

Cherry Bekaert Wealth Management

# Market Update: The Quarter in Review

Useful Information for Your Business & Financial Success

## Summary

### First Quarter 2018

Looking at broad market indices, emerging markets outperformed developed markets, including the US, in the first quarter. The value effect was positive in emerging markets but negative in developed markets, including the US. Small caps outperformed large caps in developed markets, including the US, but underperformed in emerging markets.

The US equity market posted a negative return for the quarter. Value underperformed growth across large and small cap indices. Small caps outperformed large caps.

In US dollar terms, emerging markets outperformed developed markets, including the US, during the quarter. The value effect was positive in large cap indices but negative in small cap indices within emerging markets. Small caps underperformed large caps in emerging markets.

Interest rates increased in the US during the first quarter. The yield on the 5-year Treasury note rose 36 basis points (bps), ending at 2.56%. The yield on the 10-year Treasury note increased 34 bps to 2.74%. The 30-year Treasury bond yield rose 23 bps to finish at 2.97%.

On the short end of the yield curve, the 1-month Treasury bill yield increased 35 bps to 1.63%, while the 1-year Treasury bill yield rose 33 bps to 2.09%. The 2-year Treasury note finished at 2.27% after a yield increase of 38 bps.

In terms of total return, short-term corporate bonds dipped 0.38% and intermediate corporates fell 1.50%. Short-term municipal bonds advanced 0.10%, while intermediate munis declined 1.29%. Revenue bonds performed in-line with general obligation bonds, declining 1.19% and 1.20%, respectively.

*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.*

# Sailing with the Tides

First Quarter 2018

Embarking on a financial plan is like sailing around the world. The voyage won't always go to plan, and there'll be rough seas. But the odds of reaching your destination increase greatly if you are prepared, flexible, patient, and well-advised.

A mistake many inexperienced sailors make is not having a plan at all. They embark without a clear sense of their destination. And once they do decide, they often find themselves lost at sea in the wrong boat with inadequate provisions.

Likewise, in planning an investment journey, you need to decide on your goal. A first step might be to consider whether the goal is realistic and achievable. For instance, while you may long to retire in the south of France, you may not be prepared to sacrifice your needs today to satisfy that distant desire.

Once you are set on a realistic destination, you need to ensure you have the right portfolio to get you there. Have you planned for multiple contingencies? What degree of "bad weather" can your plan withstand along the way?

Key to a successful voyage is a good navigator. A trusted advisor is like that, regularly taking coordinates and making adjustments, if necessary. If your circumstances change, the advisor may suggest you replot your course.

As with the weather at sea, markets can be unpredictable. A sudden squall can whip up waves of volatility, tides can shift, and strong currents can threaten to blow you off course. Like a seasoned sailor, an experienced advisor will work with the conditions.

Once the storm passes, you can pick up speed again. Just as a sturdy vessel will help you withstand most conditions at sea, a well-diversified portfolio can act as a bulwark against the sometimes tempestuous conditions in markets.

Circumnavigating the globe is not exciting every day. Patience is required with local customs and paperwork as you pull into different ports. Likewise, a lack of attention to costs and taxes is the enemy of many a long-term financial plan.

Distractions can also send investors, like sailors, off course. In the face of "hot" investment trends, it takes discipline not to veer from your chosen plan. Like the sirens of Greek mythology, media pundits can also be diverting, tempting you to change tack and act on news that is already priced in to markets.

A lack of flexibility is another impediment to a successful investment journey. If it doesn't look as though you'll make your destination in time, you may have to extend your voyage, take a different route to get there, or even moderate your goal.

The important point is that you become comfortable with the idea that uncertainty is inherent to the investment journey, just as it is with any sea voyage. That is why preparation and planning are so critical. While you can't control every outcome, you can be prepared for the range of possibilities and understand that you have clear choices if things don't go according to plan.

If you can't live with the volatility, you can change your plan. If the goal looks unachievable, you can lower your sights. If it doesn't look as if you'll arrive on time, you can extend your journey.

Of course, not everyone's journey is the same. Neither is everyone's destination. We take different routes to different places, and we meet a range of challenges and opportunities along the way.

But for all of us, it's critical that we are prepared for our journeys in the right vessel, keep our destinations in mind, stick with the plans, and have a trusted navigator to chart our courses and keep us on target.

Adapted from "Sailing with the Tides," Outside the Flags by Jim Parker, March 2018. Past performance is no guarantee of future results. There is no guarantee an investing strategy will be successful. Diversification does not eliminate the risk of market loss. 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. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

# Impact of Diversification

## First Quarter 2018 Index Returns

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.

### Ranked Returns (%)

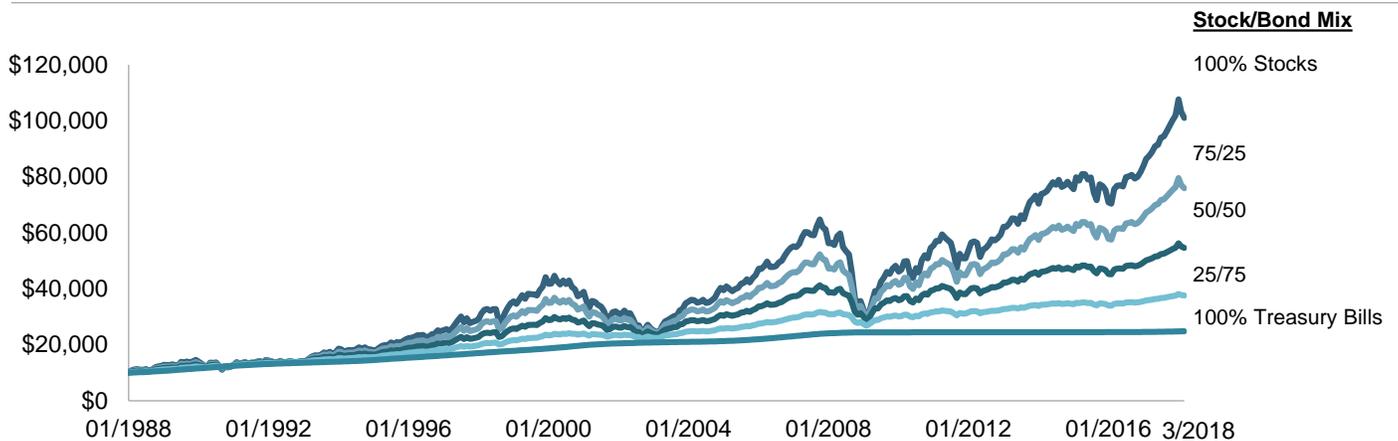


### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Stocks	15.44	8.71	9.79	6.15	16.72
75/25	11.74	6.70	7.44	4.94	12.54
50/50	8.11	4.65	5.07	3.55	8.35
25/75	4.54	2.57	2.68	1.99	4.16
100% Treasury Bills	1.03	0.45	0.28	0.28	0.14

## Growth of Wealth: The Relationship between Risk and Return

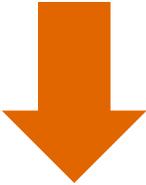
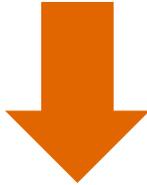
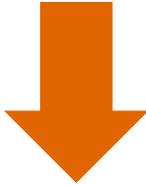


1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

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 2018, 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 2018	-0.64%	-2.04%	1.42%	-5.79%	-1.46%	0.94%
						

Since Jan. 2001						
Avg. Quarterly Return	1.9%	1.5%	3.2%	2.5%	1.1%	1.1%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	4.6% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-3.0% Q4 2016	-2.7% Q2 2015

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 (FTSE WGBI ex USA 1-30 Years [hedged to USD]). S&P data copyright 2018 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 2018, all rights reserved. Bloomberg Barclays data provided by Bloomberg. FTSE fixed income © 2018 FTSE Fixed Income LLC, all rights reserved. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission