

# QUARTERLY MARKET REVIEW

## FIRST QUARTER 2017



BetterWealth  
enlightened discipline

Discipline doesn't consider short cuts, it doesn't take unnecessary risk, and it's not greedy.

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

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



# QUARTER COMMENTARY

## First Quarter 2017

If Q1 2017 had a theme song, it might be, **“There’s a Kind of Hush All Over the World.”**

There was the usual stream of global news. To name a few highlights:

- » U.K. Prime Minister Theresa May signed Article 50, officially starting the two-year clock ticking on a **U.K. Brexit** by March 29, 2019.
- » The U.S. inaugurated President Trump in January, and the Federal Reserve **raised its overnight lending rate** by a quarter-point in mid-March. Chairman Janet Yellen commented, “The simple message is the economy is doing well.”
- » Canada’s big banks were called to task by a **CBC News exposé** of an industry rife with high-pressure sales techniques. The **Financial Consumer Agency of Canada** will be investigating the accusations in April, and there have been additional calls for a parliamentary inquiry.

In the meantime, markets marched onward:

- » The Dow Jones Industrial Average **broke 20,000** to considerable fanfare on January 25. It broke **21,000 on March 1**.
- » In seeming disconnect, **The Wall Street Journal (WSJ)** also reported the Dow’s “quietest quarter” in 51 years. As **BPS and Pieces blogger Phil Huber** points out: “Milestones and large, round numbers are two things that human beings are predisposed to get really excited about.” But the Dow’s average daily movement during the first quarter was actually a scant 0.3185% – its lowest quarterly swing since 1965. Basically, the bigger the numbers become, the less the raw point swings really matter.

- » While U.S. stocks have been popular in recent years, emerging markets are fast becoming the newest market-timing darlings. At quarter-end, **WSJ columnist Jason Zweig** noted, “Emerging markets are up 12% this year, double the return of the S&P 500 index of U.S. stocks, counting dividends.” He also noted, “one-twelfth of all the money of these [emerging market ETF] funds has come in over the past 90 days.” That’s a whole lot of past-performance chasing going on!

In this context, as he’s been doing for more than 50 years, Warren Buffett published his **annual Berkshire Hathaway shareholder letter**. To put this quarter’s moves in proper perspective, here are two of our favorite bits of Buffett’s usual wit from this year’s letter:

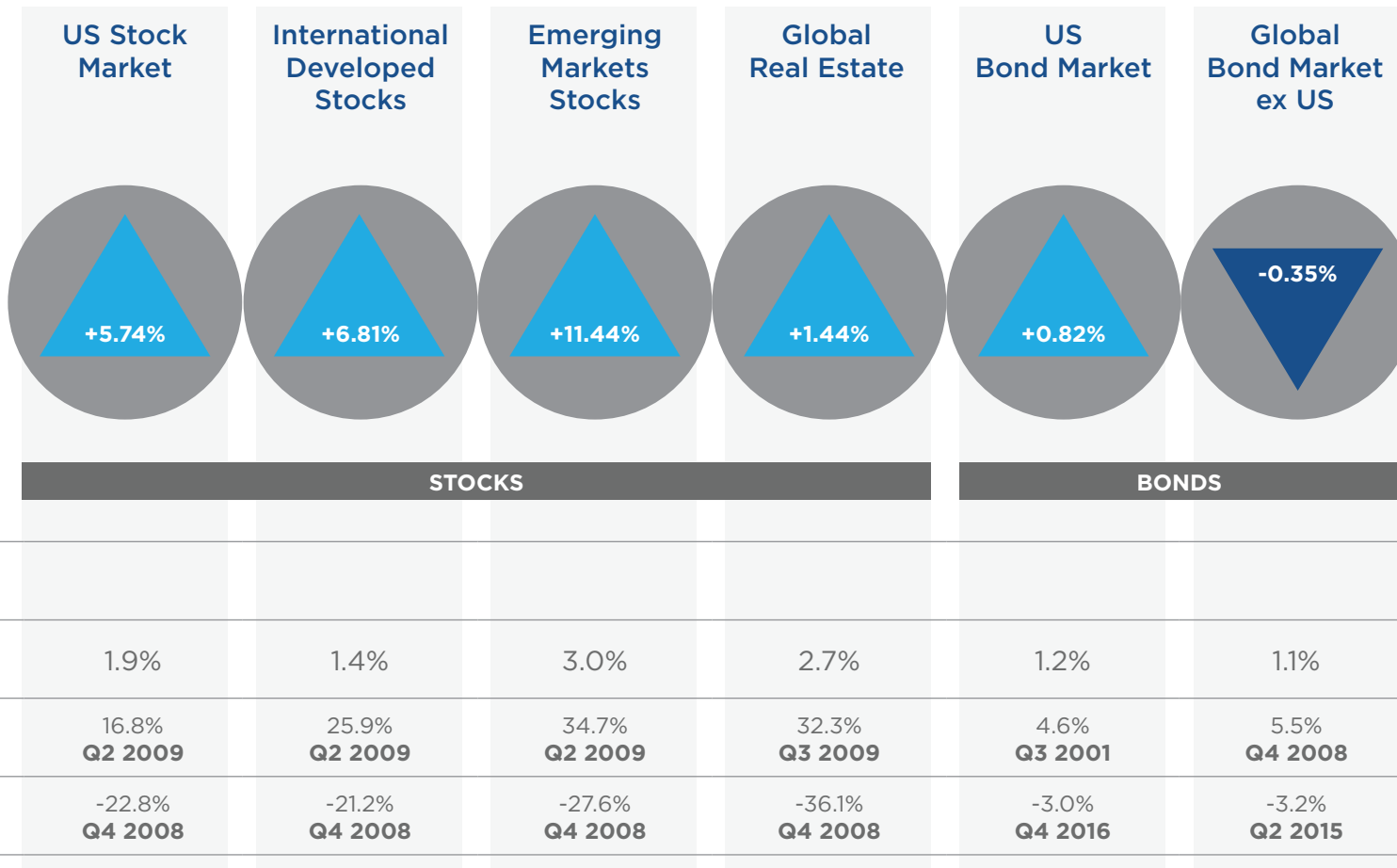
**Chasing trends:** “This year the magic potion may be hedge funds, next year something else. The likely result from this parade of promises is predicted in an adage: ‘When a person with money meets a person with experience, the one with experience ends up with the money and the one with money leaves with experience.’”

**Following forecasts:** “If 1,000 managers make a market prediction at the beginning of a year, it’s very likely that the calls of at least one will be correct for nine consecutive years. Of course, 1,000 monkeys would be just as likely to produce a seemingly all-wise prophet. But there would remain a difference: The lucky monkey would not find people standing in line to invest with him.”

We’ve said it before. One of the few predictions we’ll make is that we’re almost certain to say it again: Unless your own life’s personal circumstances have changed, **stay the course as planned**. Whenever we can help with that, please let us know.

# MARKET SUMMARY

## First Quarter 2017 Index Returns

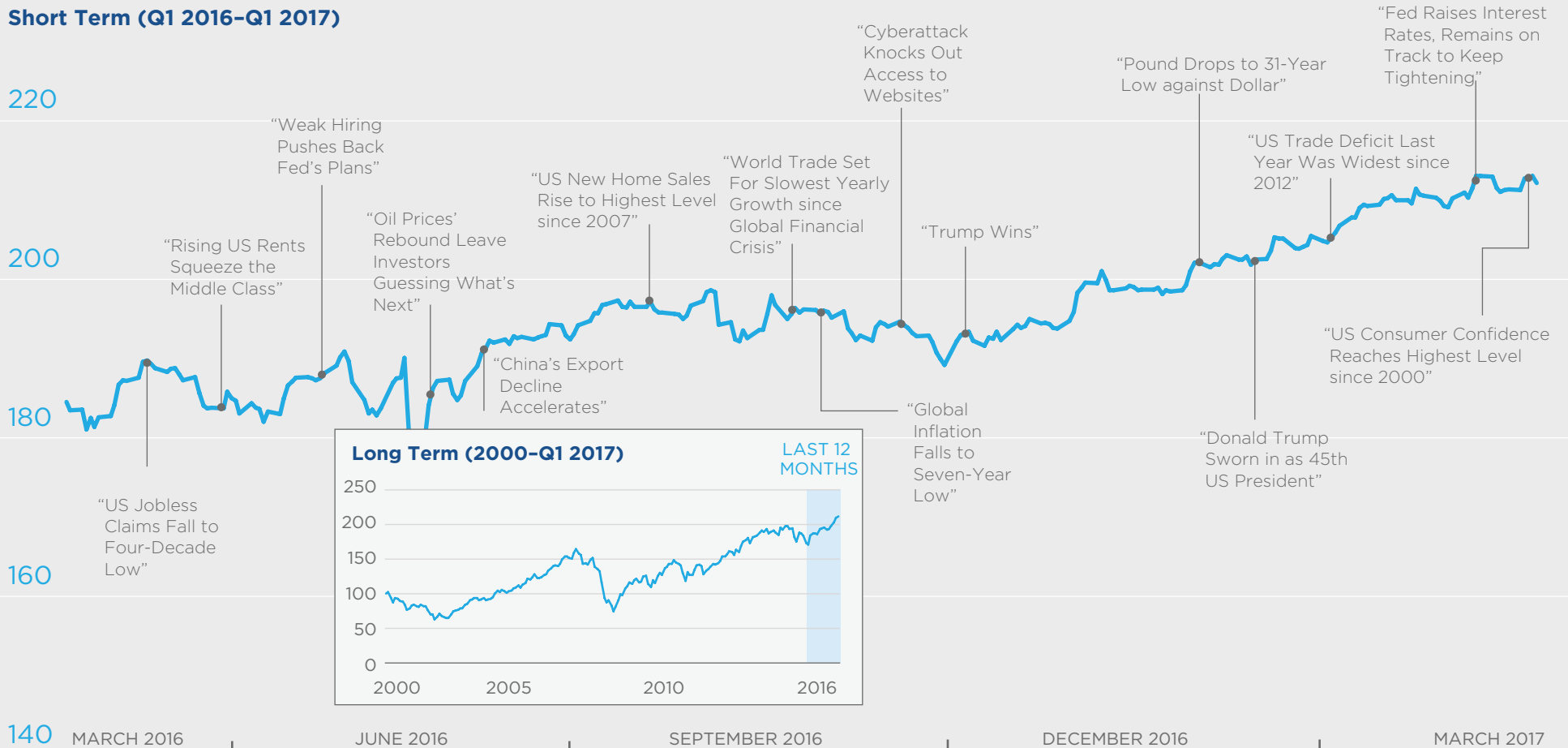


Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International 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 (Citi 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 2017, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citi fixed income indices copyright 2017 by Citigroup.

# WORLD STOCK MARKET PERFORMANCE

## MSCI All Country World Index With Selected Headlines From Past 12 Months

### Short Term (Q1 2016-Q1 2017)



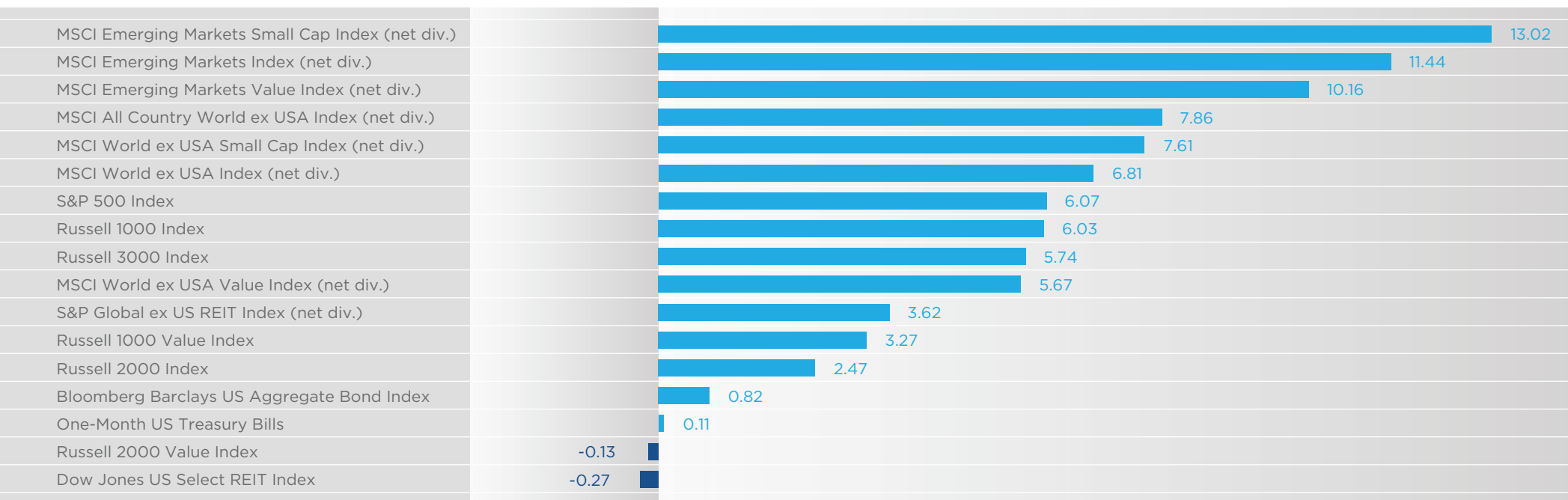
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news. Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights 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

## First Quarter 2017 Index Returns (%)

Looking at broad market indices, emerging markets outperformed both US and non-US developed markets during the quarter. Real estate investment trusts (REITs) lagged their equity market counterparts.

The value effect was negative in the US, non-US, and emerging markets. Small caps outperformed large caps in emerging markets and non-US developed markets but underperformed in the US.



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# US STOCKS

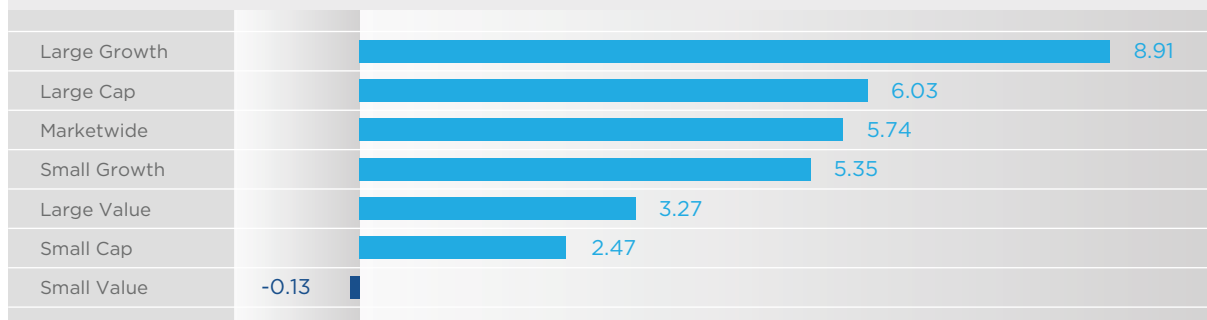
## First Quarter 2017 Index Returns

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

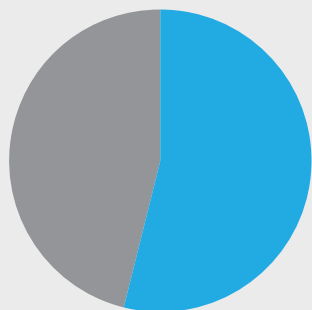
Value underperformed growth indices across all size ranges.

Small caps underperformed large caps.

### Ranked Returns for the Quarter (%)



### World Market Capitalization—US



**53%**  
**US Market**  
 \$24.5 trillion

### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	18.07	9.76	13.18	7.54
Large Cap	17.43	9.99	13.26	7.58
Large Cap Value	19.22	8.67	13.13	5.93
Large Cap Growth	15.76	11.27	13.32	9.13
Small Cap	26.22	7.22	12.35	7.12
Small Cap Value	29.37	7.62	12.54	6.09
Small Cap Growth	23.03	6.72	12.10	8.05

\* Annualized

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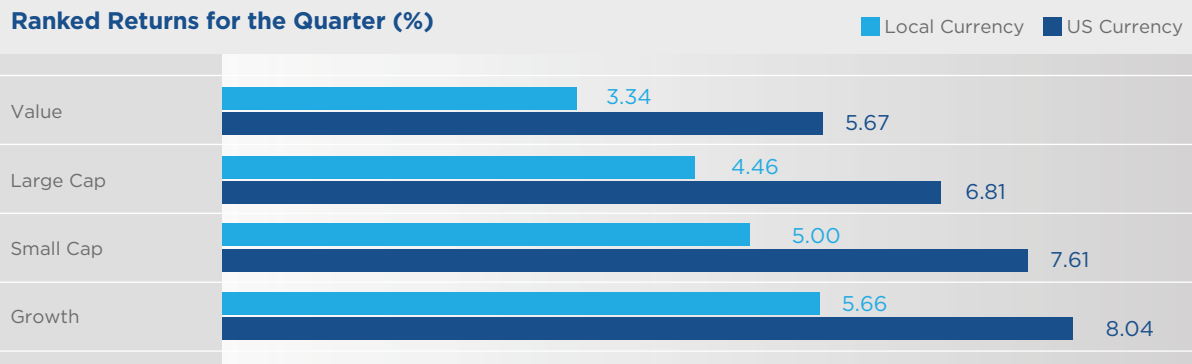
# INTERNATIONAL DEVELOPED STOCKS

## First Quarter 2017 Index Returns

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

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

The value effect was negative across all size ranges in non-US developed markets.



### World Market Capitalization—International Developed



**36%**  
**International  
Developed Market**  
\$16.7 trillion

### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	11.93	0.35	5.38	1.13
Small Cap	11.58	2.70	7.78	2.72
Value	16.46	-0.67	5.19	0.31
Growth	7.47	1.27	5.48	1.87

\* 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 2017, all rights reserved.

# FIXED INCOME

## First Quarter 2017 Index Returns

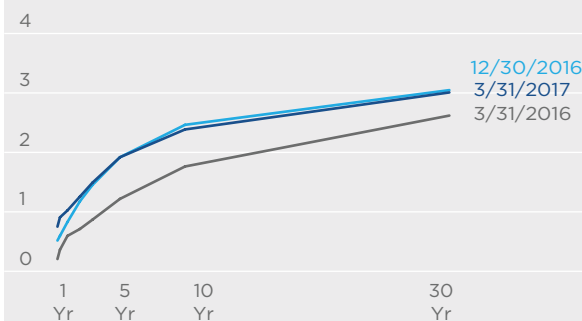
Interest rates were mixed across the US fixed income market during the first quarter of 2017. The yield on the 5-year Treasury note was unchanged, ending at 1.93%. The yield on the 10-year Treasury note decreased 5 basis points (bps) to 2.40%. The 30-year Treasury bond yield decreased 4 bps to 3.02%.

The yield on the 1-year Treasury bill rose 18 bps to 1.03%, and the 2-year T-note yield increased 7 bps to 1.27%. The yield on the 3-month T-bill increased 25 bps to 0.76%, while the 6-month T-bill yield rose 29 bps to 0.91%.

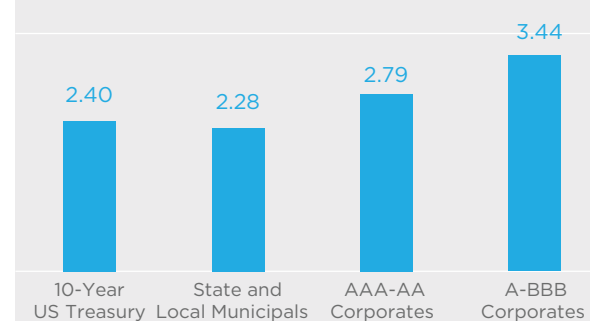
Looking at total returns, short-term corporate bonds gained 0.69% and intermediate-term corporate bonds gained 1.16%.

Short-term municipal bonds generated a total return of 1.20%, while intermediate-term municipal bonds returned 1.91%. Revenue bonds performed in line with general obligation bonds.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Govt. Bond Index	-4.78	5.81	4.05	6.65
Bloomberg Barclays Municipal Bond Index	0.15	3.55	3.24	4.33
Bloomberg Barclays US Aggregate Bond Index	0.44	2.68	2.34	4.27
Bloomberg Barclays US Corporate High Yield Index	16.39	4.56	6.82	7.46
Bloomberg Barclays US TIPS Index	1.48	2.03	0.97	4.24
BofA Merrill Lynch 1-Year US Treasury Note Index	0.56	0.39	0.35	1.31
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.36	0.17	0.14	0.68
Citi World Govt. Bond Index 1-5 Years (hedged to USD)	0.64	1.38	1.38	2.54

\* Annualized

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 (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citi fixed income indices copyright 2017 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2017 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. The S&P data are provided by Standard & Poor's Index Services Group.

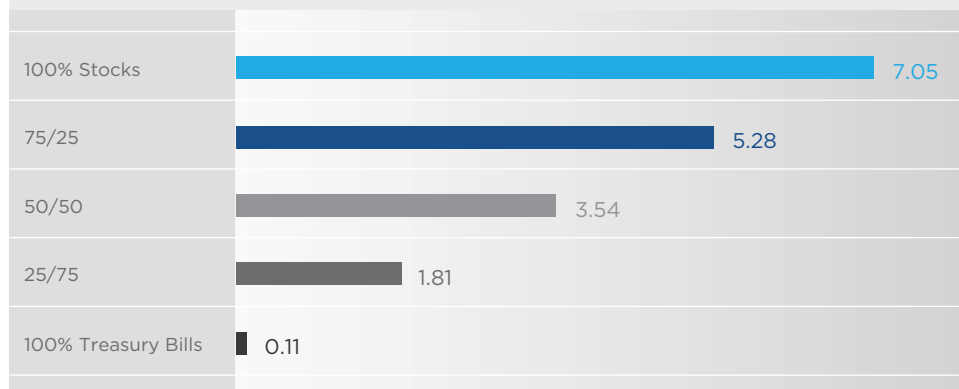


# IMPACT OF DIVERSIFICATION

## First Quarter 2017 Index Returns

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

### Ranked Returns for the Quarter (%)

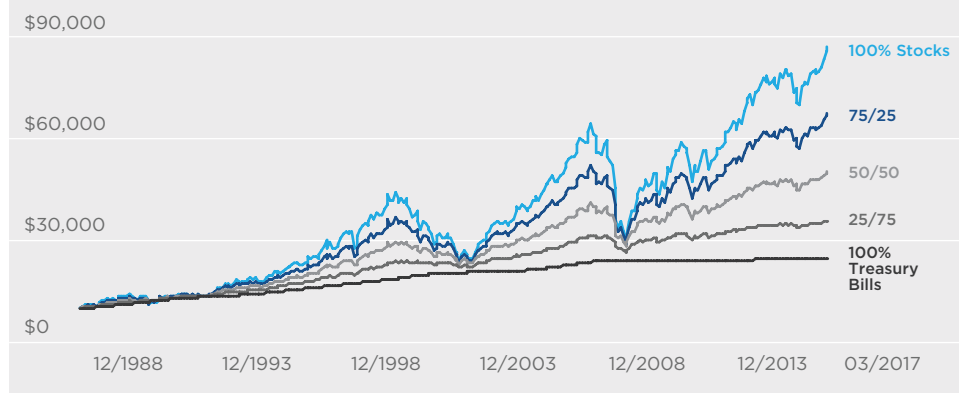


### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Stocks	15.69	5.65	8.97	4.56	17.01
75/25	11.67	4.35	6.80	3.84	12.75
50/50	7.76	2.99	4.60	2.93	8.50
25/75	3.96	1.58	2.36	1.83	4.24
100% Treasury Bills	0.26	0.11	0.08	0.56	0.36

\* Annualized

### 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 2017, 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).

# INVESTMENT SHOCK ABSORBERS

## Topic Of The Quarter

Ever ridden in a car with worn-out shock absorbers? Every bump is jarring, every corner stomach-churning, and every red light an excuse to assume the brace position. Owning an undiversified portfolio can trigger similar reactions.

You can drive a car with a broken suspension system, but it will be an extremely uncomfortable ride and the vehicle will be much harder to control, particularly in difficult conditions. Throw in the risk of a breakdown or running off the road altogether, and there's a real chance you may not reach your destination.

In the world of investment, a similarly bumpy and unpredictable ride can await those with concentrated and undiversified portfolios or those who constantly tinker with their allocation.

Of course, everyone feels in control when the surface is straight and smooth, but it's harder to stay on the road during sudden turns and ups and downs in the market. For that reason, the smart thing to do is to diversify, spreading your portfolio across different securities, sectors, and countries. That also means identifying the right mix of investments (e.g., stocks, bonds, real estate) that aligns with your risk tolerance.

Using this approach, your returns from year to year may not match the top performing portfolio, but neither are they likely to match the worst. More importantly, this is a ride you are likelier to stick with.

Here's an example. Among developed markets, Denmark was number one in US dollar terms in 2015 with a return of more than 23%. But a big bet on that country the following year would have backfired, as Denmark slid to bottom of the table with a loss of nearly 16%.<sup>1</sup>

It's true that the US stock market (by far the world's biggest) has been a strong performer in recent years. But a decade before, in 2004 and 2006, it was the second worst-performing developed market in the world.<sup>1</sup>

Predicting which part of a market will do best over a given period is tough. US small cap stocks were among the top performers in 2016 with a return of more than 21%. A year before, their results looked relatively disappointing with a loss of more than 4%. International small cap stocks had their turn in the sun in 2015, topping the performance tables with a return of just below 6%. But the year before that, they were the second worst with a loss of 5%.<sup>2</sup>

If you've ever taken a long road trip, you'll know that conditions along the way can change quickly and unpredictably, which is why you need a vehicle that's ready for the worst roads as well as the best. While diversification can never completely eliminate the impact of bumps along your particular investment road, it does help reduce the potential outsized impact that any individual investment can have on your journey.

With sufficient diversification, the jarring effects of performance extremes level out. That, in turn, helps you stay in your chosen lane and on the road to your investment destination.

Happy motoring and happy investing.

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Adapted from "Investment Shock Absorbers," Outside the Flags, February 2017. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission. All expressions of opinion are subject to change. This information is intended for educational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

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BetterWealth  
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At BetterWealth, we're about asking the right questions for the right reasons to achieve the right outcomes that are unique to each client. Our team is dedicated to taking the steps to helping each of our clients become informed and educated on key financial matters and life events as well as engaged in pursuing better wealth based on what's important in their lives.

