

# QUARTERLY MARKETS REVIEW

Q1

FIRST QUARTER 2017

## Quarterly Topic: Investment Shock Absorbers

FIRST QUARTER 2017

Ever ridden in a car with worn-out shock absorbers? Every bump is jarring, every corner stomach-churning, and every red light an excuse to assume the brace position. Owning an undiversified portfolio can trigger similar reactions.

You can drive a car with a broken suspension system, but it will be an extremely uncomfortable ride and the vehicle will be much harder to control, particularly in difficult conditions. Throw in the risk of a breakdown or running off the road altogether, and there's a real chance you may not reach your destination.

In the world of investment, a similarly bumpy and unpredictable ride can await those with concentrated and undiversified portfolios or those who constantly tinker with their allocation.

Of course, everyone feels in control when the surface is straight and smooth, but it's harder to stay on the road during sudden turns and ups and downs in the market. For that reason, the smart thing to do is to diversify, spreading your portfolio across different securities, sectors, and countries. That also means identifying the right mix of investments (e.g., stocks, bonds, real estate) that aligns with your risk tolerance.

Using this approach, your returns from year to year may not match the top performing portfolio, but neither are they likely to match the worst. More importantly, this is a ride you are likelier to stick with.

Here's an example. Among developed markets, Denmark was number one in US dollar terms in 2015 with a return of more than 23%. But a

big bet on that country the following year would have backfired, as Denmark slid to bottom of the table with a loss of nearly 16%.<sup>1</sup>

It's true that the US stock market (by far the world's biggest) has been a strong performer in recent years. But a decade before, in 2004 and 2006, it was the second worst-performing developed market in the world.<sup>1</sup>

Predicting which part of a market will do best over a given period is tough. US small cap stocks were among the top performers in 2016 with a return of more than 21%. A year before, their results looked relatively disappointing with a loss of more than 4%. International small cap stocks had their turn in the sun in 2015, topping the performance tables with a return of just below 6%. But the year before that, they were the second worst with a loss of 5%.<sup>2</sup>

If you've ever taken a long road trip, you'll know that conditions along the way can change quickly and unpredictably, which is why you need a vehicle that's ready for the worst roads as well as the best. While diversification can never completely eliminate the impact of bumps along your particular investment road, it does help reduce the potential outsized impact that any individual investment can have on your journey.

With sufficient diversification, the jarring effects of performance extremes level out. That, in turn, helps you stay in your chosen lane and on the road to your investment destination.

Happy motoring and happy investing.

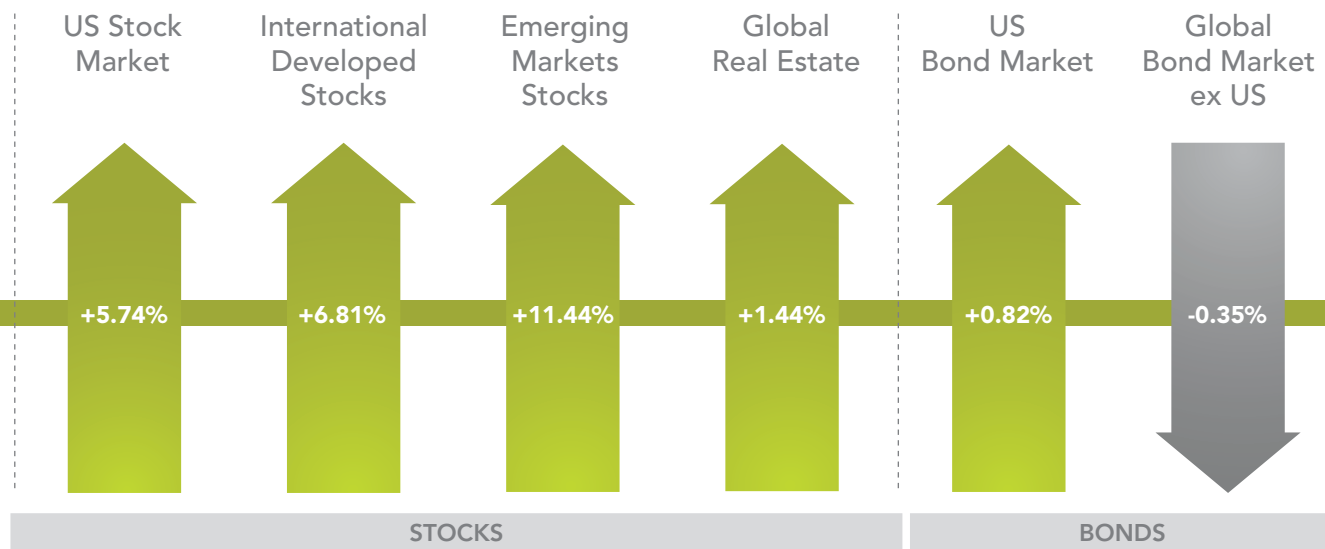
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2. In US dollars. US Small Cap is the Russell 2000 Index. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. International Small Cap is the MSCI World ex USA Small Cap Index (gross dividends). MSCI data copyright MSCI 2017, all rights reserved.

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## Market Summary: Index Returns

FIRST QUARTER 2017



Since Jan. 2001

<b>Avg. Quarterly Return</b>	1.9%	1.4%	3.0%	2.7%	1.2%	1.1%
<b>Best Quarter</b>	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	5.5% Q4 2008
<b>Worst Quarter</b>	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-3.0% Q4 2016	-3.2% Q2 2015

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 ex US Market (Citi WGBI ex USA 1–30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2017, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citi fixed income indices copyright 2017 by Citigroup.

# Impact of Diversification: Index Returns

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These portfolios illustrate the performance of different global stock/bond mixes. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Period Returns (%)

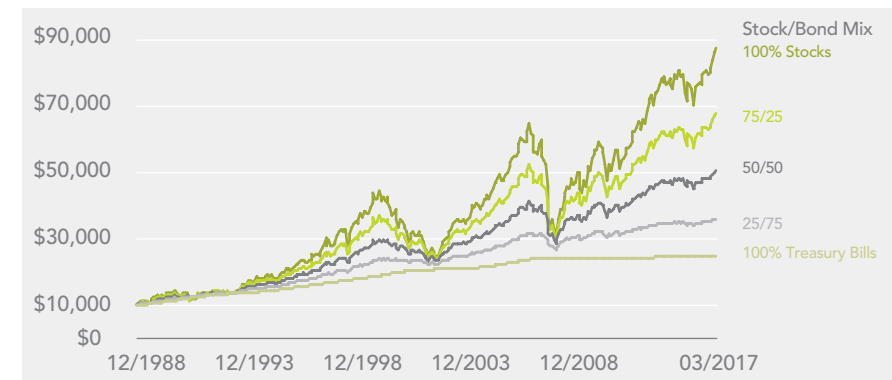
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	15.69	5.65	8.97	4.56	17.01
75/25	11.67	4.35	6.80	3.84	12.75
50/50	7.76	2.99	4.60	2.93	8.50
25/75	3.96	1.58	2.36	1.83	4.24
100% Treasury Bills	0.26	0.11	0.08	0.56	0.36

\* Annualized

## Ranked Returns for the Quarter (%)

100% Stocks	7.05
75/25	5.28
50/50	3.54
25/75	1.81
100% Treasury Bills	0.11

## Growth of Wealth: The Relationship Between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. 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 of 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 2017, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

# World Stock Market Performance: Selected Headlines

FIRST QUARTER 2017

MSCI All Country World Index with Selected Headlines from Q1 2017



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news. Source: MSCI ACWI Index [net div.], MSCI data © MSCI 2017, all rights reserved. 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 Stock Market Performance: Selected Headlines

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## Short Term (Q1 2016–Q1 2017)

MSCI All Country World Index with Selected Headlines From Past 12 months



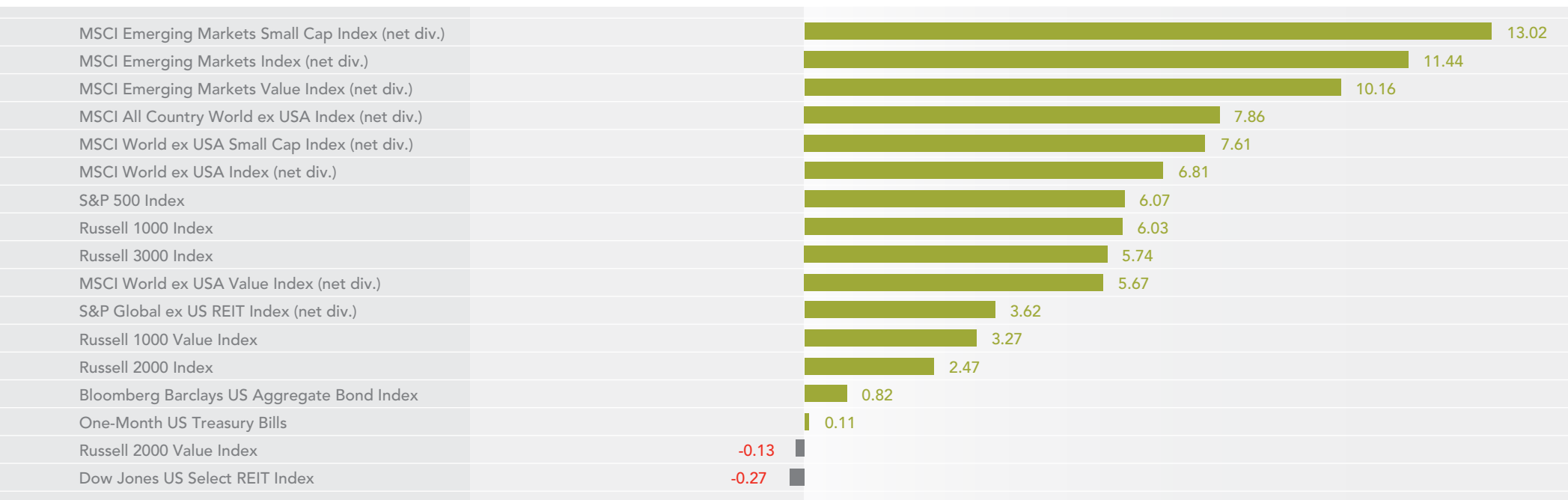
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## World Asset Classes: Index Returns (%)

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Looking at broad market indices, emerging markets outperformed both US and non-US developed markets during the quarter. Real estate investment trusts (REITs) lagged their equity market counterparts.

The value effect was negative in the US, non-US, and emerging markets. Small caps outperformed large caps in emerging markets and non-US developed markets but underperformed in the US.



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Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

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