



# CAPITAL MARKETS OUTLOOK

REVIEWING THE QUARTER ENDED DECEMBER 31, 2017

 **Klingman & Associates, LLC**

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# ECONOMIC OUTLOOK

*By Gerard A. Klingman, CFP®, CLU®, ChFC®  
Founder and President*



Published January 2018

Investors entered 2017 concerned about a variety of geopolitical and economic factors: the Federal Reserve raising interest rates, the implications of the UK leaving the European Union, the potential for the slowing of the US economy in the eighth year of its expansion, and concerns about a “hard landing” for the Chinese economy. Add in the concerns about North Korea’s increasing nuclear threat and the potential destabilizing impact of the new US political administration, and there were not many forecasters that saw 20% plus returns in global equities for 2017 (page 14). So, of course, that’s what we got. When we discuss with clients the pitfalls and risks of market timing, we always note that, as investors, we would like to be smart enough to time and be out of the market for the inevitable corrections and declines, but that the most important element for success as a long-term investor is to be sure to be invested in equity markets during periods when they have violent short-term movements upward (page 26). 2017 was a classic example.

The US economy, as measured by GDP, grew 2.3% year-over-year in the third quarter (page 7). This growth rate is consistent with the 2.2% growth averaged since the economic expansion started in 2009. But as we enter into the ninth year of the recovery, we believe the US economy is strengthening, not running out of steam. Fundamentals of our economy remain strong, including a continued improving housing market (page 11), falling unemployment (page 9), healthy household balance sheets, and elevated consumer confidence readings (page 12). And now add fiscal stimulus to the mix, in the form of lower income tax withholding, corporate tax cuts, and increased spending on packages such as hurricane relief. We believe this is a recipe for 3%+ growth as we head into 2018. While the new tax code will undoubtedly have winners and losers, it should have positive effects on corporate earnings and consumer spending. Although we are always on the lookout for economic “surprises”, it’s hard to see a scenario where the US economy enters into a recession anytime in the near term.

*Continued*

*Gerry provides financial planning and investment advisory services to corporate executives, entrepreneurs, professional athletes and other high-net-worth individuals.*

*Gerry received a bachelor's degree in Economics from Princeton University and attained his Certified Financial Planner™ certification from the College of Financial Planning in 1989. He later earned CLU® and ChFC® designations from the American College, as well as a CFS® designation from the Institute of Business & Finance. He is a member of the Financial Planning Association.*

*With more than 30 years of experience, Gerry is widely recognized as a leader in the field of financial planning and investment management. Gerry has been consistently ranked on many of the industry's lists of top financial advisers including Barron's Top 100 Independent Advisors\*, the Financial Times' F400 Top Financial Advisors\*\*, and the Forbes ranking of America's Top Wealth Advisors\*\*\*.*

## ECONOMIC OUTLOOK

Against this positive economic backdrop, global equity market performance continued to be strong in 2017. US Large Cap Equities, as measured by the S&P 500 Index, returned +21.8% (page 14). S&P 500 operating earnings per share are expected to come in at \$125-128 for 2017, an 18% improvement versus last year. Our forward earnings estimate of \$147 implies another 16% growth in earnings for 2018. However, at 18.2x our forward earnings estimate, we are cautious that the market has already priced in this information as well as the benefits to earnings of the new corporate tax cut (page 17). As a result, we remain neutral weight both US Large Cap and US Mid Cap Equities in our asset allocation models. The one pocket of opportunity that we now see in US Equities is in the small cap “value” space (by definition the 50% cheapest small cap stocks). With investors clamoring over growth companies (think Amazon, Google, Netflix), we believe these smaller and cheaper companies have been left behind. This surely was the case in 2017, as US Small Cap Equities as a whole returned +14.6% while the small cap value stocks returned +7.8% (page 16). These smaller companies should also disproportionately benefit from corporate tax reform because, as a group, they currently pay a higher marginal tax rate than large companies in the US. We have been underweight smaller companies for several quarters, but with improved relative value, we have moved them back to a neutral weighting in our asset allocation models.

Non US Equities, both Developed and Emerging Markets, capped off a banner year with a strong finish. The MSCI EAFE Index of Developed Markets returned +4.2% during the quarter and ended the year +25.0%. The MSCI Emerging Markets Index returned +7.4% during the quarter and ended the year +37.3%. International stocks have been supported by a more stable geopolitical landscape, synchronized improvement in global economic data, and the continued accommodative monetary policies of the ECB and Bank of Japan. The MSCI EAFE index now trades at 14.9x forward earnings with a 2.9% dividend yield and the MSCI EM index trades at 12.5x forward earnings with a 2.5% dividend yield. Despite last year’s stellar returns, these valuations are significantly below the levels in the US and remain attractive versus long term averages. Can this outperformance continue? Since financial markets bottomed in 2009, US Equities (as measured by the S&P 500) have returned a +376% when including dividends. Over this same time period, Non-US Developed Market Equities returned +189% and Non-US Emerging Market Equities returned +195% (page 28). We think this outperformance can continue and we remain overweight these asset classes in our models.

*Continued*

## ECONOMIC OUTLOOK

We continue to overweight Cash Alternatives and underweight Fixed Income asset classes in our asset allocation models as we believe interest-rates will continue to rise. Over the course of 2017, short-term interest rates (as measured by Fed Funds) rose 0.75% as the Federal Reserve increased interest rates by 0.25% three times. Long-term interest rates (10 year Treasuries) were essentially unchanged and ended the year at 2.40% (page 21). We find the stubbornness of long-term interest rates puzzling as global central banks take a less accommodative stance, the global economy continues to improve, and the US budget deficit is rising. Interest rates have moved higher in the first two weeks of 2018 as the Bank of Japan announced it will trim its purchases of government bonds by 5%, the European Central Bank began the year reducing its monthly bond buying to €30 billion from €60 billion, and inflation readings in the U.S. have started to tick up. While too short of a time period to establish a trend, we think these forces behind higher interest rates should only strengthen in 2018, and thus we continue to keep our fixed income portfolios shorter in duration. There will be a time to invest in longer-term bonds, but not at current levels.

As we have commented in previous Outlooks, the lack of downside volatility in the equity markets over the past two years is almost unprecedented. As of January 12, 2018, the S&P 500 has gone 297 trading days without a decline of more than 3%. This is the longest streak in history, surpassing the previous record of 241 days in 1995. It has been nearly two years since the US equity market has had at least a 10% correction, and well over 8 years since we have had a bear market (as measured by a 20%+ decline). While there are some well-documented reasons for lower volatility, we do not believe, as some market observers have suggested, that this is a permanent change. Volatility is the price that we pay to benefit from the equity premium that investing in stocks over the long term provides. We would even go so far as suggesting that a pullback in equity prices can be healthy for the market long-term. A correction should remove some of the complacency and speculation out of the market and allow long-term investors a more attractive entry point. For disciplined long term investors who judiciously rebalance their portfolios consistent with their long term goals, market corrections become opportunities. It would not surprise us if we are presented with such an “opportunity” in 2018.



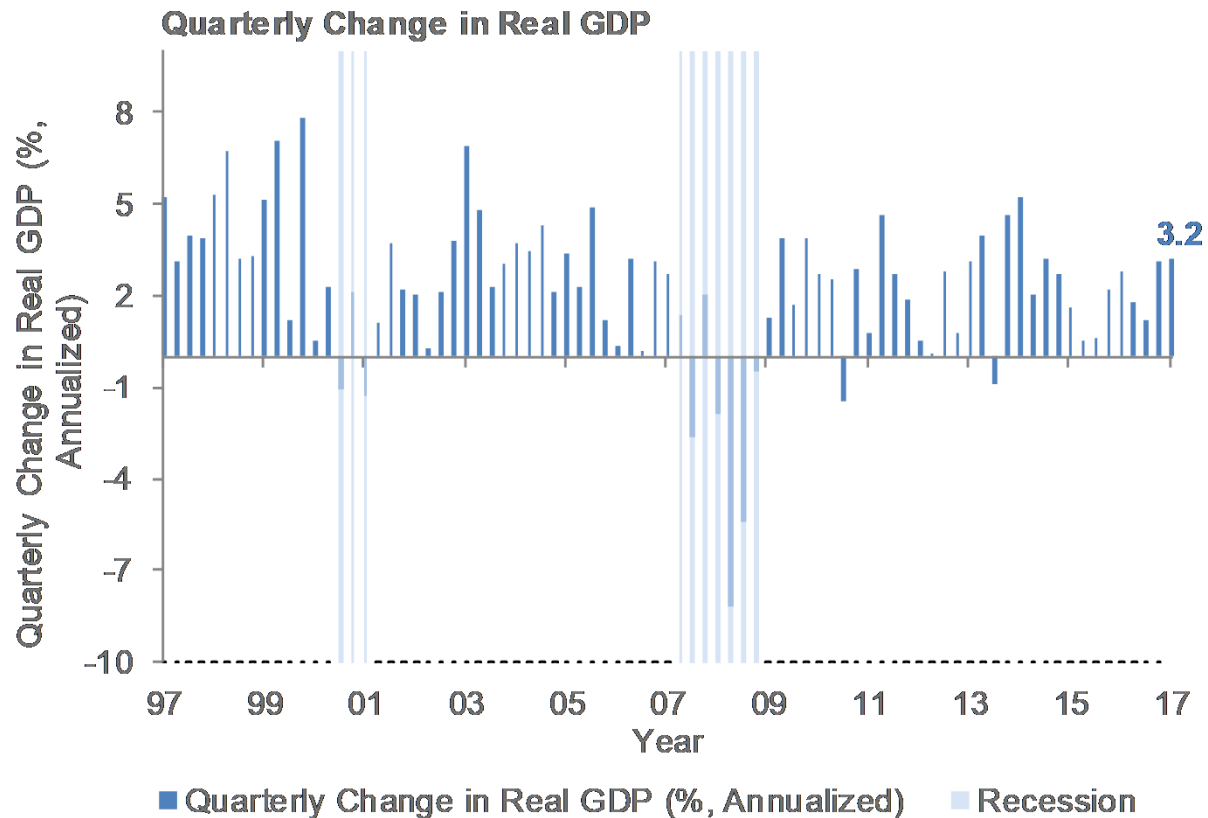
# TACTICAL OVERLAY TO STRATEGIC ASSET ALLOCATION MODELS

<b>CASH ALTERNATIVES</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>FIXED INCOME</b>			
<b>US INVESTMENT GRADE BOND</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>US HIGH YIELD BOND</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>NON-US BOND</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>US STOCKS</b>			
<b>US LARGE CAP EQUITY</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>US MID CAP EQUITY</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>US SMALL CAP EQUITY</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>NON-US STOCKS</b>			
<b>NON-US DEVELOPED MARKETS EQUITY</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>NON-US EMERGING MARKETS EQUITY</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>ALTERNATIVES</b>			
<b>REAL ESTATE</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>MASTER LIMITED PARTNERSHIPS</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
<b>ABSOLUTE RETURN</b>	UNDERWEIGHT	NEUTRAL	OVERWEIGHT

This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account. There is no assurance any of the trends mentioned will continue in the future. Dividends are not guaranteed and must be authorized by a company's board of directors. Diversification does not assure a profit or protect against loss. International investing involves additional risks such as currency fluctuations, differing financial and accounting standards, and possible political and economic instability. Also, investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal.

## GROSS DOMESTIC PRODUCT

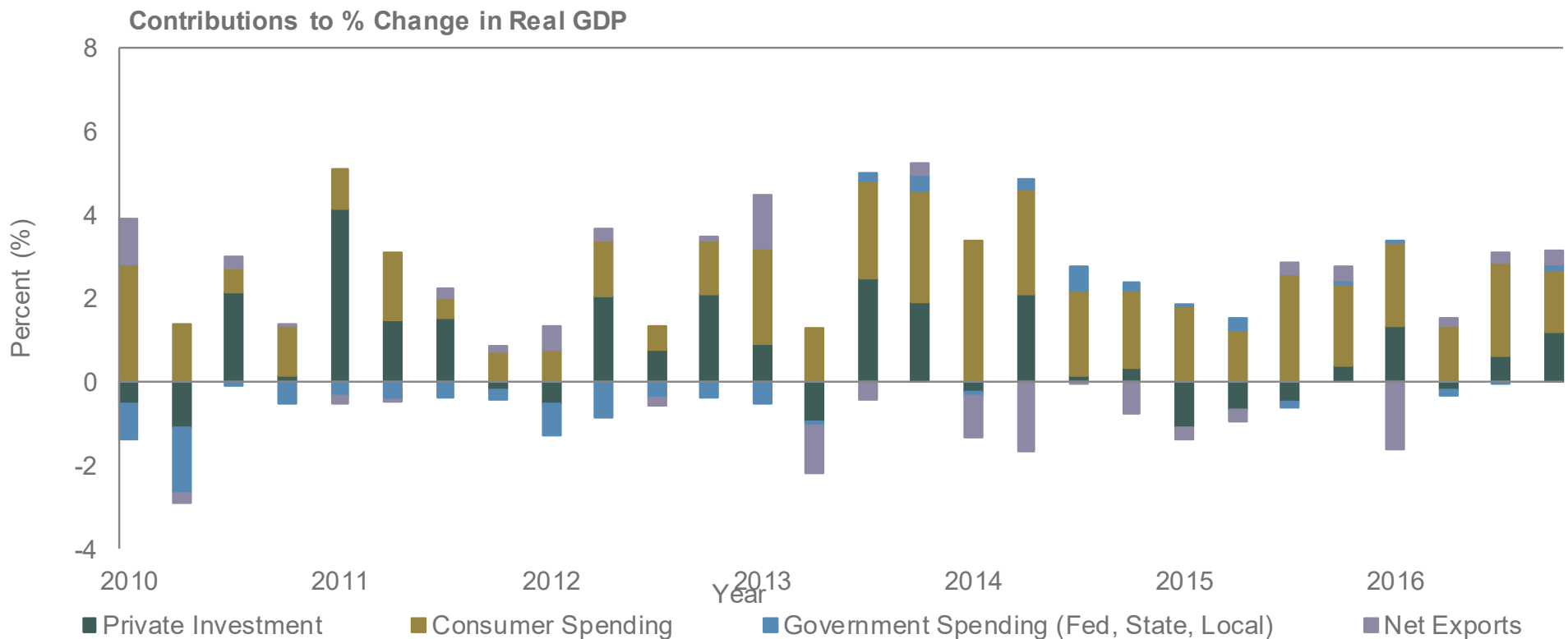
Real gross domestic product (GDP) increased at an annual rate of 3.2 percent in the third quarter of 2017 and 2.3% versus a year ago, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 3.1 percent.



Source: Bloomberg, as of 9/30/2017

## CONTRIBUTIONS TO % CHANGE IN REAL GDP

The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, exports, federal government spending, and state and local government spending that were partly offset by a negative contribution from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.

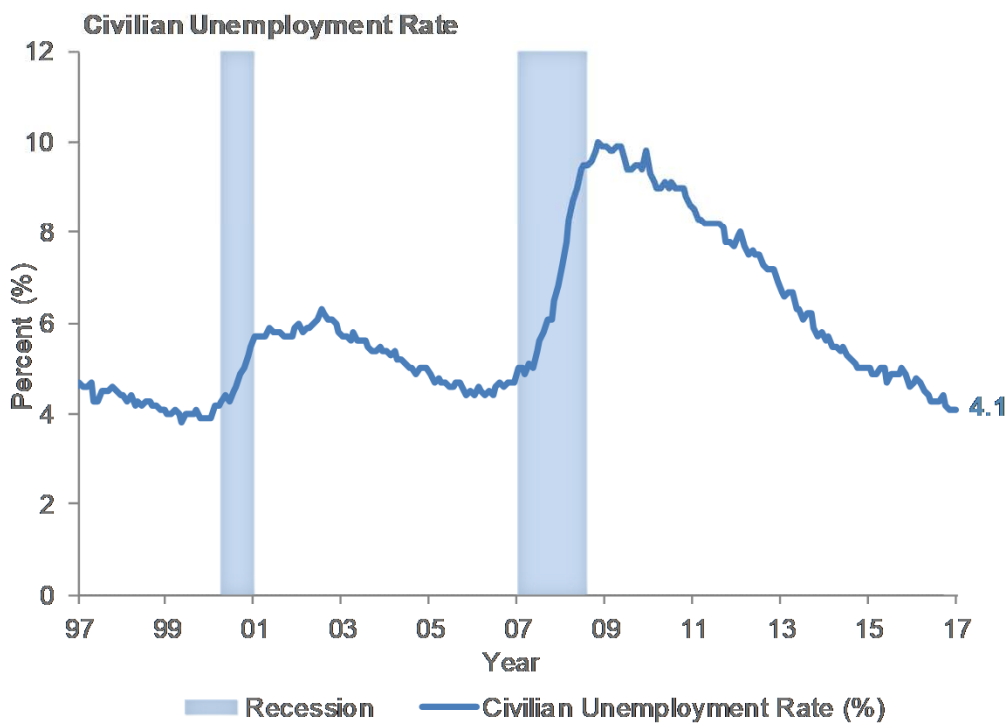


Source: Bloomberg, as of 9/30/2017

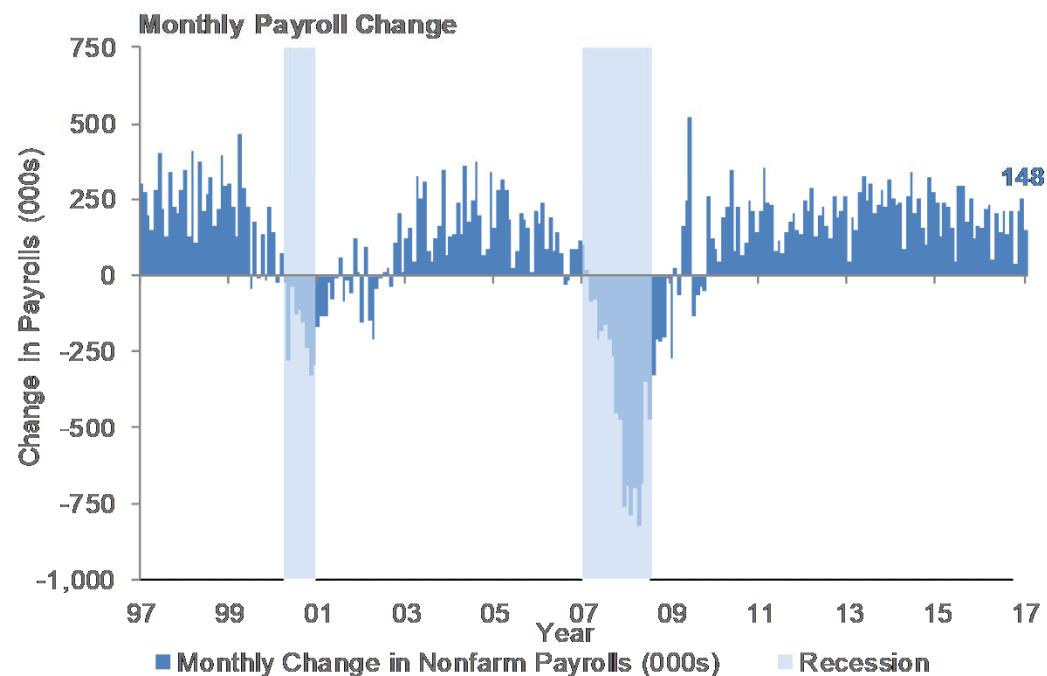


## EMPLOYMENT

The unemployment rate declined to 4.1 percent in December, while total nonfarm payroll employment rose by 148,000 in December. The number of unemployed persons, at 6.6 million, was essentially unchanged over the month. Over the year, the unemployment rate and the number of unemployed persons were down by 0.6% and 926,000, respectively.



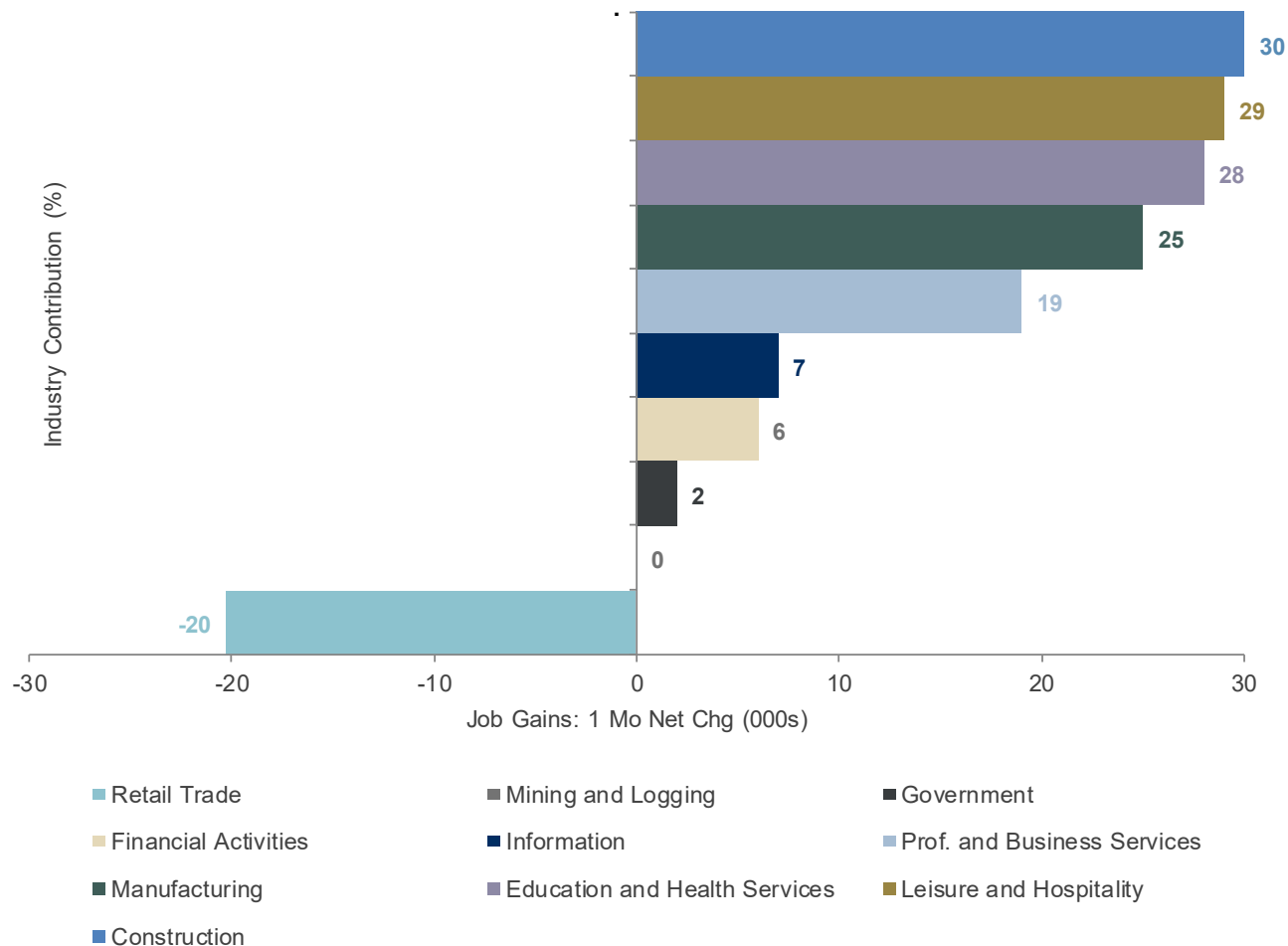
Source: Bloomberg, as of 12/31/2017



Source: Bloomberg, as of 12/31/2017

## MAJOR INDUSTRY CONTRIBUTIONS TO JOB GROWTH

Job gains occurred in health care (trending up in ambulatory health care services and hospitals), construction (specialty trade contractors), and manufacturing (durable goods industries). Employment in retail trade declined, with general merchandise stores (one job sector within the retail industry) declining by 27,000 over the month.

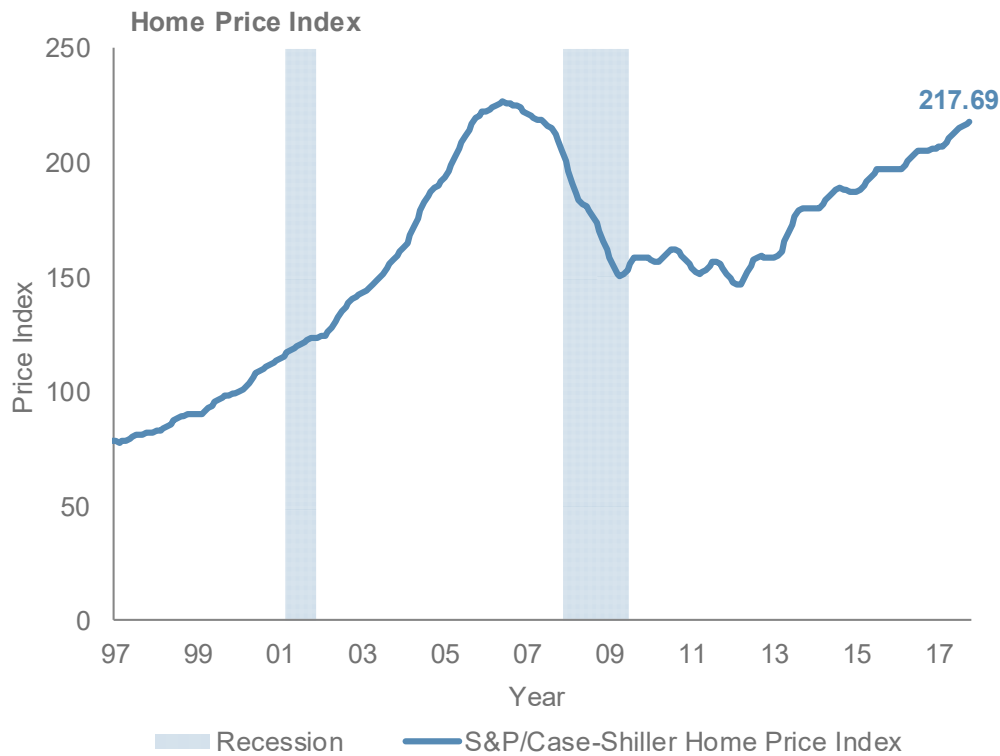


Source: Bureau of Labor Statistics, as of 12/31/2017, a preliminary estimate of the net number of jobs in the various industries in the latest month.

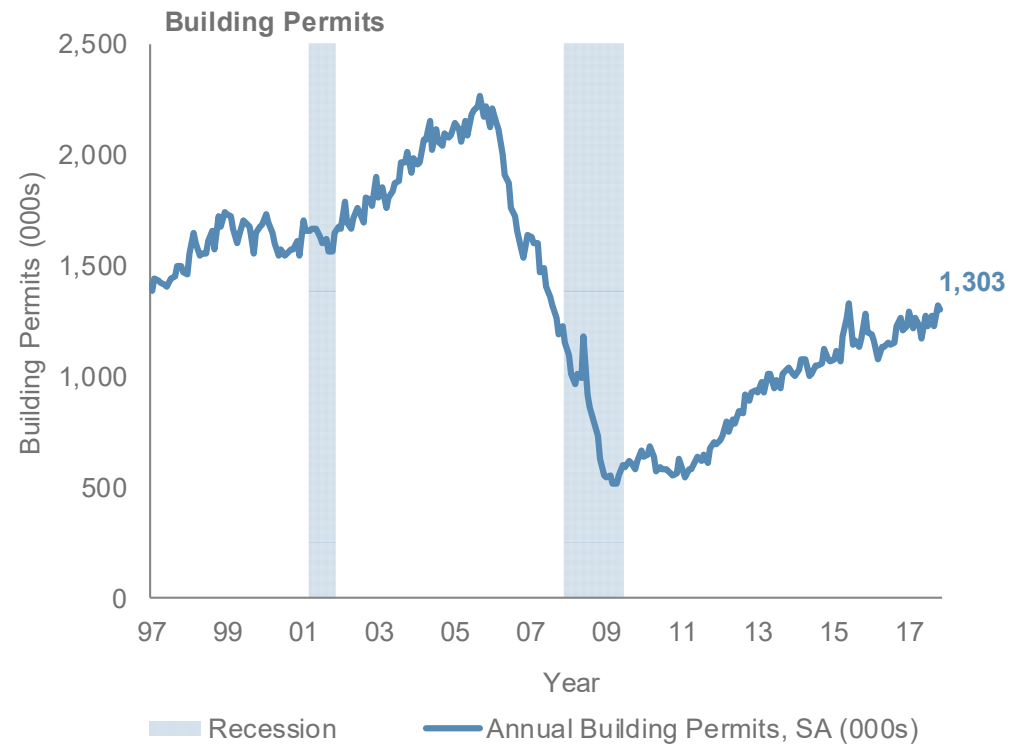
# ECONOMIC REVIEW

## HOUSING MARKET

U.S. home prices continue to recover from post-financial crisis lows, driven by low mortgage rates and lean inventory levels. Monthly figures on sales and construction activity have been volatile, but continue to trend in the right direction.



Source: Bloomberg, as of 10/31/2017



Source: U.S. Census Bureau, as of 11/30/2017

## CONSUMER CONFIDENCE

*“Consumer confidence retreated in December after reaching a 17-year high in November. The decline was fueled by a somewhat less optimistic outlook for business and job prospects in the coming months. Consumers’ assessment of current conditions, however, improved moderately. Despite the decline in confidence, consumers’ expectations remain at historically strong levels, suggesting economic growth will continue well into 2018.”*

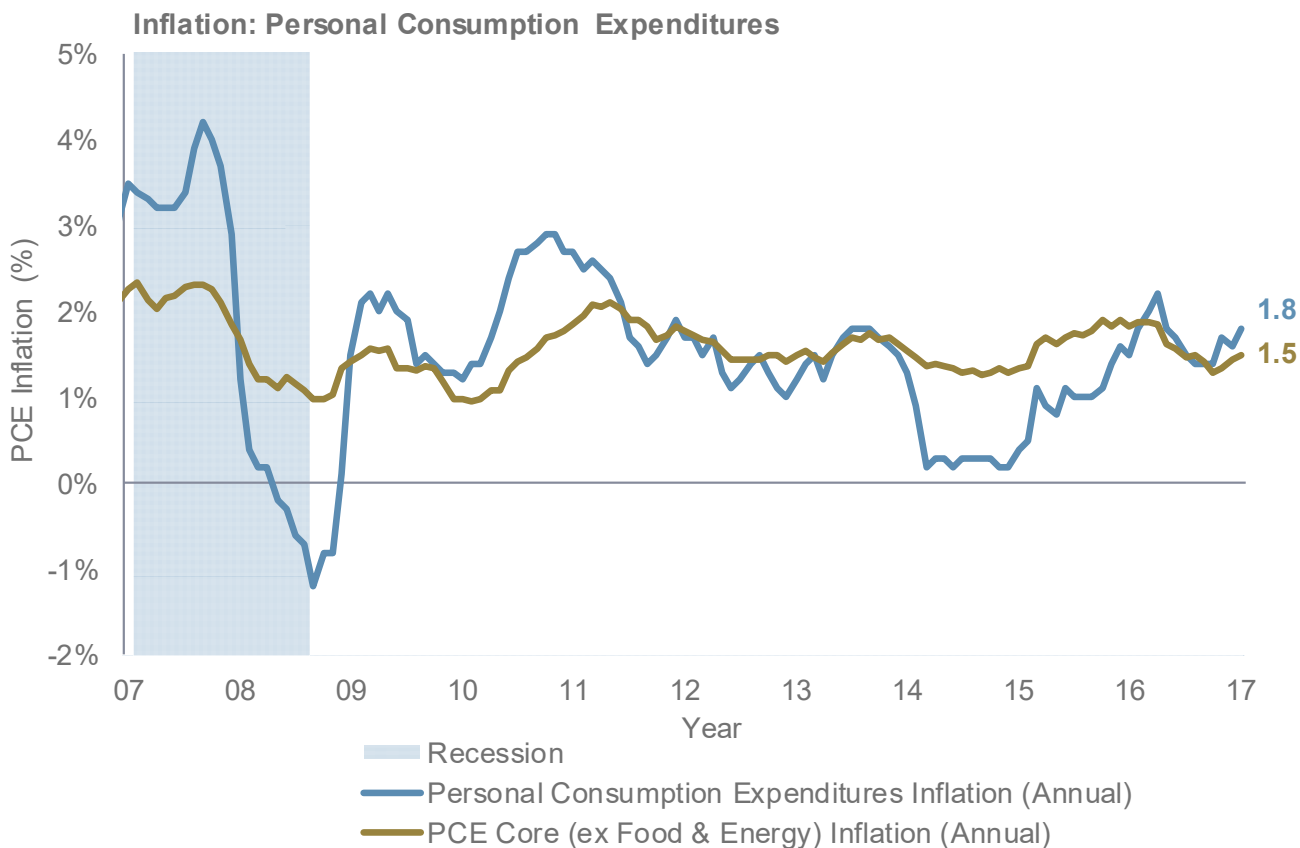
*- Lynn Franco, Director of Economic Indicators at The Conference Board*



Source: Bloomberg, as of 12/31/2017

## INFLATION

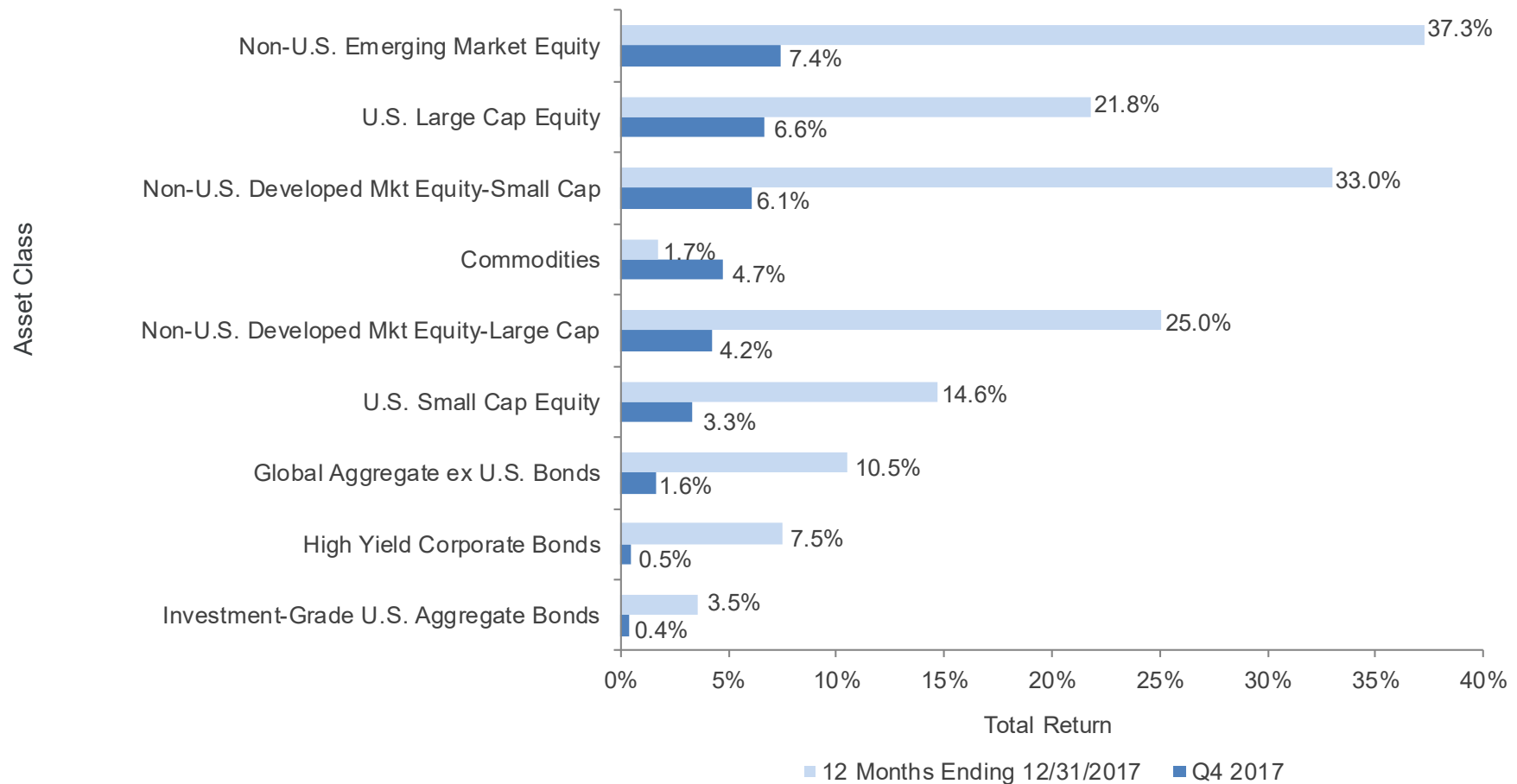
The increase in personal income in November primarily reflected increases in wages and salaries and personal interest income.



Source: Bloomberg, as of 11/30/2017. Personal Consumption Expenditure (PCE) is the preferred measure of inflation by the Bureau of Economic Analysis.

## ASSET CLASS RETURNS

Risk assets continued to lead the markets in the fourth quarter. An improved economic landscape has helped equity fundamentals improve globally.

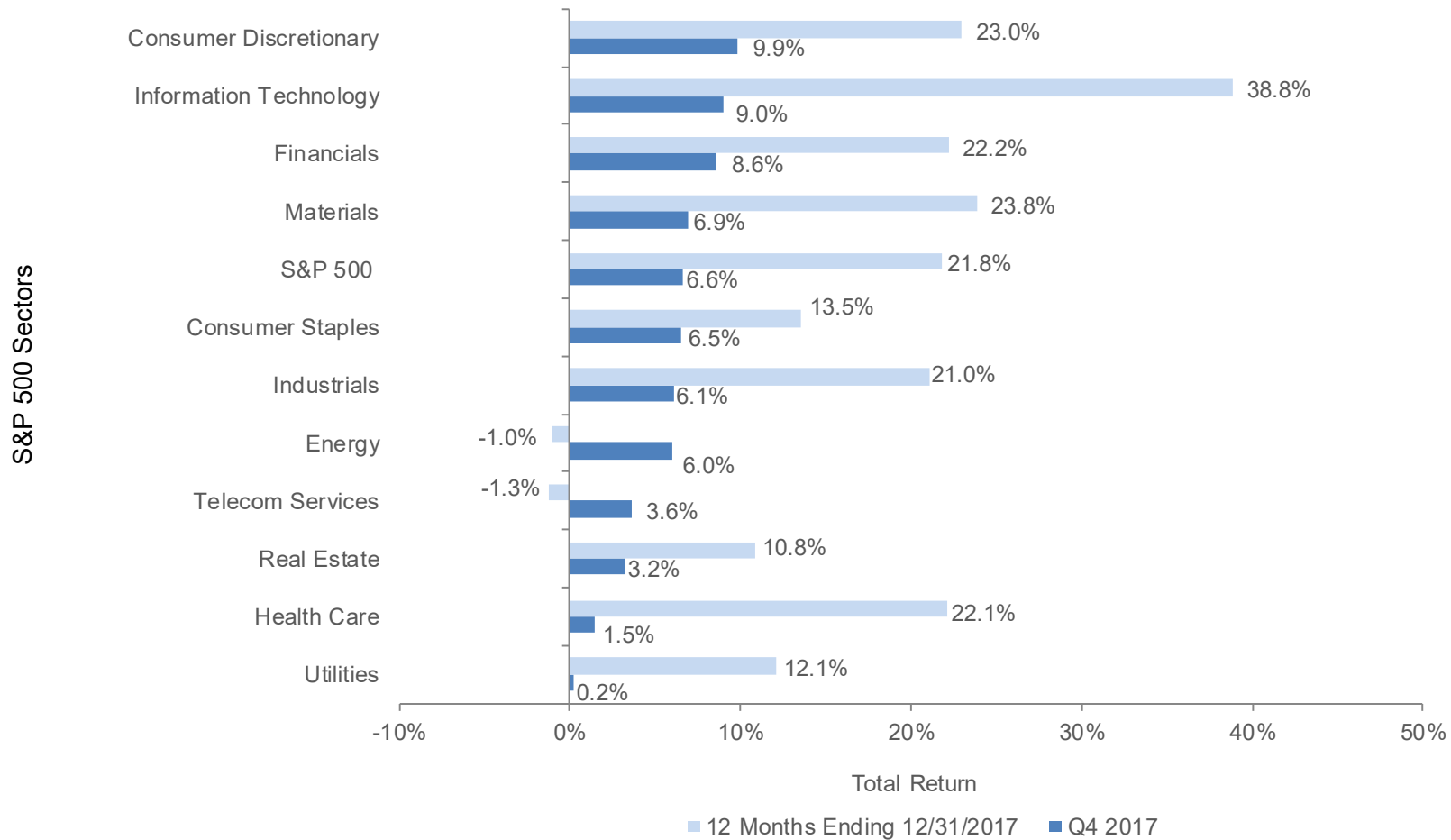


Past performance is not indicative of future results. Please see slide 31-33 for asset class definitions.

Source: Morningstar Direct, as of 12/31/2017



## S&P 500 SECTOR RETURNS



Source: Morningstar Direct, as of 12/31/17. Returns are based on the GICS Classification model. Returns are cumulative total return for stated period, including reinvestment of dividends. Past performance is not indicative of future results. Please see slide 31-33 for asset class definitions.

## EQUITY STYLES

Growth-oriented equities continue to outperform value-oriented equities across the market-cap spectrum.

**Q4 2017 Total Return**

	Value	Blend	Growth
Large	5.3%	6.6%	7.9%
Mid	5.5%	6.1%	6.8%
Small	2.0%	3.3%	4.6%

**12-Month Total Return**

	Value	Blend	Growth
Large	13.7%	21.7%	30.2%
Mid	13.3%	18.5%	25.3%
Small	7.8%	14.6%	22.2%

Source: Morningstar Direct. Data as of 12/31/17. Style box returns based on the GICS Classification model. All values are cumulative total return for stated period including reinvestment of dividends. The Indices used from left to right, top to bottom are: Russell 1000 Value Index, Russell 1000 Index, Russell 1000 Growth Index, Russell Mid-cap Value Index, Russell Mid-cap Blend Index, Russell Mid-cap Growth Index, Russell 2000 Value Index, Russell 2000 Index and Russell 2000 Growth Index. Past performance is not indicative of future results. Please see slides 31-33 for index definitions.

PRICE-EARNINGS RATIOS VERSUS HISTORICAL AVERAGES

Current P/E vs. 15-year avg. P/E

	Value	Blend	Growth
Large	16.2 / 13.2	18.2 / 14.5	21.1 / 16.7
Mid	16.7 / 14.2	18.5 / 15.7	21.4 / 18.0
Small	18.6 / 16.8	24.3 / 20.2	33.7 / 25.4

Current P/E as % of 15-year avg. P/E

	Value	Blend	Growth
Large	123.0%	125.6%	126.7%
Mid	117.6%	117.3%	118.6%
Small	110.9%	120.6%	132.6%

Source: FactSet, Standard & Poor's, JPMorgan Asset Management. Most recent S&P 500 Index price, divided by consensus earnings in the next twelve months and is provided by FactSet. Data as of 12/31/2017.

# CAPITAL MARKETS

## PRICE-EARNINGS AND PRICE-BOOK RATIOS

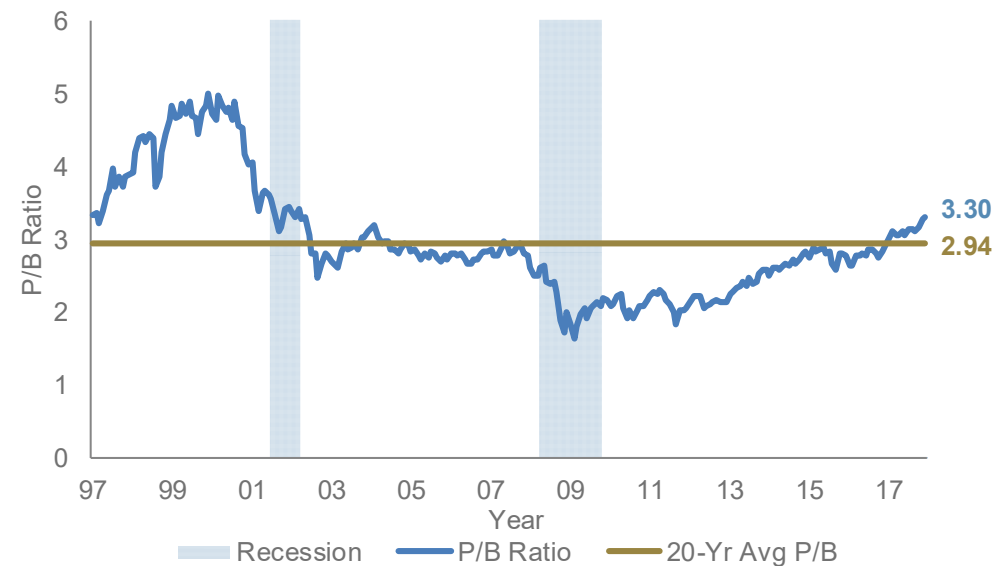
Source: Bloomberg, as of 12/31/2017

S&P 500 Price-to-Earnings



Source: Bloomberg, as of 12/31/2017

S&P 500 Price-to-Book



The price-earnings ratio, or P/E, is a common measure of the value of stocks. It shows the relationship between a stock's price and the underlying company's earnings (or profits) per share of stock. In essence, it calculates how many dollars you pay for each dollar of a company's earnings. In very general terms, the higher the P/E ratio, the more likely the stock is to be overpriced.

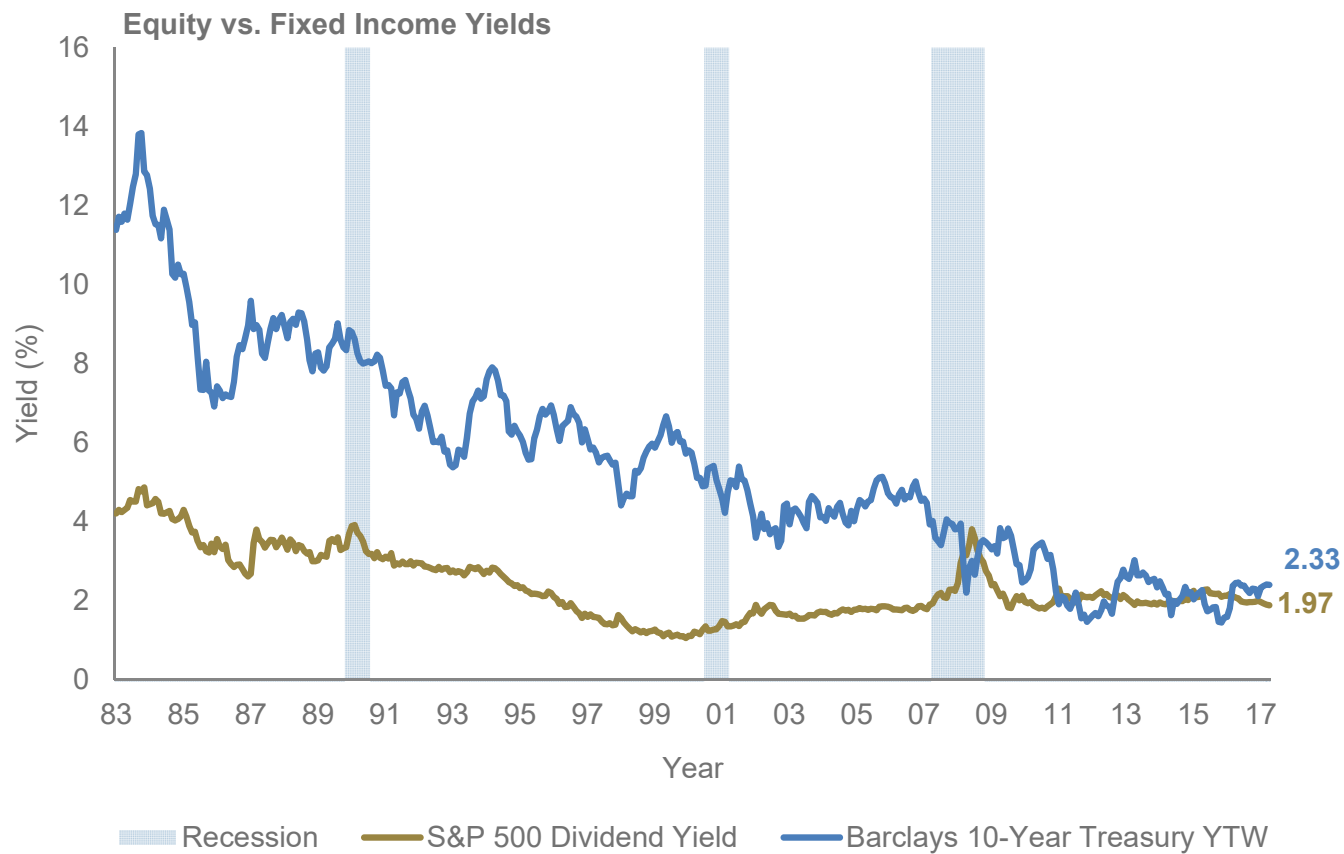
Price-to-book is a relative measure based on most recent price/accounting (book) value (quarterly, semiannual or annual data). Both price-to-earnings and price-to-book are accounting-based relative value measures.

Past performance may not be indicative of future results. Please see slides 31-33 for index definitions.

## S&P 500 YIELDS VS. TREASURY YIELD

While bonds are currently yielding more than stocks, the spread remains tight relative to historical averages.

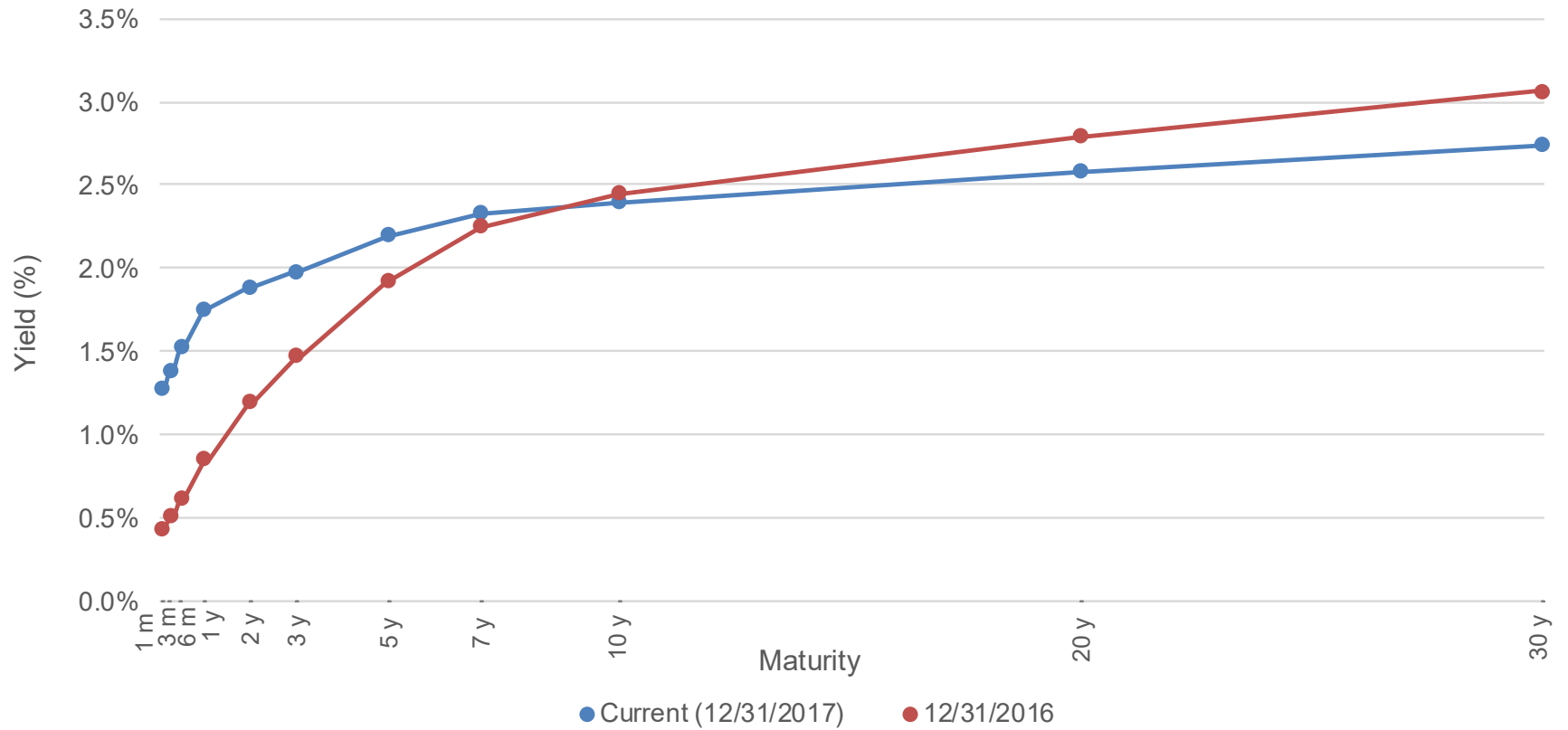
Source: Bloomberg, as of 12/31/2017



Past performance is not indicative of future results. Please see slides 31-33 for index definitions.

# U.S. TREASURY YIELD CURVE

U.S. Treasury Yield Curve



Source: Federal Reserve, as of 12/31/2017

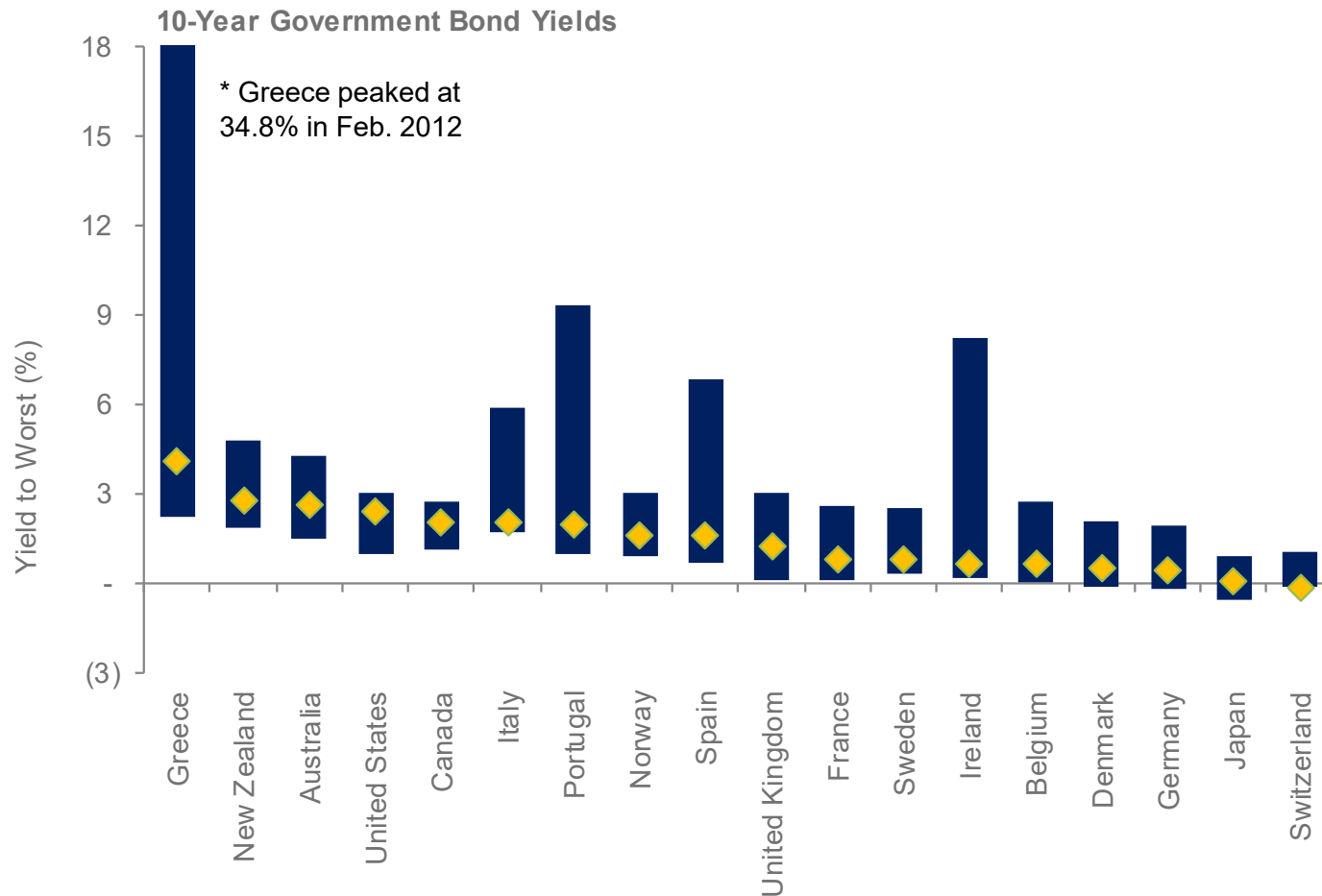


FIXED INCOME YIELDS



Past performance is not indicative of future results. Please see slides 31-33 for index definitions. Source: Bloomberg, as of 12/31/2017

GLOBAL SOVEREIGN DEBT YIELDS



Source: Bloomberg, as of 12/31/2017. This chart illustrates the highest and lowest monthly yields over the past 5 years as well as the current yield, represented by ♦.

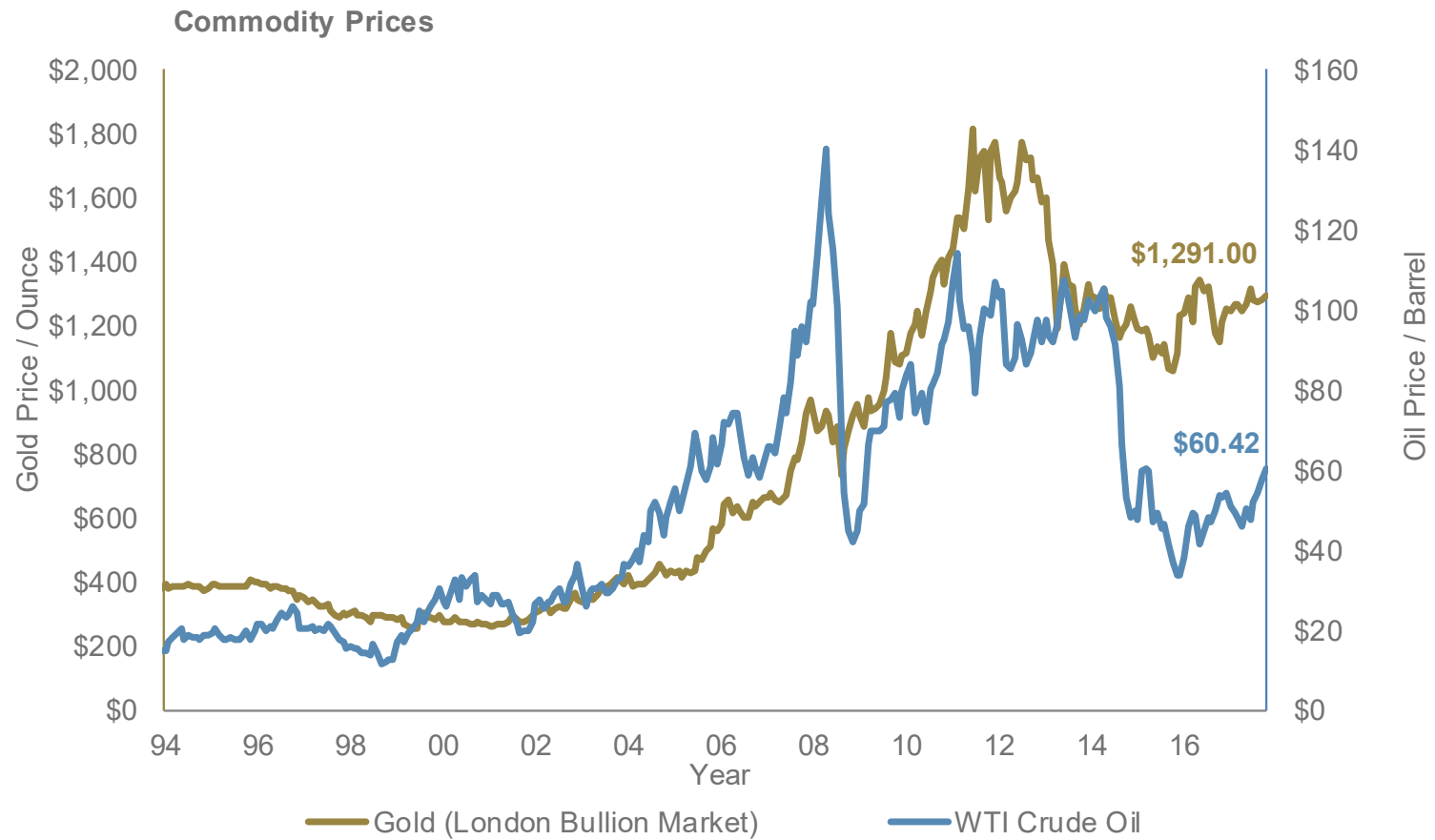
## FOREIGN EXCHANGE RATES

Global currencies have strengthened versus the dollar, which has eased some of the pressures on US exporters.

Source: Bloomberg, as of 12/31/2017

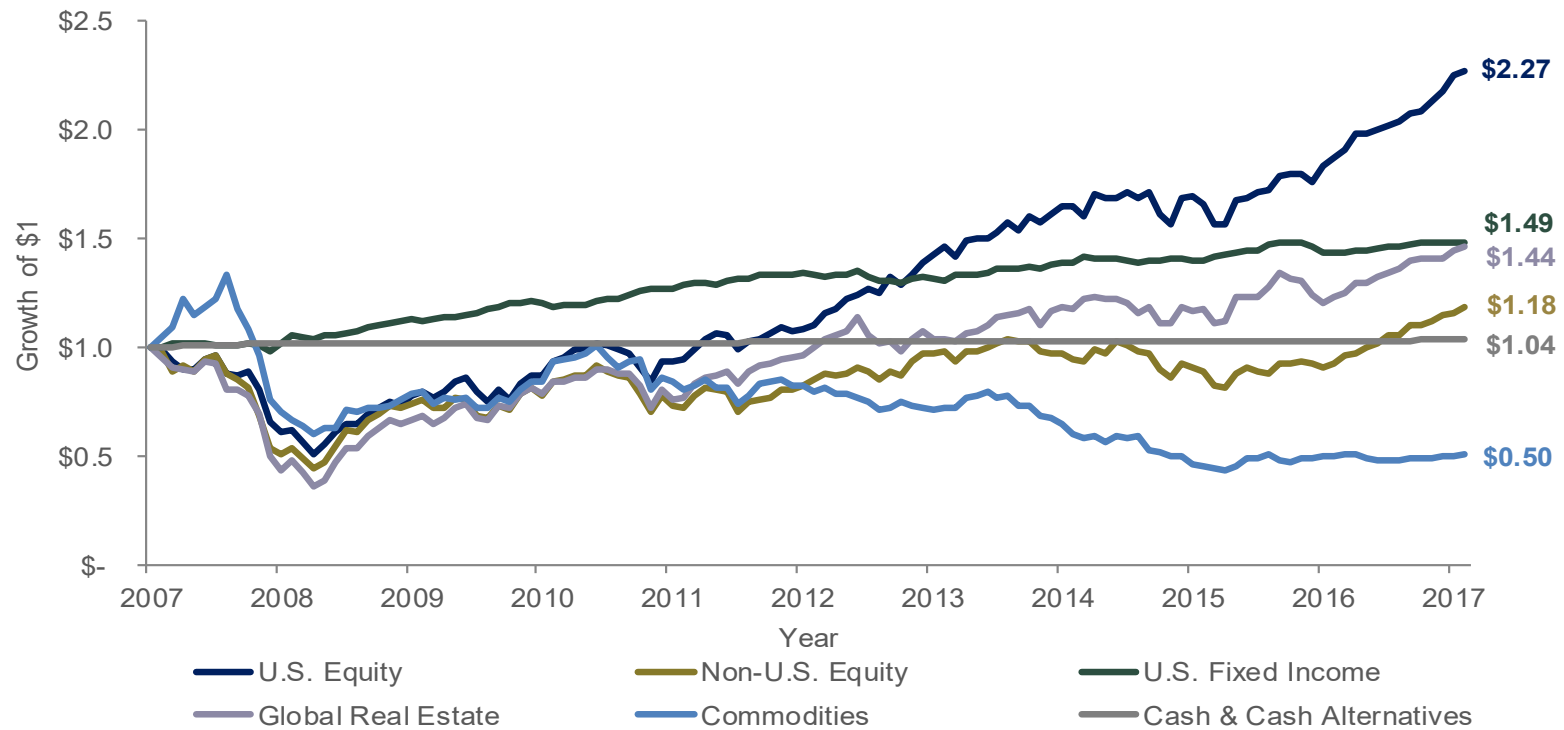


COMMODITY PRICES



Source: Bloomberg, as of 12/31/2017

## INDEX RETURNS GROWTH OF A DOLLAR

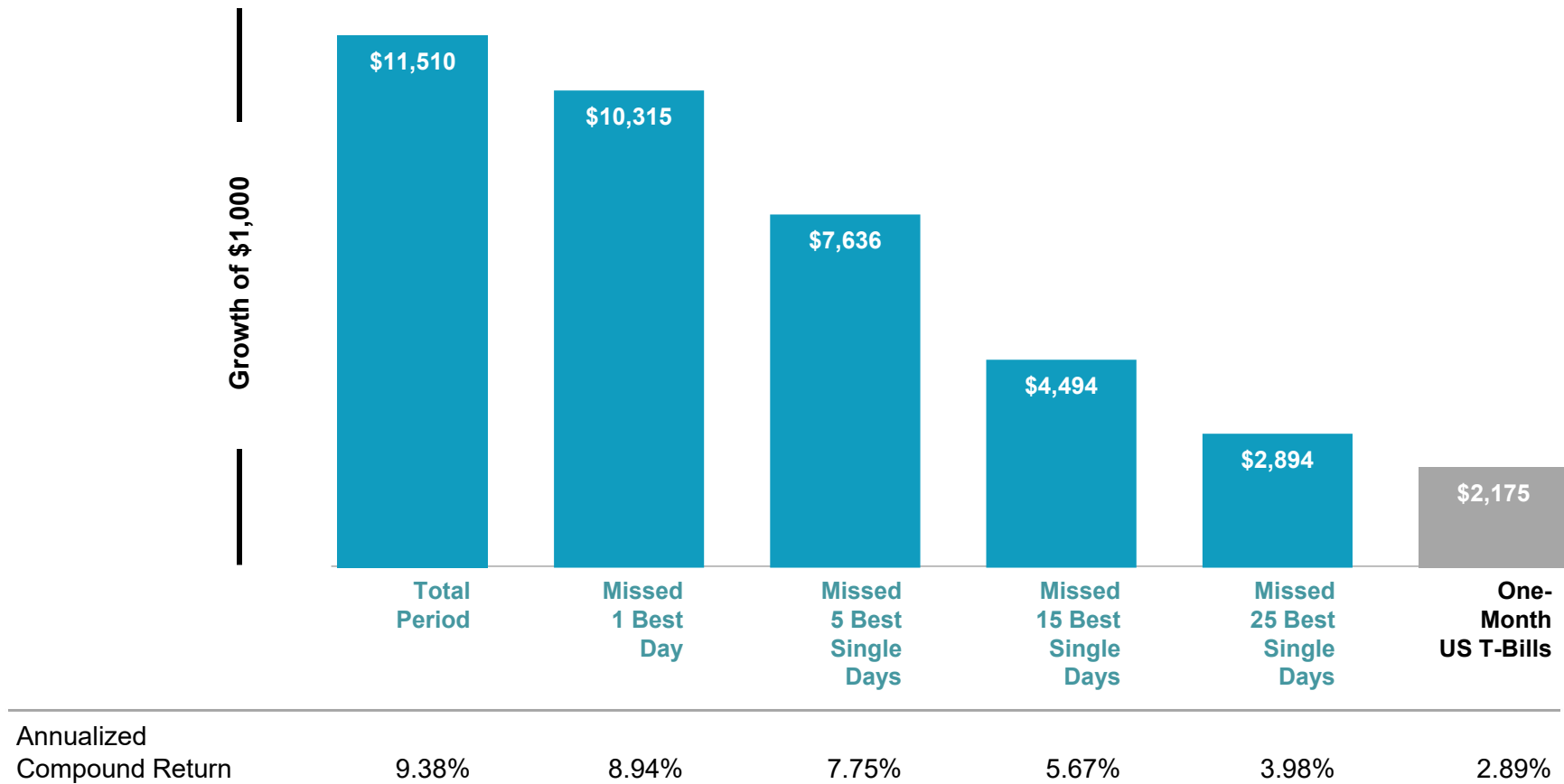


Source: Morningstar Direct, as of 12/31/2017

	QTD	1-Year	3-Year	5-Year	10-Year
<b>U.S. Equity</b>	6.34%	21.13%	11.12%	15.58%	8.60%
<b>Non-U.S. Equity</b>	5.00%	27.19%	7.83%	6.80%	1.84%
<b>U.S. Fixed Income</b>	0.39%	3.54%	2.24%	2.10%	4.01%
<b>Global Real Estate (REITs)</b>	3.56%	13.99%	5.33%	6.22%	4.34%
<b>Commodities</b>	4.71%	1.70%	-5.03%	-8.45%	-6.83%
<b>Cash &amp; Cash Alternatives</b>	0.28%	0.84%	0.38%	0.24%	0.34%

Investors cannot invest directly in an index. Past performance is not indicative of future results. See slide 31-33 for asset class definitions.

## MARKET TIMING

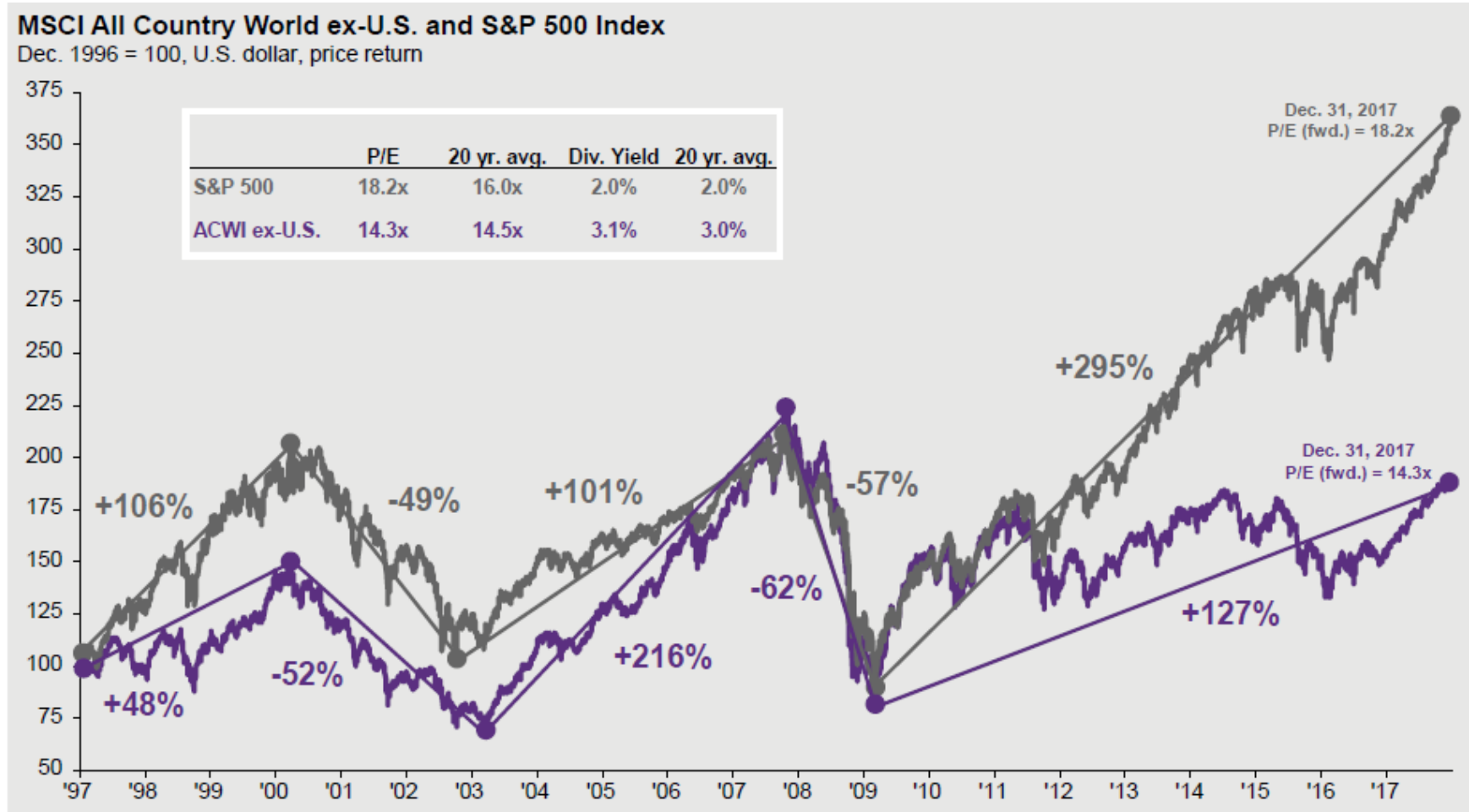


In US dollars. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Source: S&P data provided by Standard & Poor's Index Services Group. "One-Month US T- Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Please see slides 31-33 for index definitions.





# GLOBAL EQUITY PERFORMANCE



Source: MSCI, Standard & Poors, FactSet, JPMorgan Asset Management. Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next twelve months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results. See slide 31-33 for asset class definitions.

# DISCLOSURE

\*Winner's Circle, a Barron's research organization, produced the rankings based on data provided by over 4,000 individual advisors and their firms. Advisor data is confirmed via regulatory databases, crosschecks with securities firms and conversations with individual advisors. Among the factors considered for the rankings are assets under management, revenue that the advisors generate for their firms and the quality of their practices. Data points that relate to quality of practice include length of service, designations held, and services beyond investments offered including estates and trusts, and an evaluation of each advisor's regulatory record etc. Investment performance is not an explicit component because not all advisors have audited results and because performance figures often are influenced more by clients' risk tolerance than by an advisor's investment picking abilities. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. Barron's is not affiliated with Raymond James.

\*\*The FT 400 was developed in collaboration with Ignites Research, a subsidiary of the FT that provides specialized content on asset management. To qualify for the list, advisers had to have 10 years of experience and at least \$300 million in assets under management (AUM). The FT then invited a list of just under 1,000 advisors to complete a survey used to obtain more information on the advisors practices. 400 qualified advisers were then scored on six attributes: AUM, AUM growth rate, compliance record, experience, industry certifications and online accessibility. AUM is the top factor, accounting for roughly 60-70 percent of the applicant's score. Additionally, to provide a diversity of advisors, the FT placed a cap on the number of advisors from any one state that's roughly correlated to the distribution of millionaires across the U.S. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. The FT is not affiliated with Raymond James.

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Data provided by Morningstar, Bloomberg.

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## DISCLOSURE (continued)

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**Fixed Income:** subject to credit risk and interest rate risk. An issuer's credit rating may impact their ability to pay the promised income and return of principal upon maturity. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.

**Consumer Price Index (CPI):** a common measure of inflation which examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in CPI are used to assess price changes associated with the cost of living.

**Gross Domestic Product (GDP):** a broad measurement of a nation's overall economic activity. It is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, including all private and public consumption, government outlays, investments and net exports that occur within a defined territory.

**Price-to-Earnings Ratio (P/E):** a ratio for valuing a company that measures its current share price relative to its per-share earnings.

**Price-to-Book Ratio (P/B):** A ratio used to compare a stock's market value to its book value. It is calculated by dividing the closing stock price by the latest quarter's book value per share.

**Small-cap and Mid-Cap Equity:** generally involve greater risks, and may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

**High-Yield Fixed Income:** not suitable for all investors. Risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

**Commodities:** trading is generally considered speculative because of the significant potential for investment loss.

**U.S. Government Fixed Income:** guaranteed timely payment of principal and interest by the federal government.

**U.S. Treasury Bills:** A short-term debt obligation backed by the U.S. government with a maturity of less than one year.

**Fixed Income Sectors:** Returns based on the four sectors of Barclays Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).

# INDEX DESCRIPTIONS

## Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK
U.S. Equity	Russell 3000 TR
Non-U.S. Equity	MSCI ACWI ex US NR
U.S. Fixed Income	Barclays U.S. Aggregate Bond TR
Global Real Estate (prior to 2008)	NASDAQ Global Real Estate NR
Global Real Estate (2008-present)	FTSE EPRA/NAREIT Global Real Estate NR
Commodities	Bloomberg Commodity TR USD
Cash & Cash Alternatives	Citi Treasury Bill 3 Mon USD

**Bloomberg Commodity Total Return Index:** Formerly the Dow Jones-UBS Commodity Index TR (DJUBSTR), is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 3 Month U.S. Treasury Bills.

**Barclays 10-Year Municipal:** A rules-based, market-value weighted index engineered for the long-term tax-exempt bond market. This index is the 10 year (8-12) component of the Municipal Bond Index.

**Barclays 10-Year U.S. Treasuries:** Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

**Barclays U.S. Aggregate Index:** Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Barclays Global Aggregate ex-U.S. Dollar Bond Index:** Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

**Barclays High Yield:** Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

**Barclays U.S. Corporate High Yield:** Composed of fixed-rate, publicly issued, non-investment grade debt.

**Citi 3-Month Treasury-Bill Index:** This is an unmanaged index of three-month Treasury bills.

**FTSE EPRA/NAREIT Global Real Estate Index :** Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

## INDEX DESCRIPTIONS (continued)

**Global Financial Data:** Index data has calculated for world ex US indices back to 1919. Since the Morgan Stanley World index was not calculated before 1970, an index has been put together to simulate how a World Index would have performed had it been calculated back to 1919. From 1970 on, the indices are capitalization weighted and include the same countries as are now included in the MSCI World Index.

**MSCI All Country World Index Ex-U.S. Index.:** A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

**MSCI EAFE Index (Europe, Australasia, Far East):** A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

**MSCI EAFE Growth Index:** Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

**MSCI EAFE Small-Cap Index:** An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

**MSCI EAFE Value:** Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

**MSCI Emerging Markets Index:** Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

**MSCI Local Currency Index:** A special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

**NASDAQ Global Real Estate Index:** The index measures the performance of real estate stocks which listed on an Index Eligible Global Stock Exchange. The index is market-capitalization weighted.

**Russell 1000 Index:** Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

**Russell 1000 Value Index:** Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 1000 Growth Index:** Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell Mid-Cap Index:** Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

**Russell Mid-cap Value Index:** Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

**Russell Mid-Cap Growth Index:** Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 2000 Index:** Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

**Russell 2000 Value Index:** Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 2000 Growth Index:** Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 3000 Index:** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents 98% of the investable U.S. equity market.



## INDEX DESCRIPTIONS (continued)

**Standard & Poor's 500 (S&P 500):** Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

**S&P 500 Consumer Discretionary:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

**S&P 500 Consumer Staples:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

**S&P 500 Energy:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

**S&P 500 Financials:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

**S&P 500 Health Care:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

**S&P 500 Industrials:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

**S&P 500 Information Technology:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

**S&P 500 Materials:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

**S&P 500 Telecom Services:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® telecommunication services sector.

**S&P 500 Utilities:** Comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

**S&P Mid Cap 400 (S&P 400):** Provides investors with a benchmark for mid – cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of mid-cap companies, reflecting distinctive risk and return characteristics of this market segment.

**S&P Small Cap 600 (S&P 600):** Provides investors with a benchmark for small – cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of small-cap companies, reflecting distinctive risk and return characteristics of this market segment.

**VIX is the Chicago Board Options Exchange (CBOE) Volatility Index,** which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. It is a widely used measure of market risk.