

Student of the Market

May 2019

Student of the Market: May 2019

Market Insights

1

6th best start to the year for U.S. Stocks (in the last 94 years)

This is the 6th best start for U.S. stocks in the last 94 years. U.S. stocks ended up even higher at the end of the year in 4 out of the 5 previous best starts.

2

Truly the longest bull market in history?

Much has been made in the press about this being the longest bull market in history, based on daily closing prices. But if you use month end returns, this is only the 4th longest bull at 121 months and a 396% gain.

3

Risky funds are the best performers today, but the opposite was true 3 years ago

With the financial crisis rolling off the 10-year return for stocks, top-performing funds in some categories have seen a dramatic shift in risk profiles. Today, the riskiest funds are the best performers — but the opposite was true 3 years ago.

4

Alternatives: Low correlation and good returns are tough to find

Alternative mutual funds that deliver good diversification and strong returns have been tough to find in recent years. Consider that over the last 3 years, there are only 22 alternative funds that have returned over 5% and had a correlation to stocks of less than 0.5.

5

International stock frustration

Adding even the smallest amount of international stocks to an all U.S. stock portfolio added risk and reduced returns over the last 10 years.

Portfolio Insights

6

Over shorter time periods, investing may feel turbulent

Staying invested over longer time periods is critical to investment success. Since 1926, U.S. bonds have not lost money over any 5-year period, and a 60/40 portfolio has not lost money over any 10-year period.

7

High yield municipal bonds vs. traditional municipal bonds

Over the last 10 years, High yield municipal bond funds have outperformed Traditional municipal bond funds by 2.3% per year.

1

6th best start to the year for U.S. stocks (in the last 94 years)

U.S. stock return

First four months (1/1/19 to 4/30/19)



Best starts to a calendar year for U.S. Stocks (in last 94 years)

Year	First 4 months (Jan 1 to Apr 30)	Next 8 months (May 1 to Dec 31)	Full calendar year
1975	29.2	6.2	37.2
1933	22.5	25.7	54.0
1987	20.3	-12.5	5.3
1943	20.2	4.7	25.9
1983	18.7	3.3	22.6
2019	18.3	?	?

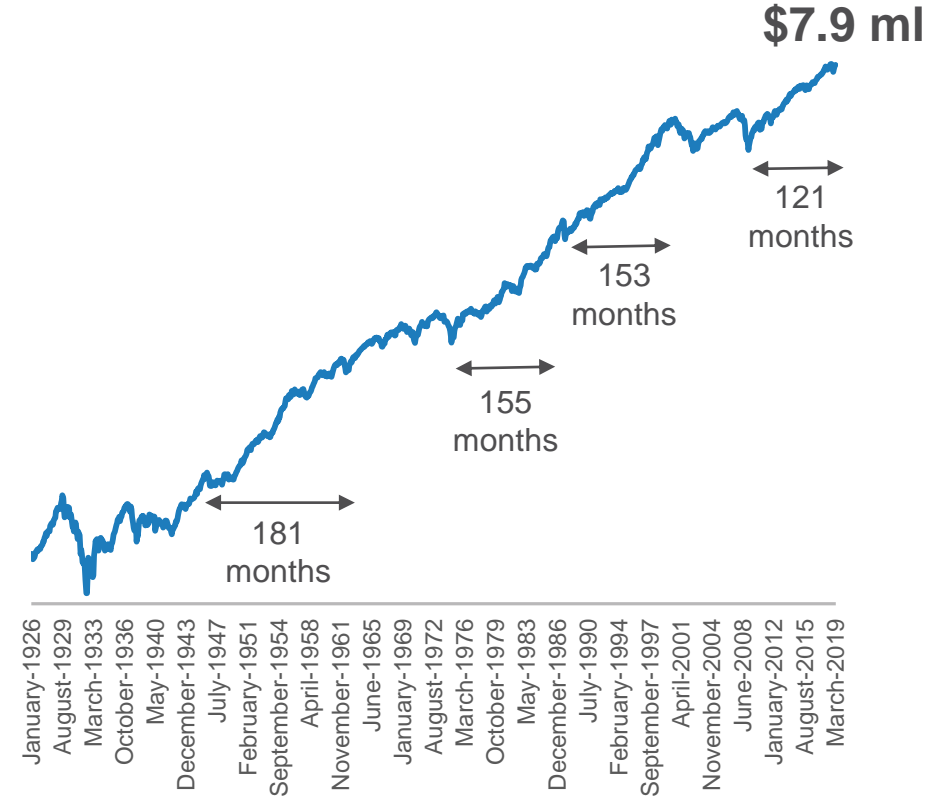
Source: Morningstar as of 4/30/19. U.S. stocks represented by the S&P 500 from 2/1970 to 4/30/19 and the IA SBBI US Lrg Cap Index from 1926 to 2/1970. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.

2

Truly the longest bull market in history?

\$1k invested in U.S. stocks in 1926

Growth of \$1k (1/26 to 4/30/19)



Longest bull markets

Month-end returns

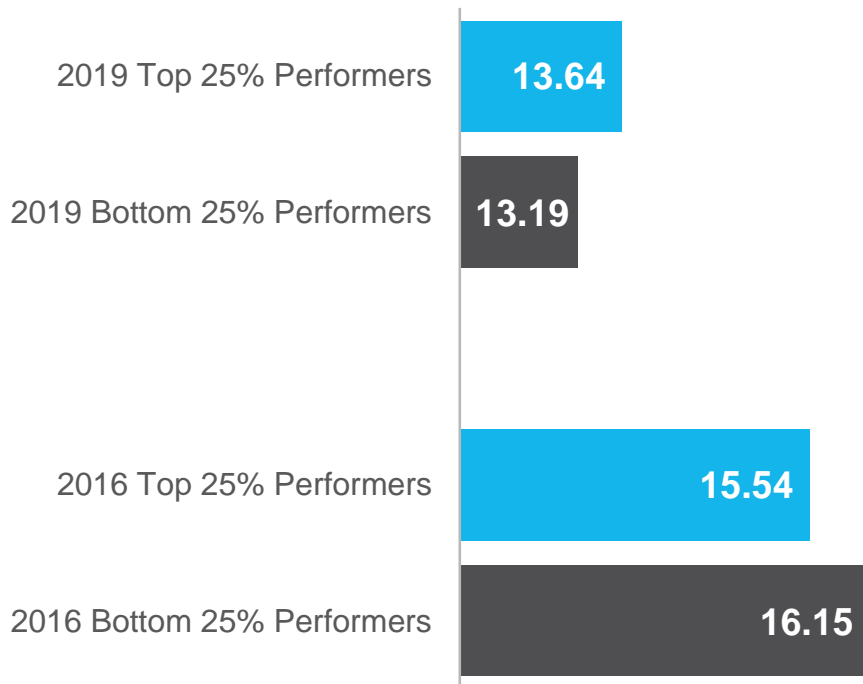
Date	Months	Return	Max Drawdown
11/46 to 12/61	181	946%	-15%
9/74 to 8/87	155	845%	-16.5%
11/87 to 8/00	153	816%	-15.4%
2/09 to 4/19	121	396%	-16.3%

Source: Morningstar as of 4/30/2019. U.S. stocks represented by the S&P 500 from 2/1970 to 4/30/19 and the IA SBBI US Lrg Cap Index from 1926 to 2/1970. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

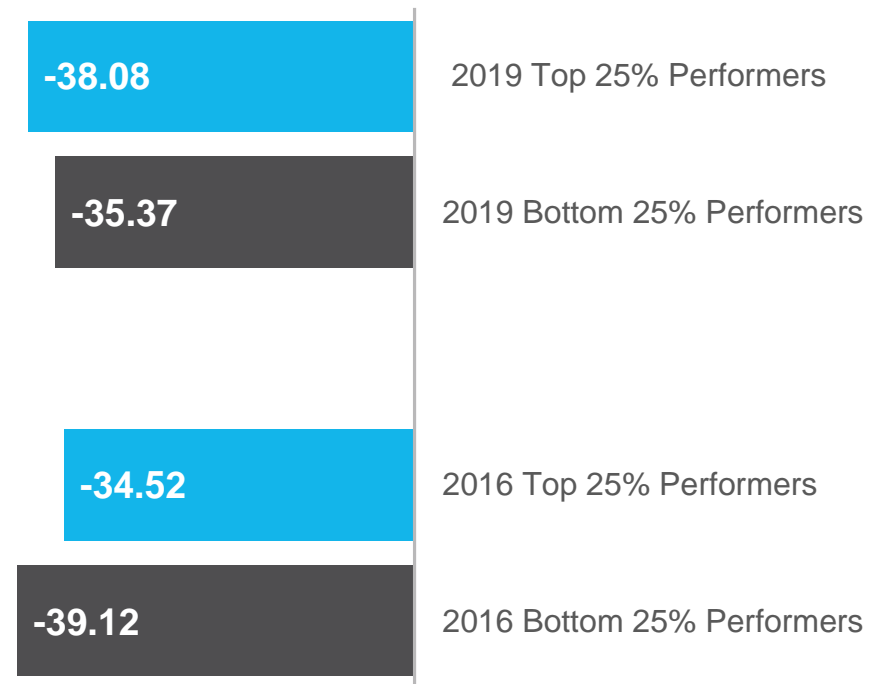
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Risky funds are the best performers today, but the opposite was true 3 years ago

Large blend 10-year standard deviation



Downside risk: Performance in 2008



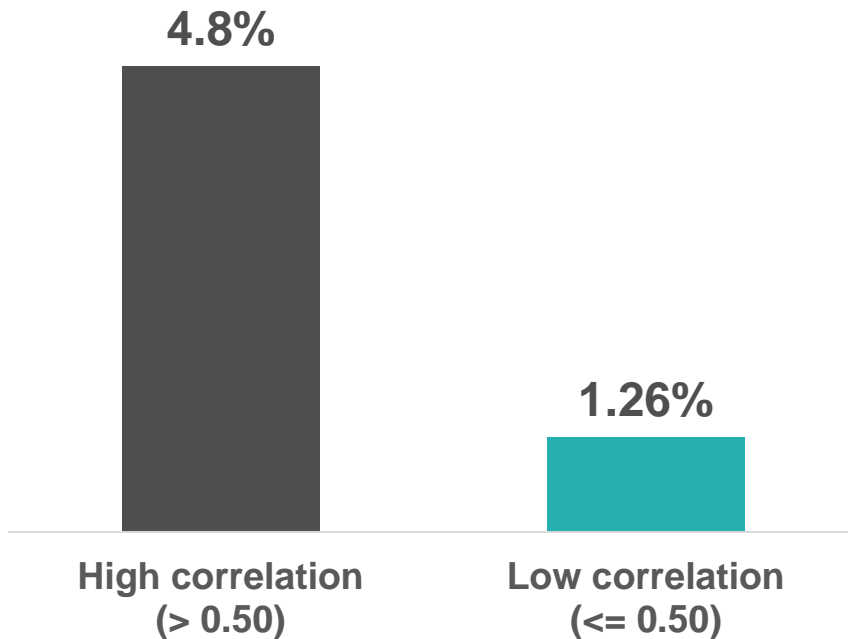
Source: Morningstar as of 3/31/19. Large Blend represented by the Morningstar US Large Blend category. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

4

Alternatives: Low correlation and good returns are tough to find

Average 3-year return of alternative mutual funds, by correlation level

3-year correlation with U.S. stocks, 4/16 to 4/19



Alternative mutual funds with good returns (>5%) and low correlation (<= 0.50)

3-year correlation with U.S. stocks, 4/16 to 4/19



Source: Morningstar as of 4/30/19. Past performance does not guarantee or indicate future results. You can not invest directly in the index. Distributions were reinvested. Alternatives represented by the US Broad Asset Class- Alternatives Category as defined by Morningstar with the exclusion of the leverage funds, trading funds, bear market funds and volatility funds sub-categories.

5

The international stock frustration

Adding even the smallest amount of international stocks to an all U.S. stock portfolio *added risk* and *reduced returns* over the last 10 years.

10-year standard deviations and returns, ending 3/31/19



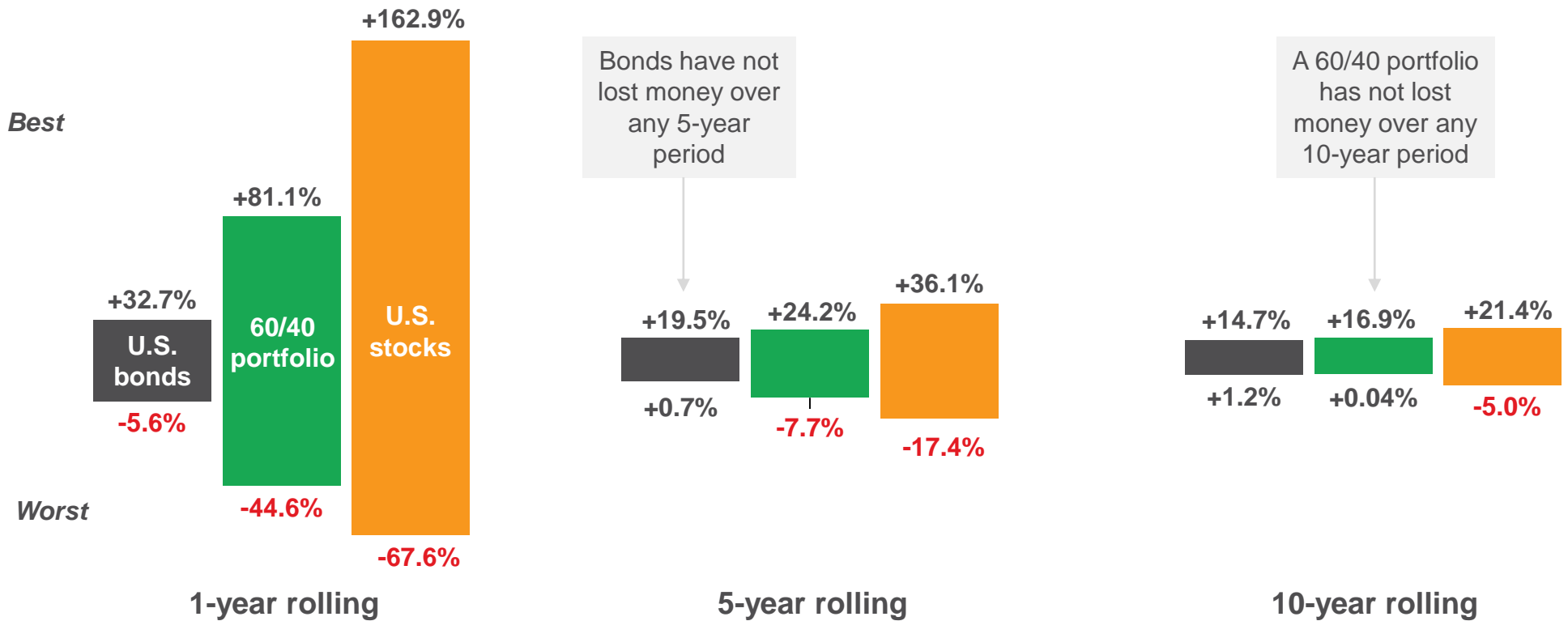
Source: Morningstar as of 4/30/19. Past performance does not guarantee or indicate future results. You can not invest directly in the index. Distributions were reinvested. US Stocks represented by the S&P 500 Index, International stocks represented by the MSCI EAFE Index and International minimum volatility by the MSCI EAFE minimum volatility index.

6

Over shorter time periods, investing can feel turbulent

Range of U.S. stock, U.S. bond and 60/40 portfolio returns since 1926

Average annual rolling returns

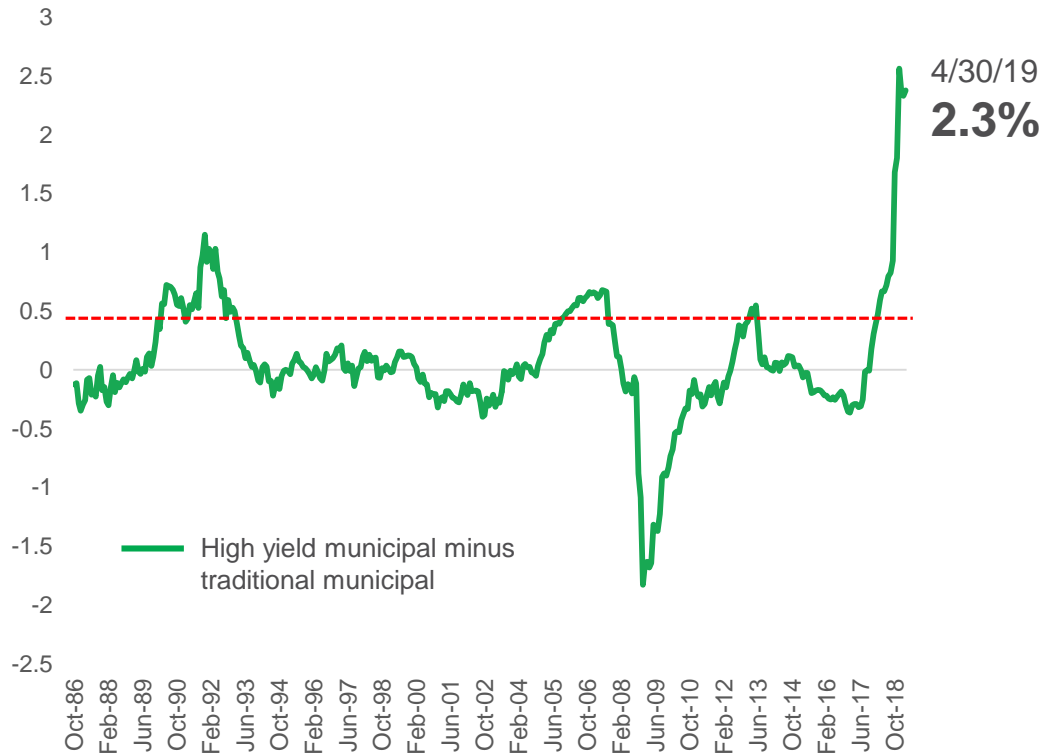


Source: Morningstar as of 4/30/19. US Stocks represented by the S&P 500 from 2/1970 to 4/30/19 and the IA SBBI US Lrg Cap Index from 1926 to 2/1970. Bonds represented by the IA SBBI US IT Index from 1926 to 12/1975 and the BbgBarc US Agg Bond Index from 1/1976 to 4/30/19. 60/40 portfolio represented by 60% IA SBBI US Lrg Cap Index and 40% IA SBBI US IT Index from 1926 to 12/1975. and 60% of the S&P 500 Index and 40% of the BbgBarc US Agg Bond Index from 1/1976 to 4/19. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index..

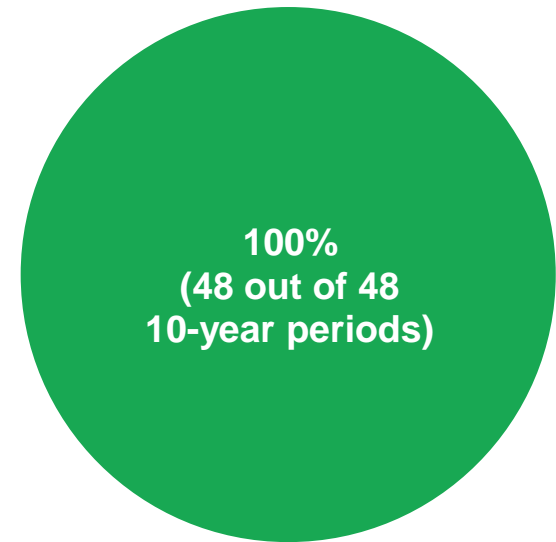
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High yield municipal bonds vs. traditional municipal bonds

High yield municipal bonds vs. traditional municipal bonds
Difference in 10-year rolling returns



The 10-year returns of traditional municipal bonds have (historically) outperformed following large 10-year periods of outperformance by high yield municipal bonds (0.5% or more)



- Traditional muni outperforms
- High yield muni outperforms

Source: Morningstar as of 4/30/19. High Yield Muni represented by the Morningstar High Yield Muni category and the Traditional Muni category represented by the Morningstar National Muni Long category. "Outperformance" of one category is defined as its performance relative to that of the other category. Past performance does not guarantee or indicate future results. You can not invest directly in the index. Distributions were reinvested.

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Standardized Returns as of 4/30/2019	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	13.49	11.63	15.32
BBgBarc US Agg Bond TR USD	5.29	2.57	3.72
IA SBBI US IT Govt TR USD	4.36	1.84	2.38
IA SBBI US Large Stock TR USD Ext	13.49	11.63	15.32
MSCI EAFE Minimum Vol (USD) NR USD	-0.09	5.53	9.53
MSCI EAFE NR USD	-3.22	2.60	7.95
US Fund High Yield Muni	6.20	5.05	7.12
US Fund Large Blend	10.84	9.67	13.85
US Fund Long-Short Credit	2.39	1.97	5.61
US Fund Long-Short Equity	1.45	3.18	6.89
US Fund Managed Futures	-0.52	2.00	-2.24
US Fund Market Neutral	0.14	0.21	1.34
US Fund Multialternative	1.69	1.52	4.36
US Fund Multicurrency	2.29	0.58	0.22
US Fund Muni National Long	5.83	3.68	4.81
US Fund Options-based	4.16	3.76	4.96

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown. **Traditional bonds** represented by **BBG Barclays U.S. Aggregate**. **US stocks** represented by the **S&P 500 Index**. ©2018 Morningstar. All Rights Reserved. The information, data, analyses and opinions contained herein (1) include the confidential and proprietary information of Morningstar, (2) may include, or be derived from, account information provided by a financial advisor which cannot be verified by Morningstar, (3) may not be copied or redistributed, (4) do not constitute investment advice offered by Morningstar, (5) are provided solely for informational purposes and therefore are not an offer to buy or sell a security, and (6) are not warranted to be correct, complete or accurate. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, this information, data, analyses or opinions or their use.

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