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Retirement Realities & Generating Income in a Low Rate Environment

AAII Houston Chapter
Sep 17, 2016

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Houston, TX, 77056
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Agenda

- Retirement Is Changing
- Goal Based Money Buckets
- Developing Your Retirement Income Plan
- Investment Traps/Pitfalls
- Investment Resources

Retirement Pop-Quiz

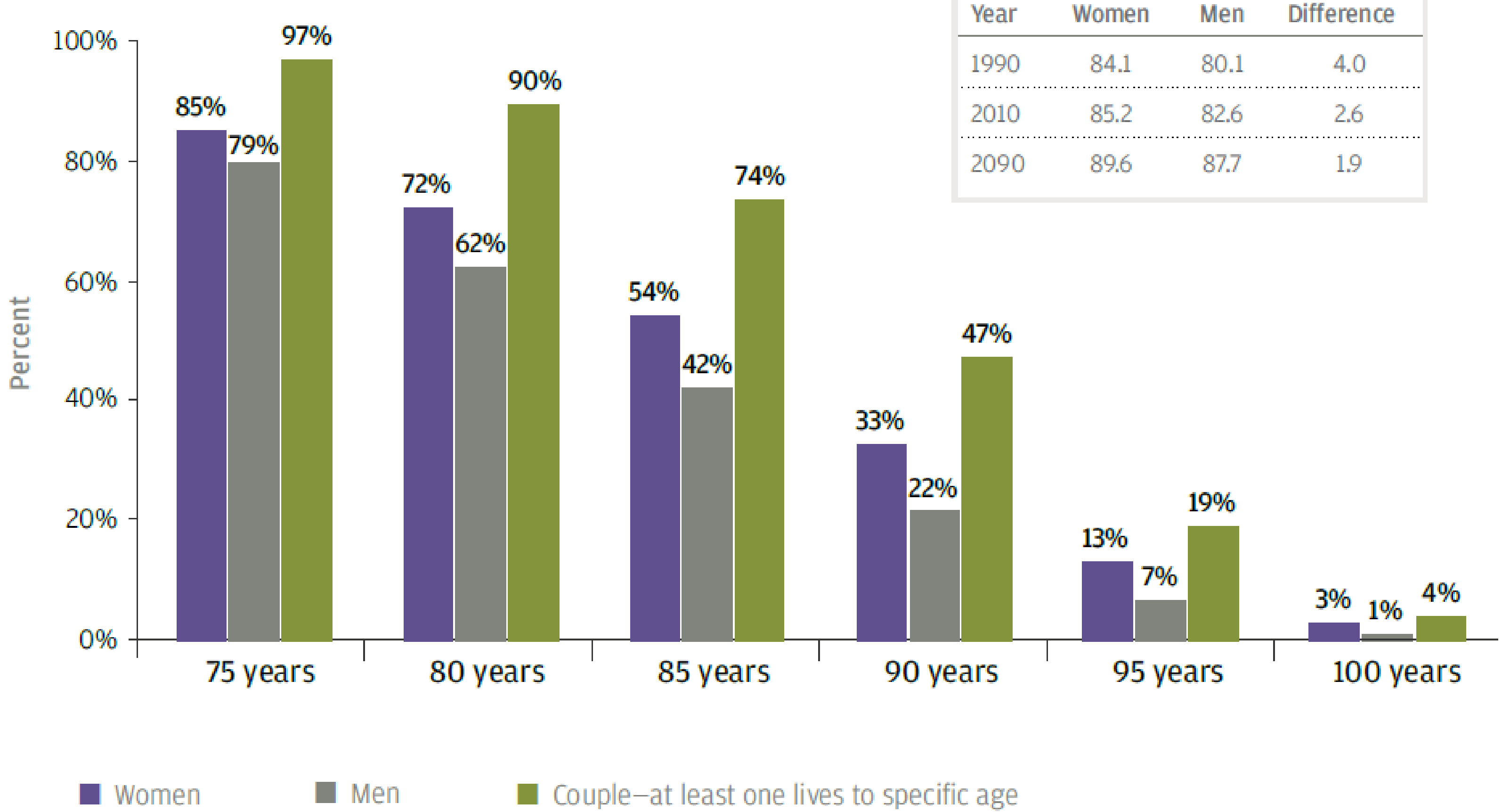
Q1: What is the average life expectancy ?

68 in 1960
79 in 2015

Source: U.S. Census Bureau

Retirement Realities-Longevity Risk

If you are 65, the probability of living to a certain age or beyond



Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.1	80.1	4.0
2010	85.2	82.6	2.6
2090	89.6	87.7	1.9

Source: JPMorgan

Chart: Social Security Administration, Period Life Table, 2011 (published in 2015), J.P. Morgan Asset Management.

Table: Social Security Administration 2015 OASDI Trustees Report.

Retirement Pop-Quiz

Q2: If you invested $10,000 in a Money Market Account for one year, what could you buy with the interest earned?

Retirement Realities: Low Interest Rate

After one year, a $10,000 investment would earn:

MONEY MARKET ACCOUNTS	ONE-YEAR CDs	10-YEAR TREASURIES
$8	**$22**	**$164**
0.08%	0.22%	1.64%

Yields as of June 30, 2016

Source: Franklin Templeton

This chart is for illustrative purposes only and does not reflect the performance of any Franklin, Templeton or Franklin Mutual Series fund.*

Past performance does not guarantee future results.

It's important to note that money market accounts and CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 and CDs offer a fixed rate of return. Treasuries, if held to maturity, offer a fixed rate of return and fixed principal value; their interest payments and principal are guaranteed. Fund investment returns and share prices will fluctuate with market conditions, and investors may have a gain or a loss when they sell their shares.

Sources: FRED; Federal Reserve. Money Market Accounts yield data is from FRED: https://research.stlouisfed.org/fred2/series/MMNRNJ. 1-Year CDs yield data is from FRED: https://research.stlouisfed.org/fred2/series/CD12NRNJ. 10-Year Treasury Yield is from the Federal Reserve's H.15 Report. Amount earned on a 1-Year $10,000 investment assumes the investment is made on the as of date below.

Low Interest Rate Environment

	10-Year (9/01/2016)	Fitch Credit Ratings
US	1.56%	AAA
Italy	1.13%	BBB+
Spain	0.93%	BBB+
France	0.16%	AA
Japan	-0.08%	A
Germany	-0.08%	AAA

Data Source: Bloomberg. Fitch.
Data as of 09/01/2016.

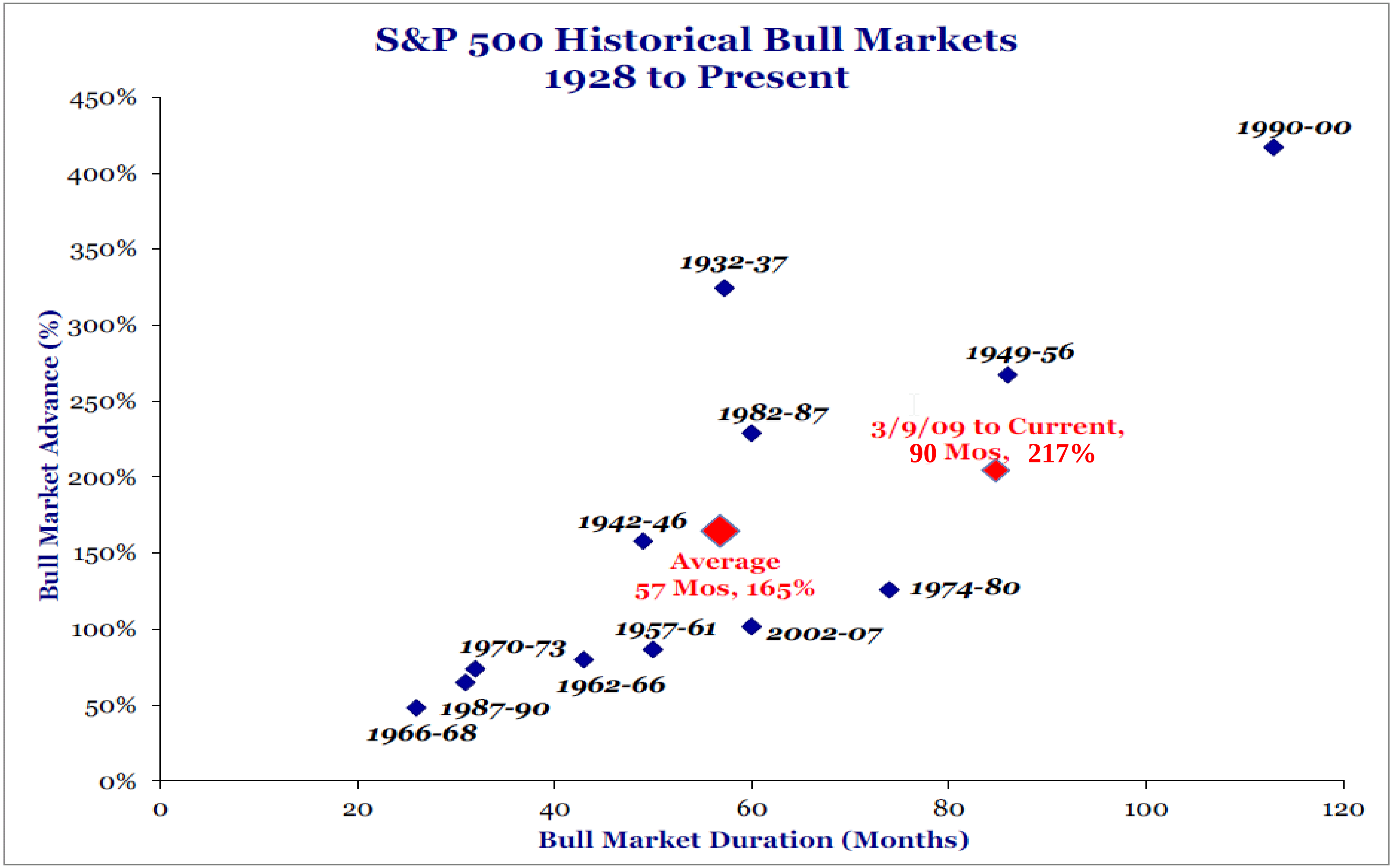
Negative Interest Rate Policy (NIRP)

Central Bank	Announcement Date
Danmarks Nationalbank	7/9/2012
European Central Bank	6/5/2014
Swiss National Bank	12/18/2014
Sveriges Riksbank	2/12/2015
Bank of Japan*	1/29/2016

Data Source: Strategas

The Unintended Consequence of NIRP

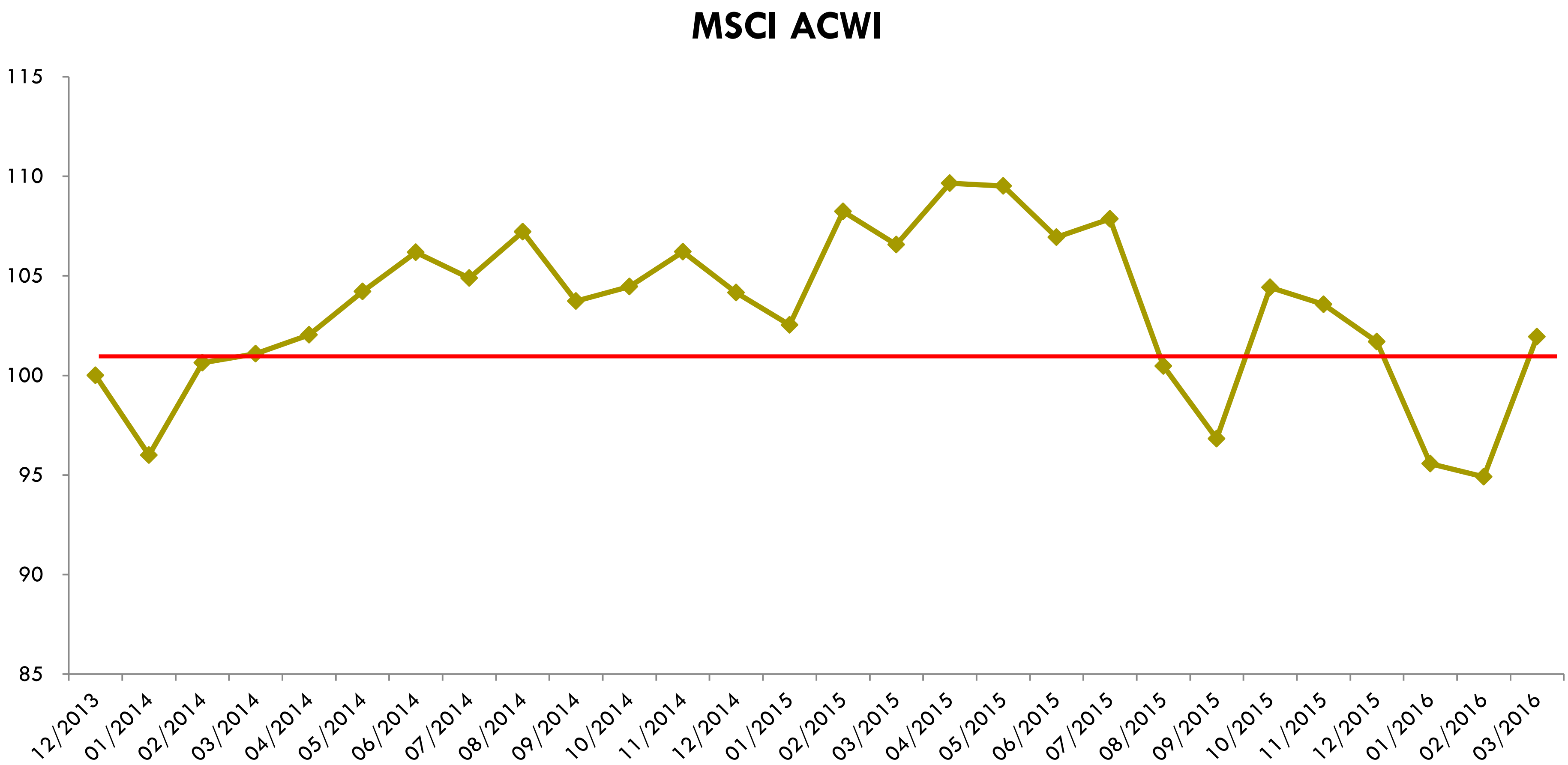
Retirement Realities: Late Stage in a Bull Market



Data Source: Strategas

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Retirement Realities-Range Bound Equity Market



Data Source: Morningstar

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

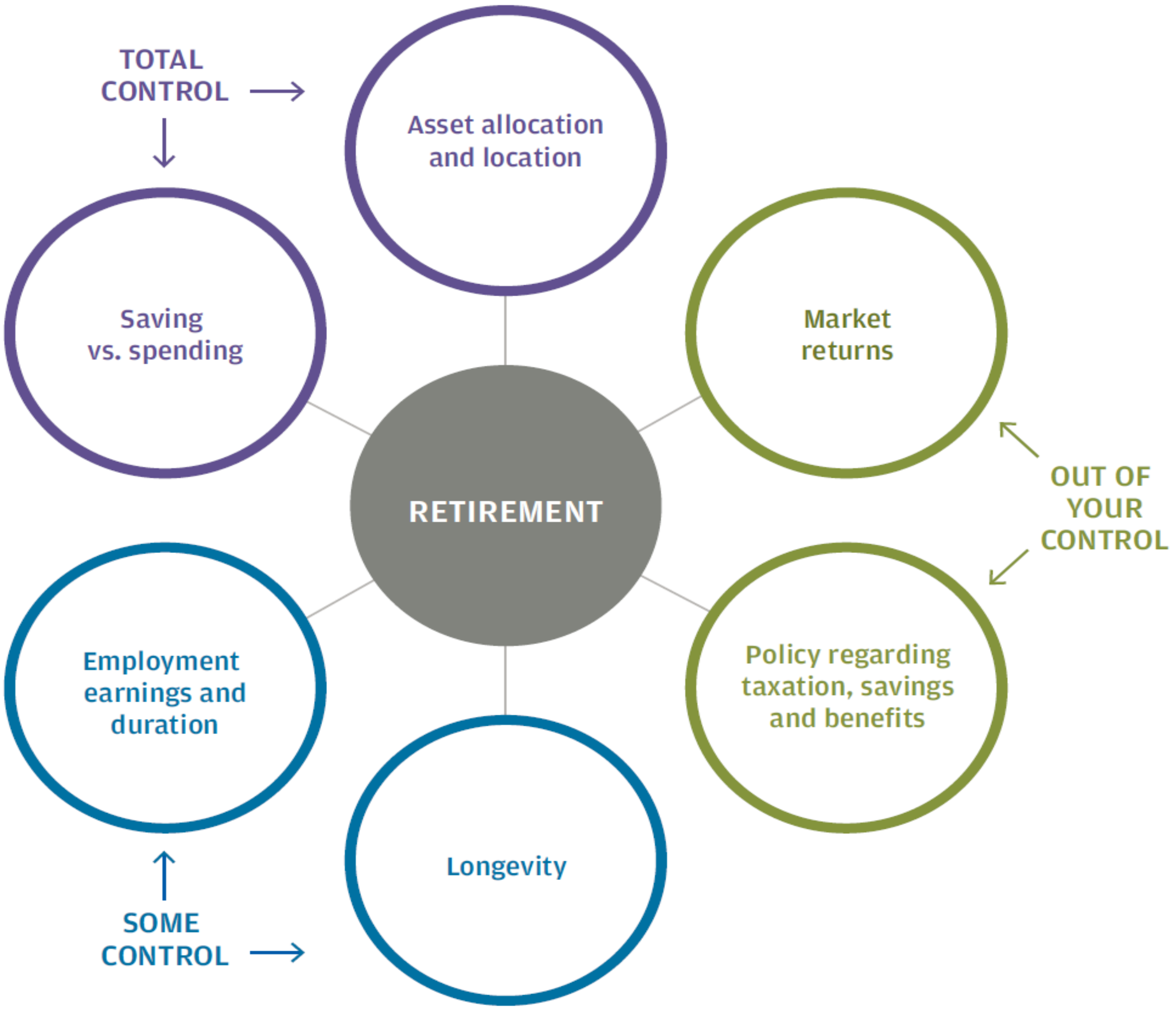
New Realities Require New Solutions

The need for a stable and increasing stream of income

Bonds: Low Interest Rates

Stock markets may be range bound.

The Retirement Equation

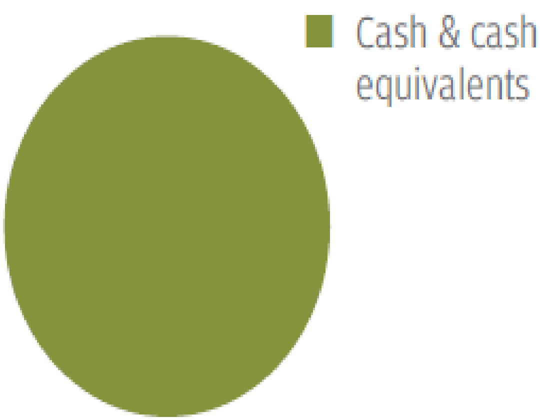


Source: JPMorgan

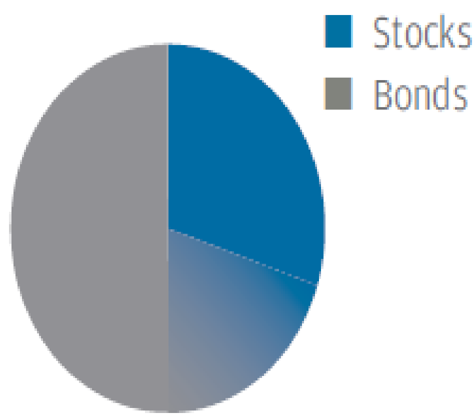
The Bucket Strategy:

Allocate Money Buckets Based on Goals

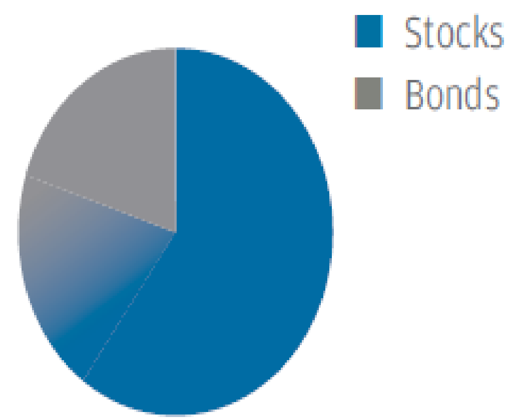
Shorter-Term Needs
Current Living Expense
18-24 Months



Medium-Term Needs
Replacement Income Source
2-7 Years



Long-Term Needs
Capital Appreciation &
Inflation Protection 10 Years+



How to Generate Income

Examples

Investing involves risk, including the potential loss of principal. Sector investing may involved a greater degree of risk than investments with broader diversification. There are no guarantees that dividend-paying stocks will continue to pay dividends. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend-paying stocks. International investing involves additional risks including risks associated to foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic and other developments.

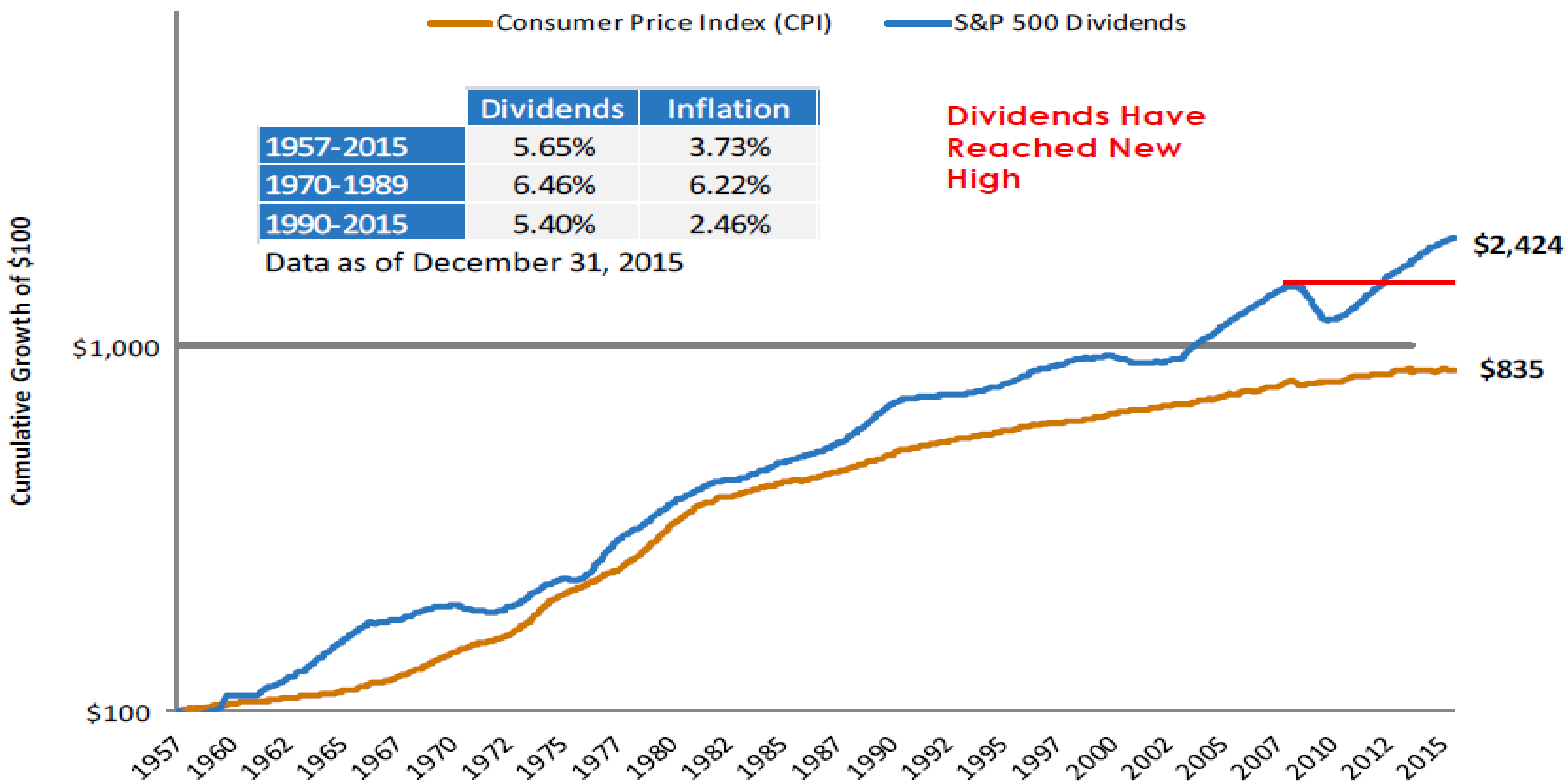
Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Bonds are also subject to other types of risks such as call, credit, liquidity, interest rate, and general market risks. Municipal bond offerings are subject to availability and change in price. Depending upon the municipal bond offered, alternative minimum tax and state/local taxes could apply. Municipal bonds may not be suitable for all investors. Treasuries are debt securities issued by the United States government and secured by its full faith and credit. High Yield Bonds carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal.

An investment in a REIT involves a high degree of risk and is not suitable for all investors. Risk factors include but are not limited to: a lack of liquidity, limited transferability and share repurchase at a share price less than initially paid, variations in rental income, and changes in the value of the properties. There is no assurance that the investment objectives of a REIT will be attained.

MLPs have unique risks, such as liquidity risk, concentration risk, liability risk, interest rate risk and regulatory risk. Further, MLPs have unique tax characteristics that may make tax reporting more complicate, and possibly more costly, than for other investments. As a result, MLPs are not suitable for all investors.

The Case for Dividends

- Historically, U.S. dividends have grown by over 5% per year and almost 2% ahead of inflation.



	Dividends	Inflation
1957-2015	5.65%	3.73%
1970-1989	6.46%	6.22%
1990-2015	5.40%	2.46%

Data as of December 31, 2015

Source: WisdomeTree, Bloomberg. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee an income, a profit or protect against loss. Past performance does not necessarily predict future results.

Dividend Grower vs. Payers

	Dividend Payers	Dividend Growers
Current Yield	Higher	Lower
Dividend Increase YoY	Maybe not	Yes

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee an income, a profit or protect against loss. Past performance does not necessarily predict future results. There are no guarantees that dividend-paying stocks will continue to pay dividends. Companies may reduce or eliminate the payment of dividends at any given time. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend-paying stocks.

S&P Sectors

GICS Sectors	Dividend Yield	Examples
Telecom	4.58	T-Mobile, Sprint
Energy	3.76	Exxon Mobil, Chevron, Schlumberger
Utilities	3.25	Duke Energy, Southern Company
Consumer Staples	2.68	P&G, Walmart, Philip Morris
Industrials	2.43	GE, 3M, Boeing
Financials	2.42	JPMorgan, Goldman Sachs, Berkshire Hathaway
Materials	2.37	Dow Chemical, Praxair, Air Products
Consumer Discretionary	1.79	Walt Disney, Home Depot, Starbucks
Healthcare	1.73	J&J, Pfizer, Merck
Information Technology	1.70	Apple, Microsoft, Google
REITs	?	Simon Property Group, Public Storage

Source: Alliance Bernstein

For informational purposes only. This is not a recommendation, offer or solicitation to buy or sell any specific security.

Dividend yield (projected) for a stock is the percentage of its stock price that a company is projected to pay out as dividends. It is calculated by dividing estimated annual dividends per share (DPS) for the current fiscal year by the company's most recent month-end stock price. Morningstar calculates internal estimates for the current year DPS based on the most recently reported DPS and average historical dividend growth rates. This is one of the five value factors used to calculate the Morningstar Style Box. For portfolios, this data point is calculated by taking an asset-weighted average of the dividend yields of all the stocks in the portfolio.

There are no guarantees that dividend-paying stocks will continue to pay dividends. Companies may reduce or eliminate the payment of dividends at any given time. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend-paying stocks.

Types of Bonds

- U.S. Government
- TIPS (Treasury Inflation-Protected Securities)
- Municipal
- Mortgage-Backed Securities
- Investment-Grade Corporate
- Below-Investment Grade or High Yield (aka Junk)
- International

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Bonds are also subject to other types of risks such as call, credit, liquidity, interest rate, and general market risks. Municipal bond offerings are subject to availability and change in price. Depending upon the municipal bond offered, alternative minimum tax and state/local taxes could apply. Municipal bonds may not be suitable for all investors. Lower rated debt securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Investments in CMOs may involve a high degree of risk and are intended for sale only to qualified investors capable of understanding the risks entailed in purchasing such securities. Treasuries are debt securities issued by the United States government and secured by its full faith and credit. Income from treasury securities is exempt from local and state taxes. International investing involves additional risks including risks associated to foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic and other developments.

The Case for Municipal Bonds

Improving Fundamentals	• In the first half of 2016, for muni issuers: • Fitch:112 upgrades and 62 downgrades; • Standard & Poor's- 272 upgrades and 130 downgrades
Supporting Technical	• Demand: 45 consecutive weeks of inflows through the second week of August • Supply: decreased mainly due to reduced dealer inventory, relatively low primary market supply, and a drop in the average number of bonds
Attractive Tax-Free Inco me	• Exempt from federal taxes; • May also be exempt from state and local taxes

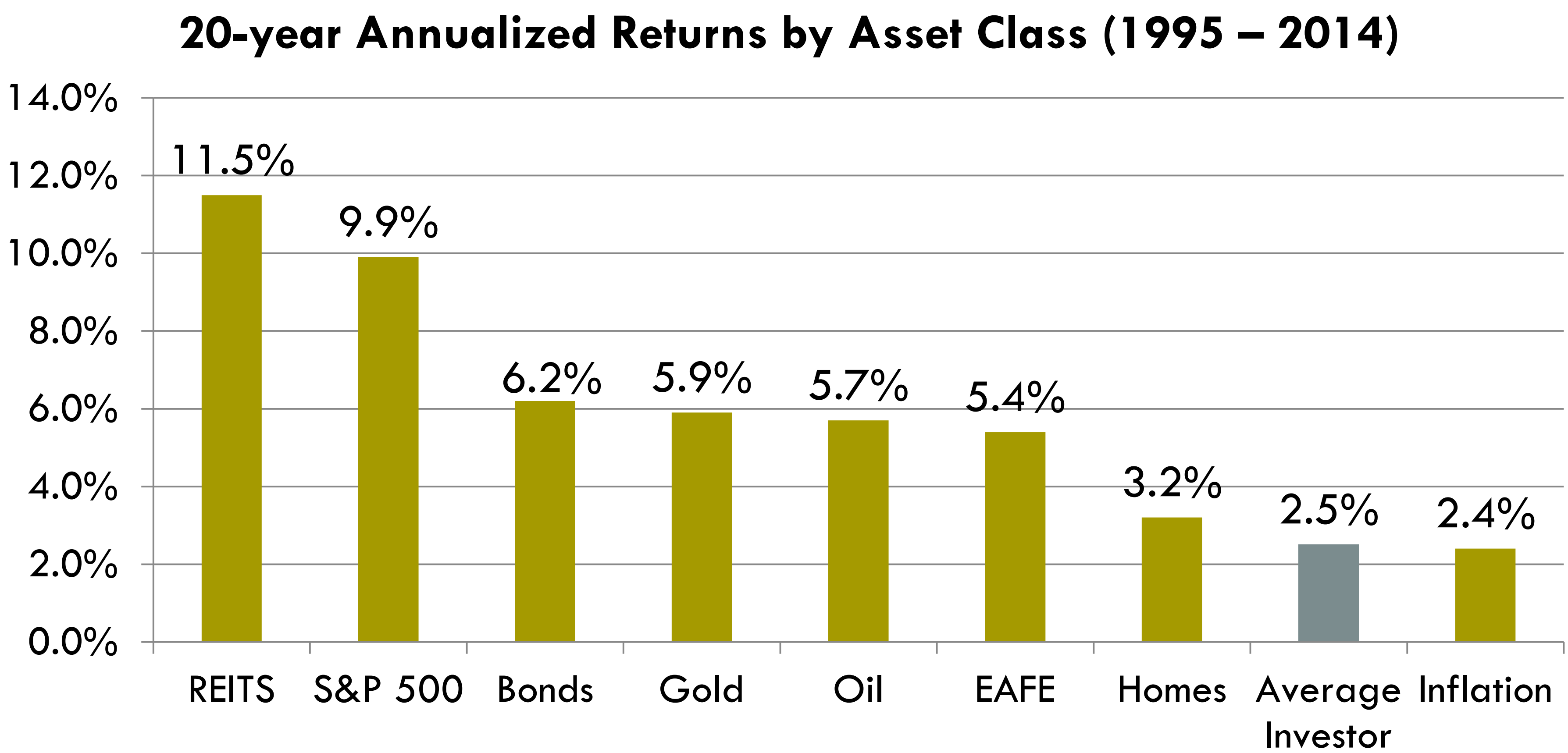
Source: Lord Abbett

In general, the bond market is volatile as prices rise when interest rates fall and vice versa. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. An issuer may default on payment of the principal or interest of a bond. Bonds are also subject to other types of risks such as call, credit, liquidity, interest rate, and general market risks. Treasuries are debt securities issued by the United States government and secured by its full faith and credit. Income from treasury securities is exempt from local and state taxes. Municipal bond offerings are subject to availability and change in price. Depending upon the municipal bond offered, alternative minimum tax and state/local taxes could apply. Municipal bonds may not be suitable for all investors. Please see your tax professional prior to investing.

Principal Risks Associated

Asset Class	Market Risk	Credit Risk	Interest Rate Risk	Liquidity Risk	Commodity Risk
Dividend Stocks	✓		✓		
REITs			✓	✓	
MLP			✓		✓
Utilities	✓		✓		
High Yield Bonds	✓	✓		✓	
Municipal Bonds			✓		
Investment Grade Bonds			✓		

Investment vs. Investor Performance



Source: Morningstar Direct, Dalbar Inc., J.P. Morgan Asset Management. (Bottom) Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/14 to match Dalbar's most recent analysis.
Data are as of March 31, 2015.

Avoid Investment Traps/Pitfalls

- Law of Recency
- Herding
- Market Timing
- Chasing Yield

Behavioral Traps-Law of Recency

The assumption that “Past performance is an indicator of future results.”

Asset Classes Move In and Out of Favor

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (1996–2015)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
S&P 500 Growth 23.97%	S&P 500 Growth 36.52%	S&P 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	Barclays Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.54%
S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	Barclays Agg 11.63%	Barclays Agg 8.43%	Barclays Corp High Yield -1.41%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%
S&P 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P 500 Growth 28.24%	S&P 500 Value 6.08%	Barclays Corp High Yield 5.28%	MSCI Emerging Markets -6.00%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P 500 Value 5.82%
Russell 2000 Value 21.37%	S&P 500 Value 29.98%	S&P 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 -3.02%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 4.91%
Russell 2000 16.49%	Russell 2000 22.36%	Barclays Agg 8.70%	Russell 2000 21.26%	Barclays Corp High Yield -5.86%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	MSCI EAFE 38.59%	S&P 500 Value 15.71%	Russell 2000 Value 4.71%
Barclays Corp High Yield 11.35%	Russell 2000 Growth 12.95%	Barclays Corp High Yield 1.87%	S&P 500 21.04%	S&P 500 -9.11%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	S&P 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%
Russell 2000 Growth 11.26%	Barclays Corp High Yield 12.76%	Russell 2000 Growth 1.23%	S&P 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 Value -11.71%	S&P 500 Value -20.85%	Barclays Corp High Yield 28.97%	Barclays Corp High Yield 11.13%	Russell 2000 Growth 4.15%
MSCI EAFE 6.05%	Barclays Agg 9.64%	Russell 2000 -2.55%	Barclays Corp High Yield 2.39%	S&P 500 Growth -22.08%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%	S&P 500 Growth 4.00%
MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Barclays Agg -0.82%	Russell 2000 Growth -22.43%	S&P 500 Growth -12.73%	S&P 500 Growth -23.59%	S&P 500 Growth 25.66%	S&P 500 Growth 6.13%	Barclays Corp High Yield 2.74%
Barclays Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	Barclays Agg 4.10%	Barclays Agg 4.34%	Barclays Agg 2.43%

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	Barclays Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	Barclays Agg 7.84%	MSCI Emerging Markets 18.63%	Russell 2000 Growth 43.30%	S&P 500 Growth 14.89%	S&P 500 Growth 5.52%
MSCI EAFE 26.34%	MSCI EAFE 11.17%	Barclays Corp High Yield -26.16%	Barclays Corp High Yield 58.21%	Russell 2000 26.85%	Barclays Corp High Yield 4.98%	Russell 2000 Value 18.05%	Russell 2000 38.82%	S&P 500 13.69%	S&P 500 1.38%
Russell 2000 Value 23.48%	S&P 500 Growth 9.13%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 Value 24.50%	S&P 500 Growth 4.65%	S&P 500 Value 17.68%	Russell 2000 Value 34.52%	S&P 500 Value 12.36%	Barclays Agg 0.55%
S&P 500 Value 20.81%	Russell 2000 Growth 7.05%	Russell 2000 -33.79%	MSCI EAFE 31.78%	MSCI Emerging Markets 19.20%	S&P 500 2.11%	MSCI EAFE 17.32%	S&P 500 Growth 32.75%	Barclays Agg 5.97%	MSCI EAFE -0.81%
Russell 2000 18.37%	Barclays Agg 6.97%	S&P 500 Growth -34.92%	S&P 500 Growth 31.57%	Barclays Corp High Yield 15.12%	S&P 500 Value -0.48%	Russell 2000 16.35%	S&P 500 32.39%	Russell 2000 Growth 5.60%	Russell 2000 Growth -1.38%
S&P 500 15.79%	S&P 500 5.49%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 Value 15.10%	Russell 2000 Growth -2.91%	S&P 500 16.00%	S&P 500 Value 31.99%	Russell 2000 4.89%	S&P 500 Value -3.13%
Russell 2000 Growth 13.35%	S&P 500 Value 1.99%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%	Russell 2000 -4.18%	Barclays Corp High Yield 15.81%	MSCI EAFE 22.78%	Russell 2000 Value 4.22%	Russell 2000 -4.41%
Barclays Corp High Yield 11.85%	Barclays Corp High Yield 1.87%	S&P 500 Value -39.22%	S&P 500 Value 21.17%	S&P 500 Growth 15.05%	Russell 2000 Value -5.50%	S&P 500 Growth 14.61%	Barclays Corp High Yield 7.44%	Barclays Corp High Yield 2.45%	Barclays Corp High Yield -4.47%
S&P 500 Growth 11.01%	Russell 2000 -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%	Russell 2000 Growth 14.59%	Barclays Agg -2.02%	MSCI Emerging Markets -1.82%	Russell 2000 Value -7.47%
Barclays Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	Barclays Agg 5.93%	Barclays Agg 6.54%	MSCI Emerging Markets -18.17%	Barclays Agg 4.21%	MSCI Emerging Markets -2.27%	MSCI EAFE -4.90%	MSCI Emerging Markets -14.60%

The Callan Periodic Table of Investment Returns conveys the strong ***case for diversification*** across asset classes (stocks vs. bonds), investment styles (growth vs. value), capitalizations (large vs. small), and equity markets (U.S. vs. non-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.

A printable copy of The Callan Periodic Table of Investment Returns is available on our website at ***www.callan.com****.*

The Callan Periodic Table of Investment Returns 1996–2015

Callan's Periodic Table of Investment Returns depicts annual returns for 10 asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time. We describe the well-known, industry-standard market indices that we use as proxies for each asset class in the text below.

- **Barclays Aggregate Bond Index** includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.
- **Barclays High Yield Bond Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.
- **MSCI Emerging Markets** is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 23 emerging countries around the world.
- **Russell 2000** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.
- **Russell 2000 Value and** **Russell 2000 Growth** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **S&P 500** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- **S&P 500 Growth and** **S&P 500 Value** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are uniquely backed by proprietary research, exclusive data, ongoing education and decision support. Today, Callan advises on more than $2 trillion in total assets, which makes us among the largest independently owned investment consulting firms in the U.S. We use a client-focused consulting model to serve public and private pension plan sponsors, endowments, foundations, operating funds, smaller investment consulting firms, investment managers, and financial intermediaries. For more information, please visit www.callan.com.

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Chart Source: www.Callan.com/research/periodic

There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. Past performance is not a guarantee of future results. Indexes are unmanaged and cannot be invested in directly.

Behavior Traps-Herding

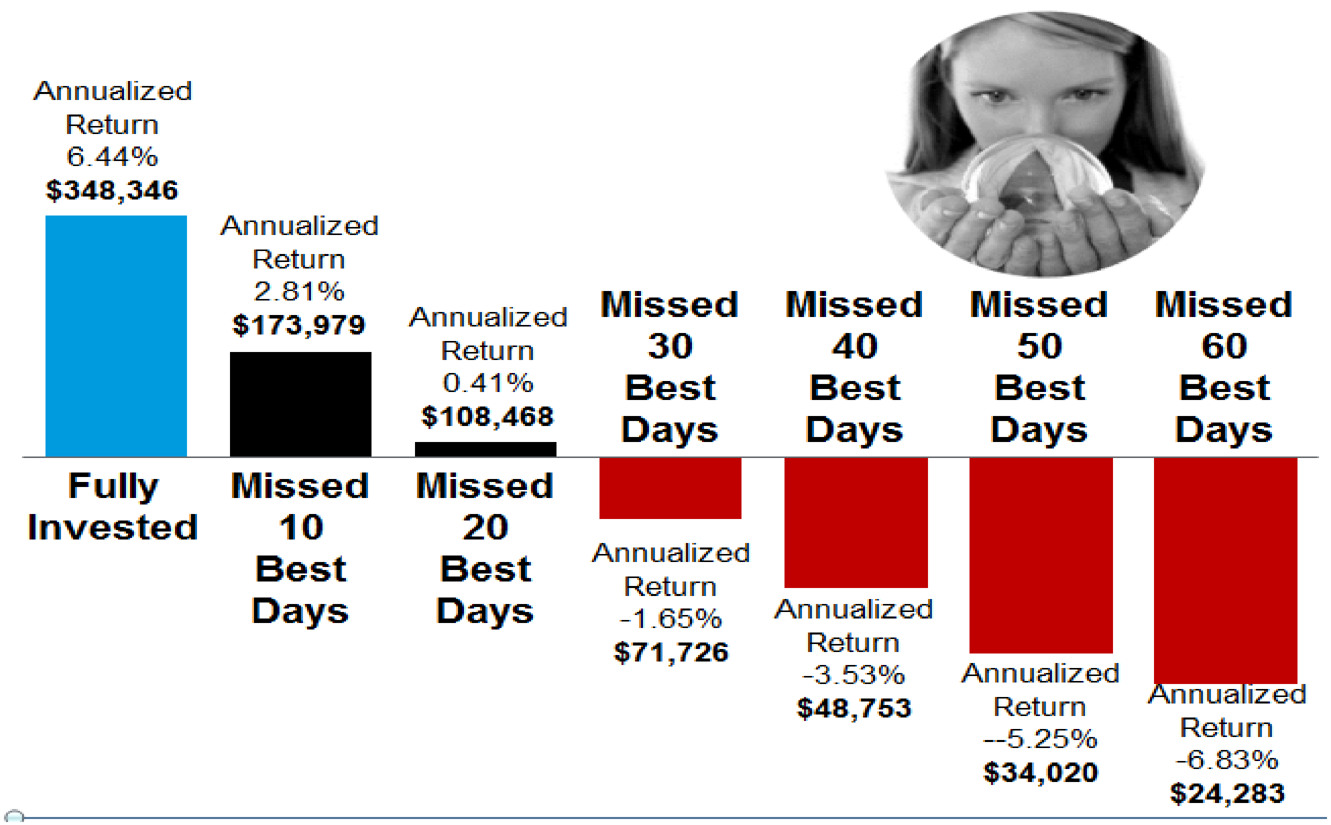
When a significant markdown in prices at a department store

When a significant markdown in the stock market

Behavioral Traps-Timing The Market

No One Has a Crystal Ball, Yet Often People Act as Though They Do

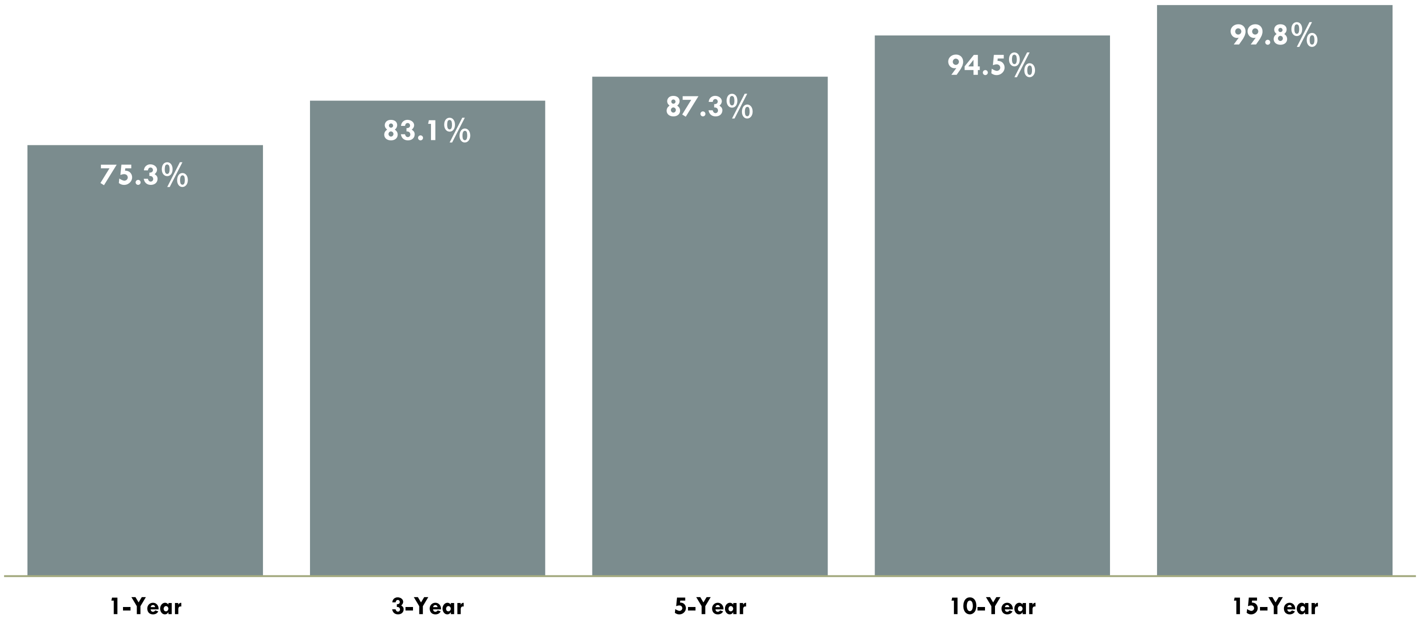
- Missing Even the 10 Best Days in the Market Reduced Returns by Almost 50% in the Last 20 Years
  S&P 500 Index: performance of $100,000 investment (1996–2015)



Source: Oppenheimer Funds. For illustrative purposes only and is not intended as investment advice. The charts are hypothetical examples which are shown for illustrative purposes only and do not predict or depict the performance of any investment. Index definitions can be found on page 75. **Past performance does not guarantee future results.**

Stocks-Long Term Perspective

Percentage of Years U.S. Stocks Posted Positive Returns Over Rolling Periods (1926–2015)



Rolling Monthly Returns

Source: Oppenheimer Funds. Morningstar Direct, 12/31/15. Chart is for illustrative purposes only and is not intended as investment advice. U.S. stocks are represented by the S&P 500 Index. **Past performance does not guarantee future results.**

Traps: The Temptation to Chase High Yields

"IT'S HIS ONLY FORM OF EXERCISE THESE DAYS-- CHASING YIELD."

- May sacrifice quality for yields
- Higher yields may not be sustainable.
- Concentration risks

Build a Diversified Portfolio

Why Diversify: Asset Classes Move In and Out of Favor

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S&P 500 Growth 23.97%	S&P 500 Growth 36.52%	S&P 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	Barclays Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.54%
S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	Barclays Agg 11.63%	Barclays Agg 8.43%	Barclays Corp High Yield -1.41%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%
S&P 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P 500 Growth 28.24%	S&P 500 Value 6.08%	Barclays Corp High Yield 5.28%	MSCI Emerging Markets -6.00%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P 500 Value 5.82%
Russell 2000 Value 21.37%	S&P 500 Value 29.98%	S&P 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 -3.02%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 4.91%
Russell 2000 16.49%	Russell 2000 22.36%	Barclays Agg 8.70%	Russell 2000 21.26%	Barclays Corp High Yield -5.86%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	MSCI EAFE 38.59%	S&P 500 Value 15.71%	Russell 2000 Value 4.71%
Barclays Corp High Yield 11.35%	Russell 2000 Growth 12.95%	Barclays Corp High Yield 1.87%	S&P 500 21.04%	S&P 500 -9.11%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	S&P 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%
Russell 2000 Growth 11.26%	Barclays Corp High Yield 12.76%	Russell 2000 Growth 1.23%	S&P 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 Value -11.71%	S&P 500 Value -20.85%	Barclays Corp High Yield 28.97%	Barclays Corp High Yield 11.13%	Russell 2000 Growth 4.15%
MSCI EAFE 6.05%	Barclays Agg 9.64%	Russell 2000 -2.55%	Barclays Corp High Yield 2.39%	S&P 500 Growth -22.08%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%	S&P 500 Growth 4.00%
MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Barclays Agg -0.82%	Russell 2000 Growth -22.43%	S&P 500 Growth -12.73%	S&P 500 Growth -23.59%	S&P 500 Growth 25.66%	S&P 500 Growth 6.13%	Barclays Corp High Yield 2.74%
Barclays Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	Barclays Agg 4.10%	Barclays Agg 4.34%	Barclays Agg 2.43%

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	Barclays Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	Barclays Agg 7.84%	MSCI Emerging Markets 18.63%	Russell 2000 Growth 43.30%	S&P 500 Growth 14.89%	S&P 500 Growth 5.52%
MSCI EAFE 26.34%	MSCI EAFE 11.17%	Barclays Corp High Yield -26.16%	Barclays Corp High Yield 58.21%	Russell 2000 26.85%	Barclays Corp High Yield 4.98%	Russell 2000 Value 18.05%	Russell 2000 38.82%	S&P 500 13.69%	S&P 500 1.38%
Russell 2000 Value 23.48%	S&P 500 Growth 9.13%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 Value 24.50%	S&P 500 Growth 4.65%	S&P 500 Value 17.68%	Russell 2000 Value 34.52%	S&P 500 Value 12.36%	Barclays Agg 0.55%
S&P 500 Value 20.81%	Russell 2000 Growth 7.05%	Russell 2000 -33.79%	MSCI EAFE 31.78%	MSCI Emerging Markets 19.20%	S&P 500 2.11%	MSCI EAFE 17.32%	S&P 500 Growth 32.75%	Barclays Agg 5.97%	MSCI EAFE -0.81%
Russell 2000 18.37%	Barclays Agg 6.97%	S&P 500 Growth -34.92%	S&P 500 Growth 31.57%	Barclays Corp High Yield 15.12%	S&P 500 Value -0.48%	Russell 2000 16.35%	S&P 500 32.39%	Russell 2000 Growth 5.60%	Russell 2000 Growth -1.38%
S&P 500 15.79%	S&P 500 5.49%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 Value 15.10%	Russell 2000 Growth -2.91%	S&P 500 16.00%	S&P 500 Value 31.99%	Russell 2000 4.89%	S&P 500 Value -3.13%
Russell 2000 Growth 13.35%	S&P 500 Value 1.99%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%	Russell 2000 -4.18%	Barclays Corp High Yield 15.81%	MSCI EAFE 22.78%	Russell 2000 Value 4.22%	Russell 2000 -4.41%
Barclays Corp High Yield 11.85%	Barclays Corp High Yield 1.87%	S&P 500 Value -39.22%	S&P 500 Value 21.17%	S&P 500 Growth 15.05%	Russell 2000 Value -5.50%	S&P 500 Growth 14.61%	Barclays Corp High Yield 7.44%	Barclays Corp High Yield 2.45%	Barclays Corp High Yield -4.47%
S&P 500 Growth 11.01%	Russell 2000 -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%	Russell 2000 Growth 14.59%	Barclays Agg -2.02%	MSCI Emerging Markets -1.82%	Russell 2000 Value -7.47%
Barclays Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	Barclays Agg 5.93%	Barclays Agg 6.54%	MSCI Emerging Markets -18.17%	Barclays Agg 4.21%	MSCI Emerging Markets -2.27%	MSCI EAFE -4.90%	MSCI Emerging Markets -14.60%

The Callan Periodic Table of Investment Returns conveys the strong ***case for diversification*** across asset classes (stocks vs. bonds), investment styles (growth vs. value), capitalizations (large vs. small), and equity markets (U.S. vs. non-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.

A printable copy of The Callan Periodic Table of Investment Returns is available on our website at ***www.callan.com****.*

The Callan Periodic Table of Investment Returns 1996–2015

Callan's Periodic Table of Investment Returns depicts annual returns for 10 asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time. We describe the well-known, industry-standard market indices that we use as proxies for each asset class in the text below.

- **Barclays Aggregate Bond Index** includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.
- **Barclays High Yield Bond Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.
- **MSCI Emerging Markets** is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 23 emerging countries around the world.
- **Russell 2000** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.
- **Russell 2000 Value and Russell 2000 Growth** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **S&P 500** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks. The weightings make each company's influence on the Index performance directly proportional to that company's market value.
- **S&P 500 Growth and S&P 500 Value** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are uniquely backed by proprietary research, exclusive data, ongoing education and decision support. Today, Callan advises on more than $2 trillion in total assets, which makes us among the largest independently owned investment consulting firms in the U.S. We use a client-focused consulting model to serve public and private pension plan sponsors, endowments, foundations, operating funds, smaller investment consulting firms, investment managers, and financial intermediaries. For more information, please visit www.callan.com.

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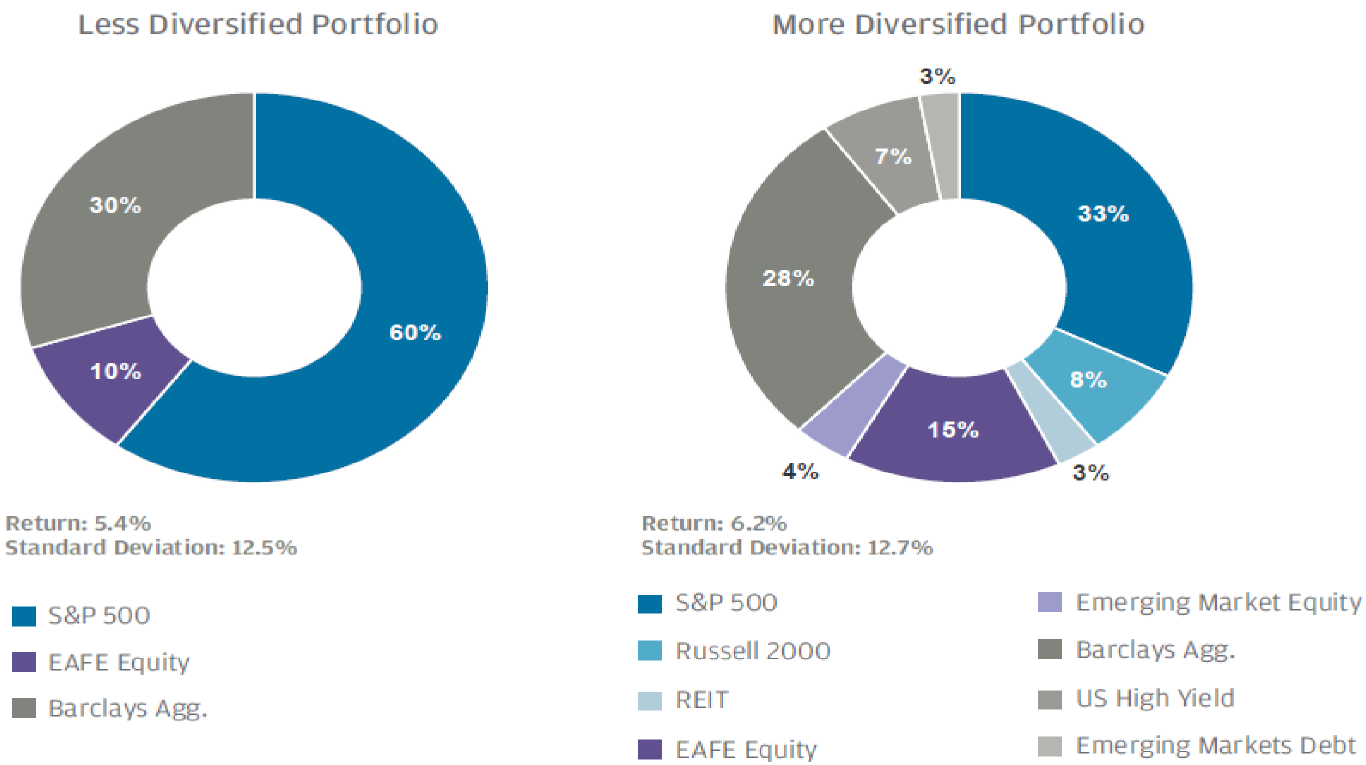
Chart Source: www.Callan.com/research/periodic

There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. Past performance is not a guarantee of future results. Indexes are unmanaged and cannot be invested in directly.

Build a Diversified Portfolio

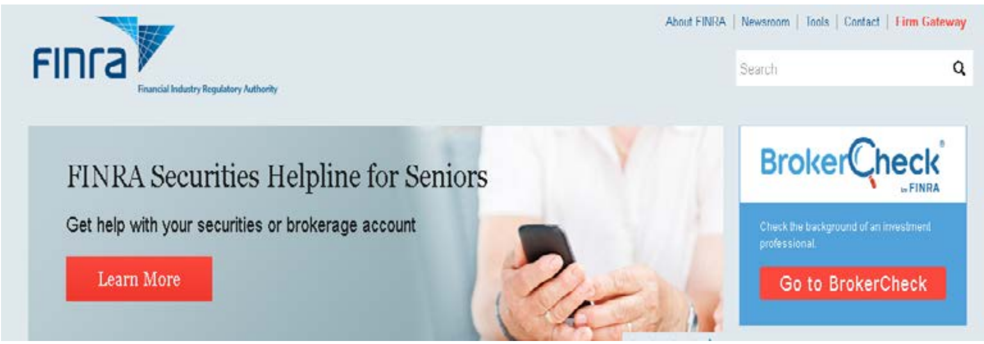
Why Diversify? **May provide better returns with similar risk.**

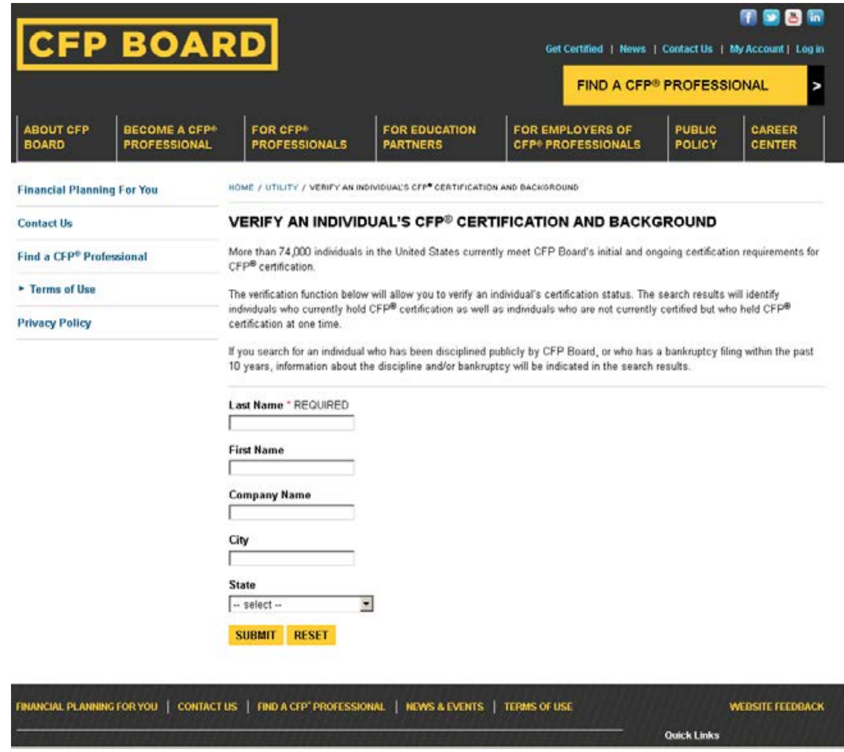
Maximizing the power of diversification 2001-2015

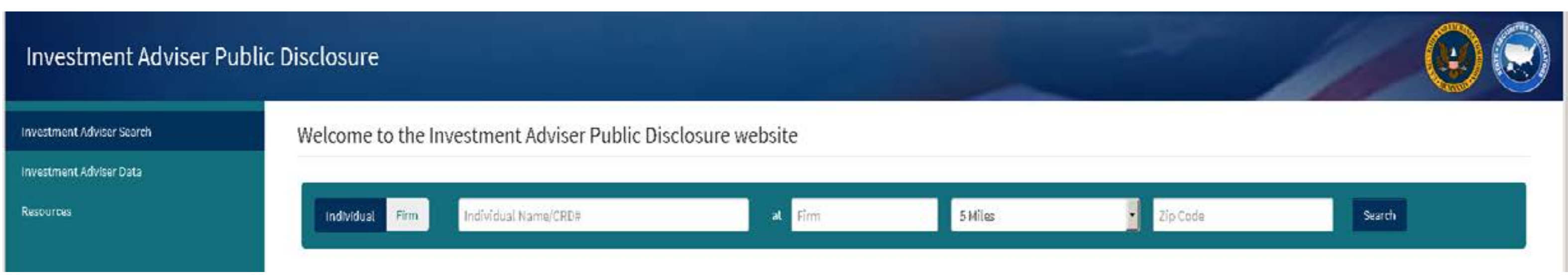


Source: JPMorgan. Indexes and weights of the less diversified portfolio are as follows: U.S. stocks: 60.00% S&P 500; International stocks: 10.00% MSCI EAFE; U.S. bonds: 30.00% Barclays Capital Aggregate. More diversified portfolio is as follows: U.S. stocks: 32.50% S&P 500, 7.50%Russell 2000, 3.00% NAREIT Equity REIT Index; International stocks: 15.00% MSCI EAFE, 4.00% MSCI Emerging Markets; U.S. bonds: 28.25% Barclays Capital Aggregate, 7.00% Barclays U.S. High Yield; International bonds: 2.75% J.P. Morgan EMBI Global Diversified. Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss.
Data as of December 31, 2015.

Should You Choose to Work with Advisors







Q&A

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