



Cherry Bekaert Wealth Management

Market Update: The Quarter in Review

Useful Information for Your Business & Financial Success

Summary

First Quarter 2017

Looking at broad market indices, emerging markets outperformed both US and non-US developed markets during the quarter. Real estate investment trusts (REITs) lagged their equity market counterparts. The value effect was negative in the US, non-US, and emerging markets. Small caps outperformed large caps in emerging markets and non-US developed markets but underperformed in the US.

The broad US equity market recorded positive absolute performance for the quarter. Value underperformed growth indices across all size ranges. Small caps underperformed large caps.

In US dollar terms, developed markets outperformed the US equity market but underperformed emerging markets indices during the quarter. Small caps outperformed large caps in non-US developed markets. The value effect was negative across all size ranges in non-US developed markets.

In US dollar terms, emerging markets indices outperformed both the US and developed markets outside the US. The value effect was negative among large cap stocks in emerging markets but positive among small cap stocks. Small caps outperformed large caps.

Interest rates were mixed across the US fixed income market during the first quarter of 2017. The yield on the 5-year Treasury note was unchanged, ending at 1.93%. The yield on the 10-year Treasury note decreased 5 basis points (bps) to 2.40%. The 30-year Treasury bond yield decreased 4 bps to 3.02%. The yield on the 1-year Treasury bill rose 18 bps to 1.03%, and the 2-year T-note yield increased 7 bps to 1.27%. The yield on the 3-month T-bill increased 25 bps to 0.76%, while the 6-month T-bill yield rose 29 bps to 0.91%.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities. Please see page 4 for additional footnotes and disclosures.

Investment Shock Absorbers

First Quarter 2017

Ever ridden in a car with worn-out shock absorbers? Every bump is jarring, every corner stomach-churning, and every red light an excuse to assume the brace position. Owning an undiversified portfolio can trigger similar reactions.

You can drive a car with a broken suspension system, but it will be an extremely uncomfortable ride and the vehicle will be much harder to control, particularly in difficult conditions. Throw in the risk of a breakdown or running off the road altogether and there's a real chance you may not reach your destination.

In the world of investment, a similarly bumpy and unpredictable ride can await those with concentrated and undiversified portfolios or those who constantly tinker with their allocation.

Of course, everyone feels in control when the surface is straight and smooth, but it's harder to stay on the road during sudden turns and ups and downs in the market.

For that reason, the smart thing to do is to diversify, spreading your portfolio across different securities, sectors, and countries. That also means identifying the right mix of investments (e.g., stocks, bonds, real estate) that aligns with your risk tolerance.

Using this approach, your returns from year to year may not match the top performing portfolio, but neither are they likely to match the worst. More importantly, this is a ride you are likelier to stick with.

Here's an example. Among developed markets, Denmark was number one in US dollar terms in 2015 with a return of more than 23%. But a big

bet on that country the following year would have backfired, as Denmark slid to bottom of the table with a loss of nearly 16%.¹

It's true that the US stock market (by far the world's biggest) has been a strong performer in recent years. But a decade before, in 2004 and 2006, it was the second worst-performing developed market in the world.¹

Predicting which part of a market will do best over a given period is tough. US small cap stocks were among the top performers in 2016 with a return of more than 21%. A year before, their results looked relatively disappointing with a loss of more than 4%. International small cap stocks had their turn in the sun in 2015, topping the performance tables with a return of just below 6%. But the year before that, they were the second worst with a loss of 5%.²

If you've ever taken a long road trip, you'll know that conditions along the way can change quickly and unpredictably, which is why you need a vehicle that's ready for the worst roads as well as the best. While diversification can never completely eliminate the impact of bumps along your particular investment road, it does help reduce the potential outsized impact that any individual investment can have on your journey.

With sufficient diversification, the jarring effects of performance extremes level out. That, in turn, helps you stay in your chosen lane and on the road to your investment destination.

Happy motoring and happy investing.

1. In US dollars. MSCI developed markets country indices (net dividends). MSCI data © MSCI 2017, all rights reserved.

2. In US dollars. US Small Cap is the Russell 2000 Index. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. International Small Cap is the MSCI World ex USA Small Cap Index (gross dividends). MSCI data copyright MSCI 2017, all rights reserved.

Adapted from "Investment Shock Absorbers," *Outside the Flags*, February 2017. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission. All expressions of opinion are subject to change. This information is intended for educational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

Global Diversification

First 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 (%)

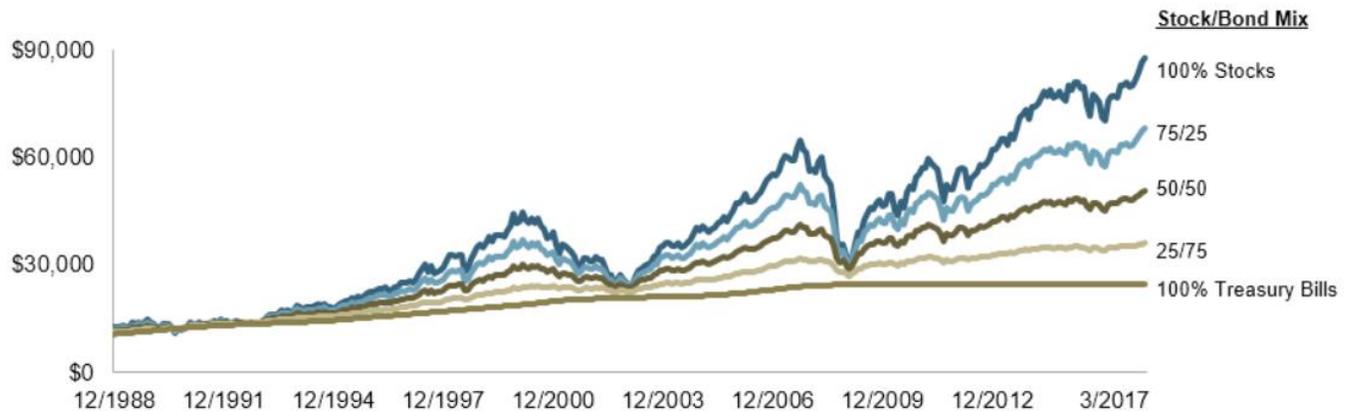
100% Stocks	7.05
75/25	5.28
50/50	3.54
25/75	1.81
100% Treasury Bills	0.11

Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Stocks	15.69	5.65	8.97	4.56	17.01
75/25	11.67	4.35	6.80	3.84	12.75
50/50	7.76	2.99	4.60	2.93	8.5
25/75	3.96	1.58	2.36	1.83	4.24
100% Treasury Bills	0.26	0.11	0.08	0.56	0.36

Growth of Wealth: The Relationship between Risk and Return



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. Sinquefeld).

Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q1 2017	STOCKS				BONDS	
	5.74%	6.81%	11.44%	1.44%	0.82%	-0.35%
						

Since Jan. 2001						
Avg. Quarterly Return	1.9%	1.4%	3.0%	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

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