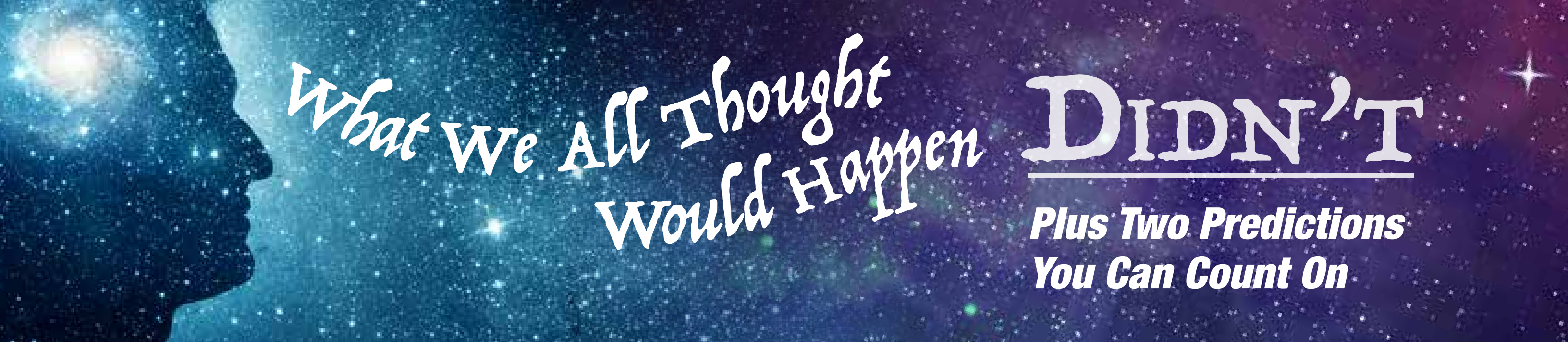
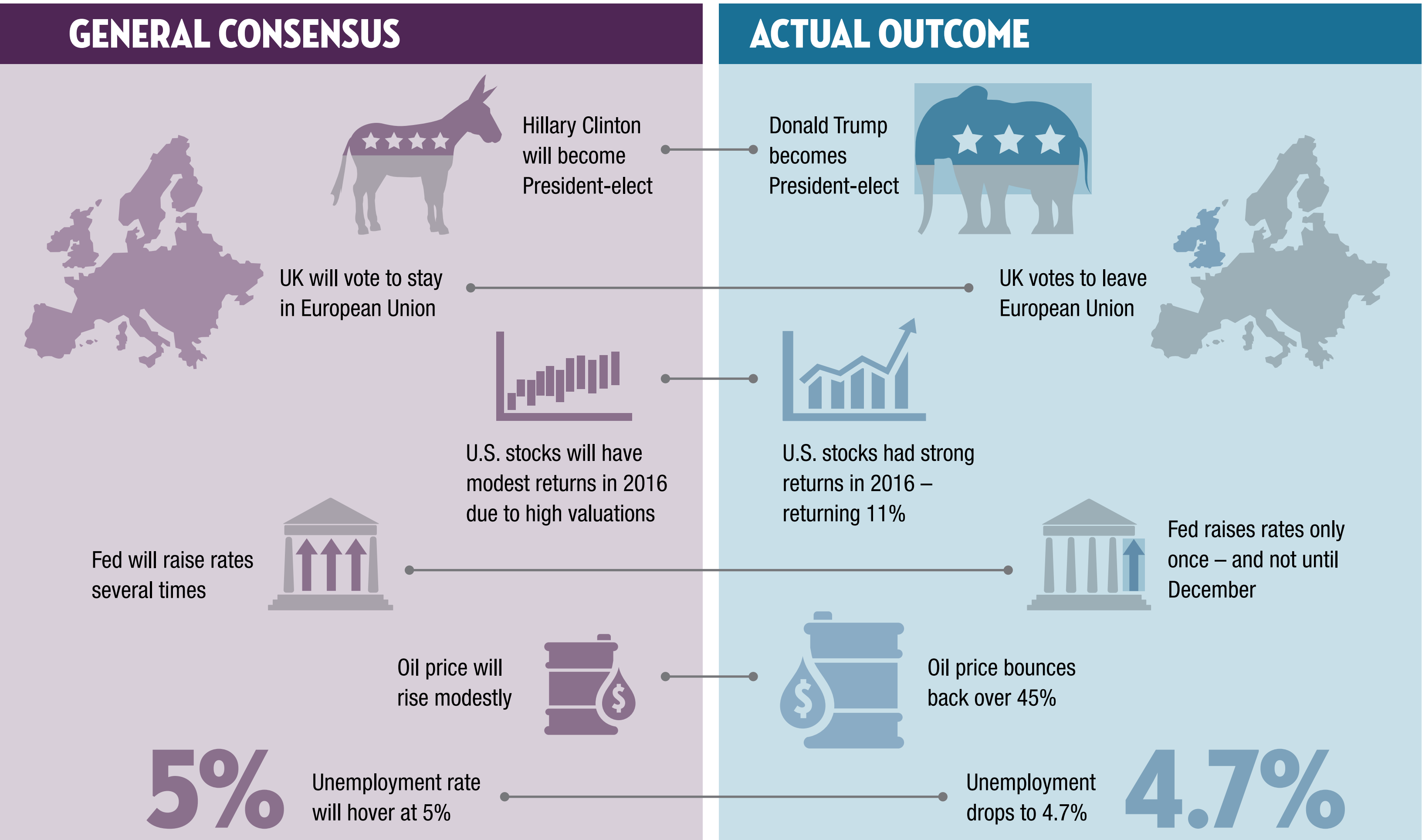


What We All Thought Would Happen DIDN'T

Plus Two Predictions You Can Count On

It's human nature to form expectations on what will happen in the future. If we had polled a group of our clients or even a larger group of people, the general consensus would have likely included similar expectations to the ones below. We now know those expectations did not play out.



Source: Morningstar Direct, CRSP US Total Market Index, WTI Oil

Even if you did correctly guess the outcomes in these or other scenarios, you would still not likely be able to predict what the market reaction would be. For example, those who predicted Trump would win the election would have likely also assumed the global financial markets would panic. In reality, you could have blinked and practically missed the mini-panic in the futures markets when it became apparent that Trump would win in the early hours of November 9th. When the markets opened later that morning, they unexpectedly rallied.

Predictions about future events and price movements come in all shapes and sizes, and many of them tempt the investor into playing a game of outguessing the market. Although one may get lucky here and there in the near term, the odds are not in one's favor with this approach over the long term.

Two Predictions You Can Count On

One important component of Savant's investment philosophy is that we rely on facts and evidence for decision-making about markets rather than our opinions or a "crystal ball." For the past 30 years, this philosophy has guided our investment management process as we continually study the data on markets and update our thinking based on that research. Some of that data changes over time, such as the level of interest rates and stock valuations which factor into how we build portfolio allocations. However, some of that data holds steady and re-affirms the evidence our thinking is built upon. In this article, we highlight examples of two statements that continue to hold true and guide the way we invest.

1. Outguessing the market will not likely work out well.

The track record of professional money managers attempting to profit from mispricing in the market suggests that making frequent investment changes based on market calls may be more harmful than helpful. Figure 1, which shows S&P's SPIVA Scorecard from mid-year 2016, highlights how fund managers have fared against comparative benchmarks. For example, during the past five-year period, 91.9% of U.S. large cap managers, 97.6% of U.S. small cap managers, 60.5% of international stock managers, and 67.6% of emerging markets managers underperformed their respective benchmarks. The results also hold true over shorter and longer horizons.

Figure 1 – **Percent of Stock Funds that Underperform Market Benchmarks**

Fund Category	3 Years	5 Years	10 Years
U.S. Large	81.3%	91.9%	85.4%
U.S. Small	94.1%	97.6%	90.8%
Int'l Developed	54.6%	60.5%	80.2%
Emerging Markets	77.4%	67.6%	81.9%

Source: S&P SPIVA Scorecard. Data as of 6/30/16. Benchmarks used S&P 500, S&P 600, S&P 700, S&P/IFCI EM Composite indices

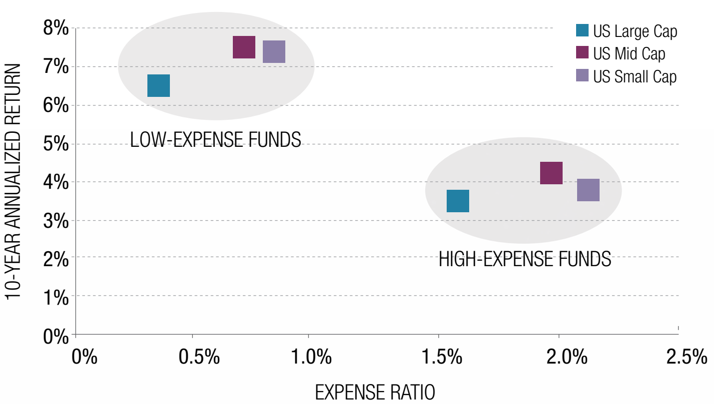
Given that this data consistently reflects the inability of fund managers to outperform the market, the majority of Savant's investment holdings continue to have a broad-based market approach, such as index funds and other rules-based investments.

2. Paying too much for a fund increases the chance the fund will underperform.

There are many ways to study the effect of fund costs on the net return to the investor, but the data consistently shows that low expense funds have performed much better than those with high expense ratios.

Figure 2 illustrates that the low expense U.S. large cap funds outperformed the high expense funds by 2.8% per year over the past 10 years (6.5% versus 3.75% annualized return). Similar results are illustrated with the data for mid- and small-cap funds.

Figure 2 – **Low-Expense Funds Outperform High-Expense Funds**



Source: Morningstar Direct. Filters used: Global categories for funds with inception date of 10 years or longer. High expense funds are those in the top quartile of expenses and low expense funds are those in the bottom quartile. Data as of 12/31/16.

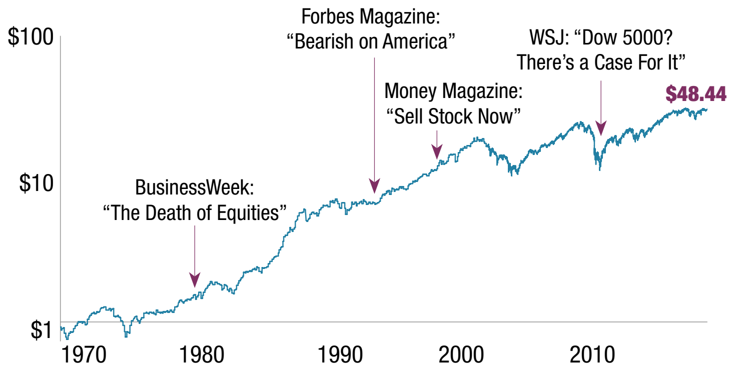
Savant's use of low expense funds is one activity we continually focus on. In recent years, as Savant's size grew and the downward trend on fund fees continued, we have been able to access extremely low expense funds for our portfolios.

Good Behavior is Rewarded

The previous examples are just two of the numerous maxims to which Savant adheres in pursuit of the best risk-adjusted, after-tax returns for our clients. We believe consistently applying those and other activities in portfolios is good behavior and increases the chances of success. Neither we, nor anyone, can predict with accuracy what the future holds, but we can make the case that trusting in markets and discipline in staying invested are important. Reacting negatively to surprising outcomes and bearish headlines are examples of things that can cause an investor to miss out on substantial growth over the coming decades. Figure 3 illustrates that staying invested in markets over time has been rewarding despite many negative headlines and uncertainties.

Figure 3 – **Markets Have Rewarded Discipline**

GROWTH OF $1 – MSCI WORLD STOCK INDEX, 1970-2016



Source: Morningstar Direct

What can you do to improve the odds of success even more? Within the context of an investment plan, it is important to remember that you are likely better served by trusting the plan you have put in place and focusing on what you can control. Furthermore, we all know that 'life happens' and our personal situations change over time, so occasionally you may need to revise those plans.

Those who make changes to a long-term investment strategy based on short-term noise and predictions may be disappointed by the outcome. In the end, the only certain prediction about markets is that the future will remain full of uncertainty. History has shown us, however, that through this uncertainty, markets have rewarded long-term investors who have the discipline to stay the course.

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