



April 10, 2015

Quarterly Report

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"If you want happiness for a lifetime – help someone else."

-Chinese Proverb

The Social Security Administration has an actuarial-based life expectancy calculator. You simply plug in your gender and date of birth and it will spit out a number. For a 65-year old male, this number is 84.4¹. The University of Pennsylvania also has a calculator. However, this tool has a number of additional questions about lifestyle. On this calculator, the same man indicated he didn't drink or smoke, drove the speed limit, and exercised regularly. UPenn projected he would live to be 88.87². Of course, if his wife found out how he answered those questions, she would kill him right then and there! So much for projections.

We use life expectancy to help us formulate financial plans for clients. Someone in their early seventies is expected to live well into their late-eighties. This means that they may experience more than one cycle of positive and negative returns. It's important to have longevity in mind when we plan an asset allocation strategy to try and ensure our assets will provide for our needs over our entire lifetime.

Markets

The emerging markets, specifically the group commonly known as BRIC (Brazil, Russia, India, China), were under performers in 2014. Now, we know that past performance is no indication of what may happen in the future. Yet many amateur investors continue to add to winners and dump losers all while they underperform a diversified portfolio⁴.

Pop Quiz! Of the four BRIC markets listed above, which do you think performed the best this past quarter? Certainly, you wouldn't have expected Russia. The sixth largest economy⁵ in the world faces sanctions, is embroiled with conflict, and is plagued by environmental issues. Yet, over the past three months, the MSCI Russia Index is up 18.61%⁶. I don't think logic would have aided our guesses much.

I think every single day over the past 50 years, during which I have been an investment professional, some academic or market pundit has called for a market decline or collapse. Eventually, someone ends up being correct and they get deified. This is what markets do. They correct and wring out the excess exuberance just as seriously oversold markets recover and regain traction.

Many investors believe that the one key signal for the near-term market direction centers on speculation over if and when the Fed will raise rates. Interest rates are near historic lows with the 10-year Treasury currently yielding 1.94%⁷.

What will happen when they start raising rates? My guess is some knee-jerk reaction. Keep in mind that rates are not going to start going through the roof. I don't think we'll be seeing any 5% yield 10-year Treasuries any time soon. I think Janet Yellen, the Fed Chairwoman, is very intelligent. Her actions will be calculated and gradual. If there are any sharp pullbacks, I think it would be an excellent opportunity to add funds to a diversified portfolio.

Diversification

For the period 1994-2014 the annualized return for all equities was 7.5%. If we exclude the top 10% of securities each year by performance, the return falls to 3.2%. If the top 25% are excluded, the return falls to -6.0%⁸. We believe those who attempt to pick winners from thousands of stocks or hundreds of sector categories are playing a guessing game.

I've included two charts that I thought were interesting. One shows the relative size of equity markets by country. The other shows the size of the investment grade bond market. I wonder how long it will take for a combined China and India to equal the United States.

Happenings

Derek and his wife, Tiffany, have joined Katie Kelly's team "Faith, Hope, Believe" to help raise money for the Leukemia and Lymphoma Society National Capital Area chapter. Katie Kelly is a Montgomery County Public School kindergarten teacher who was nominated to be the LLS National Capital Area chapter woman of the year. The Leukemia & Lymphoma Society (LLS) is the world's largest voluntary (nonprofit) health organization dedicated to funding blood cancer research and providing education and patient services. Everyone here is wishing them great success.

Client Protection

Once per year we are required to update our annual filing with the SEC. The ADV Part 2 is a plain English brochure outlining all of the material facts about our firm. It is available online through the SEC's website, or we would be pleased to send you a copy upon request. Included with this commentary is a copy of our Privacy Policy. This discloses how we handle and protect the information you have shared with us.

John, Derek, Jon, Angela, & Stacie

¹ Calculators: Life Expectancy, Social Security Administration, accessed 4/3/2015.

² "How Long Will I Live?", University of Pennsylvania, accessed 4/3/2015.

³ "BRIC Economies Continue to Underperform", Capital Economics, March 27th, 2015.

⁴ "Dalbar's 20th Annual Quantitative Analysis of Investor Behavior 2014 Advisor Edition", Dalbar, Inc.

⁵ World Economic Outlook Database, International Monetary Fund, October 2014.

⁶ Performance data; Source: MSCI as of 3/31/15

⁷ Performance data; Source: US Department of The Treasury as of 3/31/15

⁸ Dimensional Fund Advisors via Bloomberg, London Share Price Database, and Centre for Research in Finance. Compound average annual returns are in US dollars. The returns are from the following developed and emerging markets: Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Republic of Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, and the United States.

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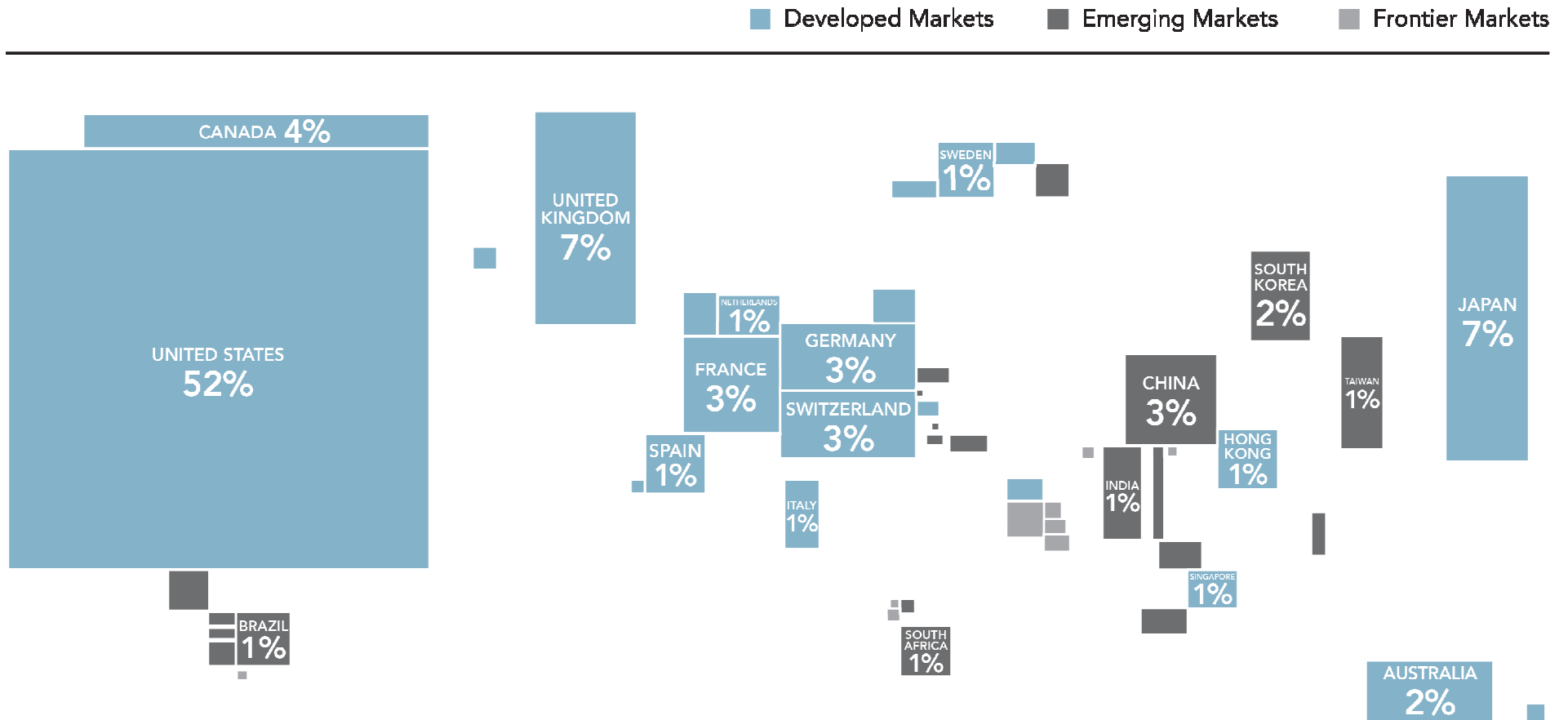
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Neither Asset Allocation nor Diversification guarantee a profit or protect against a loss in a declining market. They are methods used to help manage investment risk.

Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. Shares, when sold, may be worth more or less than their original cost.

There's a World of Opportunity in Equities

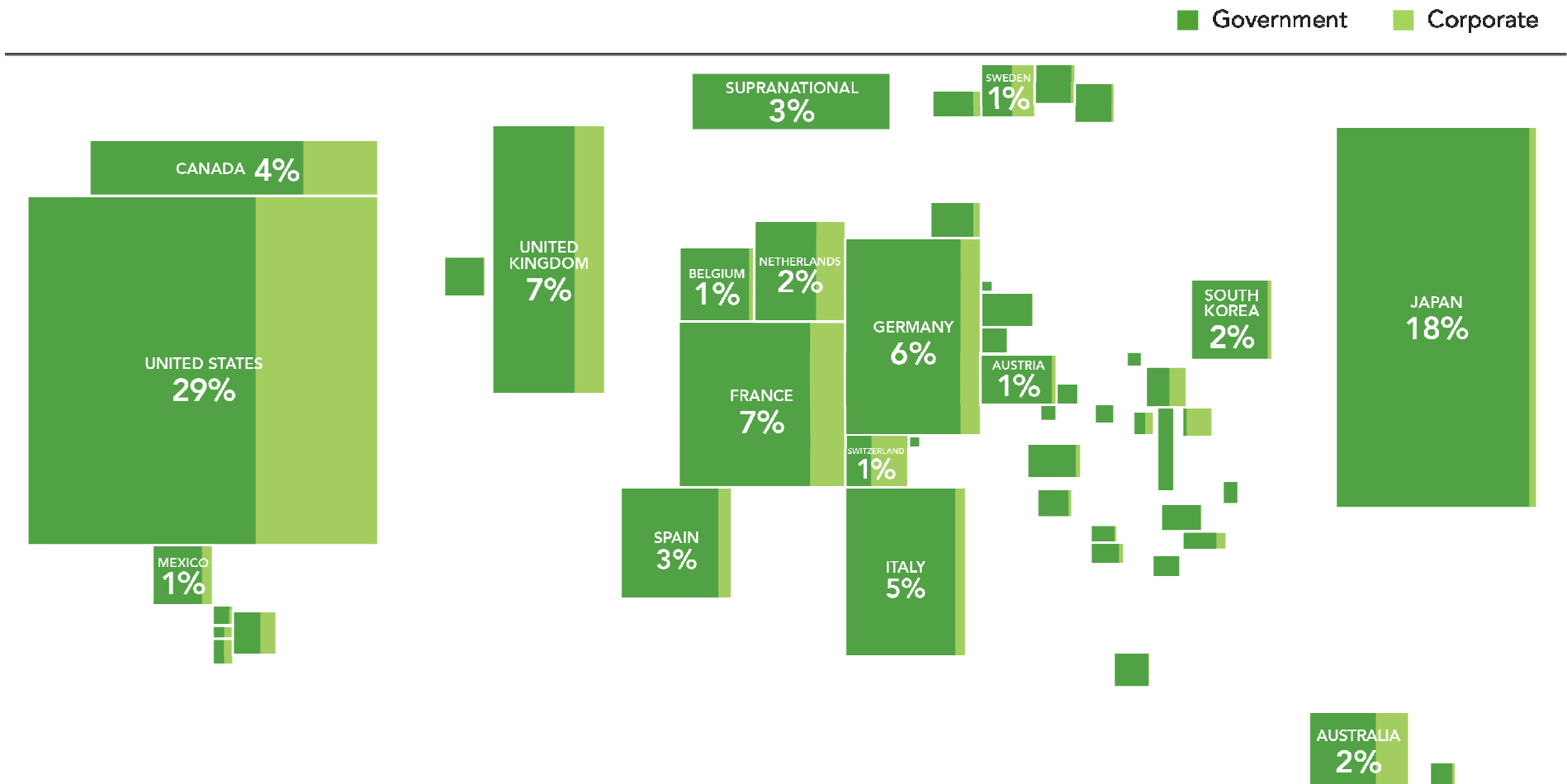
Percent of world market capitalization as of December 31, 2014



Market cap data is free-float adjusted from Bloomberg securities data. Many nations not displayed. Total may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. China market capitalization excludes A-shares, which are generally only available to mainland China investors.

There's a World of Opportunity in Fixed Income

Percent of global investment grade bond market as of December 31, 2014



Data is from Barclays Global Aggregate Ex-Securitized Bond Index. Many nations not displayed. Total may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. Barclays data provided by Barclays Bank PLC.

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