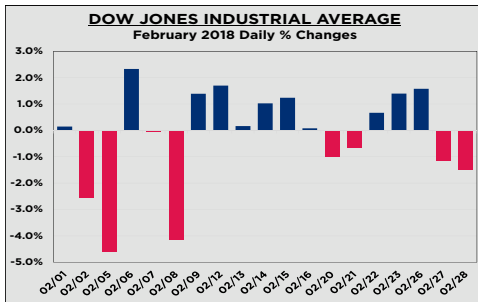


Market Observations March 2018

THE PATH FORWARD

It's over, February that is, and the stock market sell-off was less than initially feared. As seen below for the Dow Jones Industrial Average, there were more days with gains than losses. But a -4.3% monthly loss never is welcome.



Heightened market volatility in the near term can raise concerns for achieving financial goals in the long term. A review of past trends and present projections can provide perspective for the path forward.

Perspective

Performance relationships among primary asset classes can vary widely over different periods. **Table I** shows trends for both shorter term and longer term periods ended last month-end. Taking more risk generally was rewarded over the past twelve months and ten years, but the downside of risk was widespread in February. Even this limited data sample conveys the importance of both understanding and anticipating investment risk.

Projecting market outcomes is a highly fallible but essential element of a planning process. For planning purposes, proprietary return and risk projections for the primary asset classes are generated annually. Prevailing conditions can dictate appropriate adjustments to past realities. Current projections are shown in **Chart I**. While the traditional relationship of higher return with higher risk is maintained, overall return estimates are below historical levels.

Investment Implications

Market projections provide informed expectations for such important decisions as level of spending in retirement. Return and risk converge to reveal safe (not running out of assets), real (net of inflation) spending rates for given portfolio asset allocations over specific time horizons. **Chart II** shows the range of safe (high probability of success) real spending rates for different levels of risk (measured by equity allocation) over a 25-year horizon. While ever higher equity allocations are expected to achieve ever higher returns, the gains in sustainable spending rates diminish as risk levels rise. Return and risk are ever present and often uncertain, but the management of the latter is essential in pursuit of the former.



Table I

TOTAL RETURN TRENDS To 2/28/2018			
ASSET	ONE MONTH	ONE YEAR	TEN YEARS
MONEY MARKET ¹	+0.1%	+1.0%	+0.3%
BONDS ²	-0.9%	+0.5%	+3.6%
U.S. STOCKS ³	-3.8%	+16.2%	+9.8%
FOREIGN STOCKS ⁴	-4.7%	+22.2%	+3.1%
ALTERNATIVES ⁵	-3.1%	+2.0%	+2.3%

¹U.S. Treasury Bills
²Bloomberg U.S. Aggregate
³Wilshire 5000
⁴MSCI All World ex USA
⁵Equal Weighted Absolute Return, Commodities, Convertibles, REITs

Chart I

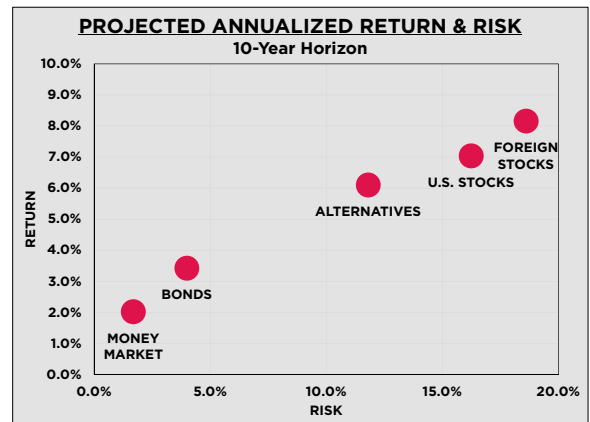


Chart II

