

# Quarterly Market Review

Third Quarter 2019

This report features world capital market performance and a timeline of events for the past 12 months. 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.

**Required Minimum Distributions:** If you are required to take a minimum distribution from your IRA for tax year 2019 you will be receiving correspondence from our office in the near future.

**IMPORTANT! IMPORTANT! IMPORTANT!**

Please notify our office if you are over 70 1/2 and have other qualified or IRA assets held outside of VSM purview. This will allow us to calculate the correct distribution. Account holders that have reached the age of 70 1/2 in 2019 must take an RMD by April 1, 2020. After an account holder takes the initial RMD, all future RMDs must be taken by December 31. If you have any questions call Sara Bowser.

Enclosed in client quarterly statements is a copy of our **Client Information Privacy Principles**.

## Overview:

Quarterly Topic: Timing Isn't Everything

Market Summary

World Stock Market Performance

Impact of Diversification

Randomness Of Market Returns

# Timing Isn't Everything

Third Quarter 2019

Over the course of a summer, it's not unusual for the stock market to be a topic of conversation at barbeques or other social gatherings.

A neighbor or relative might ask about which investments are good at the moment. The lure of getting in at the right time or avoiding the next downturn may tempt even disciplined, long-term investors. The reality of successfully timing markets, however, isn't as straightforward as it sounds.

## OUTGUESSING THE MARKET IS DIFFICULT

Attempting to buy individual stocks or make tactical asset allocation changes at exactly the "right" time presents investors with substantial challenges. First and foremost, markets are fiercely competitive and adept at processing information. During 2018, a daily average of \$462.8 billion in equity trading took place around the world.<sup>1</sup> The combined effect of all this buying and selling is that available information, from economic data to investor preferences and so on, is quickly incorporated into market prices. Trying to time the market based on an article from this morning's newspaper or a segment from financial television? It's likely that information is already reflected in prices by the time an investor can react to it.

Dimensional recently studied the performance of actively managed US-based mutual funds and found that even professional investors have difficulty beating the market: over the last 20 years, 77% of equity funds and 92% of fixed income funds failed to survive and outperform their benchmarks after costs.<sup>2</sup>

Further complicating matters, for investors to have a shot at successfully timing the market, they must make the call to buy or sell stocks correctly not just once, but twice. Professor Robert Merton, a Nobel laureate, said it well in a recent interview with Dimensional:

"Timing markets is the dream of everybody. Suppose I could verify that I'm a .700 hitter in calling market turns. That's pretty good; you'd hire me right away. But to be a good market timer, you've got to do it twice. What if the chances of me getting it right were independent each time? They're not. But if they were, that's 0.7 times 0.7. That's less than 50-50. So, market timing is horribly difficult to do."

## TIME AND THE MARKET

The S&P 500 Index has logged an incredible decade. Should this result impact investors' allocations to equities? **Exhibit 1** suggests that new market highs have not been a harbinger of negative returns to come. The S&P 500 went on to provide positive average annualized returns over one, three, and five years following new market highs.

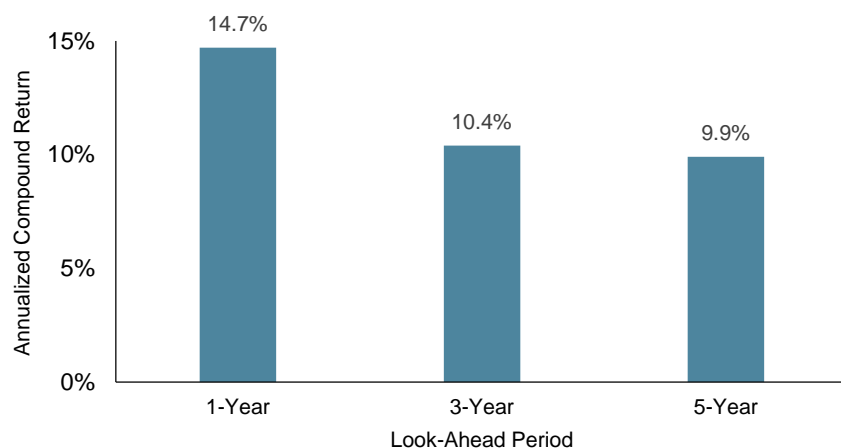
1. In US dollars. Source: Dimensional, using data from Bloomberg LP. Includes primary and secondary exchange trading volume globally for equities. ETFs and funds are excluded. Daily averages were computed by calculating the trading volume of each stock daily as the closing price multiplied by shares traded that day. All such trading volume is summed up and divided by 252 as an approximate number of annual trading days.

2. Past performance is no guarantee of future results. US-domiciled open-end mutual fund data is from Morningstar. The sample includes funds at the beginning of the 20-year period ending December 31, 2018. For further details, see the [Mutual Fund Landscape 2019](#).

# Timing Isn't Everything

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Exhibit 1. Average Annualized Returns After New Market Highs  
S&P 500, January 1926–December 2018



In US dollars. Past performance is no guarantee of future results. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market high observations. There were 1,115 observation months in the sample. January 1990–December 2018: S&P 500 Total Returns Index. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. There is always a risk that an investor may lose money.

## CONCLUSION

Outguessing markets is more difficult than many investors might think. While favorable timing is theoretically possible, there isn't much evidence that it can be done reliably, even by professional investors. The positive news is that investors don't need to be able to time markets to have a good investment experience. Over time, capital markets have rewarded investors who have taken a long-term perspective and remained disciplined in the face of short-term noise. By focusing on the things they can control (like having an appropriate asset allocation, diversification, and managing expenses, turnover, and taxes) investors can better position themselves to make the most of what capital markets have to offer.

Source: Dimensional Fund Advisors LP.

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. Diversification does not eliminate the risk of market loss.







There is no guarantee investment strategies will be successful. Investing involves risks, including possible loss of principal. Investors should talk to their financial advisor prior to making any investment decision. There is always the risk that an investor may lose money. A long-term investment approach cannot guarantee a profit.

All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

Robert Merton provides consulting services to Dimensional Fund Advisors LP.

# Quarterly Market Summary

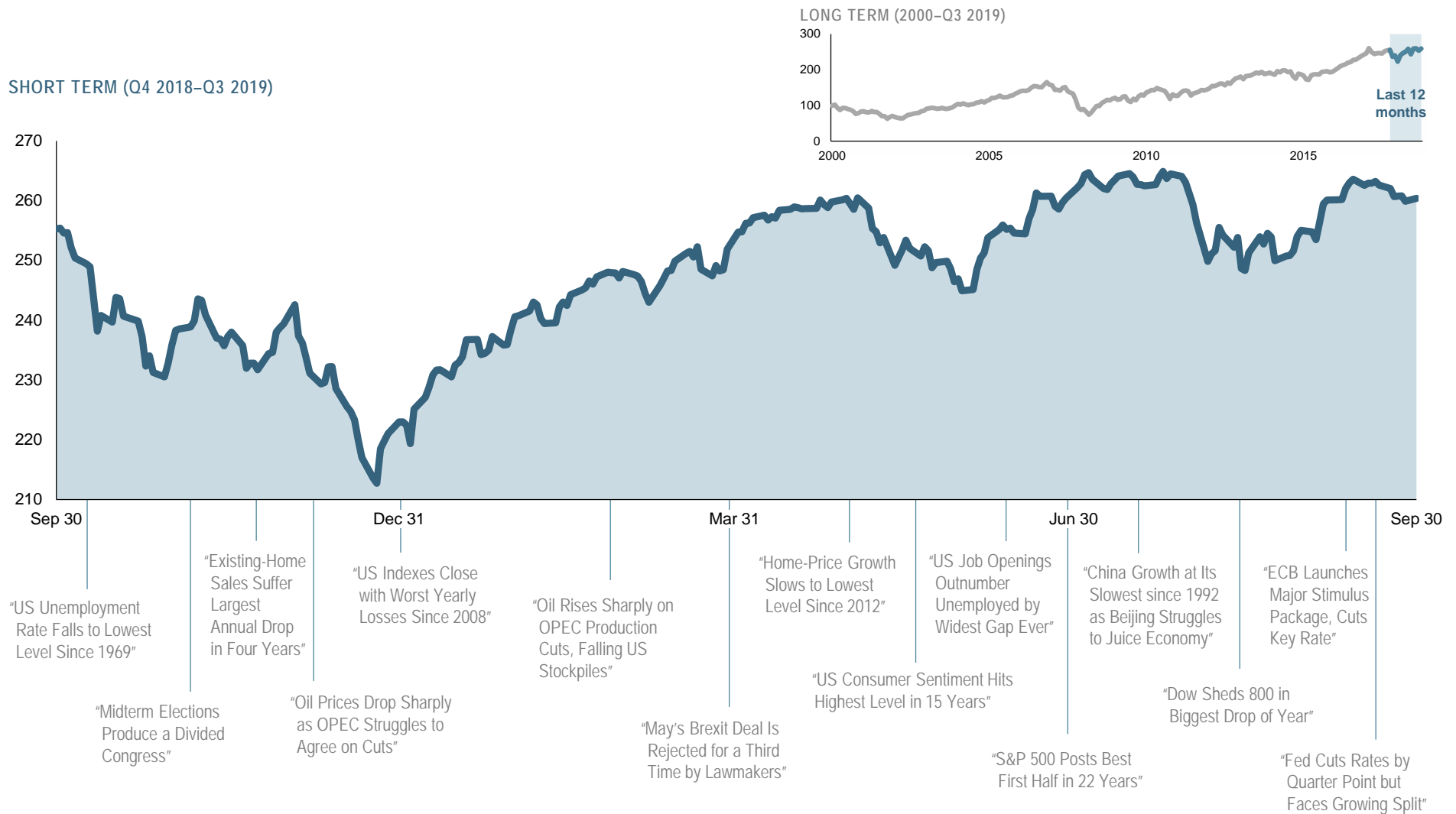
## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
<b>3Q 2019</b>	<b>STOCKS</b>					<b>BONDS</b>	
	<b>1.16%</b> 	<b>-0.93%</b> 	<b>-4.25%</b> 	<b>5.72%</b> 		<b>2.27%</b> 	<b>2.83%</b> 
<b>Since Jan. 2001</b>							
Avg. Quarterly Return	2.0%	1.4%	2.8%	2.6%		1.2%	1.2%
Best Quarter	16.8%	25.9%	34.7%	32.3%		4.6%	4.6%
	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>		<b>2001 Q3</b>	<b>2008 Q4</b>
Worst Quarter	-22.8%	-21.1%	-27.6%	-36.1%		-3.0%	-2.7%
	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2008 Q4</b>		<b>2016 Q4</b>	<b>2015 Q2</b>

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]). S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. 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. Bloomberg Barclays data provided by Bloomberg.

# 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 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.

# Impact of Diversification

Third Quarter 2019

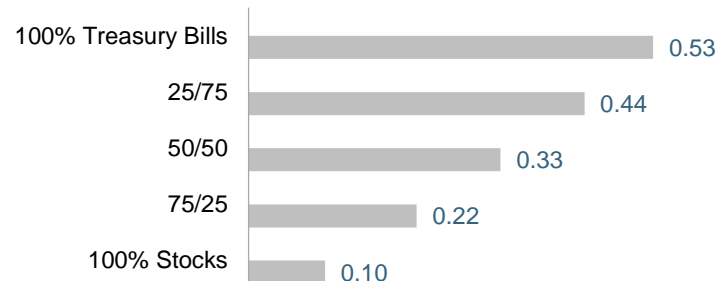
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Period Returns (%)

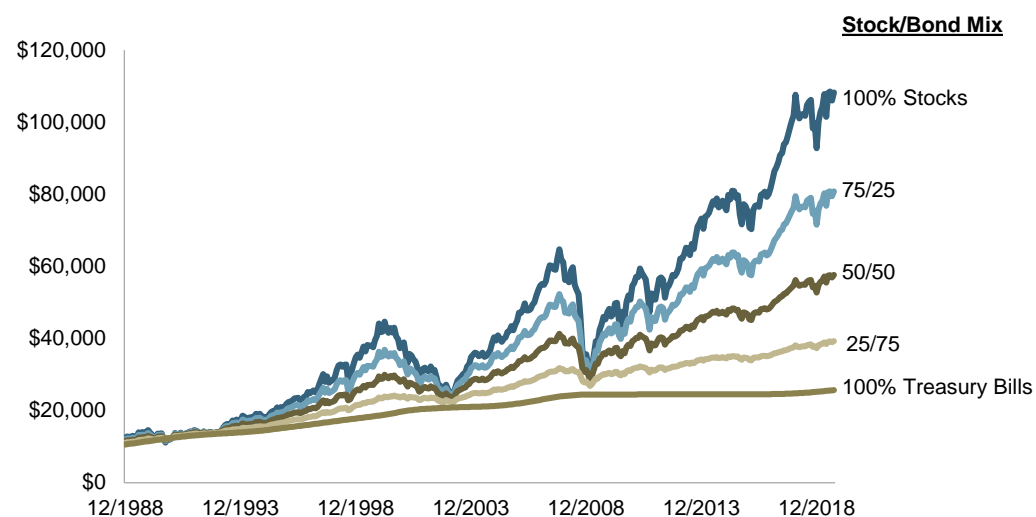
\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Stocks	16.71	1.95	10.30	7.23	8.93	13.20
75/25	12.94	2.30	8.15	5.75	6.93	9.90
50/50	9.18	2.48	5.96	4.20	4.85	6.60
25/75	5.44	2.47	3.73	2.59	2.70	3.30
100% Treasury Bills	1.72	2.29	1.46	0.91	0.48	0.22

## Ranked Returns (%)





## 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 2019, 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).

# Randomness Of Market Returns

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<p>Highest Return</p>   <p>Lowest Return</p>	US REIT 28.07%	US Bonds 7.84%	Large Cap US 14.60%	Small Cap US 36.99%	US REIT 27.40%	US REIT 0.80%	Commodity 9.86%	Emerging Markets 34.35%	US Bonds 0.01%	US REIT 21.23%
	Small Cap US 26.86%	US REIT 5.50%	Global Allocation 13.05%	Large Cap US 29.60%	Large Cap US 11.40%	US Bonds 0.55%	US REIT 8.90%	International Developed 25.03%	Large Cap US -6.20%	Large Cap US 18.74%
	Emerging Markets 16.36%	Large Cap US 0.00%	Small Cap US 13.00%	International Developed 22.77%	US Bonds 5.97%	Large Cap US -0.73%	US Bonds 5.31%	Large Cap US 19.40%	Global Allocation -6.41%	Small Cap US 14.18%
	Large Cap US 15.06%	Commodity -1.18%	US REIT 11.60%	Global Allocation 15.97%	Global Allocation 3.71%	International Developed -0.81%	Emerging Markets 5.03%	Global Allocation 14.04%	US REIT -8.00%	Global Allocation 10.74%
	Global Allocation 13.74%	Global Allocation -2.16%	International Developed 10.08%	Commodity -1.22%	Small Cap US 3.50%	Global Allocation -1.74%	Global Allocation 9.16%	Small Cap US 13.10%	Small Cap US -12.20%	International Developed 9.85%
	Commodity 9.03%	Small Cap US -5.45%	Emerging Markets 9.41%	US Bonds -2.02%	Emerging Markets -4.63%	Small Cap US -5.70%	Large Cap US 2.70%	Commodity 5.77%	International Developed -13.79%	Commodity 8.61%
	International Developed 7.75%	International Developed -12.14%	US Bonds 3.99%	US REIT -2.30%	International Developed -4.90%	Emerging Markets -16.96%	Small Cap US 1.40%	US Bonds 3.54%	Commodity -13.82%	US Bonds 8.52%
	US Bonds 6.54%	Emerging Markets -20.41%	Commodity 3.47%	Emerging Markets -5.03%	Commodity -33.06%	Commodity -32.86%	International Developed -4.42%	US REIT -0.10%	Emerging Markets -16.64%	Emerging Markets 3.65%

Large Cap US is defined as the S&P 500 Index, Small Cap US is defined as the Russel I 2000 Index, US Reit is defined as the Dow Jones US Select REIT Index, International Developed is defined as MSCI EAFE Index, Emerging Markets is defined as the MSCI Emerging Index, Commodity is defined as the S&P GSCI and US Bonds are Defined as the BarCap US Agg Bond Index. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Global Allocation is defined as the DFA 60/40 Global Allocation Fund Institutional Shares.