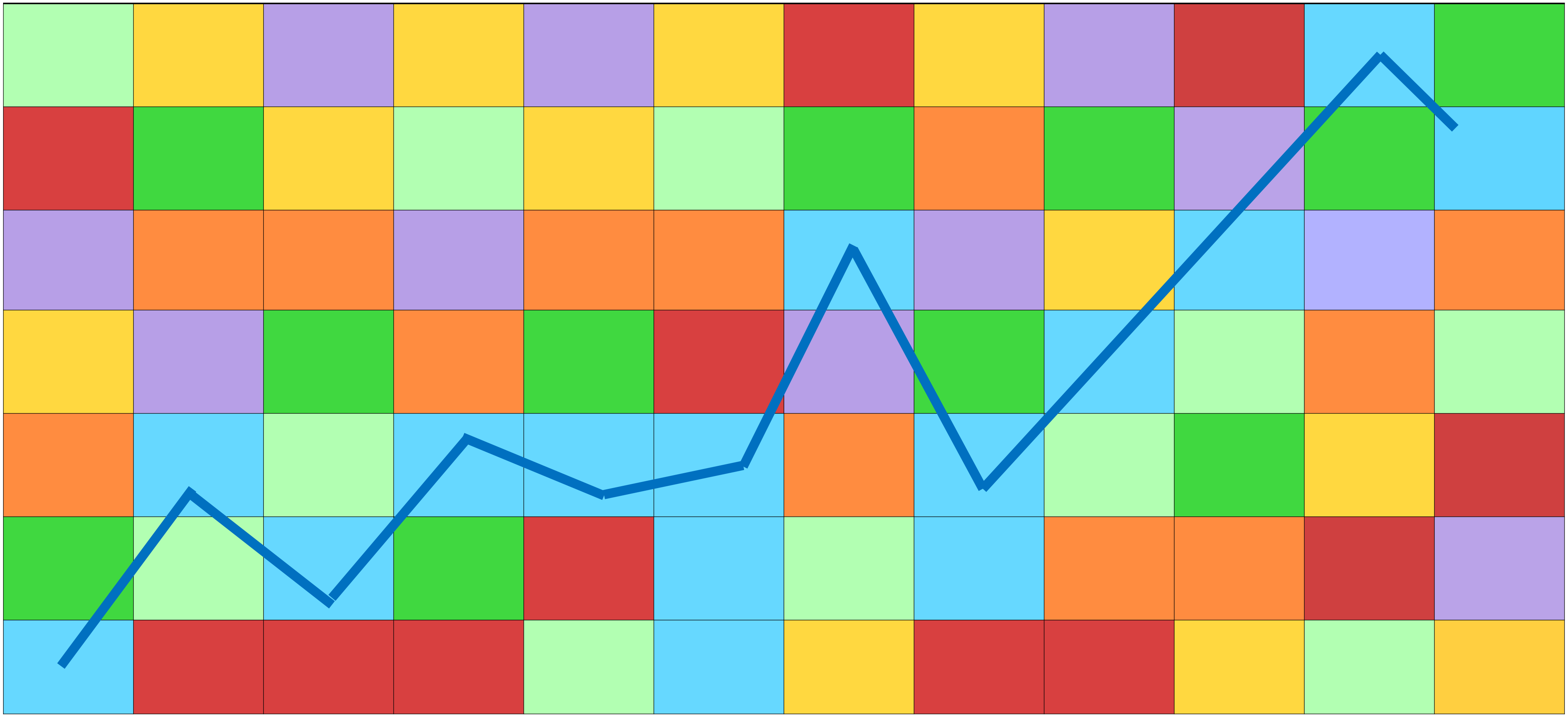

VANSANT MEWSHAW

REGISTERED INVESTMENT ADVISOR

Q2

Quarterly Market Review
Second Quarter 2017

Quarterly Market Review

Second Quarter 2017

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:

Of Corrections, Recessions, Bear Markets And Other Distractions

VSM
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TUNE IN TO CNBC, OR FOX BUSINESS NETWORK, AND LEAVE IT on for an entire eight hour day. (I dare you.)

I can pretty much guarantee you that sometime during those eight hours, one of their numberless, ubiquitous talking heads—of whom you've never heard before and may never hear again—will predict an imminent stock market **correction**.

He/she will not define the term "correction," nor say where the correction will begin, nor predict where it will end. He/she will simply say, "We're overdue for a correction, because of this, that and the other warning signs." Then there will be a commercial for gold coins, a prescription drug for a malady you do not have, or adult diapers. Or all three.

At some other point in the eight hours, another no-name talking head will predict a **recession**. Once more: no definition, no estimate of an onset, no mention of a bottom. Cut to commercial.

Finally, well within the eight hours, a third far-seeing talking head will call for a **bear market**. (Hasn't been one since the bottom in 2009; market is "overvalued;" Fed is raising rates.) Once again: no definition, no projected peak, no projected trough. Now this commercial message.

What are you—the patient, disciplined, goal-focused, long-term investor—to do? What do you need to know—heck, what ***can*** you know—in order to deal intelligently with one or more of these forecast market/economic setbacks? I will suggest that there are six key things you can, and indeed must, know. To wit:

- All the stock market corrections in your lifetime—and long before—have been temporary. So have all the economic **recessions**, and so have all the bear markets in stocks. They have all been temporary setbacks, and each has given way in time to the resumption of a major long-term uptrend.

- During the 71 years 1946-2016, there were 57 stock market **corrections**, which are usually defined as declines in the S&P 500 Index of ten percent or more on a closing basis. *That's an average of about one every fifteen months*.

- During the same period, there have been eleven economic recessions, usually defined as a decline in U.S. GDP lasting for a least two calendar quarters. *That's an average of about one every six and a half years.* The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP. (Another way of looking at this is to consider that there were 852 months in the 71 years under discussion, and that the economy was in recession for 121 of them, or 14%. The other 86% of the time, the economy was growing, as indeed it is at the moment.)

(continued page 4)

Of Corrections, Recessions, Bear Markets And Other Distractions

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- During this time, there have been (by my count) 14 **bear markets** in stocks, usually defined as a decline in the Index of 20% or more on a closing basis. *That's an average of about one every five years.* Please note, however, that I include in my count three declines of 19% and change, just because they **felt** like real bear markets**.** I must ask you to humor me on this.

- During these 71 years, when stocks were **correcting** 57 times, and experiencing 14 bear markets, the S&P 500 Index went from 15 to 2,240, an increase of about 150 times. (The dividend, not that you asked, went from seventy-one cents to $45, up about 65 times.)

- During the same 71 years, while the economy was experiencing 11 **recessions**, real (inflation-adjusted) U.S. Gross Domestic Product went from about $2 trillion to nearly $17 trillion. That's a multiple of more than 8 times in a country whose population grew less than two and a half times, so per capita real GDP growth has been…pretty darn terrific.

What ought you to infer from this tsunami of data? I'll leave that question to you and the financial advisor who sent you this little essay, to explore at your leisure.

What ***I*** infer from it is that, lo these 71 years past, an equity investor who stayed focused on the long-term trends—the 86% of the time the economy was expanding, for example—probably did pretty well, if not very well. But the investor who got panicked over one of the temporary declines—in the economy, in stock prices—probably did…a whole lot less well.

You can't change (or control, or predict, or time) the economy or the markets. ***But at any moment, you can change what you choose to focus on*.** And over time, the decisive variable in your lifetime investment returns is very likely to be your focus.

(Data above concerning the price and dividends of the S&P 500 come from ---you guessed it---S&P. Recession data come from the National Bureau of Economic Research, the official arbiter of such things. Population data come from---right again---the U.S. Census Bureau, a government agency. GDP data come from the U.S. Bureau of Economic Analysis, another government agency. As the late, lamented Casey Stengel always said, "You could look it up.")

Market Summary

Index Returns

Q2 2017	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	3.02%	5.63%	6.27%	1.67%	1.45%	0.60%

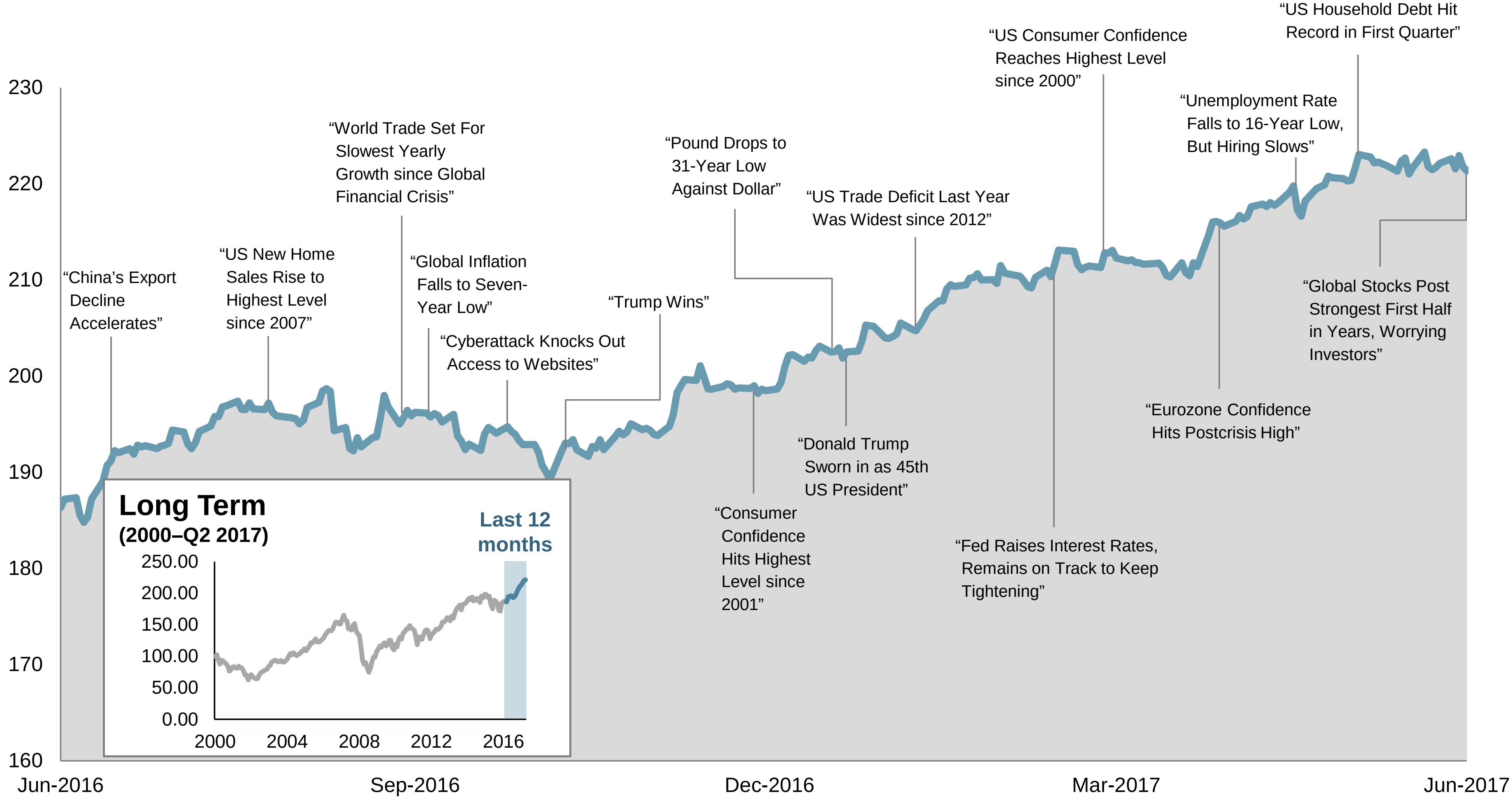
Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	1.9%	1.5%	3.1%	2.7%	1.2%	1.1%
Best Quarter	16.8% **Q2 2009**	25.9% **Q2 2009**	34.7% **Q2 2009**	32.3% **Q3 2009**	4.6% **Q3 2001**	5.5% **Q4 2008**
Worst Quarter	-22.8% **Q4 2008**	-21.2% **Q4 2008**	-27.6% **Q4 2008**	-36.1% **Q4 2008**	-3.0% **Q4 2016**	-3.2% **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 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
(Q3 2016–Q2 2017)



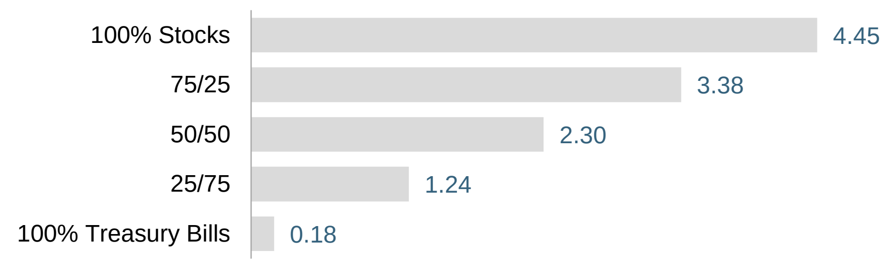
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights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

Impact of Diversification

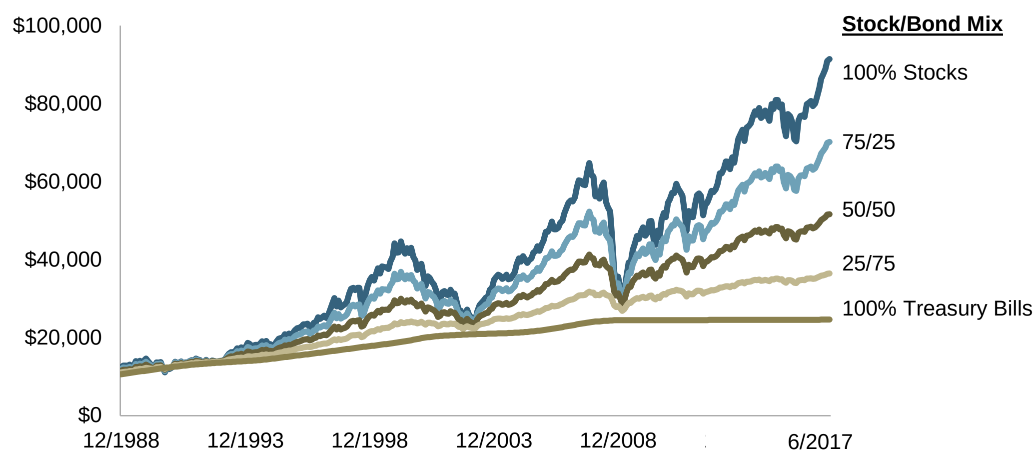
Second Quarter 2017 Index Returns

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 (%)



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	11.82	19.42	5.39	11.14	4.27	16.96
75/25	8.84	14.41	4.17	8.38	3.60	12.71
50/50	5.93	9.57	2.89	5.62	2.73	8.46
25/75	3.08	4.90	1.56	2.87	1.68	4.22
100% Treasury Bills	0.29	0.40	0.17	0.12	0.45	0.29

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. Sinquefield).

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Randomness Of Market Returns

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Highest Return	US Bonds 5.24%	Emerging Markets 74.50%	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 17.22%
	Global Allocation -25.74%	International Developed 31.78%	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 13.81%
	Small Cap US -33.79%	US REIT 28.46%	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 8.20%
	Large Cap US -37.00%	Small Cap US 27.17%	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 6.32%
	US REIT -39.20%	Large Cap US 26.46%	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 3.66%	Small Cap US 4.30%
	International Developed -46.38%	Global Allocation 25.53%	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%	US Bonds 2.27%
	Commodity -46.49%	Commodity 13.49%	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 REIT -.50%
Lowest Return	Emerging Markets -54.48%	US Bonds 5.93%	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%	Commodity -10.24%

Large Cap US is defined as the S&P 500 Index, Small Cap US is defined as the Russel l 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.