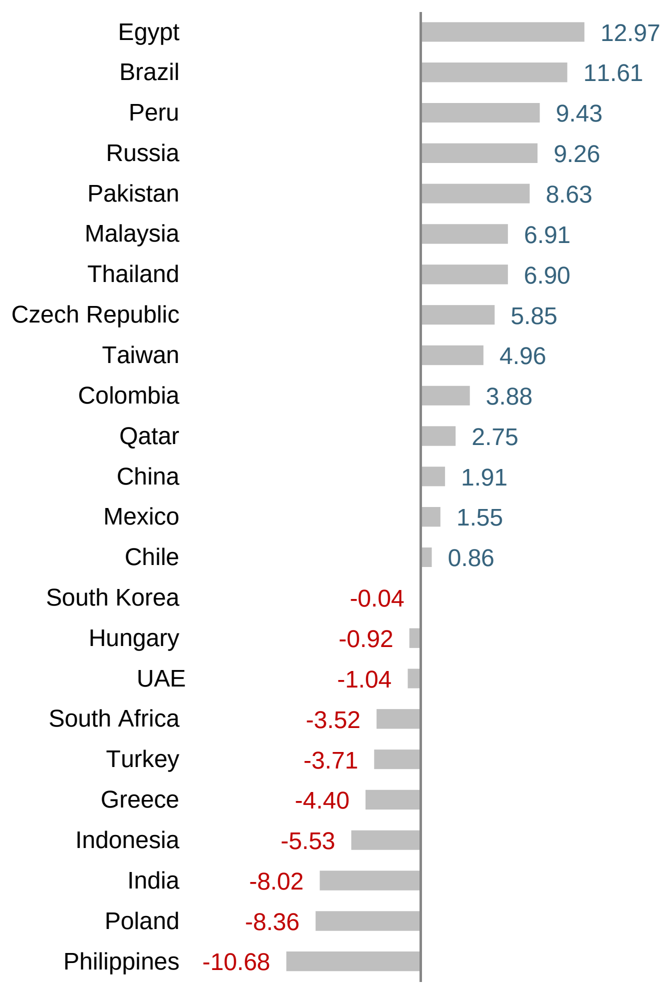
First Quarter 2018 Index Returns

In US dollar terms, Finland and Italy recorded the highest country performance in developed markets, while Canada and Australia posted the lowest returns for the quarter. In emerging markets, Egypt and Brazil posted the highest country returns, while the Philippines and Poland had the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



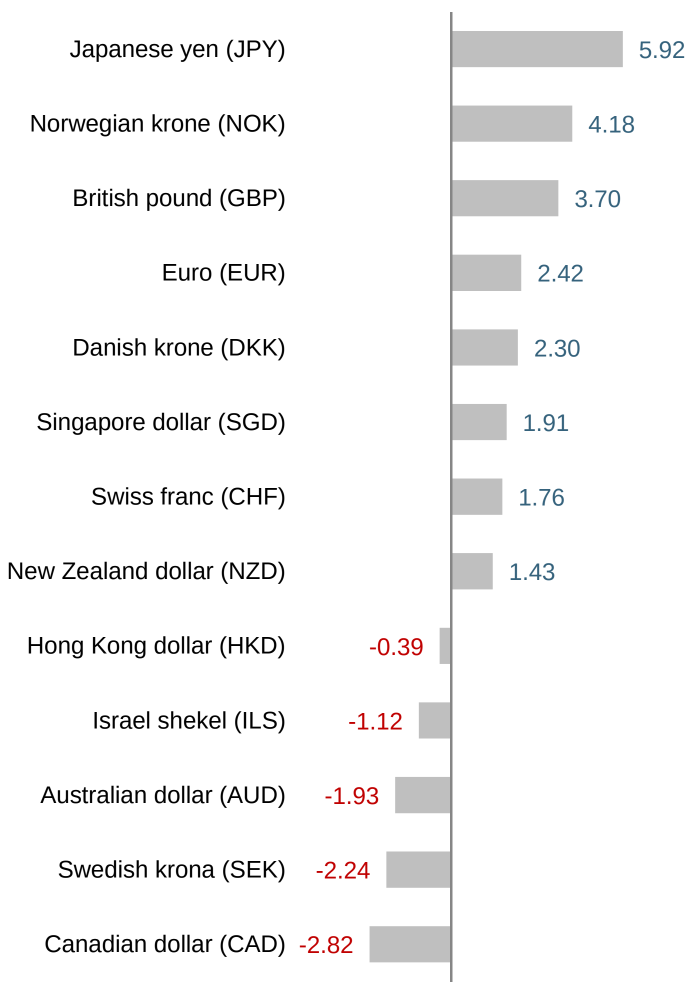
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Select Currency Performance vs. US Dollar

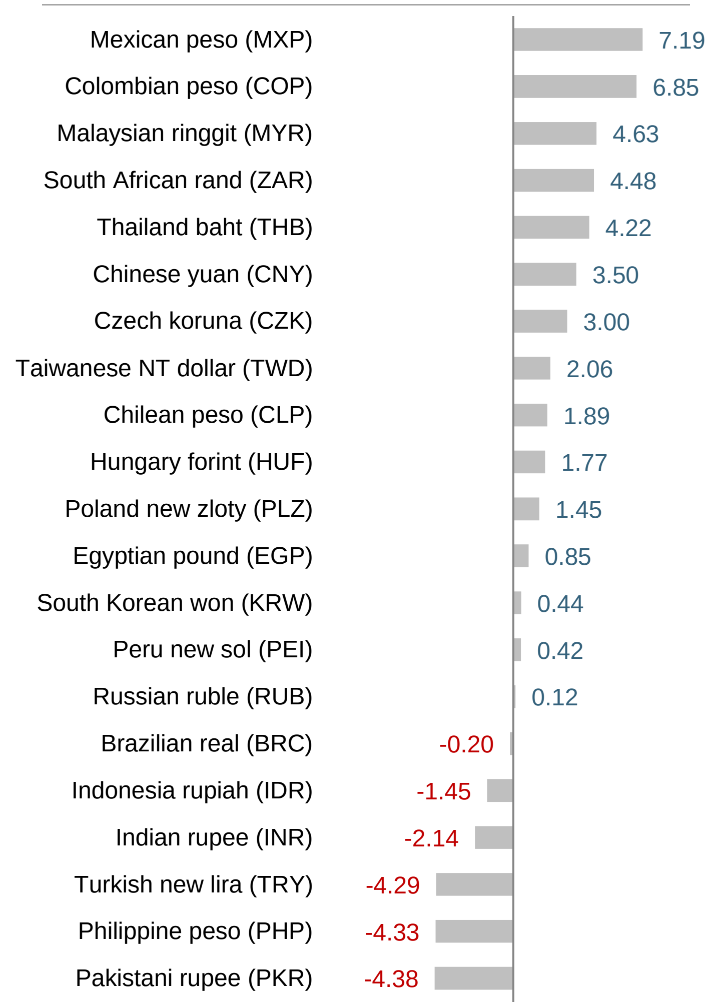
First Quarter 2018

Currencies returns were mixed for the quarter. In developed markets, the Japanese yen appreciated by over 5.5% but the Canadian dollar depreciated approximately 3%. In emerging markets, the Mexican peso appreciated by over 7% but the Pakistani rupee, Philippine peso, and Turkish new lira all depreciated more than 4%.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



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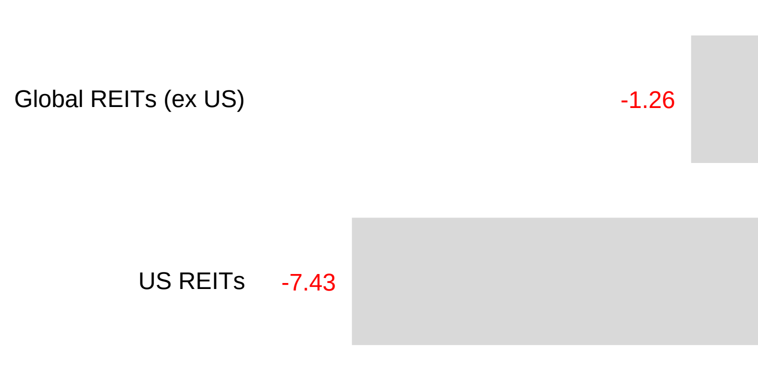
Real Estate Investment Trusts (REITs)

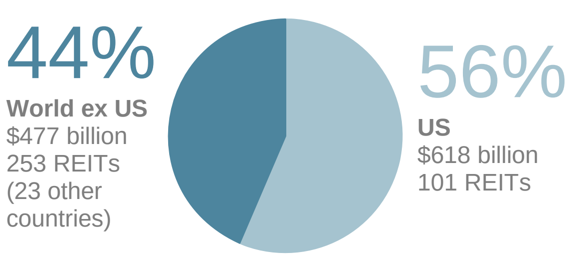
First Quarter 2018 Index Returns

Non-US real estate investment trusts outperformed US REITs in the first quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITs	-3.68	0.74	5.97	6.02
Global REITs (ex US)	10.20	3.59	3.73	2.51

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

Commodities

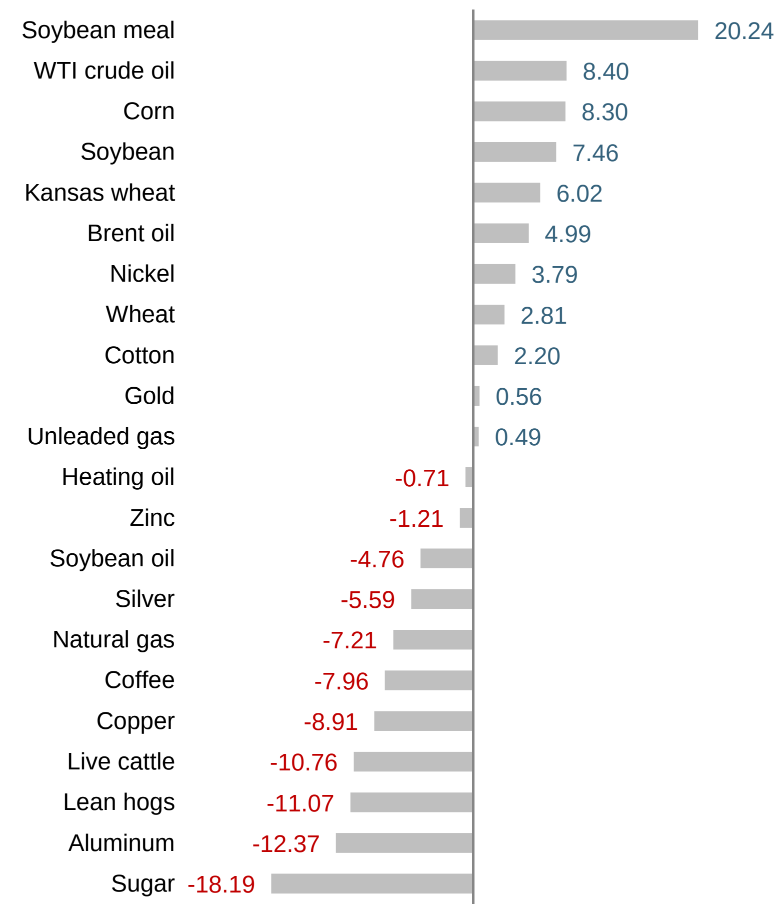
First Quarter 2018 Index Returns

The Bloomberg Commodity Index Total Return declined 0.40% during the first quarter.

The grains complex led performance, with soybean meal returning 20.24% and corn gaining 8.30%. Energy also advanced, with WTI crude oil returning 8.40% and Brent oil advancing 4.99%.

Softs was the worst-performing complex, with sugar and coffee declining by 18.19% and 7.96%, respectively.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Commodities	3.71	-3.21	-8.32	-7.71

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual Commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Fixed Income

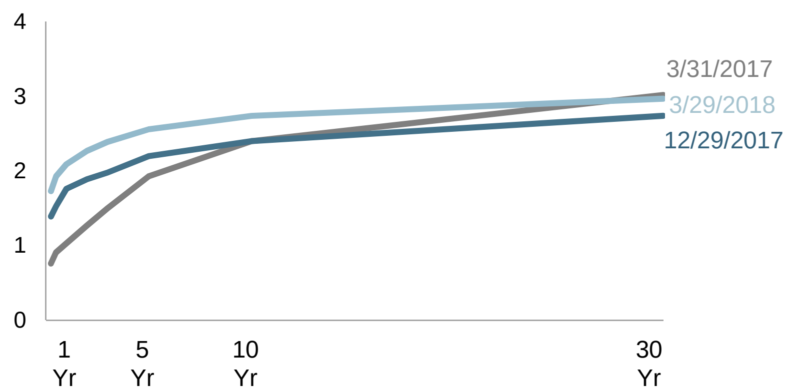
First Quarter 2018 Index Returns

Interest rates increased in the US during the first quarter. The yield on the 5-year Treasury note rose 36 basis points (bps), ending at 2.56%. The yield on the 10-year Treasury note increased 34 bps to 2.74%. The 30-year Treasury bond yield rose 23 bps to finish at 2.97%.

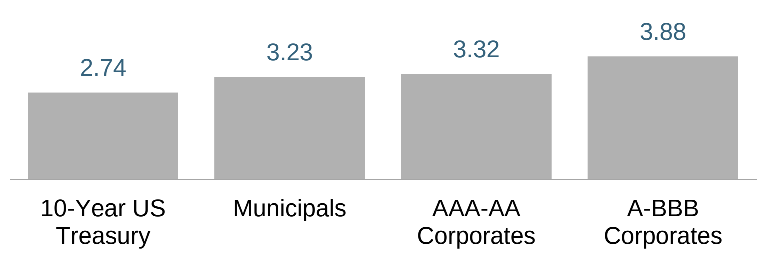
On the short end of the yield curve, the 1-month Treasury bill yield increased 35 bps to 1.63%, while the 1-year Treasury bill yield rose 33 bps to 2.09%. The 2-year Treasury note finished at 2.27% after a yield increase of 38 bps.

In terms of total return, short-term corporate bonds dipped 0.38% and intermediate corporates fell 1.50%. Short-term municipal bonds advanced 0.10%, while intermediate munis declined 1.29%. Revenue bonds performed in-line with general obligation bonds, declining 1.19% and 1.20%, respectively.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Municipal Bond Index	2.66	2.25	2.73	4.40
Bloomberg Barclays US Aggregate Bond Index	1.20	1.20	1.82	3.63
Bloomberg Barclays US Government Bond Index Long	3.53	0.45	3.28	5.75
Bloomberg Barclays US High Yield Corporate Bond Index	3.78	5.17	4.99	8.27
Bloomberg Barclays US TIPS Index	0.92	1.30	0.05	2.93
FTSE World Government Bond Index 1-5 Years	5.77	2.36	-0.37	0.57
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.01	1.06	1.21	1.93
ICE BofAML 1-Year US Treasury Note Index	0.66	0.54	0.42	0.71
ICE BofAML 3-Month US Treasury Bill Index	1.11	0.53	0.34	0.34

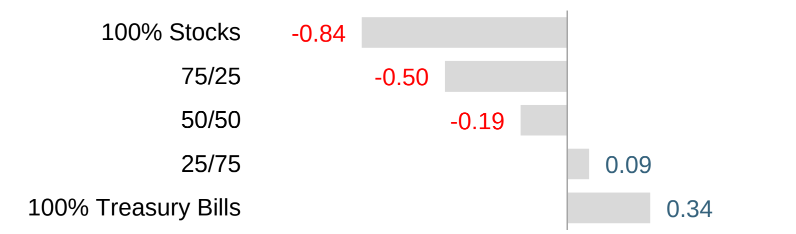
One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the 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 (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). FTSE fixed income indices © 2018 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2018 ICE Data Indices, LLC.

Impact of Diversification

First Quarter 2018 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 (%)

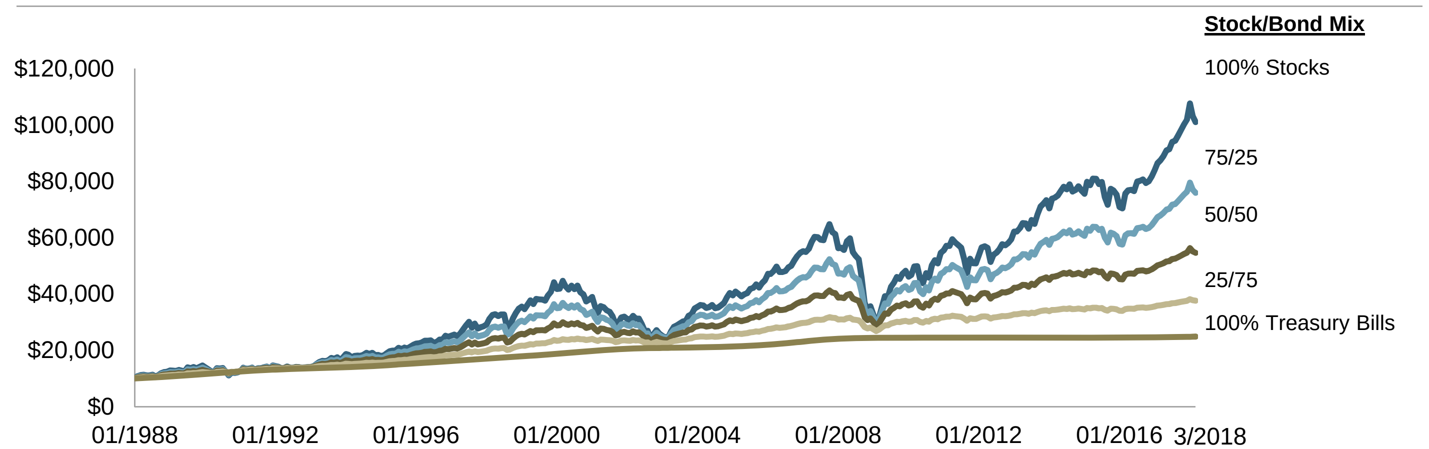


Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Stocks	15.44	8.71	9.79	6.15	16.72
75/25	11.74	6.70	7.44	4.94	12.54
50/50	8.11	4.65	5.07	3.55	8.35
25/75	4.54	2.57	2.68	1.99	4.16
100% Treasury Bills	1.03	0.45	0.28	0.28	0.14

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 2018, 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).