Q3

Quarterly Market Review

Third Quarter 2015

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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.

Overview:

Market Summary

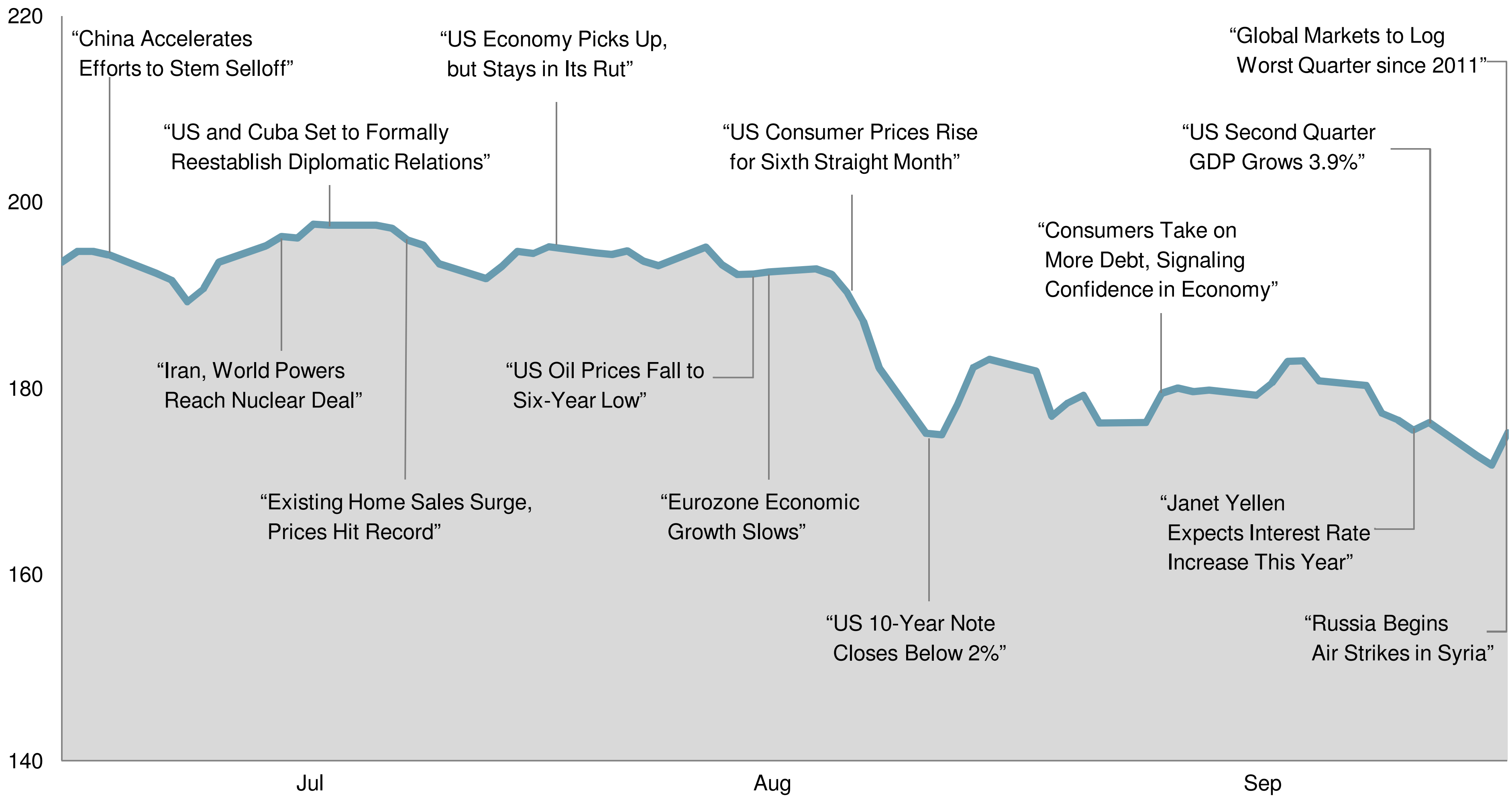
Third Quarter 2015 Index Returns

US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
-7.25%	-10.57%	-17.90%	-0.54%	+1.23%	+2.01%
STOCKS				BONDS	

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.

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.

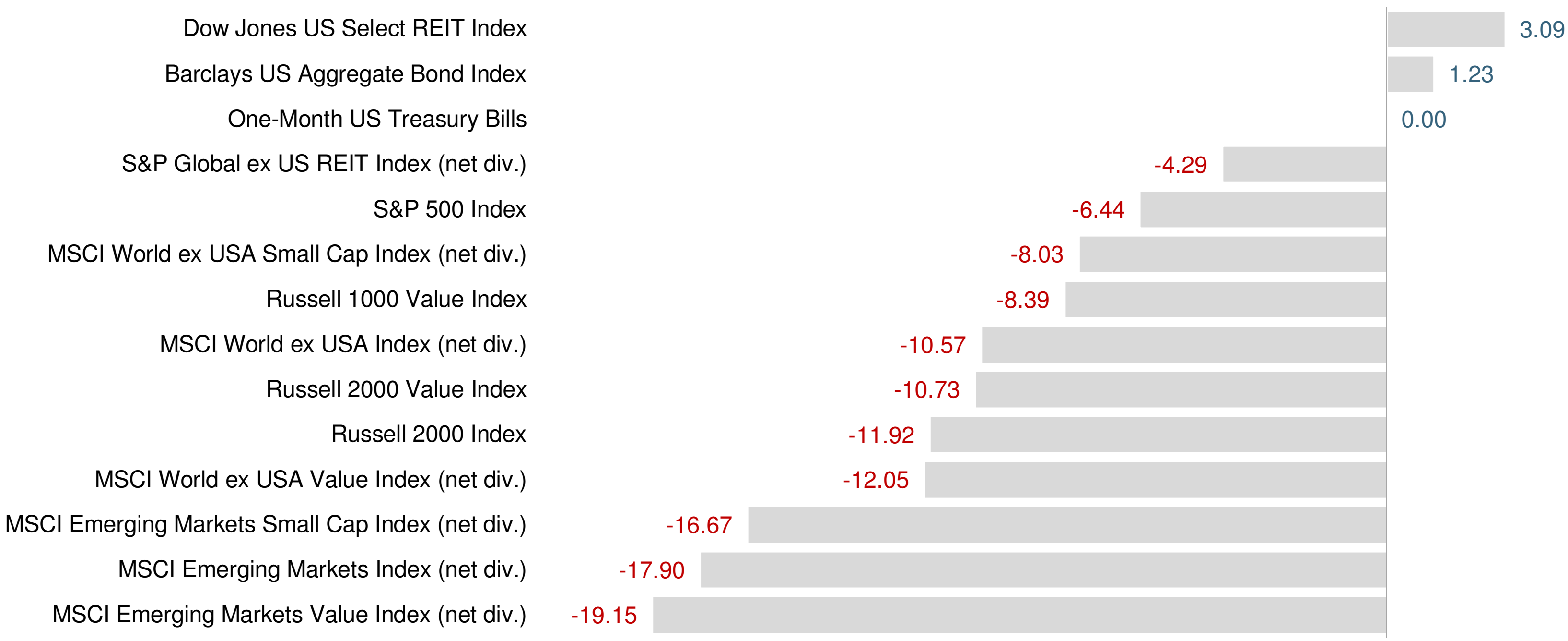
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results**.

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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The S&P data is provided by Standard & Poor's Index Services Group. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays data provided by Barclays Bank PLC.

US Stocks

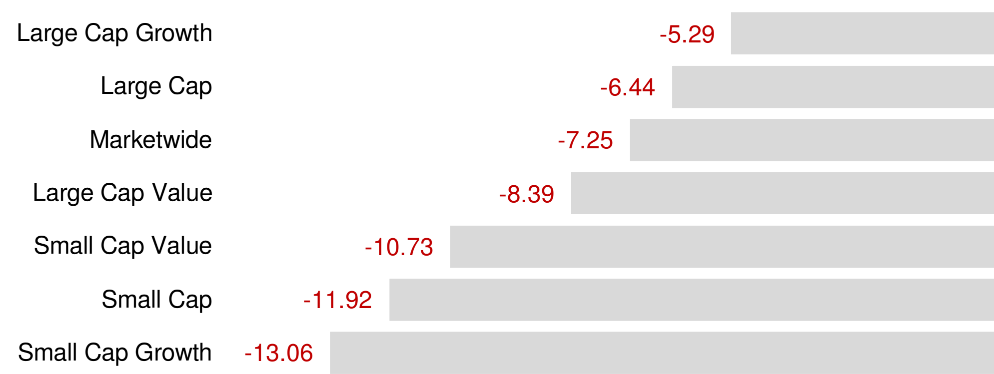
Third Quarter 2015 Index Returns

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

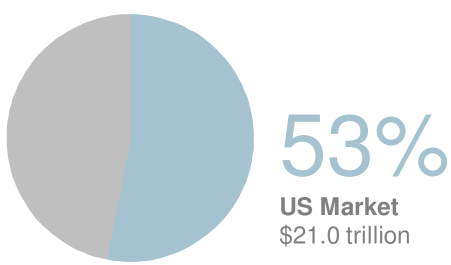
Small caps underperformed large caps.

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

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	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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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. Russell data © Russell Investment Group 1995–2015, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group.

International Developed Stocks

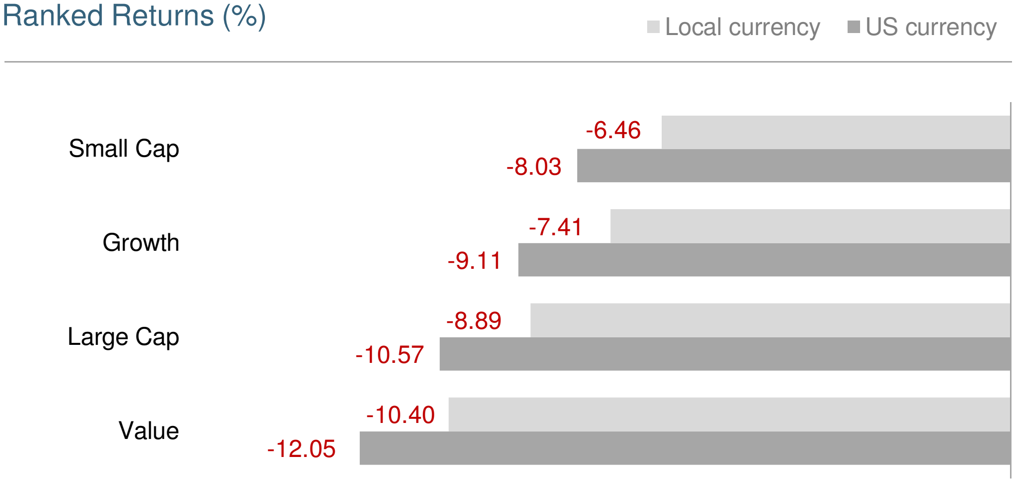
Third Quarter 2015 Index Returns

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.

Ranked Returns (%)

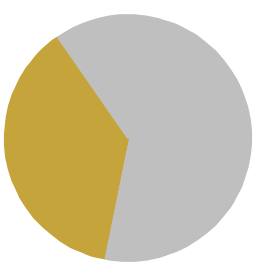


World Market Capitalization—International Developed

37%

International Developed Market

$14.7 trillion



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	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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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 used as the proxy for the International Developed market.

Emerging Markets Stocks

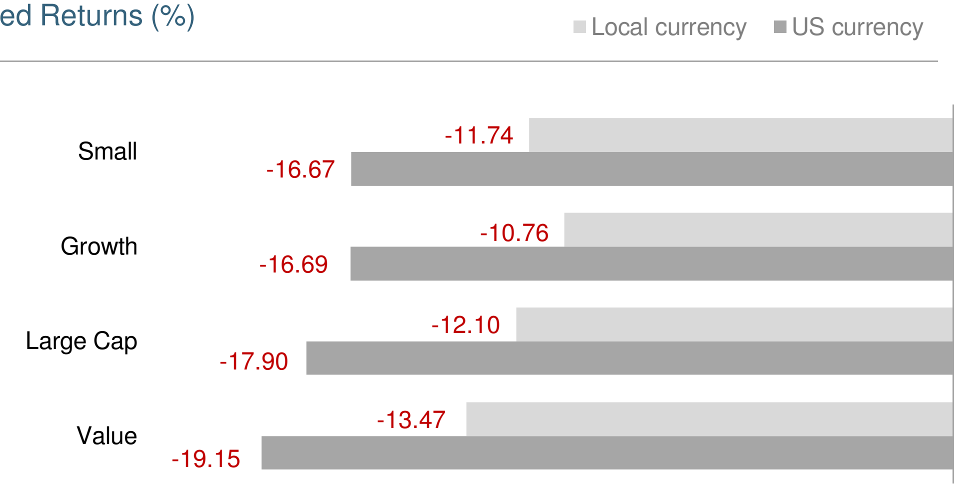
Third Quarter 2015 Index Returns

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

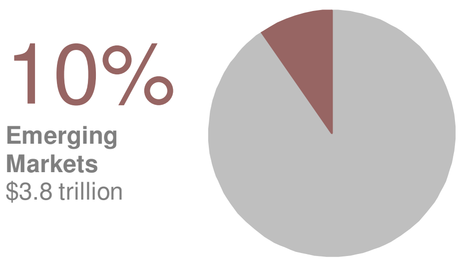
Small cap indices outperformed large cap indices.

Value underperformed growth indices across all size ranges.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	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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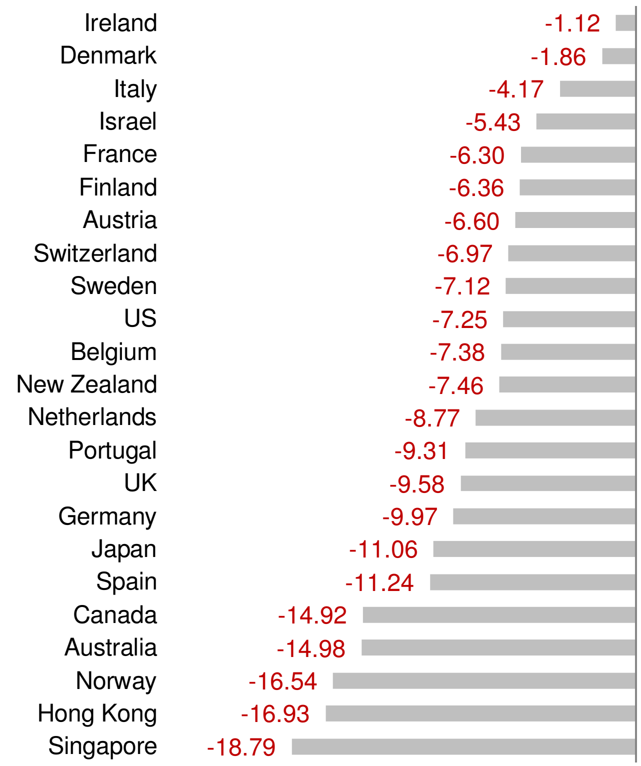
Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market 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.

Select Country Performance

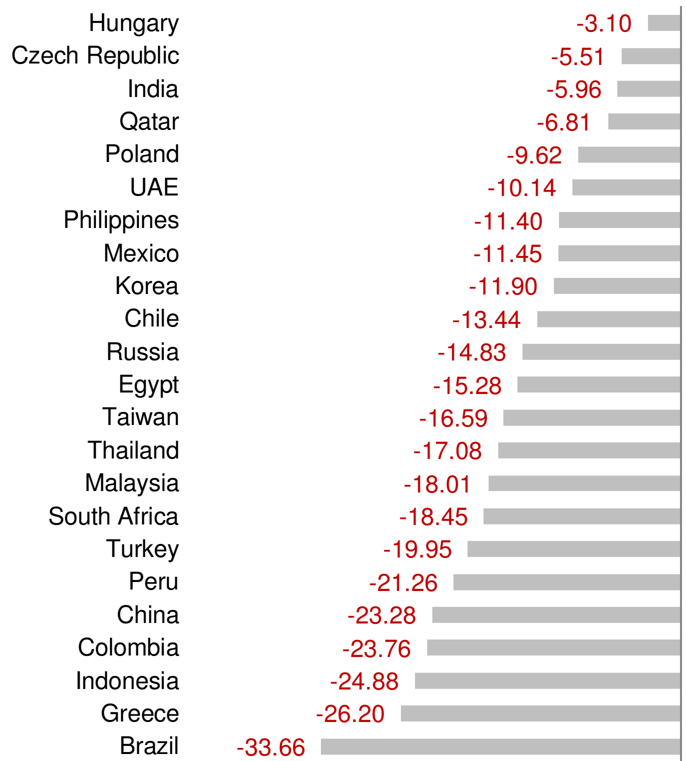
Third Quarter 2015 Index Returns

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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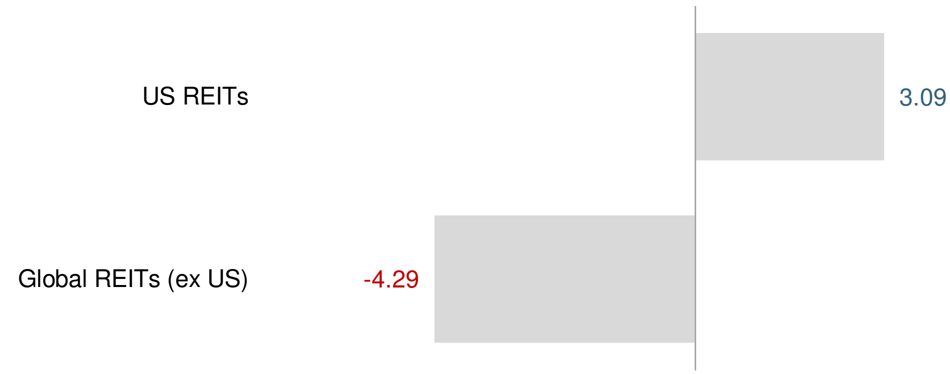
Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Real Estate Investment Trusts (REITs)

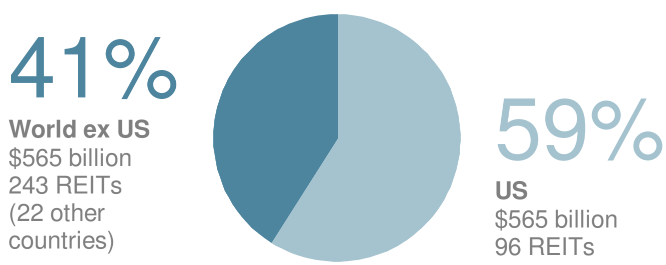
Third Quarter 2015 Index Returns

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.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

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

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 © 2014.

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%.

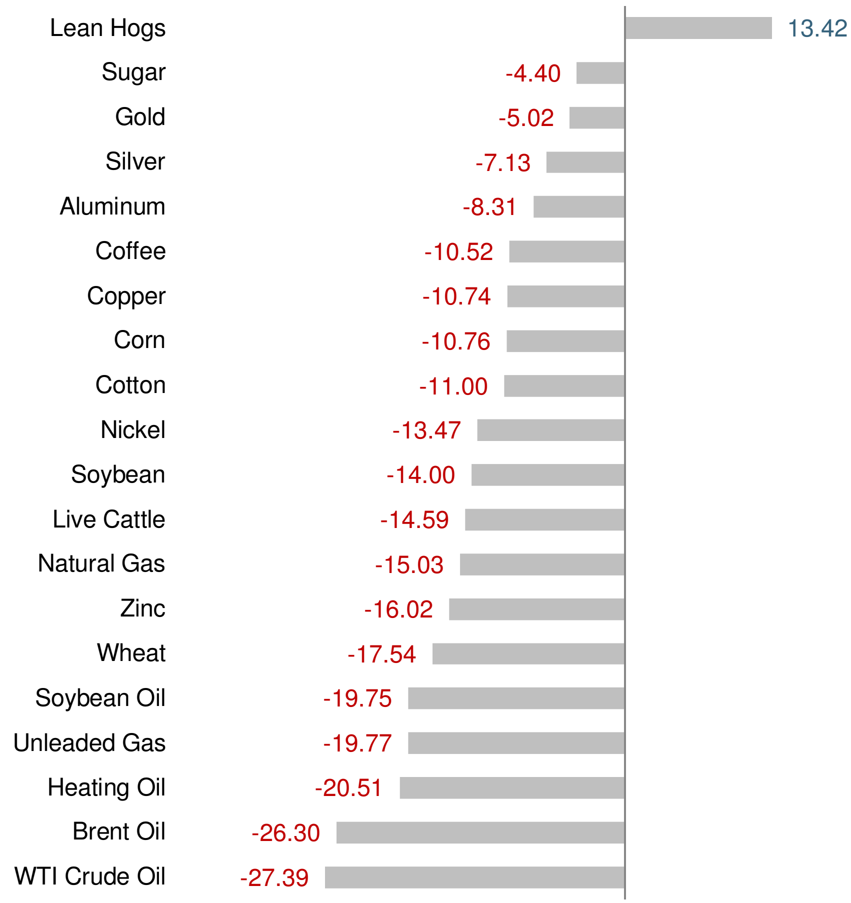
Livestock was mixed with lean hogs up 13.42% and live cattle falling 14.59%.

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 (%)



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.
All index returns are net of withholding tax on dividends. Securities and commodities data provided by Bloomberg.

Fixed Income

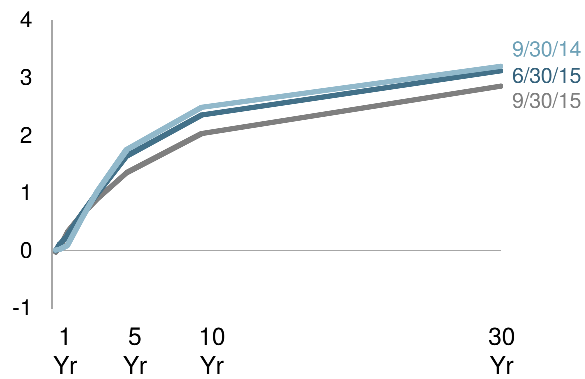
Third Quarter 2015 Index Returns

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.

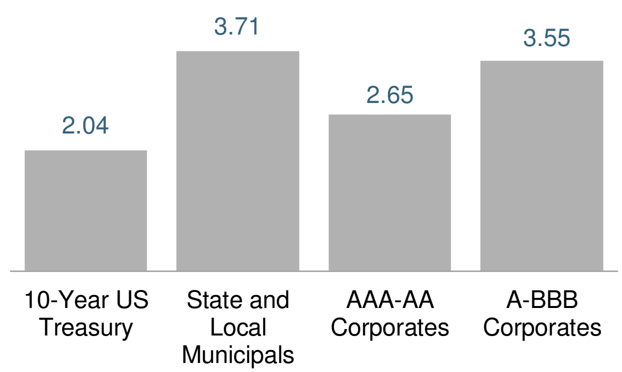
Short-term corporate bonds returned 0.30%, while intermediate-term corporate bonds returned 0.71%.

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

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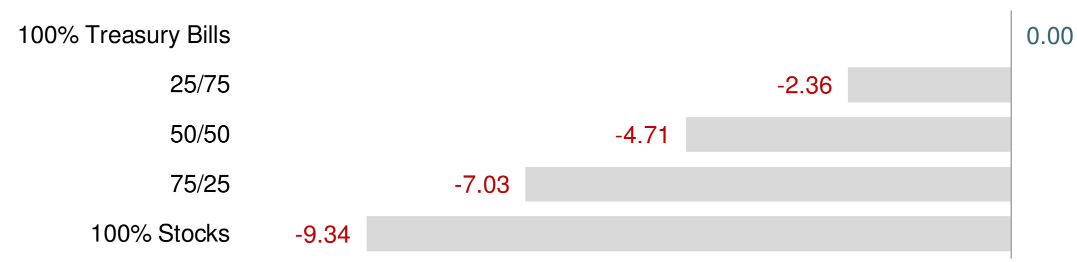
Global Diversification

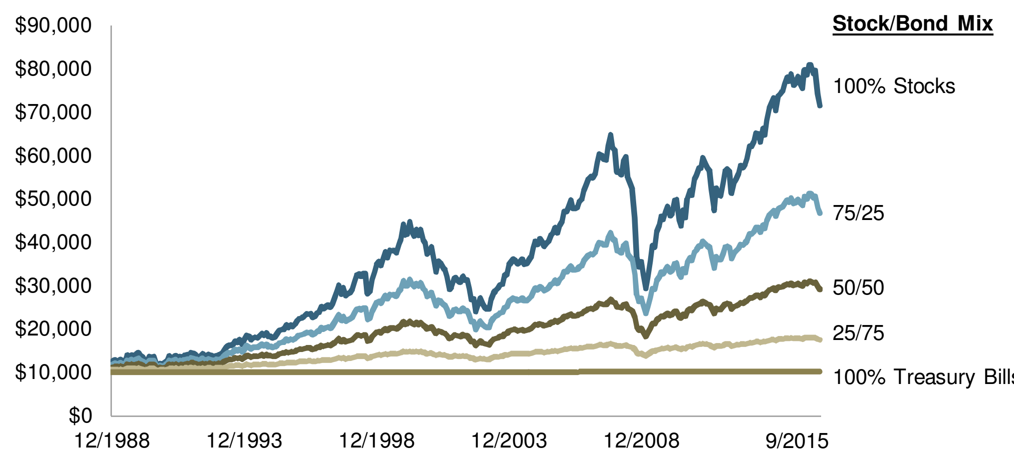
Third Quarter 2015 Index Returns

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.

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*
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

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. Sinquefield).

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.