



Q1

Quarterly Market Review
First Quarter 2013



Quarterly Market Review

First Quarter 2013

This report features world capital market performance and a timeline of events for the last 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 performance of globally diversified portfolios and features a topic of the quarter.

Overview:

Market Summary

Timeline of Events

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

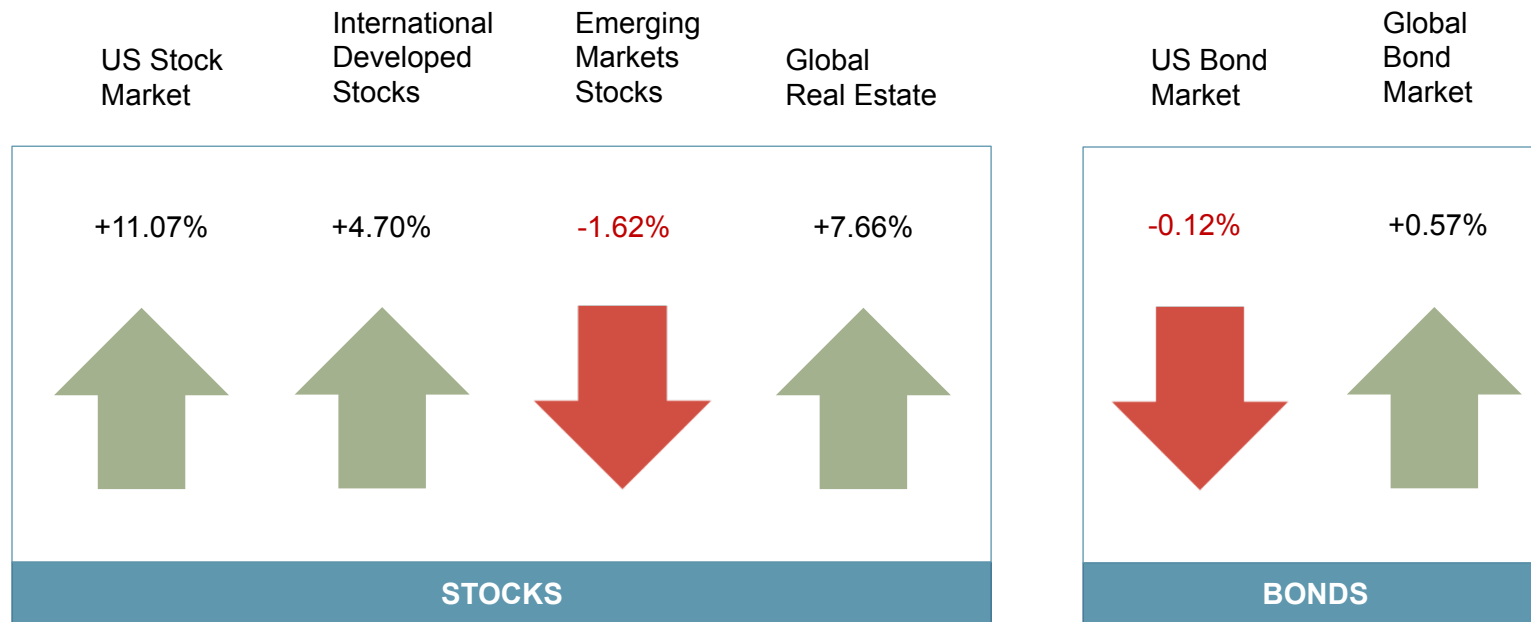
Fixed Income

Global Diversification

Quarterly Topic: Betting against the House

Market Summary

First Quarter 2013 Index Returns

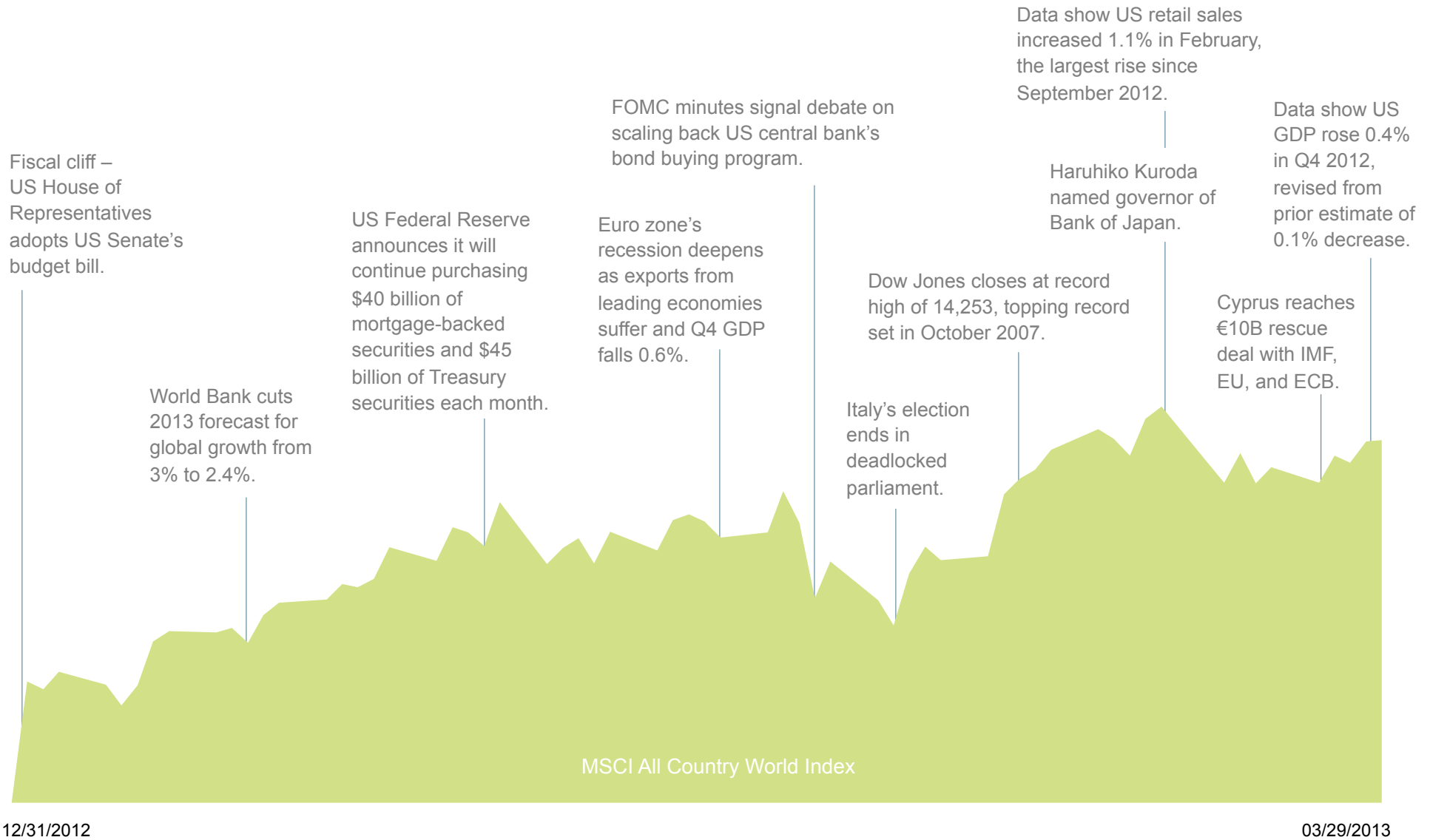


Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond Market (Barclays Global Aggregate Bond Index [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

Timeline of Events: Quarter in Review

First Quarter 2013



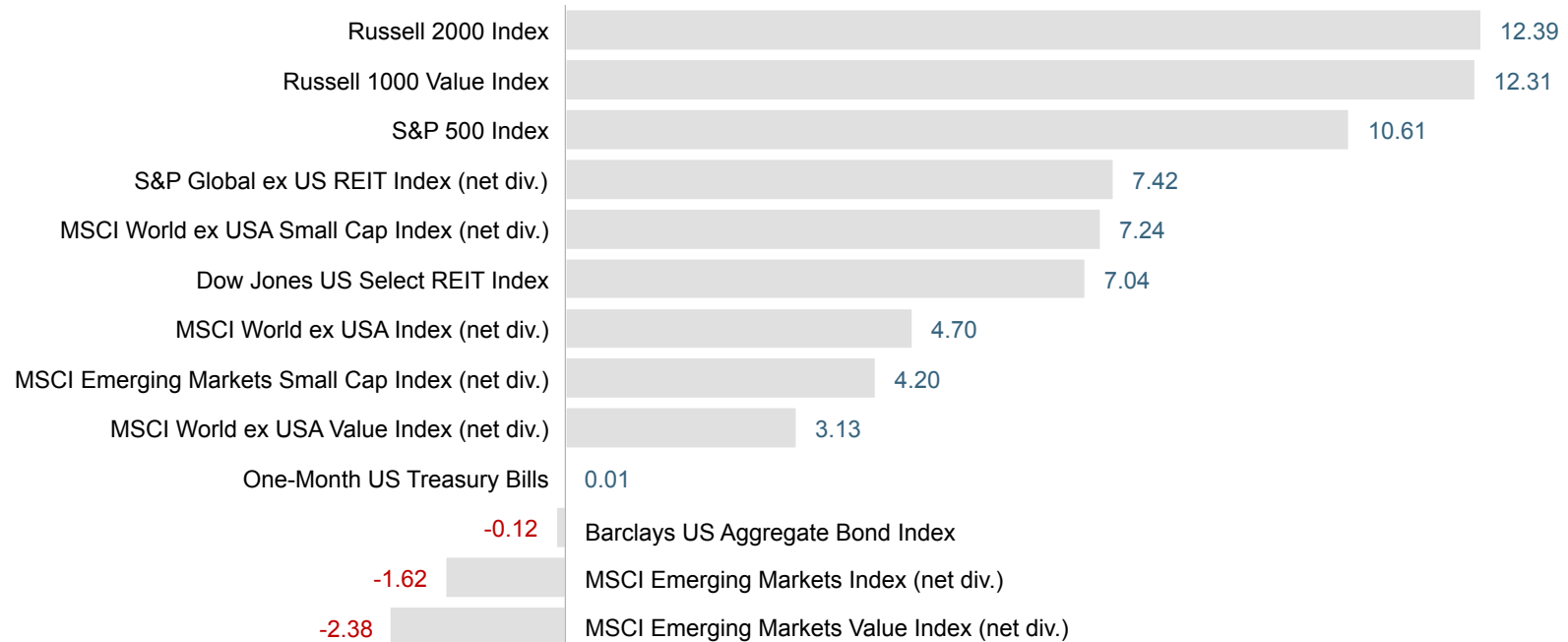
The graph illustrates the MSCI All Country World Index (net div.) daily returns over the quarter. Source: MSCI data copyright MSCI 2012, all rights reserved. The events highlighted are not intended to explain market movements. The index is not available for direct investment. Past performance is not a guarantee of future results.



World Asset Classes

First Quarter 2013 Index Returns

The US market led equity returns vs. developed ex US and emerging markets after strong performances in both January and February. The US yield curve steepened and remained upwardly sloped.



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 Large Cap (S&P 500 Index), US Small Cap (Russell 2000 Index), US Value (Russell 1000 Value Index), US Real Estate (Dow Jones US Select REIT Index), Global Real Estate (S&P Global ex US REIT Index), International Developed Large, Small, and Value (MSCI World ex USA, ex USA Small, and ex USA Value Indexes [net div.]), Emerging Markets Large, Small, and Value (MSCI Emerging Markets, Emerging Markets Small, and Emerging Markets Value Indexes), US Bond Market (Barclays US Aggregate Bond Index), and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).



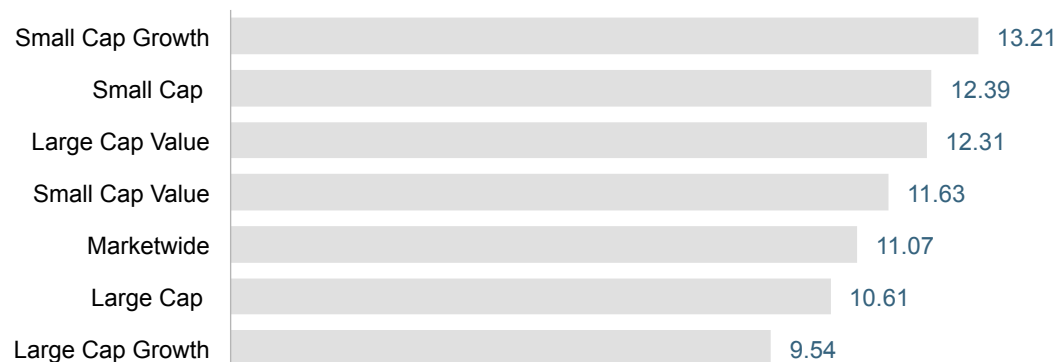
US Stocks

First Quarter 2013 Index Returns

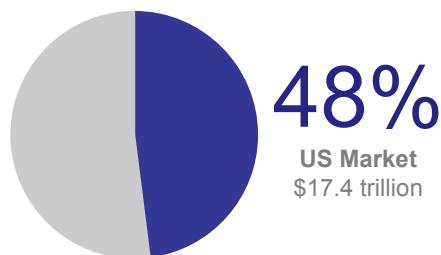
All major US asset classes posted positive results in the first quarter, with the broad market returning 11.07%. Asset class returns ranged from 9.54% for large growth stocks to 13.21% for small growth stocks.

Across the size spectrum, small caps outperformed large caps. There was a positive value premium marketwide in the US, driven by the performance of large value and midcap value stocks; however, small cap value stocks underperformed small cap growth stocks.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	14.56	12.97	6.32	9.15
Large Cap	13.96	12.67	5.81	8.53
Large Cap Value	18.77	12.74	4.85	9.17
Large Cap Growth	10.09	13.06	7.30	8.62
Small Cap	16.30	13.45	8.24	11.52
Small Cap Value	18.09	12.12	7.29	11.29
Small Cap Growth	14.52	14.75	9.04	11.61

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 (S&P 500 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: Russell 3000 Index is used as the proxy for the US market. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group.



International Developed Stocks

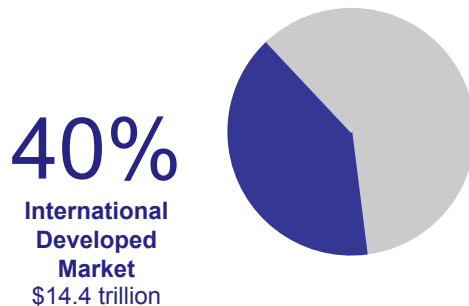
First Quarter 2013 Index Returns

International developed equities maintained strong performances, with all major asset classes posting positive absolute numbers in US dollars for the quarter.

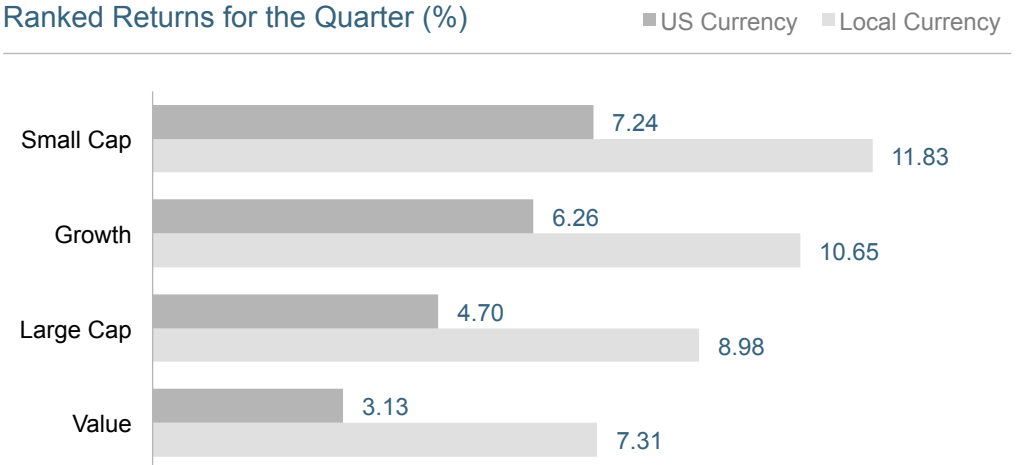
Consistent with the fourth quarter, the US dollar appreciated relative to most major foreign developed currencies.

Across the size and style spectra, small cap and growth outperformed value.

World Market Capitalization—International Developed



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	10.43	4.78	-0.75	9.95
Small Cap	10.87	7.80	2.05	13.14
Value	10.35	3.57	-1.16	10.28
Growth	10.41	5.92	-0.39	9.53

* Annualized

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: Non-US developed market proxies are the respective developed country portions of the MSCI All Country World IMI ex USA Index. Proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy. MSCI data copyright MSCI 2012, all rights reserved.



Emerging Markets Stocks

First Quarter 2013 Index Returns

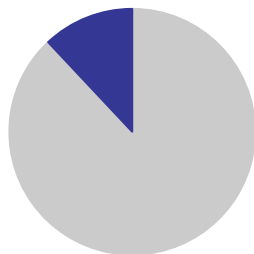
Many emerging markets posted negative returns for the quarter. There was a significant size premium, with small caps outperforming large caps by 5.8%. The value premium was negative across all size segments.

The US dollar appreciated vs. most emerging markets currencies.

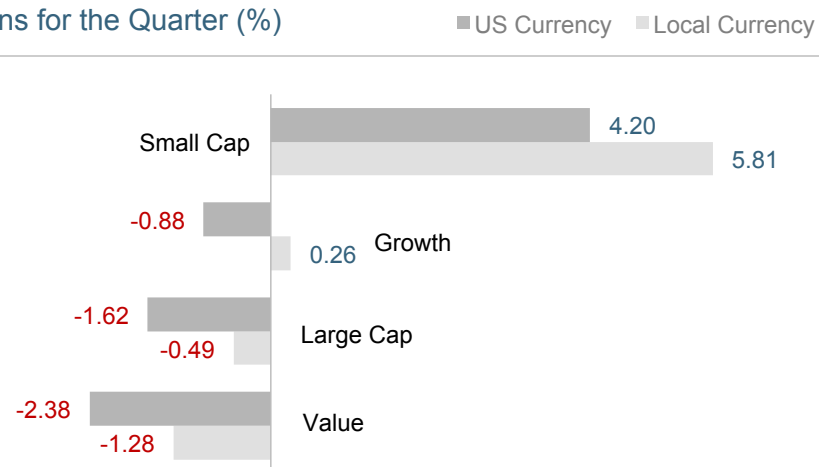
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$4.3 trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	1.96	3.27	1.09	17.05
Small Cap	9.20	3.93	4.13	18.18
Value	-1.08	2.43	1.58	18.47
Growth	5.00	4.09	0.54	15.60

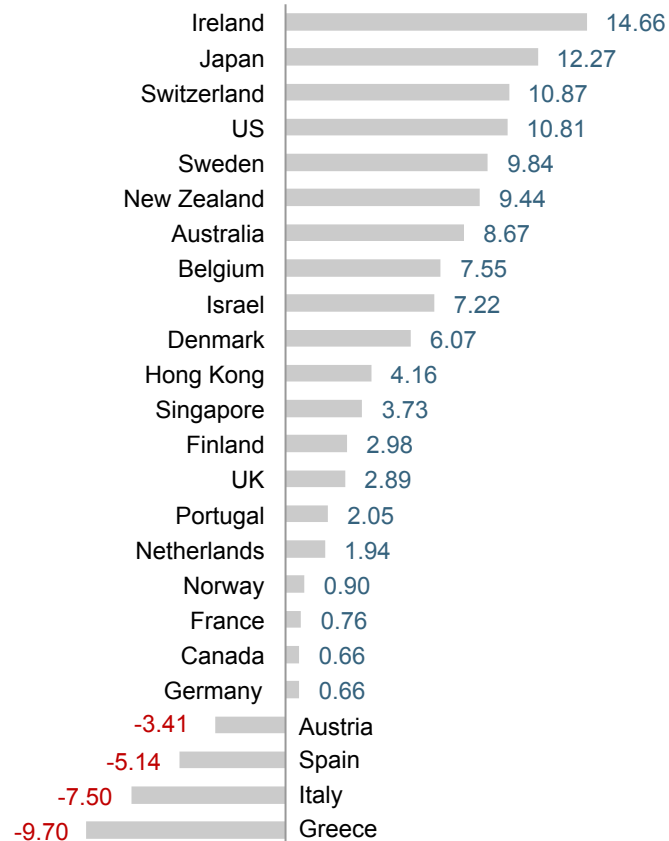
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small 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: Emerging markets proxies are the respective emerging country portions of the MSCI All Country World IMI ex USA Index. MSCI data copyright MSCI 2012, all rights reserved.

Select Country Performance

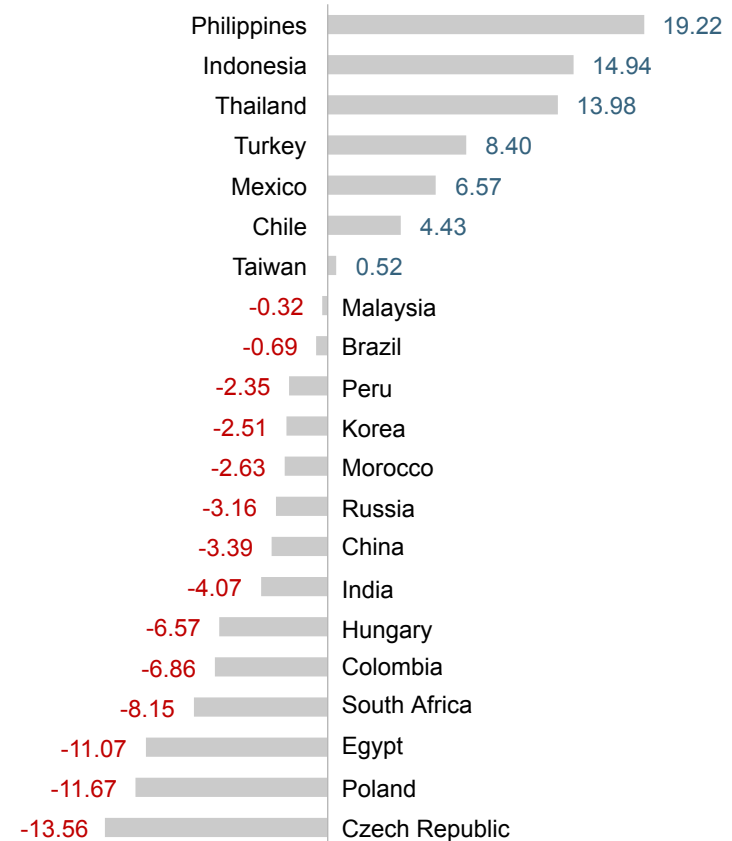
First Quarter 2013 Index Returns

The majority of developed markets posted positive returns. Japanese stocks gained 12.27%, as the local government continued to implement its stimulus program. After receiving its first investment-grade rating, the Philippines posted the highest performance among emerging markets.

Developed Markets (% Returns)



Emerging Markets (% Returns)





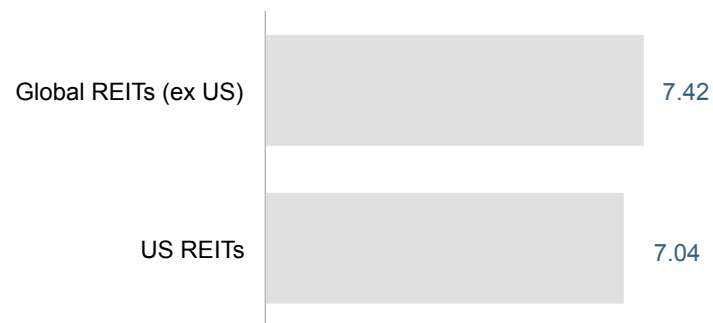
Real Estate Investment Trusts (REITs)

First Quarter 2013 Index Returns

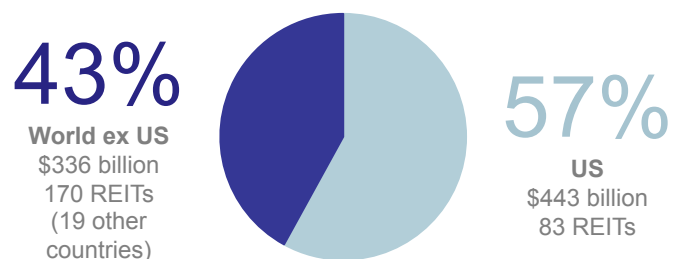
International REITs outperformed US REITs by 38 basis points in the beginning of 2013.

International REITs continued to post positive returns for the sixth consecutive quarter, while US REITs had their second consecutive quarter of positive returns.

Ranked Returns for the Quarter (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
US REITs	13.19	16.94	6.07	12.10
Global REITs (ex US)	27.46	14.93	1.31	10.38

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. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's © 2012.



Commodities

First Quarter 2013 Index Returns

Commodities settled slightly lower during the first quarter, somewhat offsetting a strong comeback at the end of 2012.

The energy complex advanced, with natural gas providing significant total return during the period.

Precious metals finished lower, as investors' sensitivity to economic and geopolitical risks eased.

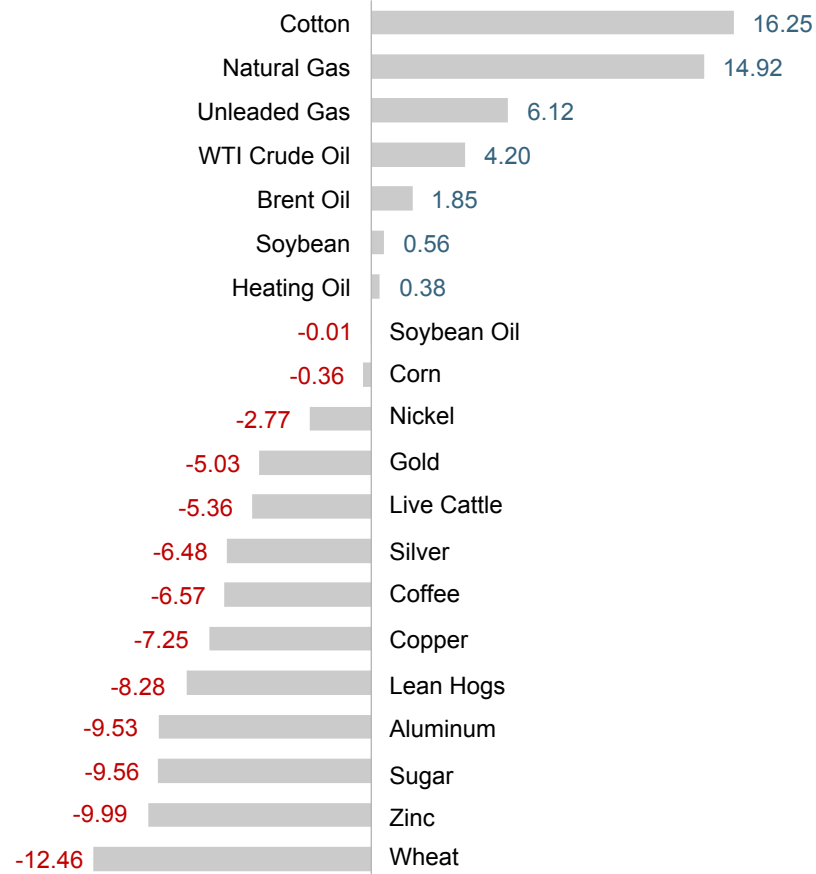
Soft commodities generally finished lower. One exception was cotton, as the market incorporated projections from the US Department of Agriculture that indicated a reduction in production capacity.

Period Returns (%)

* Annualized

Asset Class	Q1	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-1.13	-3.03	1.42	-7.11	3.67

Individual Commodity (% Returns)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. All index returns are net of withholding tax on dividends. Dow Jones-UBS Commodity Index Total Return data provided by Dow Jones ©.



Fixed Income

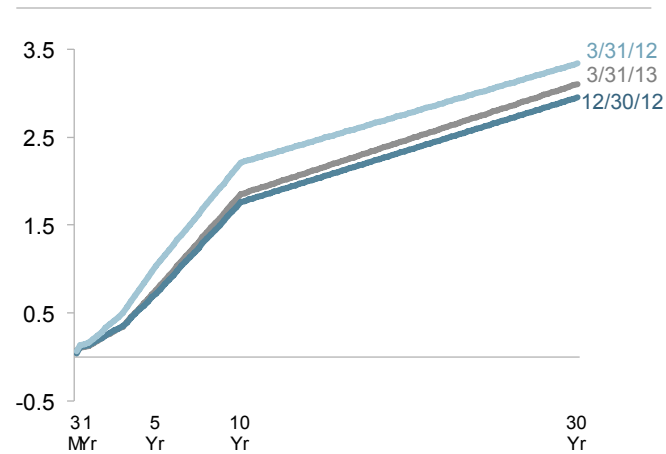
First Quarter 2013 Index Returns

Bond yields crept higher during the period, as fixed income sold off and equities pursued record levels.

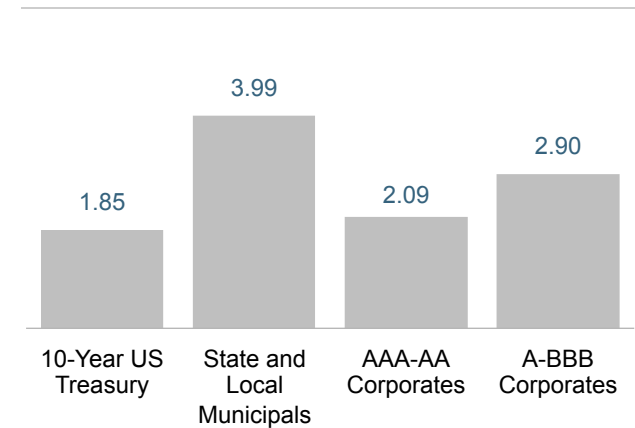
Global monetary policy remained accommodative, as central banks sought to maintain high levels of liquidity. These actions were taken to spur economic growth and protect the global financial system.

Yield-seeking behavior has been rewarded over the past year, as lower credit-quality investments have outperformed.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
One-Month US Treasury Bills (SBBI)	0.06	0.07	0.30	1.62
Bank of America Merrill Lynch Three-Month Treasury Bills	0.12	0.11	0.34	1.75
Bank of America Merrill Lynch One-Year US Treasury Note	0.31	0.49	1.01	2.15
Citigroup World Government Bond 1- 5 Years (hedged)	1.83	1.96	2.66	3.27
US Long-Term Government Bonds (SBBI)	5.99	12.14	8.11	7.16
Barclays Corporate High Yield	13.13	11.24	11.65	10.12
Barclays Municipal Bonds	5.25	6.23	6.10	5.01
Barclays US TIPS Index	5.68	8.57	5.89	6.32

* Annualized

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 Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays data provided by Barclays Bank PLC. 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). Citigroup bond indices copyright 2012 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved.



Global Diversification

First Quarter 2013 Index Returns

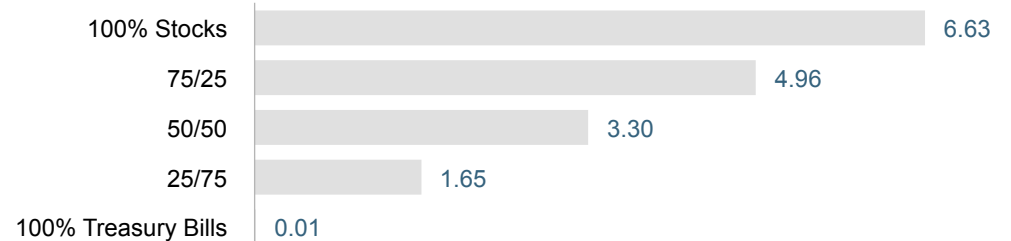
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but also have higher expected returns over time.

Period Returns (%)

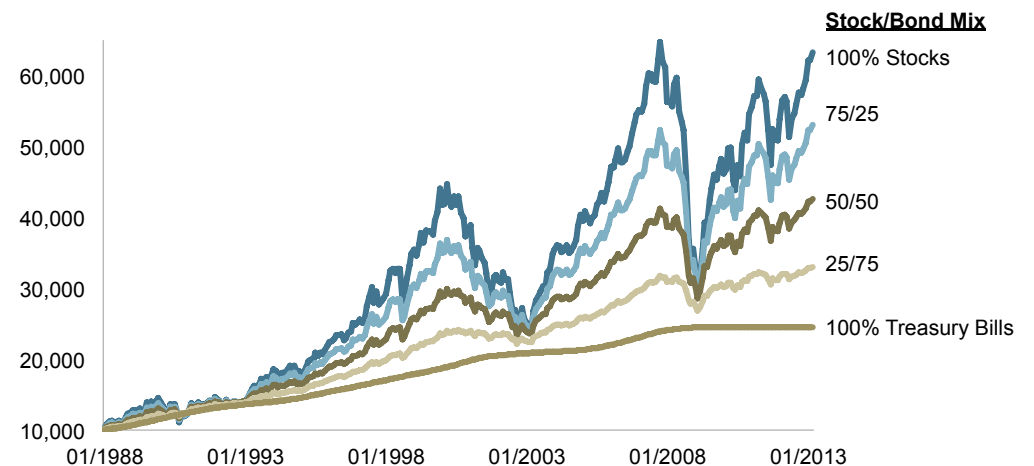
Asset Class	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	11.19	8.35	2.63	9.92
75/25	8.46	6.50	2.50	8.09
50/50	5.69	4.50	2.05	6.08
25/75	2.89	2.35	1.32	3.92
100% Treasury Bills	0.06	0.07	0.30	1.62

* Annualized

Ranked Returns for the Quarter (%)



Growth of Wealth: The Relationship between Risk and Return



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 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 portfolios rebalanced monthly. Data copyright MSCI 2012, 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).



Betting against the House

First Quarter 2013

It's New Year's Day 2012. In addition to overdosing on televised college football, you're spending part of the holiday working on the family finances. Armed with a laptop and various online financial tools, you're on the hunt for appealing stock market opportunities. To prune the list of candidates to a manageable size, you decide to focus on firms that are leaders in their respective industries and exhibit above-average scores on various measures of financial strength. As you work your way through the alphabet, you come to the "P" stocks, and another candidate appears. It's a prominent player in a major industry (good), but operates in a notoriously cyclical industry (not so good), is currently losing money (definitely not good), pays no dividend, and has a junk-bond credit rating of BB-minus. Next! You push the "delete" key and move on.

Congratulations. You just passed up the best-performing stock in the entire S&P 500 Index for 2012.

Shares of PulteGroup, a Michigan-based homebuilder with a 60-year history, jumped 187.8% last year amid strong performance

for the entire industry. For the year ending December 31, 2012, all 13 homebuilding firms listed on the New York Stock Exchange outperformed the S&P 500 Index by a wide margin, with total returns ranging from 34.1% for NVR to 382.8% for Hovnanian Enterprises. The Standard & Poor's SuperComposite Homebuilding Sub-Index rose 84.1% in 2012 compared to 13.4% for the S&P 500 Index.

The point? For those seeking to outperform the market through stock selection, underweighting the market's biggest winners can be just as painful as overweighting the biggest losers. Investors are often caught flat-footed by stocks that do much better or much worse than the broad market, and the problem is not limited to individuals. Not one of the 10 seasoned professionals participating in Barron's annual Roundtable stock-picking panel in early January 2012 mentioned homebuilding stocks or any housing-related firms.

The recent surge in housing shares also serves as a reminder that stock prices are forward-looking and tend to rise or fall well in advance

of clear changes in company fundamentals.

Investors who insist on waiting for evidence of healthy profits before investing are often frustrated to find that a firm's stock price has appreciated dramatically by the time the firm begins to report cheery financial results. Shares of Hovnanian Enterprises, for example, rose 580% between October 7, 2011, and December 31, 2012, even though the firm continued to report losses. Similarly, it is not unusual for a firm's stock price to decline long before signs of trouble become obvious.

Many observers in recent years predicted that a recovery in the housing industry would be agonizingly slow, and they were right. Many investors in recent years have avoided housing stocks as a consequence, and they've been wrong: Housing stocks have outperformed the broad US stock market by a healthy margin from the market low in March 2009 to the present day.

BOTTOM LINE: Markets have 101 ways to remind us of Nobel laureate Merton Miller's observation—diversification is the investor's best friend.