



# Q4

Quarterly Market Review  
Fourth Quarter 2011

# Quarterly Market Review

Fourth Quarter 2011

This report features world capital market performance in 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

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

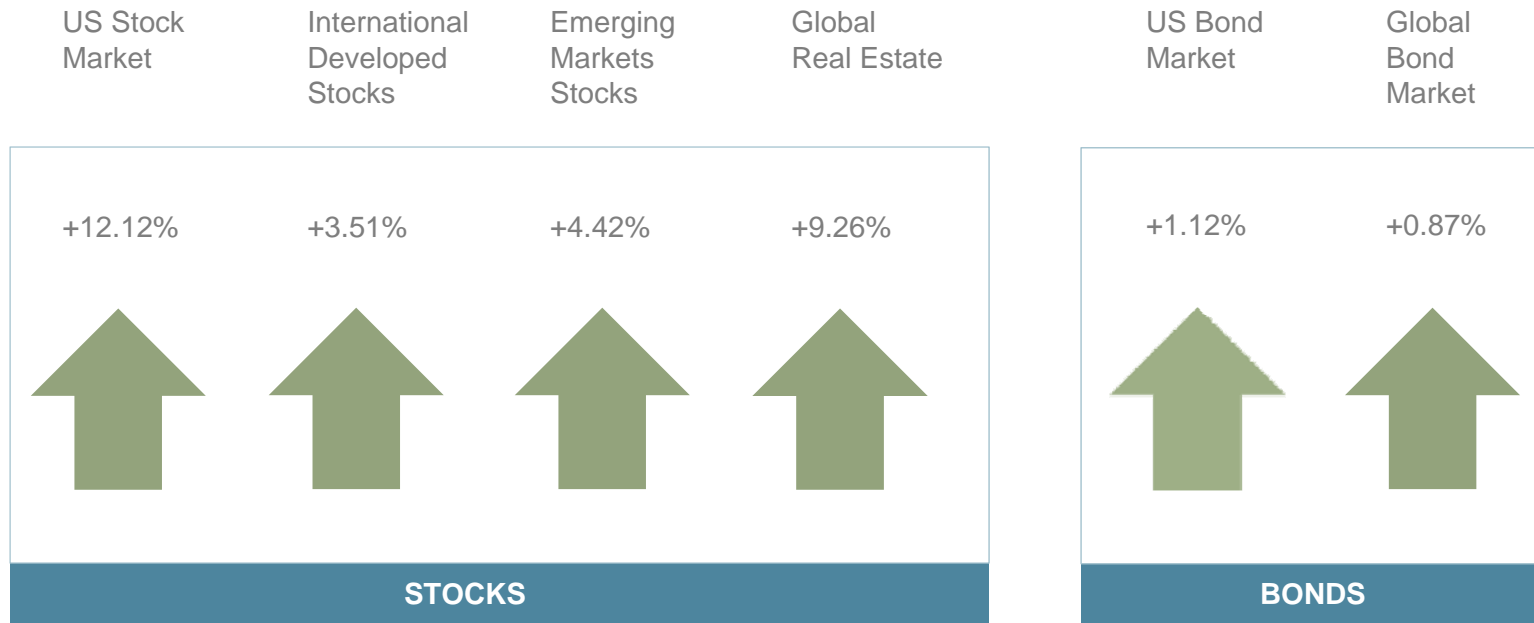
Fixed Income

Global Diversification

Quarterly Topic: The Good Old Days

# Market Summary

## Fourth Quarter 2011 Index Returns

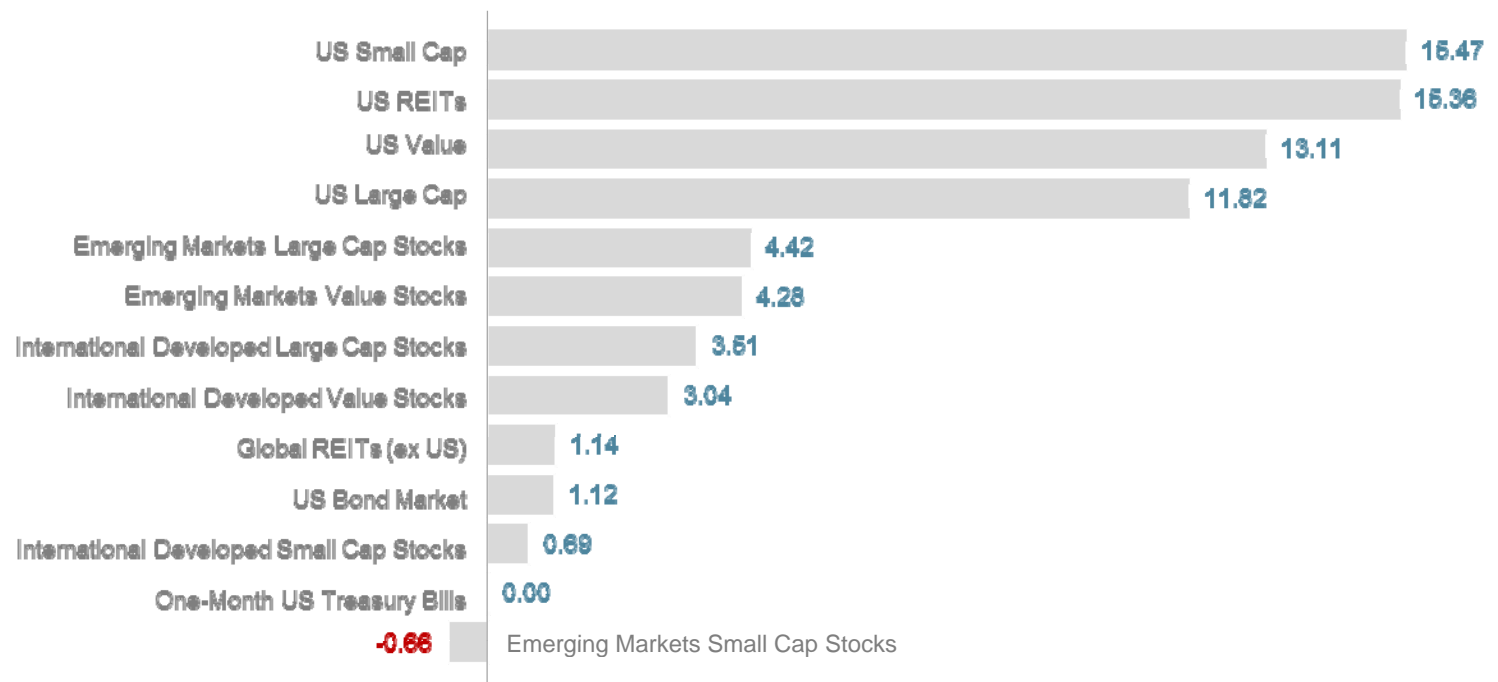


Market segment (index representation) as follows: US Stock Market (Russell 3000 Index); International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays Capital US Aggregate Bond Index), and Global Bond Market (Barclays Capital 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 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, all rights reserved. Barclays Capital 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). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# World Asset Classes

## Fourth Quarter 2011 Index Returns

Led by the excellent performance of US stocks, global equity markets posted strong returns in the quarter. Those returns, however, were not sufficient to overcome a dismal third quarter, and most markets had negative returns for the year.



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 Capital 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 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays Capital 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). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

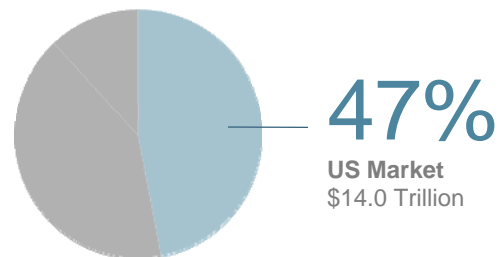
# US Stocks

## Fourth Quarter 2011 Index Returns

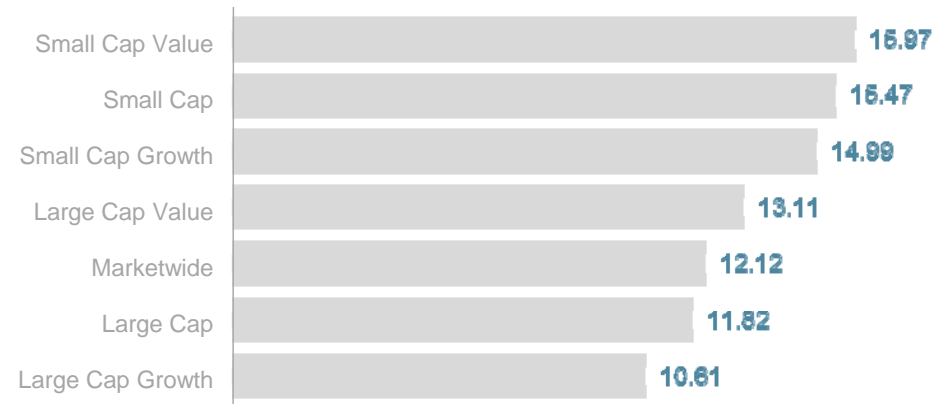
Quarterly returns for the broad US market, as measured by the Russell 3000 Index, were 12.1%. Asset class returns ranged from 16.0% for small cap value stocks to 10.6% for large cap growth stocks.

The strongest sectors in the quarter were energy and industrials, while the weakest one was telecommunications services. For 2011, the strongest sectors were utilities and consumer staples, while the weakest ones were financials and materials. Value outperformed growth in the quarter, but not in 2011.

### World Market Capitalization—US



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	1.03	14.88	-0.01	3.51
Large Cap	2.11	14.11	-0.25	2.92
Large Cap Value	0.39	11.55	-2.64	3.89
Large Cap Growth	2.64	18.02	2.50	2.60
Small Cap	-4.18	15.63	0.15	5.62
Small Cap Value	-5.50	12.36	-1.87	6.40
Small Cap Growth	-2.91	19.00	2.09	4.48

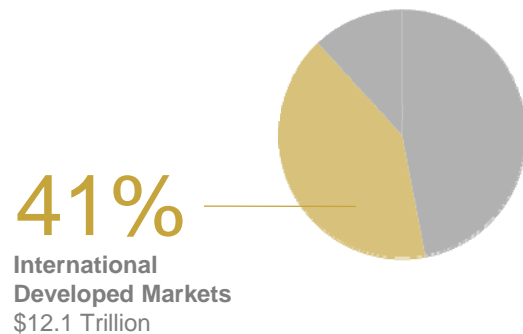
\* Annualized

# International Developed Stocks

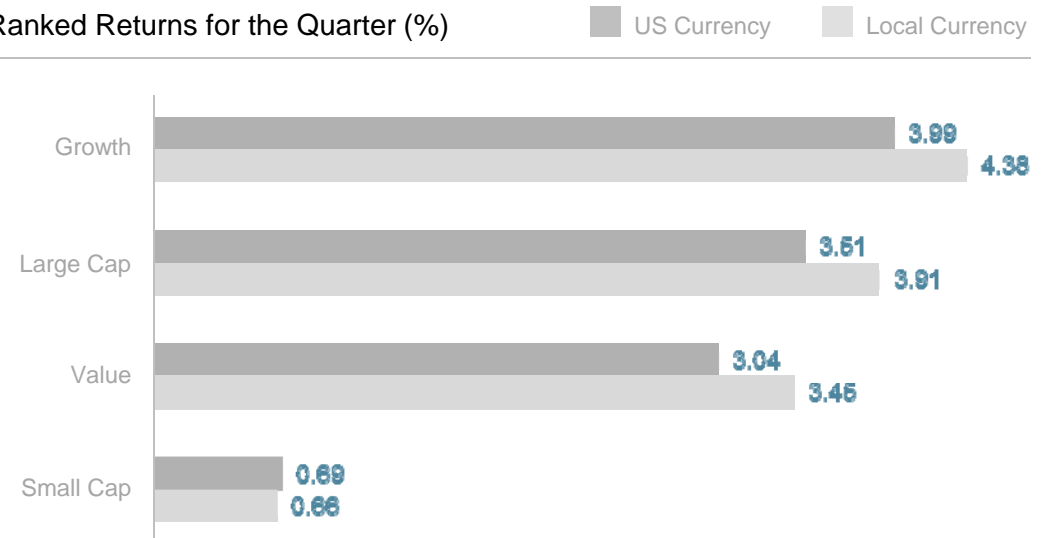
## Fourth Quarter 2011 Index Returns

In US dollar terms, the average quarterly returns for developed non-US markets were over 3%, above the historical average but far behind the US. For 2011, however, developed markets as a whole lost over 12%. As in most of the past few quarters, there was much dispersion in performance at the individual country level. Greece, which remains at the center of Europe's sovereign-debt woes, was by far the worst performer in the quarter and the year. At the other end of the spectrum, Ireland, the Scandinavian countries, and Australia were the top performers for the quarter.

### World Market Capitalization—International Developed



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-12.21	8.53	-4.09	5.14
Small Cap	-15.81	16.50	-3.23	9.41
Value	-11.69	8.17	-5.48	5.49
Growth	-12.71	8.84	-2.76	4.70

\* Annualized

**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 (MSCI All Country World ex USA Index), 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 2011, all rights reserved. Past performance is not a guarantee of future results.

# Emerging Markets Stocks

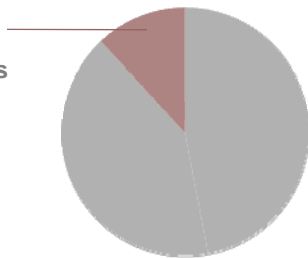
## Fourth Quarter 2011 Index Returns

In US dollar terms, emerging markets gained about 4% in the quarter, in line with the historical average, but not enough to overcome their very poor performance of the third quarter. As a result, emerging markets lost almost 20% in 2011. Malaysia and other smaller emerging markets such as Thailand and Peru posted double-digit returns in the quarter. At the other end of the spectrum, Turkey and Egypt had double-digit negative returns in the quarter.

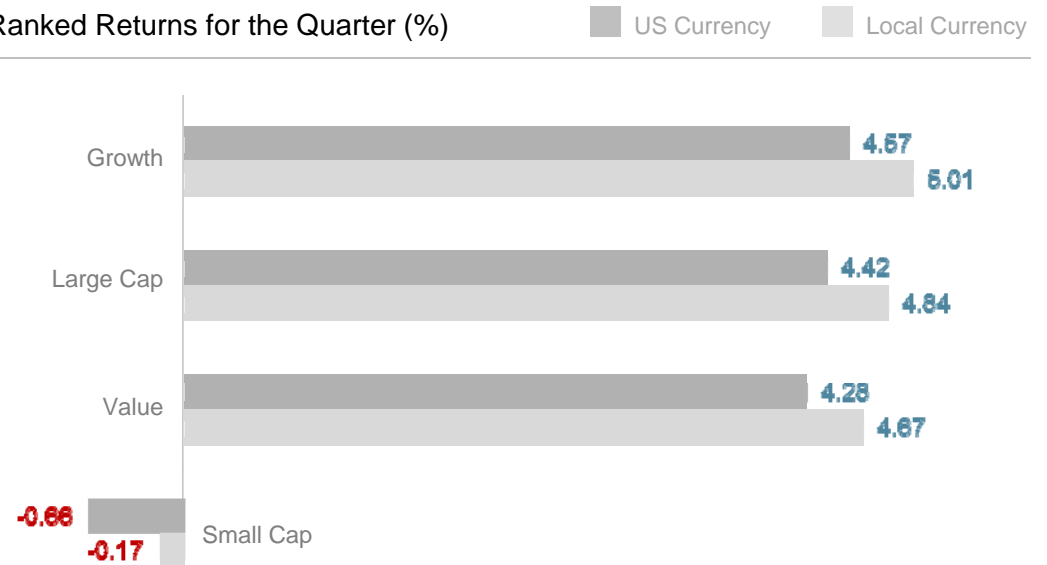
### World Market Capitalization—Emerging Markets

**12%**

Emerging Markets  
\$3.6 Trillion



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-18.42	20.07	2.40	13.86
Small Cap	-27.18	25.57	3.30	14.77
Value	-17.86	20.32	4.26	15.90
Growth	-18.97	19.82	0.54	11.81

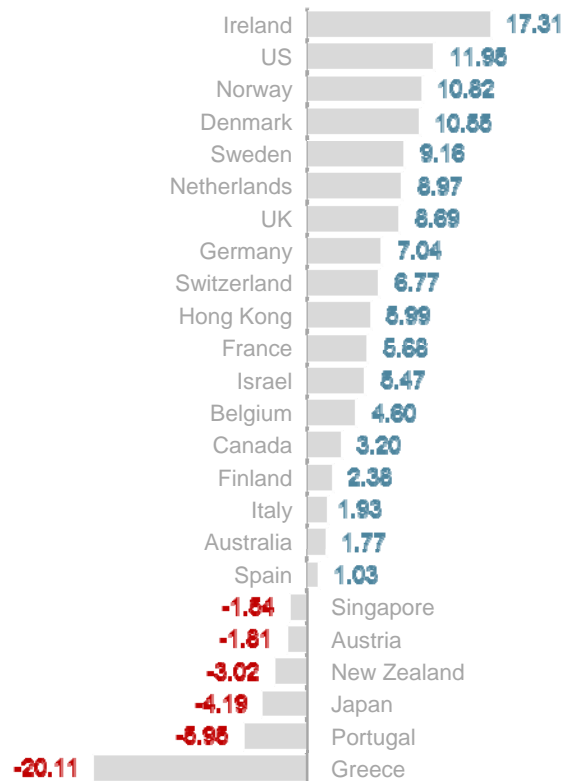
\* Annualized

# Select Country Performance

## Fourth Quarter 2011 Index Returns

Individual country market performance varied considerably in both developed and emerging markets. The difference between the best-performing developed market, Ireland, and the worst-performing market, Greece, was close to 40% (17.31% vs. -20.11%). In emerging markets, the difference between the best performer (Thailand) and worst performer (Turkey) was almost 30% (12.94% vs. -13.95%).

### Developed Markets (% Returns)



### Emerging Markets (% Returns)



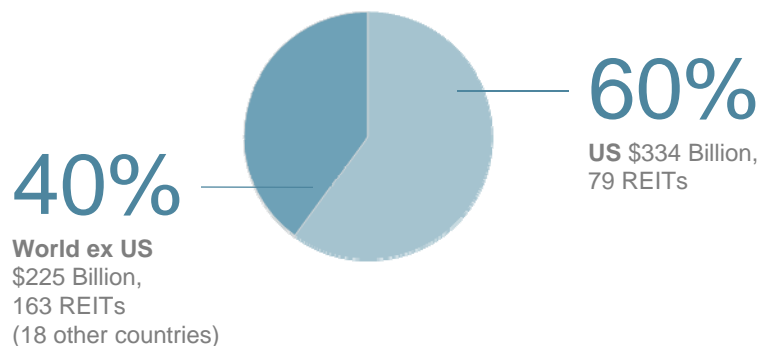


# Real Estate Investment Trusts (REITs)

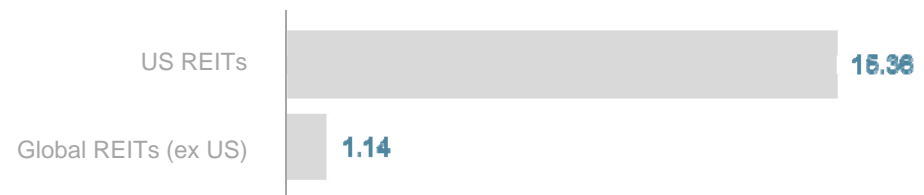
## Fourth Quarter 2011 Index Returns

Real estate securities had positive returns in the quarter but mixed performance relative to other asset classes. In the US, they were among the top performers, while in other developed markets, they trailed most other asset classes.

### Total Value of REIT Stocks



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITs	9.37	21.63	-2.04	10.12
Global REITs (ex US)	-8.61	13.86	-7.66	9.75

\* Annualized

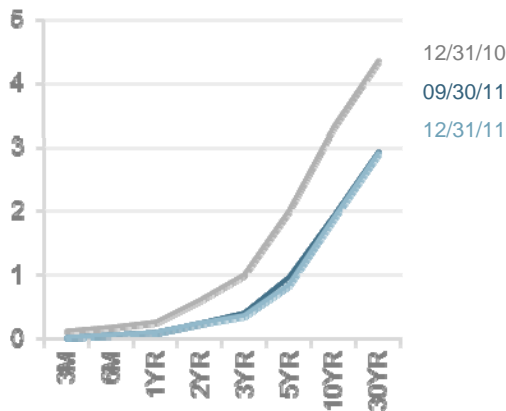
# Fixed Income

## Fourth Quarter 2011 Index Returns

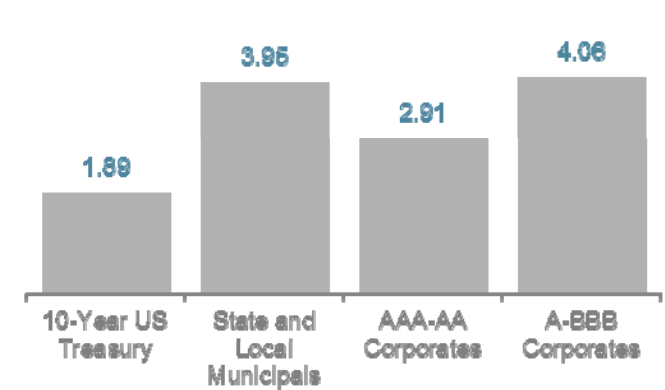
The Federal Open Market Committee maintained its target range for the federal funds rate between zero and 0.25% in the fourth quarter and reaffirmed its goal to maintain that target at very low levels until at least mid-2013.

With the exception of inflation-protected securities, which had another outstanding quarter, fixed income securities produced mixed returns. Over 2011, however, fixed income securities largely benefitted from a sustained flight to quality and a flattening yield curve, particularly intermediate to long term US government securities.

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)	0.04	0.08	1.31	1.81
Bank of America Merrill Lynch Three-Month T-Bills	0.10	0.14	1.48	1.95
Bank of America Merrill Lynch One-Year US Treasury Note	0.57	0.73	2.55	2.51
Citigroup World Government Bond 1-5 Years (hedged)	2.31	2.20	3.88	3.62
US Long-Term Government Bonds (SBBI)	28.23	6.32	10.69	8.92
Barclays Capital Corporate High Yield	4.98	24.12	7.54	8.86
Barclays Capital Municipal Bonds	10.70	8.57	5.22	5.38
Barclays Capital US TIPS Index	13.56	10.38	7.95	7.58

\* Annualized

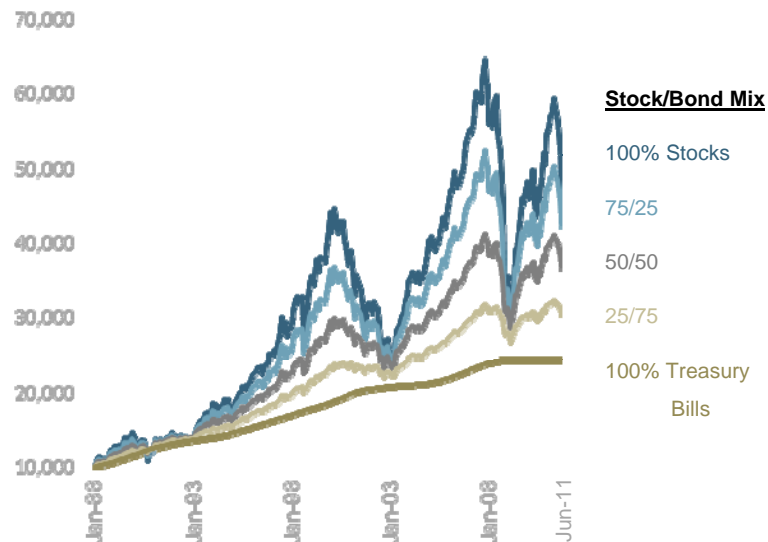
**Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. 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 Capital data, formerly Lehman Brothers, 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 2011 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2011 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Past performance is not a guarantee of future results.

# Global Diversification

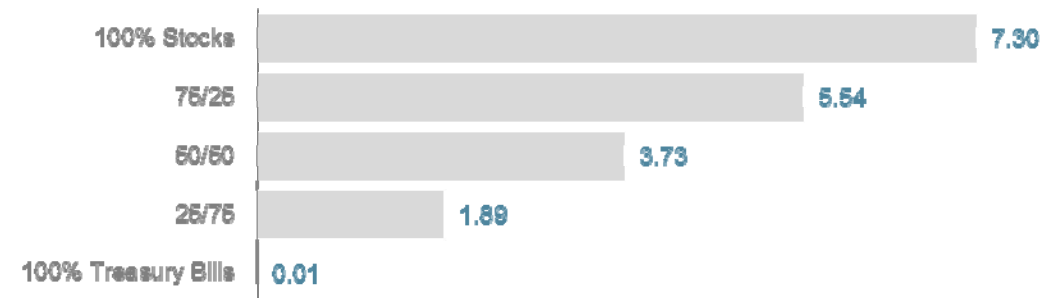
## Fourth Quarter 2011 Index Returns

These portfolios illustrate performance of different global stock-bond mixes. Those with larger allocations to stocks are considered riskier but also have higher expected returns over time.

### Growth of Wealth: The Relationship between Risk and Return



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	-6.86	12.60	-1.41	4.76
75/25	-4.91	9.77	-0.30	4.32
50/50	-3.10	6.73	0.52	3.68
25/75	-1.45	3.49	1.05	2.84
100% Treasury Bills	0.04	0.08	1.31	1.81

\* Annualized

Hypothetical allocations are for illustrative purposes only. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.

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 2011, all rights reserved. © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# The Good Old Days

Fourth Quarter 2011

As the year winds down, financial markets are gripped by uncertainty over developments in the Eurozone crisis. While not seeking to downplay the anxiety generated by these events, particularly in relation to their effects on investment portfolios, it's worth reflecting critically on the 20<sup>th</sup> century, and putting current events in perspective:

- Nearly 100 years ago, Europe was engulfed by World War I. The economic effects were significant, with widespread rationing, labor shortages, and massive government borrowing.
- A little over a decade later, the Great Depression cut a swath through the global economy. In the meantime, resentment was growing in Germany over its Great War reparations to the Allied powers. Berlin resorted to printing money to pay its debts, which in turn led to hyperinflation.
- More than 50 million died in the Second World War. In economic terms, the war's impact was profound. Most of Europe's infrastructure was destroyed, millions of people were left homeless, labor shortages were rife, and rationing was prevalent.
- In the mid-1970s, the depreciation of the US dollar, the breakdown of the monetary system, and war in the Middle East encouraged major oil producers to quadruple oil prices. Stock markets collapsed and stagflation—a combination of rising inflation alongside rising unemployment—gripped many countries.
- In the past decade, there have been the tragedies of 9/11; the 2004 Asian tsunami; the 2011 Japanese earthquake, tsunami, and nuclear crisis; and now, the financial crisis sparked by irresponsible lending, complex derivatives, and excessive leverage.

Today, while the US and Europe are gripped by tough economic times, much of the developing world is thriving. Rising levels of education, health, and workforce participation also mean that foundations are being built for a healthier and more peaceful global economy .

Anxiety over recent market developments is completely understandable, and it is quite human to feel concerned about events in Europe. But amid all the bad news, it is also clear that the world is changing in positive ways that provide plenty of cause for hope and, at the very least, gratitude for what we *already* have.