October 2019

The economic picture continued to weaken though that did not stop US equities from marching upward. While US equities turned in a positive performance in aggregate it was not the same broad based strength we experienced in the second quarter. Bond markets generally outperformed stocks due to a realitively significant drop in interest rates (as a reminder, bonds exhibit an inverse relationship to interest rates so when interest rates drop bond prices rise). Once again, the US stocks outperformed international developed and emerging markets, where equities actually turned negative for the period. The core themes of the quarter have remained largely consistent throughout the year – global economic growth is slowing and the trade war is certainly not helping while the US consumer continues to be resilient. Britain remains in the quagmire of the decade and Donald Trump is embroiled in another political fight.

We appreciate that your lives are incredibly busy and technology, for all its benefits, often adds to our sense of imbalance. Combine that with 24/7 news and you end up with information overload and no time to determine fact from fiction. We see ourselves as your trusted advisor as the anecdote to the financial side of this imbalance.

Here's the Prescription[1]

As much as we value the unfettered access to information the internet provides, we recognize the potential harm that too much information can cause.

Take, for example, a friend who was experiencing some troubling medical symptoms. Typing her symptoms into a search engine led to an evening of research and mounting consternation. By the end of the night, the vast quantity of unfiltered information led her to conclude that something was seriously wrong.

One of the key characteristics that distinguishes an expert is their ability to filter information and make increasingly refined distinctions about the situation at hand. For example, you might describe your troubling symptoms to a doctor simply as a pain in the chest, but a trained physician will be able to ask questions and test several hypotheses before reaching the conclusion that rather than having the cardiac arrest you suspected, you have something completely different. While many of us may have the capacity to elevate our understanding to a high level within a chosen field, reaching this point takes time, dedication, and experience.

This friend, having convinced herself that something was seriously wrong, booked an appointment with a physician. The doctor asked several pertinent questions, performed some straightforward tests, and recommended the following treatment plan: reassurance and education.

Not surgery. Not drugs. But an understanding of why and how she had experienced her condition. The consultative nature of a relationship with a trusted professional—both when a situation arises and as we progress through life—is one of the key benefits that an expert can provide.

There are striking parallels with the work of a professional financial advisor. The first responsibility of the doctor or advisor is to understand the person they're serving so that they can fully assess their situation. Once the plan is underway, the

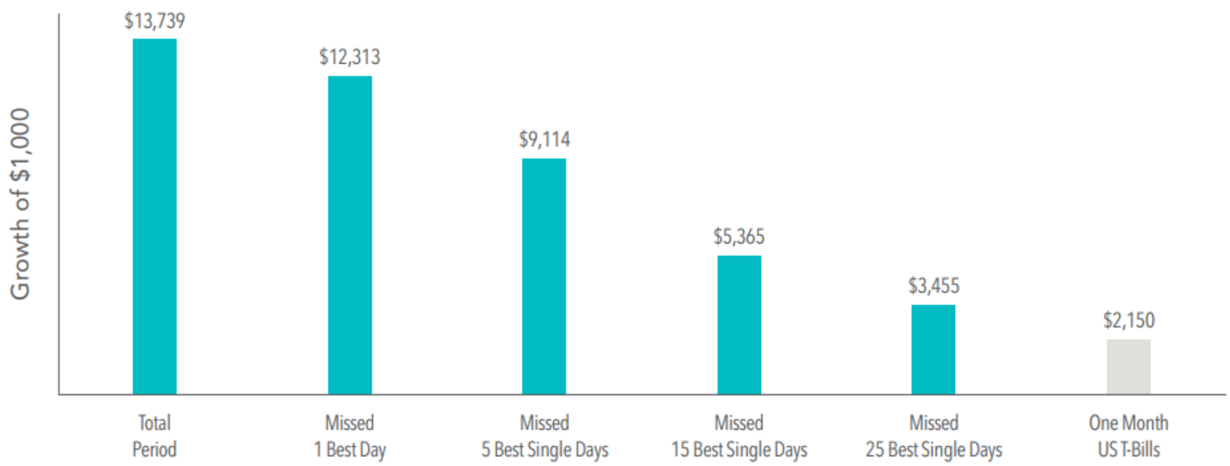
[1] Adapted from "*Here's the Prescription*", published on the Dimensional Funds Website.

role of the professional is to monitor the person's situation, evaluate if the course of action remains appropriate, and help to maintain the discipline required for the plan to work as intended.

Like this friend's doctor, advisors may have experienced conversations with clients that are triggered by news reports or informed by unqualified sources. In some cases, all that is required to help put the client's mind at ease is a reminder to focus on what is in their control as well as providing reassurance and (re)education that they have a financial plan in place that is helping them move toward their objectives. The benefits of working with the right advisor are demonstrated through the ability to both help clients pursue their financial goals and to help them have a positive experience along the way.

Exhibit 1: Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1990–2017



Annualized Compound Return	9.81%	9.38%	8.21%	6.18%	4.53%	2.77%

In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.

S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T-Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. 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 not a guarantee of future results.

Trouble might arise when we confuse simple and complex conditions. Probably no harm is done when a person, recognizing the onset of a common cold, takes cold medicine, drinks plenty of fluids, and rests. But had my self-diagnosing friend not made an appointment with a specialist, and instead moved from self-diagnosis to self-medication, she may have caused herself real harm. Similarly, thinking that all aspects of your own financial situation can be handled through a basic internet search or casual conversation with a friend might result in a less than optimal financial outcome.

Without the guidance of an advisor, the self-medicating investor might overreact to short-term market volatility by selling some of their investments. In doing so, they risk missing out on some of the best days since there is no reliable way to predict when positive returns in equity markets will occur[2]. One might think that missing a few days of strong returns would not make much difference over the long term. But, as illustrated in Exhibit 1, had an investor missed the 25 single best days in the world's biggest equity market, the US, between 1990 and the end of 2017, their annualized return would have dropped from 9.81% to 4.53%. Such an outcome can have a major impact on an investor's financial "treatment" plan.

Improving someone's financial health is a lot like improving their physical health. The challenges associated with pursuing a better financial outcome include diagnosis of the current situation, development of the appropriate course of action,

2 The 2018 Mutual Fund Landscape report compiled by Dimensional showed that for the 15-year period through 2017, only 14% of US equity mutual funds and 13% of US fixed income mutual funds survived and outperformed their benchmark after costs. Refer to *https://us.dimensional.com/perspectives/mutual-fund-landscape-2018* for more information

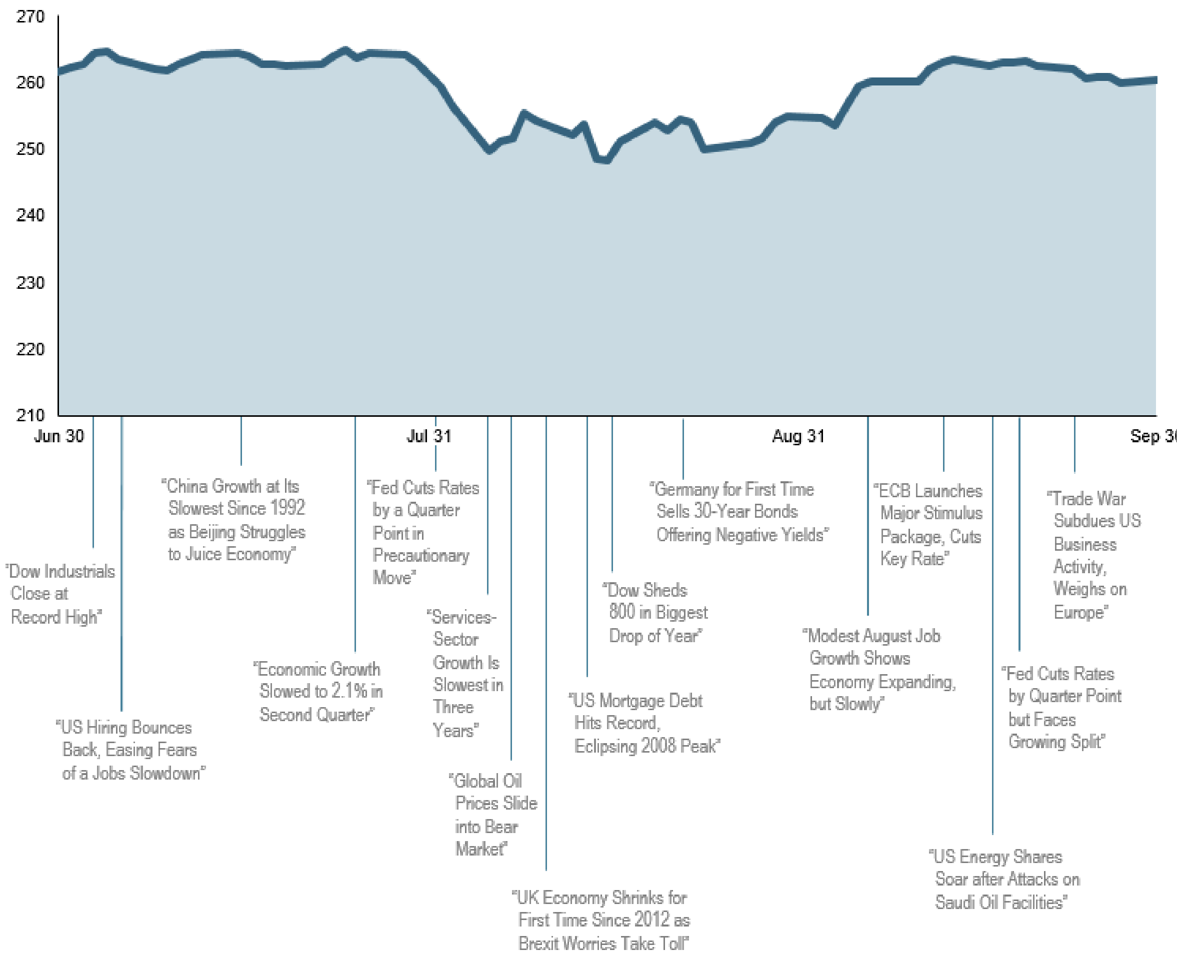
and sticking with the treatment plan. Many advisors are trained on the intricacies of complex financial situations and work to understand how their clients feel about money and how their clients might react to future events. By providing the prescription of reassurance and education over time, we believe the right advisor can play a vital and irreplaceable role in investors' lives.

Market Update – A Brief Around the World Tour of Markets

Despite mixed economic data, US stocks continued their march upwards, reaching another all-time high in July, while international equities stumbled due to a weakening global economy and a stronger dollar. Trade conflict and tariffs are keeping everyone on their toes and uncertainty high, which continued to hurt the manufacturing sector around the world. On the flip side, the US consumer remained resilient. The US employment picture was also very strong with claims for unemployment very stable and the unemployment rate near levels we haven't seen in decades. American wages have ticked up and corporate profits increased in Q2. That being said, the varied economic landscape prompted the Federal Reserve to cut interest rates for the first time in a decade. The cut in rates propelled bond prices higher and the yield curve remained inverted, which is usually an ominous sign for the economy.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2019



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.

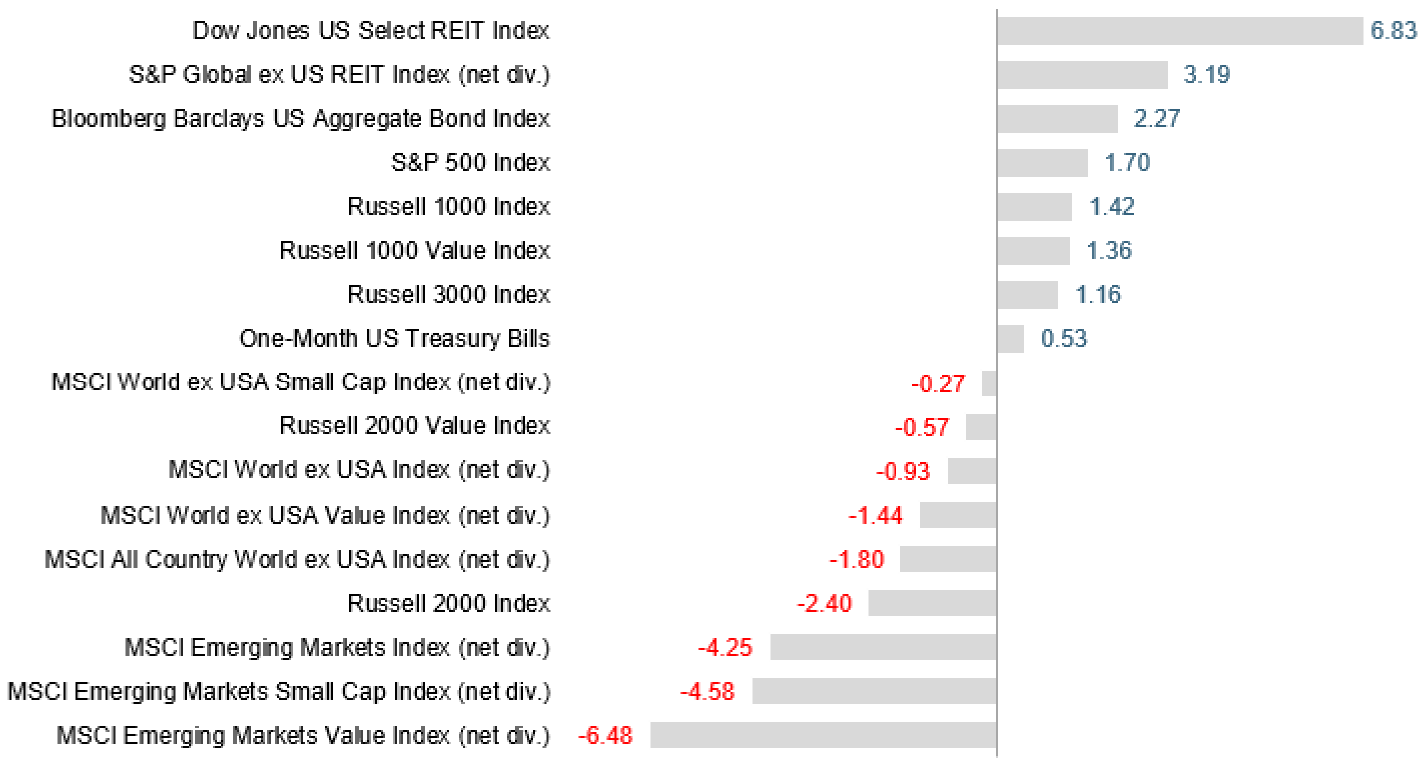
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

On Stocks

As with the economic picture, the stock market picture was also very mixed. While the S&P 500 returned 1.70% to investors in the quarter and is up over 20% for the year it was a quarter where the size of the company and sector played a significant role in outcomes. Smaller companies actually lost ground and the more defense sectors (e.g. Utilities and Consumer Staples) outperformed. Lower interest rates bolstered the Real Estate market and international developed markets slumped 1% as a whole and emerging markets fell 4.3%. The rise in the US dollar detracted over 2% from both international developed and emerging equities. Despite the weakness abroad at an aggregate level, Belgium, Japan and the Netherlands all outperformed the US. Hong Kong declined 11.61% as protests spooked investors.

World Asset Classes

Third Quarter 2019 Index Returns (%)



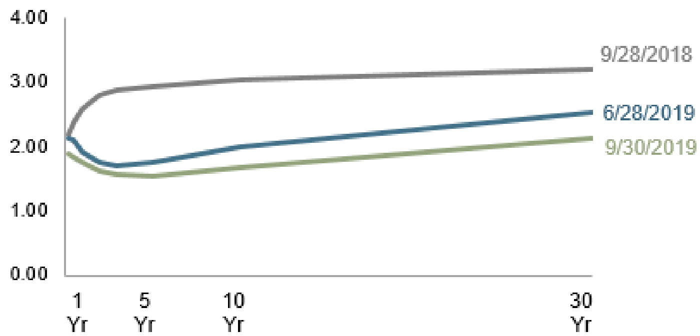
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved. Dow Jones data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg Barclays data provided by Bloomberg. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

On Bonds

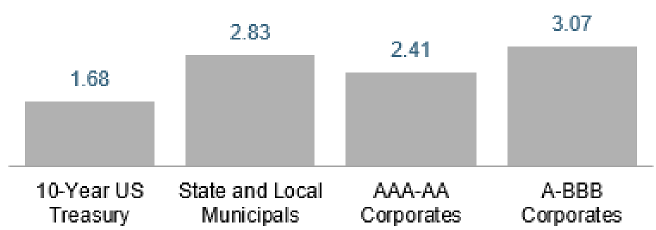
As with stocks, bonds continued their climb upwards and in fact outperformed stocks. This was prompted by a further drop in interest rates. The drop in rates was driven largely by the Fed who backed up their move to a more accommodative position in the second quarter by cutting the benchmark fed funds rate for the first time in 10 years. And the fed funds rate was cut both in July and September. This supported prices and pushed the Bloomberg Barclays US Aggregate Bond Index up 2.30%. The cuts were very beneficial to longer term bonds due to the way that part of the market reacts to interest rate movements. The Bloomberg Barclays US Government Long Bond Index shot up 7.83%. In terms of total returns, short-term corporate bonds increased by 2.09%. Intermediate-term corporate bonds had a total return of 3.13%.

The US 3 month to 10 year yield curve remained "inverted" throughout the quarter meaning the 3 month interest rate was higher than rates on 10 year bonds. As we've discussed in the past few quarters this phenomenon often points to continued economic weakness ahead.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Interest rates in developed markets around the world also declined during the quarter, dropping deeper into negative territory in some cases, which contributed to a modestly positive return for the Bloomberg Barclays Global Aggregate Bond ex-US Index (hedged to USD) of 0.70%. As with US markets, longer-term bonds generally outperformed short-term bonds. Short- and Intermediate-term interest rates were negative in Japan and entirely negative across the German government bond yield curve.

Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	7.83	19.61	24.58	4.11	6.73	6.86
Bloomberg Barclays US Aggregate Bond Index	2.27	8.52	10.30	2.92	3.38	3.75
Bloomberg Barclays Municipal Bond Index	1.58	6.75	8.55	3.19	3.66	4.16
Bloomberg Barclays US TIPS Index	1.35	7.58	7.13	2.21	2.45	3.46
Bloomberg Barclays US High Yield Corporate Bond Index	1.33	11.41	6.36	6.07	5.37	7.94
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.96	3.68	5.26	2.14	1.98	1.86
ICE BofAML 1-Year US Treasury Note Index	0.56	2.33	3.13	1.60	1.12	0.79
ICE BofAML US 3-Month Treasury Bill Index	0.56	1.81	2.39	1.54	0.98	0.54
FTSE World Government Bond Index 1-5 Years	-0.84	1.41	2.36	0.25	-0.07	-0.05

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 ICE BofAML US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofAML 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).