

Q3

Quarterly Market Review

Third Quarter 2019

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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 impact of globally diversified portfolios and features a quarterly topic.

Overview:

SAM Commentary: Only You Can Prevent Financial Fires!

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Market Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Fixed Income

Impact of Diversification

Only You Can Prevent Financial Fires!

Third Quarter 2019

The power to create long-term sustainable wealth is actually in your control, contrary to popular belief. With time and saving, your path to financial freedom is awaiting.

Dear Partners,

We continue to thank you for the trust you place in SAM to steward your financial Big Picture. We are making improvements each day to gain and maintain your trust, and improve your overall client experience. In subsequent communications you will hear more about some of the exciting enhancements we have made as a firm in 2019 (both from a technological and people perspective). We are confident that these updates will add value to your lives for many decades to come.

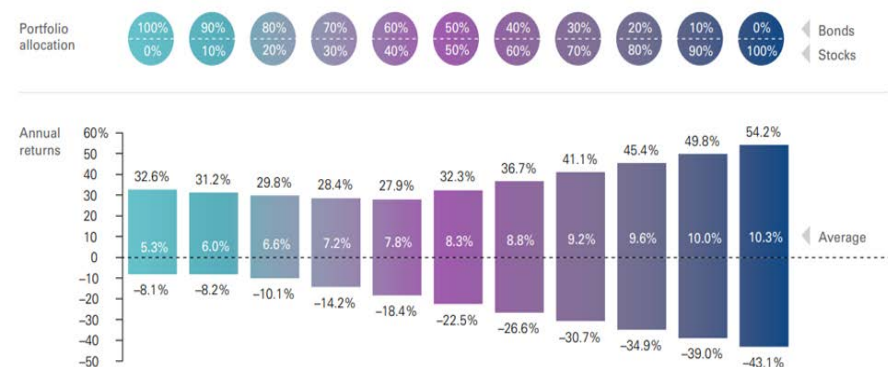
As always, if you know others who will benefit from our stewardship, please do not hesitate to send them our way.

With major market indices being up handsomely this year through the third quarter (S&P 500 +20.55%, MSCI EAFE +13.35%, and Bloomberg Barclays Aggregate bond index +8.52%) people tend to get short-sighted, believing that market returns are the sole component for a life of financial independence. While our goal is not to be the Grim Reaper, though it is Halloween, we would point out that the largest components of creating wealth are not market returns, but those within YOUR own control.

As we illustrate throughout this article, the two biggest factors in creating wealth are **time** and **how much one saves**. In writing this letter, it made us think of the old Smokey the Bear campaigns, hence the title.

SOME HISTORICAL CONTEXT

As illustrated in the chart to the right, the historical returns on a 100% equity (or, ownership stakes in businesses) portfolio has been 10.3%/year, while a 100% Fixed Income portfolio (or, lending to governments, people, and businesses) has been 5.3%. As one goes up/down the spectrum of allocation mixes, the return outcomes will gradate accordingly.



Notes: Stocks are represented by the Standard & Poor's 90 Index from 1926 to March 3, 1957; the S&P 500 Index from March 4, 1957, through 1974; the Wilshire 5000 Index from 1975 through April 22, 2005; and the MSCI US Broad Market Index thereafter. Bonds are represented by the S&P High Grade Corporate Index from 1926 to 1968; the Citigroup High Grade Index from 1969 to 1972; the Bloomberg Barclays U.S. Long Credit AA Index from 1973 to 1975; and the Bloomberg Barclays U.S. Aggregate Bond Index thereafter. Data are through December 31, 2017.
Source: Vanguard.

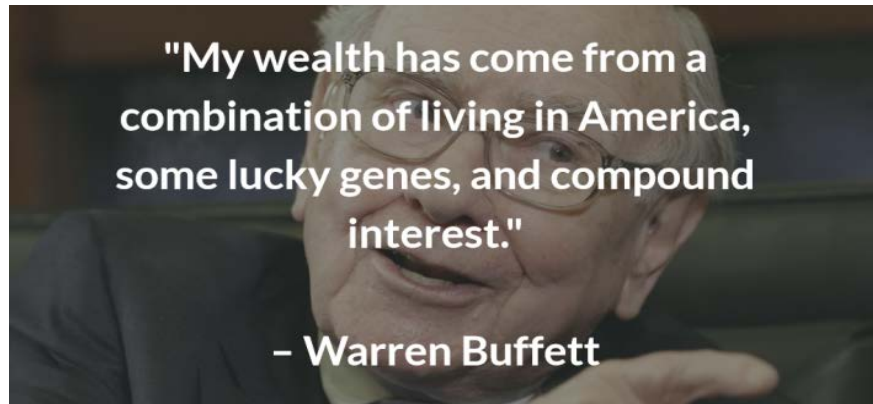
The major caveat to the above data is that it is utilizing the historical returns on fixed income, as the best predictor of future fixed income returns is the current yield-to-maturity (YTM). As most are aware, fixed income interest rates have been falling, and the current YTM for the US major fixed income index is at 2.2%, or ~3% below the historical annual return on fixed income. Thus, one might expect the returns noted on the chart above to shift down as well. This means if equities maintain their historical spread to fixed income, the expected returns could be closer to 7-8%.

Only You Can Prevent Financial Fires!

(continued from page 3)

TIME, IT'S ON YOUR SIDE...YES, IT IS!

This leads us to the number one variable that is within your control to compound wealth...Time! As Warrant Buffett has stated: "My wealth has come from a combination of living in America, some lucky genes, and compound interest." Lucky genes are referring to his age, while compound interest is referring to how long he has been investing.



Mr. Buffett's quote can be applied to the following analysis, which is a fair proxy for an affluent client:

A family has a combined household income of \$500,000, meaning that they will most likely have to replace ~50% of their pre-tax income once they retire (note: 50% is a proxy and ranges have been to as little as 25% to as much as 80%). In order to reach a sustainable spend rate of 3% in retirement, as recommended by SAM, they will have to save ~\$8.3M by the time they retire.

Below you will see the effects of time on their wealth creation. Assuming the household saves \$38,000 per year (by maxing out 401(k) plans, for example), the difference in return needed to attain this goal varies greatly the longer they wait to save. Saving at age 22, vs. waiting until age 32 or 42, lowers the return needed by ~3% or ~10%, respectively per year. Or, said another way, if they waited 20 years to start saving/investing they would need an additional ~864% cumulative return over the next 24 years until retirement at age 66 to attain their retirement goal!

Expense Gap to Financial Independence	\$ (250,000)	50% of Income	
Goal (3% Spend Rate)	\$ (8,333,333)	\$ (8,333,333)	\$ (8,333,333)
Starting Value	\$ -	\$ -	\$ -
Savings	\$ 38,000	\$ 38,000	\$ 38,000
Number of Savings Years	44	34	24
Compound Return	6.3%	9.5%	16.2%
Inflation	2.5%	2.5%	2.5%
Taxes	1.5%	1.5%	1.5%
Return Needed	10.3%	13.5%	20.2%

YOUR SECOND BEST FRIEND!

The great news is that you have two best friends in this journey (though time is definitely the better of the two). Your second best friend - also in your control - is how much you save per year. In the analysis on the next page, we use the same affluent family example but we hold Time constant at 34 years while adjusting the amount of savings. The three annual savings rates are 401(k) max (\$38,000), saving 10% of income (\$50,000), or 20% of income (\$100,000).

Only You Can Prevent Financial Fires!

(continued from page 4)

This analysis shows that by saving 20% of their income (vs. only maxing out the 401ks) they lower the return needed by 4.6% per year, or an additional 361% cumulative return over 34 years!

Expense Gap to Financial Independence	\$ (250,000)	50% of Income	
Goal (3% Spend Rate)	\$ (8,333,333)	\$ (8,333,333)	\$ (8,333,333)
Starting Value	\$ -	\$ -	\$ -
Savings	\$ 38,000	\$ 50,000	\$ 100,000
Number of Savings Years	34	34	34
Compound Return	9.5%	8.2%	4.9%
Inflation	2.5%	2.5%	2.5%
Taxes	1.5%	1.5%	1.5%
Return Needed	13.5%	12.2%	8.9%

It is also important to note that the 8.9% return needed over 34 years is potentially more closely aligned with the longer-term expected return on equities in this low interest rate environment.

LET'S WRAP IT UP...

In summary, the path to financial independence is in your control. It just takes hitting singles and doubles (time and saving) to get your wealth on base, move it over, and score runs (congrats to the Nationals for winning the World Series)!

It does not take some "lottery ticket" like investment, or finding the next Microsoft or Amazon, or worrying about the day-to-day prognostications from all the so-called market pundits.







At SAM we will always be here to help as your behavioral coach, and to help with all of your Big Picture financial needs! We look forward to assisting you on this path and being your guide for years to come.

Jason and Your SAM Team



Quarterly Market Summary



















Index Returns

	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

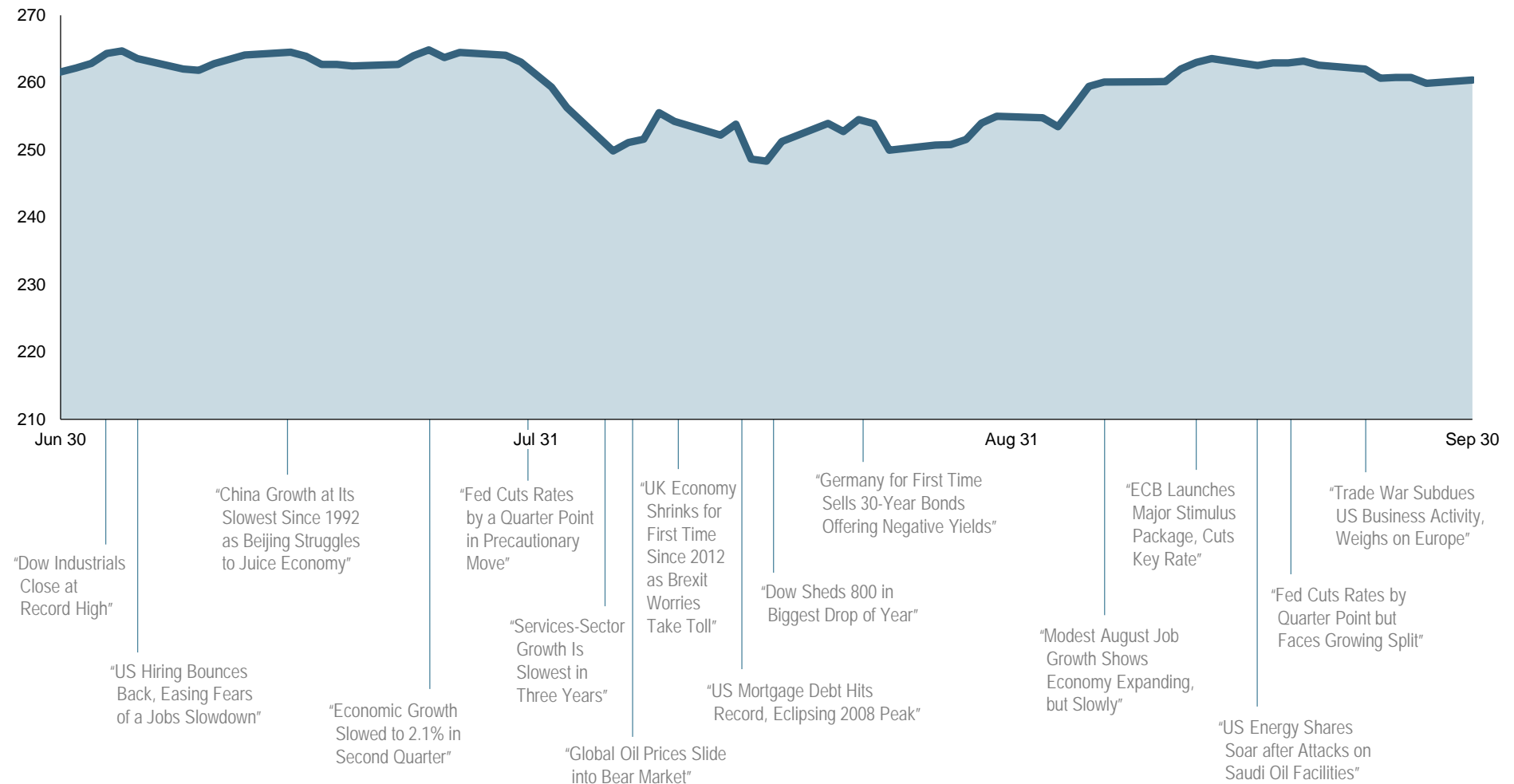
Index Returns

	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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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2019



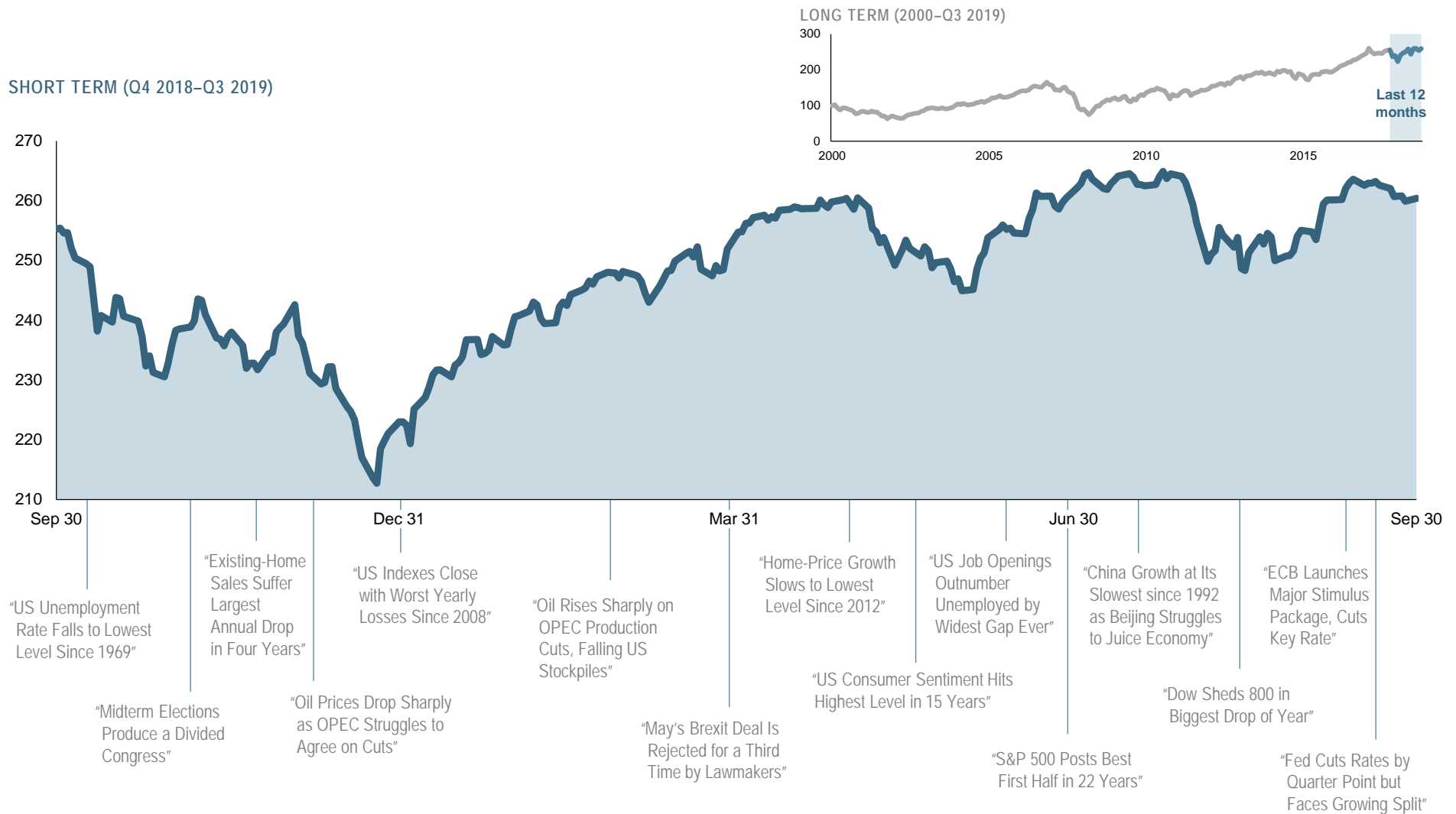
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, 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

MSCI All Country World Index with selected headlines from past 12 months



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.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, 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.

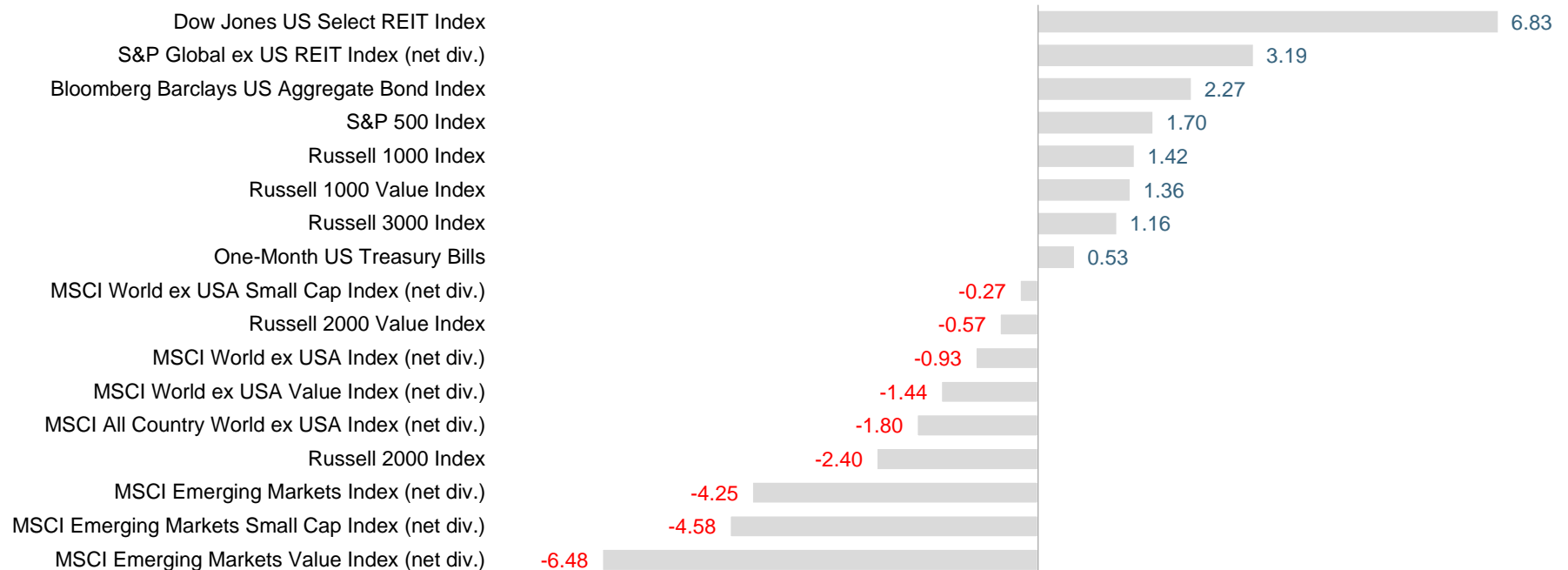
World Asset Classes

Third Quarter 2019 Index Returns (%)

Looking at broad market indices, US equities outperformed non-US developed and emerging markets during the third quarter.

Value stocks outperformed growth stocks in the US but underperformed in non-US and emerging markets. Small caps outperformed large caps in non-US markets but underperformed in the US and emerging markets.

REIT indices outperformed equity market indices in both the US and non-US developed markets.



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US Stocks

Third Quarter 2019 Index Returns

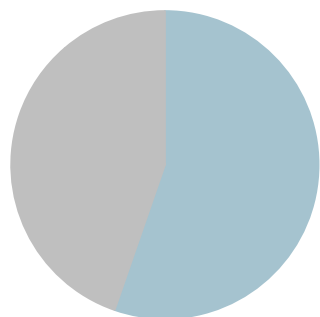
US equities outperformed both non-US developed and emerging markets in the third quarter.

Value outperformed growth on a marketwide basis in the US. However, value underperformed growth across large cap stocks but outperformed in small caps.

Small caps underperformed large caps in the US.

REIT indices outperformed equity market indices.

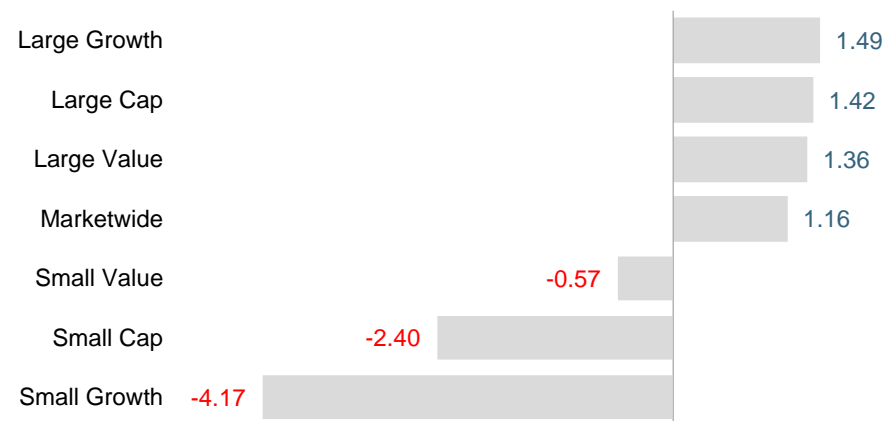
World Market Capitalization—US



55%

US Market
\$29.4 trillion

Ranked Returns (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	23.30	3.71	16.89	13.39	14.94
Large Cap	20.53	3.87	13.19	10.62	13.23
Marketwide	20.09	2.92	12.83	10.44	13.08
Large Value	17.81	4.00	9.43	7.79	11.46
Small Growth	15.34	-9.63	9.79	9.08	12.25
Small Cap	14.18	-8.89	8.23	8.19	11.19
Small Value	12.82	-8.24	6.54	7.17	10.06

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: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. 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.

International Developed Stocks

Third Quarter 2019 Index Returns

In US dollar terms, developed markets outside the US outperformed emerging markets but underperformed the US market during the third quarter.

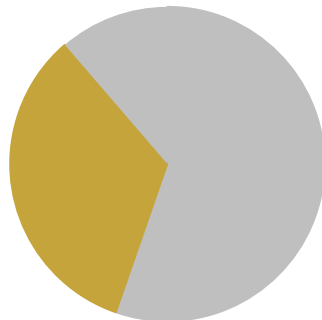
Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large cap stocks but outperformed in small caps.

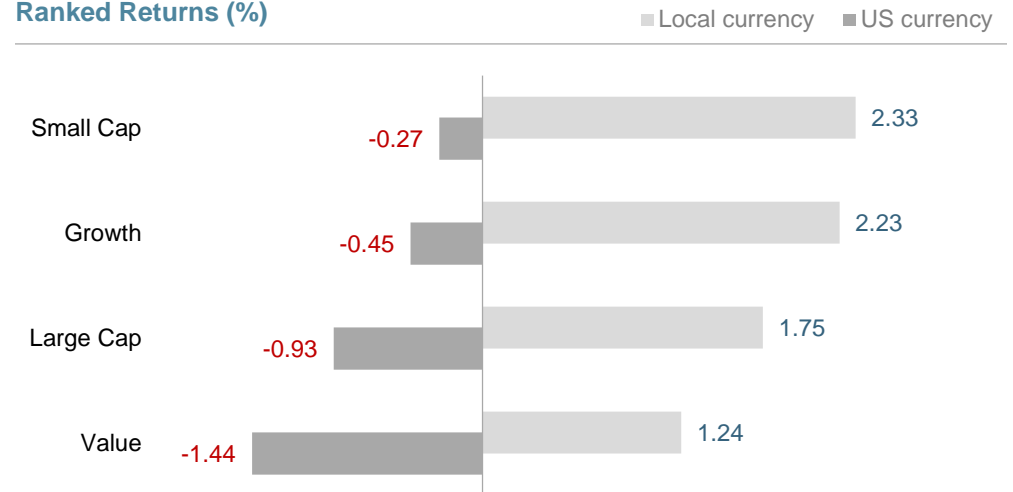
World Market Capitalization—International Developed

33%

International Developed Market
\$17.7 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Growth	18.35	2.39	7.50	5.05	6.13
Large Cap	13.57	-0.95	6.49	3.06	4.78
Small Cap	12.58	-5.62	5.54	5.14	6.93
Value	8.79	-4.31	5.38	1.01	3.37

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Emerging Markets Stocks

Third Quarter 2019 Index Returns

In US dollar terms, emerging markets underperformed developed markets, including the US, in the third quarter.

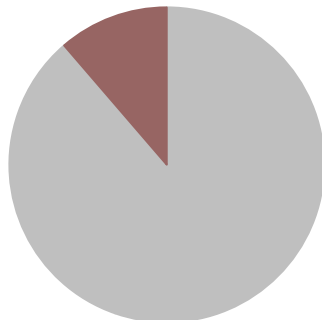
Value stocks underperformed growth stocks.

Small caps underperformed large caps.

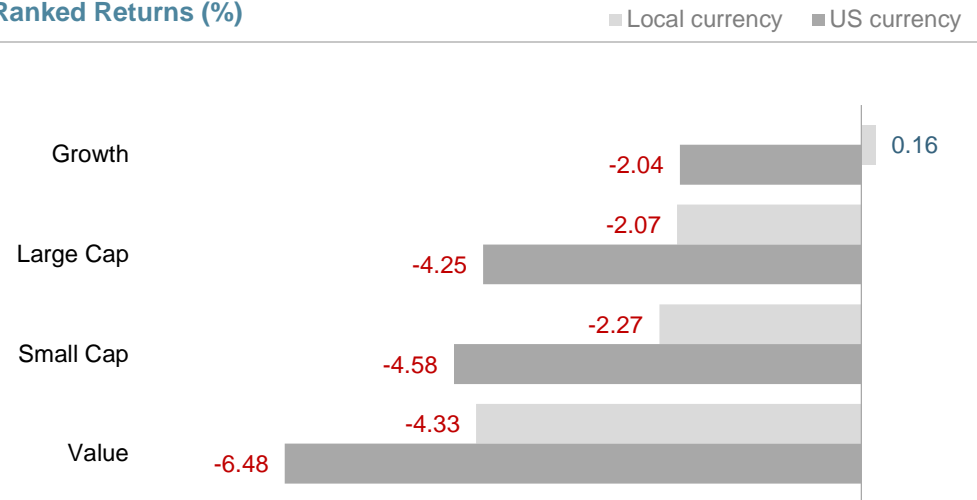
World Market Capitalization—Emerging Markets

11%

Emerging Markets
\$6.0 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Growth	10.04	1.01	7.04	4.17	4.75
Large Cap	5.89	-2.02	5.97	2.33	3.37
Value	1.82	-5.03	4.81	0.38	1.92
Small Cap	1.81	-5.49	1.32	-0.13	3.21

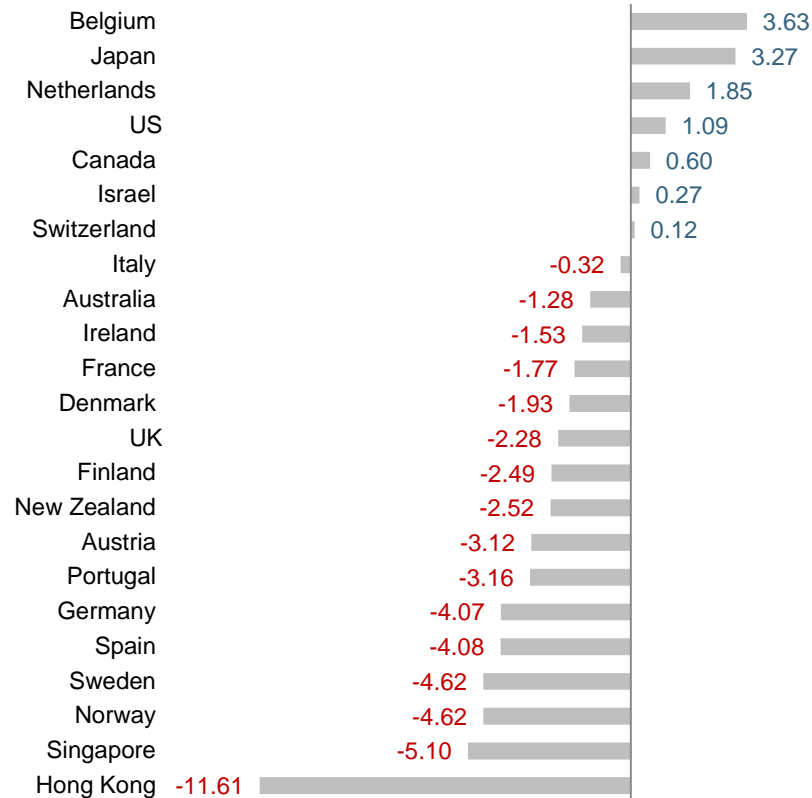
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Select Market Performance

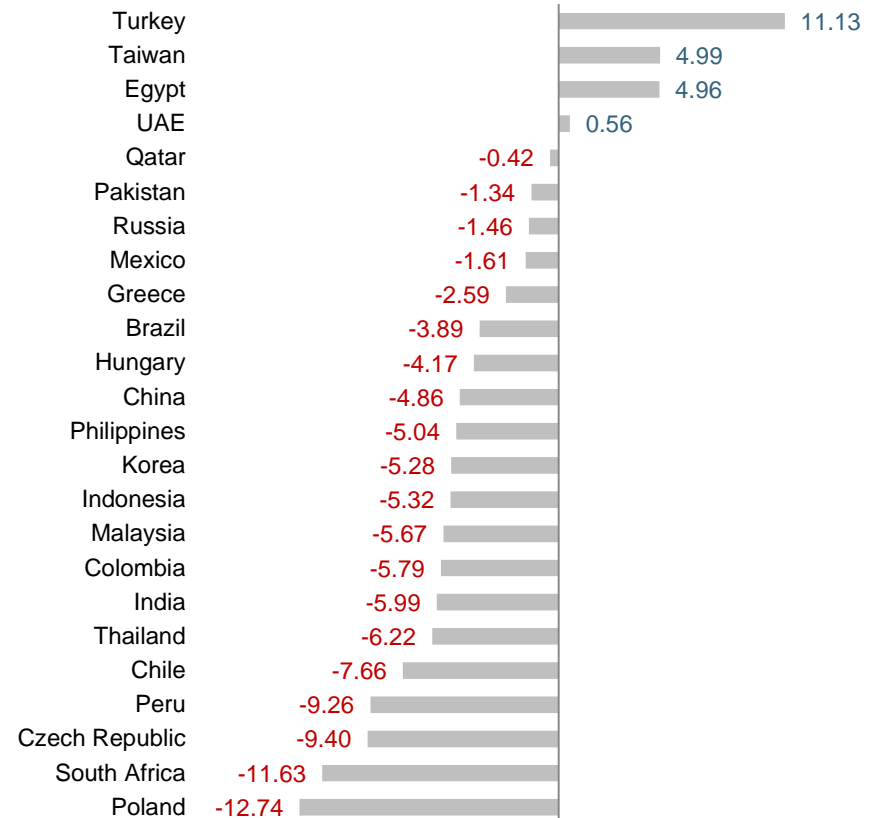
Third Quarter 2019 Index Returns

In US dollar terms, Belgium and Japan recorded the highest country performance in developed markets, while Hong Kong and Singapore posted the lowest returns for the third quarter. In emerging markets, Turkey and Taiwan recorded the highest country performance, while Poland and South Africa posted the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



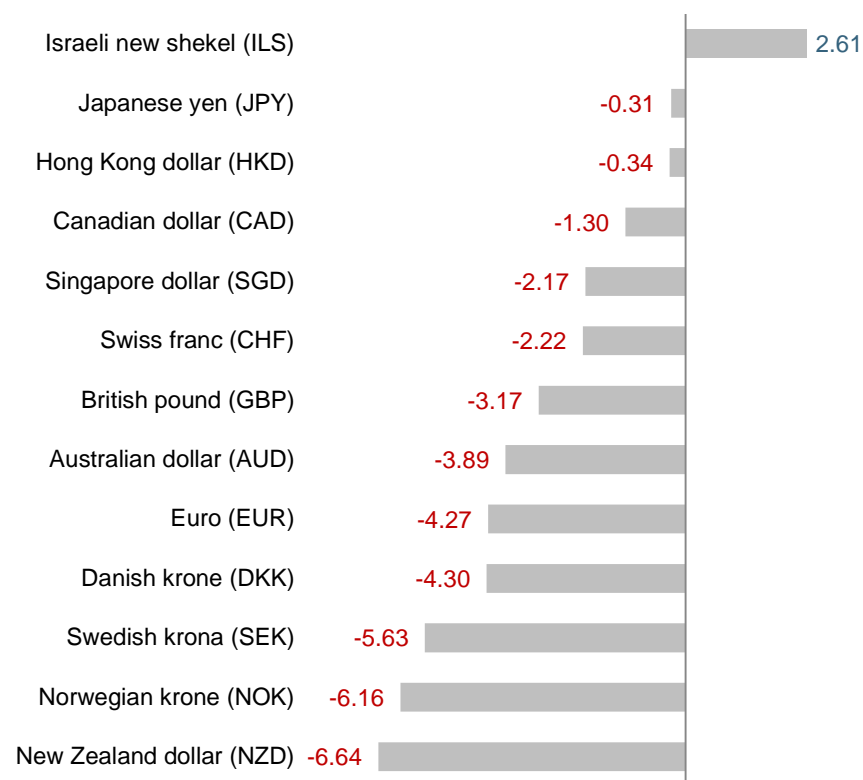
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2019, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Select Currency Performance vs. US Dollar

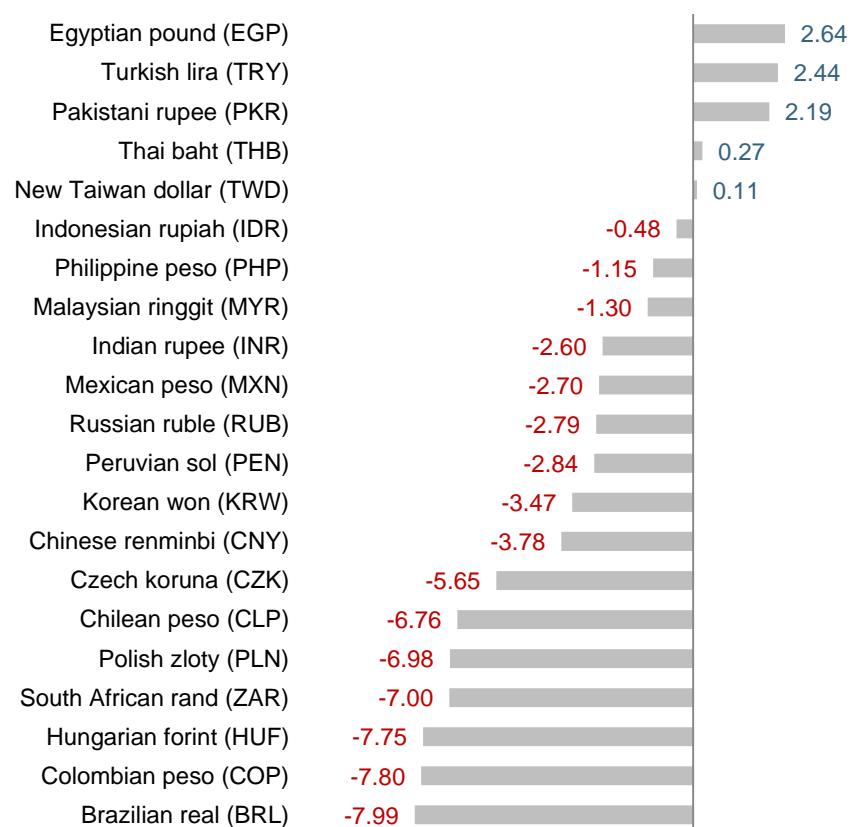
Third Quarter 2019

In developed and emerging markets, currencies mostly depreciated vs. the US dollar in the third quarter. The Israeli shekel and the Egyptian pound were among a few exceptions.

Ranked Developed Markets (%)



Ranked Emerging Markets (%)

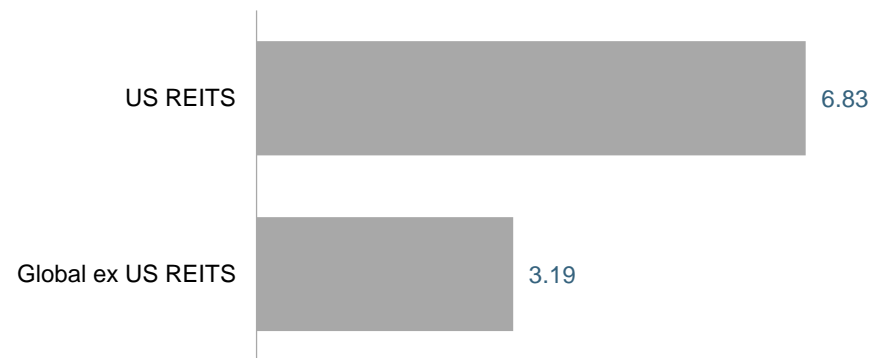


Real Estate Investment Trusts (REITs)

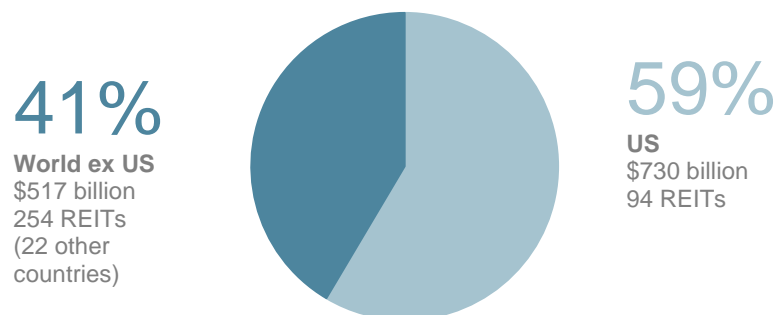
Third Quarter 2019 Index Returns

In the third quarter, US real estate investment trusts outperformed non-US REITs in US dollar terms.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized				
	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	24.64	16.41	6.48	9.70	12.69
Global ex US REITS	18.34	12.80	5.10	5.35	7.29

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 and S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Commodities

Third Quarter 2019 Index Returns

The Bloomberg Commodity Index Total Return declined by 1.84% in the third quarter.

Nickel and silver led quarterly performance, returning 34.75% and 9.92%, respectively.

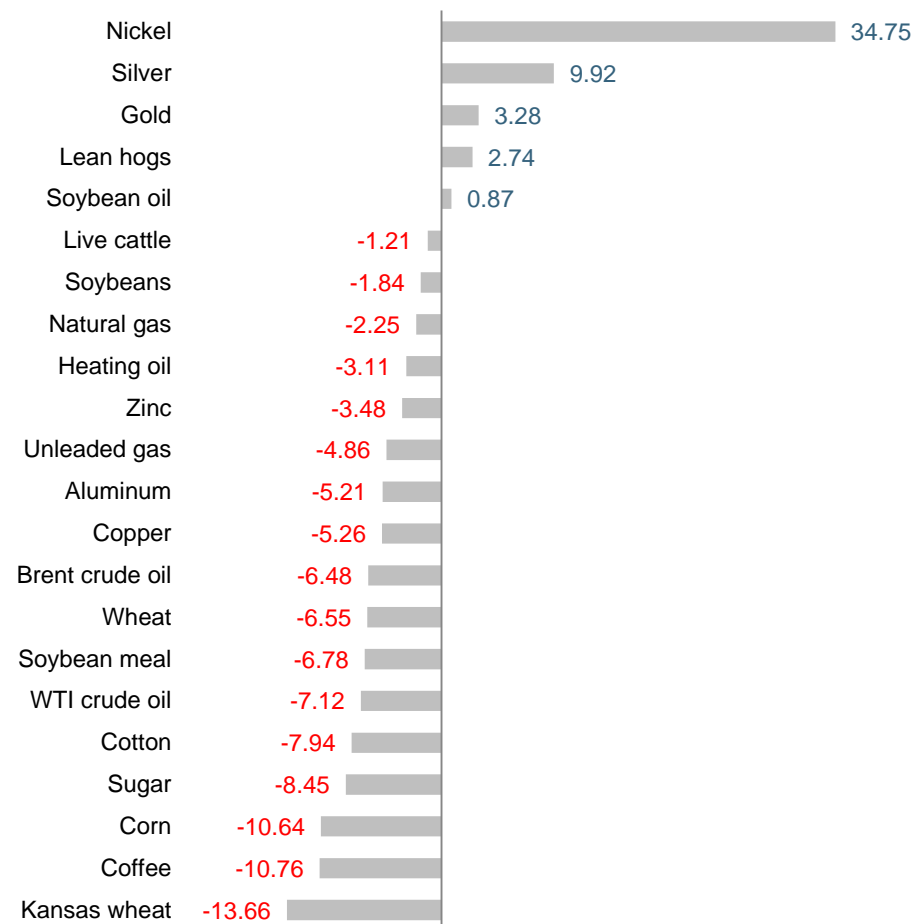
Kansas wheat and coffee were the worst performers, declining by 13.66% and 10.76%, respectively.

Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-1.84	3.13	-6.57	-1.50	-7.18	-4.32

Ranked Returns (%)



Fixed Income

Third Quarter 2019 Index Returns

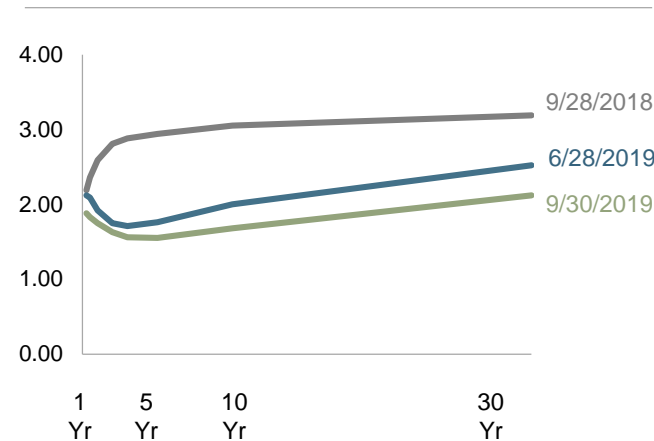
Interest rates in the US Treasury market decreased during the third quarter. The yield on the 5-year Treasury note declined by 21 basis points (bps), ending at 1.55%. The yield on the 10-year Treasury note decreased by 32 bps to 1.68%. The 30-year Treasury bond yield fell by 40 bps to 2.12%.

On the short end of the yield curve, the 1-month Treasury bill yield decreased to 1.91%, while the 1-year Treasury bill yield decreased by 17 bps to 1.75%. The 2-year Treasury note yield finished at 1.63% after a decrease of 12 bps.

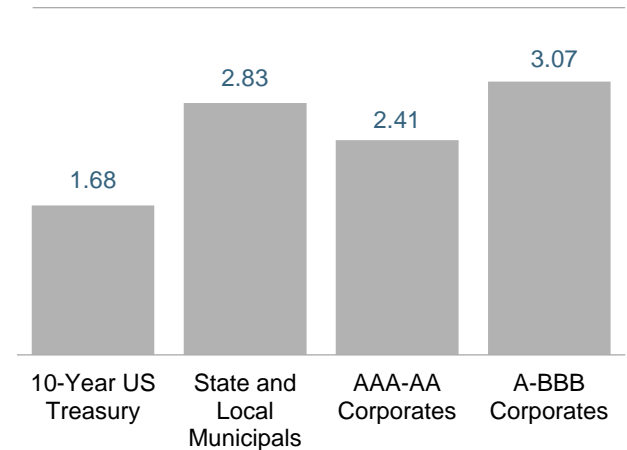
In terms of total returns, short-term corporate bonds gained 1.17%. Intermediate-term corporate bonds had a total return of 1.74%.

The total return for short-term municipal bonds was 0.33%, while intermediate-term muni bonds returned 1.02%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	7.83	19.61	24.58	4.11	6.73	6.86
Bloomberg Barclays US Aggregate Bond Index	2.27	8.52	10.30	2.92	3.38	3.75
Bloomberg Barclays Municipal Bond Index	1.58	6.75	8.55	3.19	3.66	4.16
Bloomberg Barclays US TIPS Index	1.35	7.58	7.13	2.21	2.45	3.46
Bloomberg Barclays US High Yield Corporate Bond Index	1.33	11.41	6.36	6.07	5.37	7.94
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.96	3.68	5.26	2.14	1.98	1.86
ICE BofAML 1-Year US Treasury Note Index	0.56	2.33	3.13	1.60	1.12	0.79
ICE BofAML US 3-Month Treasury Bill Index	0.56	1.81	2.39	1.54	0.98	0.54
FTSE World Government Bond Index 1-5 Years	-0.84	1.41	2.36	0.25	-0.07	-0.05

*Annualized

One basis point equals 0.01%. 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 S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofAML Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2019 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2019 ICE Data Indices, LLC. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Global Fixed Income

Third Quarter 2019 Yield Curves

Interest rates in the global developed markets generally decreased during the third quarter.

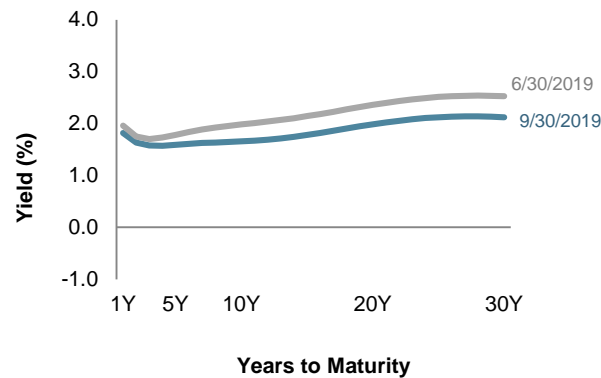
Longer-term bonds generally outperformed shorter-term bonds in the global developed markets.

Short- and Intermediate-term nominal interest rates are negative in Japan and entirely negative across the German government bond yield curve.

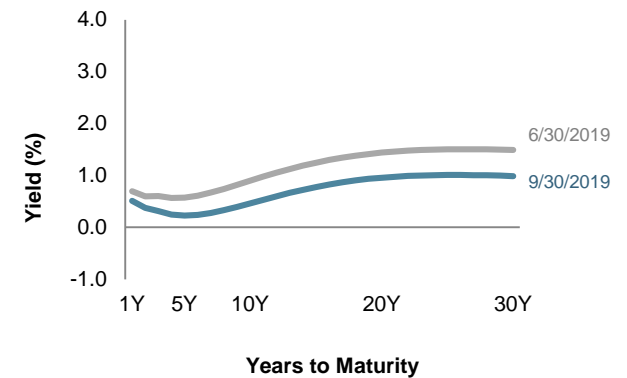
Changes in Yields (bps) since 6/30/2019

	1Y	5Y	10Y	20Y	30Y
US	-14.4	-19.2	-32.8	-37.3	-40.8
UK	-18.4	-34.6	-43.7	-48.3	-50.4
Germany	-5.9	-12.3	-26.6	-36.1	-36.8
Japan	-10.0	-10.4	-5.7	-3.1	0.2

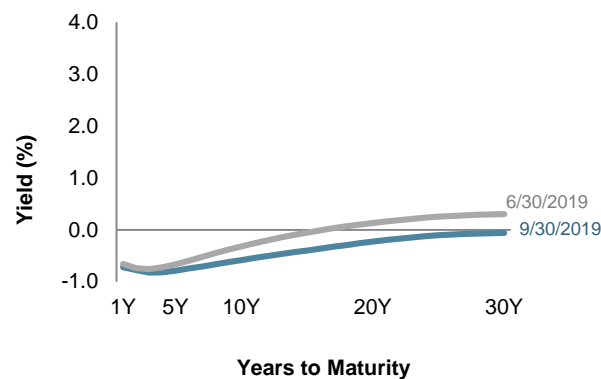
US



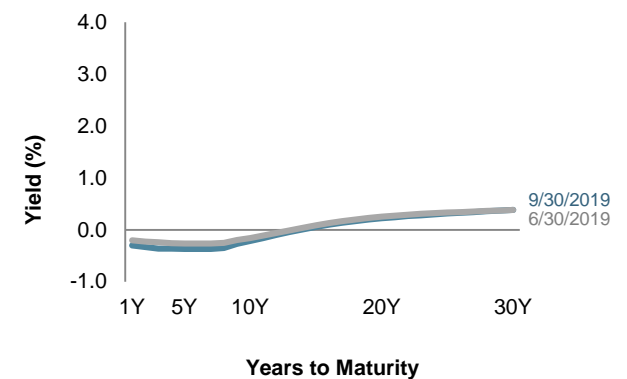
UK



Germany



Japan



Impact of Diversification

Third Quarter 2019

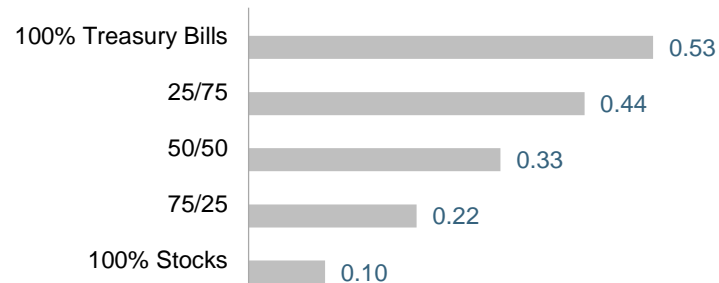
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)

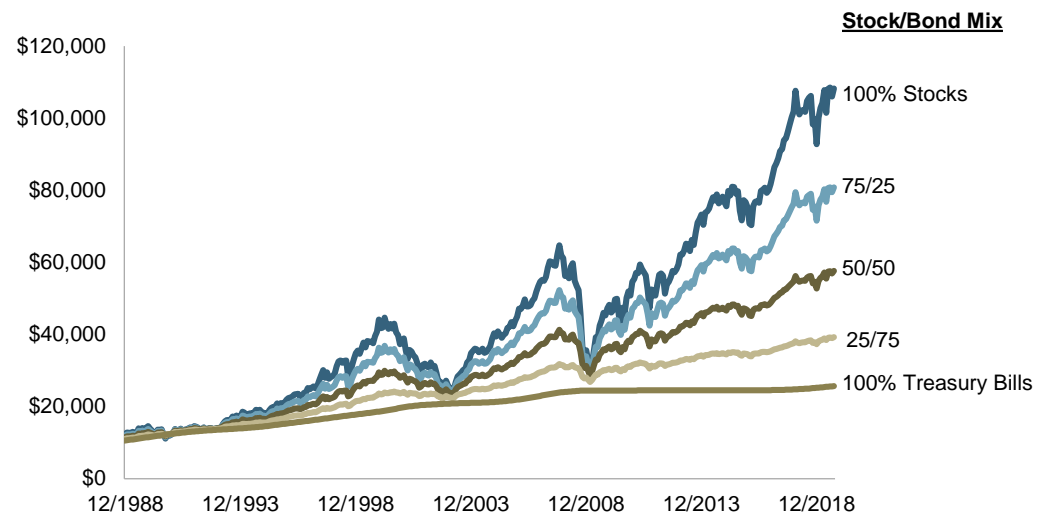
* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Stocks	16.71	1.95	10.30	7.23	8.93	13.20
75/25	12.94	2.30	8.15	5.75	6.93	9.90
50/50	9.18	2.48	5.96	4.20	4.85	6.60
25/75	5.44	2.47	3.73	2.59	2.70	3.30
100% Treasury Bills	1.72	2.29	1.46	0.91	0.48	0.22

Ranked Returns (%)



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 2019, 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).

Important Disclosures

October 2019

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