Quarterly Market Review: 2017-Q4

For ClearLogic Financial

We hope you and your family had a wonderful holiday season and are enjoying the new year thus far.

For the fifth quarter in a row (Q4 2016 through Q4 2017), US stocks, international developed stocks, emerging markets stocks, and global real estate investments have been up. For the third quarter in a row (Q2 2017 through Q4 2017), both stocks and bonds have been up. Additionally, for the first three quarters of 2017 we saw both international developed and emerging market stocks outperform US stocks. In Q4 2017, emerging market stocks continued to outperform US stocks.

The charts below summarize the returns data for both the fourth quarter of 2017 and 2017 as a whole.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
Q4 2017	**STOCKS**					**BONDS**	
	6.34%	**4.23%**	**7.44%**	**2.97%**		**0.39%**	**1.10%**
Since Jan. 2001							
Avg. Quarterly Return	2.0%	1.6%	3.2%	2.7%		1.2%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%		4.6%	5.5%
	Q2 2009	Q2 2009	Q2 2009	Q3 2009		Q3 2001	Q4 2008
Worst Quarter	-22.8%	-21.2%	-27.6%	-36.1%		-3.0%	-3.2%
	Q4 2008	Q4 2008	Q4 2008	Q4 2008		Q4 2016	Q2 2015

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2017	**STOCKS**				**BONDS**	
	21.13%	**24.21%**	**37.28%**	**7.41%**	**3.54%**	**2.06%**
Since Jan. 2001						
Avg. Annual Return	8.4%	7.0%	14.8%	11.0%	4.8%	4.5%
Best Year	33.6% **2013**	39.4% **2003**	78.5% **2009**	37.4% **2006**	10.3% **2002**	9.8% **2014**
Worst Year	-37.3% **2008**	-43.6% **2008**	-53.3% **2008**	-45.7% **2008**	-2.0% **2013**	1.4% **2013**

As you can see from the annual 2017 returns (and as you may have noticed within your own investment accounts), it was an extremely positive year in the markets. Against the backdrop of attention-grabbing headlines, we see again that global diversification and a disciplined approach to investing work, while forecasters and predictions are almost always wrong.

Here are some examples from 2017:

Political Landscape

We experienced consistent positive returns in 2017, despite the beliefs of many that the election of President Trump would have a negative impact on our economy.

Lesson Learned: One person or event does not control or solely impact the global markets. In fact, presidents and other world leaders often have very little impact on the economy at all. Additionally, even if we could predict future events, we still do not know how markets will react to them.

International Stocks

While the promise of tax cuts helped fuel belief that the US dollar would rise higher, the US dollar fell against every major currency. And while the US markets did very well in 2017, international markets did even better.

Lesson Learned: Global diversification works. Attempting to pick only winning markets in any given period is a challenging proposition. By pursuing a globally diversified approach to investing, one doesn't have to attempt to pick winners to achieve a rewarding investment experience. By expanding the investment opportunity set beyond their domestic stock market, investors can help increase the reliability of outcomes. Thus, investors can be confident that a globally diversified portfolio will hold the best (and worst) performing countries each year.

Speculative Bets (Bitcoin)

Bitcoin and other cryptocurrencies received intense media coverage in 2017, prompting many investors to wonder whether these new types of electronic money deserve a place in their portfolios.

Unlike company issued stocks (which offer investors a residual claim on future profits) and government or corporate bonds (which offer investors a promised stream of future cash flows, including the repayment of principal when the bond matures), holding cash does not provide an expected stream of future cash flow. One US dollar in your wallet today does not entitle you to more dollars in the future. The same logic applies to holding bitcoin in a digital wallet. Because we cannot predict when one currency will appreciate or depreciate relative to others, buying bitcoin today in hopes of selling it for more in the future is purely speculative.

Lesson Learned: Investing and speculating are not the same. Investments such as stocks and bonds offer long-term positive expected returns. Bitcoin does not. It has value because people are giving it value and can only result in a profit if sold for more in the future than the purchase price. It has additional limitations because it cannot be used to pay for most near-term expenditures. Because bitcoin does not help achieve these investment goals, we believe it does not warrant a place in a portfolio designed to meet such goals.

Seeking the Hot Asset Class (Tech Stocks)

The financial media is drawn to catchphrases, acronyms, and buzzwords that can be sold as the new thing. FAANG (Facebook, Apple, Amazon, Netflix, and Google) is the latest of these. Not to downplay the transformative nature of new technologies and the possibilities these companies present, investment trends tend to come and go. As an investor, it is wise to recall that all those hopes and expectations are already built into prices.

While individual sectors each can have their time in the sun, it is not clear that weighting your portfolio toward an industry currently in favor is a sustainable long-term strategy. And, the more concentrated your portfolio, the more you are exposed to idiosyncratic forces related to individual stocks or sectors. You can still own them but do it by casting a much wider net. By doing so, you benefit from the broad trends driving technology or whatever is leading the market at any one time in a more prudent manner.

Lesson Learned: It is important to maintain a disciplined approach to investing. Rather than chasing the hot stocks or asset classes, set targets within your portfolio and rebalance back to those targets in a disciplined manner. By doing so, you are not only reducing the risk of placing too much of a bet on one sector, you are *improving* your odds of holding the best performers.

Conclusion

As in prior years, we can look back on the headlines and investment news of 2017 and remind ourselves of some important investment principles that remain true year after year:

One person or event does not control or solely impact the global markets.

Global diversification works.

Investing and speculating are not the same.

It is important to maintain a disciplined approach to investing.