



Quarterly Market Review: 2019-Q3

For ClearLogic Financial

US Equities outperformed both non-US developed and emerging markets in the third quarter. Value stocks outperformed growth stocks in the US for small cap stocks, but not for large cap stocks.

The first chart is a snapshot of the market performance for the third quarter. The second chart presents market performance over the past year, five years and ten years. The article provided after the charts takes a deeper look at the performance of value versus growth stock. Your 2019 third quarter portfolio review report is posted to the ModestSpark portal.

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|------------------------|-----------------|--------------------------------|-------------------------|--------------------|----------------|--------------------------|
| 3Q 2019 | STOCKS | | | | BONDS | |
| | 1.16% | -0.93% | -4.25% | 5.72% | 2.27% | 2.83% |
| | | | | | | |
| Since Jan. 2001 | | | | | | |
| Avg. Quarterly Return | 2.0% | 1.4% | 2.8% | 2.6% | 1.2% | 1.2% |
| Best Quarter | 16.8% | 25.9% | 34.7% | 32.3% | 4.6% | 4.6% |
| | 2009 Q2 | 2009 Q2 | 2009 Q2 | 2009 Q3 | 2001 Q3 | 2008 Q4 |
| Worst Quarter | -22.8% | -21.1% | -27.6% | -36.1% | -3.0% | -2.7% |
| | 2008 Q4 | 2008 Q4 | 2008 Q4 | 2008 Q4 | 2016 Q4 | 2015 Q2 |

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 Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved. Bloomberg Barclays data provided by Bloomberg.



Long-Term Market Summary

Index Returns

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|-----------------|-----------------|--------------------------------|-------------------------|--------------------|----------------|--------------------------|
| 1 Year | STOCKS | | | | BONDS | |
| | 2.92% | -0.95% | -2.02% | 15.08% | 10.30% | 10.84% |
| | | | | | | |
| 5 Years | | | | | | |
| | 10.44% | 3.06% | 2.33% | 7.36% | 3.38% | 4.64% |
| | | | | | | |
| 10 Years | | | | | | |
| | 13.08% | 4.78% | 3.37% | 9.71% | 3.75% | 4.44% |
| | | | | | | |

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Past performance may not be indicative of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

All investing involves risk, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.



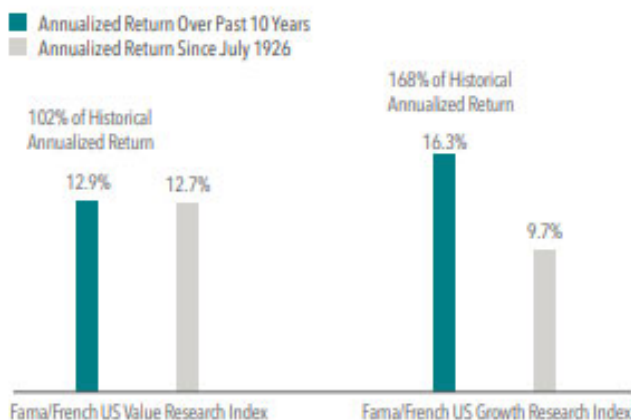
Value Judgments: Viewing the Premium’s Performance Through History’s Lens

There’s a misconception in the markets: value stocks have lost their vigor. Value stocks have underperformed growth stocks over the past decade. In the US, the annualized compound return has been 12.9% for value stocks, or those trading at a low price relative to their book value. That contrasts with 16.3% annualized compound return for growth stocks, or those with a high relative price.¹ LESSONS OF THE PAST Value underperforming growth by 3.4 percentage points a year over a decade is indeed disappointing. But one question investors might ask themselves is, how do the returns for value and growth stocks over the past decade compare with their long-term averages? Looking at returns for the US value and growth indices separately in Exhibit 1, we see that growth’s annualized compound return of 16.3% over the 10-year period ending June 2019 was much higher than its return since July 1926, at 9.7%. On the other hand, value performance over the past decade has been more or less in line with its historical average: 12.9% vs. 12.7%. We can see value has performed similarly to how it has historically behaved. It is growth stocks that have had very good recent returns relative to the long-term history. Investors maintaining an emphasis on growth stocks may be hoping this departure from the trend will endure, despite the historical long-term averages.

How do recent returns for value and growth stocks compare with their long-term averages?

Exhibit 1: Outlier Detector

Performance of US value stocks in past 10 years and since 1926, and performance of US growth stocks over the same periods



As of June 30, 2019. In US dollars. Fama/French indices provided by Ken French. See Index Descriptions in the appendix for descriptions of Fama/French index data. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

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Exhibit 2: Leap Year

Using March 31, 2000, and March 31, 2001, as ending points, performance of US value and US growth stocks over 1- to 15-year trailing periods



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A QUICK COMEBACK

While stock returns are unpredictable, there is precedent for the value premium turning around quickly after periods of sustained underperformance. For example, some of the weakest periods for value stocks when compared to growth stocks have been followed by some of the strongest (see Exhibit 2). On March 31, 2000, growth stocks had outperformed value stocks in the US over the prior year, prior five years, prior 10 years, and prior 15 years. As of March 31, 2001—one year and one market swing later— value stocks had regained the advantage over every one of those periods.



POSITIONED FOR THE LONG TERM The theoretical support for value investing is longstanding—paying a lower price means a higher expected return. However, realized returns are volatile. A 10-year negative premium, while not expected, is not unusual. But history also tells us that changing course after a disappointing spell for known premiums can lead to missed opportunities. When those drivers of outperformance have turned around in the past, steadfast investors have been rewarded. A key to successful long-term investing is sticking with your approach, even through difficult periods, so that you are there for the good times too.

APPENDIX: Index Descriptions

Fama/French US Value Research Index provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).¹ Value stocks' performance is measured by the Fama/French US Value Research Index. Growth stocks' performance is measured by the Fama/French US Growth Research Index.

1. Value stocks' performance is measured by the Fama/French US Value Research Index. Growth stocks' performance is measured by the Fama/French US Growth Research Index.