



Q3

Quarterly Market Review

Third Quarter 2013

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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

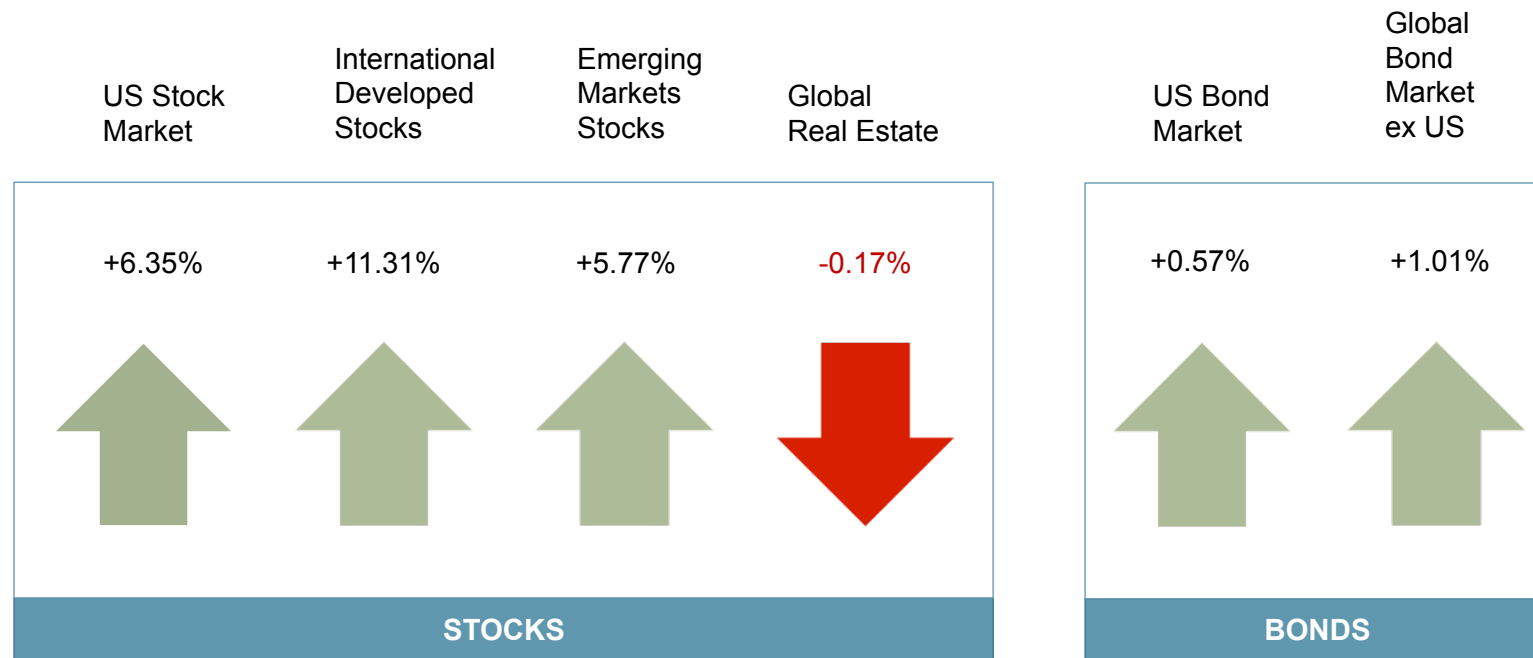
Fixed Income

Global Diversification

Quarterly Topic: Riding the Emerging Markets Tiger

Market Summary

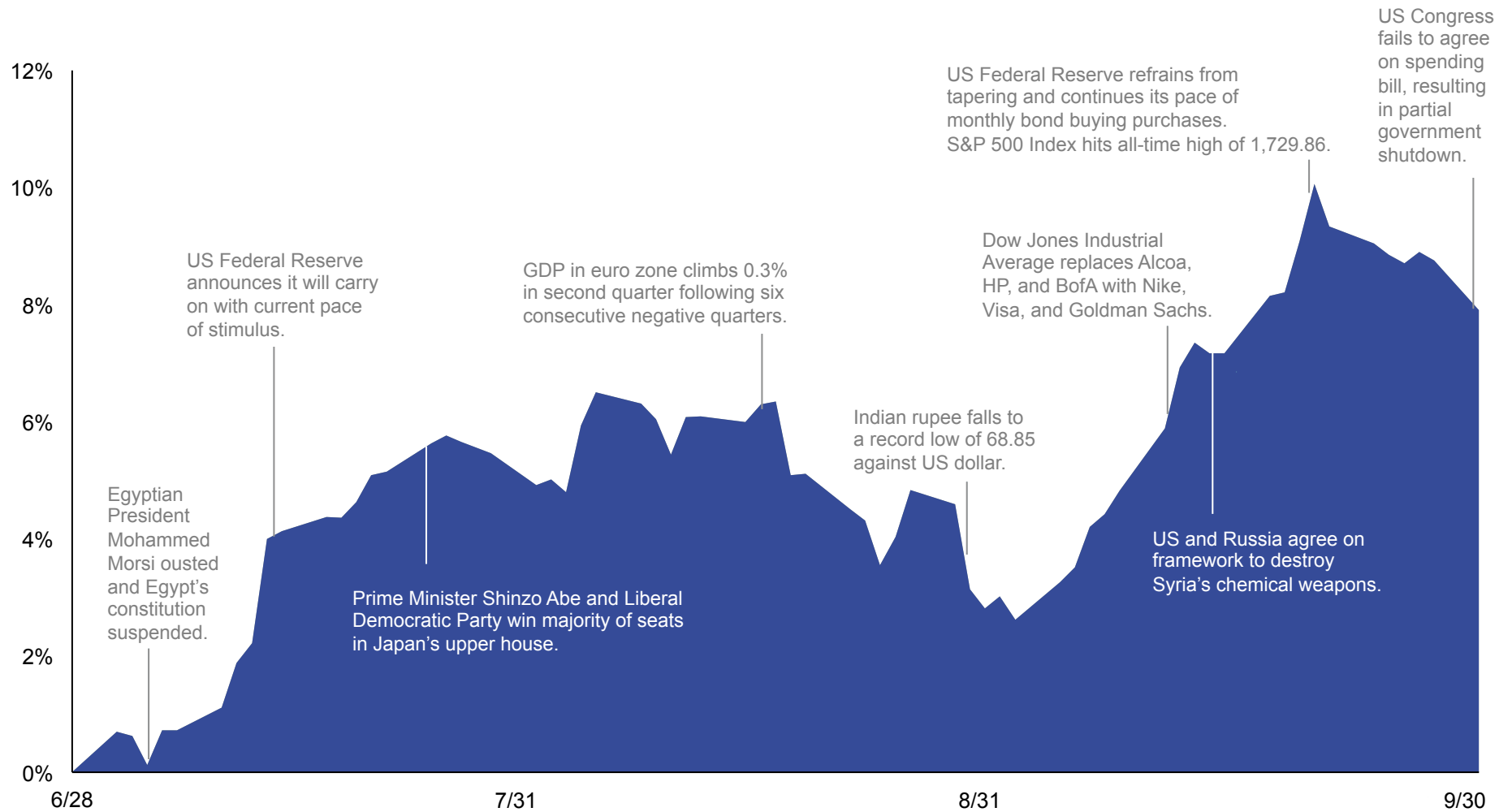
Third Quarter 2013 Index Returns



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 ex US Market (Citigroup WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995–2013, all rights reserved. MSCI data copyright MSCI 2013, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices copyright 2013 by Citigroup. 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

Selected headlines from Q3 2013



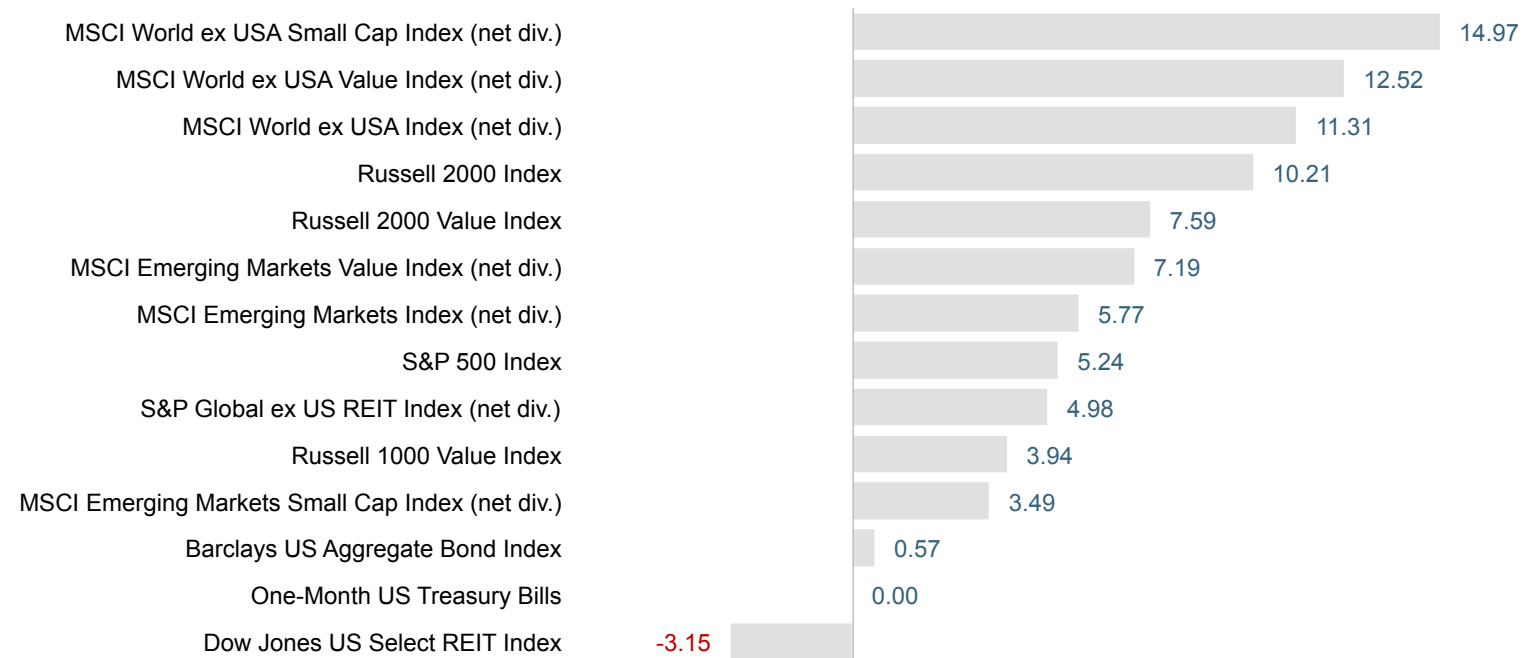
Returns in US dollars. Graph Source: MSCI ACWI Index. MSCI data copyright MSCI 2013, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

Third Quarter 2013 Index Returns

International developed markets led equity returns during the quarter. Major indices posted positive returns, with the exception of the US real estate market.



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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 © 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).

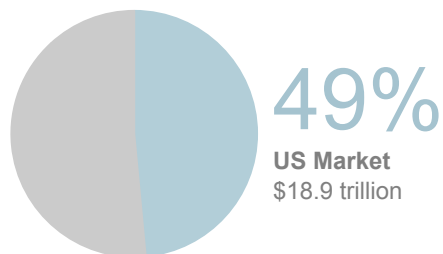
US Stocks

Third Quarter 2013 Index Returns

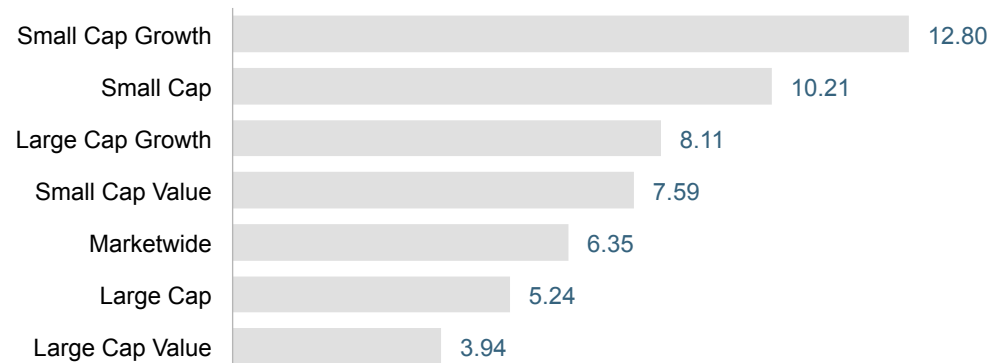
During the third quarter, major US asset classes continued to post positive performances. Asset class returns ranged from 12.80% in small growth to 3.94% in large value.

Small caps outperformed large caps. Growth indices outperformed value indices among both small caps and large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
					* Annualized
Marketwide	21.30	21.60	16.76	10.58	8.11
Large Cap	19.79	19.34	16.27	10.02	7.57
Large Cap Value	20.47	22.30	16.25	8.86	7.98
Large Cap Growth	20.87	19.27	16.94	12.07	7.83
Small Cap	27.69	30.06	18.29	11.15	9.64
Small Cap Value	23.07	27.04	16.57	9.13	9.29
Small Cap Growth	32.47	33.07	19.96	13.17	9.86

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

Third Quarter 2013 Index Returns

During the third quarter, developed markets outside the US posted strong performances. The size premium rebounded after reversing its negative trend in the second quarter.

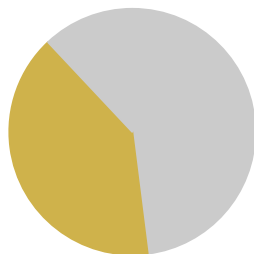
The US dollar depreciated relative to the currencies of most major foreign developed countries, in particular the euro and the British pound, further adding to US dollar returns.

Across the size spectrum, value outperformed growth.

World Market Capitalization—International Developed

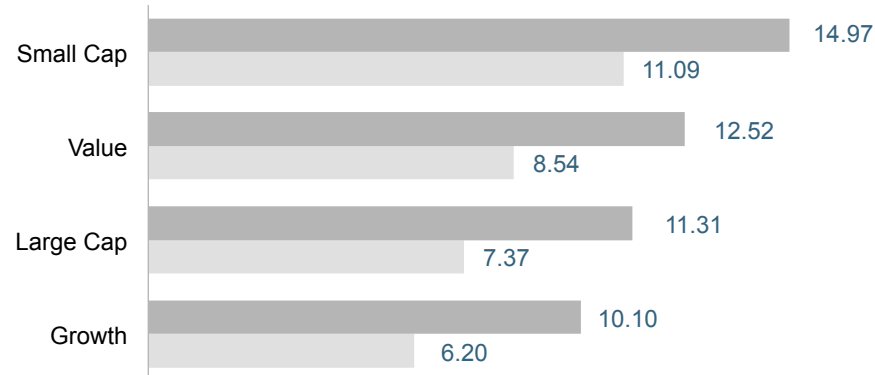
40%

International
Developed
Market
\$15.7 trillion



Ranked Returns for the Quarter (%)

■ US Currency ■ Local Currency



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	14.66	21.45	7.89	6.12	8.18
Small Cap	18.99	24.75	9.92	11.06	10.15
Value	14.58	22.56	7.87	5.99	8.26
Growth	14.70	20.32	7.85	6.19	8.02

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Emerging Markets Stocks

Third Quarter 2013 Index Returns

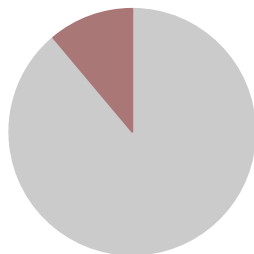
Emerging markets rebounded in the latter part of the third quarter. Value outperformed growth by 2.82%, and large caps outperformed small caps by 2.28% in US dollar terms.

The US dollar depreciated against most emerging markets currencies.

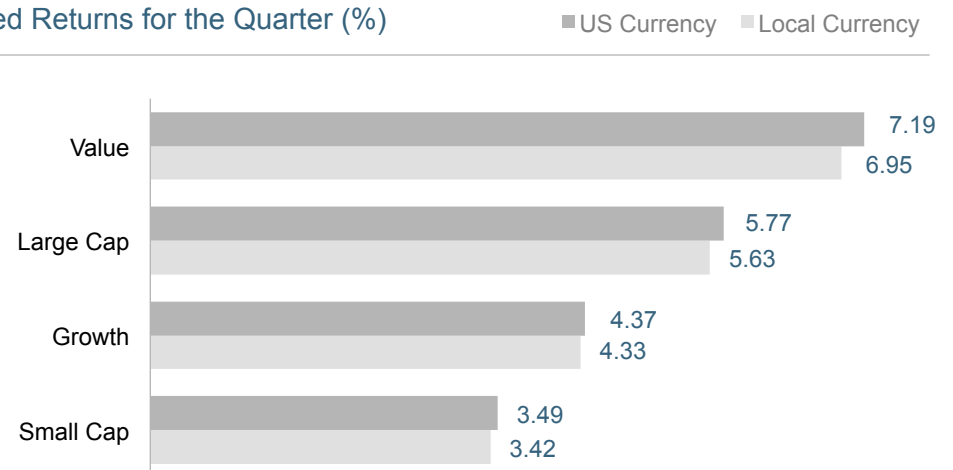
World Market Capitalization—Emerging Markets

11%

Emerging Markets
\$4.2 trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Cap	-4.35	0.98	-0.33	7.22	12.80
Small Cap	-0.21	4.88	-1.41	12.36	13.77
Value	-5.65	-1.21	-1.15	7.08	14.07
Growth	-3.18	3.03	0.42	7.30	11.50

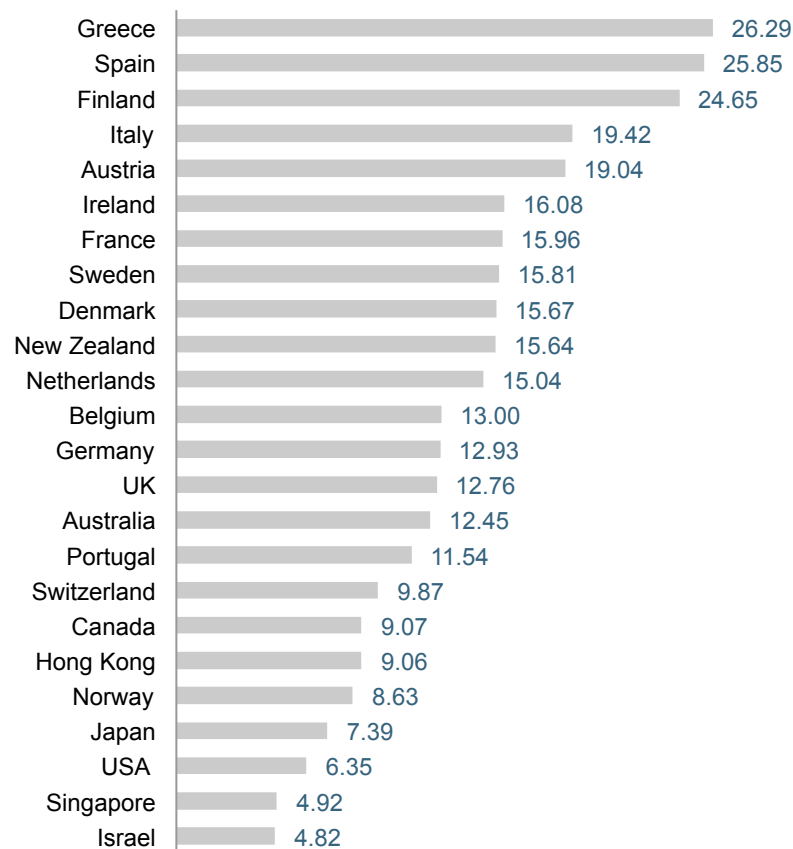
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small 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

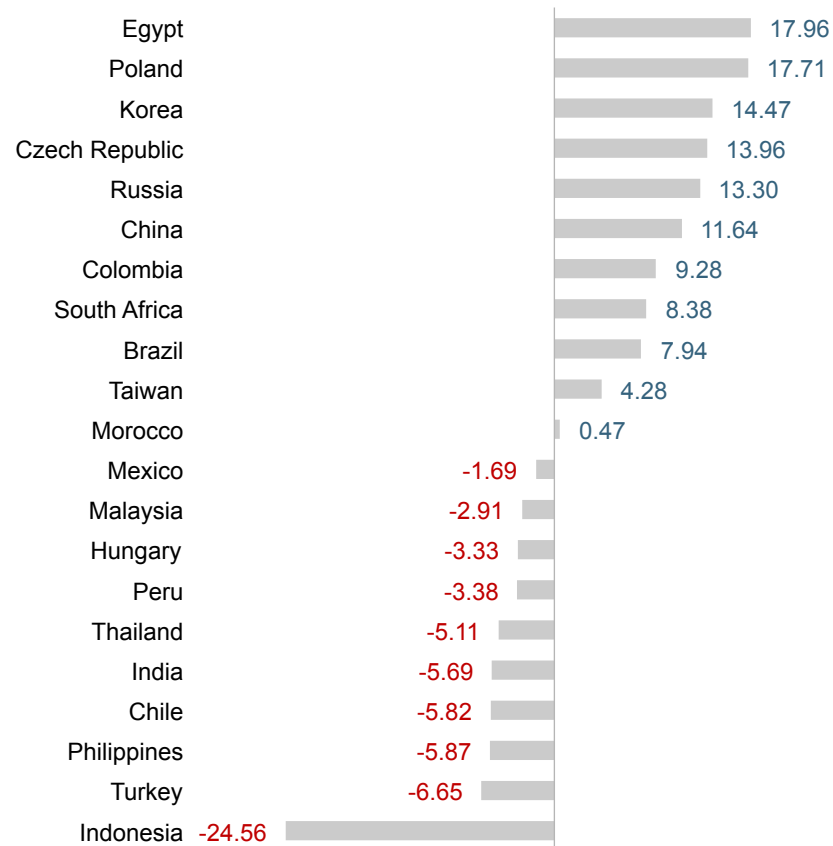
Third Quarter 2013 Index Returns

All developed countries posted positive returns for the quarter, while performance was mixed in emerging markets. Spain, Greece, Italy, and Egypt were among the best performers in USD terms, in contrast to their performance earlier this year. Indonesia, which reported a record high current account deficit, was the worst performing market as the rupiah declined sharply. The larger emerging markets countries of South Korea and Russia, however, performed well.

Developed Markets (% Returns)



Emerging Markets (% 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. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data copyright MSCI 2013, all rights reserved. Russell data © Russell Investment Group 1995–2013, all rights reserved. Greece has recently been reclassified as an emerging markets country by MSCI, effective November 2013.

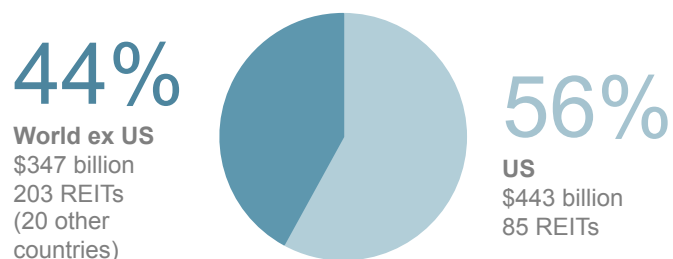
Real Estate Investment Trusts (REITs)

Third Quarter 2013 Index Returns

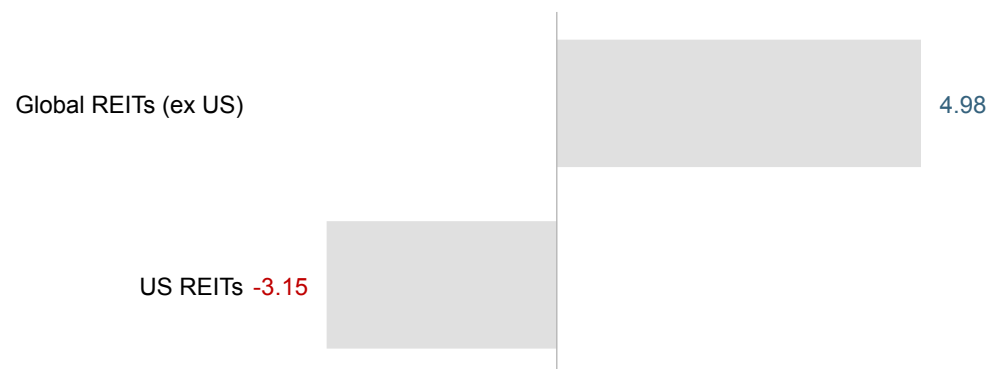
International REITs rebounded during the third quarter to post positive returns, while US REITs continued to experience negative performance.

This was the second consecutive quarter of negative performance for US REITs.

Total Value of REIT Stocks



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
US REITs	2.33	4.70	12.09	5.30	9.29
Global REITs (ex US)	3.40	9.81	9.87	6.65	8.44

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

Third Quarter 2013 Index Returns

Commodities reversed some of their YTD decline, as the DJ-UBS Commodity Index finished up 2.1% during the quarter.

With the US Federal Reserve hinting in mid-September that it will keep rates low for the foreseeable future, precious metals, which have borne the brunt of the commodity market decline so far this year, finished the quarter with a gain of 8-11%. The inflationary impact of the Fed's decision was positive news for precious-metal investors.

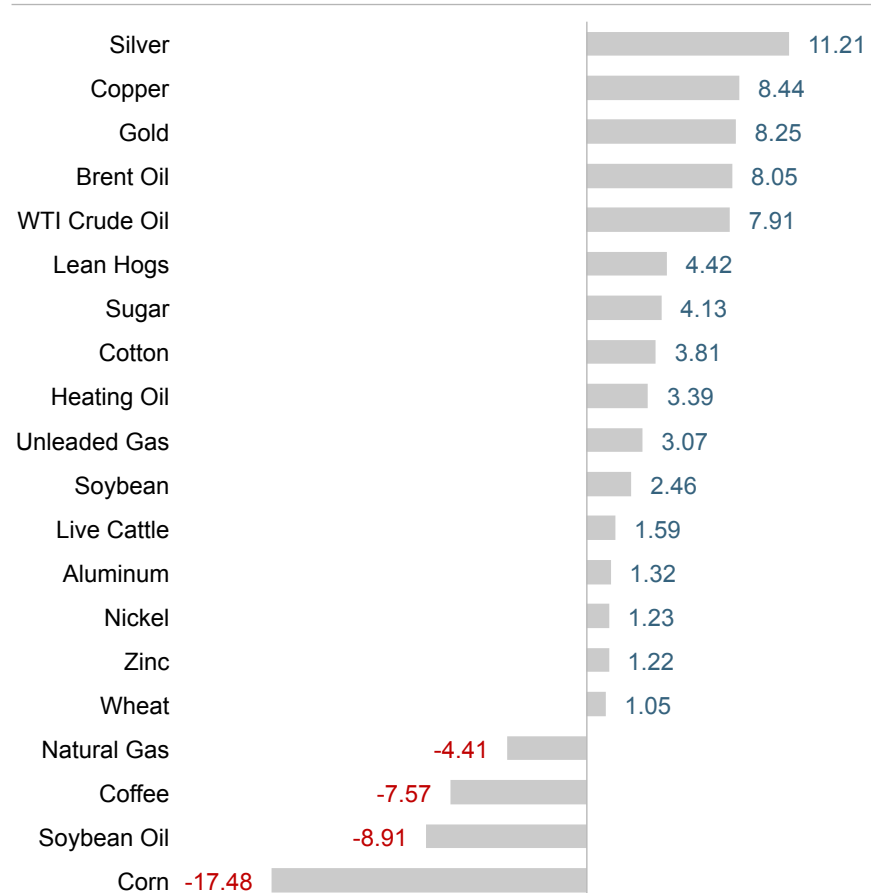
Soft commodities, with the exception of coffee, corn, and soybean oil, reversed the declines from the previous quarter, finishing with gains of 1-4%. The energy complex, with the exception of natural gas, had a good quarter; oil led the way, finishing up approximately 8%.

Period Returns (%)

* Annualized

Asset Class	YTD	Q3	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-8.56	2.13	-14.35	-3.16	-5.29	2.14

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

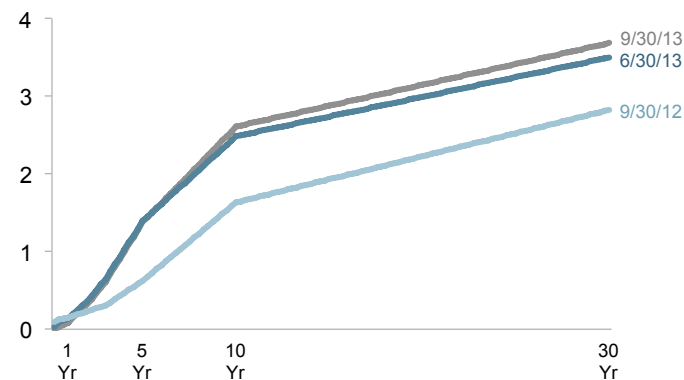
Third Quarter 2013 Index Returns

Bond investors got a bit of good news this quarter as the US Federal Reserve continued the pace of bond buying in the latest quantitative easing program. This was a far cry from the news last quarter, when the Fed announced it would begin to taper the purchase of government bonds with a view to end the most recent round of quantitative easing by mid-2014. The market reacted by taking 10-year bond yields from a two-year high of 3.00% to a close of 2.61%.

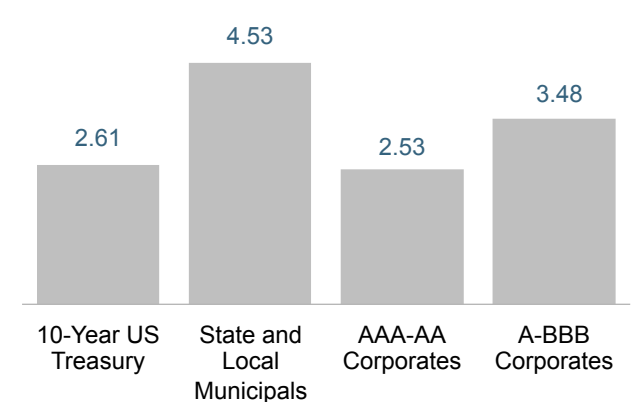
The positive effects of continuing the latest round of quantitative easing, which could be inflationary, spilled over to the TIPS market. Real rates across most of the maturity spectrum declined quarter over quarter.

Yield-seeking investors were rewarded as credit spreads narrowed.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.06	0.10	0.10	0.16	1.70
BofA Merrill Lynch 1-Year US Treasury Note Index	0.24	0.31	0.37	0.87	2.09
Citigroup WGBI 1-5 Years (hedged to USD)	0.40	0.80	1.43	2.53	3.18
Long-Term Government Bonds	-8.86	-10.16	3.48	6.43	6.22
Barclays US Aggregate Bond Index	-1.89	-1.68	2.86	5.41	4.59
Barclays US Corporate High Yield Index	3.73	7.14	9.19	13.53	8.86
Barclays Municipal Bond Index	-2.87	-2.21	3.24	5.98	4.40
Barclays US TIPS Index	-6.74	-6.10	4.02	5.31	5.24

* 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 (SBBBI) 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

Third Quarter 2013 Index Returns

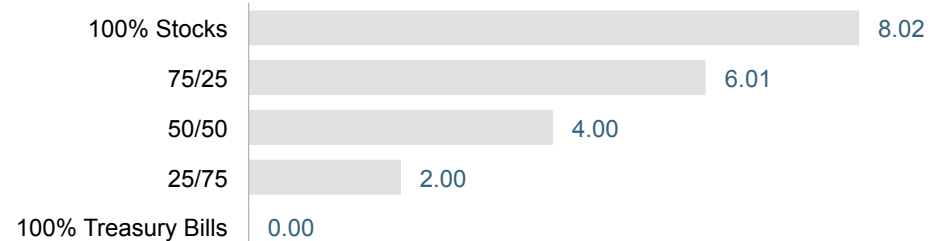
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but also have higher expected returns over time.

Period Returns (%)

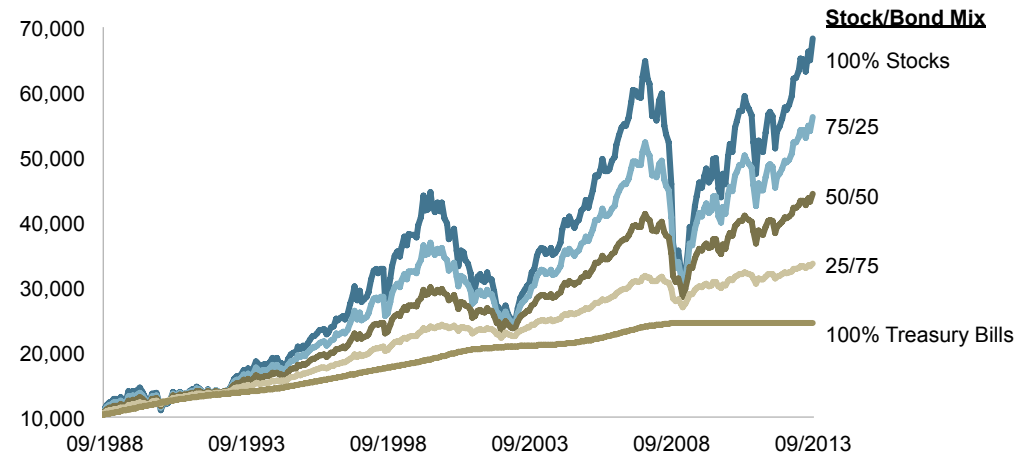
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	14.92	18.37	10.81	8.30	8.41
75/25	11.09	13.60	8.24	6.61	6.95
50/50	7.33	8.96	5.58	4.67	5.31
25/75	3.64	4.44	2.85	2.49	3.51
100% Treasury Bills	0.02	0.04	0.05	0.09	1.56

* Annualized

Ranked Returns for the Quarter (%)



Growth of Wealth: The Relationship between Risk and Return



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Riding the Emerging Markets Tiger

Third Quarter 2013

Many investors fell for emerging markets in recent years when they delivered sizeable returns. More recently, the associated risk has reasserted itself and the infatuation has faded. What's the right approach?

A major theme in media commentary since the turn of the century has been the prospect of a gradual passing of the baton in global economic leadership from the world's most industrialized nations to the emerging economies.

Anticipating this change, investors have sought greater exposure to these changing economic forces by including in their portfolios an allocation to some of the emerging powerhouses such as China, India, and Brazil.

These markets historically have provided higher average returns than developed markets.

But the flipside of these returns is that emerging markets also tend to be riskier and more volatile. This is reflected in their higher standard deviation of returns, which is one measure of risk.

The risk associated with emerging markets has reasserted itself in recent months. Expectations that the US Federal Reserve will "taper" its

monetary stimulus have led to a retreat by many investors from these developing markets.

In its latest economic assessment released in September, the Organization of Economic Cooperation and Development (OECD) noted that while advanced economies were growing again, some emerging economies were slowing.¹ Naturally, many investors will be feeling anxious about these developments and wondering whether emerging markets still have a place in their portfolios. There are number of points to make in response to these concerns.

First, this information is in the price. Markets reflect concerns about the impact of the Fed's tapering on capital flows. Changing a portfolio allocation based on past events is tantamount to closing the stable door after the horse has bolted.

Second, just as rich economies and markets like the US, Japan, Britain, and Australia tend to perform differently from one another, emerging economies and markets tend to perform differently from rich ones.

This just means that irrespective of short-term performance, emerging markets offer the benefit of added diversification. And we know that historically, diversification across

securities, sectors, industries, and countries has been a good source of risk management for a portfolio.

Third, emerging markets perform differently from one another, and it is extremely difficult to predict with any consistency which countries will perform best and worst from year to year. That's why concentrated bets are not advised. Fourth, in judging your exposure to emerging markets, it is important to distinguish between a country's economic footprint and the size of its market. Combined, emerging markets make up only 11% of the total world market.

This is not to downplay the importance of emerging markets. The global economy is changing, and the internationalization of emerging markets in recent decades has allowed investors to invest their capital more broadly. Emerging markets are part of that. We know that risk and return are related, so getting out of emerging markets or reducing one's exposure to them after stock prices have dropped means forgoing the increased expected return potential.

A bumpy ride on this tiger is not unexpected. But for those adequately diversified with an asset allocation set for their needs and risk appetites, it is worth holding on.

1."Interim Economic Assessment," OECD, September 3, 2013

Adapted from "Riding the Emerging Markets Tiger" by Jim Parker, Outside the Flags column on Dimensional's website, September 2013. This information is for educational purposes only and should not be considered investment advice or an offer of any security for sale. All expressions of opinion are subject to change. Diversification does not eliminate the risk of market loss. General investment risks include loss of principal and fluctuating value. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks.

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