



Q3



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— ADVISORS —

Quarterly Market Review
Third Quarter 2016



Quarterly Market Review

Third Quarter 2016

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 performance of globally diversified portfolios and features a quarterly topic.

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Diversification

Quarterly Topic: Presidential Elections and the Stock Market



Market Summary

Index Returns

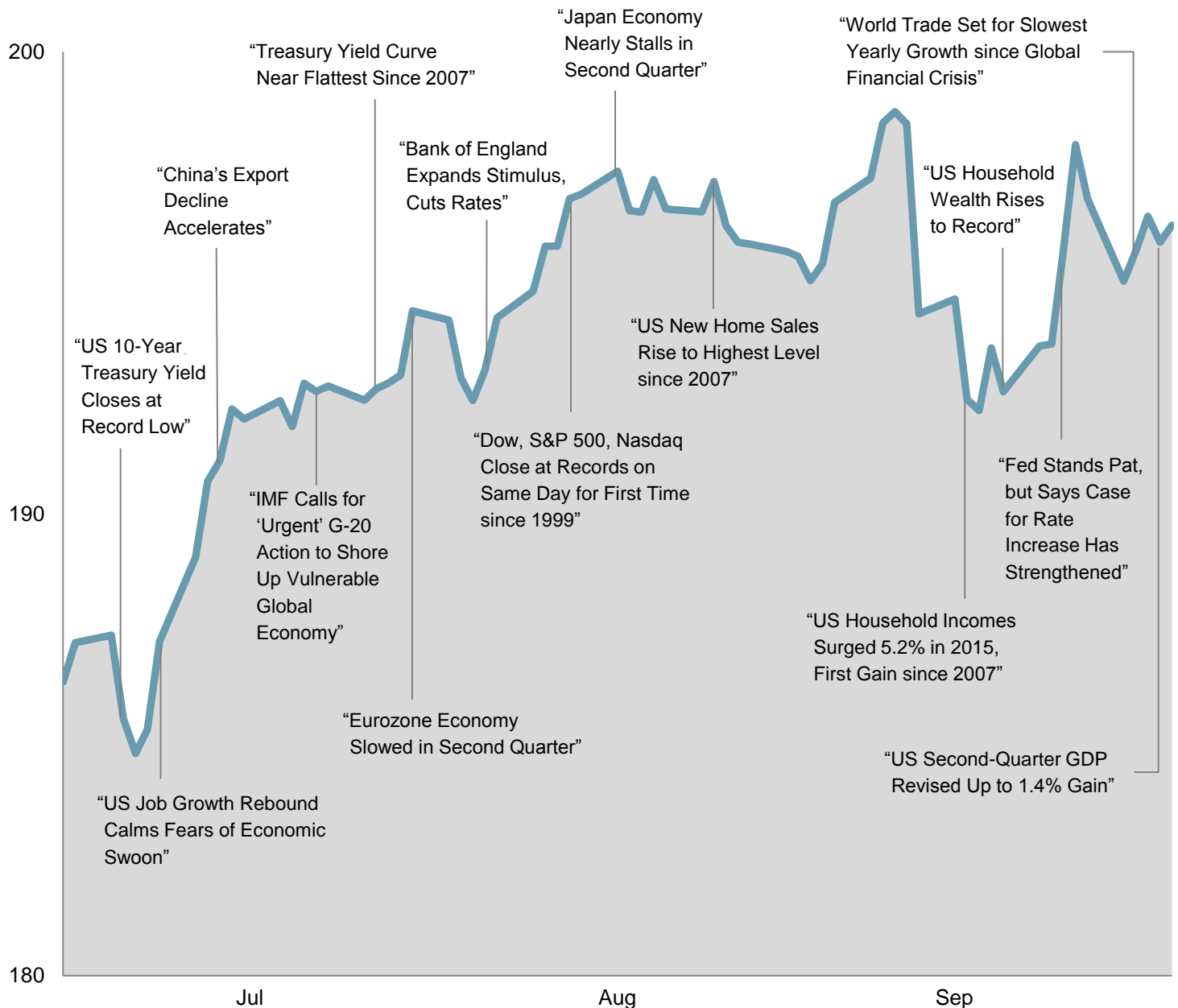
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
3Q 2016	STOCKS				BONDS	
	4.40%	6.29%	9.03%	-0.23%	0.46%	0.10%
Since Jan. 2001						
Avg. Quarterly Return	1.8%	1.4%	3.0%	2.8%	1.3%	1.2%
Best Quarter	16.8% Q2 2009	25.9% Q2 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.



World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 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.

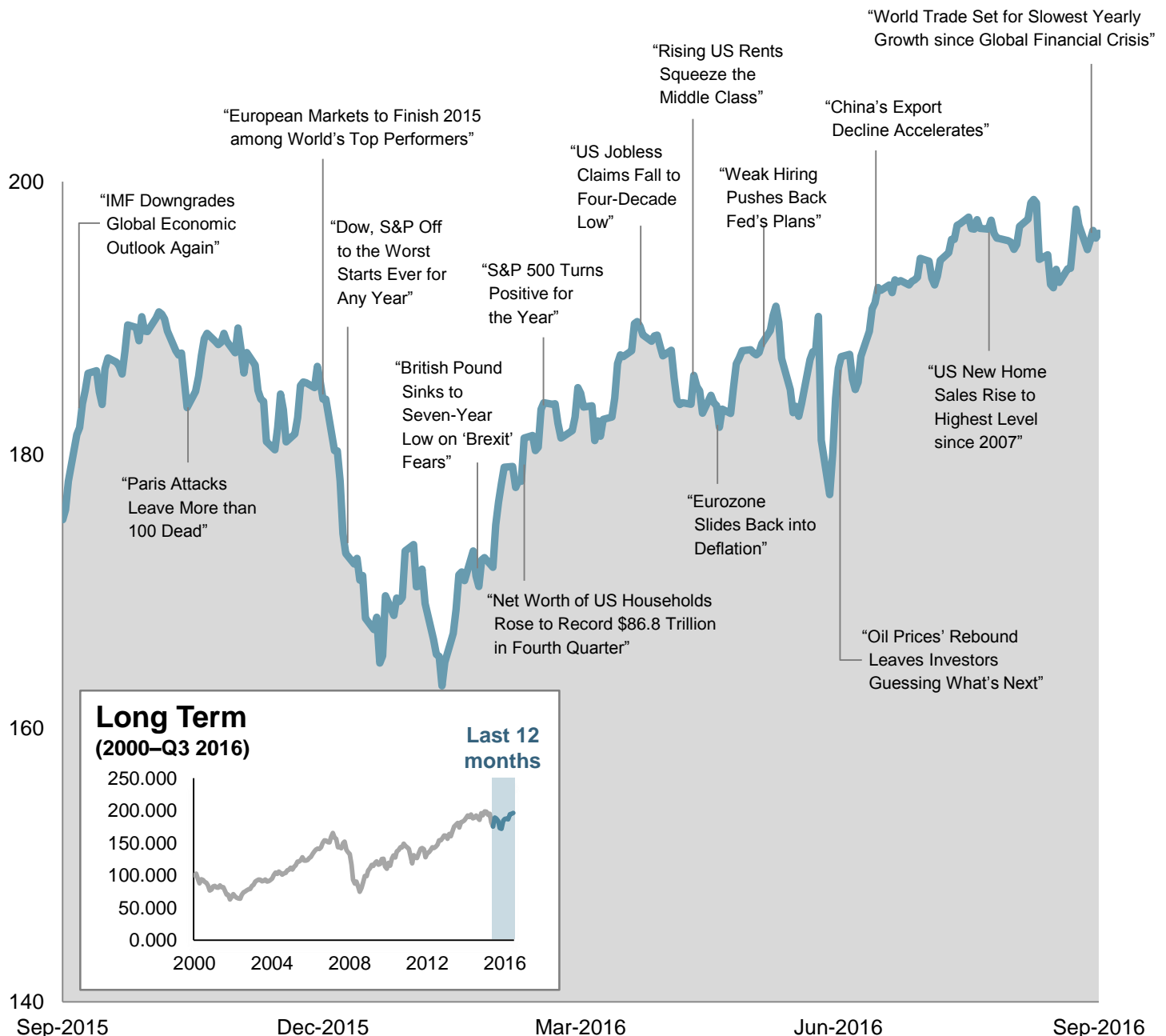
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.



World Stock Market Performance

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

Short Term (Q4 2015–Q3 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.

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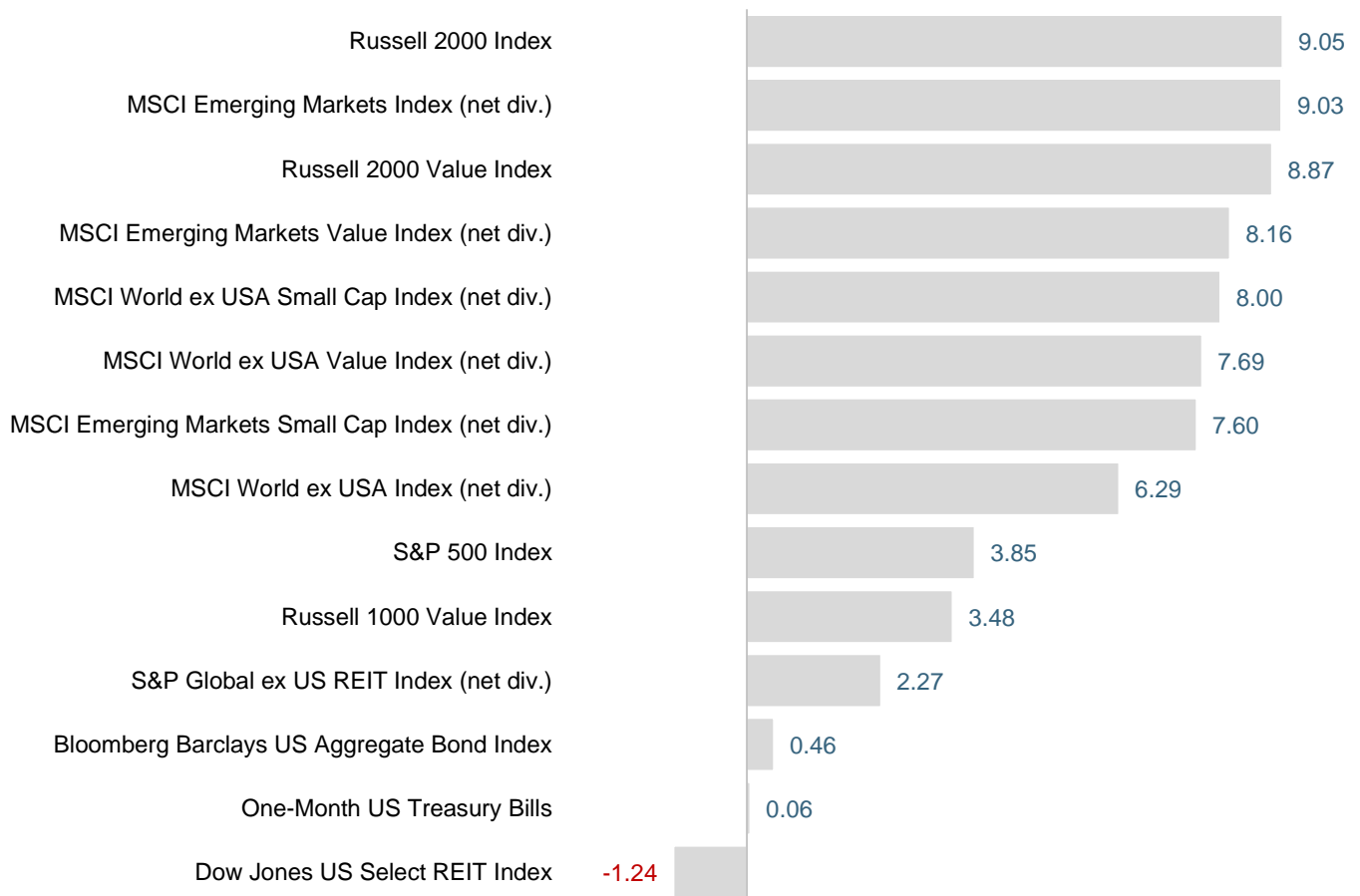


World Asset Classes

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.



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US Stocks

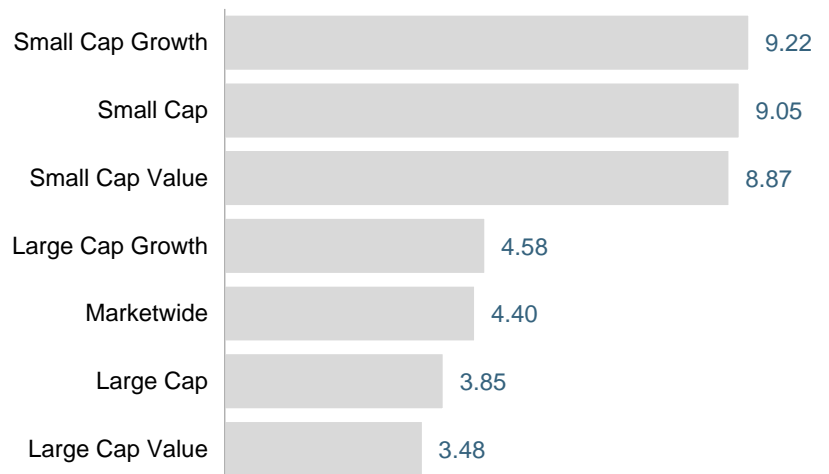
Third Quarter 2016 Index Returns

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

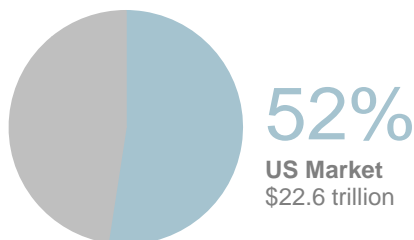
Value indices underperformed growth indices across all size ranges.

Small caps outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

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

* 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. 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.

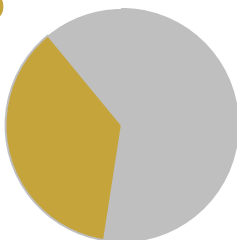
Small caps outperformed large caps in non-US developed markets.

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

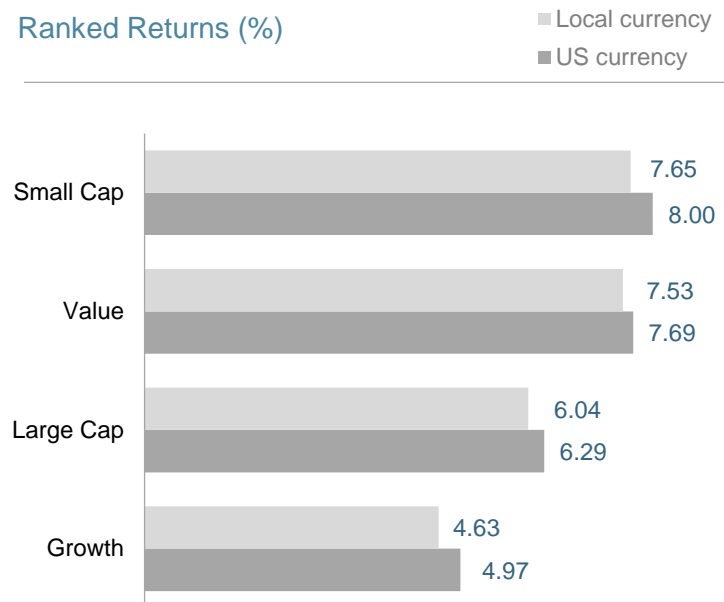
World Market Capitalization— International Developed

37%

International
Developed
Markets
\$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

* 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. 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.

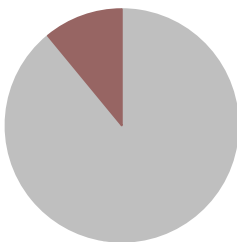
Using broad market indices as proxies, the value effect was negative in emerging markets. Large cap value indices underperformed large cap growth indices. The opposite was true among small caps; small cap value indices outperformed small cap growth indices.

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	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

* Annualized

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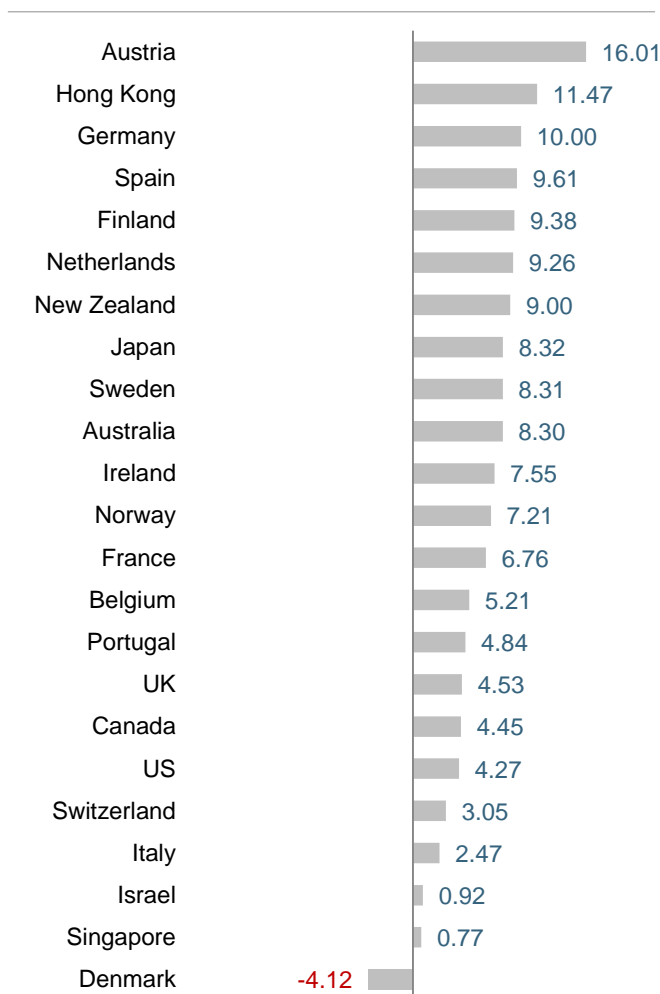


Select Country Performance

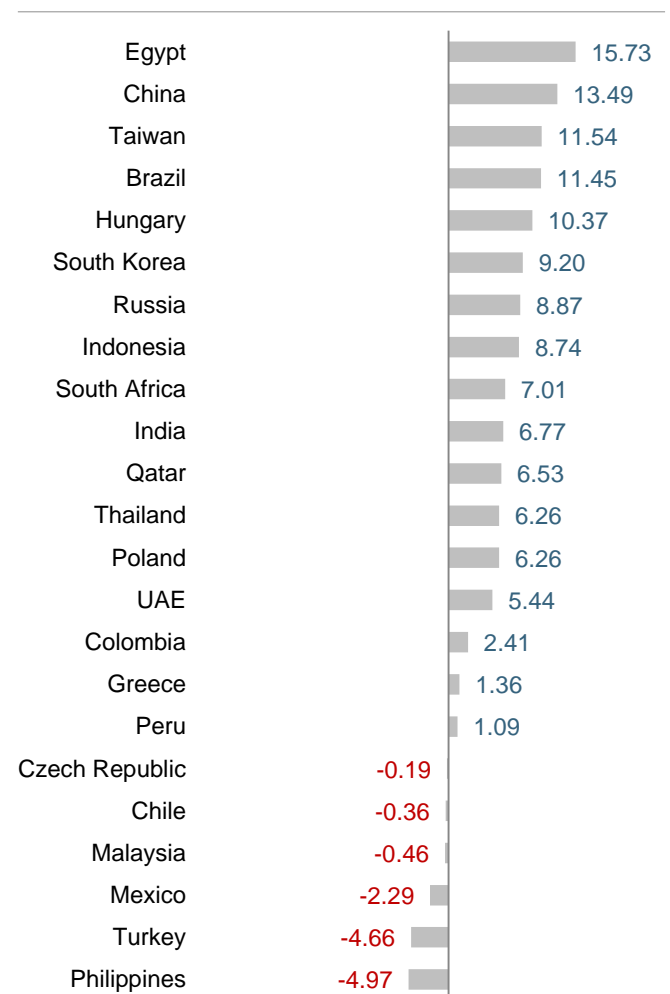
Third Quarter 2016 Index Returns

Austria and Hong Kong recorded the highest country performance in developed markets, while Singapore and Denmark posted the lowest performance for the quarter. In emerging markets, Egypt and China were the top performers, while Turkey and the Philippines recorded the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



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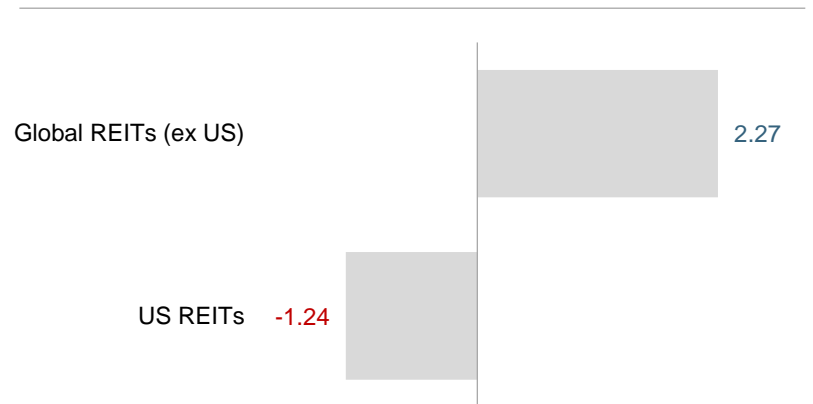


Real Estate Investment Trusts (REITs)

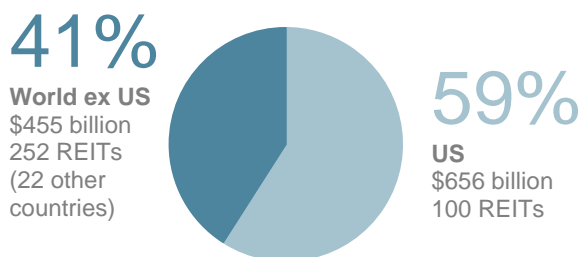
Third Quarter 2016 Index Returns

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

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 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.



Commodities

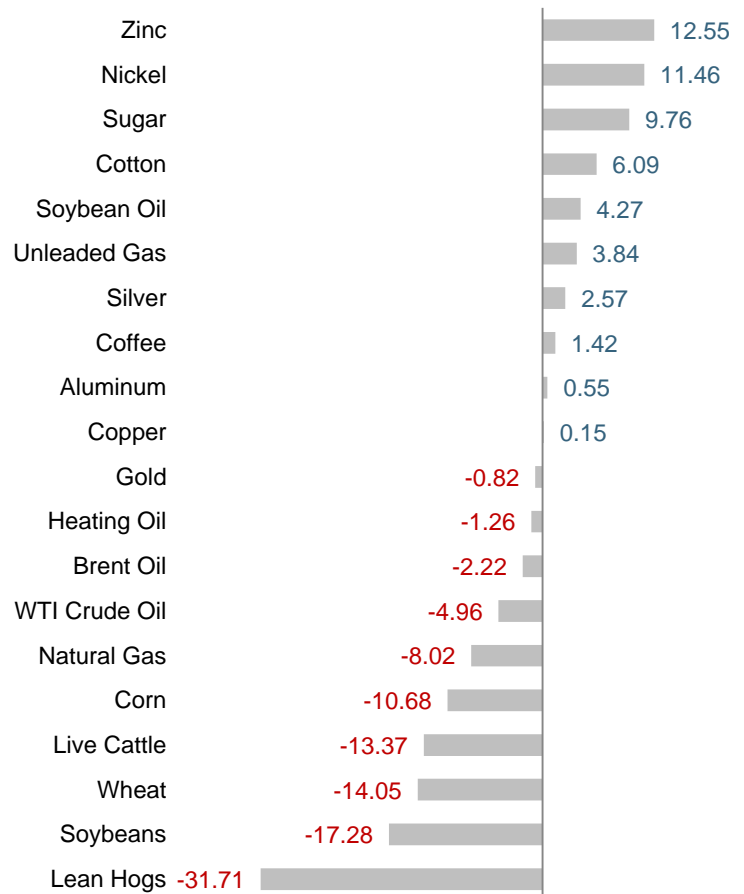
Third Quarter 2016 Index Returns

Commodities were mixed for the third quarter but remained positive for the year-to-date period ending September 30, 2016. The Bloomberg Commodity Index Total Return posted a -3.86% return during the quarter.

The softs complex led the index: Sugar gained 9.76%, cotton climbed 6.09%, and coffee was up 1.42%. Industrial metals also recorded gains, with zinc returning 12.55% and nickel 11.46%.

Energy fell, with natural gas declining 8.02%, brent crude oil down 2.22%, and WTI crude oil falling 4.96%. Lean hogs underperformed the most, returning -31.71%. Gold declined 0.82%.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	8.87	-2.58	-12.34	-9.37	-5.33

* Annualized



Fixed Income

Third Quarter 2016 Index Returns

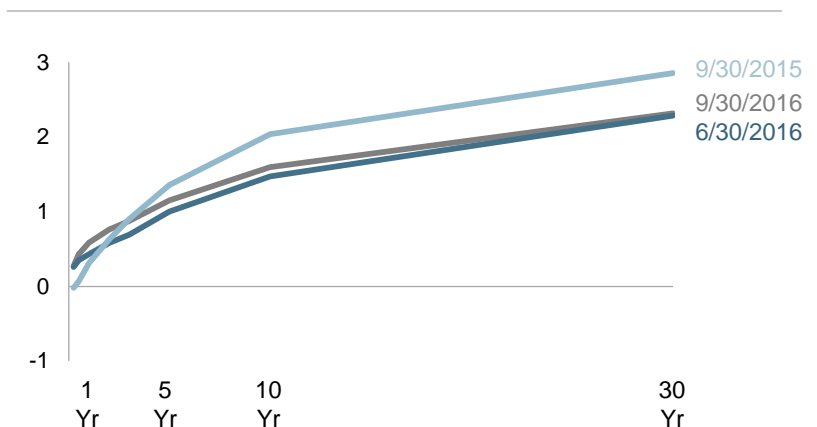
Interest rates across the US fixed income markets generally increased during the third quarter. The yield on the 5-year Treasury note rose 13 basis points (bps) to end at 1.14%. The yield on the 10-year Treasury note increased 11 bps to 1.60%. The 30-year Treasury bond increased 2 bps to finish with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

The yield on the 1-year Treasury bill 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 increased 3 bps to 0.29%, while the 6-month Treasury bill increased 9 bps to 0.45%.

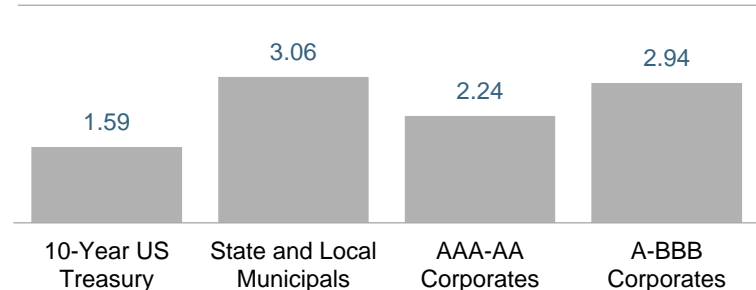
Short-term corporate bonds gained 0.32%. Intermediate-term corporates rose 0.89%, while long-term corporate bonds gained 2.56%.¹

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 (%)

* Annualized

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

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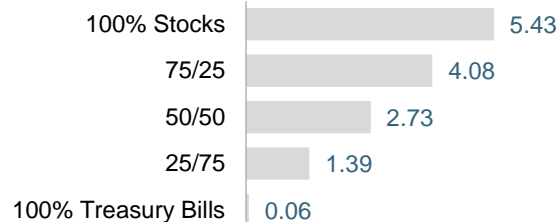


Global Diversification

Third Quarter 2016 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 (%)

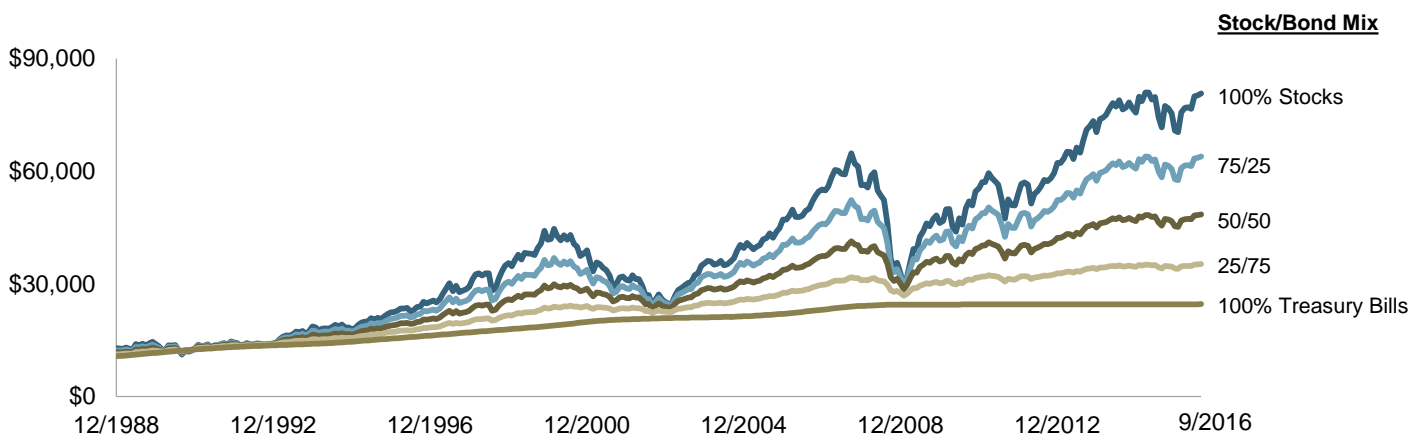


Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	7.09	12.60	5.74	11.23	4.90
75/25	5.42	9.53	4.41	8.48	4.15
50/50	3.70	6.43	3.02	5.70	3.21
25/75	1.94	3.30	1.57	2.89	2.09
100% Treasury Bills	0.14	0.16	0.06	0.05	0.79

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 2016, 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).



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

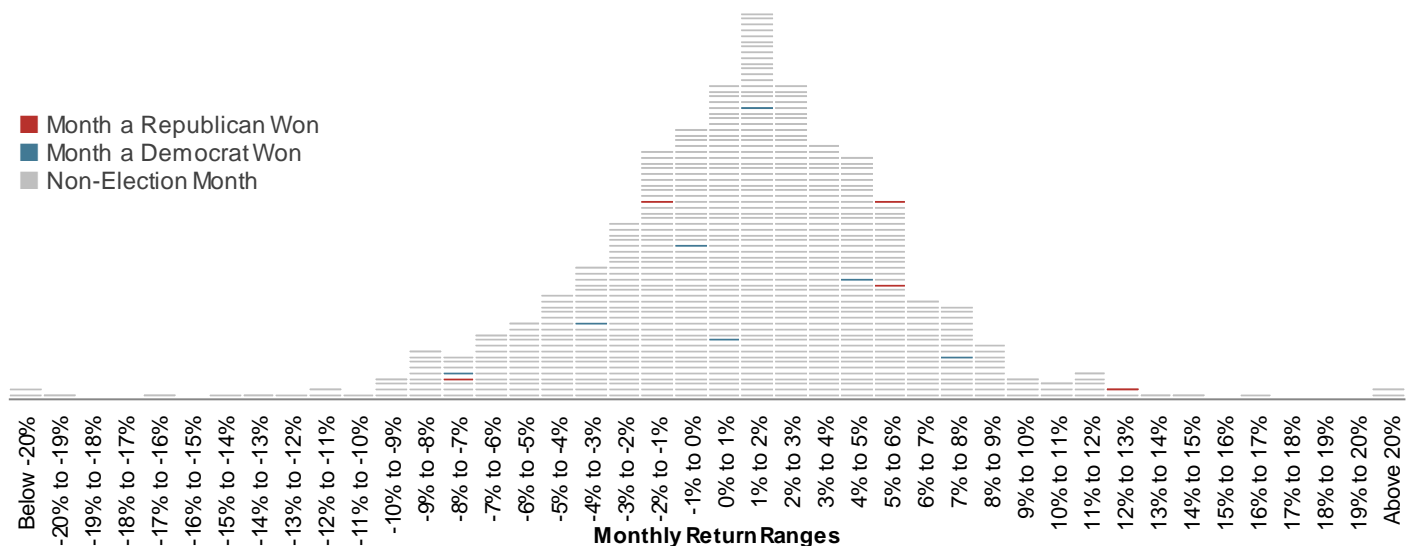
Trying to outguess the market is often a losing game. Current market prices offer an up-to-the-minute snapshot of the aggregate expectations of market participants. This includes expectations about the outcome and impact of elections. While unanticipated future events—surprises relative to those expectations—may 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 16)*

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



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Presidential Elections and the Stock Market

Continued from page 15

Long-Term Investing:

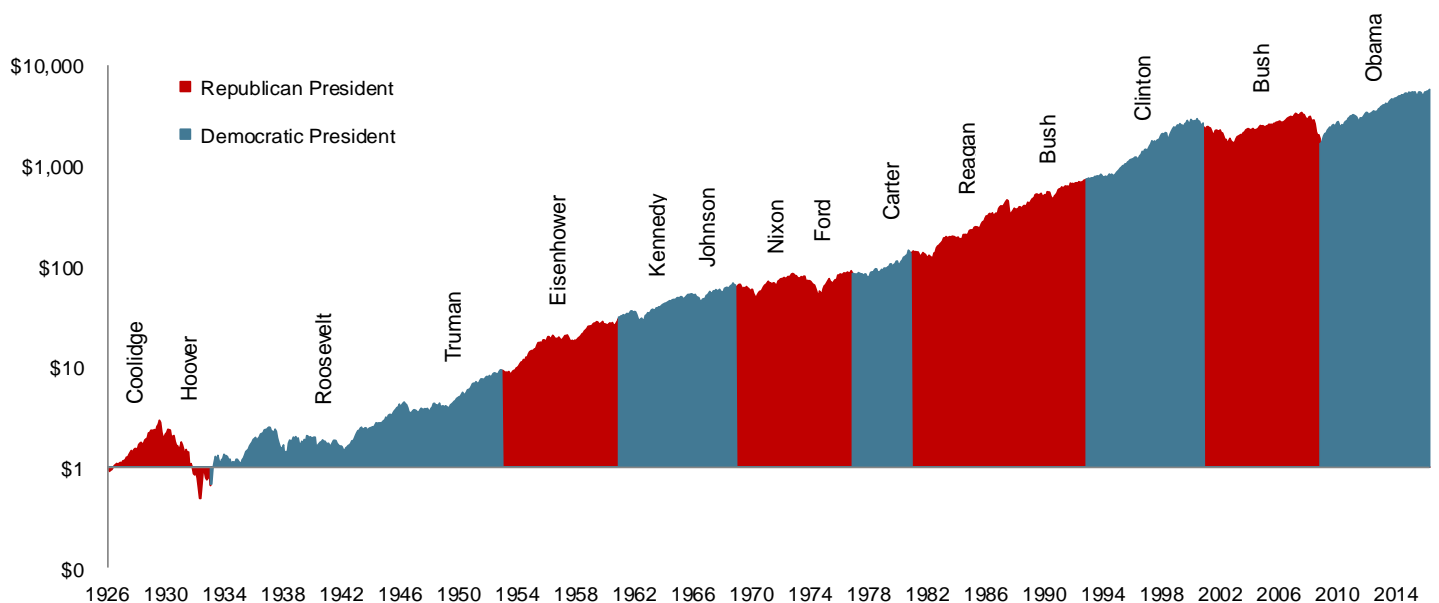
Bulls & Bears ≠ Donkeys & Elephants

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.

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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.