

**Quarterly
Investment Briefing
November 6, 2014**



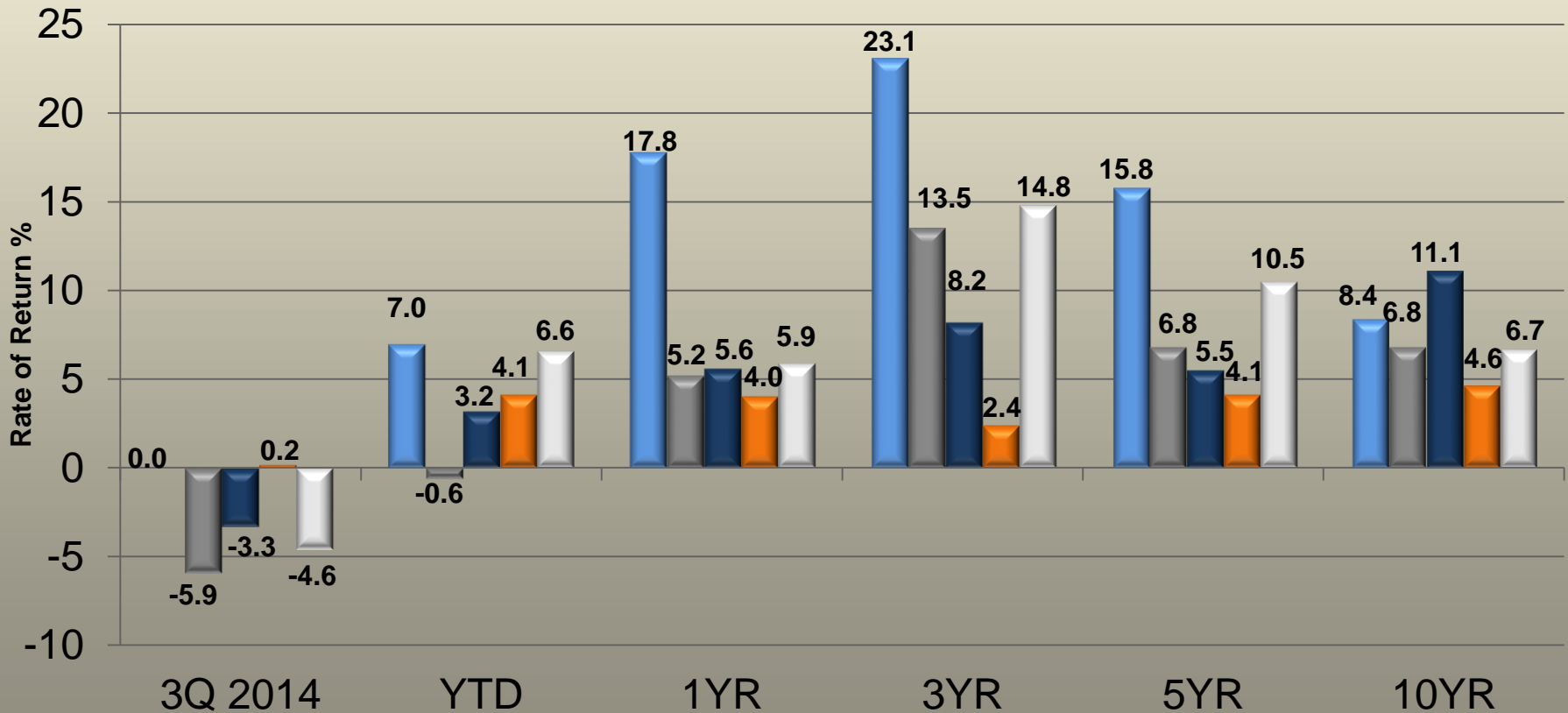
Clayton T. Bill, CFA

Stephen J. Nilles, CFP

Capital Market Returns

Period Ending September 30, 2014

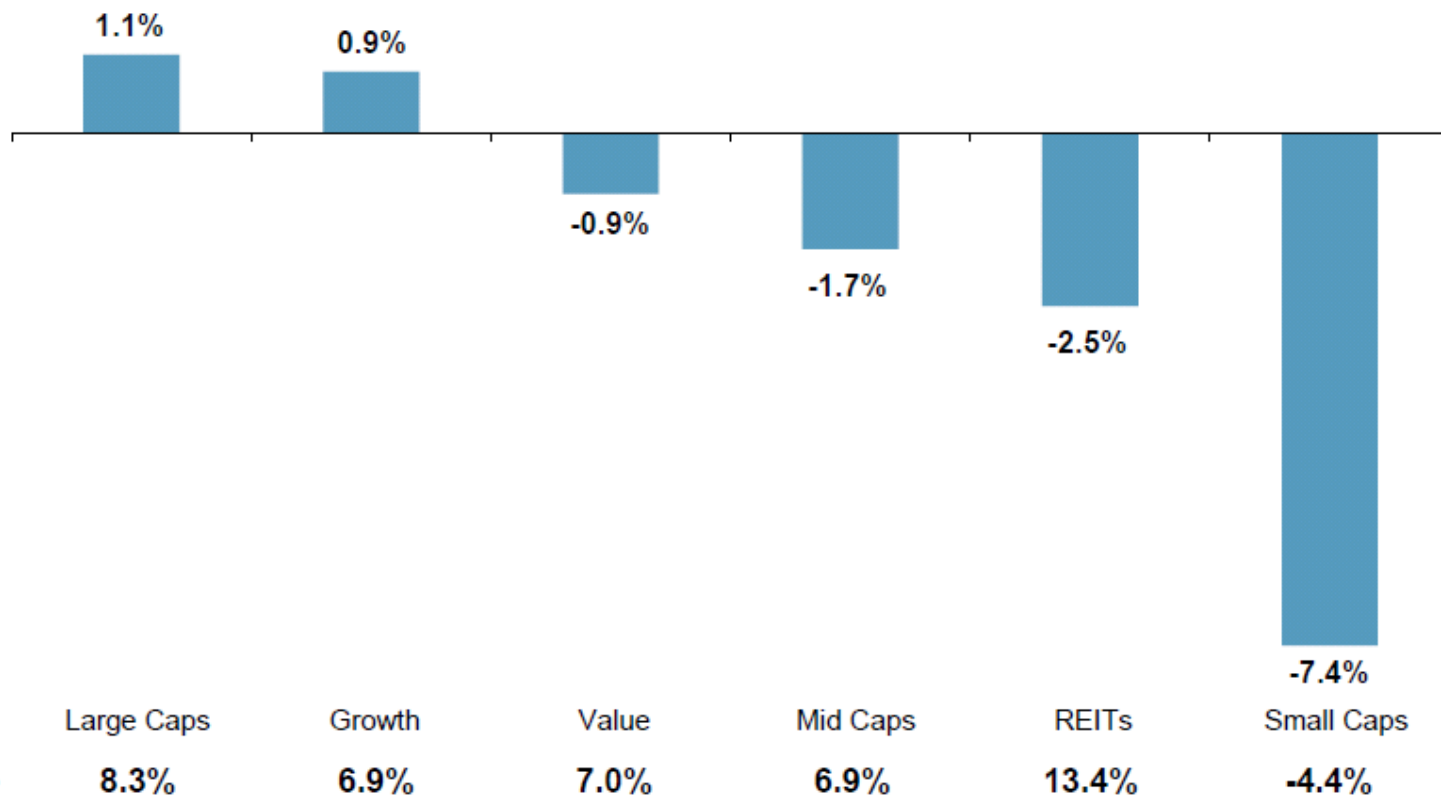
- U.S. Equities
- Emerging Market Equities
- Real Estate
- Non-U.S. Equities
- Fixed Income



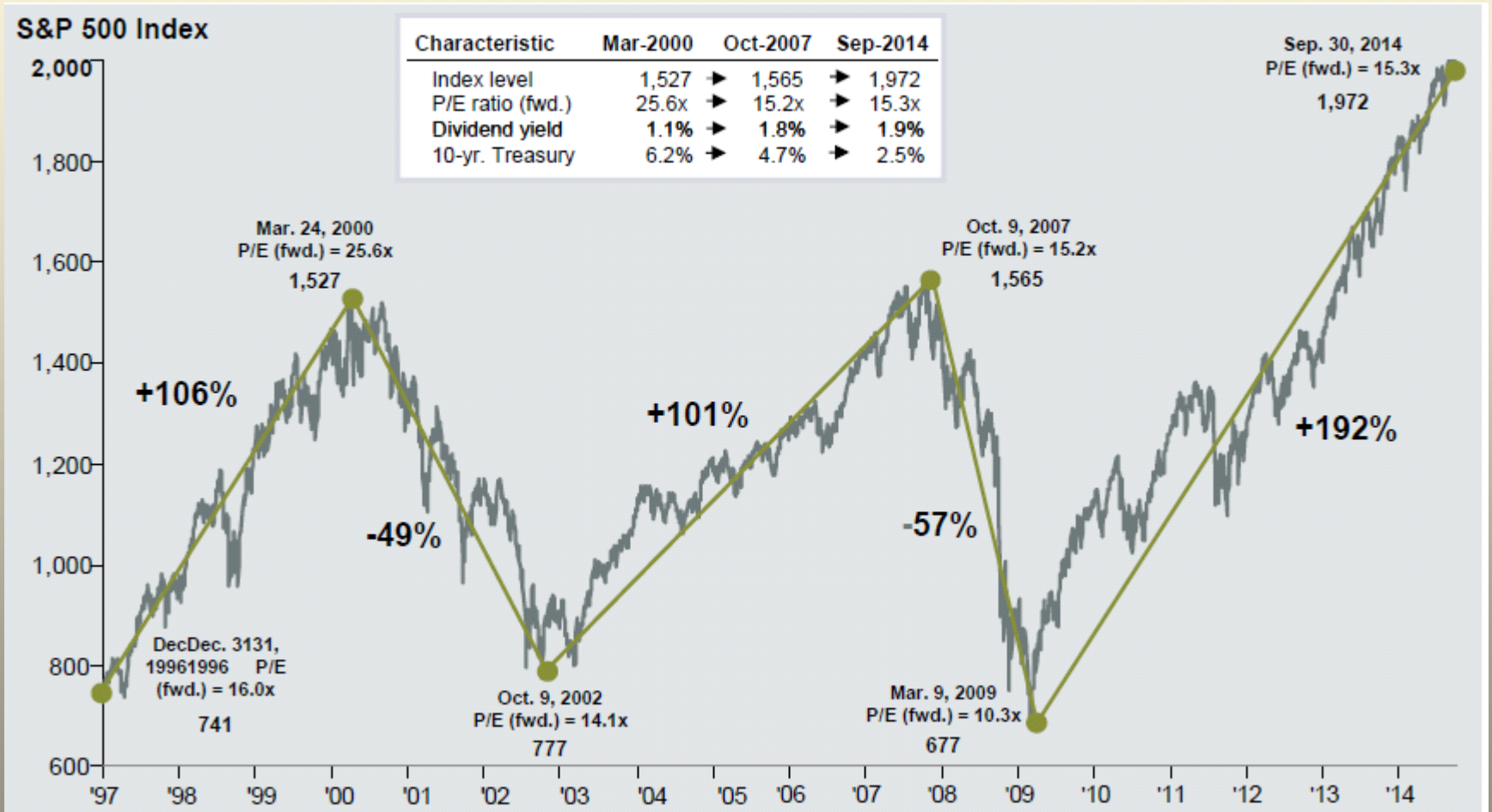
Beneath The Surface: Mixed U.S. Equity Performance

After posting broad-based gains during the first half of the year, performance across U.S. equity categories was more mixed during Q3. Large-cap and growth stocks experienced modest gains. Small-caps continued their underperformance and dropped into negative territory on a year-to-date basis.

Q3 2014 Total Return



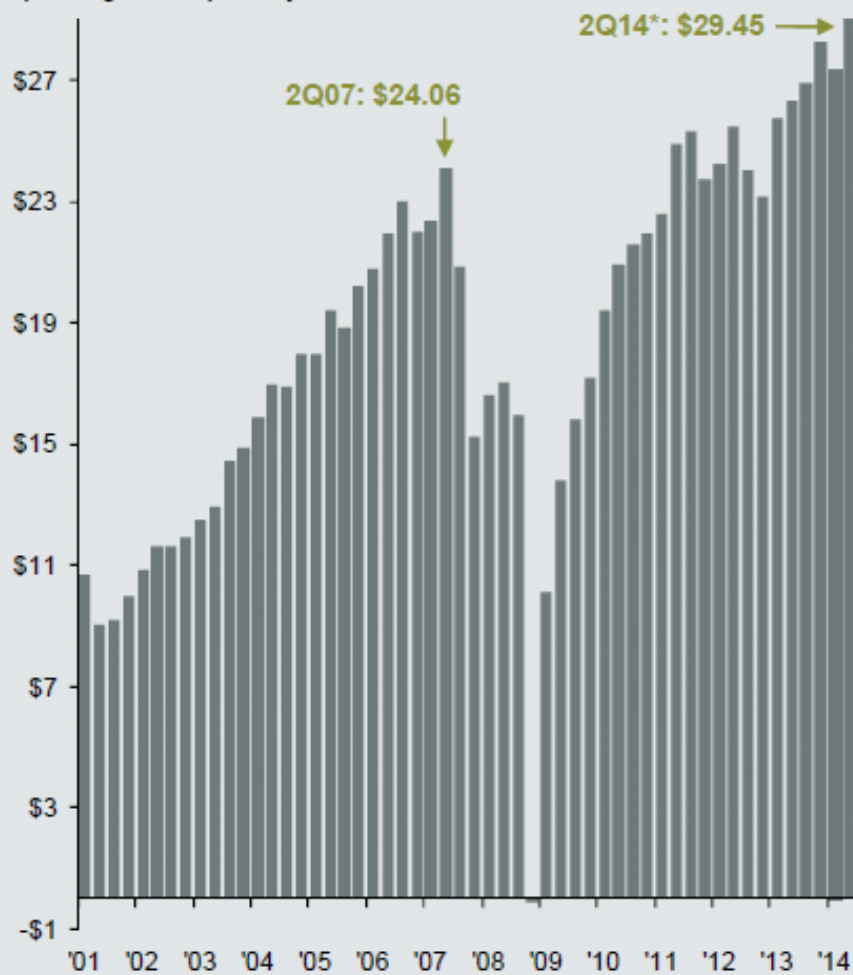
The S&P 500 At Inflection Points



Corporate Profits & Leverage

S&P 500 Earnings Per Share

Operating basis, quarterly



Profit Margins



Total Leverage

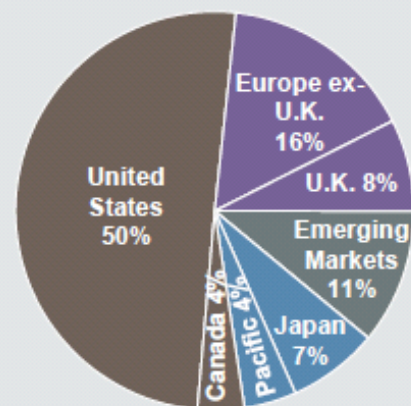
S&P 500, ratio of total debt to total equity, quarterly



Global Equity Markets

Country / Region	3Q14		YTD 2014	
	Local	USD	Local	USD
Regions / Broad Indexes				
U.S. (S&P 500)	-	1.1	-	8.3
EAFE	1.0	-5.8	4.5	-1.0
Europe ex-U.K.	0.1	-7.4	7.2	-1.6
Pacific ex-Japan	-0.9	-5.9	2.7	1.2
Emerging Markets	0.7	-3.4	5.5	2.7
MSCI: Selected Countries				
United Kingdom	-0.9	-6.0	1.0	-1.2
France	-0.6	-8.3	5.4	-3.4
Germany	-3.7	-11.2	-1.2	-9.4
Japan	5.9	-2.2	3.0	-1.4
China	1.7	1.5	1.2	1.0
India	5.1	2.3	24.5	24.7
Brazil	1.6	-8.6	5.1	1.2
Russia	-4.3	-15.1	-6.6	-19.5

Weights in MSCI All Country World Index
 % global market capitalization, float adjusted



Global Equity Market Correlations

Rolling 1-year correlations, 30 countries

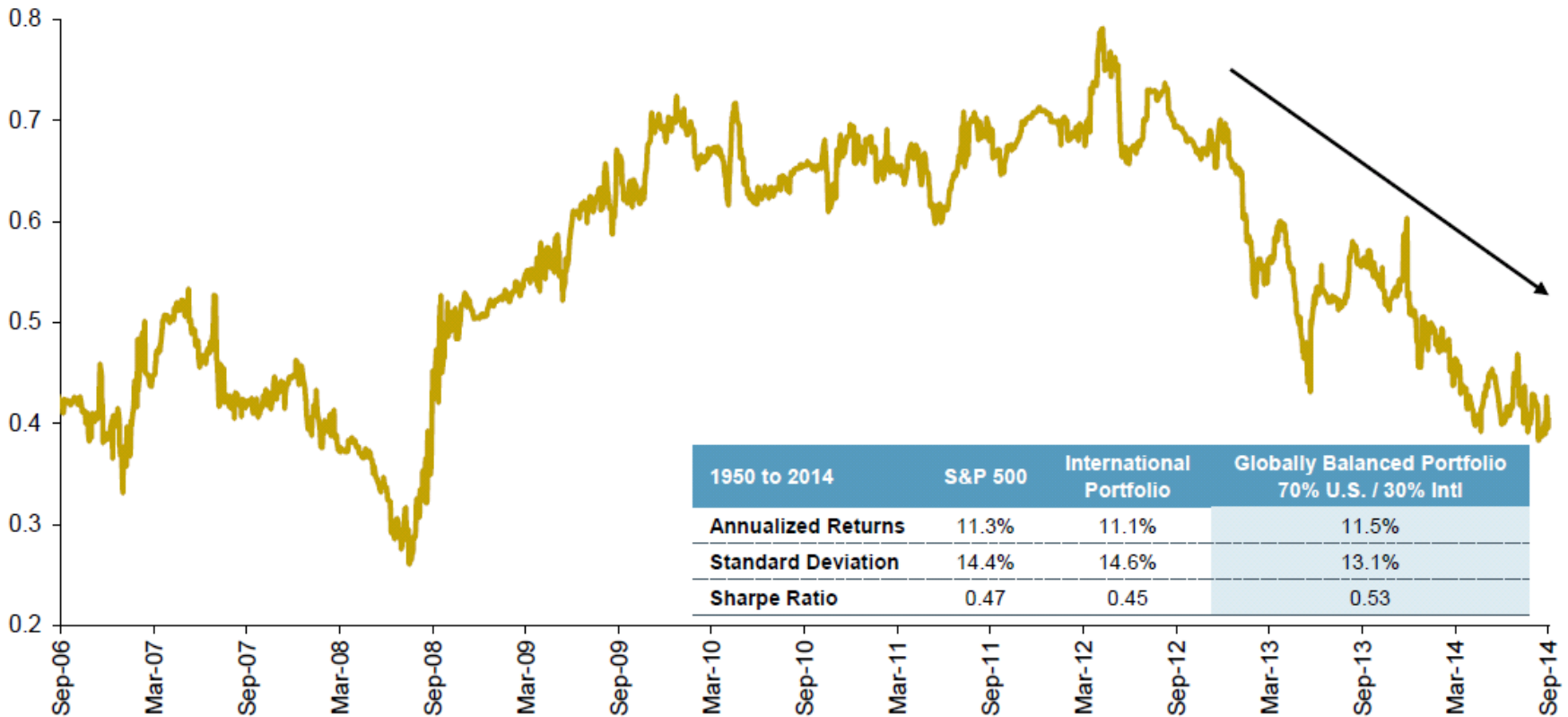


International Equity: The Case For Diversification

A portfolio consisting of 70% U.S. and 30% international equities has provided higher returns, lower volatility, and better risk-adjusted returns than the S&P 500 over the long run. Correlations between U.S. and international equities have trended back down toward prerecession levels, signaling increased benefits from diversification in a global portfolio.

Correlations: International and U.S. Equities

Six-Month Rolling Correlations of Daily Returns

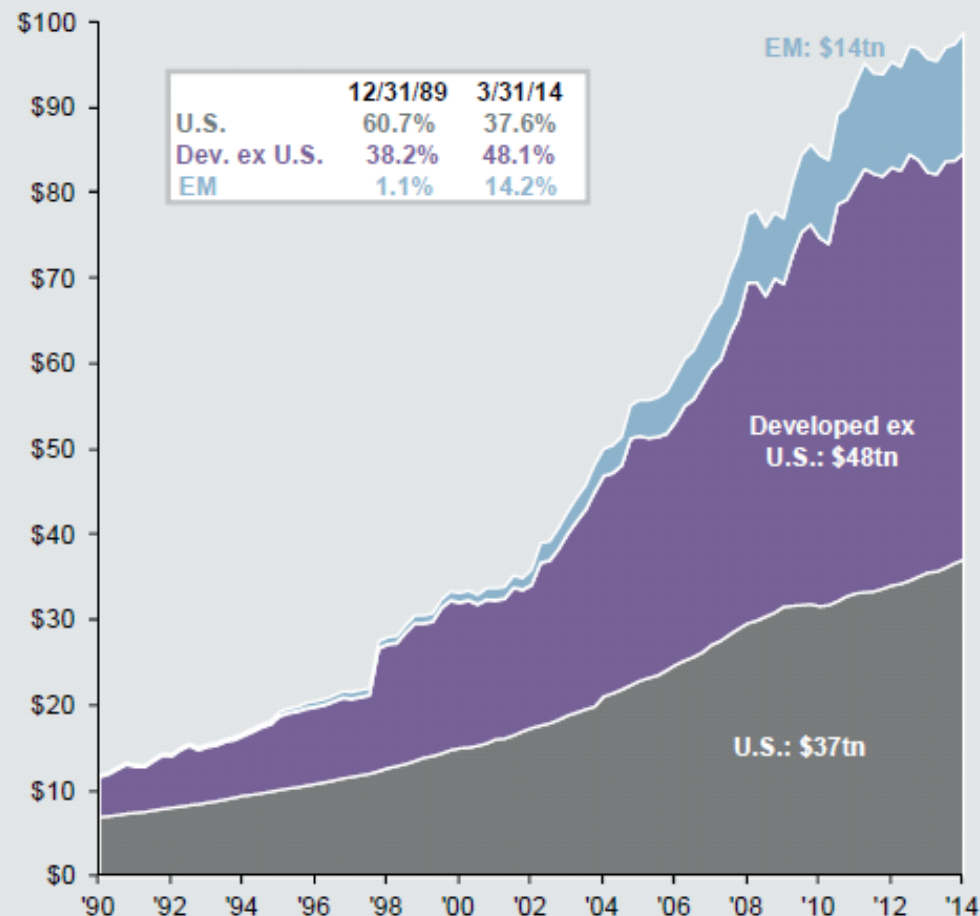


Global Fixed Income

Aggregates	Correl to 10-year	Duration	Yield		Return	
			9/30/2014	6/30/2014	3Q14	YTD
U.S.	0.83	5.6 Yrs	2.36%	2.22%	0.17%	4.10%
Gbl. ex. U.S.	0.38	6.9	1.46%	1.56%	-4.83%	0.40%
Japan	0.53	8.1	0.52%	0.53%	-7.01%	-2.11%
Germany	0.26	5.9	0.76%	0.94%	-5.31%	-1.87%
U.K.	0.17	9.0	2.36%	2.54%	-2.03%	4.19%
Italy	0.08	6.4	1.67%	2.00%	-4.86%	2.69%
Spain	0.11	5.6	1.32%	1.68%	-4.71%	2.60%
Sector						
EMD (\$)	0.19	7.0	5.39%	5.10%	-0.59%	8.02%
EMD (LCL)	0.07	4.8	6.74%	6.42%	-5.66%	-0.01%
Euro Corp.	0.09	4.8	1.20%	1.48%	-6.04%	-2.15%
Euro HY.	-0.40	3.9	4.58%	4.37%	-7.79%	-2.85%

Global Bond Market

USD, trillions



What Concerns Us About the Markets?

Risks

I. Complacency and low volatility at zero-bound target rate

II. Labor market weakness: Cyclical or structural?

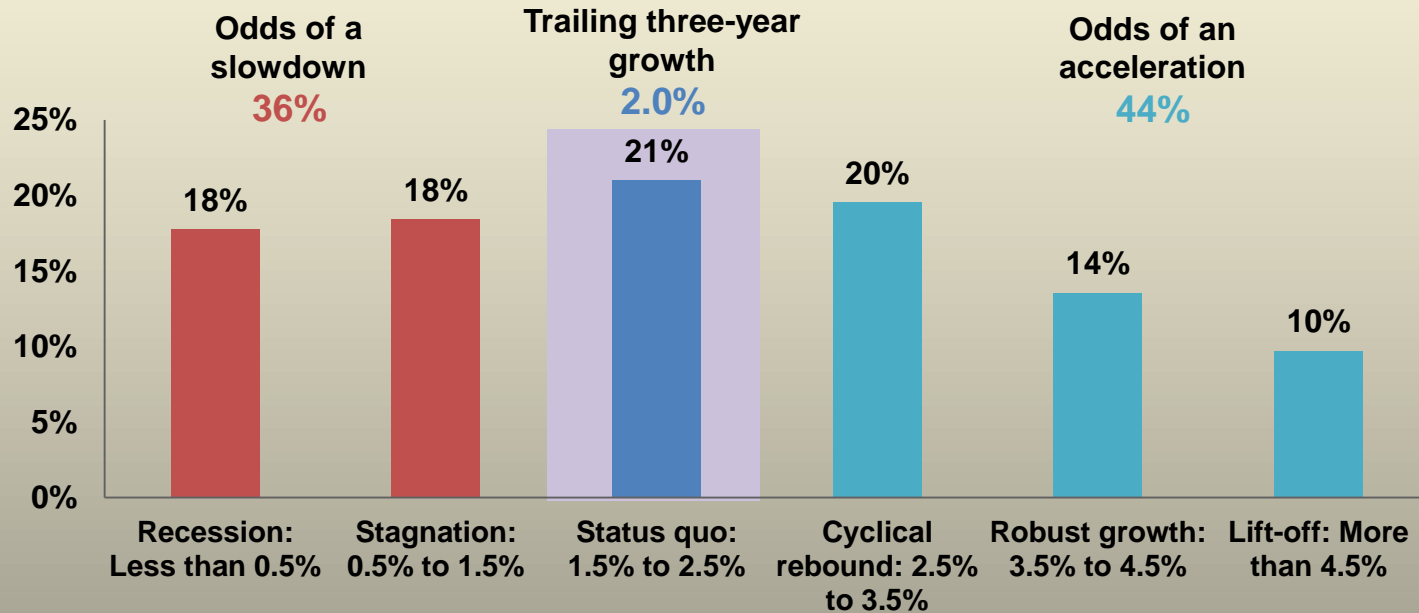
III. Europe's deflation concerns and European Central Bank action

IV. China's hard landing scenario

V. Geopolitics

Vanguard's Year-ahead Economic Growth Outlook: Odds Slightly Favor An Acceleration In U.S. Growth

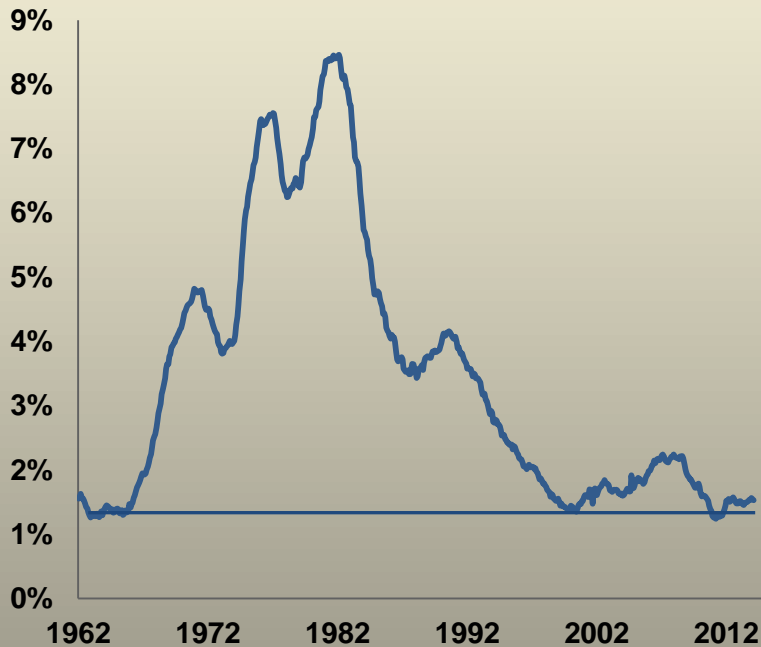
Estimated distribution of growth outcomes



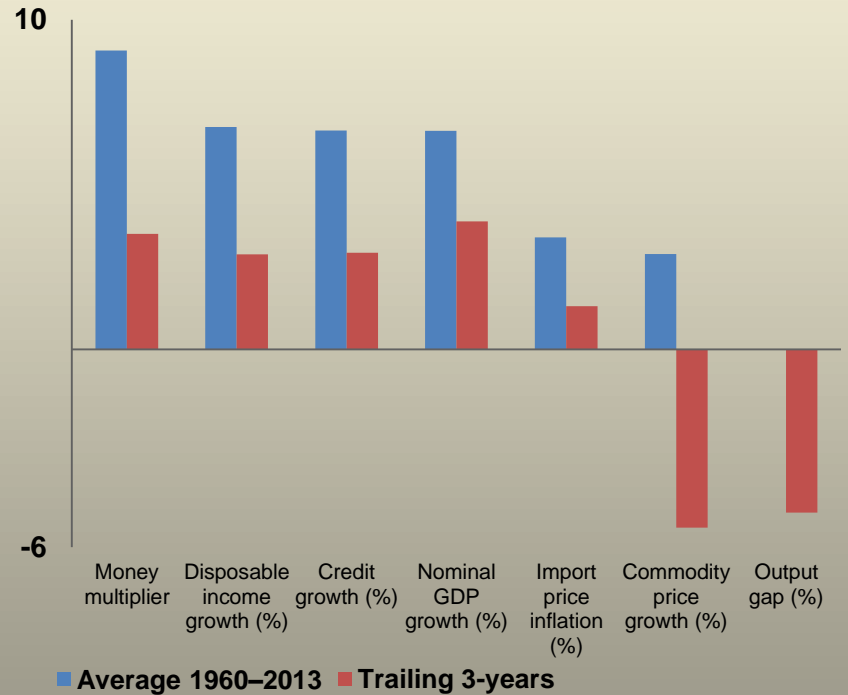
Historical real GDP growth	
1926–2013	3.3%
2000–2013	1.8%
Past three years	2.0%
Year-ahead consensus	3.1%

U.S. Drivers Point To Continued Modest Inflation

Core inflation, trailing 3-year average

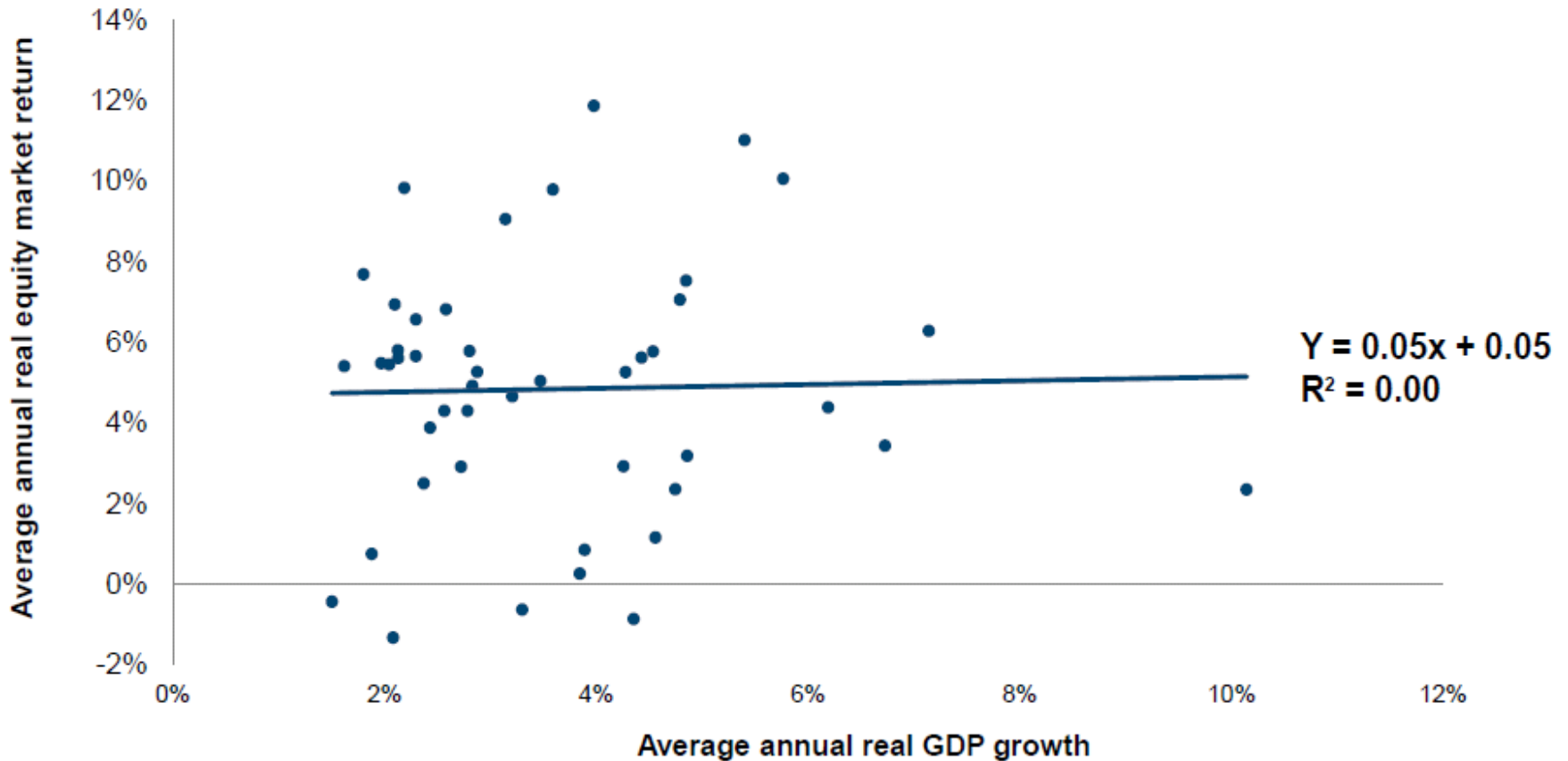


Inflation indicators, long-term average versus recent value



Economic Growth Does Not Guarantee Stock Market Returns

Real GDP growth and real stock returns, 1970–2012





Why Use Multiple Managers by Asset Class and Style

Investment Options Are Growing...

Number of Investment Companies by Type
Year-end, 1996-2013

	Mutual Funds	Closed-end funds	ETFs ²	UITs	Total
1996	6,293	496	19	11,764	18,572
1997	6,778	486	19	11,593	18,876
1998	7,489	491	29	10,966	18,975
1999	8,003	511	30	10,414	18,958
2000	8,370	481	80	10,072	19,003
2001	8,518	491	102	9,295	18,406
2002	8,511	544	113	8,303	17,471
2003	8,426	583	119	7,233	16,361
2004	8,417	619	152	6,499	15,687
2005	8,449	635	204	6,019	15,307
2006	8,721	646	359	5,907	15,633
2007	8,745	663	629	6,030	16,067
2008	8,879	642	743	5,984	16,248
2009	8,612	627	820	6,049	16,108
2010	8,536	624	950	5,971	16,081
2011	8,674	632	1,166	6,043	16,515
2012	8,745	602	1,239	5,787	16,373
2013	8,974	599	1,332	5,552	16,457

The number of mutual fund options to choose from has increased by 42% since 1996 and the number of Exchange Traded Funds has increased by almost 700% since 1996.



Why Use Multiple Managers by Asset Class and Style

...Underscoring The Need For Diversification

- **Characteristics of an ITC Balanced Portfolio**
 - 74 Managers, 29 Styles, 6 Asset Classes
 - Mixture of active and passive management
 - Liquid alternative strategies
 - Underlying fund expense ratio: 0.55%