Q2

Quarterly Market Review

Second Quarter 2018

McCARTHY GRITTINGER
FINANCIAL GROUP LLC

Quarterly Market Review

Second Quarter 2018

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:

Market Summary

Index Returns

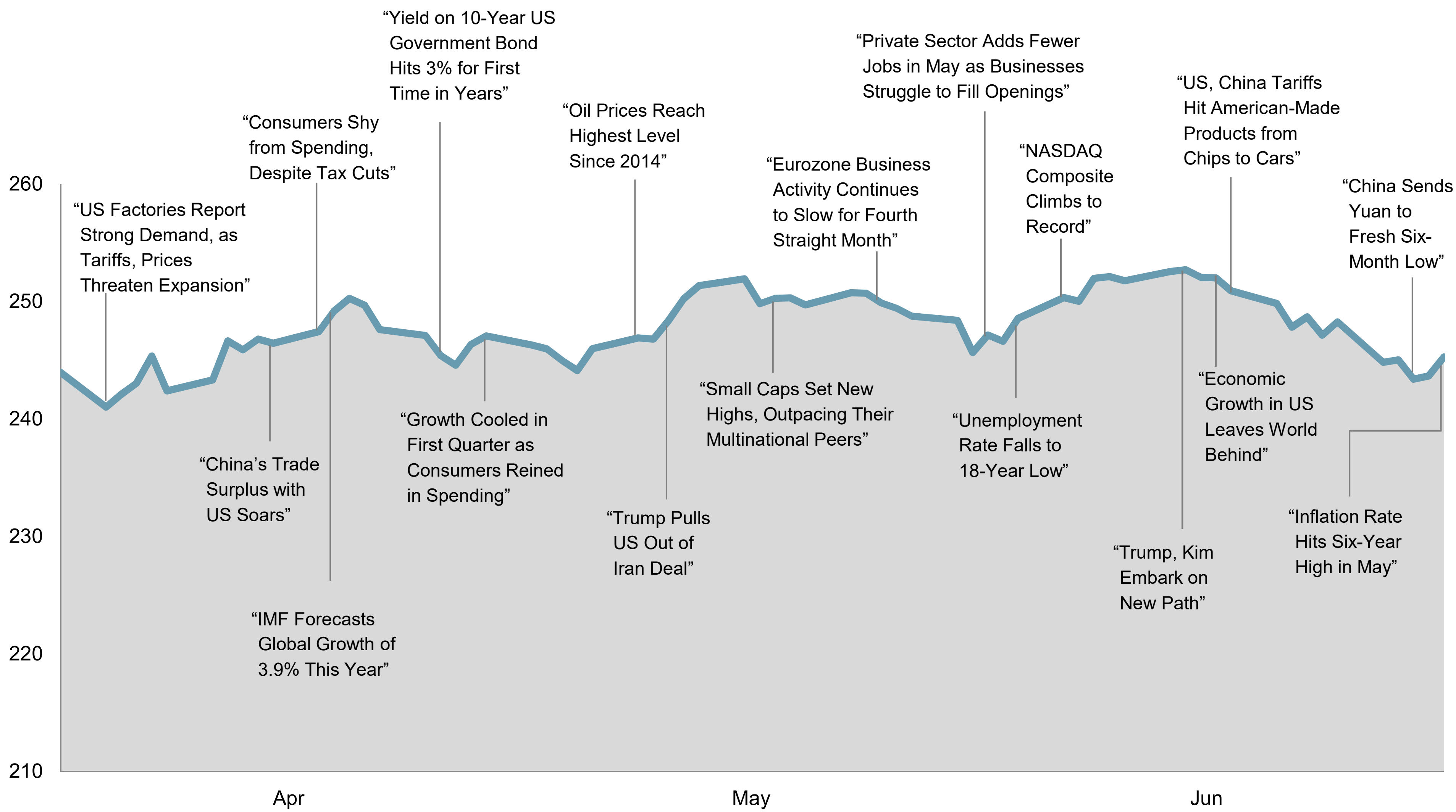
Q2 2018	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	3.89%	-0.75%	-7.96%	6.05%	-0.16%	0.48%

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	2.0%	1.5%	3.0%	2.6%	1.1%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%	4.6%	4.6%
	Q2 2009	Q2 2009	Q2 2009	Q3 2009	Q3 2001	Q4 2008
Worst Quarter	-22.8%	-21.2%	-27.6%	-36.1%	-3.0%	-2.7%
	Q4 2008	Q4 2008	Q4 2008	Q4 2008	Q4 2016	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 Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

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

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

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.

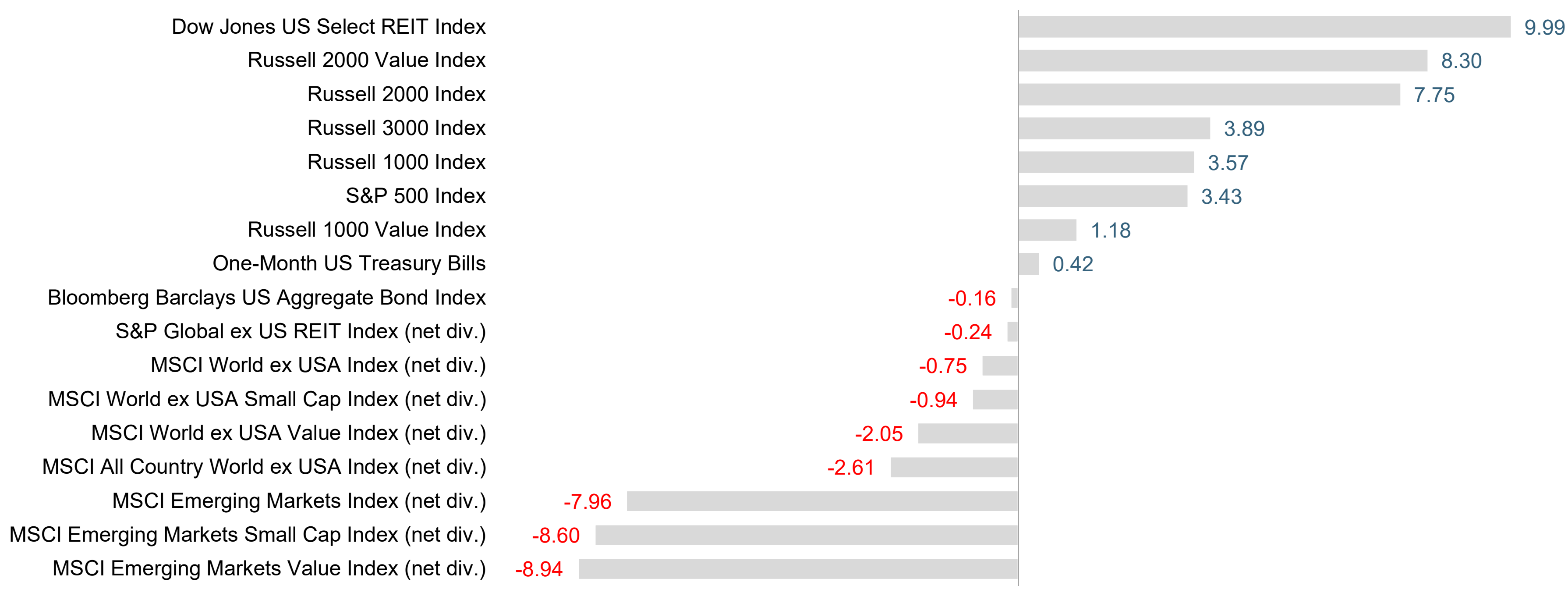
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Asset Classes

Second Quarter 2018 Index Returns (%)

Looking at broad market indices, the US outperformed non-US developed and emerging markets during the second quarter.

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



US Stocks

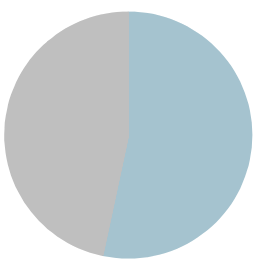
Second Quarter 2018 Index Returns

The US equity market posted a positive return, outperforming both non-US developed and emerging markets in the second quarter.

Large cap value stocks underperformed large cap growth stocks in the US; however, small cap value stocks outperformed small cap growth.

There was a positive size premium, as small cap stocks generally outperformed large cap stocks in the US.

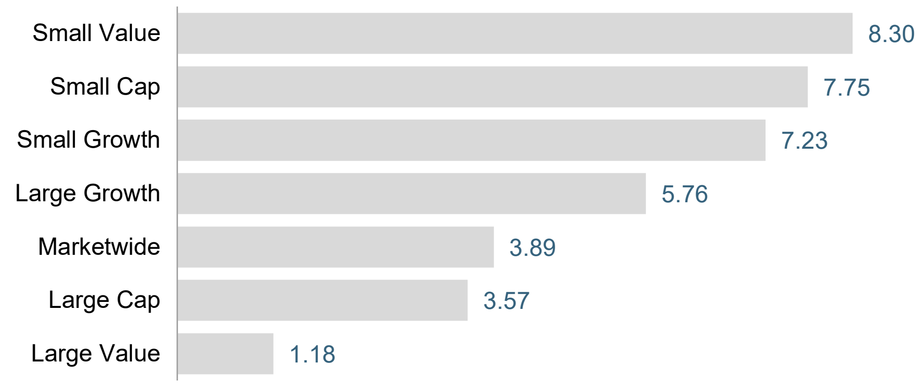
World Market Capitalization—US



53%

US Market
$28.0 trillion

Ranked Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Growth	9.70	21.86	10.60	13.65	11.24
Small Cap	7.66	17.57	10.96	12.46	10.60
Large Growth	7.25	22.51	14.98	16.36	11.83
Small Value	5.44	13.10	11.22	11.18	9.88
Marketwide	3.22	14.78	11.58	13.29	10.23
Large Cap	2.85	14.54	11.64	13.37	10.20
Large Value	-1.69	6.77	8.26	10.34	8.49

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International Developed Stocks

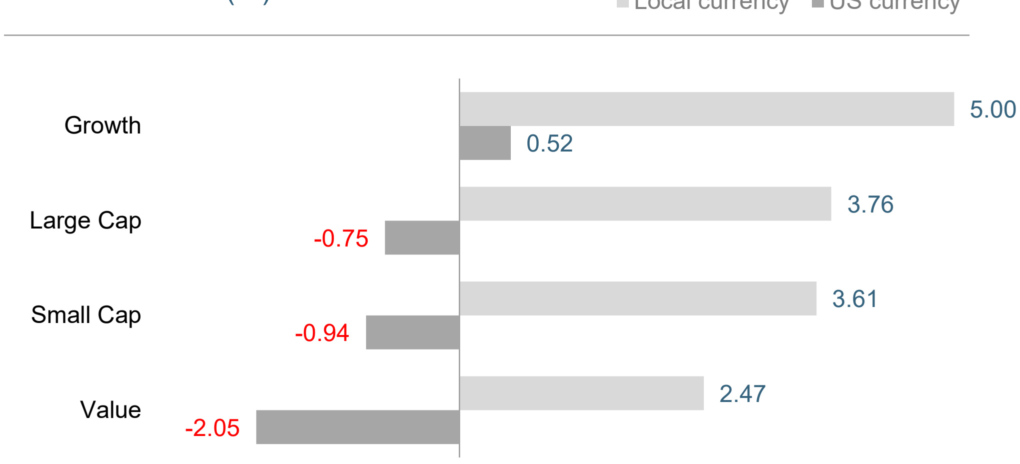
Second Quarter 2018 Index Returns

In US dollar terms, developed markets outside the US underperformed the US but outperformed emerging markets during the second quarter.

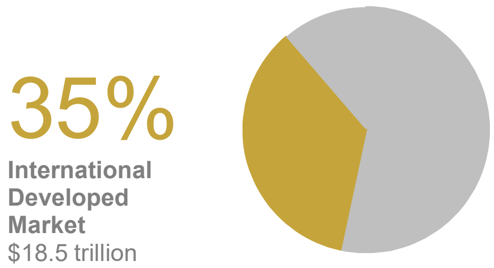
Value underperformed growth in non-US developed markets across large and small cap stocks.

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

Ranked Returns (%)



World Market Capitalization—International Developed



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-1.05	9.26	5.95	7.11	2.92
Small Cap	-1.44	11.87	9.45	10.28	6.09
Large Cap	-2.77	7.04	4.87	6.23	2.63
Value	-4.53	4.80	3.70	5.27	2.29

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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 Index). 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.

Emerging Markets Stocks

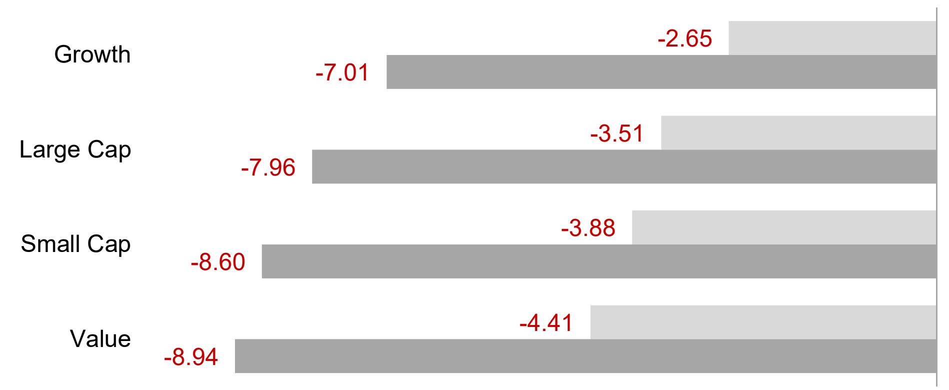
Second Quarter 2018 Index Returns

In US dollar terms, emerging markets posted negative returns in the second quarter, underperforming developed markets including the US.

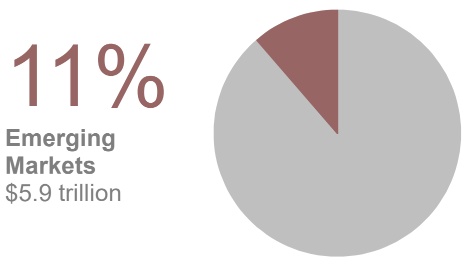
The value effect was negative in large caps; however, value and growth stocks had similar performance among small cap stocks within emerging markets.

Small caps underperformed large caps in emerging markets.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-5.88	11.92	8.34	7.16	3.28
Large Cap	-6.66	8.20	5.60	5.01	2.26
Value	-7.47	4.28	2.76	2.77	1.14
Small Cap	-8.45	5.64	2.55	4.32	4.44

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Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). 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 Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

Fixed Income

Second Quarter 2018 Index Returns

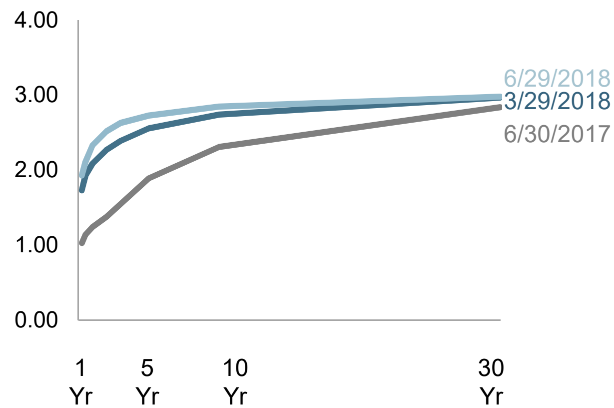
Interest rates increased in the US during the second quarter. The yield on the 5-year Treasury note rose 17 basis points (bps), ending at 2.73%. The yield on the 10-year T-note rose 11 bps to 2.85%. The 30-year Treasury bond yield climbed 1 bps to 2.98%.

The 1-month Treasury bill yield rose 14 bps to 1.77%, while the 1-year Treasury bill yield increased 24 bps to 2.33%. The 2-year Treasury note yield finished at 2.52% after increasing 25 bps.

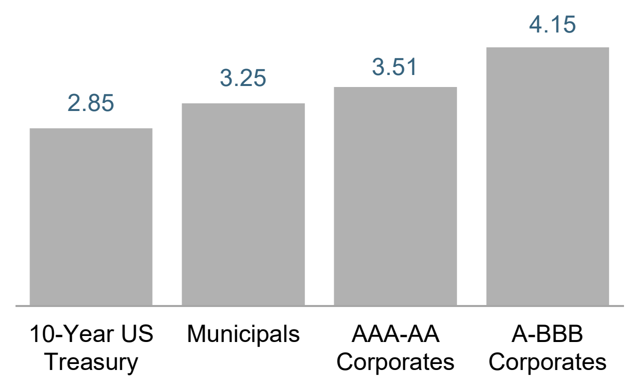
In terms of total return, short-term corporate bonds gained 0.29%, while intermediate-term corporate bonds declined 0.10%.

Short-term municipal bonds added 0.66%, while intermediate-term munis returned 0.81%. Revenue bonds performed in-line with general obligation bonds, returning 0.90% and 0.87%, respectively.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualize

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	1.03	0.16	2.62	5.53	5.51	8.19
Bloomberg Barclays Municipal Bond Index	0.87	-0.25	1.56	2.85	3.53	4.43
Bloomberg Barclays US TIPS Index	0.77	-0.02	2.11	1.93	1.68	3.03
ICE BofAML 3-Month US Treasury Bill Index	0.45	0.81	1.36	0.68	0.42	0.35
ICE BofAML 1-Year US Treasury Note Index	0.40	0.65	0.92	0.64	0.49	0.77
Bloomberg Barclays US Government Bond Index Long	0.26	-2.97	-0.13	3.40	4.56	6.02
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.24	0.41	0.89	1.18	1.33	2.08
Bloomberg Barclays US Aggregate Bond Index	-0.16	-1.62	-0.40	1.72	2.27	3.72
FTSE World Government Bond Index 1-5 Years	-2.66	-1.06	0.73	1.19	-0.58	0.63

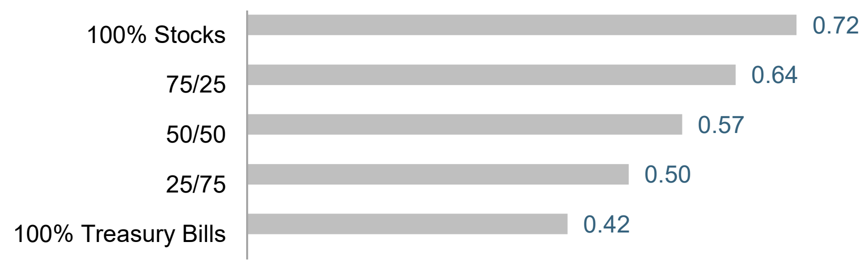
One basis point equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds 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).

Impact of Diversification

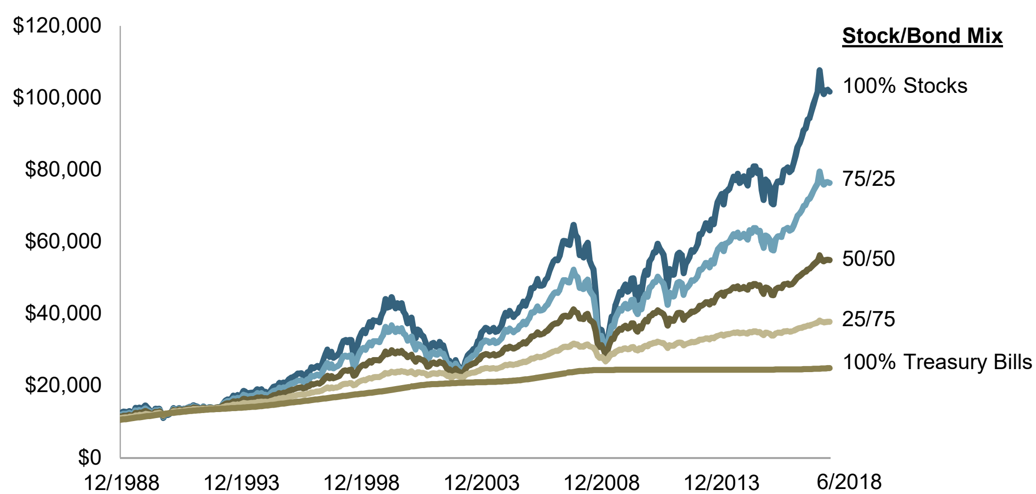
Second Quarter 2018 Index Returns

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 (%)



Growth of Wealth: The Relationship between Risk and Return



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Stocks	-0.13	11.31	8.78	10.00	6.37	16.41
75/25	0.14	8.79	6.79	7.61	5.09	12.30
50/50	0.38	6.27	4.75	5.21	3.64	8.19
25/75	0.59	3.77	2.69	2.79	2.03	4.09
100% Treasury Bills	0.76	1.27	0.59	0.36	0.27	0.13

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.

E+R=O, a Formula for Success[1]

Second Quarter 2018

Combining an enduring investment philosophy with a simple formula that helps maintain investment discipline can increase the odds of having a positive financial experience.

"The important thing about an investment philosophy is that you have one you can stick with."

David Booth
Founder and Executive Chairman
Dimensional Fund Advisors

AN ENDURING INVESTMENT PHILOSOPHY

Investing is a long-term endeavor. Indeed, people will spend decades pursuing their financial goals. But being an investor can be complicated, challenging, frustrating, and sometimes frightening. This is exactly why, as David Booth says, it is important to have an investment philosophy you can stick with, one that can help you stay the course.

This simple idea highlights an important question: How can investors maintain discipline through bull markets, bear markets, political strife, economic instability, or whatever crisis du jour threatens progress towards their investment goals?

Over their lifetimes, investors face many decisions, prompted by events that are both within and outside their control. Without an enduring philosophy to inform their choices, they can potentially suffer unnecessary anxiety, leading to poor decisions and outcomes that are damaging to their long-term financial well-being.

When they don't get the results they want, many investors blame things outside their control. They might point the finger at the government, central banks, markets, or the economy. Unfortunately, the majority will not do the things that might be more beneficial—evaluating and reflecting on their own responses to events and taking responsibility for their decisions.

e+r=o

Some people suggest that among the characteristics that separate highly successful people from the rest of us is a focus on influencing outcomes by controlling one's reactions to events, rather than the events themselves. This relationship can be described in the following formula:

e+r=o (Event + Response = Outcome)

Simply put, this means an outcome—either positive or negative—is the result of how you respond to an event, not just the result of the event itself. Of course, events are important and influence outcomes, but not exclusively. If this were the case, everyone would have the same outcome regardless of their response.

Let's think about this concept in a hypothetical investment context. Say a major political surprise, such as Brexit, causes a market to fall (event). In a panicked response, potentially fueled by gloomy media speculation of the resulting uncertainty, an investor sells some or all of his or her investment (response). Lacking a long-term perspective and reacting to the short-term news, our investor misses out on the subsequent market recovery and suffers anxiety about when, or if, to get back in, leading to suboptimal investment returns (outcome).

To see the same hypothetical example from a different perspective, a surprise event causes markets to fall suddenly (e). Based on his or her understanding of the long-term nature of returns and the short-term nature of volatility spikes around news events, an investor is able to control his or her emotions (r) and maintain investment discipline, leading to a higher chance of a successful long-term outcome (o).

1. Jack Canfield, The Success Principles: How to Get from Where You Are to Where You Want to Be (New York: HarperCollins Publishers, 2004).

E+R=O, a Formula for Success[1]

(continued from page 16)

This example reveals why having an investment philosophy is so important. By understanding how markets work and maintaining a long-term perspective on past events, investors can focus on ensuring that their responses to events are consistent with their long-term plan.

THE FOUNDATION OF AN ENDURING PHILOSOPHY

An enduring investment philosophy is built on solid principles backed by decades of empirical academic evidence. Examples of such principles might be: trusting that prices are set to provide a fair expected return; recognizing the difference between investing and speculating; relying on the power of diversification to manage risk and increase the reliability of outcomes; and benchmarking your progress against your own realistic long-term investment goals.

Combined, these principles might help us react better to market events, even when those events are globally significant or when, as some might suggest, a paradigm shift has occurred, leading to claims that “it’s different this time.” Adhering to these principles can also help investors resist the siren calls of new investment fads or worse, outright scams.

THE GUIDING HAND OF A TRUSTED ADVISOR

Without education and training—sometimes gained from bitter experience—it is hard for non-investment professionals to develop a cogent investment philosophy. And even the most self-aware find it hard to manage their own responses to events. This is why a financial advisor can be so valuable—by providing the foundation of an investment philosophy and acting as an experienced counselor when responding to events.

Investing will always be both alluring and scary at times, but a view of how to approach investing combined with the guidance of a professional advisor can help people stay the course through challenging times. Advisors can provide an objective view and help investors separate emotions from investment decisions. Moreover, great advisors can educate, communicate, set realistic financial goals, and help their clients deal with their responses even to the most extreme market events.

In the spirit of the e+r=o formula, good advice, driven by a sound philosophy, can help increase the probability of having a successful financial outcome.

Adapted from “E+R=O, a Formula for Success,” The Front Foot Adviser, by David Jones, Vice President and Head of Financial Adviser Services, EMEA.