



ADAM HARDING
INVESTMENTS & PLANNING

Q3

Quarterly Market Review
Third Quarter 2017

Quarterly Market Review

Third 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 a quick article about the S&P 500 Index.

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Impact of Diversification

Quarterly Topic: Stop Monkeying Around!









ADAM HARDING
INVESTMENTS & PLANNING

Market Summary

Index Returns



ADAM HARDING
INVESTMENTS & PLANNING

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|----------------|---|---|---|---|---|---|
| Q3 2017 | STOCKS | | | | BONDS | |
| | 4.57%  | 5.62%  | 7.89%  | 1.13%  | 0.85%  | 0.70%  |

| Since Jan. 2001 | | | | | | |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------|-------------------------|
| Avg. Quarterly Return | 1.9% | 1.6% | 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 |

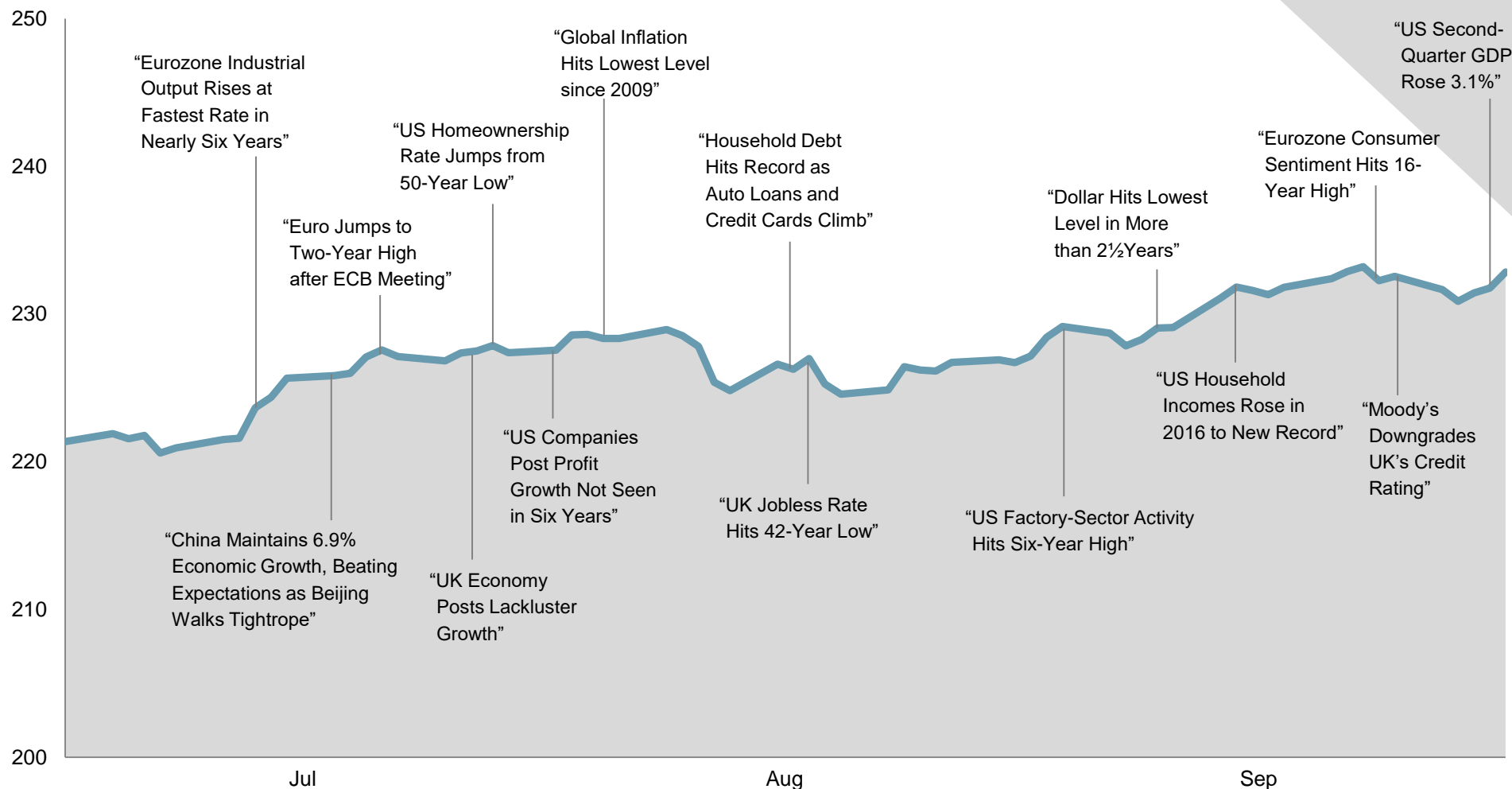
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International 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 Q3 2017



ADAM HARDING
INVESTMENTS & PLANNING



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.

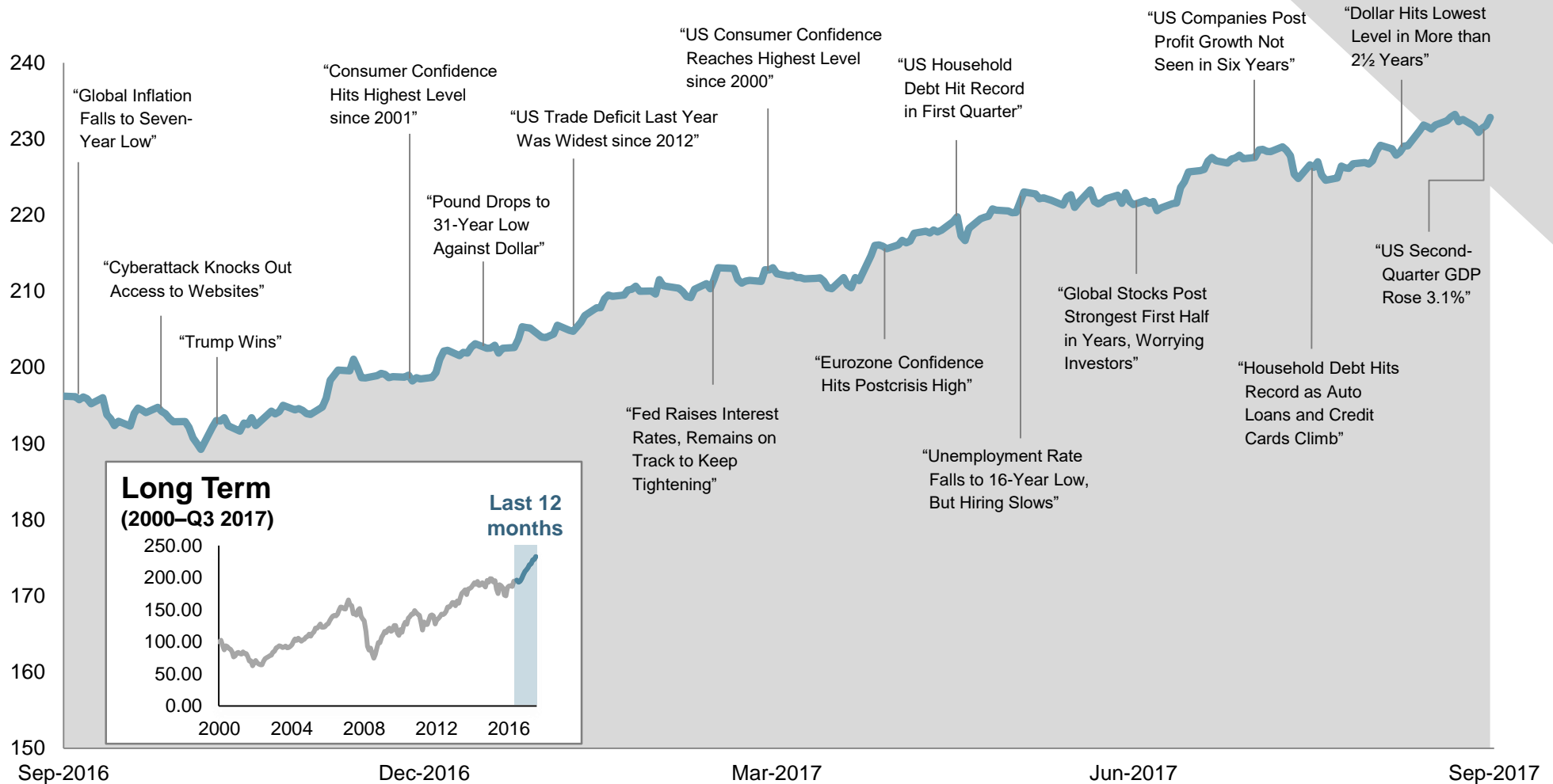
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.



World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

Short Term (Q4 2016–Q3 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.**

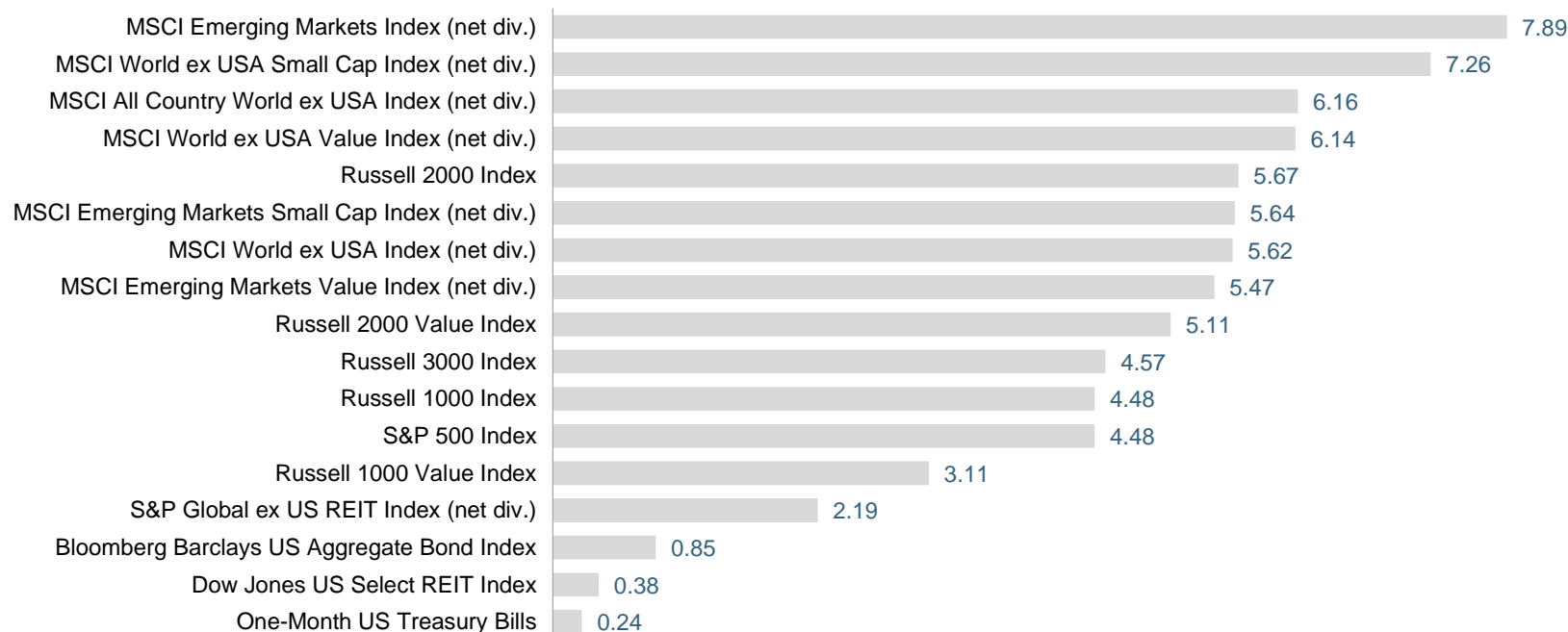


World Asset Classes

Third Quarter 2017 Index Returns (%)

With broad market indices used as proxies, emerging markets outperformed developed markets, including the US, during the quarter.

The value effect was positive in non-US developed markets but negative in the US and emerging markets. Small caps outperformed large caps in US and non-US developed markets but underperformed in emerging markets.



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. The S&P data is 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. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indices. Bloomberg Barclays data provided by Bloomberg. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).



US Stocks

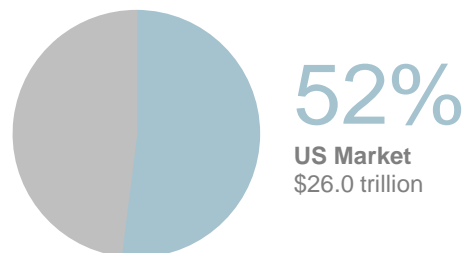
Third Quarter 2017 Index Returns

The broad US equity market posted positive returns for the quarter but underperformed both non-US developed and emerging markets.

Value underperformed growth indices in the US across all size ranges.

Small caps in the US outperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

| Asset Class | * Annualized | | | | |
|--------------|--------------|--------|----------|----------|-----------|
| | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| Marketwide | 13.91 | 18.71 | 10.74 | 14.23 | 7.57 |
| Large Cap | 14.17 | 18.54 | 10.63 | 14.27 | 7.55 |
| Large Value | 7.92 | 15.12 | 8.53 | 13.20 | 5.92 |
| Large Growth | 20.72 | 21.94 | 12.69 | 15.26 | 9.08 |
| Small Cap | 10.94 | 20.74 | 12.18 | 13.79 | 7.85 |
| Small Value | 5.68 | 20.55 | 12.12 | 13.27 | 7.14 |
| Small Growth | 16.81 | 20.98 | 12.17 | 14.28 | 8.47 |

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: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. 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.



International Developed Stocks

Third Quarter 2017 Index Returns

In US dollar terms, developed markets outperformed US equity indices but underperformed emerging markets indices during the quarter.

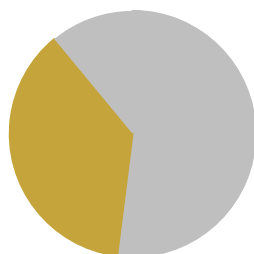
With broad market indices used as proxies, the value effect was positive. The value effect was positive in large caps but negative in mid and small caps.

Overall, small caps outperformed large caps in non-US developed markets.

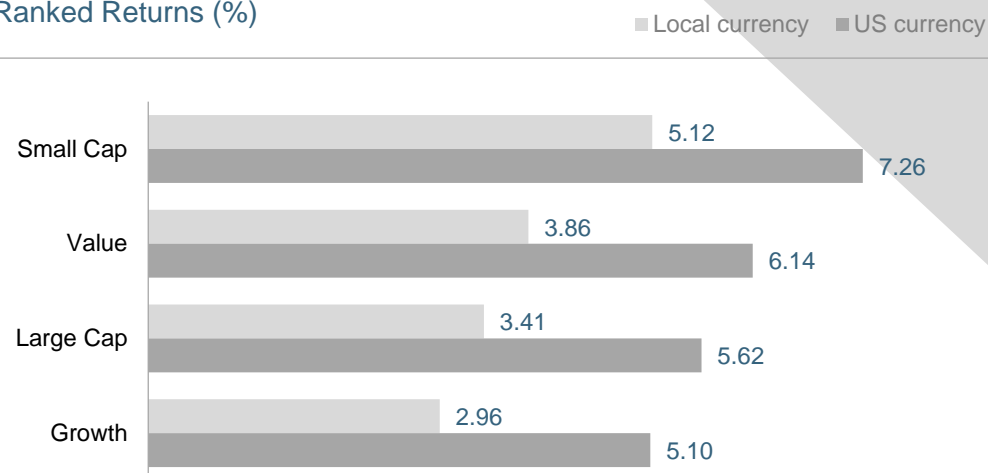
World Market Capitalization—International Developed

37%

International
Developed
Market
\$18.5 trillion



Ranked Returns (%)



Period Returns (%)

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Large Cap | 19.17 | 18.73 | 4.57 | 7.81 | 1.28 |
| Small Cap | 23.82 | 20.42 | 9.59 | 11.16 | 4.04 |
| Value | 17.05 | 22.46 | 3.24 | 7.36 | 0.64 |
| Growth | 21.47 | 15.04 | 5.82 | 8.19 | 1.86 |

* Annualized

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: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market. MSCI data © MSCI 2017, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.



Emerging Markets Stocks

Third Quarter 2017 Index Returns

In US dollar terms, emerging markets indices outperformed developed market indices, including the US, during the quarter.

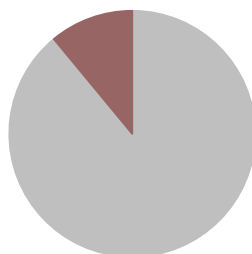
With broad market indices used as proxies, the value effect was negative. Across the size spectrum in the large and mid cap space, the value effect was negative; however, in the small cap space, the effect was positive.

Overall, small caps underperformed large caps in emerging markets.

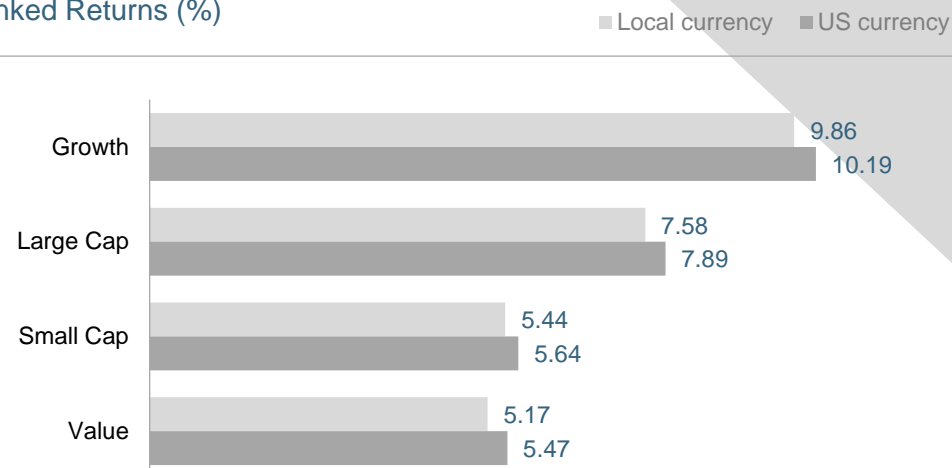
World Market Capitalization—Emerging Markets

11%

Emerging Markets
\$5.8 trillion



Ranked Returns (%)



Period Returns (%)

* Annualized

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Large Cap | 27.78 | 22.46 | 4.90 | 3.99 | 1.32 |
| Small Cap | 22.53 | 14.89 | 3.14 | 4.60 | 1.74 |
| Value | 19.87 | 18.55 | 1.62 | 1.34 | 0.67 |
| Growth | 36.03 | 26.35 | 8.12 | 6.55 | 1.88 |

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: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2017, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

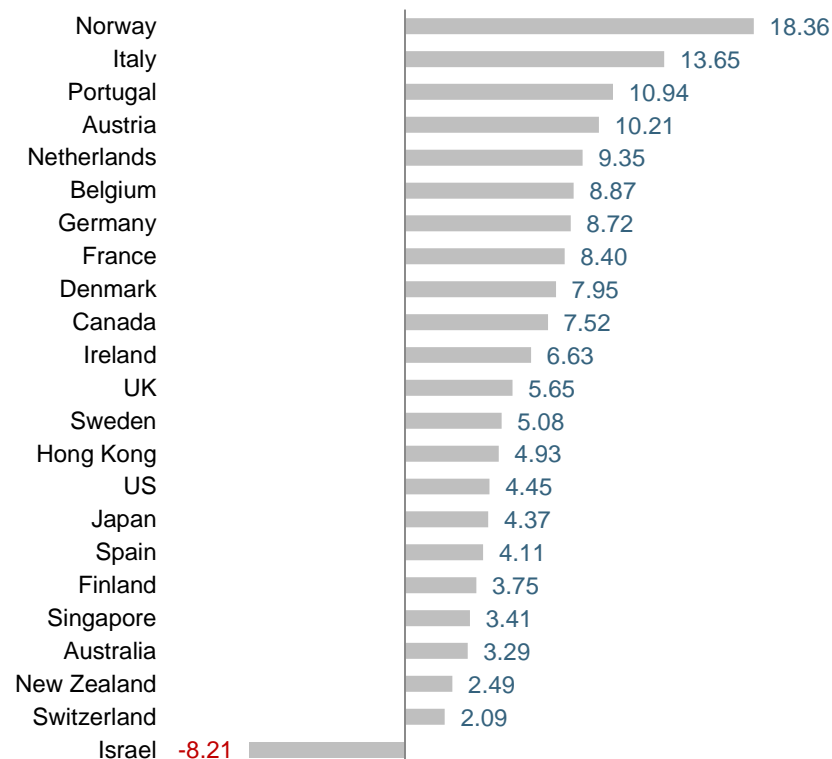


Select Country Performance

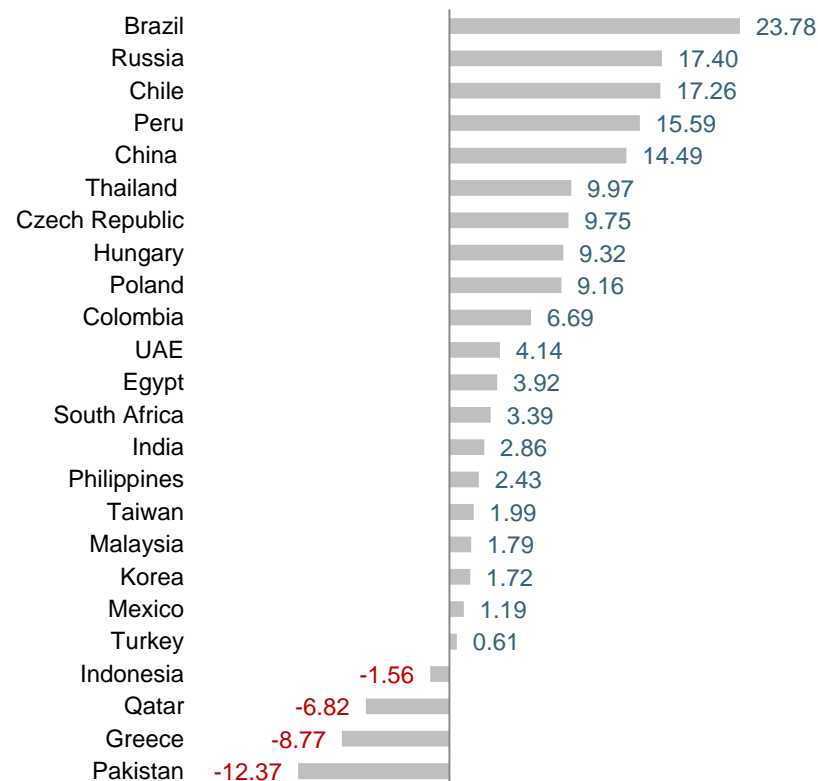
Third Quarter 2017 Index Returns

In US dollar terms, Norway and Italy recorded the highest country performance in developed markets, while Israel posted the lowest—and only negative—return in developed markets. In emerging markets, Brazil, Russia, and Chile posted the highest country returns, while Pakistan and Greece had the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



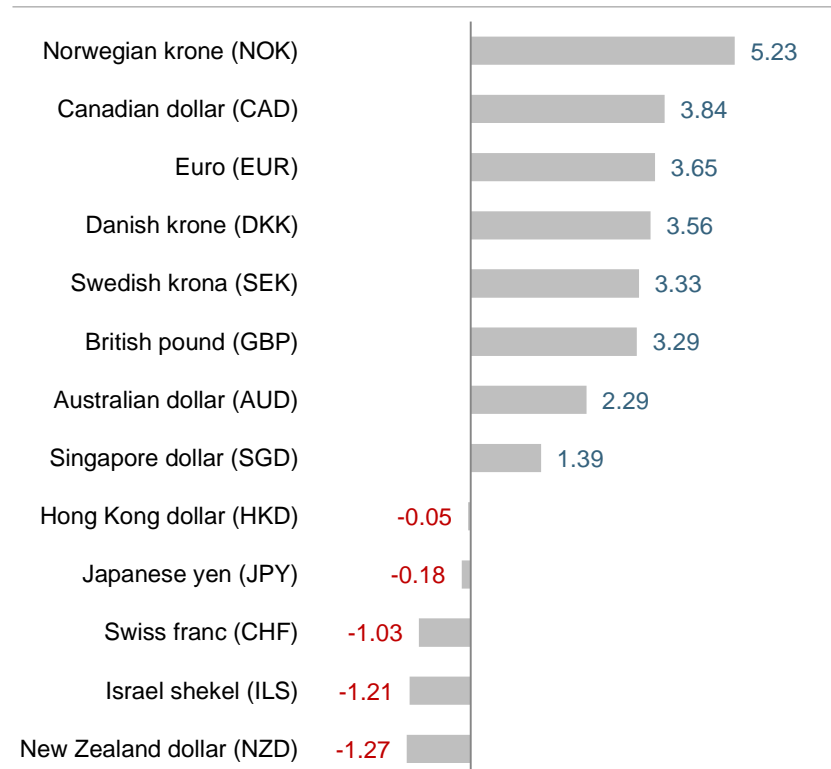


Select Currency Performance vs. US Dollar

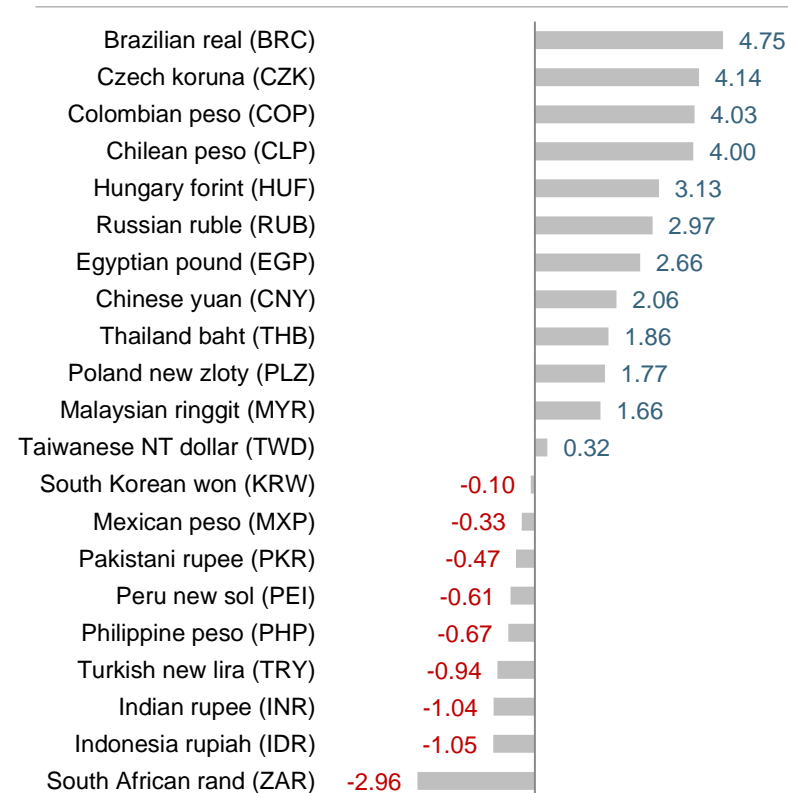
Third Quarter 2017

Currency performance was mixed in both developed and emerging markets. Among developed markets currencies, the Norwegian krone appreciated by 5%, while the Israeli shekel and the New Zealand dollar depreciated by approximately 1%. In emerging markets, the Brazilian real appreciated by almost 5%, while the South African rand depreciated by almost 3%.

Ranked Developed Markets (%)



Ranked Emerging Markets (%)





Real Estate Investment Trusts (REITs)

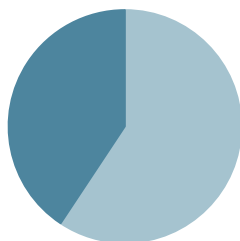
Third Quarter 2017 Index Returns

Non-US real estate investment trusts outperformed US REITs.

Total Value of REIT Stocks

41%

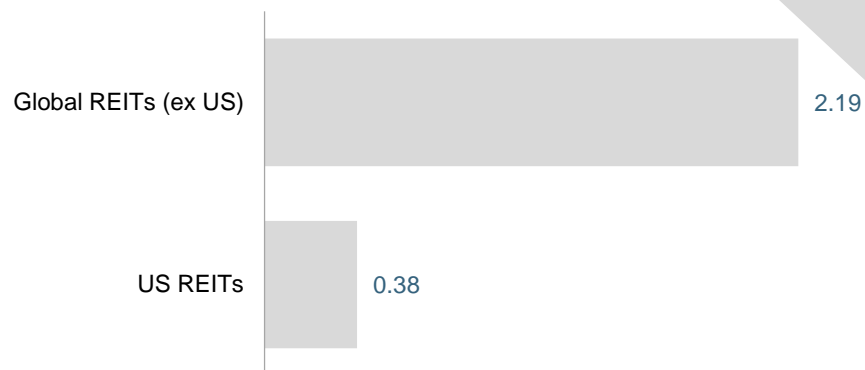
World ex US
\$454 billion
250 REITs
(23 other countries)



59%

US
\$662 billion
103 REITs

Ranked Returns (%)



Period Returns (%)

* Annualized

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|----------------------|------|--------|----------|----------|-----------|
| US REITs | 1.75 | -0.83 | 9.28 | 9.16 | 5.31 |
| Global REITs (ex US) | 8.63 | -0.45 | 3.63 | 5.44 | 0.27 |

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. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2017.

Commodities

Third Quarter 2017 Index Returns

The Bloomberg Commodity Index Total Return gained 2.52% during the third quarter.

The energy complex led advancing commodities, with heating oil returning 20.97%, Brent crude oil 15.32%, unleaded gas 14.49%, and WTI crude oil 10.90%.

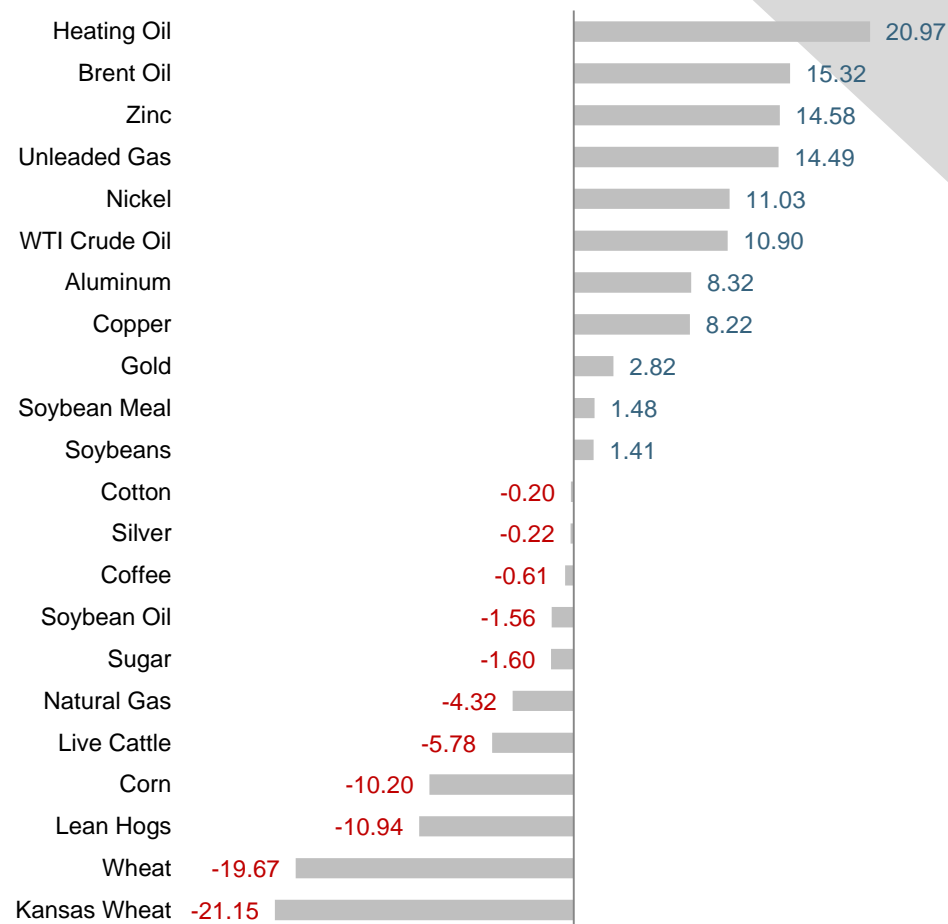
Grains was the worst-performing complex, with Kansas wheat and Chicago wheat declining 21.15% and 19.67%, respectively. Lean hogs also experienced a decline, decreasing by 10.94%.

Period Returns (%)

* Annualized

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Commodities | -2.87 | -0.29 | -10.41 | -10.47 | -6.83 |

Ranked Returns for Individual Commodities (%)





Fixed Income

Third Quarter 2017 Index Returns

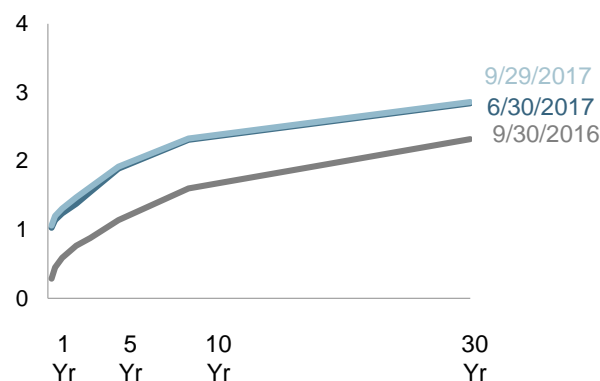
Interest rates increased across the US fixed income market for the quarter. The yield on the 5-year Treasury note increased by 3 basis points (bps) to 1.92%. The yield on the 10-year Treasury note increased by 2 bps to 2.33%. The 30-year Treasury bond yield increased by 2 bps to finish at 2.86%.

The yield on the 1-year T-bill rose 7 bps to 1.31%, and the 2-year Treasury note yield rose 9 bps to 1.47%. The yield on the 3-month Treasury bill increased 3 bps to 1.06%, while the 6-month Treasury bill yield increased 6 bps to 1.20%.

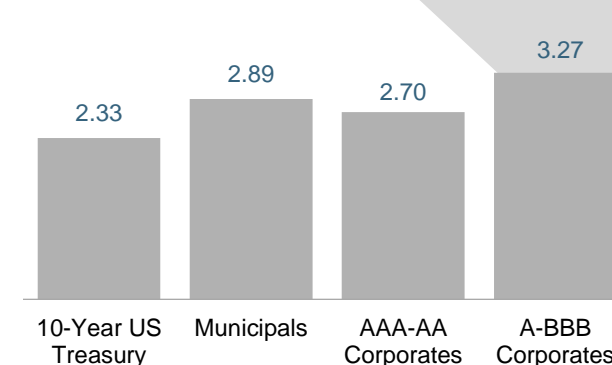
In terms of total returns, short-term corporate bonds gained 0.59%, and intermediate-term corporates gained 1.05%.

Short-term municipal bonds generated a total return of 0.49%, while intermediate-term municipal bonds returned 0.83%. General obligation bonds gained 1.14%, outperforming revenue bonds by 4 bps.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualized

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--|------|--------|----------|----------|-----------|
| Bloomberg Barclays Long US Government Bond Index | 6.06 | -6.14 | 4.84 | 2.87 | 6.83 |
| Bloomberg Barclays Municipal Bond Index | 4.66 | 0.87 | 3.19 | 3.01 | 4.52 |
| Bloomberg Barclays US Aggregate Bond Index | 3.14 | 0.07 | 2.71 | 2.06 | 4.27 |
| Bloomberg Barclays US Corporate High Yield Index | 7.00 | 8.88 | 5.83 | 6.36 | 7.84 |
| Bloomberg Barclays US TIPS Index | 1.72 | -0.73 | 1.62 | 0.02 | 3.90 |
| BofA Merrill Lynch 1-Year US Treasury Note Index | 0.55 | 0.60 | 0.46 | 0.39 | 1.05 |
| BofA Merrill Lynch Three-Month US Treasury Bill Index | 0.57 | 0.66 | 0.32 | 0.22 | 0.47 |
| Citi World Government Bond Index 1-5 Years (hedged to USD) | 1.07 | 0.59 | 1.35 | 1.30 | 2.32 |

One basis point equals 0.01%. 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. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBB) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citi fixed income indices copyright 2017 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation. The S&P data are provided by Standard & Poor's Index Services Group.



Impact of Diversification

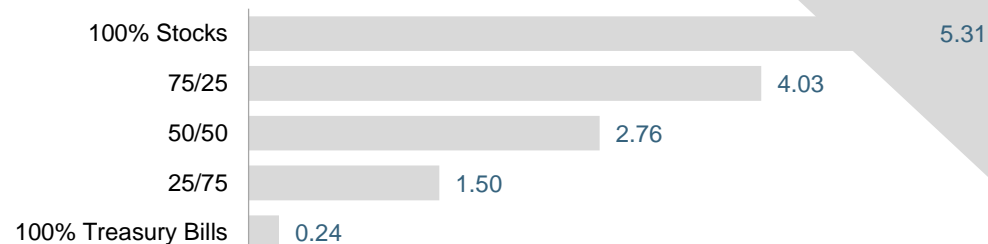
Third Quarter 2017 Index Returns

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.

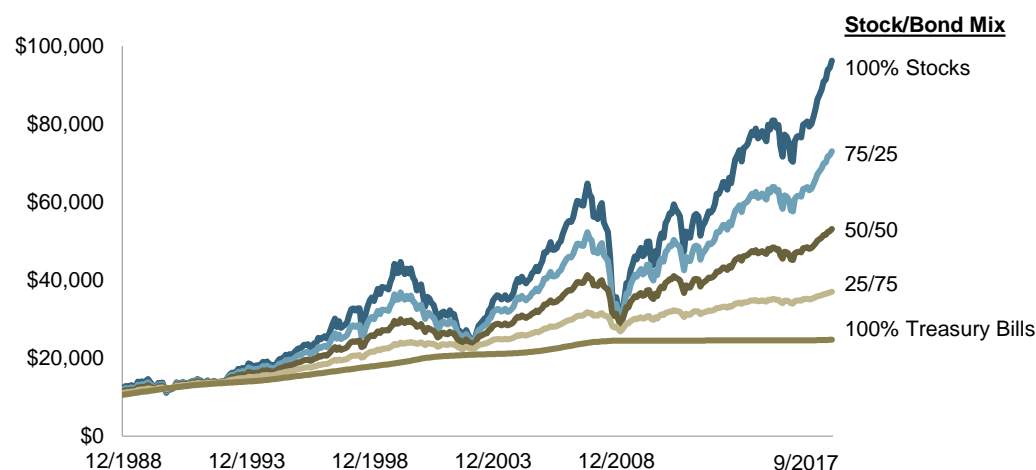
Period Returns (%)

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* | * Annualized |
|---------------------|-------|--------|----------|----------|-----------|----------------------------|
| | | | | | | 10-Year STDEV ¹ |
| 100% Stocks | 17.75 | 19.29 | 8.02 | 10.79 | 4.45 | 16.90 |
| 75/25 | 13.22 | 14.35 | 6.13 | 8.14 | 3.70 | 12.66 |
| 50/50 | 8.85 | 9.60 | 4.21 | 5.48 | 2.76 | 8.43 |
| 25/75 | 4.62 | 5.01 | 2.25 | 2.82 | 1.65 | 4.20 |
| 100% Treasury Bills | 0.53 | 0.58 | 0.25 | 0.16 | 0.36 | 0.22 |

Ranked Returns (%)



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 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).



The Uncommon Average

October 2017

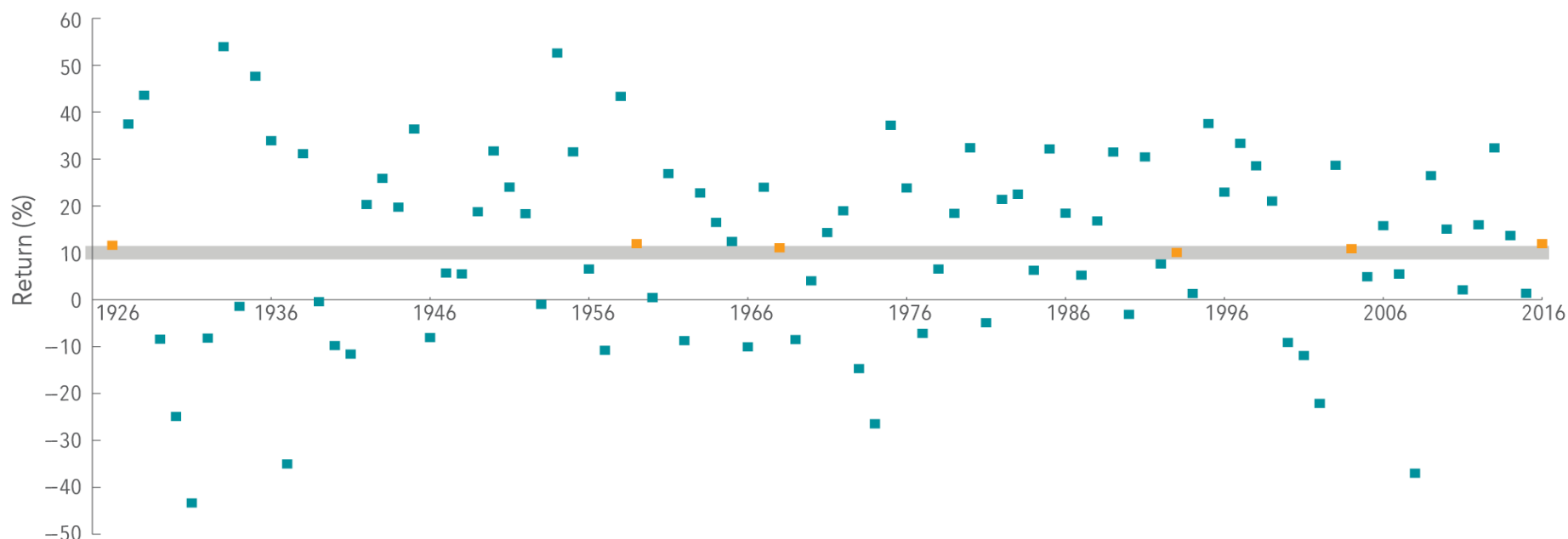
“I have found that the importance of having an investment philosophy—one that is robust and that you can stick with— cannot be overstated.”

—David Booth

The US stock market has delivered an average annual return of around 10% since 1926. But short-term results may vary, and in any given period stock returns can be positive, negative, or flat. When setting expectations, it's helpful to see the range of outcomes experienced by investors historically. For example, how often have the stock market's annual returns actually aligned with its long-term average?

Exhibit 1 shows calendar year returns for the S&P 500 Index since 1926. The shaded band marks the historical average of 10%, plus or minus 2 percentage points. The S&P 500 had a return within this range in only six of the past 91 calendar years. In most years the index's return was outside of the range, often above or below by a wide margin, with no obvious pattern. For investors, this data highlights the importance of looking beyond average returns and being aware of the range of potential outcomes.

Exhibit 1. S&P 500 Index Annual Returns 1926–2016



. In US dollars. The S&P data are provided by Standard & Poor's Index Services Group. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns do not reflect the cost associated with an actual investment. As measured by the S&P 500 Index from 1926–2016.



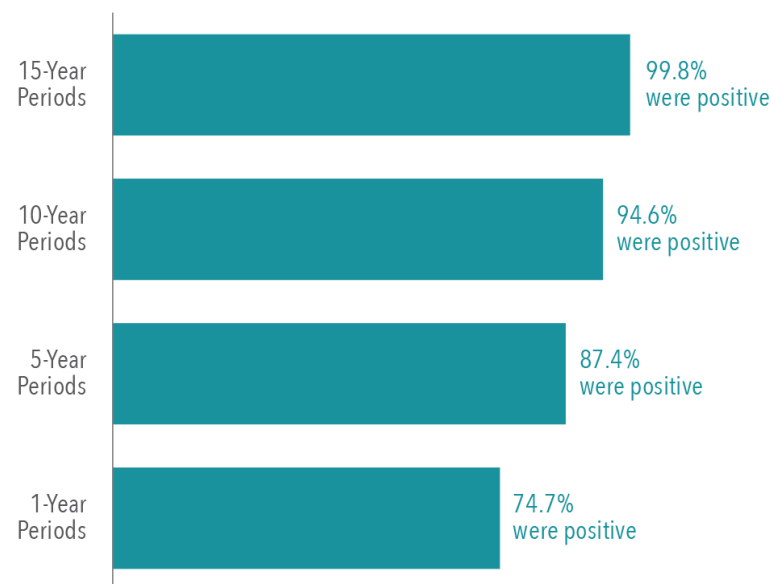
The Uncommon Average

(continued from page 16)

Tuning In To Different Frequencies

Despite the year-to-year uncertainty, investors can potentially increase their chances of having a positive outcome by maintaining a long-term focus. **Exhibit 2** documents the historical frequency of positive returns over rolling periods of one, five, 10, and 15 years in the US market. The data shows that, while positive performance is never assured, investors' odds improve over longer time horizons.

Exhibit 2. Frequency of Positive Returns in the S&P 500 Index Overlapping Periods: 1926–2016



From January 1926–December 2016 there are 913 overlapping 15-year periods, 973 overlapping 10-year periods, 1,033 overlapping 5-year periods, and 1,081 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. In US dollars. The S&P data are provided by Standard & Poor's Index Services Group. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not an indication of future results.

Conclusion

While some investors might find it easy to stay the course in years with above average returns, periods of disappointing results may test an investor's faith in equity markets. Being aware of the range of potential outcomes can help investors remain disciplined, which in the long term can increase the odds of a successful investment experience. What can help investors endure the ups and downs? While there is no silver bullet, having an understanding of how markets work and trusting market prices are good starting points. An asset allocation that aligns with personal risk tolerances and investment goals is also valuable. Financial advisors can play a critical role in helping investors sort through these and other issues as well as keeping them focused on their long-term goals.