



# Q2

Quarterly Market Review  
Second Quarter 2013



# Quarterly Market Review

Second 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

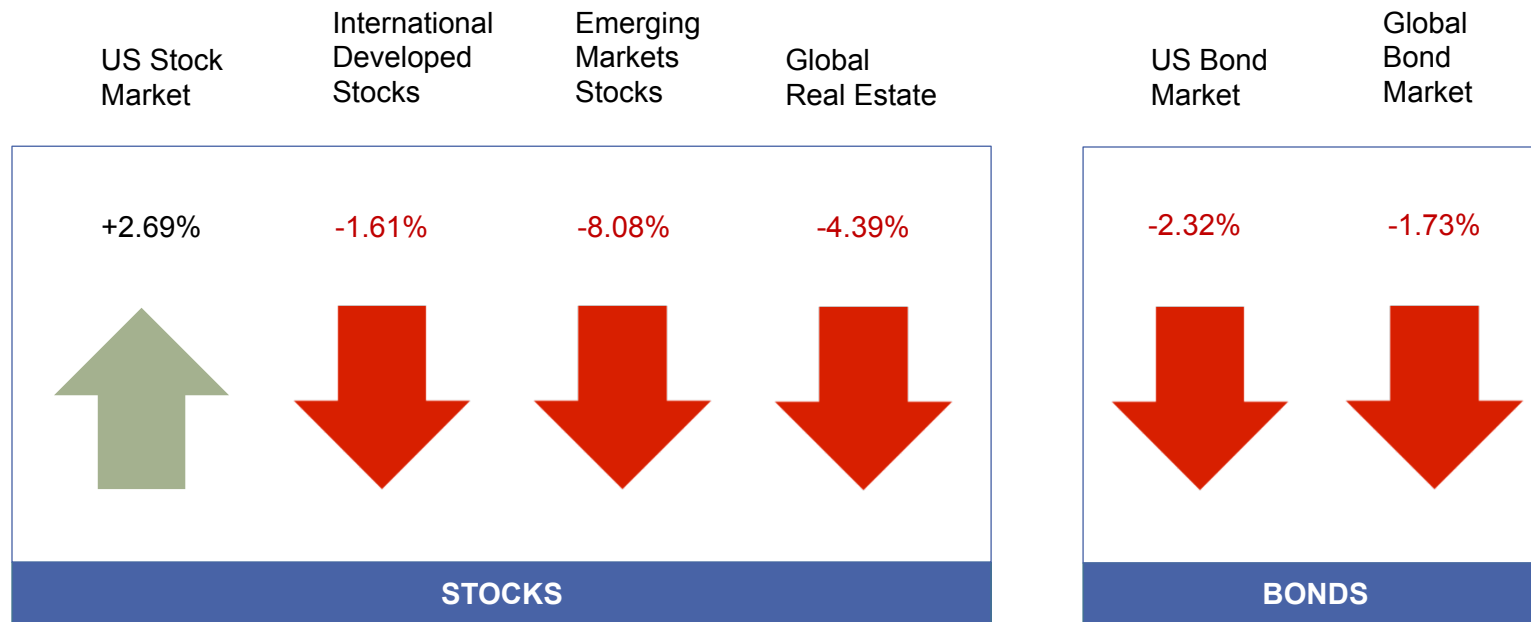
Fixed Income

Global Diversification

Quarterly Topic: The Art of Letting Go

# Market Summary

## Second Quarter 2013 Index Returns

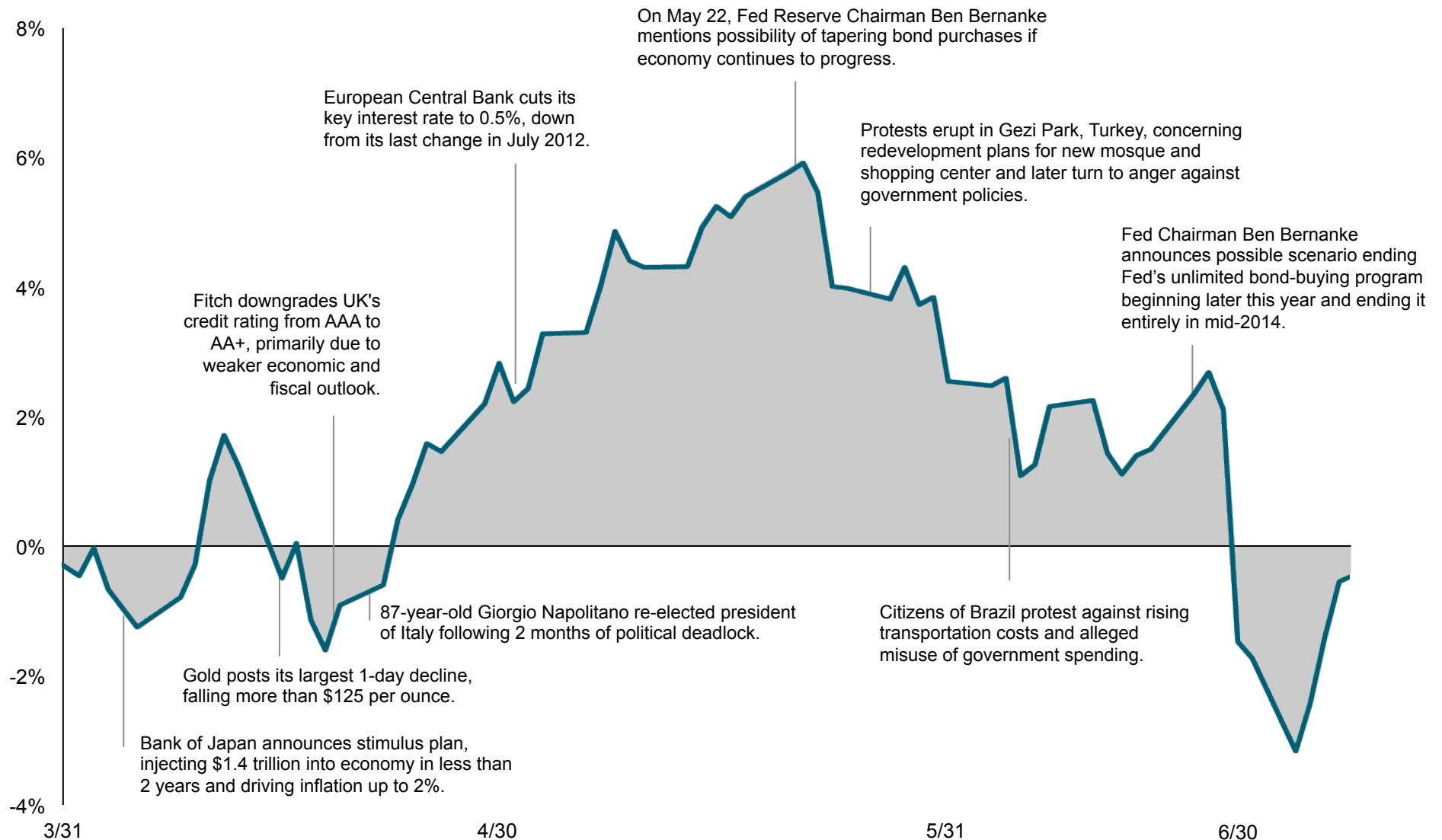


Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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 1995–2013, all rights reserved. MSCI data copyright MSCI 2013, 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

Second Quarter 2013



The graph illustrates the MSCI All Country World Index (net div.) daily returns over the quarter. Source: MSCI data copyright MSCI 2013, 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

## Second Quarter 2013 Index Returns

The US market led equity returns. Emerging markets strongly underperformed across all asset classes, with negative returns primarily driven by poor performance in May and June.



**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 1995–2013, all rights reserved. MSCI data copyright MSCI 2013, 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).



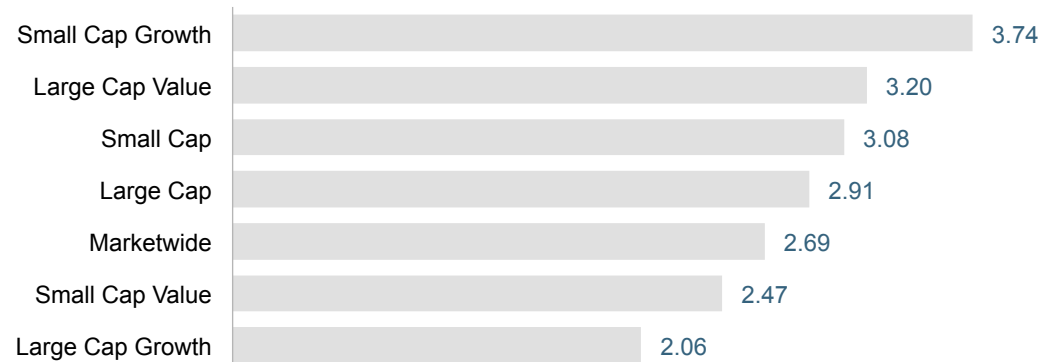
# US Stocks

## Second Quarter 2013 Index Returns

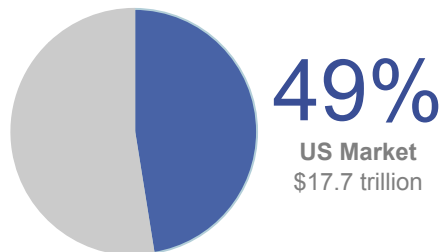
All major US asset classes, with the exception of REITs, maintained positive performance in the 2nd quarter, with the broad market returning 2.69%. Asset class returns ranged from 3.74% for small growth stocks to 2.06% for large growth stocks.

Across the size spectrum, returns were mixed. Small growth outperformed large growth, and large value outperformed small value.

### Ranked Returns for the Quarter (%)



### World Market Capitalization—US



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	21.46	18.63	7.25	7.81
Large Cap	20.60	18.45	7.01	7.30
Large Cap Value	25.32	18.51	6.67	7.79
Large Cap Growth	17.07	18.68	7.47	7.40
Small Cap	24.21	18.67	8.77	9.53
Small Cap Value	24.76	17.33	8.59	9.30
Small Cap Growth	23.67	19.97	8.88	9.63

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 1995–2013, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group.



# International Developed Stocks

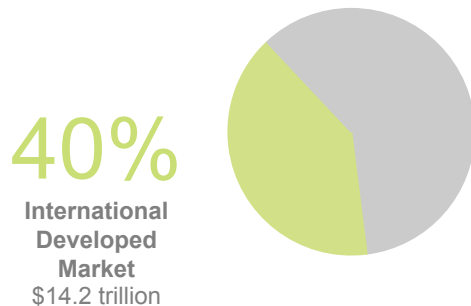
## Second Quarter 2013 Index Returns

International developed markets posted negative returns for the quarter. The strong size premium present in the first quarter was reversed in the second.

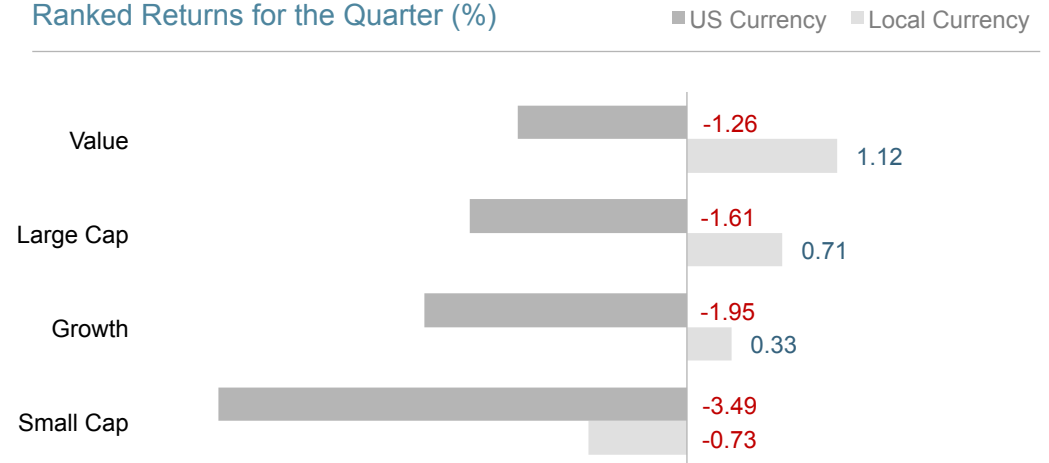
Consistent with the first quarter, the US dollar appreciated relative to most major foreign developed currencies, with the exception of the euro.

Across the size and style spectrum, large beat small and value outperformed growth.

### World Market Capitalization—International Developed



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	17.07	9.43	-0.84	7.86
Small Cap	17.82	10.80	2.06	10.25
Value	17.39	8.92	-0.61	7.97
Growth	16.73	9.88	-1.10	7.67

\* 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 2013, all rights reserved.



# Emerging Markets Stocks

## Second Quarter 2013 Index Returns

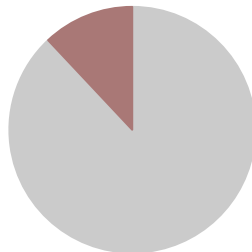
Emerging markets continued to post negative returns. There was a marginal size premium, with small caps outperforming large caps by 61 basis points. Across the style spectrum, growth outperformed value by 3.41%.

The US dollar appreciated vs. most emerging markets currencies.

### World Market Capitalization—Emerging Markets

**11%**

Emerging Markets  
\$4.0 trillion



### Ranked Returns for the Quarter (%)

■ US Currency ■ Local Currency



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	2.87	3.38	-0.43	13.66
Small Cap	9.86	3.72	4.55	14.74
Value	-1.21	1.72	-0.46	14.66
Growth	6.89	5.00	-0.47	12.63

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 2013, all rights reserved.

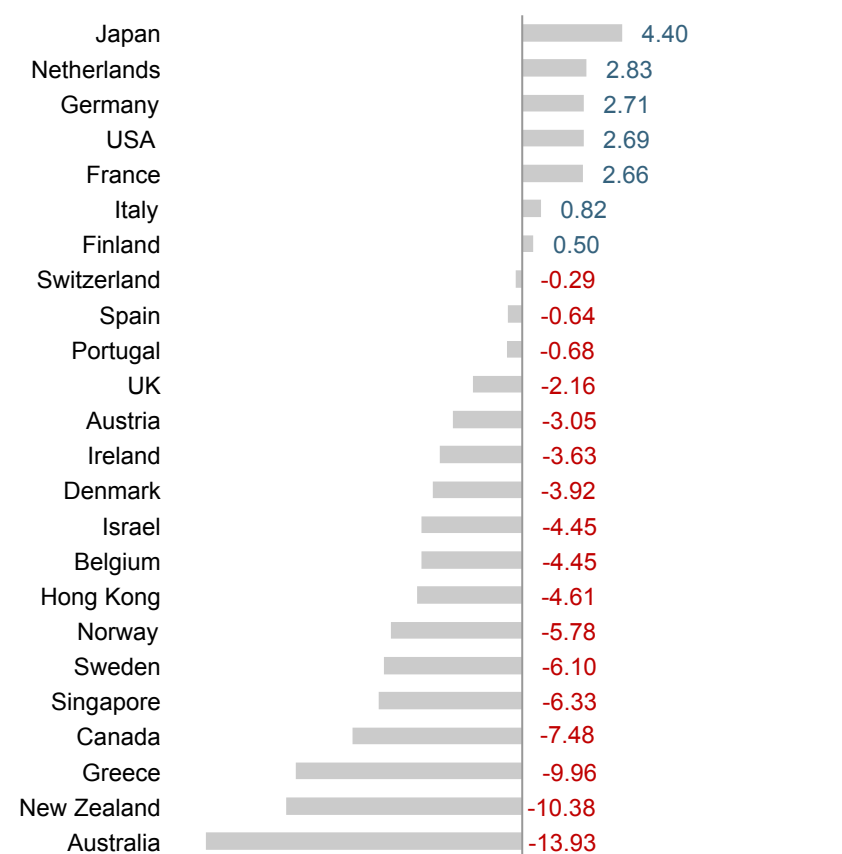


# Select Country Performance

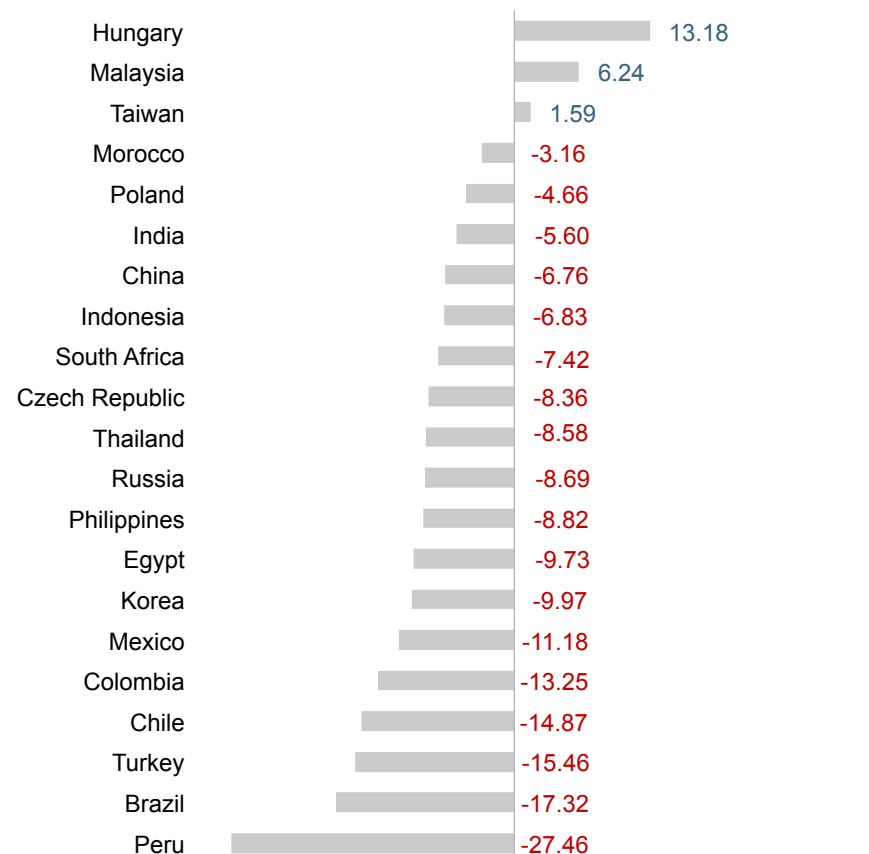
## Second Quarter 2013 Index Returns

The majority of developed and emerging markets countries posted negative returns in the second quarter. Japan continued to outperform most developed market countries. The best-performing emerging markets country was Hungary, which exited its recession in the first quarter.

### Developed Markets (% Returns)



### Emerging Markets (% Returns)





# Real Estate Investment Trusts (REITs)

## Second Quarter 2013 Index Returns

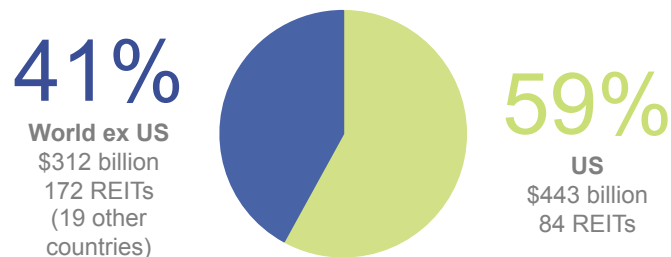
REITs had negative performance during the quarter, with International REITs strongly underperforming US REITs by approximately 7%.

International REITs experienced their first negative quarter for the first time in the last year and a half.

### 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	7.69	18.08	6.97	10.68
Global REITs (ex US)	14.28	15.47	2.20	7.91

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 © 2013.

# Commodities

## Second Quarter 2013 Index Returns

Commodities continued to decline, as the DJ-UBS Commodity Index gave up a further 9.5% during the quarter.

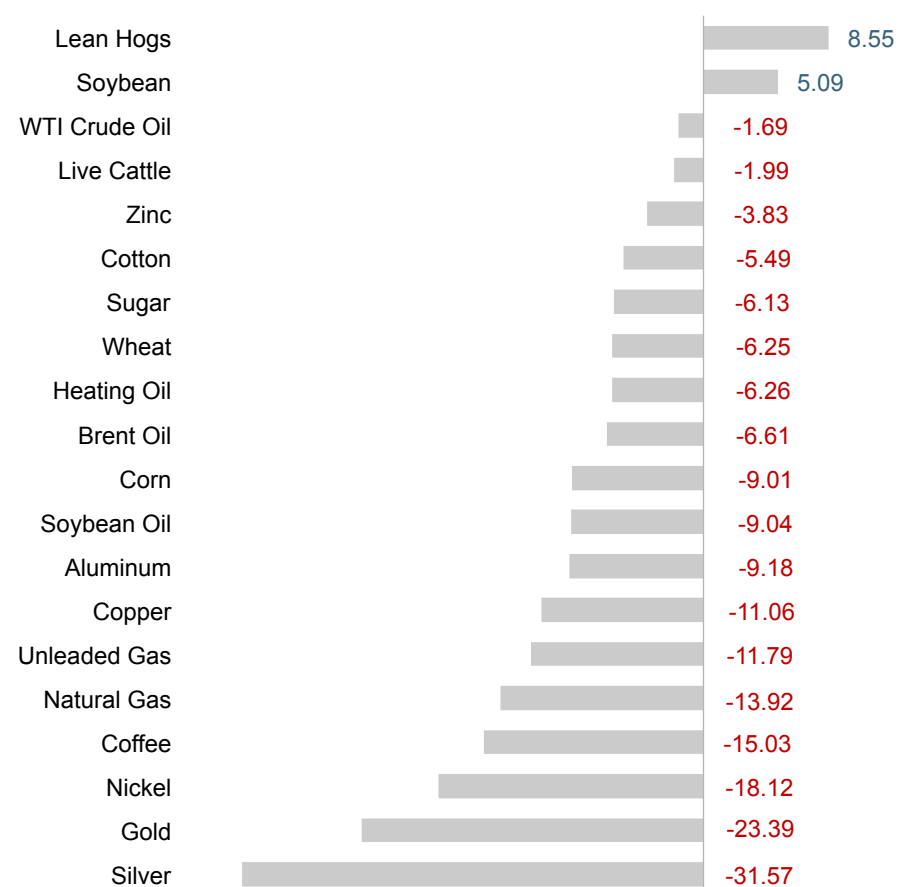
Precious metals bore the brunt of the market decline. Global economic uncertainty abated somewhat, and the perceived safe haven status of gold and silver was less attractive. The ease with which investors could sell these commodities via exchange-traded funds was a focus of investor attention.

Soft commodities, with the exception of lean hogs and soybeans, lost ground, and the energy complex traded down during the quarter as global economic activity appeared to wane.

### Period Returns (%) \* Annualized

Asset Class	Q2	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-9.45	-8.01	-0.26	-11.61	2.39

### 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

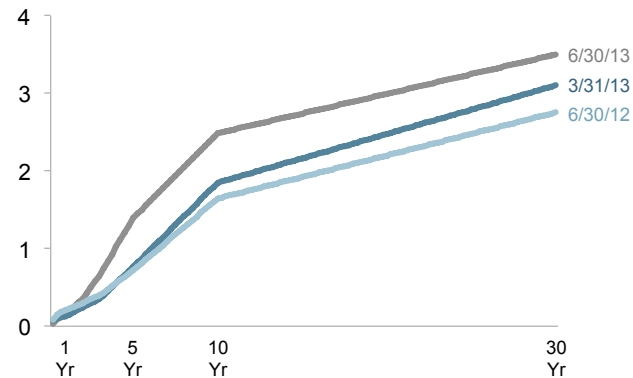
## Second Quarter 2013 Index Returns

Bond investors suffered during the quarter, as the US Federal Reserve offered indications that the market interpreted as a nearer-than-expected cessation of quantitative easing. Yields soared in the US, in particular for maturities beyond 3 years. The bellwether 10-year lost significant ground, moving from a yield of 1.85% on March 31, 2013, to 2.49% at quarter end. The majority of the move came in the second half of the quarter.

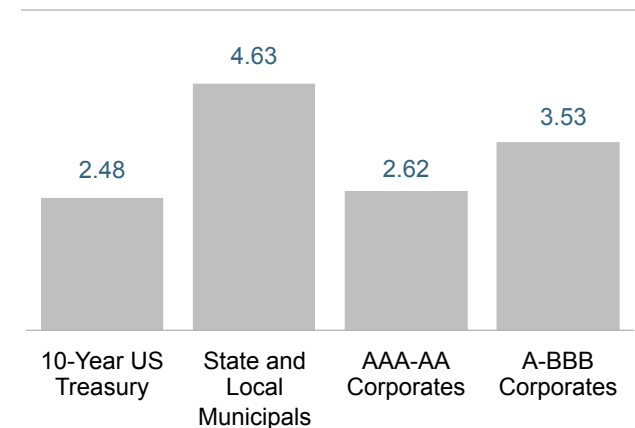
The absence of meaningful levels of inflation in the US paced negative returns for TIPS investors. Real rates turned positive in longer-dated maturities.

Yield-seeking investors came under pressure as credit spreads widened in the difficult environment.

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	0.06	0.19	1.59
Bank of America Merrill Lynch Three-Month T-Bills	0.11	0.11	0.29	1.72
Bank of America Merrill Lynch One-Year US Treasury Note	0.31	0.41	1.06	2.11
Citigroup World Government Bond 1-5 Years (hedged)	1.10	1.53	2.84	3.14
US Long-Term Government Bonds (SBBI)	-8.86	5.74	7.34	5.97
Barclays Capital Corporate High Yield	9.49	10.74	10.94	8.91
Barclays Capital Municipal Bonds	0.24	4.46	5.33	4.42
Barclays Capital US TIPS Index	-4.78	4.63	4.41	5.20

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 2013 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2013 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved.

# Global Diversification

## Second Quarter 2013 Index Returns

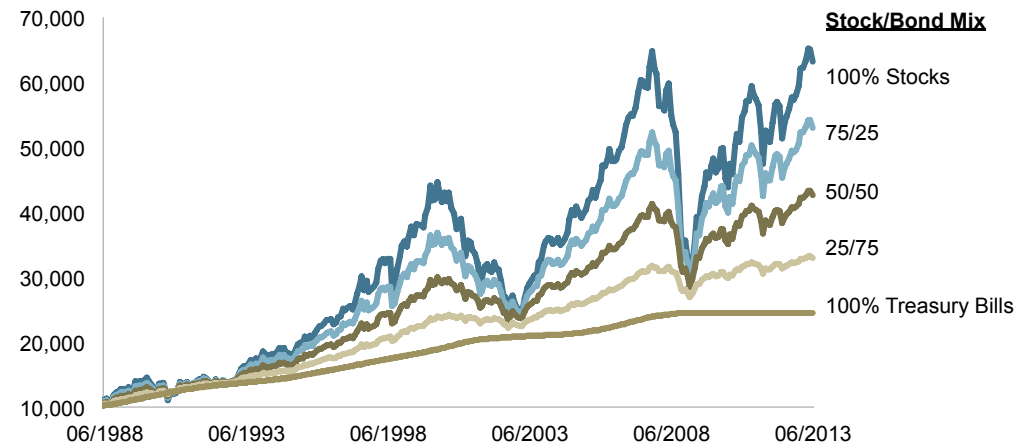
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but also have higher expected returns over time.

Period Returns (%)		* Annualized			
Asset Class	1 Year	3 Years*	5 Years*	10 Years*	
100% Stocks	17.21	12.96	2.86	8.14	
75/25	12.74	9.85	2.63	6.75	
50/50	8.38	6.66	2.10	5.19	
25/75	4.16	3.39	1.28	3.47	
100% Treasury Bills	0.06	0.06	0.19	1.59	

### 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 2013, 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 Art of Letting Go

Second Quarter 2013

**In many areas of life, intense activity and constant monitoring of results represent the path to success. In investment, that approach gets turned on its head.**

The Chinese philosophy of Taoism has a word for it: “wuwei.” It literally means “non-doing.” In other words, the busier we are with our long-term investments and the more we tinker, the less likely we are to get good results.

That doesn’t mean, by the way, that we should do nothing whatsoever. But it does mean that the culture of “busyness” and chasing returns promoted by much of the financial services industry and media can work against our interests.

Investment is one area where constant activity and a sense of control are not well correlated. Look at the person who is forever monitoring his portfolio, who fitfully watches business TV, or who sits up at night looking for stock tips on social media.

Financial science and experience show that our investment efforts are best directed toward areas where we can make a difference and away from things we can’t control.

So we can’t control movements in the market. We can’t control news. We have no say over the headlines that threaten to distract us.

But each of us can control how much risk we take. We can diversify those risks across different assets, companies, sectors, and countries. We do have a say in the fees we pay. We can influence transaction costs. And we can exercise discipline when our emotional impulses threaten to blow us off-course.

These principles are so hard for people to absorb because the perception of investment promoted through financial media is geared around the short term, the recent past, the ephemeral, the narrowly focused and the quick fix.

We are told that if we put in more effort on the external factors, that if we pay closer attention to the day-to-day noise, we will get better results.

What’s more, we are programmed to focus on

idiosyncratic risks—like glamor stocks—instead of systematic risks, such as the degree to which our portfolios are tilted toward the broad dimensions of risk and return.

The consequence is that most individual investors earn poor long-term returns.

This is borne out each year in the analysis of investor behavior by research group Dalbar. In 20 years, up to 2012, for instance, Dalbar found the average US mutual fund investor underperformed the S&P 500 by nearly 4 percentage points a year.<sup>1</sup>

This documented difference between simple index returns and what investors receive is often due to individual behavior—in being insufficiently diversified, in chasing returns, in making bad timing decisions, and in trying to “beat” the market.

This type of individual behavior reinforces the ancient Chinese wisdom: “By letting it go, it all gets done. The world is won by those who let it go. But when you try and try, the world is beyond the winning.”

**Diversification does not protect against loss in declining markets. It is not possible to invest in an index.**

1. “Quantitative Analysis of Investor Behavior,” Dalbar, 2013.

Adapted from “The Art of Letting Go” by Jim Parker, Outside the Flags column on Dimensional’s website, May 2013. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.