

Q3

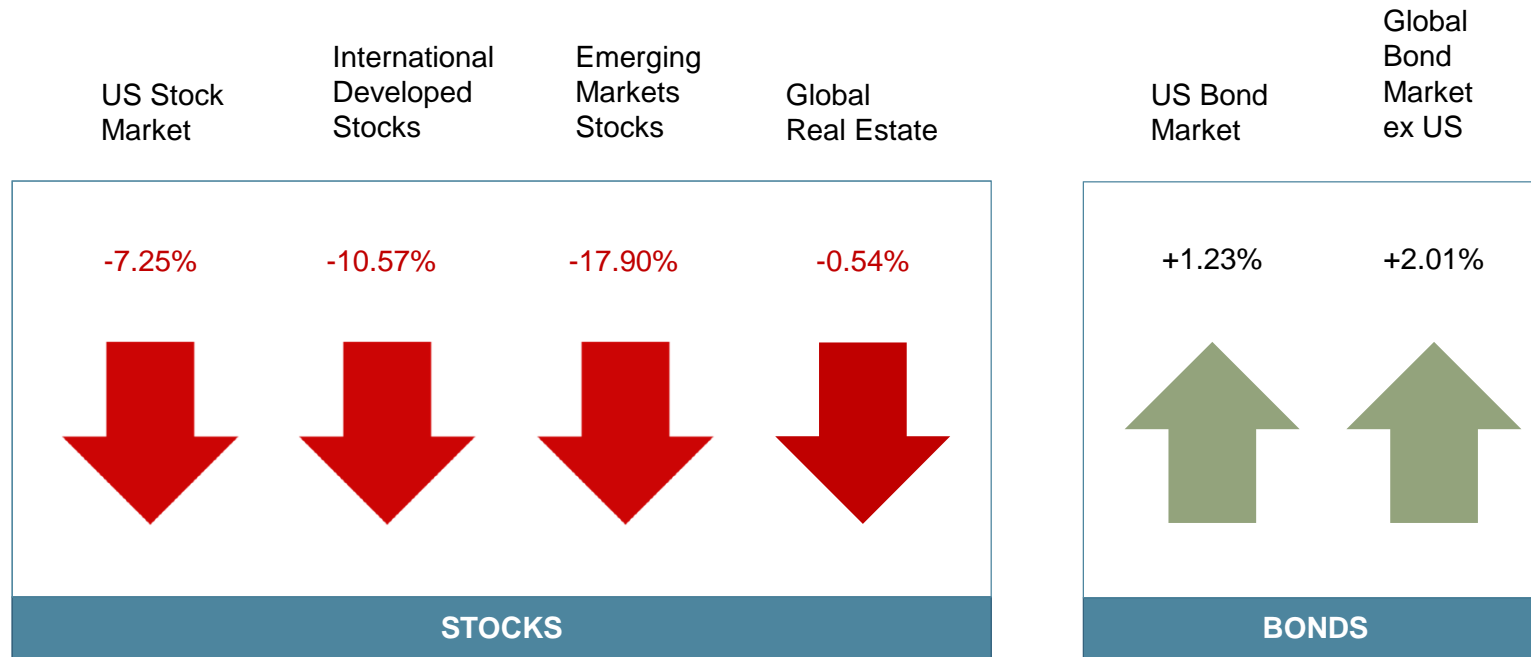
Quarterly Market Review
Third Quarter 2015

Recent Volatility

- 1. The basics of investing have not changed. Have a plan and stick to it.**
- 2. We do not believe the extreme volatility in global stock and commodity markets is a sign of a global recession.**
- 3. We believe that recent turmoil in the financial markets has reduced the likelihood of an interest-rate hike in 2015, but the Fed hasn't taken the option off the table.**
- 4. China's currency adjustment should not have a major impact on U.S. economic growth.**
- 5. The drop in global commodity prices should be positive for consumers, but is a negative for commodity producers in the short term.**
- 6. We do not believe that the current market volatility is a harbinger of a bear market in U.S. stocks.**
- 7. Bonds with high credit quality help to hold down volatility in portfolios.**
- 8. Investors should stick to their long-term plan and not react to short-term movements.**

Market Summary

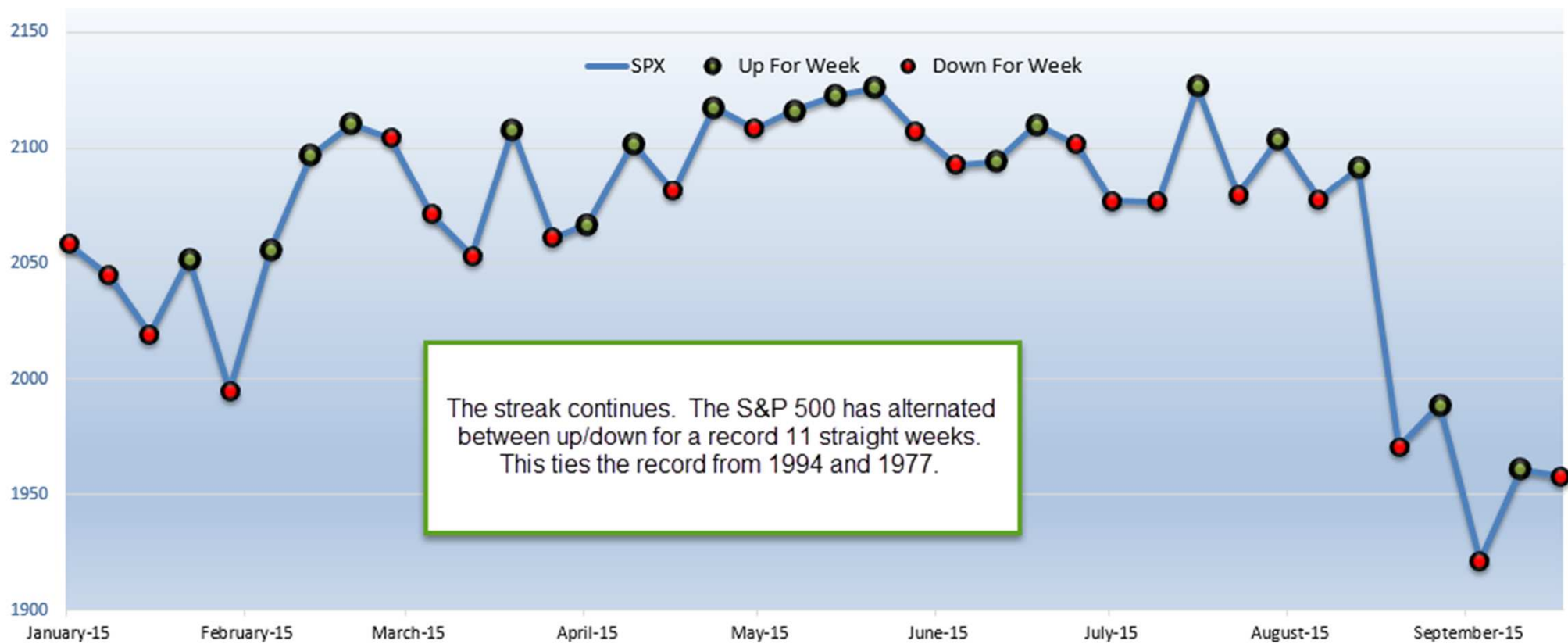
Third Quarter 2015 Index Returns



As you will notice in your quarterly reports, the last 2 years or so have been very narrow returns with much of the gains from high growth companies with momentum and no profits. We tend not to own a lot of these companies.

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.

S&P 500 Weekly Performance



The streak continues. The S&P 500 has alternated between up/down for a record 11 straight weeks. This ties the record from 1994 and 1977.

Key ETF Performance (%)

9/30/2015

US Related

ETF	Description	Post Fed	MTD	YTD
SPY	S&P 500	↓ -4.88	↓ -3.89	↓ -7.57
DIA	Dow 30	↓ -3.17	↓ -2.22	↓ -9.20
QQQ	Nasdaq 100	↓ -5.87	↓ -3.33	↓ -2.33
IJH	S&P Midcap 400	↓ -5.75	↓ -4.33	↓ -6.44
IJR	S&P Smallcap 600	↓ -5.85	↓ -4.60	↓ -7.30
IWB	Russell 1000	↓ -5.14	↓ -4.12	↓ -7.46
IWM	Russell 2000	↓ -7.73	↓ -6.02	↓ -9.49
IWV	Russell 3000	↓ -5.47	↓ -4.29	↓ -7.76
IVW	S&P 500 Growth	↓ -5.30	↓ -3.69	↓ -4.37
IJK	Midcap 400 Growth	↓ -6.05	↓ -3.86	↓ -2.52
IJT	Smallcap 600 Growth	↓ -6.62	↓ -4.44	↓ -2.75
IVE	S&P 500 Value	↓ -4.50	↓ -4.25	↓ -11.14
IJJ	Midcap 400 Value	↓ -5.48	↓ -5.04	↓ -10.55
IJS	Smallcap 600 Value	↓ -5.04	↓ -4.84	↓ -11.82
DVY	DJ Dividend	↓ -2.79	↓ -1.85	↓ -9.17
RSP	S&P 500 Equalweight	↓ -5.67	↓ -4.59	↓ -9.22
FXB	British Pound	↓ -2.96	↓ -1.41	↓ -3.14
FXE	Euro	↓ -2.36	↓ -0.46	↓ -8.06
FXV	Yen	↑ 0.14	↑ 1.24	↓ -0.22
XLY	Cons Disc	↓ -4.64	↓ -2.11	↑ 1.73
XLP	Cons Stap	↓ -2.27	↓ -0.74	↓ -3.16
XLE	Energy	↓ -7.17	↓ -8.78	↓ -23.45
XLF	Financials	↓ -3.27	↓ -4.14	↓ -9.18
XLV	Health Care	↓ -9.13	↓ -6.84	↓ -3.96
XLI	Industrials	↓ -5.49	↓ -3.65	↓ -12.65
XLB	Materials	↓ -7.88	↓ -8.60	↓ -18.42
XLK	Technology	↓ -3.90	↓ -2.61	↓ -5.25
IYZ	Telecom	↓ -7.10	↓ -5.86	↓ -8.33
XLU	Utilities	↑ 0.09	↑ 1.06	↓ -9.13

Global

ETF	Description	Post Fed	MTD	YTD
EWA	Australia	↓ -5.08	↓ -4.77	↓ -19.89
EWZ	Brazil	↓ -9.98	↓ -12.66	↓ -40.58
EWC	Canada	↓ -6.11	↓ -6.57	↓ -21.43
FXI	China	↓ -5.23	↓ -2.06	↓ -15.50
EWQ	France	↓ -6.36	↓ -4.68	↓ -3.25
EWG	Germany	↓ -8.08	↓ -6.68	↓ -10.32
EWJ	Hong Kong	↓ -3.55	↓ -1.35	↓ -7.40
INP	India	↓ -0.65	↑ 0.81	↓ -5.89
EWI	Italy	↓ -6.41	↓ -4.32	↑ 4.12
EWJ	Japan	↓ -4.79	↓ -6.60	↑ 0.71
EWZ	Mexico	↓ -4.53	↓ -2.83	↓ -13.53
EWP	Spain	↓ -7.68	↓ -7.99	↓ -14.90
RSX	Russia	↓ -6.42	↓ -7.25	↑ 6.63
EWU	UK	↓ -5.30	↓ -4.63	↓ -9.76
EFA	EAFE	↓ -5.77	↓ -5.20	↓ -6.56
EEM	Emerging Mkts	↓ -5.50	↓ -3.74	↓ -17.09
IOO	Global 100	↓ -4.10	↓ -3.30	↓ -9.73
EEB	BRIC	↓ -5.54	↓ -5.71	↓ -17.64
DBC	Commodities	↓ -0.79	↓ -3.63	↓ -18.05
USO	Oil	↓ -3.80	↓ -7.80	↓ -28.04
UNG	Nat. Gas	↓ -7.40	↓ -8.42	↓ -21.25
GLD	Gold	↓ -1.49	↓ -1.87	↓ -5.98
SLV	Silver	↓ -3.75	↓ -0.79	↓ -7.84
SHY	1-3 Yr Treasuries	↑ 0.17	↑ 0.25	↑ 0.65
IEF	7-10 Yr Treasuries	↑ 1.01	↑ 1.32	↑ 1.67
TLT	20+ Yr Treasuries	↑ 2.75	↑ 1.76	↓ -1.88
AGG	Aggregate Bond	↑ 0.32	↑ 0.57	↓ -0.52
BND	Total Bond Market	↑ 0.33	↑ 0.45	↓ -0.65
TIP	T.I.P.S.	↓ -0.27	↓ -0.91	↓ -1.29

US Market Returns

As of September 30, 2015

	September	3rd Quarter 2015	Year to Date	1 Year	3 Years (annualized)
Russell 3000	-2.91%	-7.25%	-5.45%	-0.50%	12.53%
Russell 3000 Value	-3.05%	-8.59%	-9.05%	-4.22%	11.40%
Russell 3000 Growth	-2.78%	-5.93%	-1.86%	-3.21%	13.54%
Marketwide Value minus Marketwide Growth	-0.27%	-2.66%	-7.19%	-1.01%	-2.14%
Russell 1000	-2.74%	-6.83%	-5.24%	-0.61%	12.67%
Russell 1000 Value	-3.02%	-8.39%	-8.96%	-4.42%	11.59%
Russell 1000 Growth	-2.47%	-5.29%	-1.54%	3.17%	13.61%
Large Cap Value minus Large Cap Growth	-0.55%	-3.10%	-7.42%	-7.59%	-2.02%
Russell Mid Cap	-3.60%	-8.01%	-5.84%	-0.25%	13.91%
Russell Mid Cap Value	-3.34%	-8.04%	-7.66%	-2.07%	13.69%
Russell Mid Cap Growth	-3.86%	-7.99%	-4.15%	1.45%	13.98%
Mid Cap Value minus Mid Cap Growth	0.52%	-0.05%	-3.51%	-3.52%	-0.29%
Russell 2000	-4.91%	-11.92%	-7.73%	1.25%	11.02%
Russell 2000 Value	-3.46%	-10.73%	-10.06%	-1.60%	9.18%
Russell 2000 Growth	-6.32%	-13.06%	-5.47%	4.04%	12.85%
Small Cap Value minus Small Cap Growth	2.86%	2.33%	-4.59%	-5.64%	-3.67%
Russell Microcap	-5.84%	-13.78%	-8.58%	1.65%	11.34%
Russell Microcap Value	-3.77%	-11.15%	-9.24%	-0.28%	10.50%
Russell Microcap Growth	-8.65%	-17.25%	-8.17%	3.68%	12.37%
Microcap Value minus Microcap Growth	4.88%	6.10%	-1.07%	-3.96%	-1.87%
Small minus Large	-2.17%	-5.09%	-2.49%	1.86%	-1.65%

Developed Non-US Market Returns

As of September 30, 2015

	September	3rd Quarter 2015	Year to Date	1 Year	3 Years (annualized)
MSCI World ex USA IMI	-4.85%	-10.23%	-5.88%	-9.31%	4.97%
MSCI World ex USA Value IMI	-5.69%	-11.63%	-8.75%	-13.34%	4.10%
MSCI World ex USA Growth IMI	-4.05%	-8.86%	-3.02%	-5.23%	5.79%
Marketwide Value minus Marketwide Growth	-1.64%	-2.77%	-5.73%	-8.11%	-1.69%
MSCI World ex USA Large Cap	-5.29%	-11.01%	-7.47%	-11.39%	4.14%
MSCI World ex USA Large Cap Value	-6.37%	-12.47%	-10.42%	-15.64%	2.76%
MSCI World ex USA Large Cap Growth	-4.13%	-9.41%	-4.26%	-6.65%	5.59%
Large Cap Value minus Large Cap Growth	-2.24%	-3.06%	-6.16%	-8.99%	-2.83%
MSCI World ex USA Small Cap	-3.60%	-8.03%	-0.34%	-3.71%	7.48%
MSCI World ex USA Small Cap Value	-3.48%	-8.82%	-2.63%	-6.60%	7.87%
MSCI World ex USA Small Cap Growth	-3.71%	-7.26%	1.96%	-0.78%	7.04%
Small Cap Value minus Small Cap Growth	0.23%	-1.56%	-4.59%	-5.82%	0.83%
Small minus Large	1.69%	2.98%	7.13%	7.68%	3.34%

Emerging Market Returns

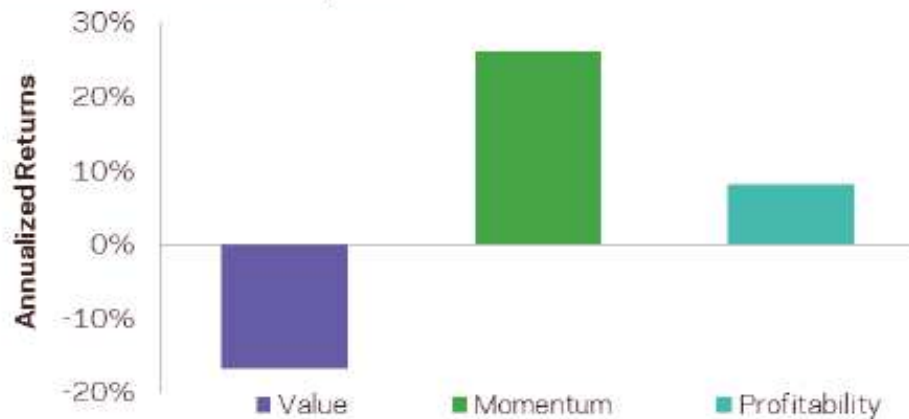
As of September 30, 2015

	September	3rd Quarter 2015	Year to Date	1 Year	3 Years (annualized)
MSCI Emerging Markets IMI	-2.60%	-17.73%	-14.74%	-18.74%	-4.75%
MSCI Emerging Markets Value IMI	-2.96%	-18.83%	-16.59%	-21.85%	-6.97%
MSCI Emerging Markets Growth IMI	-2.26%	-16.67%	-12.94%	-15.65%	-2.59%
Marketwide Value minus Marketwide Growth	-0.70%	-2.16%	-3.65%	-6.20%	-4.38%
MSCI Emerging Markets Large Cap	-3.13%	-18.27%	-15.90%	-19.50%	-5.38%
MSCI Emerging Markets Large Cap Value	-3.76%	-19.24%	-17.14%	-22.57%	-7.61%
MSCI Emerging Markets Large Cap Growth	-2.50%	-17.30%	-14.67%	-16.34%	-3.18%
Large Cap Value minus Large Cap Growth	-1.26%	-1.94%	-2.47%	-6.23%	-4.43%
MSCI Emerging Markets Small Cap	0.00%	-16.67%	-9.80%	-15.23%	-1.09%
MSCI Emerging Markets Small Cap Value	0.61%	-16.82%	-11.56%	-16.49%	-2.24%
MSCI Emerging Markets Small Cap Growth	-0.58%	-16.53%	-8.04%	-13.98%	0.06%
Small Cap Value minus Small Cap Growth	1.19%	-0.29%	-3.52%	-2.51%	-2.30%
Small minus Large	3.13%	1.60%	6.10%	4.27%	4.29%

We build portfolios that target 1) Value companies 2) High profit companies 3) Small companies & 4) Companies with good Momentum

- Some of these factors are negatively correlated but together they tend to enhance returns over 7 and 10 year rolling periods (not every year).

Value: Worst 3-Year Hypothetical Performance
March 1997–February 2000



Momentum: Worst 3-Year Hypothetical Performance
July 2008–June 2011



Profitability: Worst 3-Year Hypothetical Performance
June 2004–May 2007



Average Correlation of Hypothetical Excess Returns

	Momentum	Profitability
Value	-0.48	-0.39
Momentum		0.38

Source: AQR

Five-Year Moving Average of Premiums

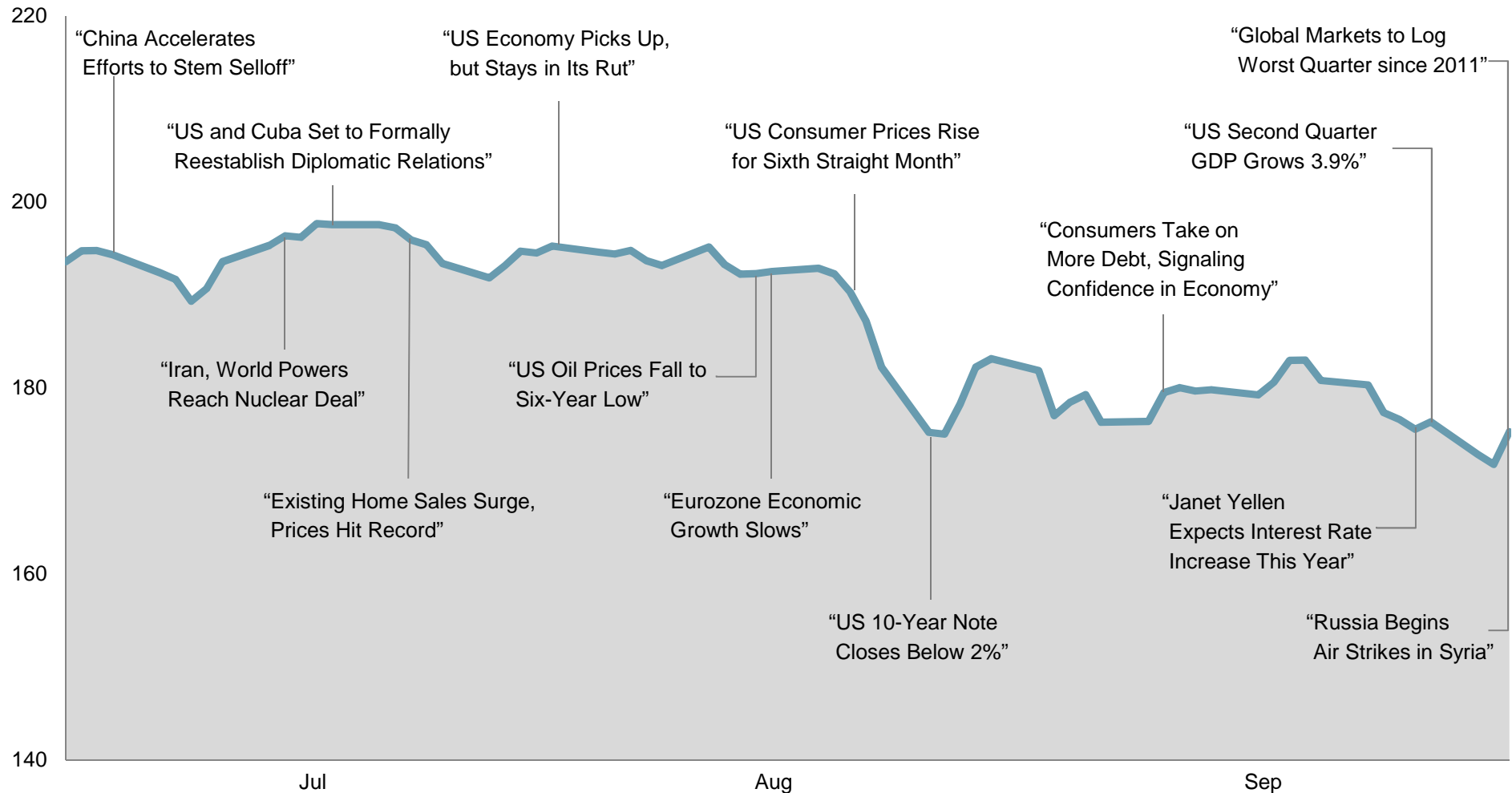
Market, size, value, and profitability: US markets



Five-year rolling equity premium is the five-year arithmetic average return of the Fama/French Total US Market Research Index minus the five-year arithmetic average return of the one-month US Treasury Bill. Five-year rolling size premium is the five-year arithmetic average return of the Fama/French SmB factor: (Fama/French US Small Value, US Small Neutral, and US Small Growth Research Indices) minus (Fama/French US Large Value, US Large Neutral, and US Large Growth Research Indices). Five-year rolling value premium is the five-year arithmetic average return of the Fama/French HML factor: (Fama/French US Small Value and US Large Value Research Indices) minus (Fama/French US Small Growth and US Large Growth Research Indices). Five-year rolling profitability premium is the five-year arithmetic average return of the Fama/French RmW factor: (Fama/French US Small Robust and US Large Robust Profitability Research Indices) minus (Fama/French US Small Weak and US Large Weak Profitability Research Indices). Profitability is measured as operating income before depreciation and amortization minus interest expense, scaled by book. Fama/French indices provided by Ken French. Index descriptions available upon request. **Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results. Eugene Fama and Ken French are members of the Board of Directors for and provide consulting services to Dimensional Fund Advisors LP.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 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.

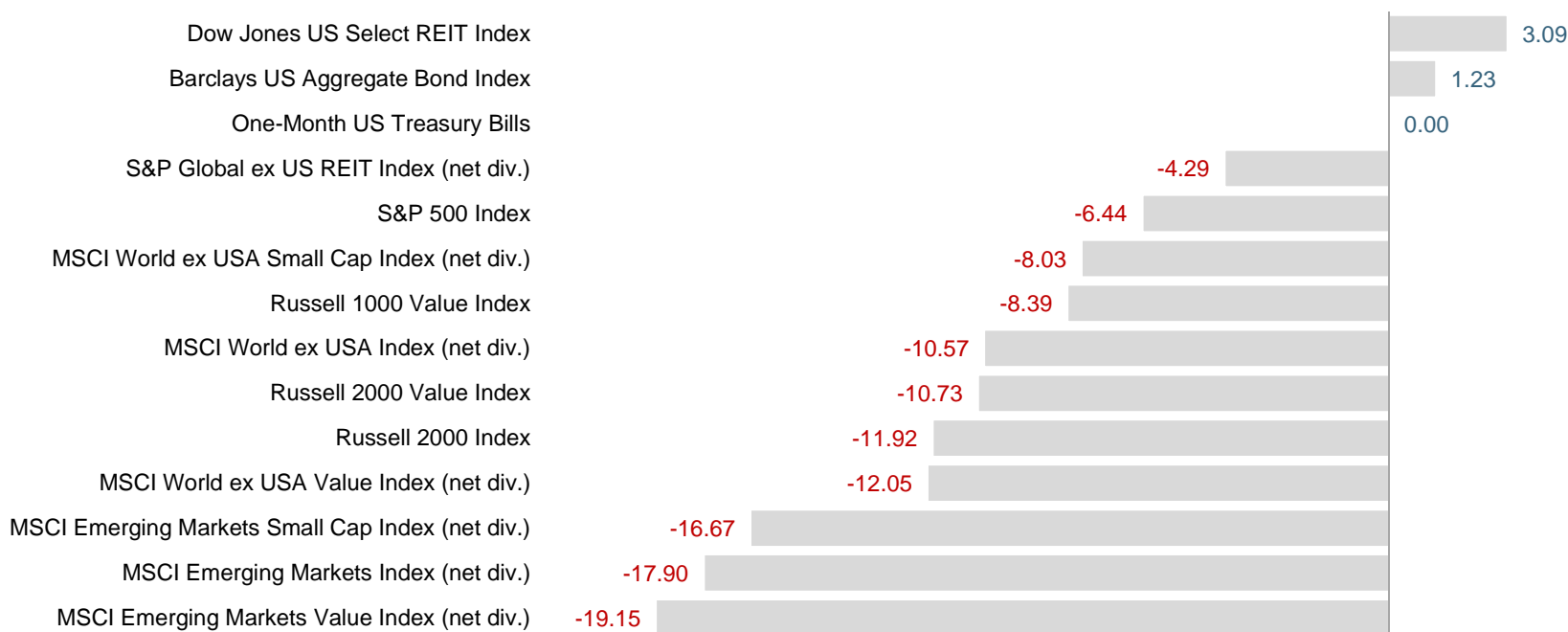
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

Third Quarter 2015 Index Returns

Looking at broad market indices, the US equity market outperformed both developed ex US and emerging markets during the third quarter. US REITs recorded the highest returns, outperforming equity markets.

The value effect was negative in the US, developed ex US, and emerging markets. Small caps outperformed large caps in the non-US and emerging markets but underperformed in the US. The US dollar appreciated against most currencies.



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US Stocks

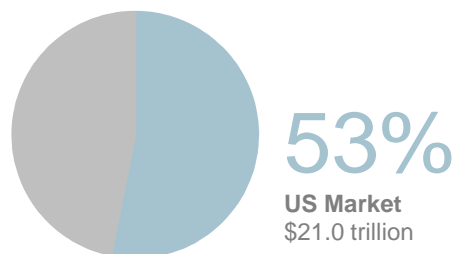
Third Quarter 2015 Index Returns

The US equity market recorded negative performance for the third quarter.

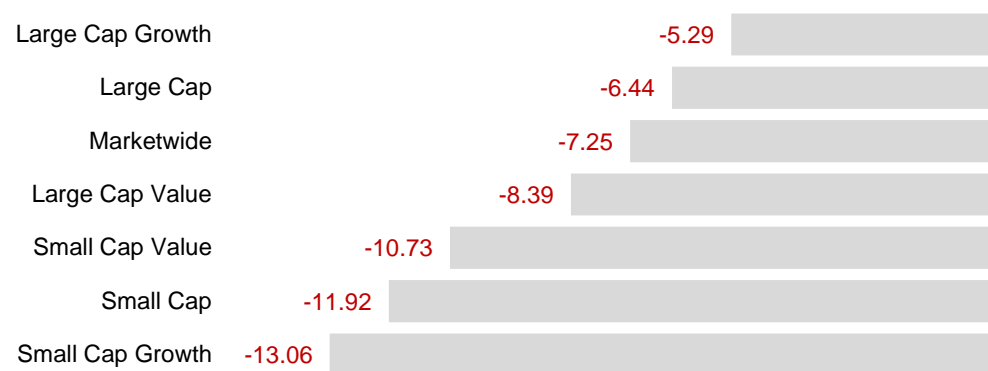
Small caps underperformed large caps.

Value stocks underperformed growth stocks among marketwide indices. However, in small caps, the effect was reversed with small cap value outperforming small cap growth.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Marketwide	-5.45	-0.05	12.53	13.28	6.92
Large Cap	-5.29	-0.61	12.40	13.34	6.80
Large Cap Value	-8.96	-4.42	11.59	12.29	5.71
Large Cap Growth	-1.54	3.17	13.61	14.47	8.09
Small Cap	-7.73	1.25	11.02	11.73	6.55
Small Cap Value	-10.06	-1.60	9.18	10.17	5.35
Small Cap Growth	-5.47	4.04	12.85	13.26	7.67

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International Developed Stocks

Third Quarter 2015 Index Returns

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

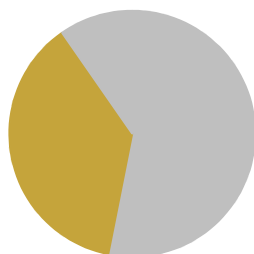
Small caps outperformed large caps.

Value underperformed growth indices across all size ranges.

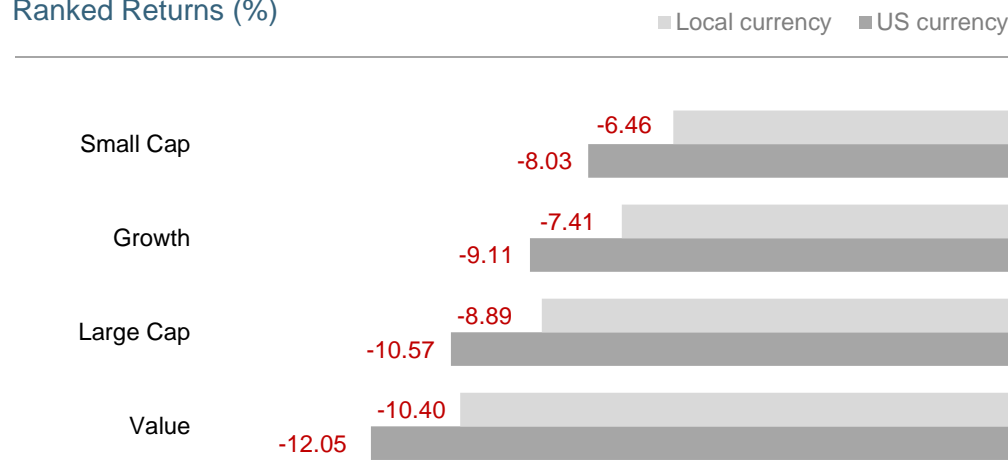
World Market Capitalization—International Developed

37%

International
Developed
Market
\$14.7 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Cap	-6.69	-10.14	4.60	3.42	2.92
Small Cap	-0.34	-3.71	7.48	5.74	4.23
Value	-9.65	-14.32	3.56	2.61	2.12
Growth	-3.75	-5.88	5.59	4.18	3.65

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Emerging Markets Stocks

Third Quarter 2015 Index Returns

Emerging markets indices underperformed developed markets indices (including the US) in US dollar terms during the third quarter.

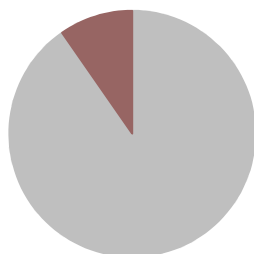
Small cap indices outperformed large cap indices.

Value underperformed growth indices across all size ranges.

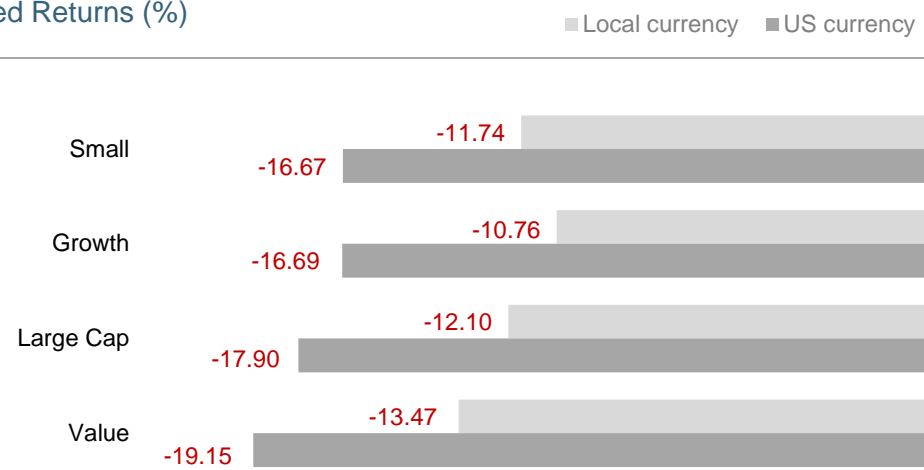
World Market Capitalization—Emerging Markets

10%

Emerging Markets
\$3.8 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Cap	-15.48	-19.28	-5.27	-3.58	4.27
Small Cap	-9.80	-15.23	-1.09	-2.43	6.72
Value	-17.38	-22.70	-7.66	-5.09	4.12
Growth	-13.63	-15.89	-2.95	-2.12	4.35

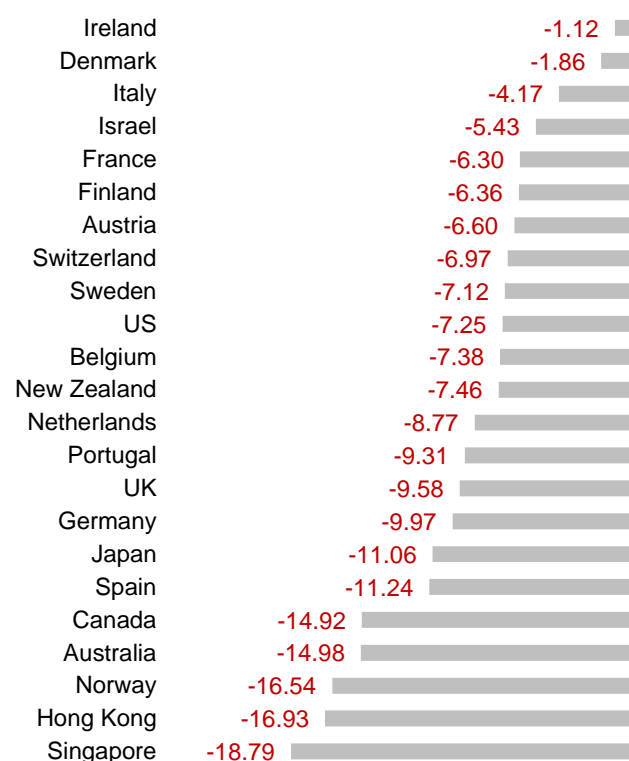
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Select Country Performance

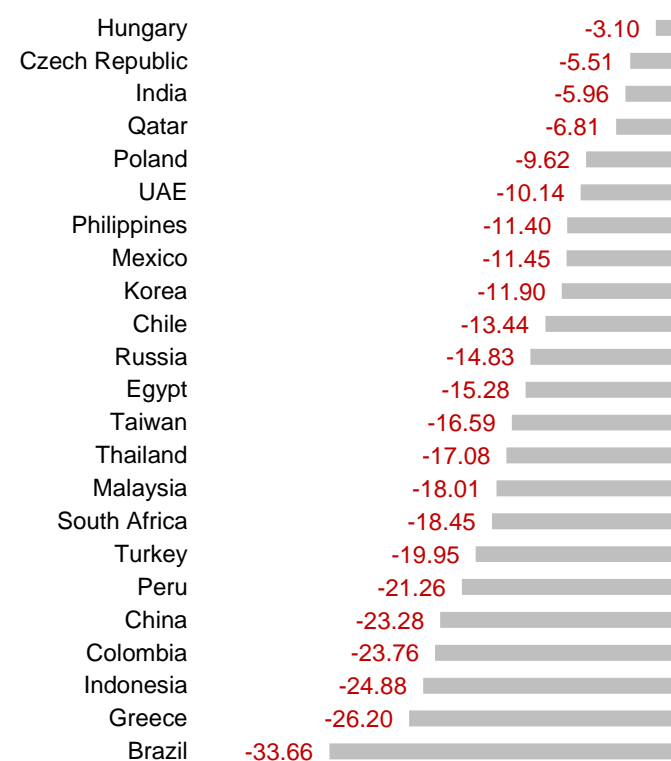
Third Quarter 2015 Index Returns

Ireland again recorded the highest country performance in developed markets and Singapore and Hong Kong the lowest for the third quarter. In emerging markets, Hungary and the Czech Republic posted the highest returns, while China's equity performance dominated news headlines as its market recorded one of the lowest country returns.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



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Real Estate Investment Trusts (REITs)

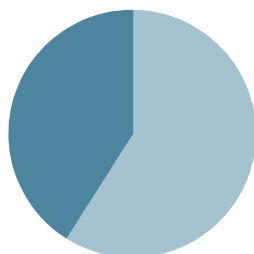
Third Quarter 2015 Index Returns

US REITs were one of the best-performing asset classes during the third quarter, outperforming equities. Although REITs outside the US produced negative absolute returns, global REITs outside the US outperformed broad market equity indices.

Total Value of REIT Stocks

41%

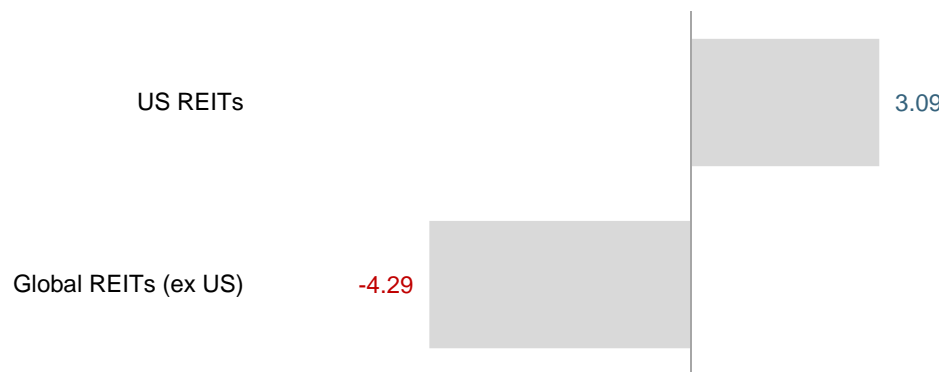
World ex US
\$565 billion
243 REITs
(22 other countries)



59%

US
\$565 billion
96 REITs

Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	-2.84	11.82	9.92	12.31	6.69
Global REITs (ex US)	-5.30	-2.47	4.53	6.64	3.11

* Annualized

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Commodities

Third Quarter 2015 Index Returns

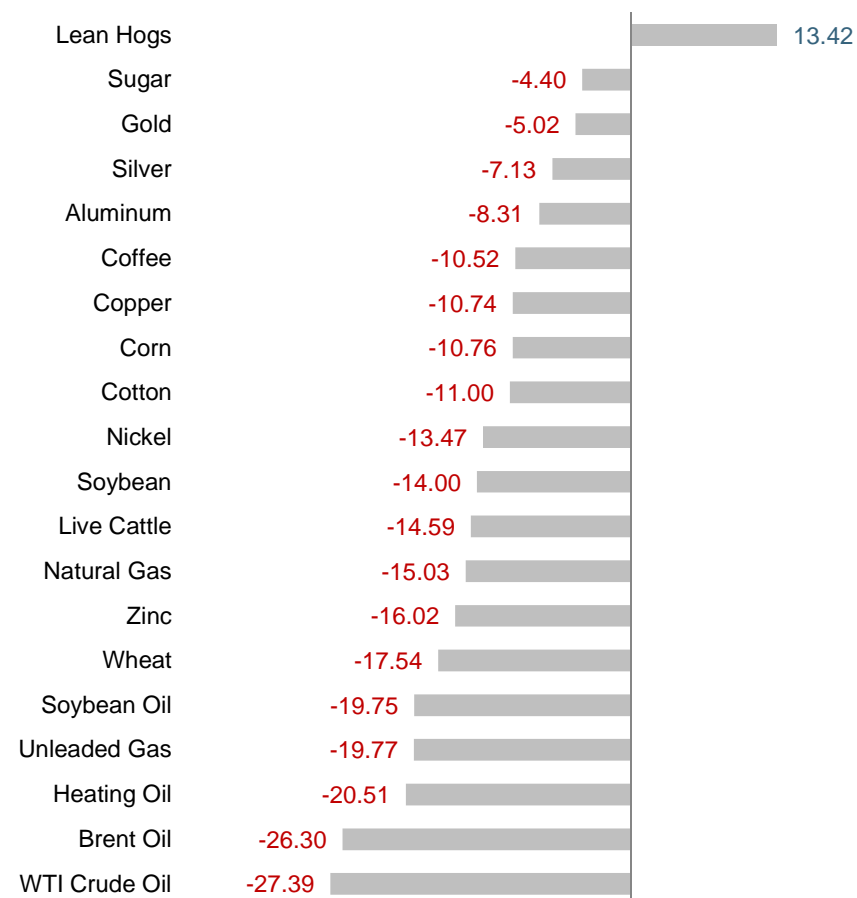
Commodities were broadly negative during the third quarter. The Bloomberg Commodity Index Total Return fell 14.47%. The energy complex led the decline with WTI crude oil dropping 27.39% and natural gas shedding 15.03%.

Grains also posted negative returns; Chicago wheat lost 17.54%, while soybeans dropped 14%.

Livestock was mixed with lean hogs up 13.42% and live cattle falling 14.59%.

Period Returns (%)		* Annualized				
Asset Class	YTD	Q3	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-15.80	-14.47	-25.99	-16.02	-8.89	-5.67

Ranked Returns for Individual Commodities (%)



Fixed Income

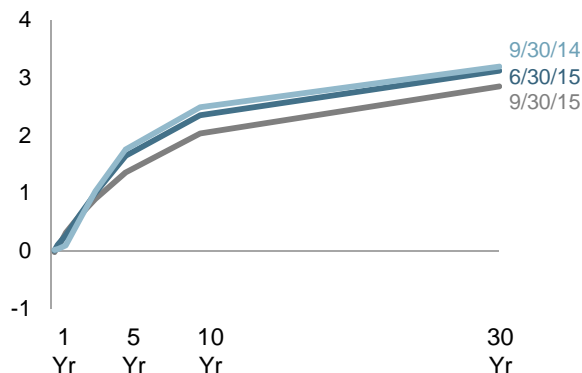
Third Quarter 2015 Index Returns

Interest rates across the US fixed income markets generally decreased during the third quarter. The yield on the 5-year Treasury note dropped 25 basis points to end the period at 1.38%. The yield on the 10-year Treasury note decreased 27 basis points to end the quarter at 2.06%. The 30-year Treasury bond fell 22 basis points to finish with a yield of 2.88%. Yields on the short end of the curve were relatively unchanged.

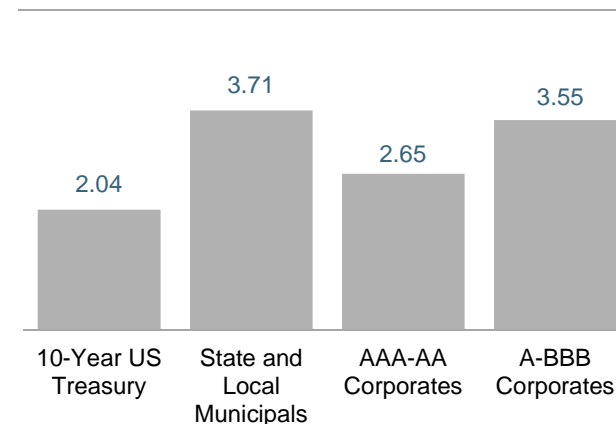
Short-term corporate bonds returned 0.30%, while intermediate-term corporate bonds returned 0.71%.

Short-term municipal bonds returned 0.74%, while intermediate-term municipal bonds returned 1.68%. Municipal general obligation and revenue bonds experienced similar returns.

US Treasury Yield Curve



Bond Yields across Issuers



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.02	0.02	0.06	0.08	1.33
BofA Merrill Lynch 1-Year US Treasury Note Index	0.32	0.25	0.27	0.33	1.88
Citigroup WGBI 1–5 Years (hedged to USD)	1.09	1.57	1.34	1.50	2.97
Barclays Long US Government Bond Index	0.22	8.62	2.78	6.18	6.92
Barclays US Aggregate Bond Index	1.13	2.94	1.71	3.10	4.64
Barclays US Corporate High Yield Index	-2.45	-3.43	3.51	6.15	7.25
Barclays Municipal Bond Index	1.77	3.16	2.88	4.14	4.64
Barclays US TIPS Index	-0.80	-0.83	-1.83	2.55	4.02

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 (SBBi) 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.

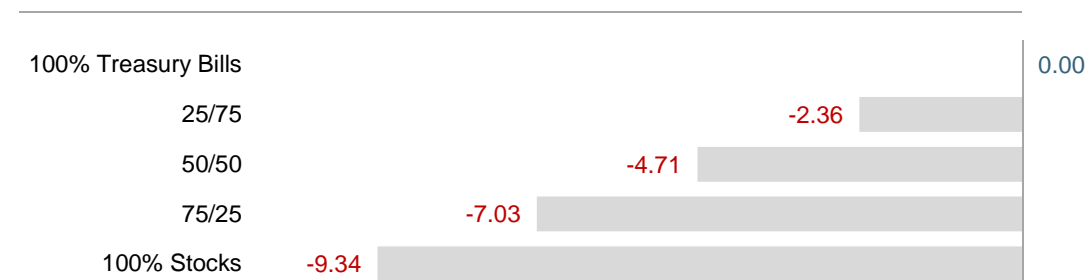
Global Diversification

Third Quarter 2015 Index Returns

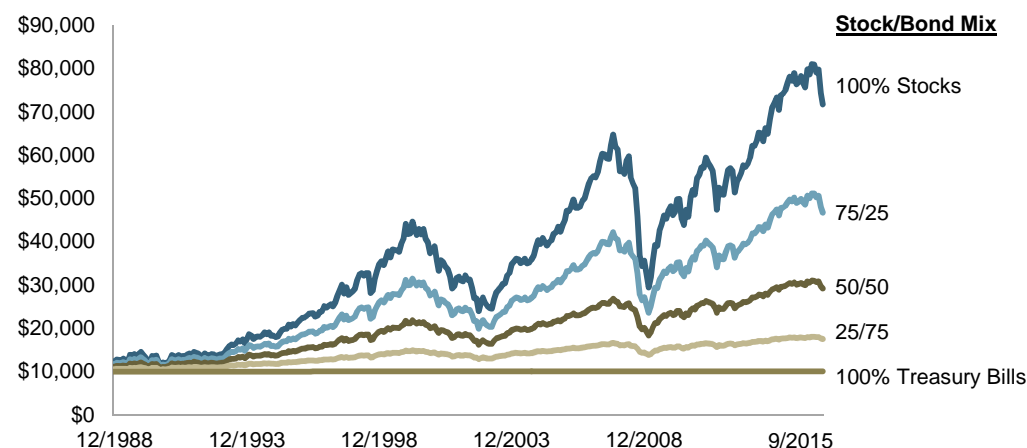
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)		* Annualized				
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	
100% Stocks	-6.65	-6.16	7.52	7.39	5.14	
75/25	-4.93	-4.55	5.69	5.67	4.12	
50/50	-3.24	-2.98	3.82	3.85	2.92	
25/75	-1.60	-1.47	1.93	1.96	1.54	
100% Treasury Bills	0.00	0.00	0.00	0.00	0.01	

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2015, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

Should Investors Sell After a "Correction"?

Third Quarter 2015

Stock prices in markets around the world fluctuated dramatically for the week ended August 27. On Monday, August 24, the Dow Jones Industrial Average fell 1,089 points—a larger loss than the “Flash Crash” in May 2010—before rallying to close down 588. Prices fell further on Tuesday before recovering sharply on Wednesday, Thursday, and Friday. Although the S&P 500 and Dow Jones Industrial Average rose 0.9% and 1.1%, respectively, for the week, many investors found the dramatic day-to-day fluctuations unsettling.

Based on closing prices, the S&P 500 Index declined 12.35% from its record high of 2130.82 on May 21 through August 24. Financial professionals generally describe any decline of 10% or more from a previous peak as a “correction,” although it is unclear what investors should do with this information. Should they seek to protect themselves from further declines by selling, or should they consider it an opportunity to purchase stocks at more favorable prices?

Based on S&P 500 data, stock prices have declined 10% or more on 28 occasions between January 1926 and June 2015. Obviously, every

decline of 20% or 30% or 40% began with a decline of 10%. As a result, some investors believe that avoiding large losses can be accomplished easily by eliminating equity exposure entirely once the 10% threshold has been breached.

Market timing is a seductive strategy. If we could sell stocks prior to a substantial decline and hold cash instead, our long-run returns could be exponentially higher. But successful market timing is a two-step process: determining when to sell stocks and when to buy them back. Avoiding short-term losses runs the risk of avoiding even larger long-term gains. Regardless of whether stock prices have advanced 10% or declined 10% from a previous level, they always reflect (1) the collective assessment of the future by millions of market participants and (2) the expectation that equities in both the US and markets around the world have positive expected returns.

Our research shows that US stocks have typically delivered above-average returns over one, three, and five years following consecutive negative return days resulting in a 10% or more decline. Results from non-US markets are similar.

Contrary to the beliefs of some investors, dramatic changes in security prices are not a sign that the financial system is broken but rather what we would expect to see if markets are working properly.

The world is an uncertain place. The role of securities markets is to reflect new developments—both positive and negative—in security prices as quickly as possible. Investors who accept dramatic price fluctuations as a characteristic of liquid markets may have a distinct advantage over those who are easily frightened or confused by day-to-day events and may be more likely to achieve long-run investing success.

References

“Wild Ride Leaves Investors Grasping,” Wall Street Journal, August 25, 2015.

“Investors Scramble as Stocks Swing,” Wall Street Journal, August 25, 2015.

For more information or to discuss your portfolio needs, please contact Todd Moerman @ 303-549-4720 or 970-818-5266 or toll free 855-863-3332.

Thank you for your business.

If you have any friends or family who need a 2nd opinion, please contact us.

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