

Quarterly Market Review

Third Quarter 2016

Q3

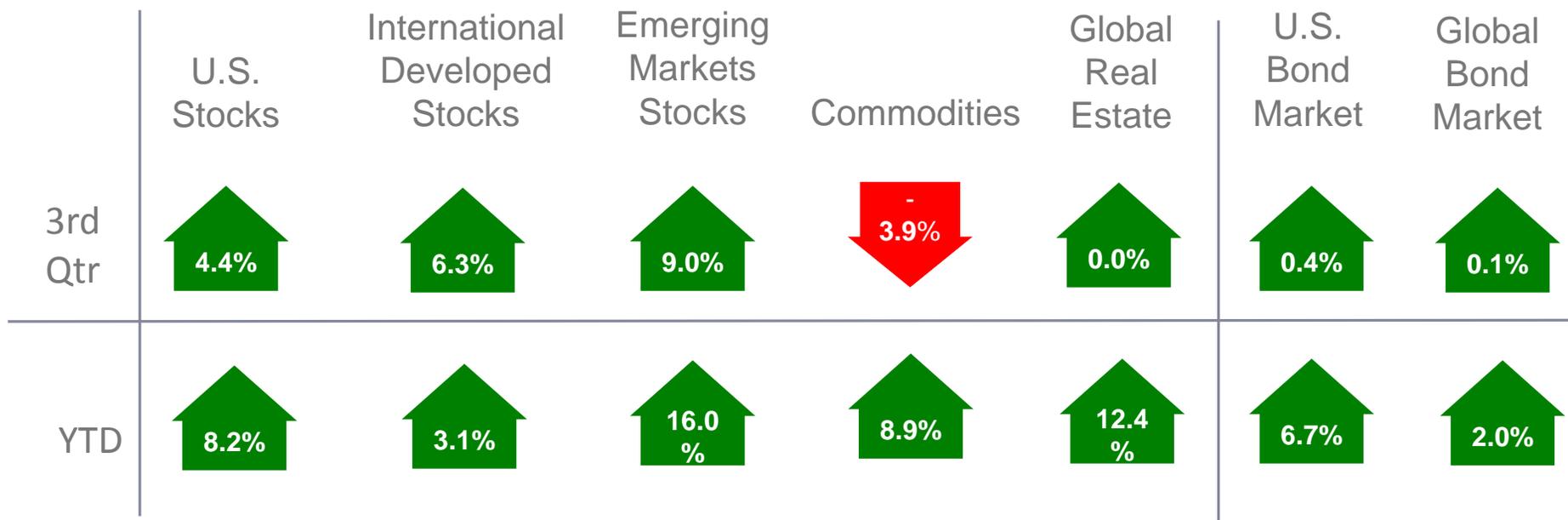


By the Numbers: 3rd Quarter 2016 Index Returns



Reflecting back on 3rd quarter asset class performance, disappointments were few and far between. Stocks provided solid returns across the globe, as domestic and global bonds inched forward. Real estate's climb paused and commodities retraced earlier gains. Investors welcomed the mostly upward trend as last quarter ended with volatility surrounding Brexit. For the year, major asset classes are all in the green as we head into the final quarter of the year.

Themes to watch in the 4th Quarter: (1) Fed/interest rates, and (2) the Presidential election.

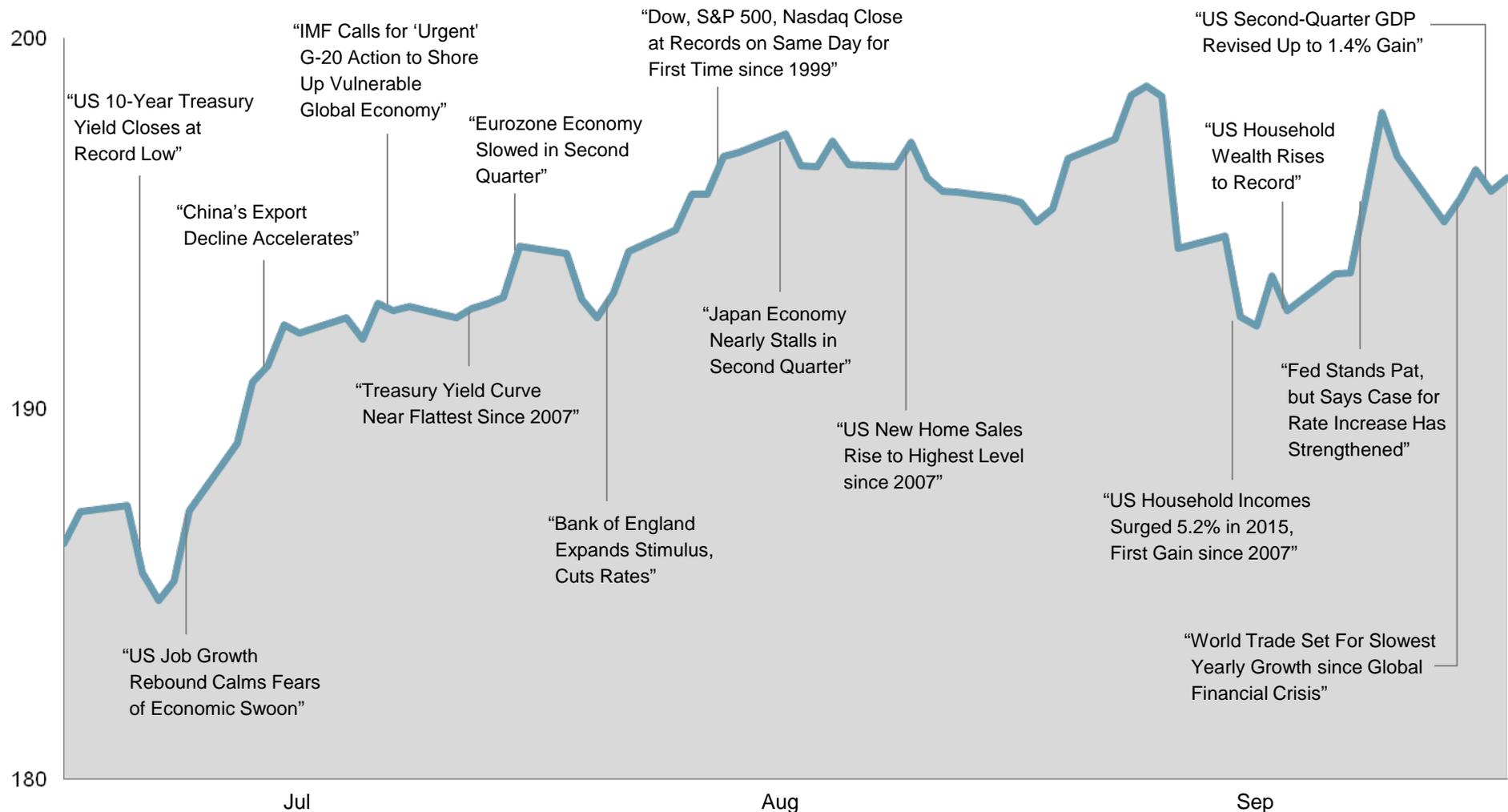


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World Stock Market Performance



MSCI All Country World Index with selected headlines from Q3 2016



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.

Presidential Elections and the Stock Market



Next month, Americans will head to the polls to elect the next president of the United States. While the outcome is unknown, one thing is for certain: There will be a steady stream of opinions from pundits and prognosticators about how the election will impact the stock market.

As we explain below, investors would be well-served to avoid the temptation to make significant changes to a long-term investment plan based upon these sorts of predictions.

Short-Term Trading and Presidential Election Results

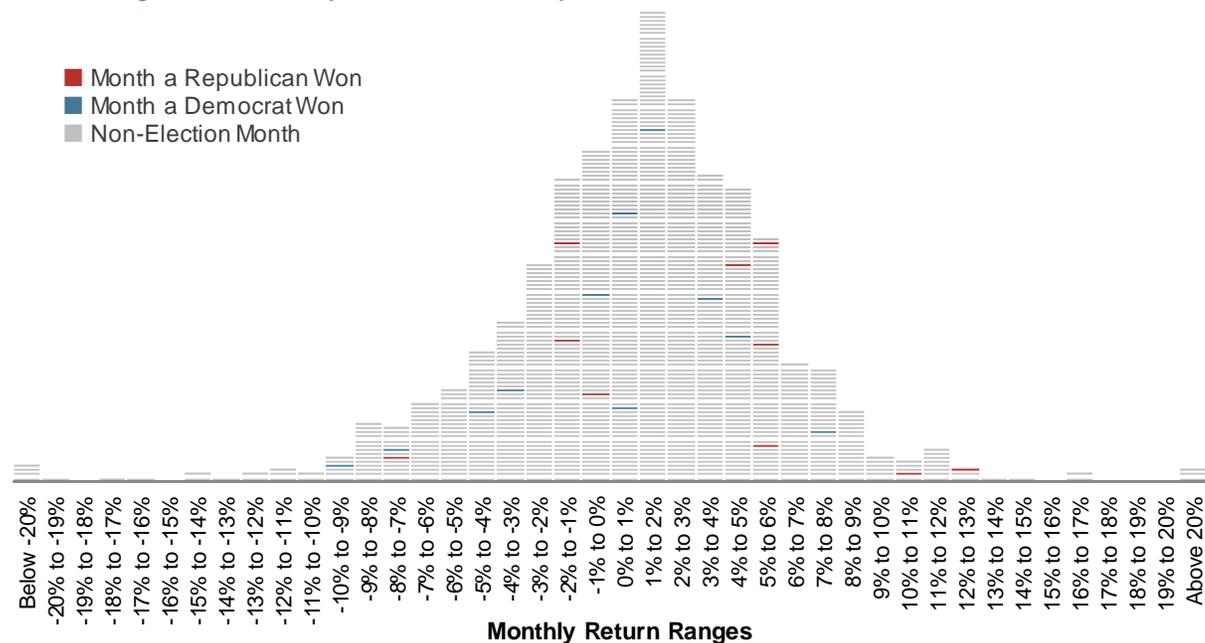
Trying to outguess the market is often a losing game. Current market prices offer an up-to-the-minute snapshot of the aggregate expectations of market participants. This includes expectations about the outcome and impact of elections. While unanticipated future events—surprises relative to those expectations—may trigger price changes in the future, the nature of these surprises cannot be known by investors today. As a result, it is difficult, if not impossible, to systematically benefit from trying to identify mispriced securities.

This suggests it is unlikely that investors can gain an edge by attempting to predict what will happen to the stock market after a presidential election.

Exhibit 1 shows the frequency of monthly returns (expressed in 1% increments) for the S&P 500 Index from January 1926 to June 2016. Each horizontal dash represents one month, and each vertical bar shows the cumulative number of months for which returns were within a given 1% range (e.g., the tallest bar shows all months where returns were between 1% and 2%). The

blue and red horizontal lines represent months during which a presidential election was held. Red corresponds with a resulting win for the Republican Party and blue with a win for the Democratic Party. This graphic illustrates that election month returns were well within the typical range of returns, regardless of which party won the election.

Exhibit 1. Presidential Elections and S&P 500 Returns Histogram of Monthly Returns, January 1926–June 2016



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Presidential Elections and the Stock Market



Long-Term Investing:

Bulls & Bears ≠ Donkeys & Elephants

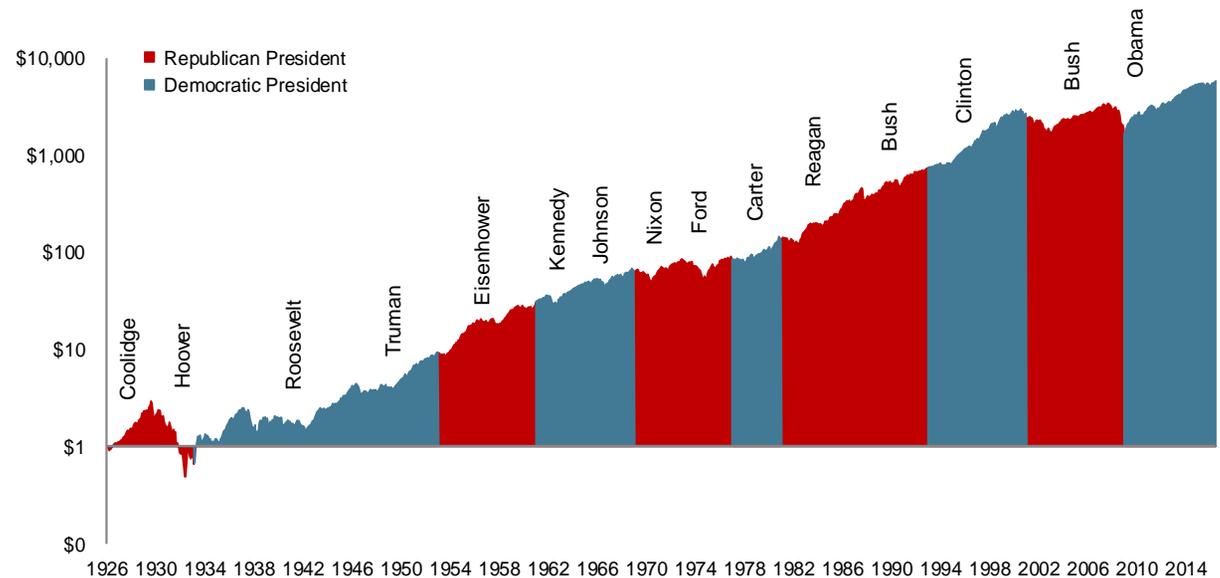
Predictions about presidential elections and the stock market often focus on which party or candidate will be “better for the market” over the long run. Exhibit 2 shows the growth of one dollar invested in the S&P 500 Index over nine decades and 15 presidencies (from Coolidge to Obama). This data does not suggest an obvious pattern of long-term stock market performance based upon which party holds the Oval Office. The key takeaway here is that over the long run, the market has provided substantial returns regardless of who controlled the executive branch.

Conclusion

Equity markets can help investors grow their assets, but investing is a long-term endeavor. Trying to make investment decisions based upon the outcome of presidential elections is unlikely to result in reliable excess returns for investors.

At best, any positive outcome based on such a strategy will likely be the result of random luck. At worst, it can lead to costly mistakes. Accordingly, there is a strong case for investors to rely on

patience and portfolio structure, rather than trying to outguess the market, in order to pursue investment returns.



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Source: Dimensional Fund Advisors LP.

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Diversification does not eliminate the risk of market loss. Investment risks include loss of principal and fluctuating value. There is no guarantee an investing strategy will be successful.

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