



GENERATIONAL
WEALTH ADVISORS

Annual Market Review

2019

2019 Annual Market Review



This report features world capital market performance for the past year. 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 The January Effect, an update to our research on the predictive power of the first month of the year.

Overview:

Market Summary

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Impact of Diversification

The January Effect

Market Summary

Index Returns



| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|------------------------|-----------------|--------------------------------|-------------------------|--------------------|----------------|--------------------------|
| 2019 | STOCKS | | | | BONDS | |
| | 31.02% | 22.49% | 18.42% | 23.12% | 8.72% | 7.57% |
| | | | | | | |
| Since Jan. 2001 | | | | | | |
| Avg. Annual Return | 8.9% | 6.7% | 13.4% | 10.8% | 4.7% | 4.6% |
| Best Year | 33.6% 2013 | 39.4% 2003 | 78.5% 2009 | 37.4% 2006 | 10.3% 2002 | 8.8% 2014 |
| Worst Year | -37.3% 2008 | -43.6% 2008 | -53.3% 2008 | -45.7% 2008 | -2.0% 2013 | 1.2% 2013 |

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 © 2020 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 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

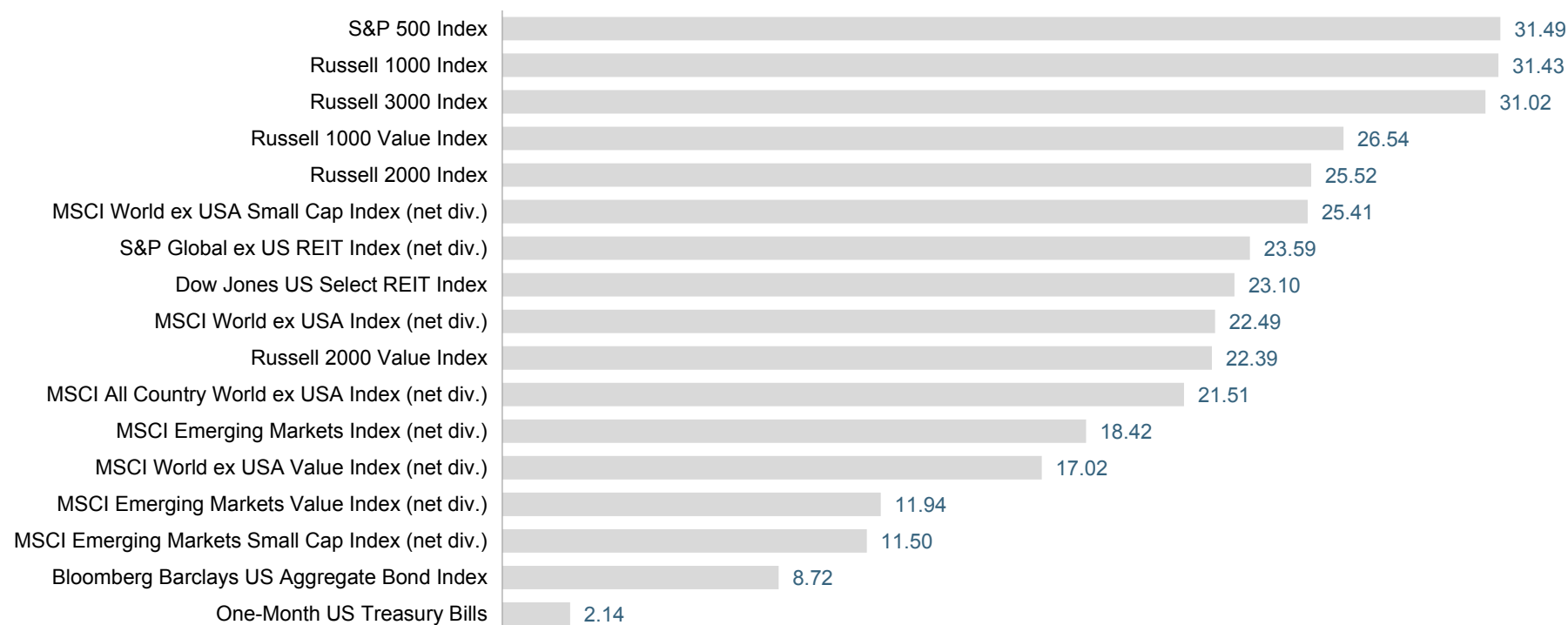
World Asset Classes

2019 Index Returns (%)

Equity markets around the globe posted positive returns in 2019. Looking at broad market indices, the US outperformed non-US developed and emerging markets for the year.

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

REIT indices outperformed equity market indices in non-US developed markets but underperformed in the US.



US Stocks

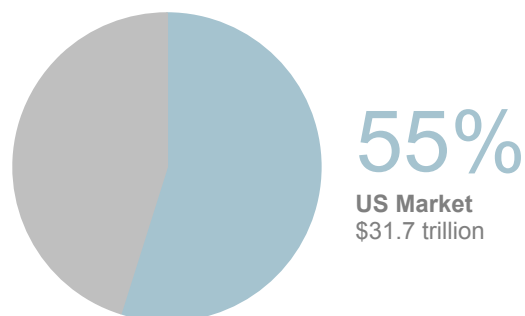
2019 Index Returns

US equities outperformed both non-US developed and emerging markets equities in 2019.

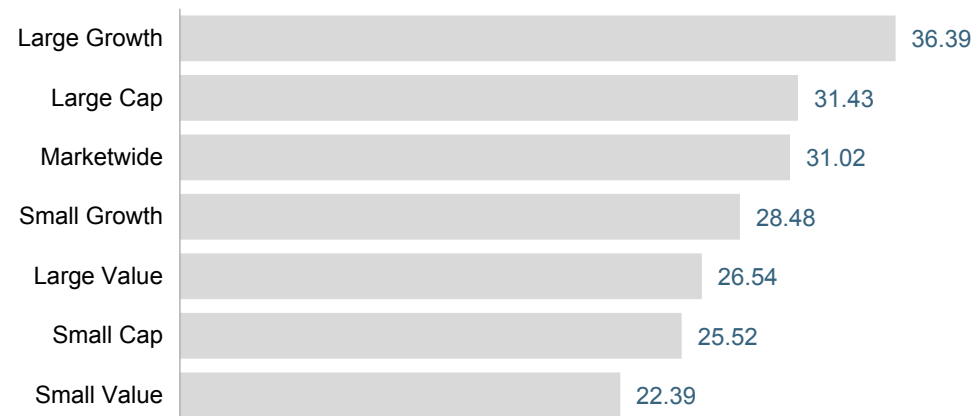
Value underperformed growth in the US across large and small cap stocks.

Small caps underperformed large caps in the US.

World Market Capitalization—US



Ranked Returns for 2019 (%)



Period Returns (%)

* Annualized

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--------------|--------|----------|----------|-----------|
| Large Growth | 36.39 | 20.49 | 14.63 | 15.22 |
| Large Cap | 31.43 | 15.05 | 11.48 | 13.54 |
| Marketwide | 31.02 | 14.57 | 11.24 | 13.42 |
| Small Growth | 28.48 | 12.49 | 9.34 | 13.01 |
| Large Value | 26.54 | 9.68 | 8.29 | 11.80 |
| Small Cap | 25.52 | 8.59 | 8.23 | 11.83 |
| Small Value | 22.39 | 4.77 | 6.99 | 10.56 |

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International Developed Stocks

2019 Index Returns

In US dollar terms, developed markets outside the US outperformed emerging markets but underperformed the US during 2019.

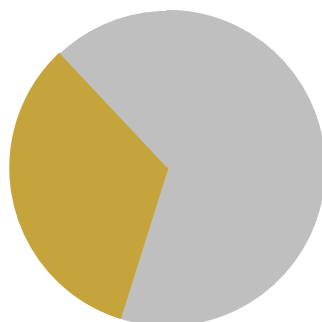
Value underperformed growth across large and small cap stocks in non-US developed markets.

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

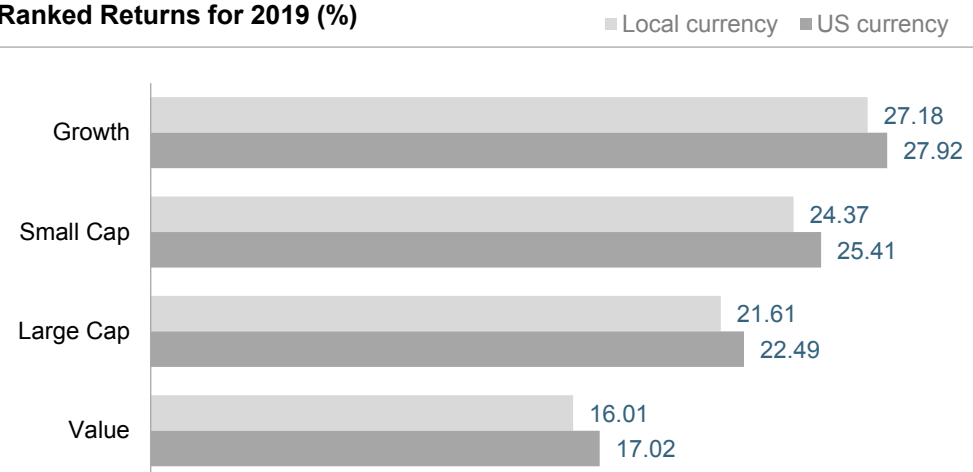
World Market Capitalization—International Developed

33%

**International
Developed Market**
\$19.2 trillion



Ranked Returns for 2019 (%)



Period Returns (%)

* Annualized

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|--------|----------|----------|-----------|
| Growth | 27.92 | 12.34 | 7.18 | 6.51 |
| Small Cap | 25.41 | 10.42 | 8.17 | 8.04 |
| Large Cap | 22.49 | 9.34 | 5.42 | 5.32 |
| Value | 17.02 | 6.36 | 3.59 | 4.05 |

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: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market. MSCI data © MSCI 2020, all rights reserved.

Emerging Markets Stocks

2019 Index Returns

In US dollar terms, emerging markets underperformed developed markets, including the US, in 2019.

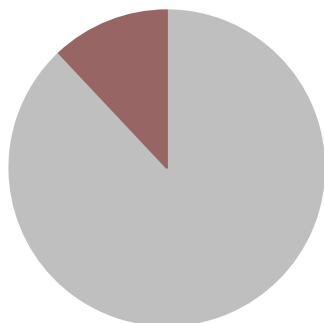
Value underperformed growth across large and small cap stocks in emerging markets.

Small caps underperformed large caps in emerging markets.

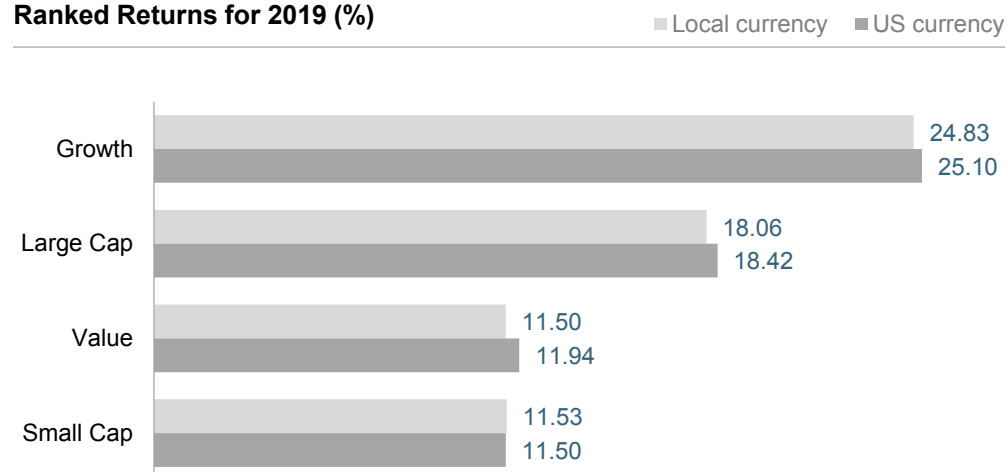
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$6.9 trillion



Ranked Returns for 2019 (%)



Period Returns (%)

* Annualized

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|--------|----------|----------|-----------|
| Growth | 25.10 | 14.50 | 7.45 | 5.20 |
| Large Cap | 18.42 | 11.57 | 5.61 | 3.68 |
| Value | 11.94 | 8.57 | 3.67 | 2.08 |
| Small Cap | 11.50 | 6.70 | 2.97 | 2.95 |

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.

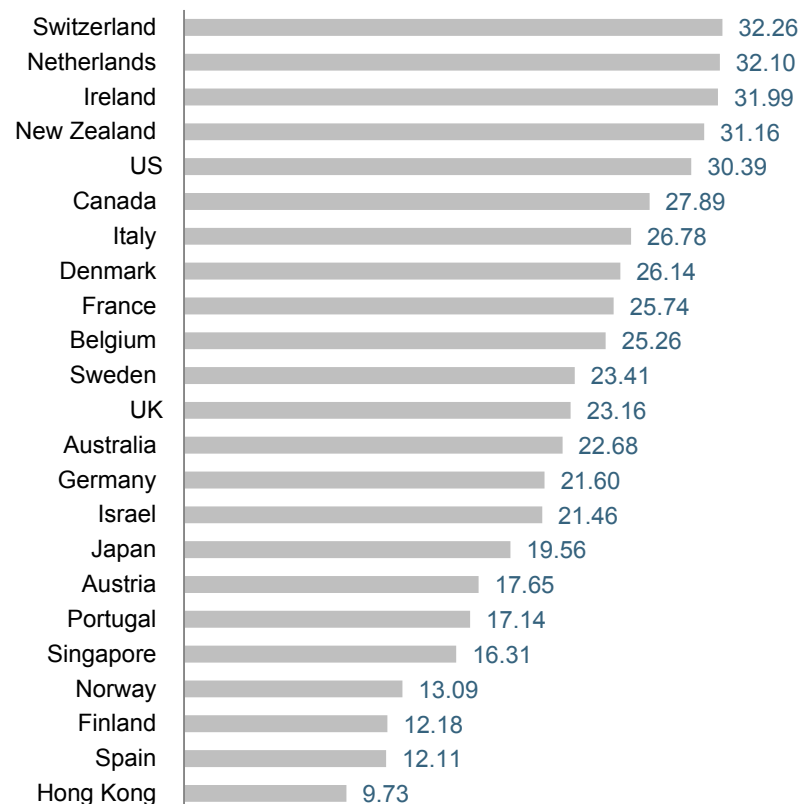
Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2020, all rights reserved.

Select Market Performance

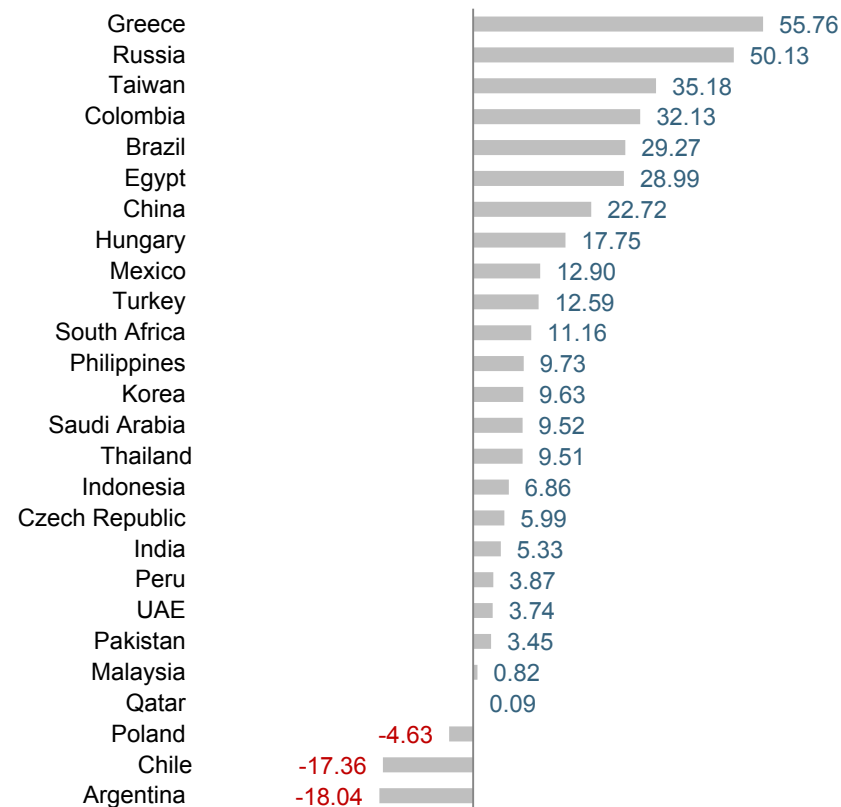
2019 Index Returns

In US dollar terms, Switzerland recorded the highest country performance in non-US developed markets last year, while Hong Kong posted the lowest return. In emerging markets, Greece was the top performer, while Argentina had 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 2020, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

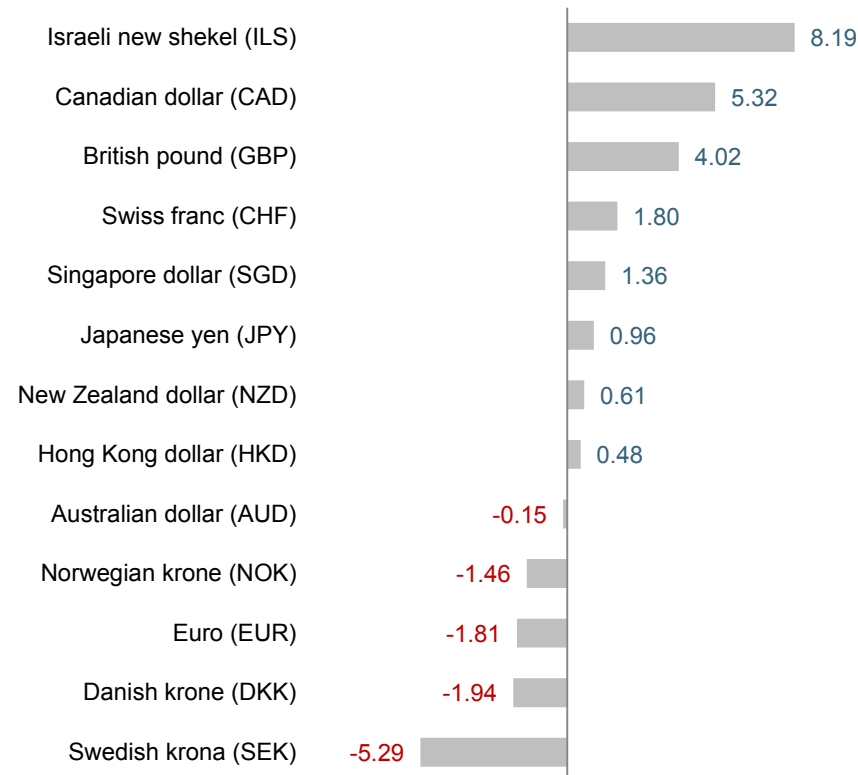
Select Currency Performance vs. US Dollar

2019

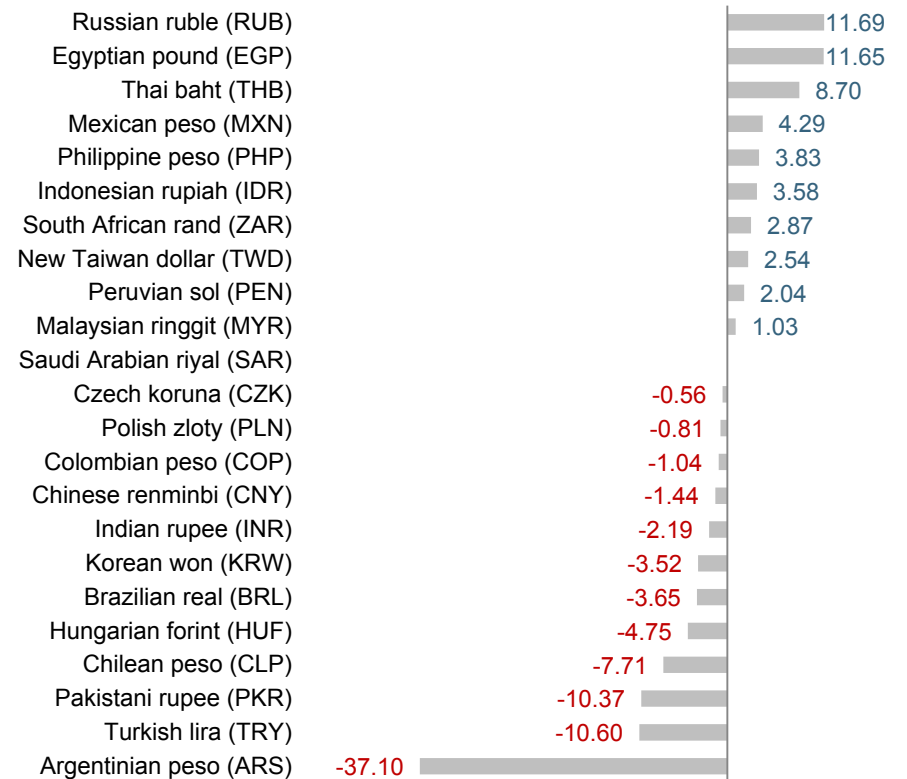


In both developed and emerging markets, currencies were mixed against the US dollar in 2019.

Ranked Developed Markets (%)



Ranked Emerging Markets (%)



Real Estate Investment Trusts (REITs)

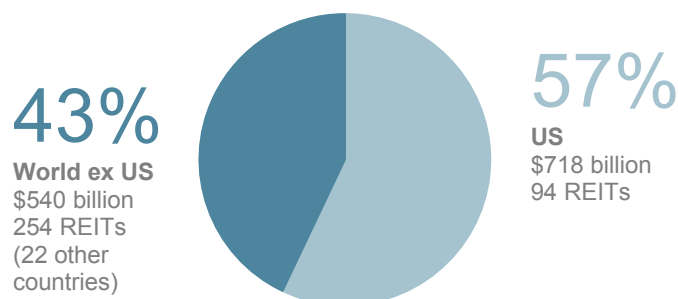
2019 Index Returns

US real estate investment trusts (REITs) underperformed non-US REITs in US dollar terms last year.

Ranked Returns for 2019 (%)



Total Value of REIT Stocks



Period Returns (%)

* Annualized

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--------------------|--------|----------|----------|-----------|
| Global ex US REITs | 23.59 | 9.79 | 5.65 | 7.74 |
| US REITs | 23.10 | 6.95 | 6.40 | 11.57 |

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 © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Commodities

2019 Index Returns

The Bloomberg Commodity Index Total Return increased 7.69% in 2019.

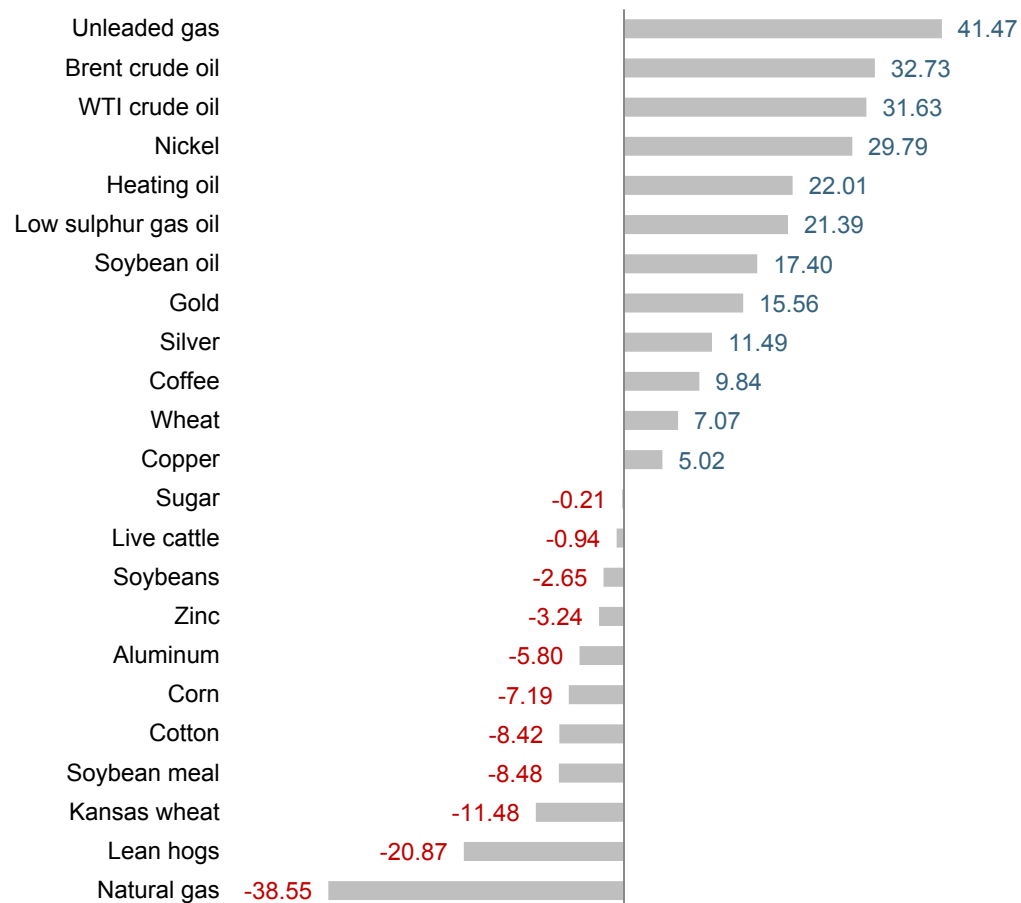
Unleaded gas and Brent crude oil led annual performance, returning 41.47% and 32.73%, respectively.

Natural gas and lean hogs were the worst performers, declining 38.55% and 20.87%, respectively.

| Asset Class | Period Returns (%) | | | |
|-------------|--------------------|----------|----------|-----------|
| | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| Commodities | 7.69 | -0.94 | -3.92 | -4.73 |

** Annualized*

Ranked Returns for Individual Commodities (%)



Fixed Income

2019 Index Returns

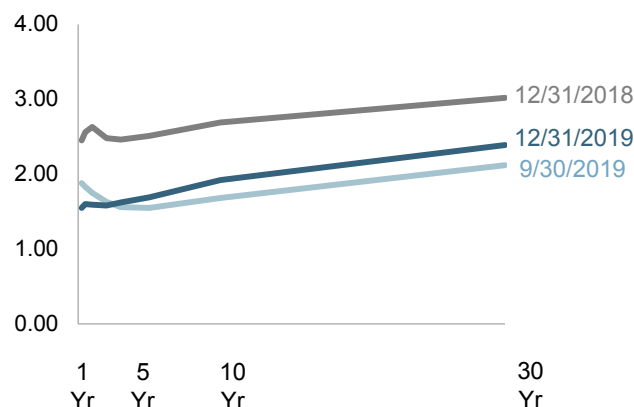
Interest rates decreased in the US Treasury market during 2019. The yield on the 5-year Treasury note declined 82 basis points (bps), ending at 1.69%. The yield on the 10-year T-note decreased 77 bps to 1.92%. The 30-year Treasury bond yield decreased 63 bps to 2.39%.

On the short end of the yield curve, the 1-month T-bill yield fell to 1.48%, while the 1-year T-bill yield decreased 104 bps to 1.59%. The yield on the 2-year Treasury note finished at 1.58% after declining 90 bps.

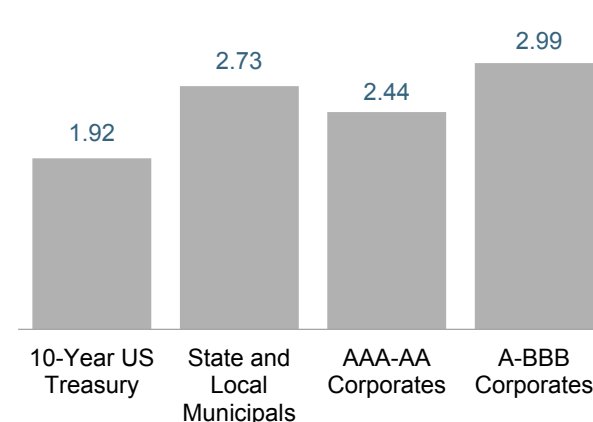
In terms of total returns, short-term corporate bonds gained 6.99%. Intermediate corporate bonds had a total return of 10.14%.

The total return for short-term municipal bonds was 3.66%, while intermediate munis returned 6.86%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

| Asset Class | *Annualized | | | |
|--|-------------|----------|----------|-----------|
| | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| Bloomberg Barclays US Government Bond Index Long | 14.75 | 6.95 | 4.16 | 6.97 |
| Bloomberg Barclays US High Yield Corporate Bond Index | 14.32 | 6.37 | 6.13 | 7.57 |
| Bloomberg Barclays US Aggregate Bond Index | 8.72 | 4.03 | 3.05 | 3.75 |
| Bloomberg Barclays US TIPS Index | 8.43 | 3.32 | 2.62 | 3.36 |
| Bloomberg Barclays Municipal Bond Index | 7.54 | 4.72 | 3.53 | 4.34 |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 3.86 | 2.37 | 1.92 | 1.85 |
| ICE BofA 1-Year US Treasury Note Index | 2.93 | 1.78 | 1.25 | 0.83 |
| FTSE World Government Bond Index 1-5 Years | 2.43 | 2.40 | 0.74 | 0.19 |
| ICE BofA US 3-Month Treasury Bill Index | 2.28 | 1.67 | 1.07 | 0.58 |

One basis point (bps) 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 BofA 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 (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

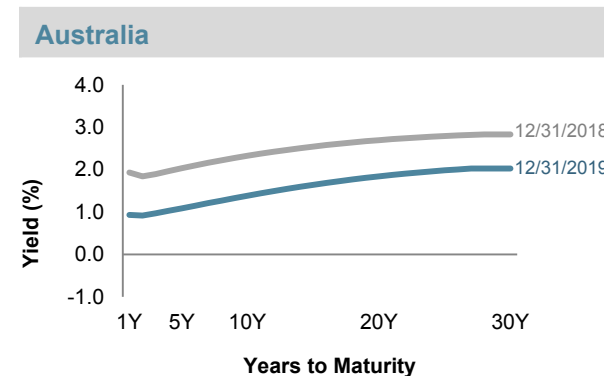
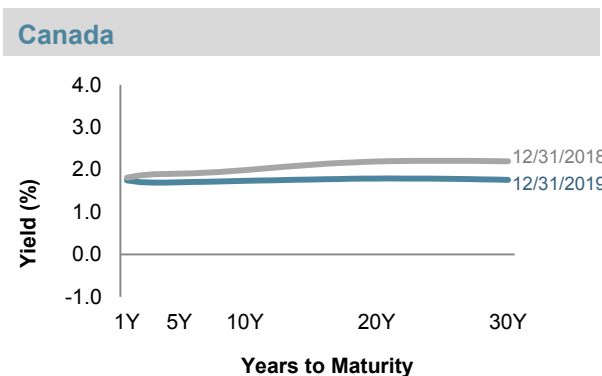
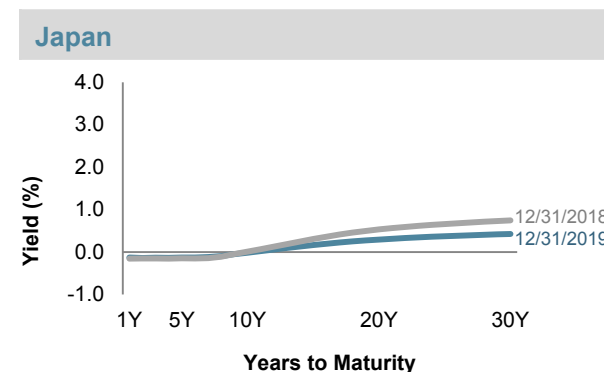
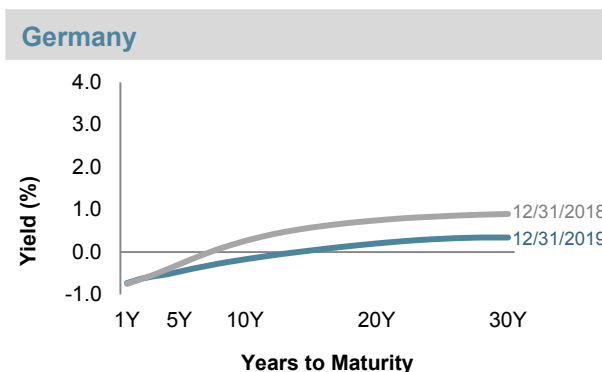
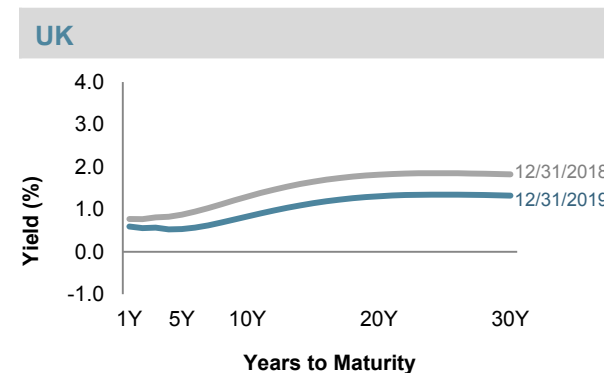
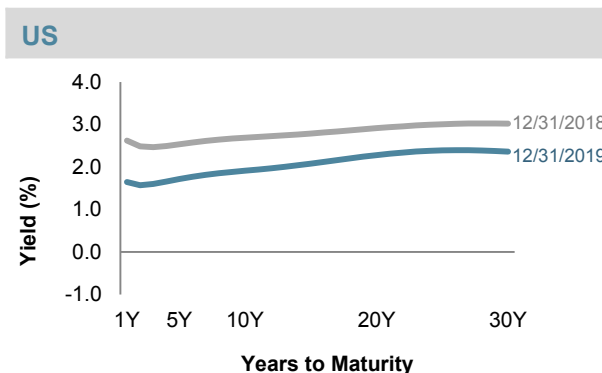
Global Fixed Income

2019 Yield Curves

Interest rates in the global developed markets generally decreased in 2019.

Longer-term bonds generally outperformed shorter-term bonds.

Short- and intermediate-term nominal interest rates are negative in Japan and Germany.



Changes in Yields (bps) since 12/31/2018

| | 1Y | 5Y | 10Y | 20Y | 30Y |
|-----------|--------|-------|-------|-------|-------|
| US | -97.6 | -81.8 | -77.9 | -63.4 | -66.1 |
| UK | -17.6 | -34.0 | -46.9 | -50.8 | -50.3 |
| Germany | 2.1 | -17.3 | -43.3 | -54.5 | -55.4 |
| Japan | 2.6 | 2.0 | -2.3 | -23.9 | -32.4 |
| Canada | -6.9 | -20.6 | -25.4 | -40.1 | -43.7 |
| Australia | -100.2 | -94.6 | -94.3 | -85.4 | -80.3 |

Impact of Diversification

2019 Returns

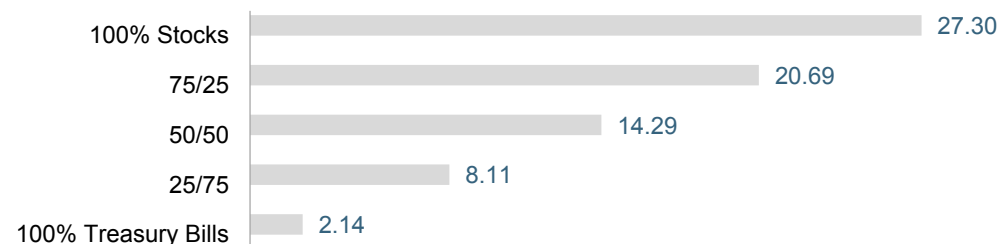
These portfolios illustrate the performance of different global stock/bond mixes. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)

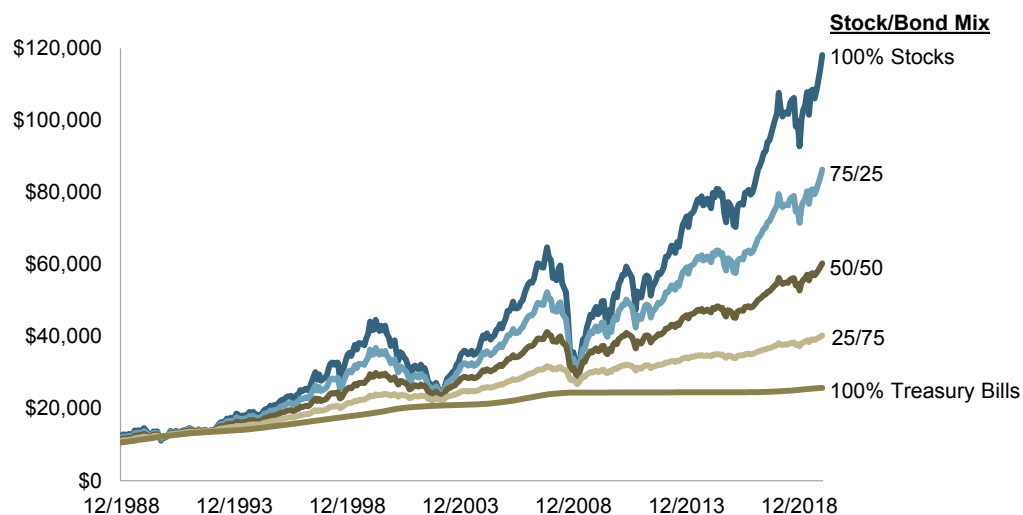
* Annualized

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* | 10-Year STDEV ¹ |
|---------------------|--------|----------|----------|-----------|----------------------------|
| 100% Stocks | 27.30 | 13.05 | 9.00 | 9.37 | 13.18 |
| 75/25 | 20.69 | 10.21 | 7.08 | 7.27 | 9.89 |
| 50/50 | 14.29 | 7.35 | 5.10 | 5.09 | 6.59 |
| 25/75 | 8.11 | 4.47 | 3.07 | 2.83 | 3.30 |
| 100% Treasury Bills | 2.14 | 1.58 | 0.99 | 0.52 | 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 2020, 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).

The January Effect

Updated Through 2019

Does anyone remember January 2016? The first two weeks of that month were the worst in the history of the S&P 500, with the index down almost 8%.

The month ended with the index down nearly 5%, the ninth worst January since 1926. Predictably, this spawned numerous articles about the predictive power of returns in January – one of the many definitions of the so-called “January Effect” that played on the fear of investors.

PREDICTING RETURNS IS DIFFICULT

At the time, we examined the S&P 500 index data from 1926 through 2015 and compared January returns to the subsequent 11-month return (February - December) each year. We found that when January returns were negative, the balance of the year was positive 59% of the time - hardly a reliable indicator.

Then, we looked at the five worst January returns to date and found that the average return for the balance of these years was 13.8% - well above the long-term return of the index.

It's been a few years since we examined the data, so let's see what has happened more recently. In 2016, as we mentioned, the S&P 500 lost 4.96% in January. But, the balance of the year was quite different, with a positive return of 17.81%. In 2017, the index had a positive return of 1.90% in January and the balance of the year was also positive, at 19.56%.

What about 2018, a down year for the index? In January, the index was up 5.73%, but the rest of the year was disappointing - down 9.56%. Finally, let's look at the most recent full year of data from 2019. In January, the index was up 8.01% and the balance of the year was up 21.73%.

So, for the four years since we last examined the data, January returns predicted the balance of the year exactly half the time. This is what you would expect from a random event and a coin flip would have had the same predictive power. This is a classic example of recency bias - the expectation that we can extrapolate future events based on what has just happened. It's how our brains are wired, so it's not surprising that we often jump to this type of conclusion. However, data can provide clarity.

THINKING – FAST AND SLOW

Daniel Kahneman won the Nobel Memorial Prize in Economic Sciences in 2002 for his work that showed how human errors often arise from heuristics and biases. In his best-selling 2011 book “Thinking, Fast and Slow”, Kahneman explains that we each have two modes of thinking. Psychologists refer to these as “System 1” and “System 2”. System 1 operates automatically and quickly, with little effort and no sense of voluntary control. System 2 allocates attention to the mental activities that demand it, including complex analysis.

When making decisions about your portfolio, slow down and let your System 2 take control.

1. In US dollars. Source: S&P.

2. Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Diversification does not eliminate the risk of market loss. There is no guarantee that investment strategies will be successful. Investing involves risks, including possible loss of principal. Investors should talk to their financial advisor before making any investment decision. All expressions of opinion are subject to change. This article is distributed for informational purposes only, not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, product, or service.