Cherry Bekaert Wealth Management

Market Update: The Quarter in Review

Useful Information for Your Business & Financial Success

Summary

First Quarter 2019

US. Stocks
The U.S. equity market outperformed both non-U.S. developed and emerging markets. Value underperformed growth across large and small cap stocks. Small caps outperformed large caps in the U.S.

International Developed Stocks
In U.S. dollar terms, developed markets outside the U.S. outperformed emerging markets but underperformed the U.S. equity market during the quarter. Small caps outperformed large caps in non-U.S. developed markets. Value underperformed growth across large and small cap stocks.

Emerging Markets Stocks
In U.S. dollar terms, emerging markets underperformed developed markets, including the U.S. Value outperformed growth across small cap stocks but underperformed in large caps. Small caps underperformed large caps.

Fixed Income
Interest rates decreased in the U.S. Treasury fixed income market during the first quarter. The yield on the 5-year Treasury note declined 28 basis points (bps), ending at 2.23%. The yield on the 10-year Treasury note decreased 28 bps to 2.41%. The 30-year Treasury bond yield fell 21 bps to finish at 2.81%.

On the short end of the curve, the 1-month T-bill yield was relatively unchanged at 2.43%, while the 1-year T-bill yield dipped 23 bps to 2.40%. The 2-year Treasury note finished at 2.27% after a 21 bps decrease.

In terms of total returns, short-term corporate bonds gained 1.83%. Intermediate-term corporate bonds had a total return of 3.82%. Total returns for short-term municipal bonds were 1.33%, while intermediate munis gained 2.78%. Revenue bonds outperformed general obligation bonds.

Global Fixed Income
Interest rates in the global developed markets generally decreased during the quarter. Longer-term bonds generally outperformed shorter-term bonds. Nominal rates in Germany and Japan are negative out to approximately 10 years.

Source: MSCI. Past Performance is not a guarantee of future results. All non-US equity market returns are in USD, net dividends, unless otherwise noted. Index is not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.

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.

Déjà Vu All Over Again

First Quarter 2019

Investment fads are nothing new. When selecting strategies for their portfolios, investors are often tempted to seek out the latest and greatest investment opportunities.

Over the years, these approaches have sought to capitalize on developments such as the perceived relative strength of particular geographic regions, technological changes in the economy, or the popularity of different natural resources. But long-term investors should be aware that letting short-term trends influence their investment approach may be counterproductive. As Nobel laureate Eugene Fama said, “There’s one robust new idea in finance that has investment implications maybe every 10 or 15 years, but there’s a marketing idea every week.”

WHAT’S HOT BECOMES WHAT’S NOT

Looking back at some investment fads over recent decades can illustrate how often trendy investment themes come and go. In the early 1990s, attention turned to the rising “Asian Tigers” of Hong Kong, Singapore, South Korea, and Taiwan. A decade later, much was written about the emergence of the “BRIC” countries of Brazil, Russia, India, and China and their new place in global markets. Similarly, funds targeting hot industries or trends have come into and fallen out of vogue. In the 1950s, the “Nifty Fifty” were all the rage. In the 1960s, “go-go” stocks and funds piqued investor interest. Later in the 20th century, growing belief in the emergence of a “new economy” led to the creation of funds poised to make the most of the rising importance of information technology and telecommunication services. During the 2000s, 130/30 funds, which used leverage to sell short certain stocks while going long others, became increasingly popular. In the wake of the 2008 financial crisis, “Black Swan” funds, “tail-risk-hedging” strategies, and “liquid alternatives” abounded. As investors reached for yield in a low interest-rate environment in the following years, other funds sprang up that claimed to offer increased income generation, and new strategies like unconstrained bond funds proliferated. More recently, strategies focused on peer-to-peer lending, cryptocurrencies, and even cannabis cultivation and private space exploration have become more fashionable. In this environment, so-called “FAANG” stocks and concentrated exchange-traded funds with catchy ticker symbols have also garnered attention among investors.

THE FUND GRAVEYARD

Unsurprisingly, however, numerous funds across the investment landscape were launched over the years only to subsequently close and fade from investor memory. While economic, demographic, technological, and environmental trends shape the world we live in, public markets aggregate a vast amount of dispersed information and drive it into security prices. Any individual trying to outguess the market by constantly trading in and out of what’s hot is competing against the extraordinary collective wisdom of millions of buyers and sellers around the world.

With the benefit of hindsight, it is easy to point out the fortune one could have amassed by making the right call on a specific industry, region, or individual security over a specific period. While these anecdotes can be entertaining, there is a wealth of compelling evidence that highlights the futility of attempting to identify mispricing in advance and profit from it.

It is important to remember that many investing fads, and indeed, most mutual funds, do not stand the test of time. A large proportion of funds fail to survive over the longer term. Of the 1,622 fixed income mutual funds in existence at the beginning of 2004, only 55% still existed at the end of 2018. Similarly, among equity mutual funds, only 51% of the 2,786 funds available to US-based investors at the beginning of 2004 endured.

CONCLUSION

Fashionable investment approaches will come and go, but investors should remember that a long-term, disciplined investment approach based on robust research and implementation may be the most reliable path to success in the global capital markets.

Eugene Fama is a member of the Board of Directors of the general partner of, and provides consulting services to, Dimensional Fund Advisors LP.

Source: Dimensional Fund Advisors LP. 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. There is no guarantee an investing strategy will be successful. Diversification does not eliminate the risk of market loss.

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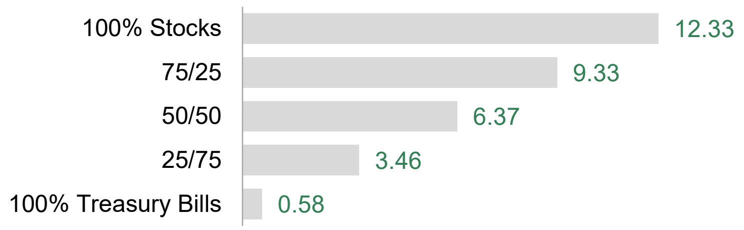
Impact of Diversification

First Quarter 2019 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 (%)

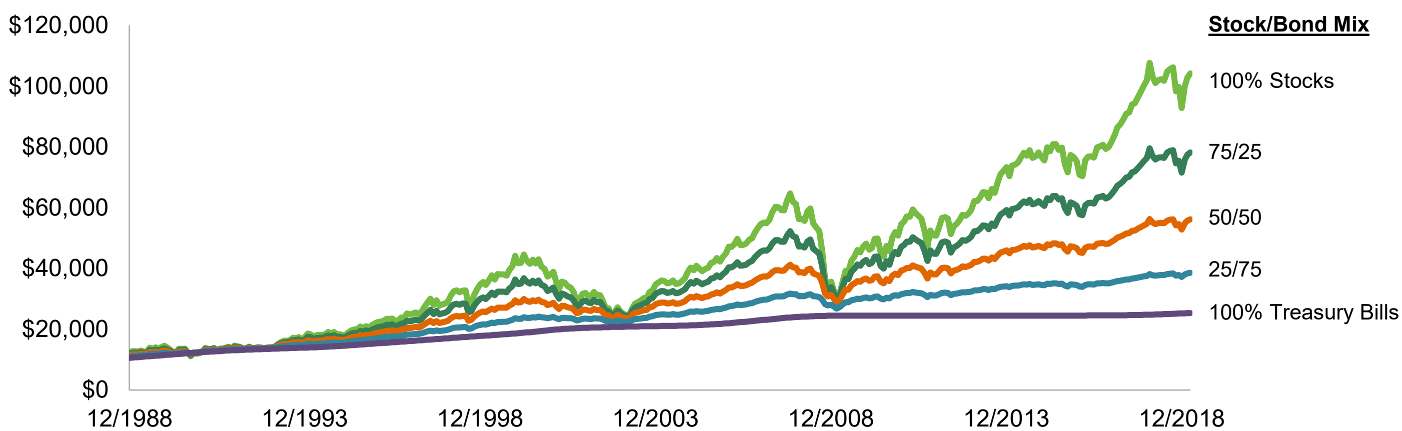


Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Stocks	3.16	11.27	7.03	12.58	13.92
75/25	3.07	8.75	5.53	9.60	10.44
50/50	2.85	6.21	3.97	6.57	6.95
25/75	2.51	3.67	2.35	3.49	3.48
100% Treasury Bills	2.05	1.11	0.68	0.37	0.18

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. Sinquefield).

Market Summary

Index Returns

Q1 2019	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	14.04%	**10.45%**	**9.92%**	**14.07%**	**2.94%**	**2.96%**

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	2.0%	1.4%	2.9%	2.6%	1.1%	1.1%
Best Quarter	16.8% **2009 Q2**	25.9% **2009 Q2**	34.7% **2009 Q2**	32.3% **2009 Q3**	4.6% **2001 Q3**	4.6% **2008 Q4**
Worst Quarter	-22.8% **2008 Q4**	-21.2% **2008 Q4**	-27.6% **2008 Q4**	-36.1% **2008 Q4**	-3.0% **2016 Q4**	-2.7% **2015 Q2**

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.

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