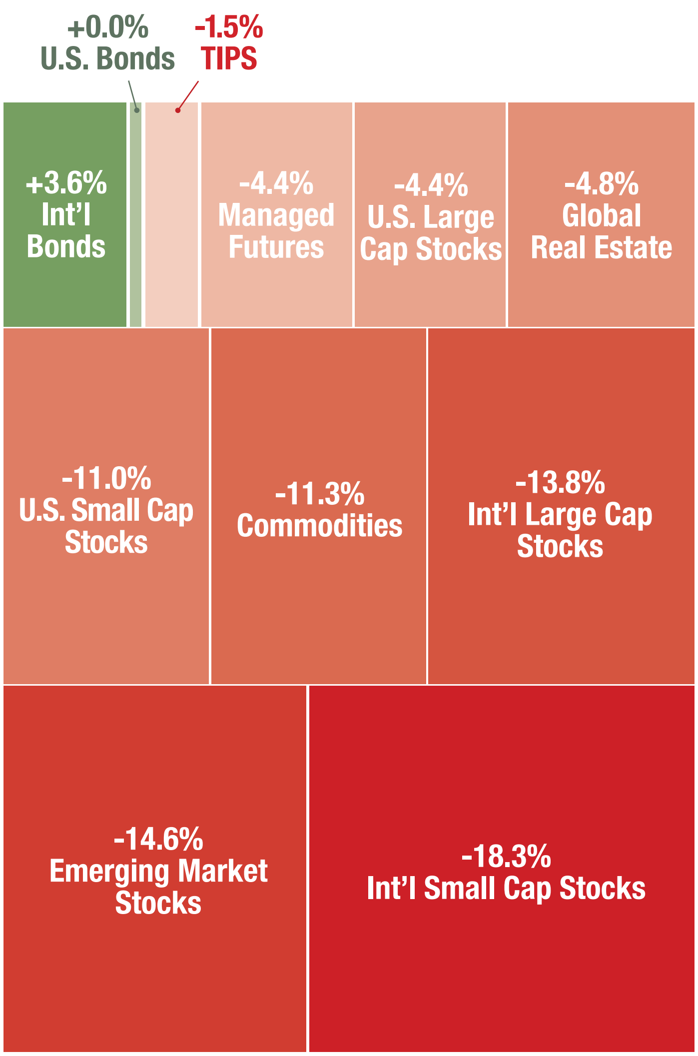
2018: A Rough Transition for Investors

Investors entered 2018 with calm markets and bullish sentiment. As the year played out, the markets became increasingly volatile, the S&P 500 experienced two 10%+ corrections, and investor sentiment changed to bearish. After nine comfortable years of low volatility and rising markets, 2018 reminded investors that corrections are a normal part of investing.

2018 Performance Heat Map



Source: Morningstar Direct. See indices listed in disclosures.

Economic Themes

Interest Rates
- Current range: 2.25-2.50%
- Fed indicating between 0-2 rate hikes in 2019

Inflation
- "Core" consumer prices (excluding food and energy) rose 2.2% year-over-year

Employment
- Extremely low unemployment rate (3.9% as of December 2018)
- Continued its path downward since 2010
- Tight labor market

Economic Growth
- U.S. economy grew by an estimated 2.9% annually, as measured by real GDP

Housing
- Moderation in existing home sales and housing starts
- Rates for 30-year mortgages climbed from about 4% to 4.5%

Crude Oil / Gas
- Boost in supply from the U.S., up 29.5% since 2015
- Price of a barrel of West Texas Intermediate (WTI) oil: $45.15 (as of December 2018)

Corporate Earnings
- Corporate tax cut and deregulation boosted earnings in 2018
- EPS (earnings per share) growth for the S&P 500 was 23.9% in 2018

Global Trade
- Tariffs imposed doubled from previous year
- China trade war uncertainty
- USMCA trade agreement to replace NAFTA if it is ratified

U.S. Dollar
- Trade weighted value (the U.S. dollar vs. other major currencies) rose about 5% in 2018

U.S. Federal Budget
- Increasing deficit: 3.8% of GDP
- Rising debt: 77.9% of GDP

Sources: St. Louis Federal Reserve, S&P Global, JP Morgan, Wells Fargo, Merk Research, DFA, Charles Schwab, bankrate.com

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Why Diversify?

U.S. stocks entered 2018 continuing a nine-year bull run, steadily outpacing non-U.S. stocks over the last several years. This has led investors to the question: "Why invest outside of the U.S.?"

Here are just a few reminders why international stocks still make sense for the long-term.

- U.S. stocks don't always outperform! Recall the "lost decade" (2000-2009) when the S&P 500 endured its worst 10-year performance.
- Including global stocks opens up opportunities for a different return set.

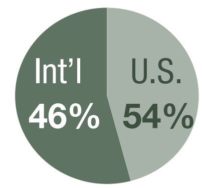
The Lost Decade: Total Cumulative Return 2000-2009	
S&P 500 Index	-9.1%
MSCI World ex U.S. Index (net dividend)	+17.5%
MSCI World ex U.S. Small Cap Index (net dividend)	+94.3%
MSCI Emerging Markets Index (net dividend)	+154.3%

Source: Morningstar Direct

- Investing outside of U.S. large cap stocks provides diversification!
- Not investing in international stocks would result in excluding nearly half of the global market capitalization.

MSCI ACWI Global Market Capitalization

Source: MSCI.com



Why Ride Out Diversification?

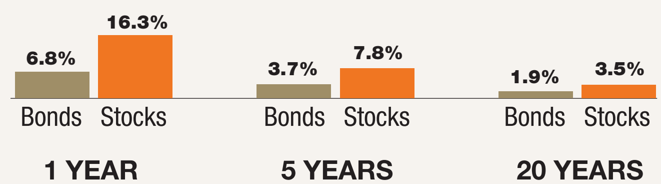
The Odds of Positive Performance Increase with Time in the Market

1/1/1973 -12/31/2018

Based on Diversified 70 Index Portfolio using rolling periods

The Risk Changes with the Holding Period

1/1/1976 - 12/31/2018



Stocks: S&P 500, Bonds: BbgBarc U.S. Agg. Standard deviation is for rolling periods.

A Diversified Portfolio Has Won over the Long-Term!

Years	S&P 500	Diversified 70 Index Portfolio	Outcome
2000-2002	-37.6%	-4.8%	Lost money
2003-2007	+82.9%	+104.6%	Diversification wins
2008	-37.0%	-28.2%	Lost money
2009-2018	+243.0%	+121.1%	Trailed S&P 500
Total Return	**+146.6%**	**+209.2%**	**Diversification wins**

Cumulative returns based on S&P 500 and Diversified 70 Index Portfolio. Total Return reflects 2000-2018.

This presentation of performance is hypothetical and was compiled to represent how a blended index portfolio would have performed from a risk and return perspective. The results were achieved by means of retroactive application of market index returns using static asset allocation weights for a diversified index portfolio. Index weights utilized in this report are available upon request. Throughout this analysis, dividends are assumed to be reinvested and no funds are withdrawn from the Index Portfolio. The Index Portfolio was rebalanced at the beginning of each calendar quarter. Each asset class is represented by the market index as listed on the next page. Some indices were appended with similar indices where their inception date is after 1/1973.

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IMPORTANT DISCLOSURES

Market return data from Morningstar Direct. Indices used (unless otherwise indicated): World Stock-MSCI ACWI IMI Index, U.S. Large Cap-S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small Cap-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, TIPS-ICE BofAML U.S. Treasury Inflation-Linked Securities Index, Short Bonds-BBgBarc U.S. Govt/Credit 1-3 Yr Index, Interm Bonds-BBgBarc U.S. Aggregate Bond Index, Int'l Bonds-JPM GBI Global Ex US Hdg Index, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-Swiss Re Global Cat Bond Index. Some indices have been appended prior to their inception date with similar indices in order to construct a full data set for time period.

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