Q2

Quarterly Market Review

Second Quarter 2014

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5 Keys to Success in 2014

1. Expect more volatility in 2014. It is normal for markets to go up and down.
2. Focus on what you can control. Saving, spending, your job, your family, your health.
3. Save more! Target to save 20% to 25% of gross family income.
4. Track your spending with www.mint.com
5. Calculate your net worth and set a goal for your retirement number. We can help with this process.

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Asset Class Returns

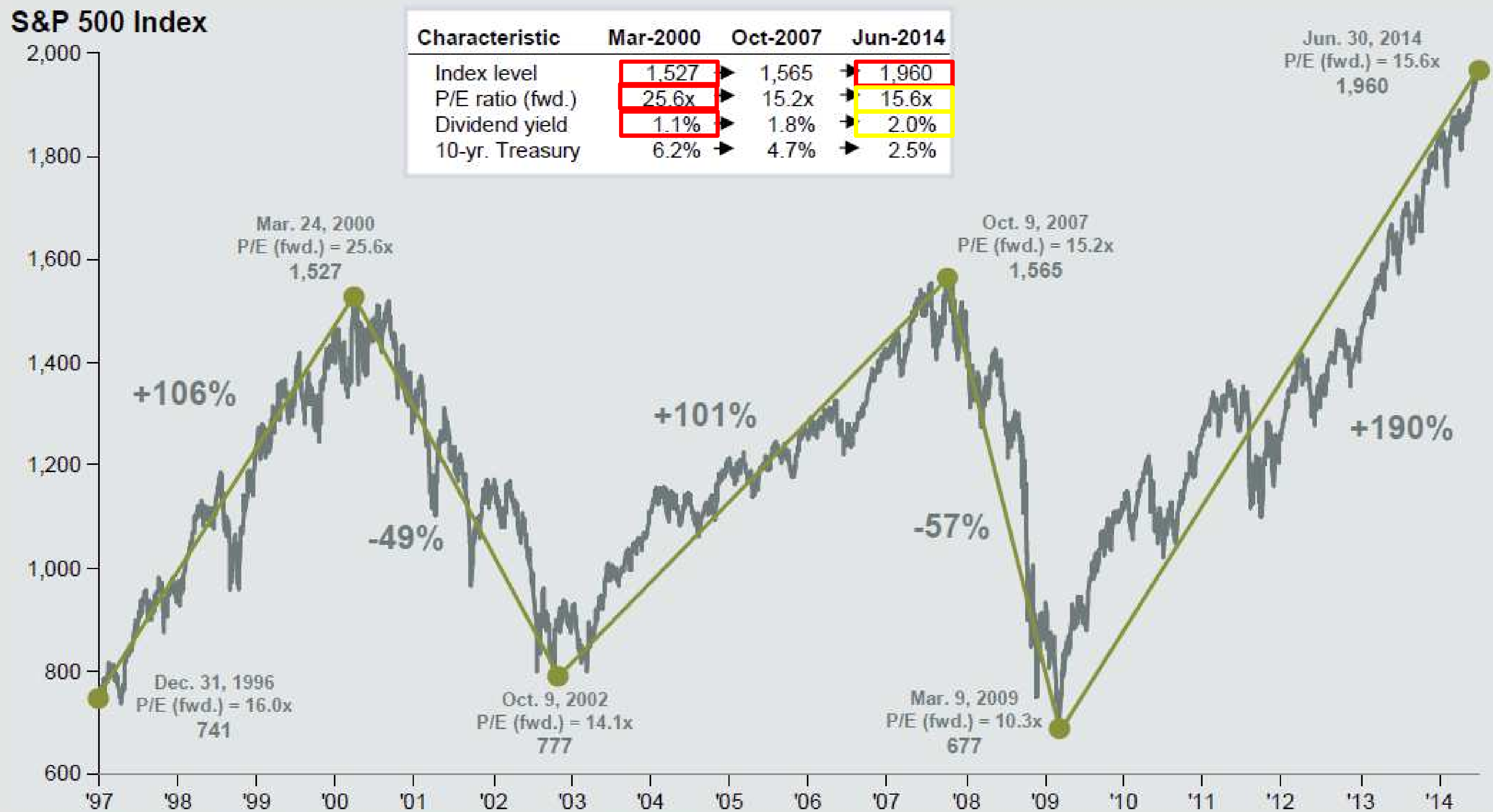
June 30, 2014

Asset Class	10 Years	2014 YTD	2013	2012	2011	2010	2009	2008
Bonds								
DFA One-Year Fixed Income	2.22	0.21	0.34	0.93	0.59	1.16	1.92	4.02
DFA Five-Year Global Fixed Income	3.85	1.97	-0.41	4.80	4.51	5.30	4.19	4.03
DFA Intermediate Government Fixed Income	5.04	3.27	-0.35	3.71	9.43	6.92	-0.72	12.89
Barclays Treasury Bond Index - Long	7.18	12.14	-12.66	3.56	29.93	9.38	-12.92	24.03
Barclays US Aggregate Bond Index	4.94	3.93	-2.02	4.22	7.84	6.54	5.93	5.24
Barclays Credit Bond Index - Intermediate	5.23	3.45	-0.17	8.10	5.37	7.76	15.93	-2.76
Barclays US TIPS Index	5.25	5.83	-8.61	6.98	13.56	6.31	11.41	-2.35
U.S. Stocks								
DFA US Large Company (S&P 500)	7.79	7.04	32.33	15.82	2.10	15.00	26.62	-36.76
DFA US Large Cap Value	9.03	7.33	40.32	22.05	-3.14	20.17	30.19	-40.80
DFA US Small Cap	9.73	3.08	42.21	18.39	-3.15	30.70	36.34	-36.01
DFA US Micro Cap	8.75	1.46	45.06	18.24	-3.25	31.29	28.06	-36.72
DFA US Small Cap Value	9.32	4.52	42.38	21.72	-7.55	30.90	33.62	-36.79
Non-U.S. Stocks - Developed								
DFA Large Cap International	7.10	5.39	20.69	17.75	-12.28	9.25	30.64	-41.44
DFA International Value	7.63	5.15	23.12	16.61	-16.85	10.57	39.45	-46.33
DFA International Small Company	9.64	6.89	27.45	18.86	-15.35	23.91	41.96	-43.87
DFA International Small Cap Value	10.35	8.16	32.39	22.26	-17.47	18.10	39.51	-41.68
Non-U.S. Stocks - Emerging								
DFA Emerging Markets	12.25	6.55	-3.12	19.16	-17.41	21.82	71.77	-49.20
Real Estate								
DFA Real Estate Securities	9.42	18.16	1.39	17.49	8.95	28.67	28.17	-37.37

All returns except YTD are annualized.

S&P 500 Index at Inflection Points

Characteristic	Mar-2000	Oct-2007	Jun-2014
Index level	1,527	1,565	1,960
P/E ratio (fwd.)	25.6x	15.2x	15.6x
Dividend yield	1.1%	1.8%	2.0%
10-yr. Treasury	6.2%	4.7%	2.5%



Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Guide to the Markets – U.S.

Data are as of 6/30/14.

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MARKET INSIGHTS

Returns and Valuations by Style

Equities

2Q 2014

	Value	Blend	Growth
Large	5.1%	5.2%	5.1%
Mid	5.6%	5.0%	4.4%
Small	2.4%	2.0%	1.7%

Year to Date

	Value	Blend	Growth
Large	8.3%	7.1%	6.3%
Mid	11.1%	8.7%	6.5%
Small	4.2%	3.2%	2.2%

Since Market Peak (October 2007)

	Value	Blend	Growth
Large	35.7%	45.2%	59.9%
Mid	63.2%	63.2%	61.4%
Small	48.1%	55.0%	61.3%

Since Market Low (March 2009)

	Value	Blend	Growth
Large	238.2%	224.4%	226.2%
Mid	316.6%	293.9%	273.1%
Small	266.2%	273.8%	280.7%

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	15.0 / 14.0	15.6 / 16.2	18.3 / 21.0
Mid	17.0 / 14.1	18.4 / 16.4	19.8 / 21.8
Small	16.7 / 14.4	18.5 / 17.2	20.7 / 21.4

Current P/E as % of 20-year avg. P/E

E.g.: Large Cap Blend stocks are 3.4% cheaper than their historical average.

	Value	Blend	Growth
Large	107.4%	96.6%	87.1%
Mid	120.1%	111.7%	90.7%
Small	116.1%	107.6%	96.5%

Source: Russell Investment Group, Standard & Poor's, FactSet, J.P. Morgan Asset Management.
All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period 10/9/07 – 6/30/14, illustrating market returns since the S&P 500 Index high on 10/9/07. Since Market Low represents period 3/9/09 – 6/30/14, illustrating market returns since the S&P 500 Index low on 3/9/09. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell-style indexes with the exception of the large blend category, which is reflected by the S&P 500 Index. Past performance is not indicative of future returns.
Guide to the Markets – U.S.

Data are as of 6/30/14.

J.P.Morgan
Asset Management

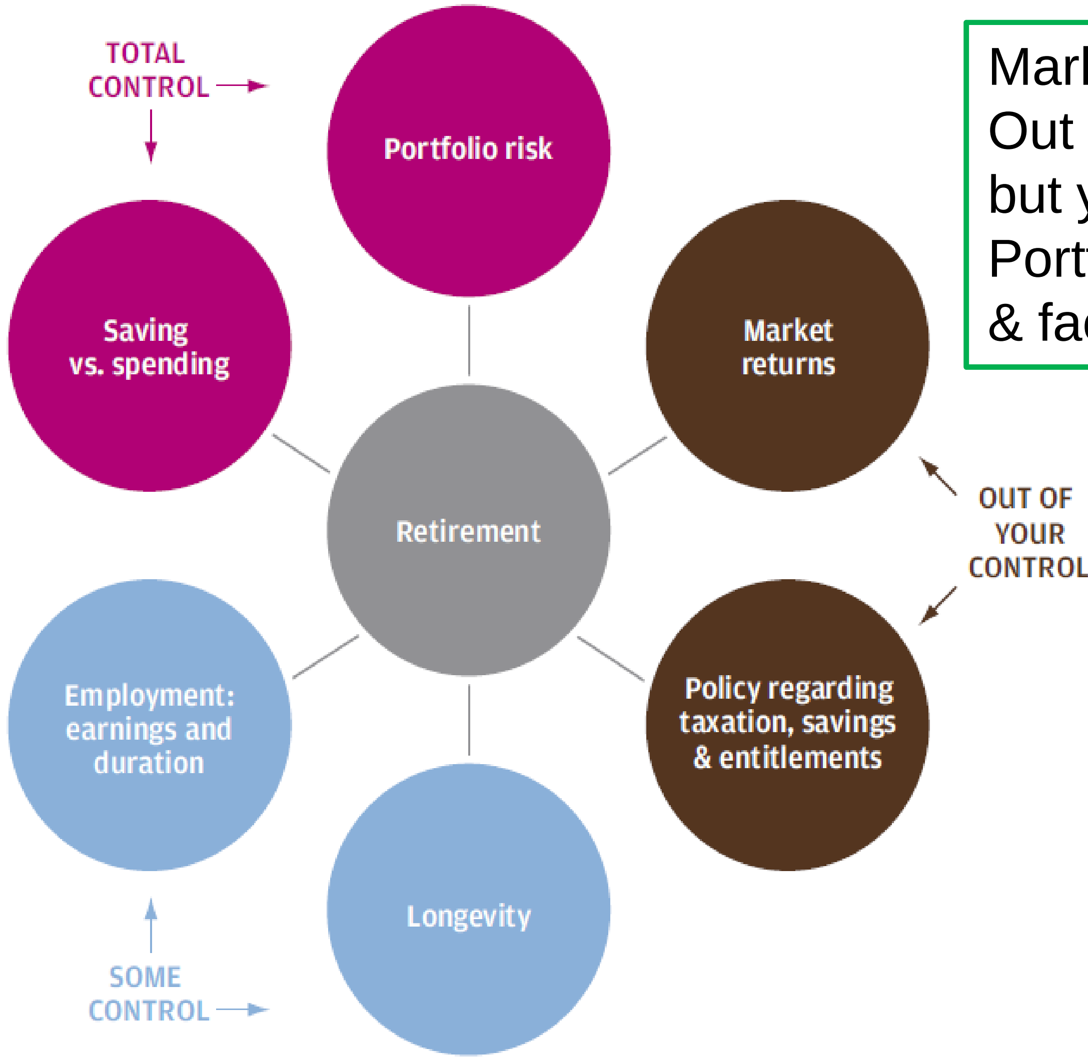
The bull market has now gone 33 months without a 10% correction (the longest has been about 7 years).

At some point, we're bound to see one (perhaps caused by an inflation scare), but for now, stocks seem to be at least fairly valued (with upside and downside risk). On this point, Strategas Research Partners[2] has recently been discussing reasons to remain constructive toward equities, and we think it is worth sharing some of them:

Not being in equities is akin to fighting the Fed and nearly every other central bank.	Inflation is low and inflationary expectations are subdued.
Cash-rich companies are looking for ways to enhance share prices.	The federal budget deficit is declining.
Commodity prices are well contained.	U.S. energy production is growing substantially.
Manufacturing is undergoing a renaissance.	P/E ratios in the high teens are reasonable at current inflation levels.
Few investors are enthusiastic about the bull market.	Investors are more concerned about minimizing volatility than about maximizing returns.

Focus on what you can control

Focus on:
Asset Allocation
Your goals
Reduce middlemen
Reduce costs
Diversify
Minimize taxes
Avoid behavior gaps
Rebalance
Have a solid strategy
Save more



Source: *The Importance of Being Earnest*, J.P. Morgan Asset Management, 2013.

Market Beta is
Out of your control
but you can control
Portfolio construction
& factor investing

Calendar year returns: US Stocks (1926–2013)

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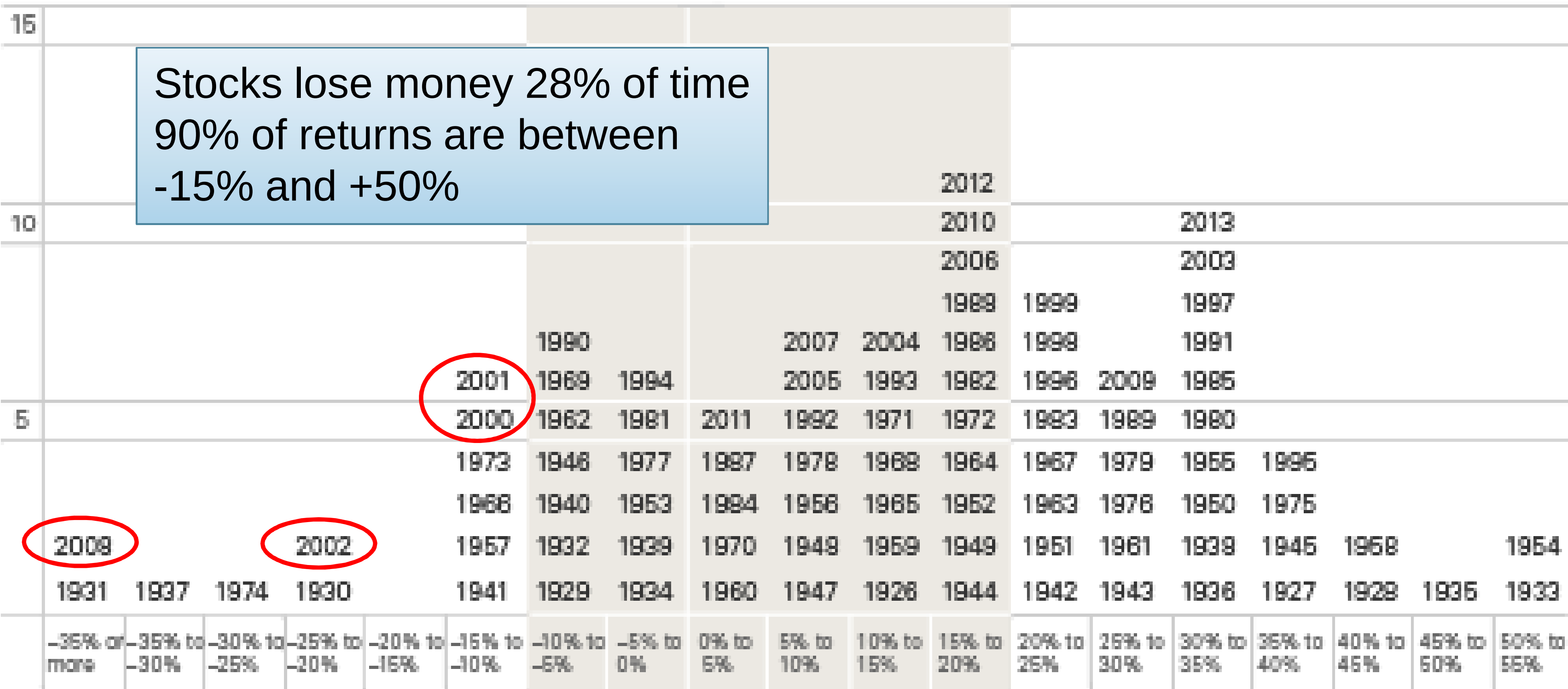
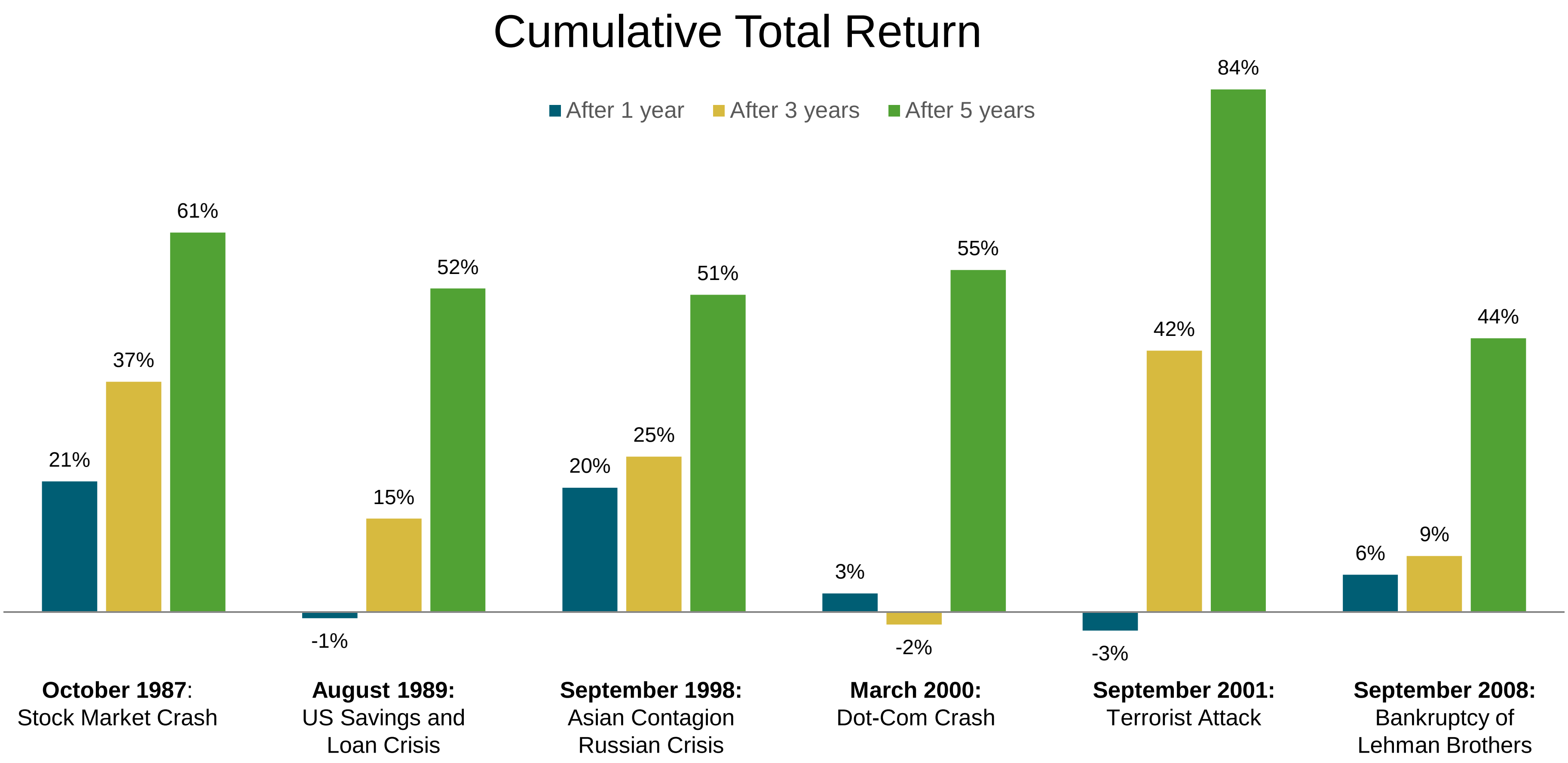


Source: Vanguard

Note: For U.S. stock market returns, we use the Standard & Poor's 90 from 1926 to March 3,1957; the Standard & Poor's 500 Index from March 4, 1957 to 1974; the Wilshire 5000 Index from 1975 to April 22, 2005; and the MSCI US Broad Market Index thereafter.

The Market's Response to Crisis

Performance of a Normal Balanced Strategy: 60% Stocks, 40% Bonds



Balanced Strategy: 7.5% each S&P 500 Index, CRSP 6-10 Index, US Small Value Index, US Large Value Index; 15% each International Value Index, International Small Index; 40% BofA Merrill Lynch One-Year US Treasury Note Index.

The S&P data are provided by Standard & Poor's Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. CRSP data provided by the Center for Research in Security Prices, University of Chicago. US Small Value Index and US Large Value Index provided by Fama/French. International Value Index provided by Fama/French. International Small Cap Index compiled by Dimensional from StyleResearch securities data; includes securities of MSCI EAFE countries in the bottom 10% of market capitalization, excluding the bottom 1%; market-cap weighted; each country capped at 50%; rebalanced semiannually. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance.

Bull Market Peaks

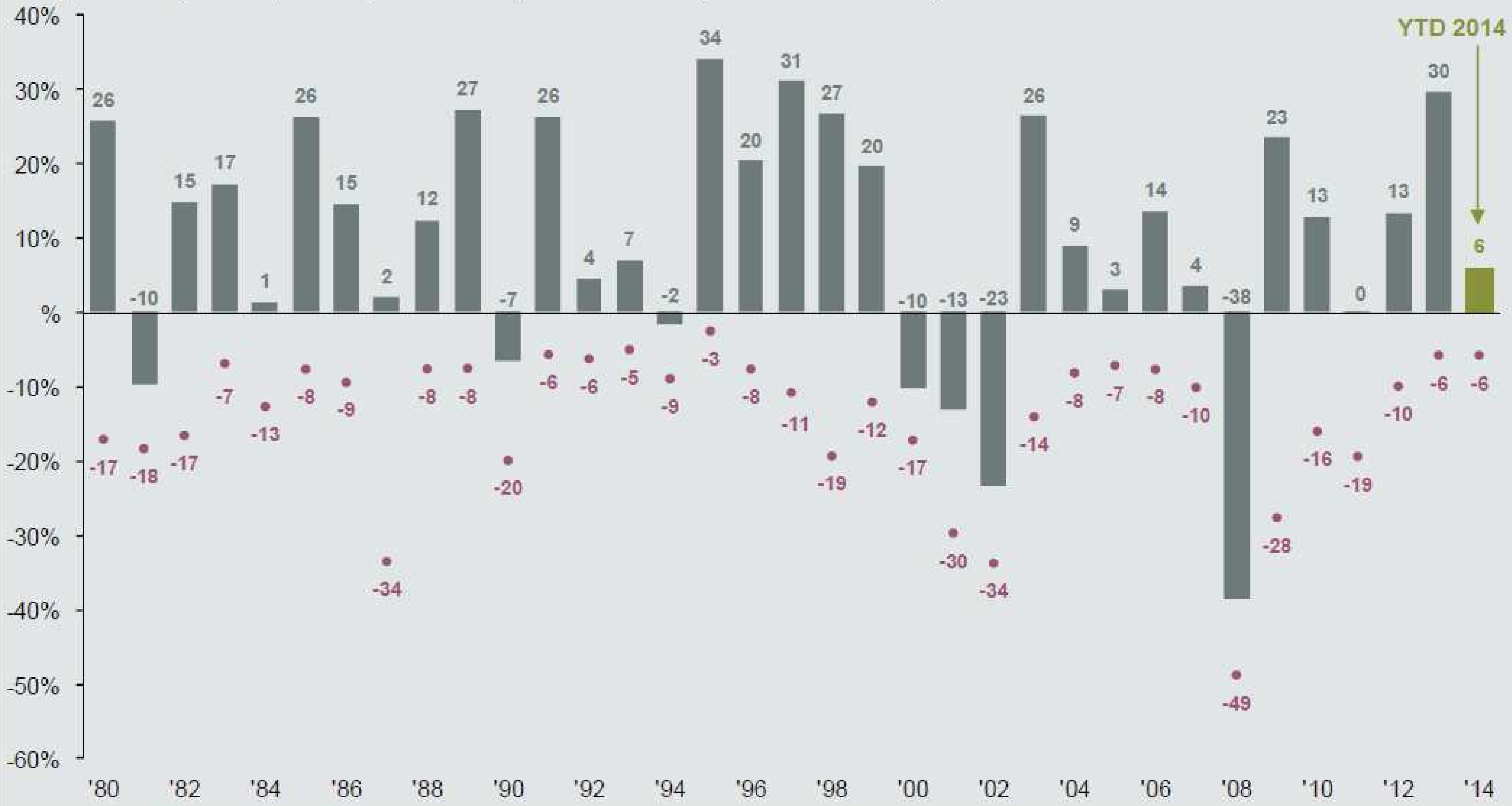
Market Peaks	P/E Ratio	10-Year Treasury Yield	Commentary	Valuation	Rates	Economy Geopolitical Shock
7/15/57	12.0x	3.9%	Bigger than average correction following a strong bull market. U.S. enters a moderate recession.	🟢	🟢	🔴
12/12/61	16.9x	4.0%	High valuations and political stress following failed Bay of Pigs invasion of Cuba.	🔴	🟢	🟢
2/9/66	13.1x	4.7%	Fed tightening to fight rising inflation despite opposition from the Johnson Administration. Growth slows sharply but recession avoided.	🟢	🟢	🔴
11/29/68	17.5x	5.8%	Very high valuations in the era of the nifty fifty. Signs that the economy is overheating due to Vietnam and social spending.	🔴	🟡	🟡
1/5/73	15.4x	6.4%	Moderate valuations but in an environment of rising inflation and interest rates and rising political tension (Watergate).	🟡	🟡	🟡
11/28/80	10.7x	12.7%	Federal funds rate on path to 20% as Volker fights inflation and economy heads towards second recession.	🟢	🔴	🔴
8/25/87	16.1x	8.7%	Multiples had expanded rapidly and interest rates had risen in lead-up to 1987 crash although the economy was fine both before and after.	🟡	🔴	🟢
3/24/00	32.5x	6.2%	Bubble Valuations, interest rates at average levels, economic downdraft from the end of pre Y2K spending.	🔴	🟡	🔴
10/9/07	18.4x	4.7%	P/Es above average, interest rates at average levels, subprime crisis increasing.	🟡	🟡	🔴
5/5/14	15.6x	2.6%	P/Es a little above average, interest rates very low, steady economic expansion.*	🟡	🟢	🟢

For illustrative purposes only. Source: BEA, Federal Reserve Board, J.P. Morgan Asset Management. P/E ratio shown as ratio of market value of all U.S. corporations to adjusted after-tax corporate profits for prior four quarters. Daily prices are J.P. Morgan Asset Management estimate based on the daily value of the Wilshire 5000 Total Market Index. Data are as of 5/5/14.
*Apart from improvements in economic variables such as household wealth, employment and corporate profits, there are many financial indicators which corroborate the story of steady growth. In particular, credit utilization by households and companies, lending standards in residential and commercial real estate and measures of Prime Brokerage leverage extended to hedge funds are all at mid-cycle levels rather than at end-of-cycle levels. There are a few signs of later-stage activity: a rising share of lower-rated high yield bond issuance, rising buyout multiples vs EBITDA, and a recent surge in M&A activity (typically a late-stage event), etc., but the big picture suggests that the US economy is not going to face a sharp adjustment in 2014-2015 related to tighter Fed policy or a leverage-related collapse in the credit markets.

Stocks typically have wide swings during a calendar year.

S&P 500 Intra-year Declines vs. Calendar Year Returns

*Despite average intra-year drops of 14.4%, annual returns positive in 26 of 34 years**



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. *Returns shown are calendar year returns from 1980 to 2013 excluding 2014 which is year-to-date.

Guide to the Markets – U.S.

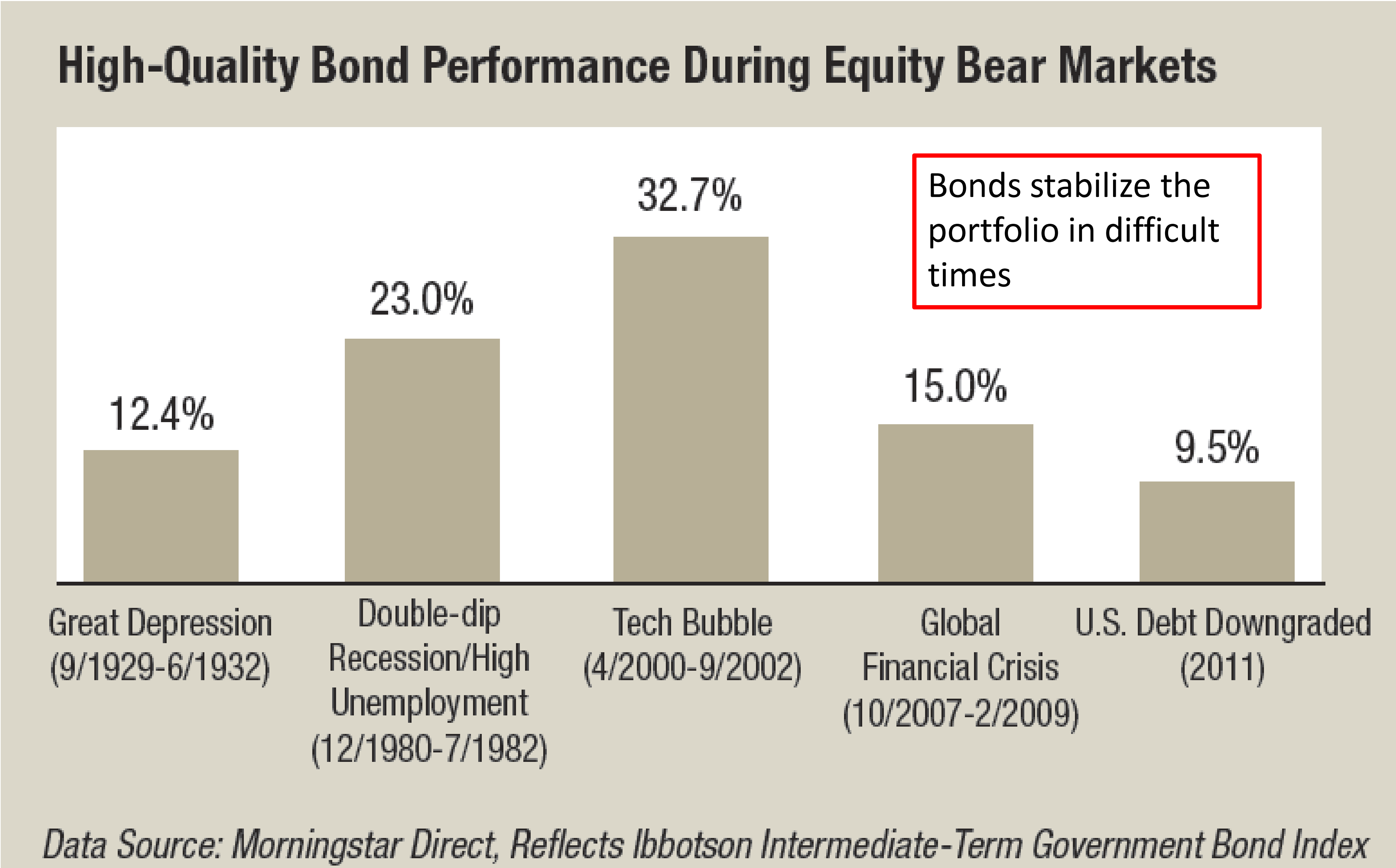
Data are as of 6/30/14.

J.P.Morgan Asset Management

In a rising rate environment, it is very challenging for bonds to provide a real return.

Source: Federal Reserve, BLS, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for June 2014, where real yields are calculated by subtracting out May 2014 year-over-year core inflation. All returns above reflect annualized total returns, which include reinvestment of dividends. Corporate bond returns are based on a composite index of investment grade bond performance.
Guide to the Markets – U.S.
Data are as of 6/30/14.

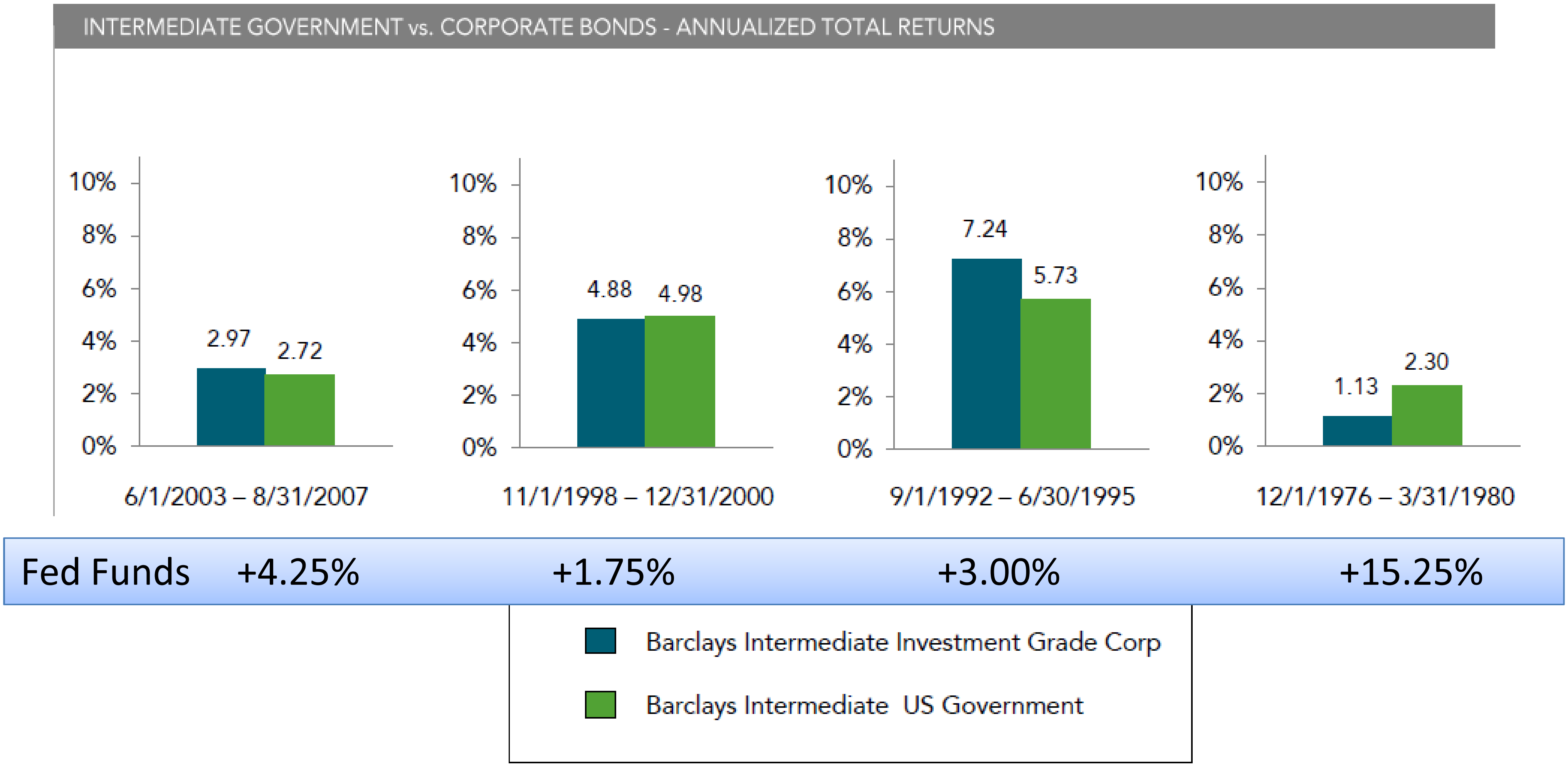
J.P.Morgan
Asset Management


High-Quality Bond Performance During Equity Bear Markets
Bonds stabilize the portfolio in difficult times
12.4%
23.0%
32.7%
15.0%
9.5%
Great Depression (9/1929-6/1932)
Double-dip Recession/High Unemployment (12/1980-7/1982)
Tech Bubble (4/2000-9/2002)
Global Financial Crisis (10/2007-2/2009)
U.S. Debt Downgraded (2011)
Data Source: Morningstar Direct, Reflects Ibbotson Intermediate-Term Government Bond Index

Case Study - Credit

	Target Federal Funds Rate		
PERIOD	Beginning of Period	End of Period	Change
June 2003 – August 2007	1.00	5.25	+4.25
November 1998 – December 2000	4.75	6.50	+1.75
September 1992 – June 1995	3.00	6.00	+3.00
December 1976 – March 1980	4.75	20.00	+15.25

Have lower-quality bonds outperformed in rising rate environments?



Quarterly Market Review

Second Quarter 2014

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 performance of globally diversified portfolios and features a topic of the quarter.

Overview:

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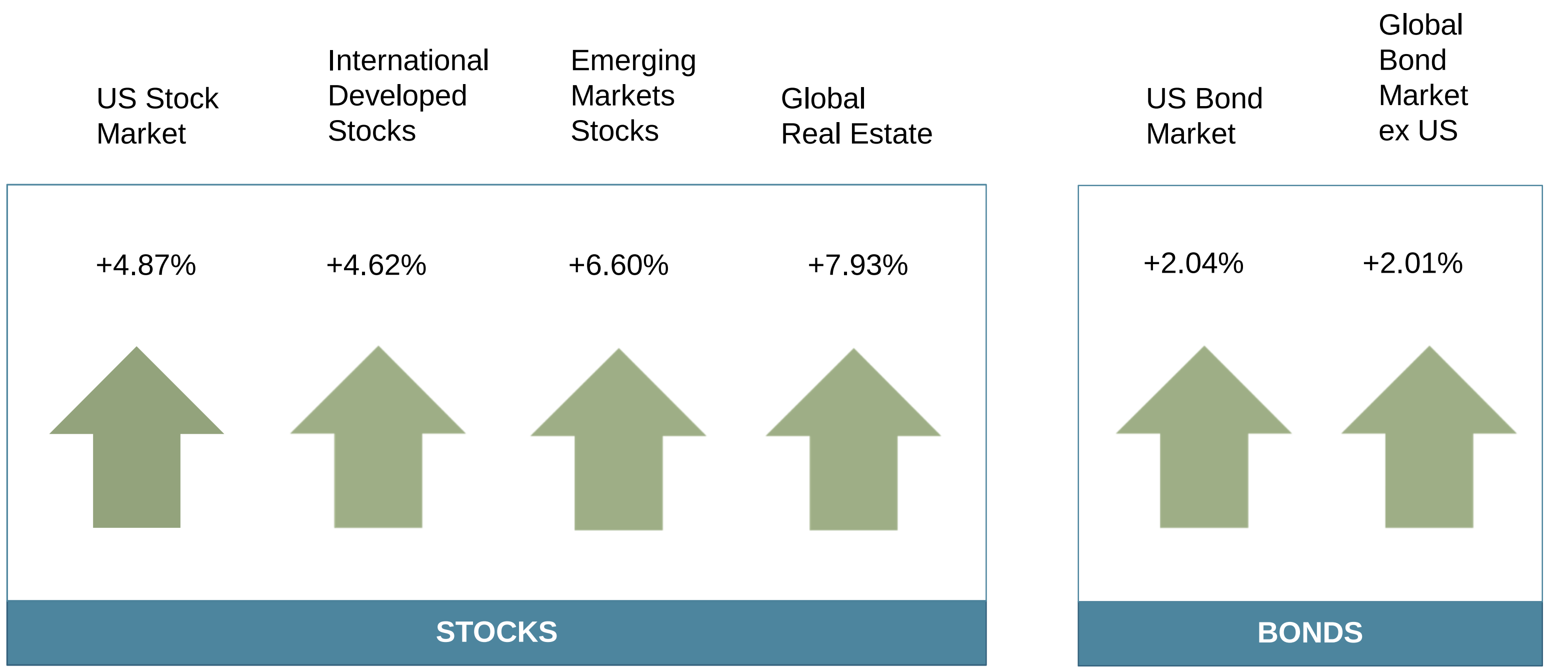
Market Summary

Second Quarter 2014 Index 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.
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), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1–30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995–2014, all rights reserved. MSCI data © MSCI 2014, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2014 by Citigroup.

US Stock Market Performance

S&P 500 Index with Selected Headlines from Q2 2014

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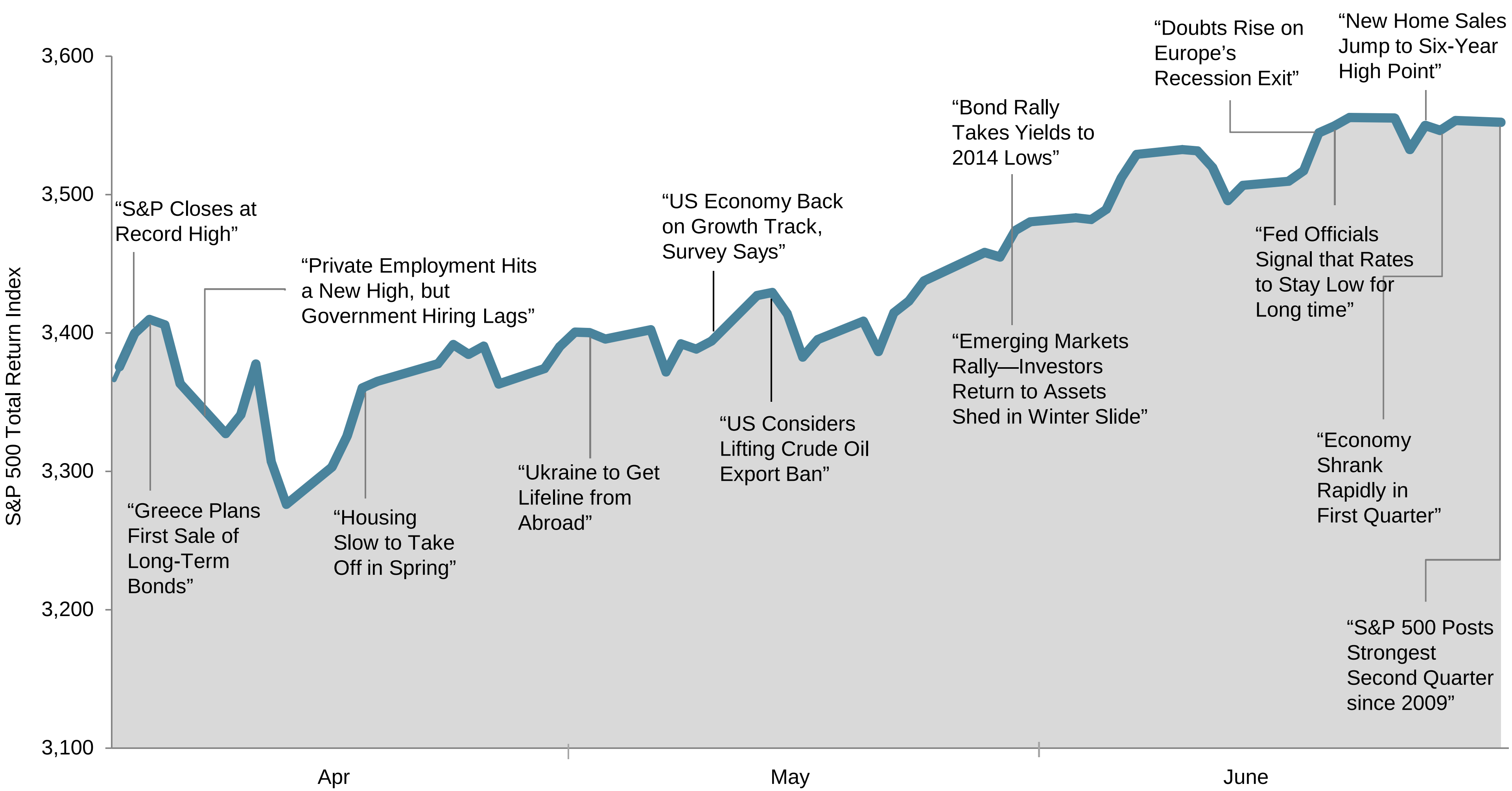


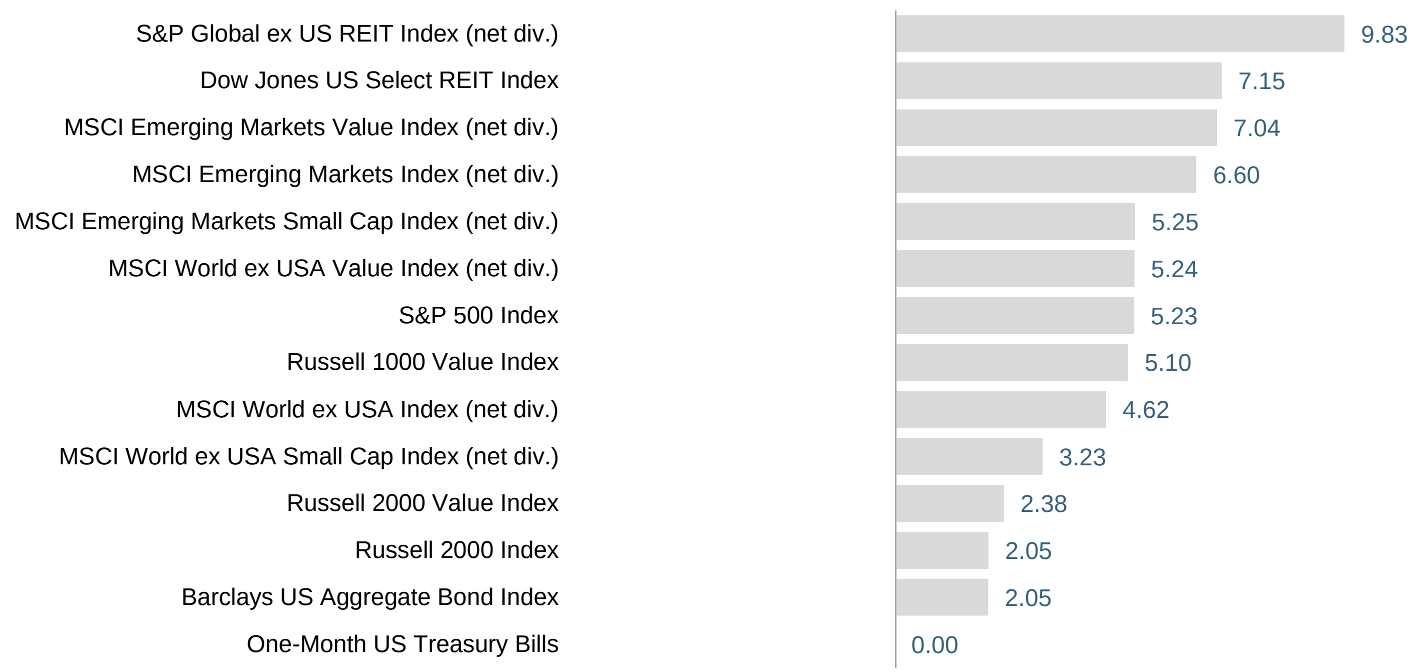
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a longer-term perspective and avoid making investment decisions based solely on the news.

Returns in US dollars. Graph Source: The S&P data are provided by Standard & Poor's Index Services Group.
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 2014 Index Returns

Equity markets posted positive performance for the quarter, led by emerging markets. This was the first quarterly period in which emerging markets had outperformed developed markets since the third quarter of 2012. REITs both in the US and in developed non-US markets outperformed equities. Large cap indices outperformed small cap indices in the developed and emerging markets, including the US. In general, value outperformed growth indices, though performance was mixed within size ranges and regions.



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. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays data provided by Barclays Bank PLC.

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US Stocks

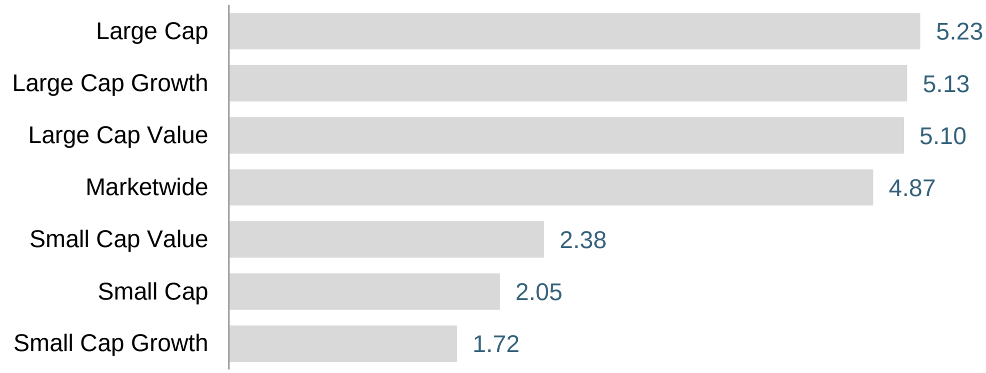
Second Quarter 2014 Index Returns

The US equity market recorded positive performance, with large caps outperforming small caps for the quarter.

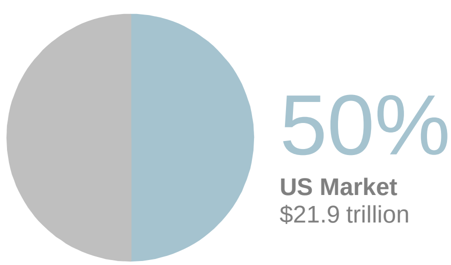
Value outperformed growth within small cap and mid cap indices.

Within large caps, value and growth indices recorded similar performance.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	6.94	25.22	16.46	19.33	8.23
Large Cap	7.14	24.61	16.58	18.83	7.78
Large Cap Value	8.28	23.81	16.92	19.23	8.02
Large Cap Growth	6.31	26.92	16.26	19.24	8.20
Small Cap	3.19	23.64	14.57	20.21	8.70
Small Cap Value	4.20	22.54	14.65	19.88	8.24
Small Cap Growth	2.22	24.73	14.49	20.50	9.04

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International Developed Stocks

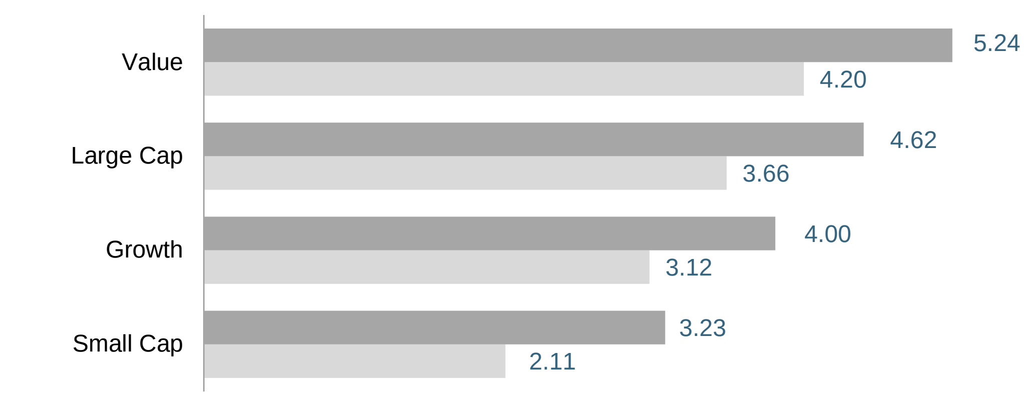
Second Quarter 2014 Index Returns

International developed markets indices recorded similar performance to the US, with large caps outperforming small cap indices.

Value indices outperformed growth indices across all size segments.

The US dollar depreciated relative to many of the major international developed currencies.

Ranked Returns (%)

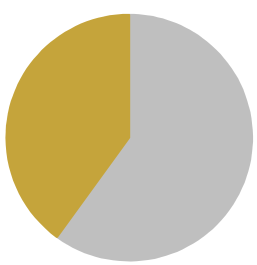


World Market Capitalization—International Developed

39%

International Developed Market

$17.4 trillion



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	5.40	23.83	7.58	11.67	7.18
Small Cap	6.79	29.55	8.75	15.32	8.73
Value	6.39	26.91	8.22	11.54	7.09
Growth	4.41	20.79	6.90	11.74	7.20

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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 used as the proxy for the Non-US developed market. Proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy.

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Emerging Markets Stocks

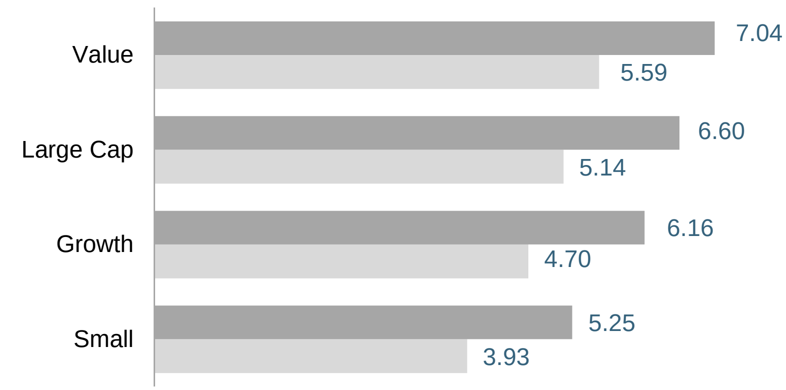
Second Quarter 2014 Index Returns

In a reversal from the previous quarter, emerging markets led equity returns versus developed markets, including the US.

As with developed markets, large caps outperformed small cap indices for the quarter. Value indices outperformed growth indices across all size segments with the exception of mid caps.

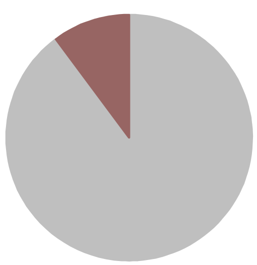
The US dollar depreciated relative to many of the major emerging markets currencies.

Ranked Returns (%)



World Market Capitalization—Emerging Markets

11%
Emerging Markets
$4.7 trillion



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	6.14	14.31	-0.39	9.24	11.94
Small Cap	8.98	14.20	0.58	11.48	13.37
Value	6.16	14.43	-1.63	8.30	12.59
Growth	6.11	14.18	0.79	10.13	11.25

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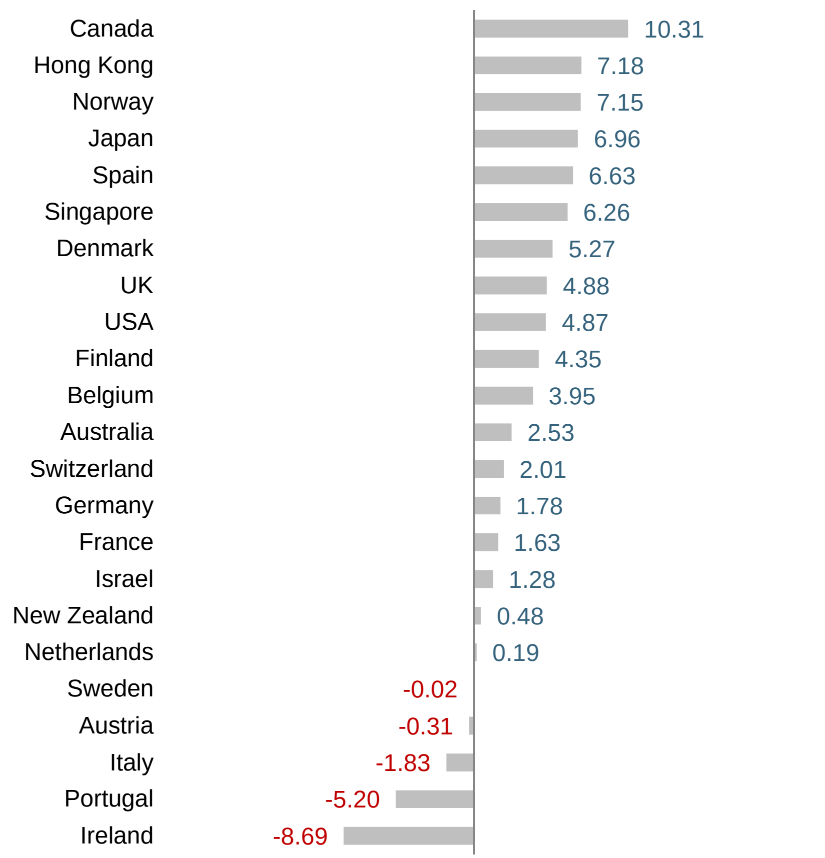
Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market 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.

Select Country Performance

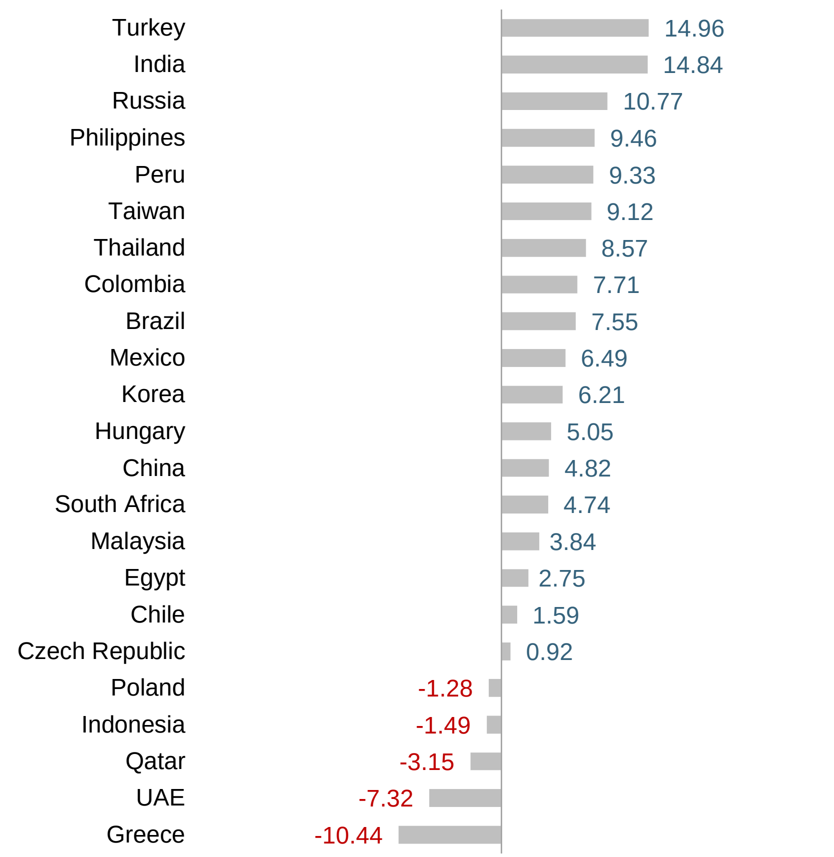
Second Quarter 2014 Index Returns

Canada recorded the highest performance in developed markets, followed by Hong Kong. In a reversal from the previous quarter, Italy and Ireland recorded some of the lowest returns in developed markets. Turkey and India led performance in emerging markets. Qatar and the UAE, recently reclassified by MSCI to the Emerging Markets IMI Index, were among the lowest performing emerging markets.

Developed Markets Returns (%)



Emerging Markets Returns (%)



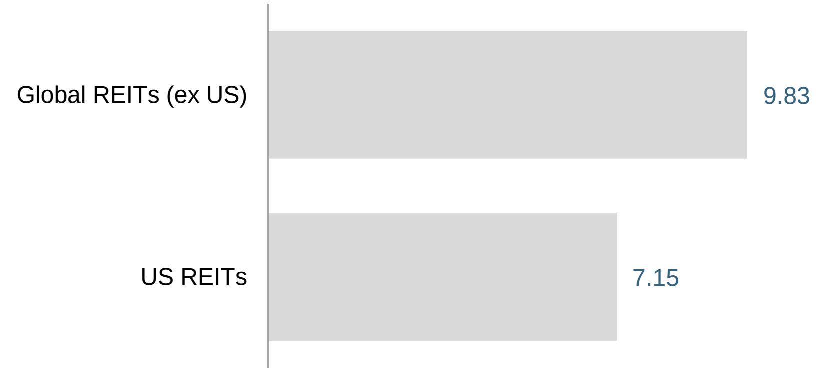
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Real Estate Investment Trusts (REITs)

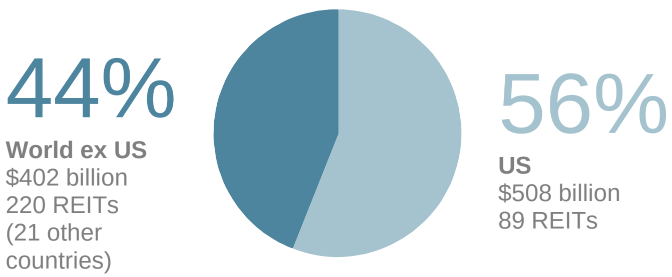
Second Quarter 2014 Index Returns

REITs again returned positive performance, outperforming broad market equity indices in the US and developed non-US markets.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	18.24	13.27	11.38	23.76	9.41
Global REITs (ex US)	13.42	17.86	8.67	16.43	7.28

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 © 2014.

Commodities

Second Quarter 2014 Index Returns

Commodities finished the quarter relatively flat. The Dow Jones-UBS Commodity Index (renamed the Bloomberg Commodity Index) returned 0.08%.

Nickel, the biggest gainer in the index, returned 19.22%. Its gain was most likely due to a supply constraint in the international markets.

Energy commodities were modestly up for the quarter, returning 4.36%.

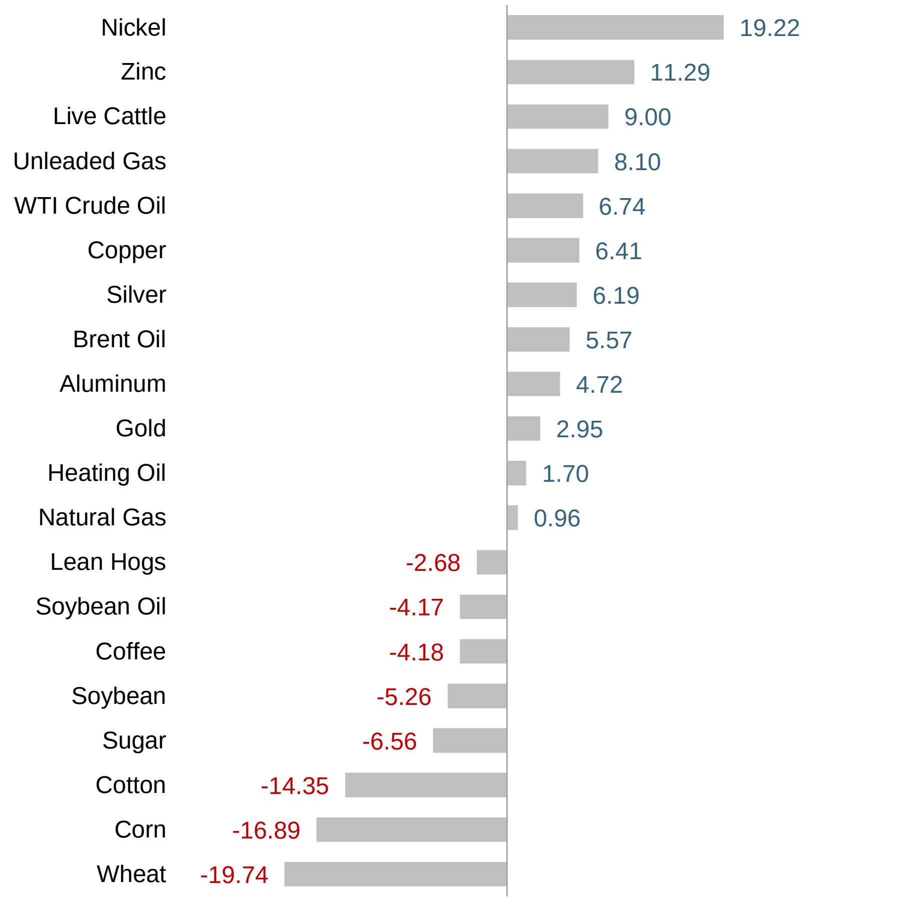
Grain commodities had the worst quarter overall, returning -13.23%. Wheat led the decline with a -19.74% return.

Period Returns (%)

** Annualized*

Asset Class	YTD	Q2	1 Year	3 Years*	5 Years*	10 Years*
Commodities	7.08	0.08	8.21	-5.17	1.99	0.87

Ranked Returns for Individual Commodities (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
All index returns are net of withholding tax on dividends. Dow Jones-UBS Commodity Index Total Return data provided by Dow Jones ©.

Fixed Income

Second Quarter 2014 Index Returns

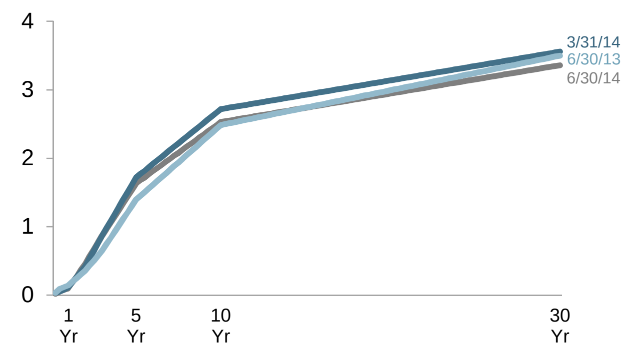
Interest rates across all US fixed income markets declined during the second quarter. The 10-year Treasury note ended the quarter at 2.53%, a decline of 20 basis points over the period. The 30-year Treasury bond finished with a yield of 3.34%, a decline of 22 basis points. The decline in intermediate- and long-term rates, coupled with relatively unchanged short-term rates, led to a flattening of the US Treasury yield curve.

The 30-year Treasury bond returned 5.20% and continued to outpace all fixed income markets with a 13.80% return for the year.

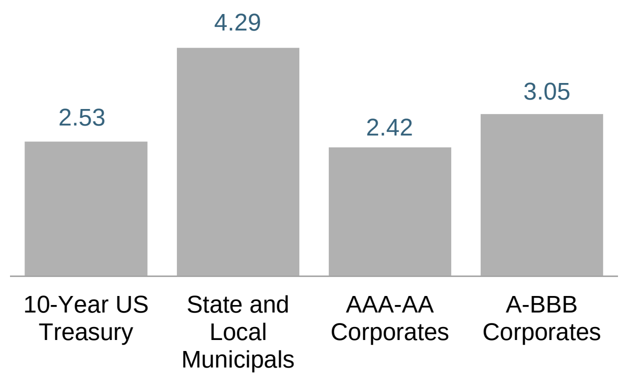
Long-term corporate bonds returned 4.40% for the quarter and 10.42% for the year, beating intermediate-term corporate bonds, which returned 1.77% and 3.49%, respectively.

Municipal revenue bonds slightly outpaced municipal GO bonds by 2.83% vs. 2.19% for the quarter. Long-term municipal bonds outperformed all other areas of the curve by returning 4.11% for the period and 10.05% for the year.

US Treasury Yield Curve



Bond Yields across Issuers



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.02	0.06	0.07	0.11	1.63
BofA Merrill Lynch 1-Year US Treasury Note Index	0.15	0.29	0.29	0.50	2.07
Citigroup WGBI 1−5 Years (hedged to USD)	1.13	1.84	1.85	1.89	3.25
Long-Term Government Bonds	10.90	6.81	8.02	7.17	7.15
Barclays US Aggregate Bond Index	3.93	4.37	3.67	4.85	4.94
Barclays US Corporate High Yield Index	5.46	11.73	9.48	13.98	9.05
Barclays Municipal Bond Index	6.00	6.14	5.35	5.81	4.97
Barclays US TIPS Index	5.83	4.44	3.55	5.55	5.25

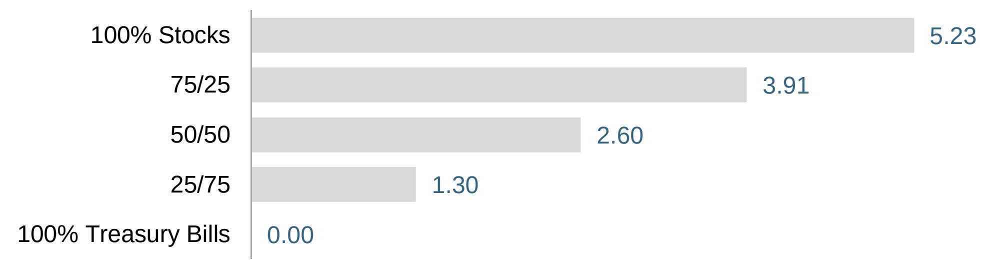
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. 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. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data

Global Diversification

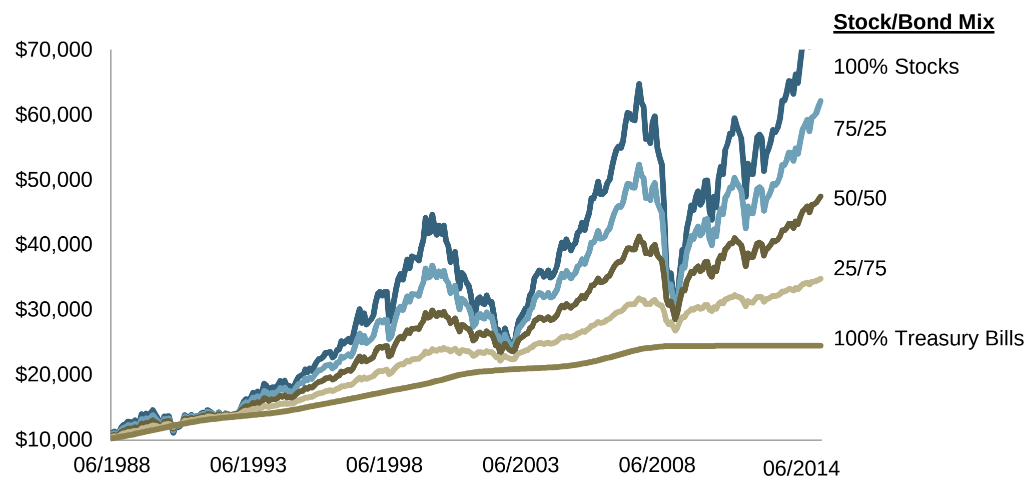
Second Quarter 2014 Index Returns

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 (%)



Growth of Wealth: The Relationship between Risk and Return



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	6.50	23.58	10.85	14.88	8.02
75/25	4.89	17.35	8.25	11.22	6.64
50/50	3.27	11.35	5.58	7.53	5.09
25/75	1.64	5.57	2.84	3.81	3.37
100% Treasury Bills	0.01	0.02	0.03	0.06	1.50

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 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 2014, 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).

Connecting the Dots

Second Quarter 2014

INTEGRITY INVESTMENT ADVISORS
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Human beings love stories. But this innate tendency can lead us to imagine connections between events where none really exist. For financial journalists, this is a virtual job requirement. For investors, it can be a disaster.

"The Australian dollar rose today after Westpac Bank dropped its forecast of further central bank interest rate cuts this year," read a recent lead story on Bloomberg.

Needing to create order from chaos, journalists often stick the word "after" between two events to imply causation. In this case, the implication is the currency rose because a bank had changed its forecast for official interest rates.

Perhaps it did. Or perhaps the currency was boosted by a large order from an exporter converting US dollar receipts to Australia or by an adjustment from speculators covering short positions. Markets can move for many reasons.

For individual investors, financial news can be distracting. All this linking of news events to very short-term stock price movements can lead us to think that if we study the news closely enough we can work out which way the market will move.

But the jamming of often-unconnected events into a story can lead us to mix up causes and effects and focus on all the wrong things. The writer and academic Nassim Taleb came up with a name for this story-telling imperative: the narrative fallacy.[1]

The narrative fallacy, which is linked to another behavior called confirmation bias, refers to our tendency to seize on vaguely coherent explanations for complex events and then to interpret every development in that light.

These self-deceptions can make us construct flimsy, if superficially logical, stories around what has happened in the markets and project it into the future.

The financial media does this because it has to. Journalists are professionally inclined to extrapolate the incidental and specific to the systematic and general. They will often derive universal patterns from what are really just random events.

Building neat and tidy stories out of short-term price changes might be a good way to win ratings and readership, but it is not a good way to approach investment.

Of course, this is not to deny that markets can be noisy and imperfect. But trying to second-guess these changes by constructing stories around them is a haphazard affair and can incur significant cost. Essentially, you are counting on finding a mistake before anyone else. And in highly competitive markets with millions of participants, that's a tall order.

There is a saner approach, one that doesn't require you spending half your life watching CNBC and checking Bloomberg. This approach is methodical and research-based, a world away from the financial news circus.

The alternative consists of looking at data over long time periods and across different countries and multiple markets. The aim is to find factors that explain differences in returns. These return "dimensions" must be persistent and pervasive. Most of all, they must be cost-effective to capture in real-world portfolios.

Admittedly, this isn't a story that's going to grab headlines. Using the research-based method and imposing a very high burden of proof, this approach resists generalization, simplification, and using one-off events to jump to conclusions.

But for most investors, it's the right story.

1. Nassim Nicholas Taleb, The Black Swan: The Impact of the Highly Improbable, Penguin, 2008.

Adapted from "Connecting the Dots" by Jim Parker, Outside the Flags column on Dimensional's website, April 2014. Dimensional Fund Advisors LP ("Dimensional") is an investment advisor registered with the Securities and Exchange Commission. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. This content is provided for informational purposes, and it is not to be construed as an offer, solicitation, recommendation or endorsement of any particular security, products, or services.

For more information or to discuss your portfolio needs, please contact Todd Moerman @ 303-549-4720.

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