

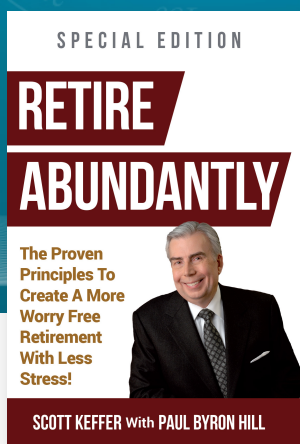


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# Q2

## Global Market Review

Second Quarter 2017

# Global Market Review

Second 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 features a quarterly topic.

## Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Impact of Diversification

Quarterly Topic: *When Rates Go Up,  
Do Stocks Go Down?*

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# Market Summary

## Index Returns

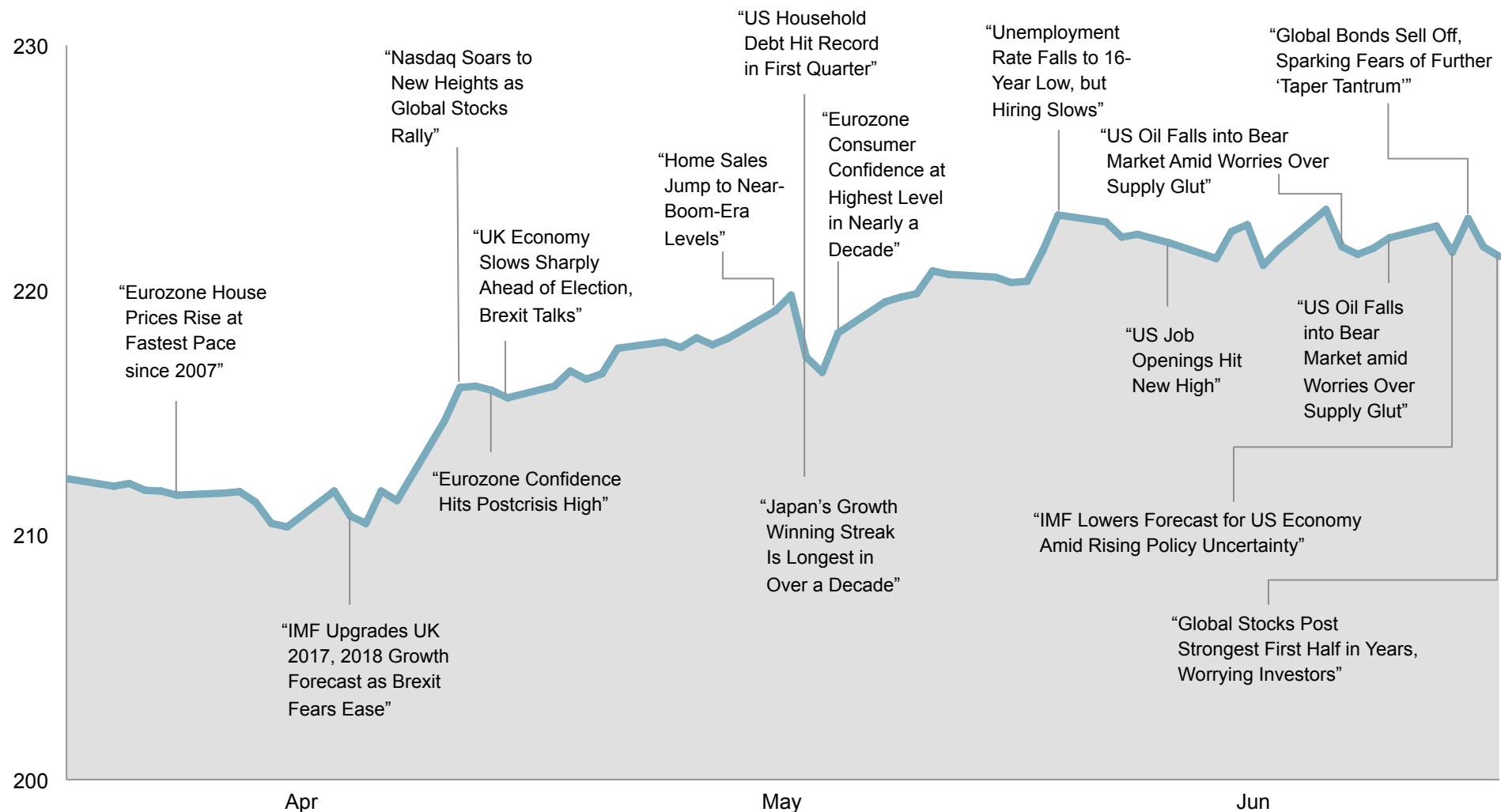
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
Q2 2017	STOCKS					BONDS	
	3.02%	5.63%	6.27%	1.67%		1.45%	0.60%
							

Since Jan. 2001							
Avg. Quarterly Return	1.9%	1.5%	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

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# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2017

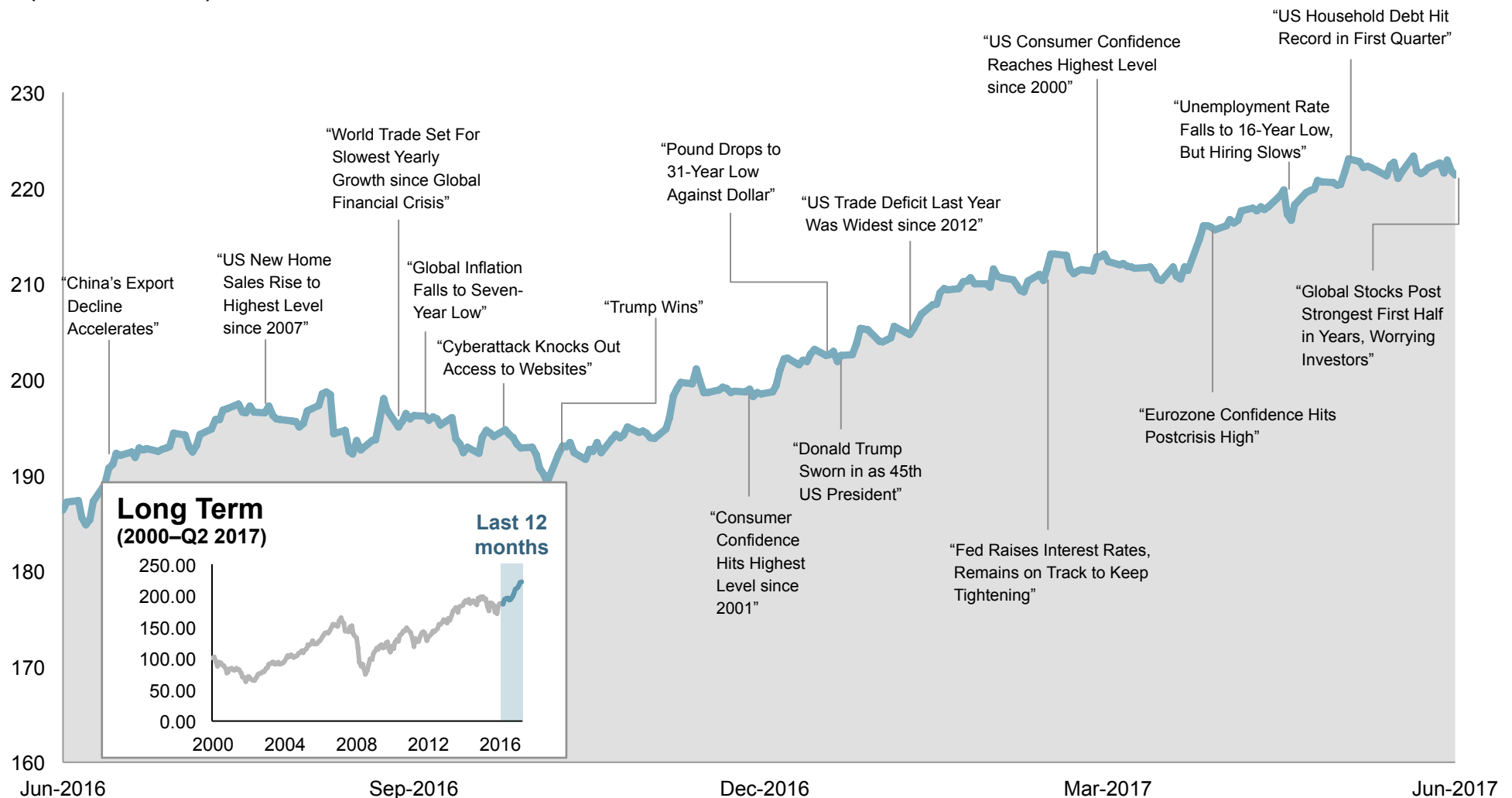


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

# World Stock Market Performance

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

## Short Term (Q3 2016–Q2 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.

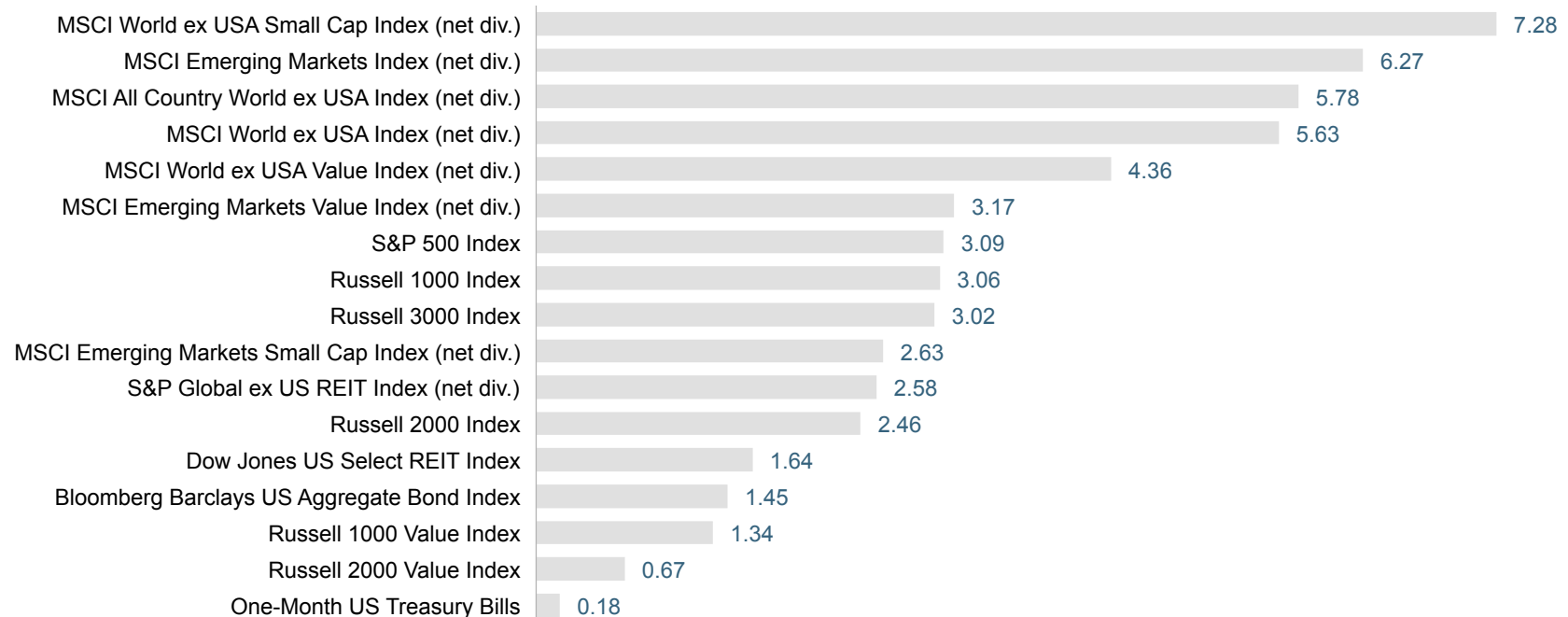
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

# World Asset Classes

## Second Quarter 2017 Index Returns (%)

Looking at broad market indices, non-US developed markets and emerging markets recorded similar returns, outperforming the US during the quarter.

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



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# US Stocks

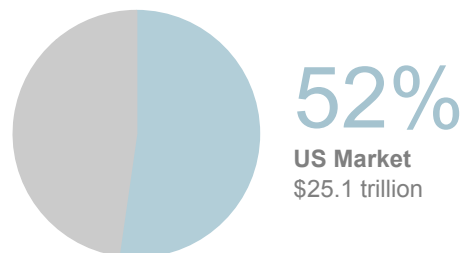
## Second Quarter 2017 Index Returns

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

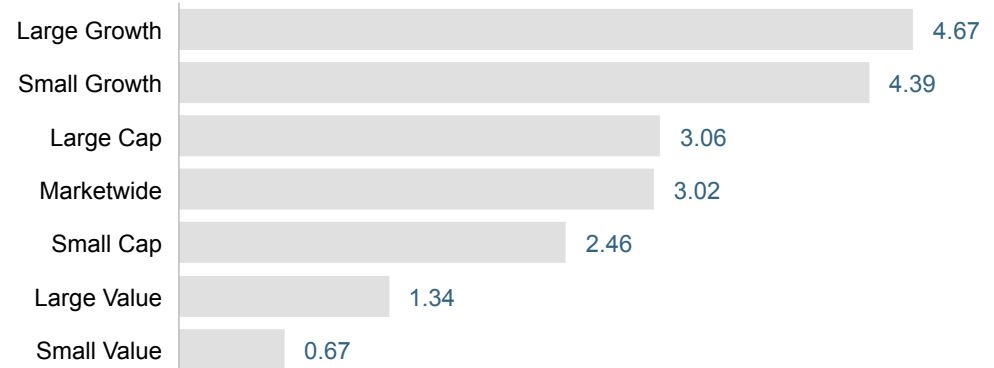
Value underperformed growth indices in the US across all size ranges.

Small caps in the US underperformed 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	8.9	18.5	9.1	14.6	7.3
Large Cap	9.3	18.0	9.3	14.7	7.3
Large Value	4.7	15.5	7.4	13.9	5.6
Large Growth	14.0	20.4	11.1	15.3	8.9
Small Cap	5.0	24.6	7.4	13.7	6.9
Small Value	0.5	24.9	7.0	13.4	5.9
Small Growth	10.0	24.4	7.6	14.0	7.8

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# International Developed Stocks

## Second Quarter 2017 Index Returns

In US dollar terms, developed markets outperformed the US equity market and had similar performance to emerging markets indices during the quarter.

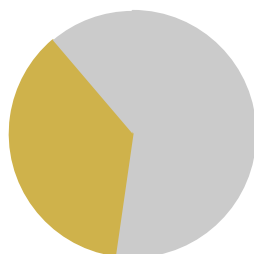
Looking at broad market indices, the value effect was negative across all size ranges in non-US developed markets.

Small caps outperformed large caps in non-US developed markets.

### World Market Capitalization—International Developed

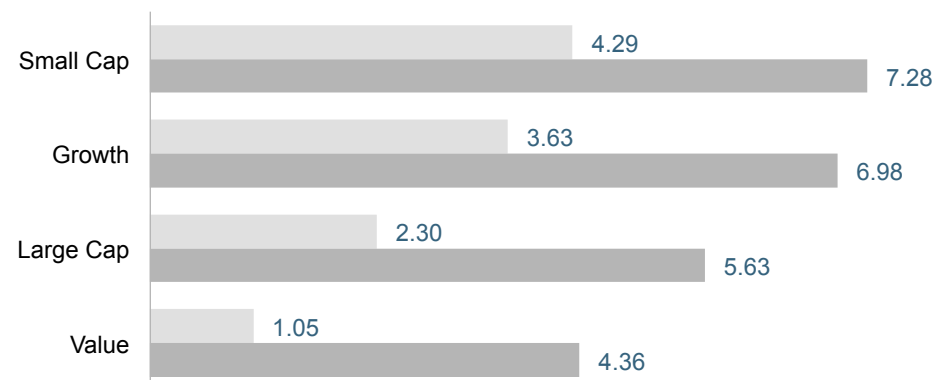
**36%**

International  
Developed  
Market  
\$17.5 trillion



### Ranked Returns (%)

■ Local currency ■ US currency



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	12.8	19.5	0.7	8.2	1.0
Small Cap	15.5	21.3	4.0	11.4	2.9
Value	10.3	24.2	-0.9	7.7	0.1
Growth	15.6	14.9	2.2	8.5	1.8

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

## Second Quarter 2017 Index Returns

In US dollar terms, emerging markets indices outperformed the US and recorded similar performance to developed markets outside the US.

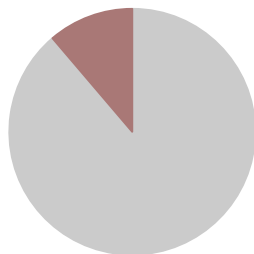
Looking at broad market indices, the value effect was negative across all size ranges in emerging markets.

Small caps underperformed large caps in emerging markets.

### World Market Capitalization—Emerging Markets

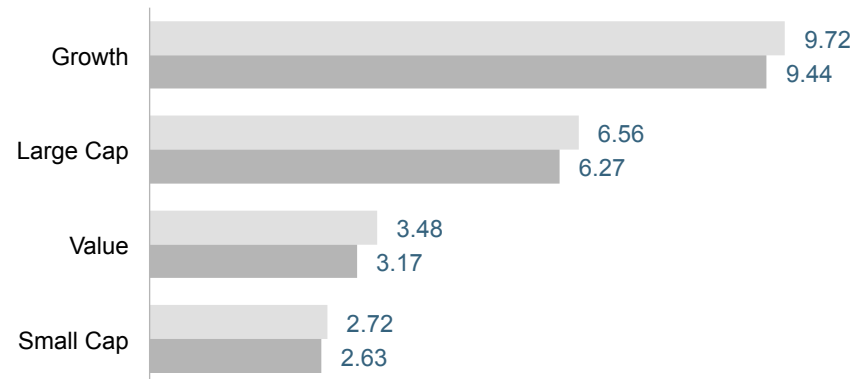
**11%**

Emerging Markets  
\$5.4 trillion



### Ranked Returns (%)

■ Local currency ■ US currency



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	18.4	23.8	1.1	4.0	1.9
Small Cap	16.0	17.0	0.8	5.2	2.2
Value	13.7	21.6	1.3	1.7	1.5
Growth	23.5	26.0	3.4	6.2	2.2

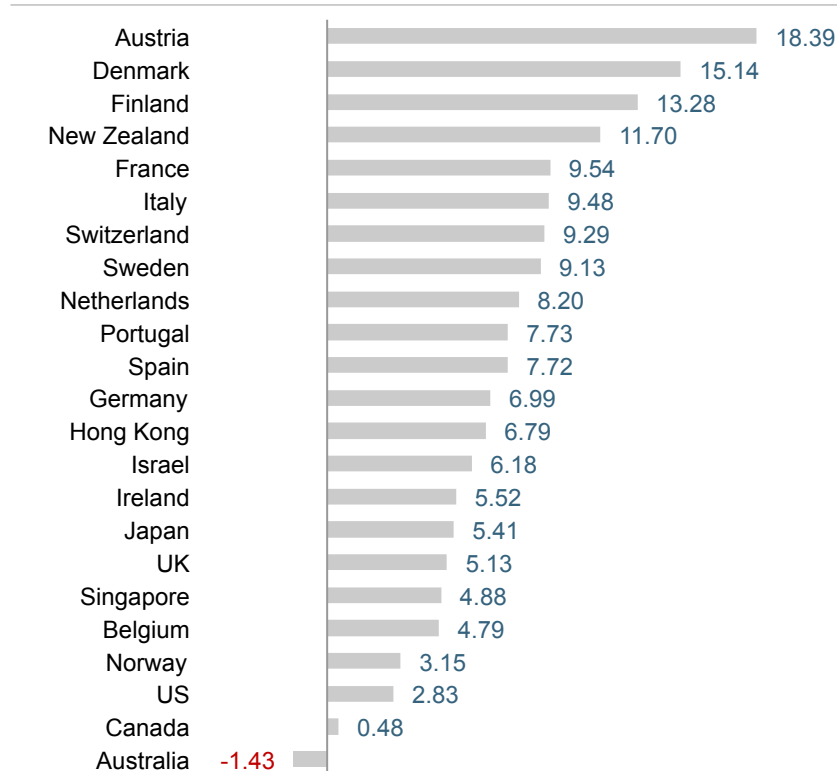
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small 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

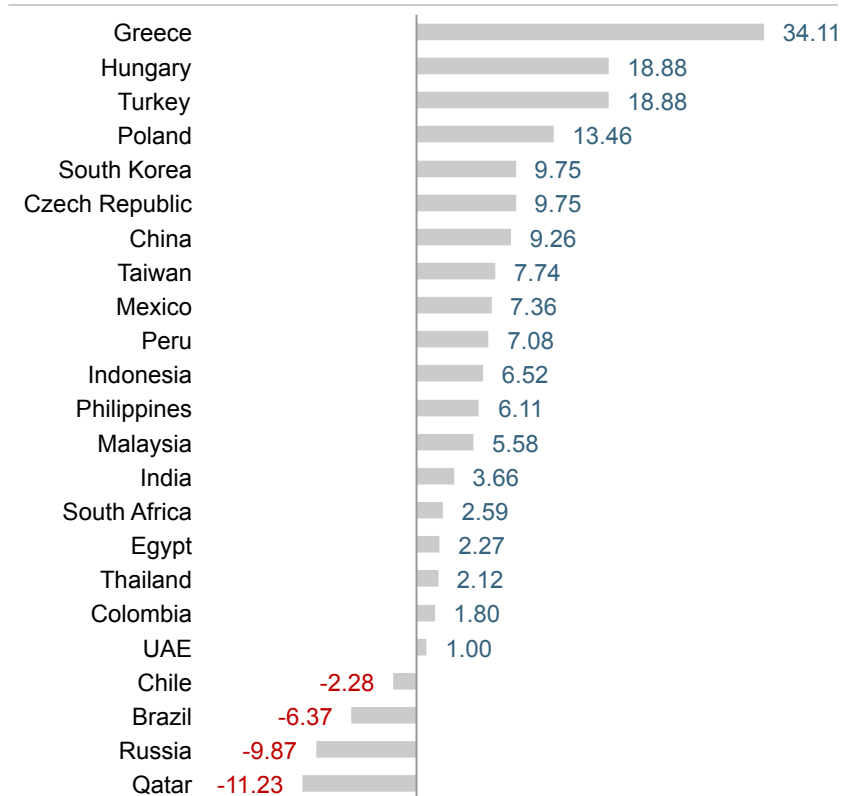
## Second Quarter 2017 Index Returns

In US dollar terms, Austria and Denmark recorded the highest country performance in developed markets, while Australia and Canada posted the lowest returns for the quarter. In emerging markets, Greece, Hungary, and Turkey posted the highest country returns, while Qatar and Russia had the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



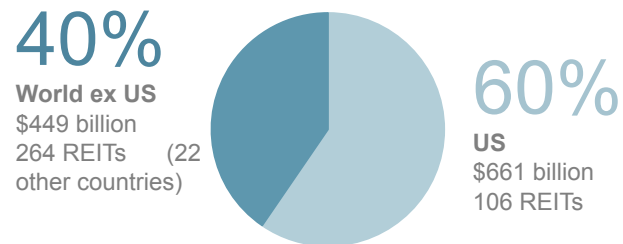
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2017, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

# Real Estate Investment Trusts (REITs)

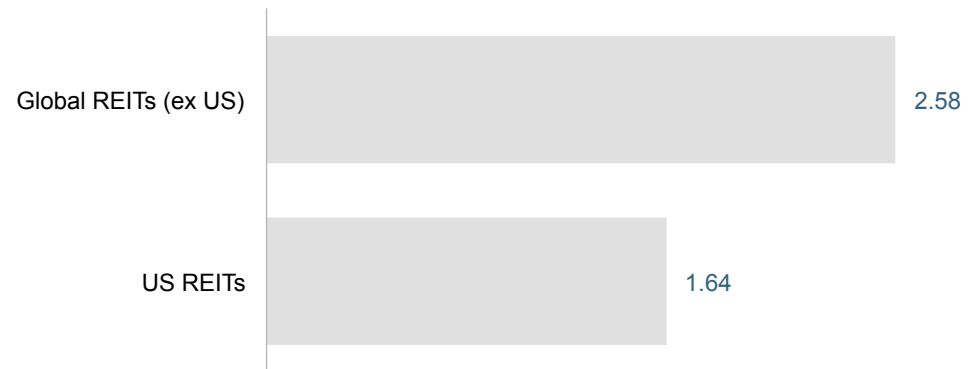
## Second Quarter 2017 Index Returns

Non-US real estate investment trusts outperformed US REITs.

### Total Value of REIT Stocks



### Ranked Returns (%)



### Period Returns (%)

Asset Class	* Annualized				
	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	1.4	-2.4	8.0	9.0	5.4
Global REITs (ex US)	6.3	-0.4	1.1	6.9	0.2

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

## Second Quarter 2017 Index Returns

The Bloomberg Commodity Index Total Return declined 3.00% during the second quarter.

The livestock and grains complexes led quarterly performance, with lean hogs returning 14.44%, live cattle 8.59%, wheat (Chicago) 15.95%, and wheat (Kansas) 17.82%.

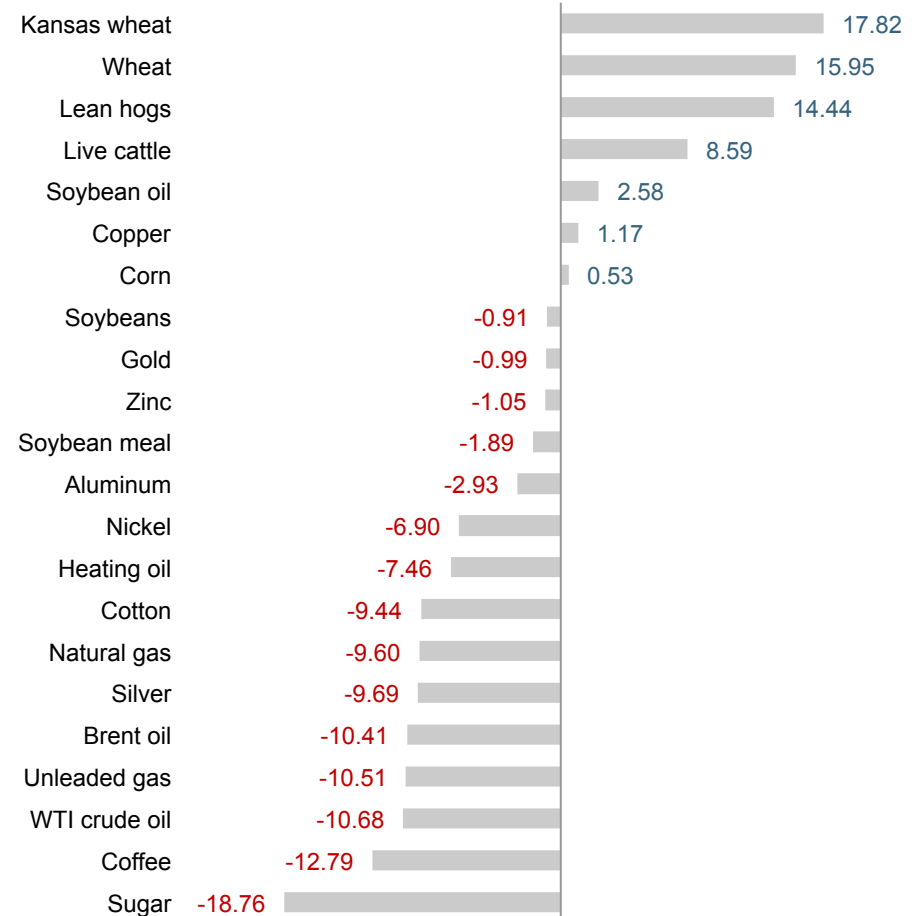
Softs was the worst-performing complex, with sugar and coffee declining 18.76% and 12.79%, respectively. Cotton also experienced a decline, decreasing 9.44%.

### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-5.3	-6.5	-14.8	-9.3	-6.5

### Ranked Returns for Individual Commodities (%)



# Fixed Income

## Second Quarter 2017 Index Returns

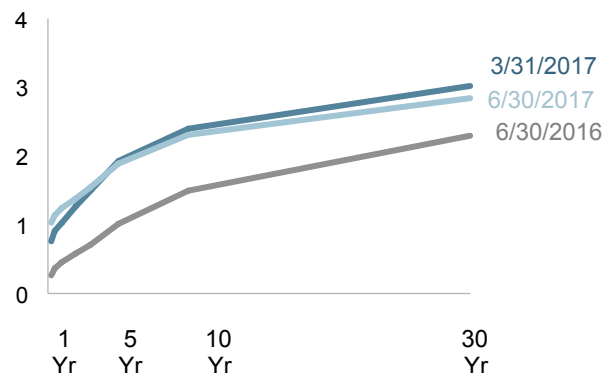
Interest rates were mixed across the US fixed income market during the second quarter. The yield on the 5-year Treasury note decreased 4 basis points (bps) to 1.89%. The yield on the 10-year Treasury note decreased 9 bps to 2.31%. The 30-year Treasury bond yield decreased 18 bps to finish at 2.84%.

The yield on the 1-year Treasury bill rose 21 bps to 1.24%, and the 2-year Treasury note yield rose 11 bps to 1.38%. The yield on the 3-month Treasury bill climbed 27 bps to 1.03%, while the 6-month Treasury bill yield increased 23 bps to 1.14%.

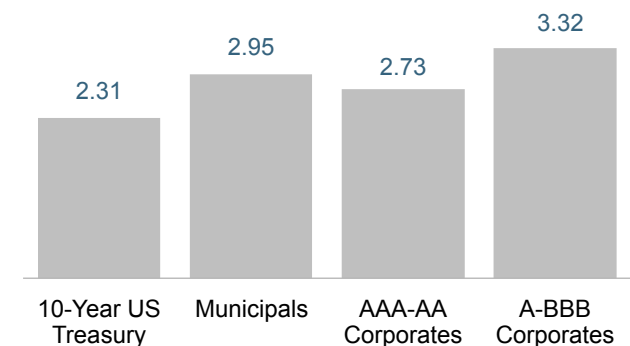
In terms of total returns, short-term corporate bonds gained 0.59% and intermediate corporates gained 1.49%.

Short-term municipal bonds gained 0.56%, while intermediate-term municipal bonds returned 1.97%. Revenue bonds gained 2.19%, outperforming general obligation bonds by 39 bps.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Government Bond Index	5.4	-7.0	5.5	2.8	7.3
Bloomberg Barclays Municipal Bond Index	3.6	-0.5	3.3	3.3	4.6
Bloomberg Barclays US Aggregate Bond Index	2.3	-0.3	2.5	2.2	4.5
Bloomberg Barclays US Corporate High Yield Index	4.9	12.7	4.5	6.9	7.7
Bloomberg Barclays US TIPS Index	0.9	-0.6	0.6	0.3	4.3
BofA Merrill Lynch 1-Year US Treasury Note Index	0.3	0.4	0.4	0.4	1.2
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.3	0.5	0.2	0.2	0.6
Citi World Government Bond Index 1-5 Years (hedged to USD)	0.7	0.3	1.3	1.4	2.5

\* Annualized

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 (SBBI) 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

## Second Quarter 2017 Index Returns

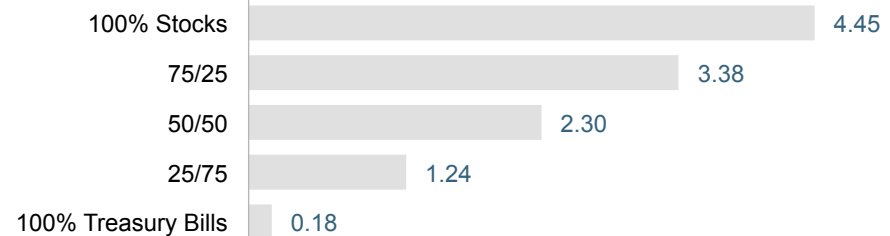
These portfolios illustrate the performance of different global stock/bond mixes. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)

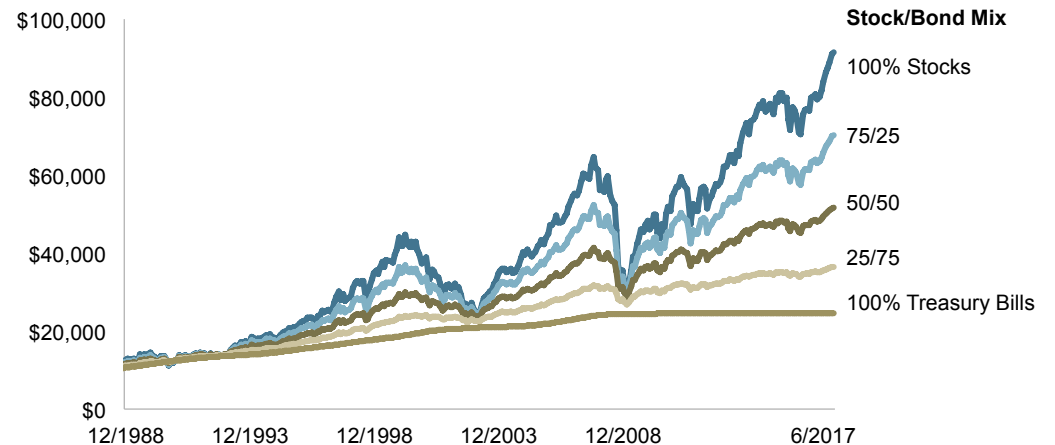
\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Stocks	11.8	19.4	5.4	11.1	4.3	17.0
75/25	8.8	14.4	4.2	8.4	3.6	12.7
50/50	5.9	9.6	2.9	5.6	2.7	8.5
25/75	3.1	4.9	1.6	2.9	1.7	4.2
100% Treasury Bills	0.3	0.4	0.2	0.1	0.5	0.3

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).

# When Rates Go Up, Do Stocks Go Down?

Second Quarter 2017

## Should stock investors worry about changes in interest rates?

Research shows that, like stock prices, changes in interest rates and bond prices are largely unpredictable.<sup>1</sup> It follows that an investment strategy based upon attempting to exploit these sorts of changes isn't likely to be a fruitful endeavor. Despite the unpredictable nature of interest rate changes, investors may still be curious about what might happen to stocks if interest rates go up.

Unlike bond prices, which tend to go down when yields go up, stock prices might rise or fall with changes in interest rates. For stocks, it can go either way because a stock's price depends on both future cash flows to investors and the discount rate they apply to those expected cash flows. When interest rates rise, the discount rate may increase, which in turn could cause the price of the stock to fall. However, it is also possible that when interest rates change, expectations about future cash flows expected from holding a stock also change. So, if theory doesn't tell us what the overall effect should be, the next question is what does the data say?

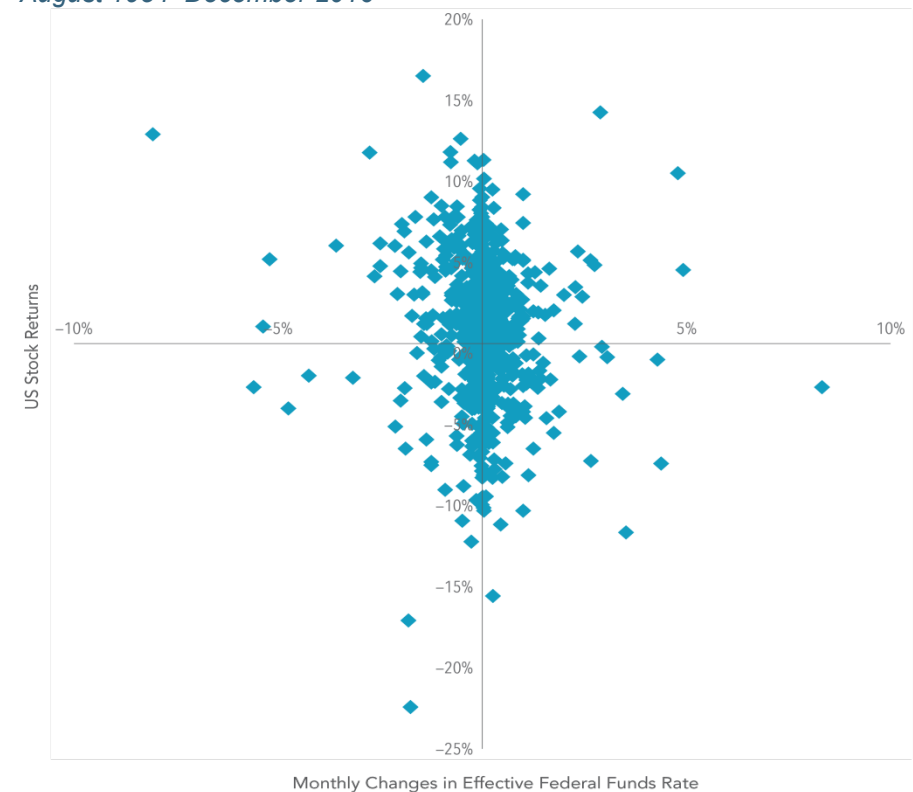
### Recent Research

Recent research performed by Dimensional Fund Advisors helps provide insight into this question.<sup>2</sup> The research examines the correlation between monthly US stock returns and changes in interest rates.<sup>3</sup>

**Exhibit 1** shows that while there is a lot of noise in stock returns and no clear pattern, not much of that variation appears to be related to changes in the effective federal funds rate.<sup>4</sup>

### Exhibit 1. Monthly US Stock Returns against Monthly Changes in Effective Federal Funds Rate

August 1954–December 2016



Monthly US stock returns are defined as the monthly return of the Fama/French Total US Market Index and are compared to contemporaneous monthly changes in the effective federal funds rate. Bond yield changes are obtained from the Federal Reserve Bank of St. Louis.

1. See, for example, Fama 1976, Fama 1984, Fama and Bliss 1987, Campbell and Shiller 1991, and Duffee 2002.

2. Wei Dai, "Interest Rates and Equity Returns" (Dimensional Fund Advisors, April 2017).

3. US stock market defined as Fama/French Total US Market Index.

4. The federal funds rate is the interest rate at which depository institutions lend funds maintained at the Federal Reserve to another depository institution overnight.



# When Rates Go Up, Do Stocks Go Down?

(continued from page 16)

For example, in months when the federal funds rate rose, stock returns were as low as -15.56% and as high as 14.27%. In months when rates fell, returns ranged from -22.41% to 16.52%. Given that there are many other interest rates besides just the federal funds rate, Dai also examined longer-term interest rates and found similar results.

So to address our initial question: when rates go up, do stock prices go down? The answer is yes, but only about 40% of the time. In the remaining 60% of months, stock returns were positive. This split between positive and negative returns was about the same when examining all months, not just those in which rates went up. In other words, there is not a clear link between stock returns and interest rate changes.

## Conclusion

There's no evidence that investors can reliably predict changes in interest rates. Even with perfect knowledge of what will happen with future interest rate changes, this information provides little guidance about subsequent stock returns. Instead, staying invested and avoiding the temptation to make changes based on short-term predictions may increase the likelihood of consistently capturing what the stock market has to offer.

## Glossary

**Discount Rate:** Also known as the "required rate of return," this is the expected return investors demand for holding a stock.

**Correlation:** A statistical measure that indicates the extent to which two variables are related or move together. Correlation is positive when two variables tend to move in the same direction and negative when they tend to move in opposite directions.

## Index Descriptions

**Fama/French Total US Market Index:** Provided by Fama/French from CRSP securities data. Includes all US operating companies trading on the NYSE, AMEX, or Nasdaq NMS. Excludes ADRs, investment companies, tracking stocks, non-US incorporated companies, closed-end funds, certificates, shares of beneficial interests, and Berkshire Hathaway Inc. (Permco 540).

**Source:** Dimensional Fund Advisors LP. Eugene Fama and Ken French are members of the Board of Directors for and provide consulting services to Dimensional Fund Advisors LP. There is no guarantee investment strategies will be successful. Investing involves risks including possible loss of principal. 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. Results shown during periods prior to each Index's index inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains.



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## Retirement Second Opinion

In these volatile times, you probably know a friend, family member or colleague who may have a complicated situation, or who wonders whether they have the right financial advisor, or who just needs help, but doesn't get it. That's not uncommon. Studies suggest that over 80 percent of affluent investors would value a second opinion.\*

In order to help those you care about achieve their financial goals, we have created our complimentary **Retirement Second Opinion**. We're pleased to offer your friends, family and colleagues the same expertise and guidance that you've come to expect as a valued client of Professional Financial.

**Paul Byron Hill**, MBA, MFP, MSFS, ChFC®, Certified Financial Planner™ is a nationally recognized Wealth Management Consultant, Educator and Author, written about in *Money*, *Fortune*, *Forbes* and *Financial Planning*. *Reuters* honored Paul as one of 500 "Top Advisers" nationally. Professional Financial Strategies, Inc., an independent investment advisory firm he founded in 1993, is focused on client values, needs and goals for integrative wealth management.

Paul and his professional team act as a personal chief financial officer for clients, bringing a unique multi-dimensional, multi-disciplinary process to guide informed decisions for confidence in managing wealth and planning retirements. They integrate investment management, financial consulting and advanced planning as a process personalized for each family—preserving wealth, mitigating taxes, caring for heirs, protecting assets and charitable impact.

Memberships include: Financial Planning Association, American Institute of CPAs, Institute of Chartered Management Accountants, and National Association of Accountants. Professional Financial has been recognized multiple times by *Wealth Manager* as a "Top Wealth Manager" and ranks highly in annual *Financial Advisor* RIA surveys.

### WEALTH MANAGEMENT CONSULTING PROCESS

Step 1

Discovery  
meeting

Step 2

Retirement  
strategy  
meeting

Step 3

Mutual  
commitment  
meeting

Step 4

Organizational  
meeting

Step 5

Regular  
progress  
meetings

Step 6

Annual  
planning  
meeting

\*Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, 2005.



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Integrative Wealth Management ■ Clarity. Commitment. Confidence.



## Working with professionals who redefine the wealth management process

Ask ten investors to define wealth management. Rather, ask ten typical “wealth managers” to do so. You’ll almost certainly get ten different answers, and most replies will primarily focus only on investing. As a client of Professional Financial, however, you benefit from a team of CFPs® with a network of specialists sharing a unique vision of integrative wealth management.

## Our consultative planning process

At Professional Financial we approach each new engagement with a time-tested, collaborative process. This allows us to have an open dialogue with you so we can learn about your values and goals. This proven process enables us to work with you to tailor a plan that helps you meet your essential goals. As a valued client, you’ll recognize each of the five steps below. As part of our **Retirement Second Opinion**, we offer a portion of our consultative service, complimentary, to you friends, family and colleagues.

## What to expect from the Retirement Second Opinion

We will meet with your friends, family and colleagues for a discovery meeting and then invite them back for an retirement strategy meeting. Hopefully, we can confirm whether they are on track to achieve their goals with their existing financial providers. If appropriate, however, we’ll suggest ways we can help, including recommending another qualified advisor if we’re not a good fit for them. Either way, your family and friends will receive a Retirement Strategy Report and a detailed analysis of their current investment portfolio—a value that may be in excess of \$10,000.

### RETIREMENT SECOND OPINION

Step 1

Discovery  
meeting

Step 2

Retirement  
strategy  
meeting

### INTEGRATIVE WEALTH MANAGEMENT

#### INVESTMENT MANAGEMENT

- Strategic planning
- Goal monitoring
- Performance evaluation
- Risk evaluation
- Portfolio structuring
- Manager due diligence

#### ADVANCED PLANNING

- Wealth enhancement, including tax minimization and liability restructuring

- Wealth transfer
- Wealth protection
- Charitable impact

#### RELATIONSHIP CONSULTATIONS

- Regularly scheduled calls, emails, reviews and in-person meetings
- Network of specialists, including accounting, tax, legal, insurance, actuarial and benefits resources



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**Let us help you help those you care about. Contact us today.**

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**Disclosure:** Professional Financial Strategies, Inc. is an investment advisor registered with the Securities and Exchange Commission, and an independent, fee-only firm.

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