

Q4

Quarterly Market Review

Fourth Quarter 2012



Quarterly Market Review

Fourth Quarter 2012

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

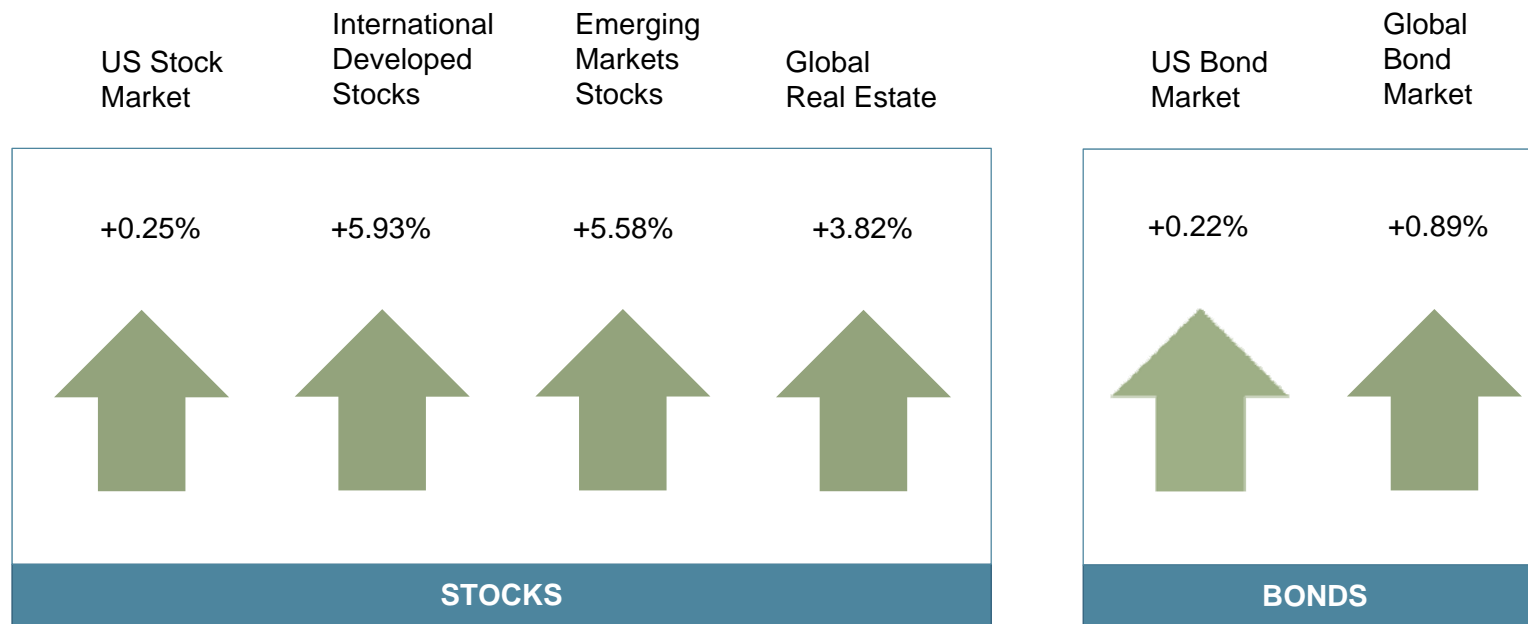
Fixed Income

Global Diversification

Quarterly Topic: The Top Ten Money Excuses

Market Summary

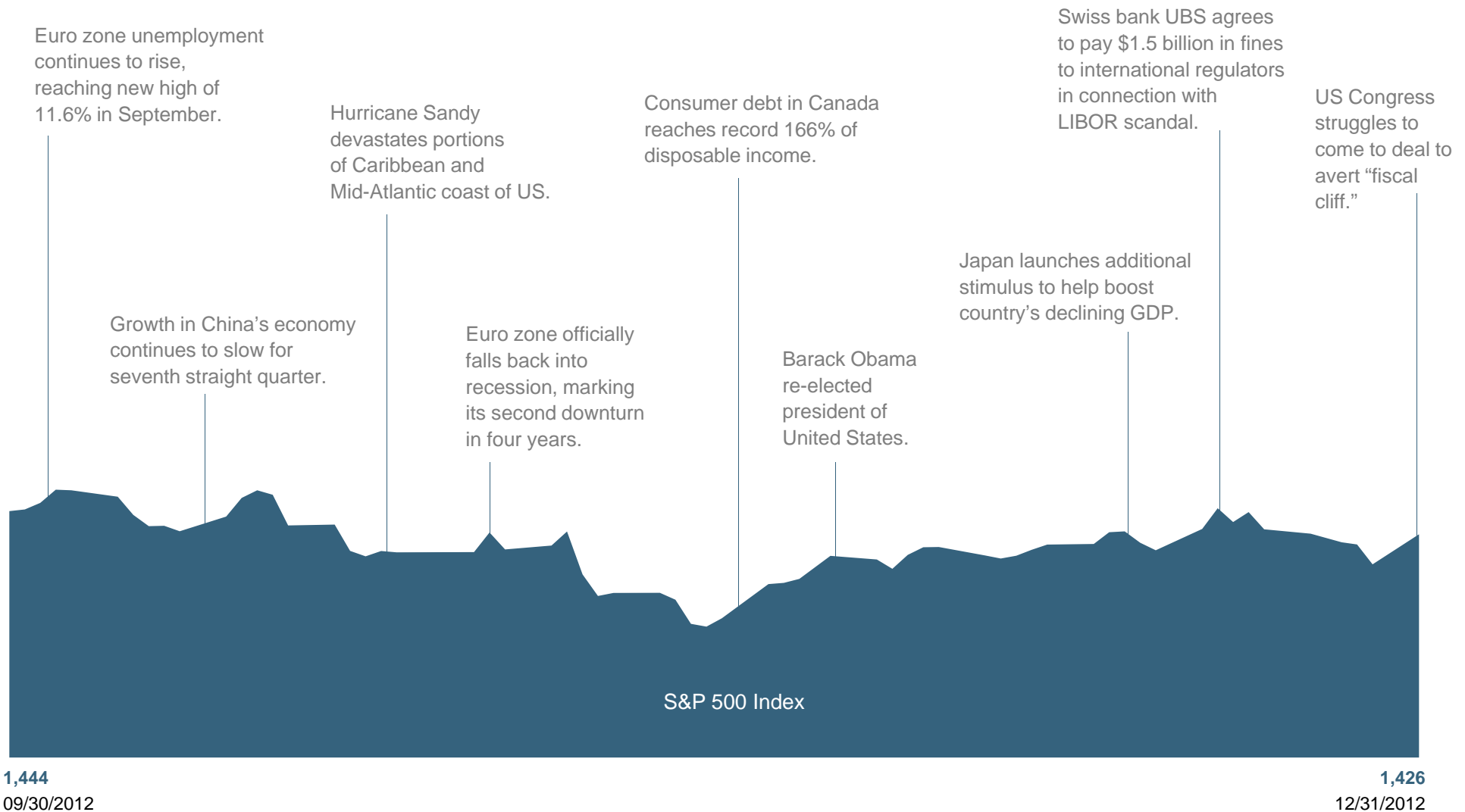
Fourth Quarter 2012 Index Returns



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 Market (Barclays 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 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. 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).

Timeline of Events: Quarter in Review

Fourth Quarter 2012

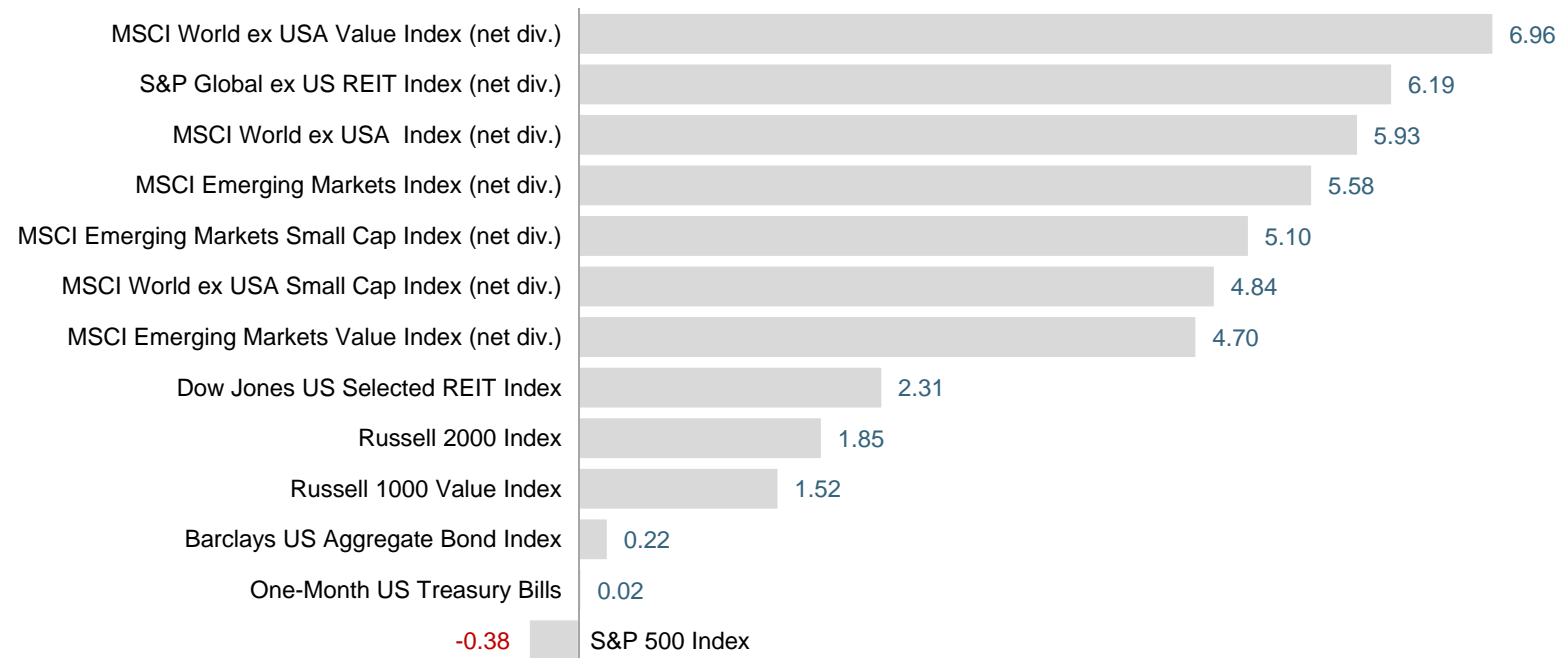


The graph illustrates the S&P 500 Index price changes over the quarter. The return of the price-only index is generally lower than the total return of the index that also includes the dividend returns. Source: The S&P data are provided by Standard & Poor's Index Services Group. The events highlighted are not intended to explain market movements.

World Asset Classes

Fourth Quarter 2012 Index Returns

Global equity markets followed a strong third quarter with positive returns in the fourth quarter, as most major global indices ended the year with gains. Developed markets outside the US led equity returns, followed by global REITs.



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 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 copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, 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).

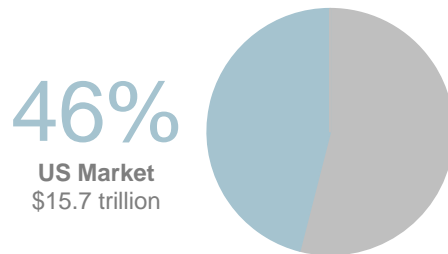
US Stocks

Fourth Quarter 2012 Index Returns

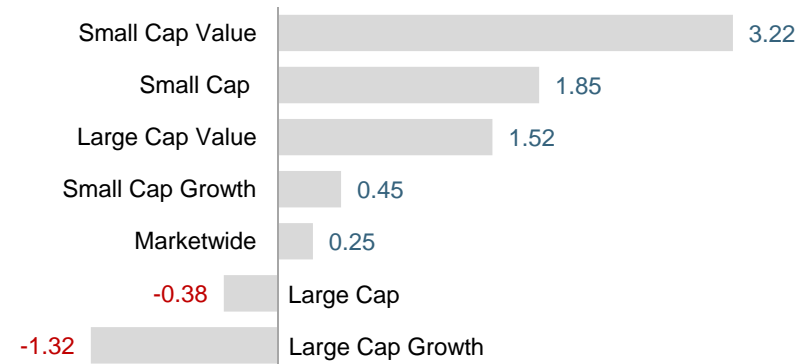
US small cap stocks and US value stocks experienced positive performance in the fourth quarter, which contributed to slightly positive broad market returns of 0.25%. Large cap and large cap growth stocks had negative returns of -0.38% and -1.32%, respectively. Small cap value stocks enjoyed the best performance, up 3.22% for the quarter.

US stocks across the board were positive for the year ended December 31, 2012.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	16.42	11.20	2.04	7.68
Large Cap	16.00	10.87	1.66	7.10
Large Cap Value	17.51	10.86	0.59	7.38
Large Cap Growth	15.26	11.35	3.12	7.52
Small Cap	16.35	12.25	3.56	9.72
Small Cap Value	18.05	11.57	3.55	9.50
Small Cap Growth	14.59	12.82	3.49	9.80

* 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. 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 1995–2012, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group.

International Developed Stocks

Fourth Quarter 2012 Index Returns

International developed equities posted strong performance, with all major asset classes showing gains for the quarter.

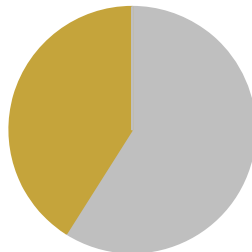
The US dollar appreciated relative to most major foreign developed currencies.

Across the size and style spectrum, large caps outperformed small caps and value outperformed growth.

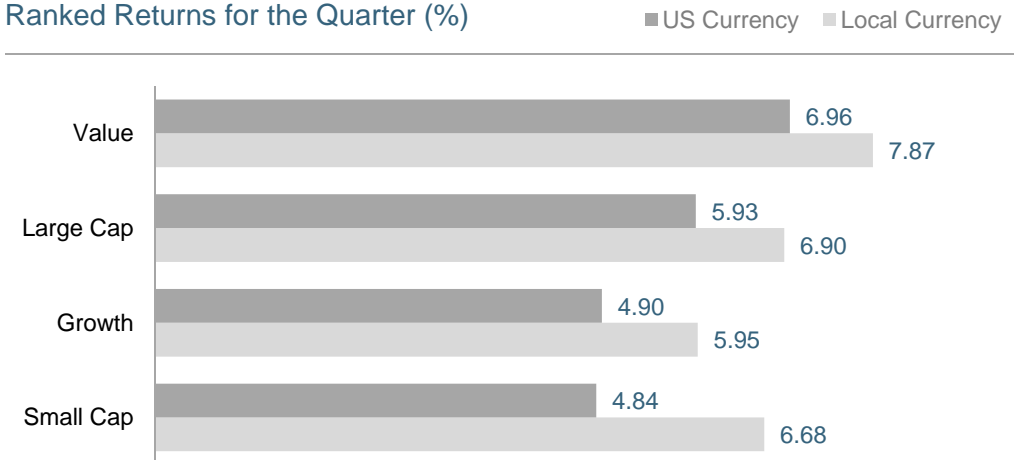
World Market Capitalization—International Developed

41%

International
Developed
Market
\$13.8 trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	16.41	3.65	-3.43	8.60
Small Cap	17.48	7.19	-0.70	12.04
Value	17.29	2.78	-3.72	9.06
Growth	15.48	4.46	-3.18	8.05

* 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. Market segment (index representation) as follows: 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 2012, all rights reserved.

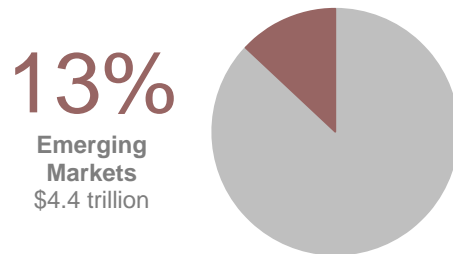
Emerging Markets Stocks

Fourth Quarter 2012 Index Returns

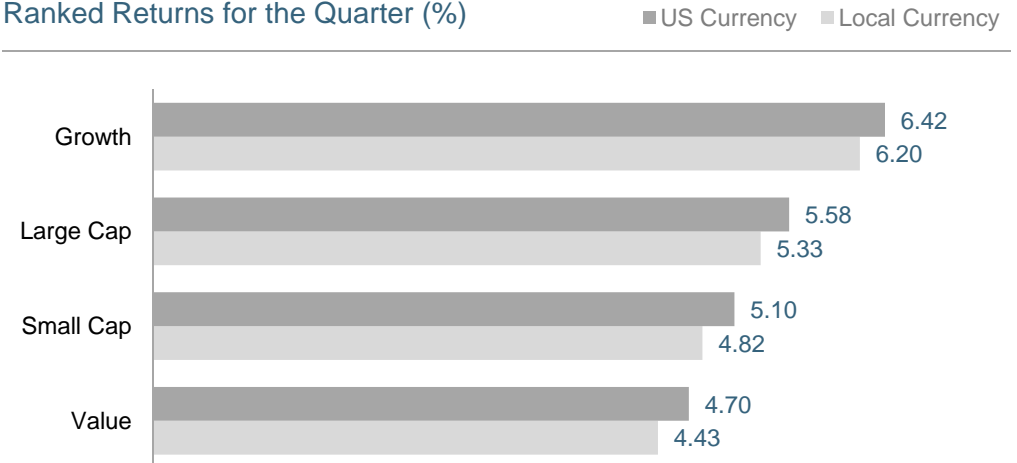
Emerging markets returned 5.58%, with all other major equity sub-classes posting positive returns. The growth effect was mixed across the size spectrum. Value outperformed growth in mid cap and small cap stocks but underperformed in large caps.

The US dollar depreciated against most of the main emerging markets currencies.

World Market Capitalization—Emerging Markets



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	18.22	4.66	-0.92	16.52
Small Cap	22.22	4.21	0.21	17.27
Value	15.87	4.06	0.07	18.17
Growth	20.56	5.24	-1.95	14.84

* Annualized

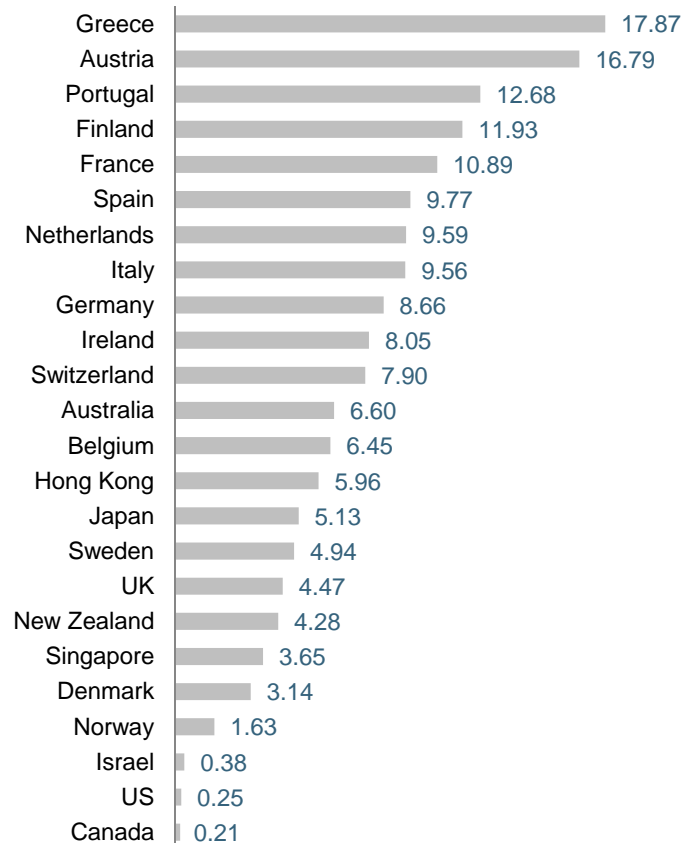
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small 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 2012, all rights reserved.

Select Country Performance

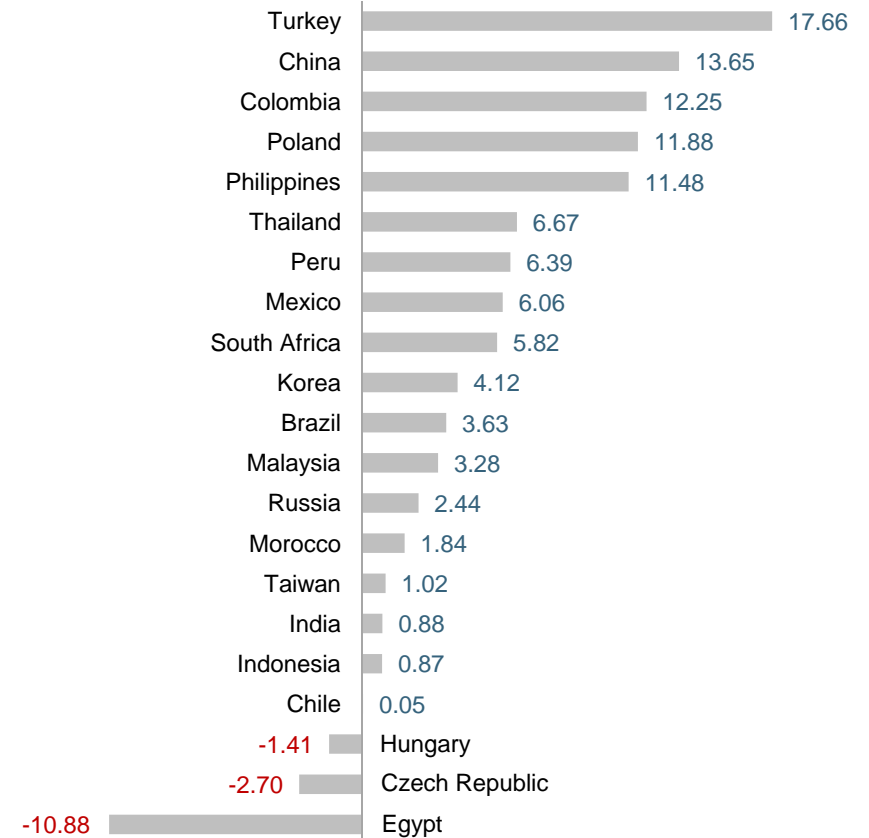
Fourth Quarter 2012 Index Returns

Europe led developed markets returns, as the IMF, ECB, and EU provided additional aid to Greece. Egypt, the worst-performing emerging markets country, recently ratified a new Islamist-backed constitution, which has resulted in violent uprisings from opposition forces. The best-performing emerging market was Turkey, which experienced its first investment-grade rating in almost two decades.

Developed Markets (% Returns)



Emerging Markets (% Returns)



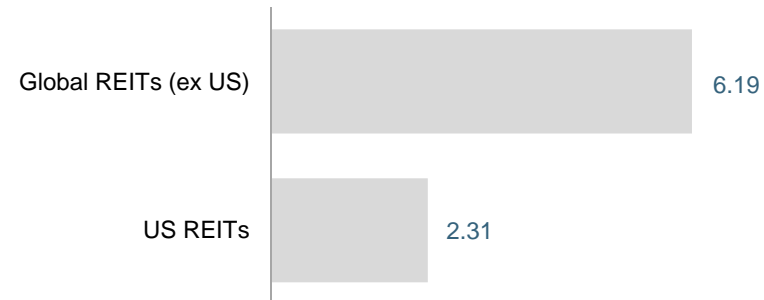
Real Estate Investment Trusts (REITs)

Fourth Quarter 2012 Index Returns

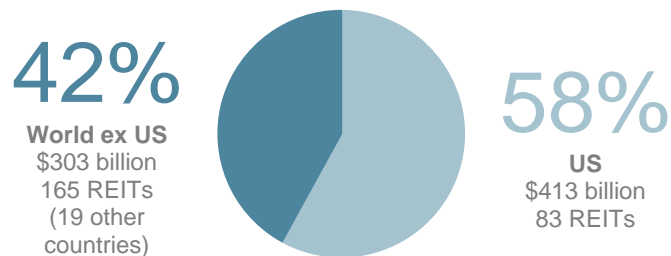
International REITs continued to outperform US REITs in the fourth quarter, posting a positive return of 6.19% vs. 2.31%.

US REITs rebounded from four consecutive months of negative returns, while international REITs posted their fifth straight positive quarter.

Ranked Returns for the Quarter (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
US REITs	17.12	17.94	5.08	11.48
Global REITs (ex US)	31.92	12.12	-1.28	10.43

Commodities

Fourth Quarter 2012 Index Returns

Commodities sold off in the fourth quarter, erasing much of the ground gained in the prior period. Concerns about the pace of global economic growth generally drove values lower.

Hard commodities fell. Values for petroleum-based commodities also generally fell, reflecting slower global consumption patterns and recessionary economic conditions in various markets.

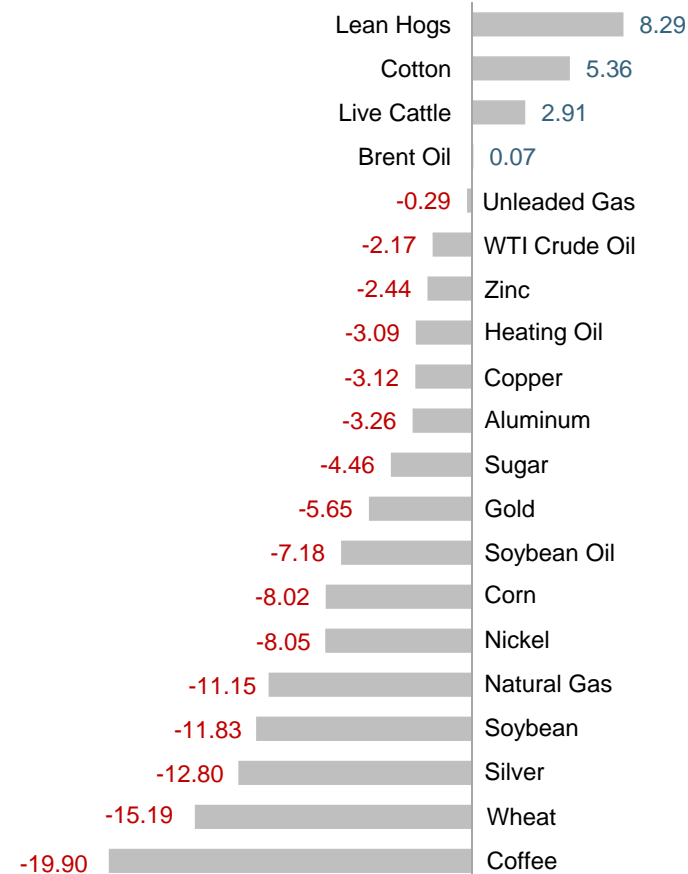
Soft commodities offered a mixed experience for investors. Lean hogs, cotton, and cattle advanced, while coffee, wheat, and soybeans suffered large declines.

Period Returns (%)

* Annualized

Asset Class	Q4	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-6.33	-1.06	0.07	-5.17	4.09

Individual Commodity (% Returns)



Fixed Income

Fourth Quarter 2012 Index Returns

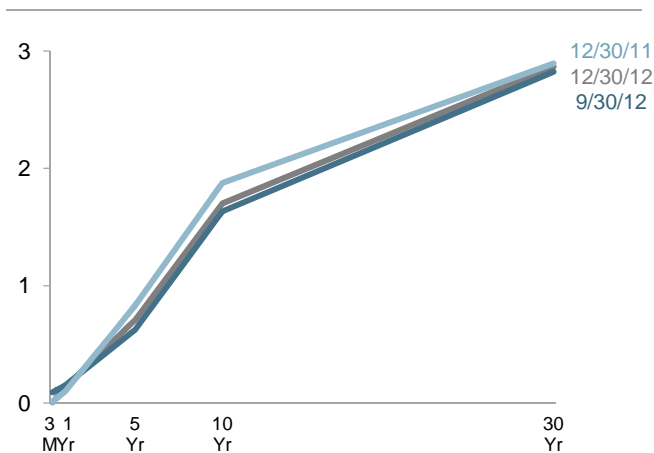
Global bonds outperformed the US bond market in the fourth quarter, and investors' hunger for yield remained strong.

Non-US government bonds significantly outperformed US Treasuries, as European political and economic conditions appeared to stabilize.

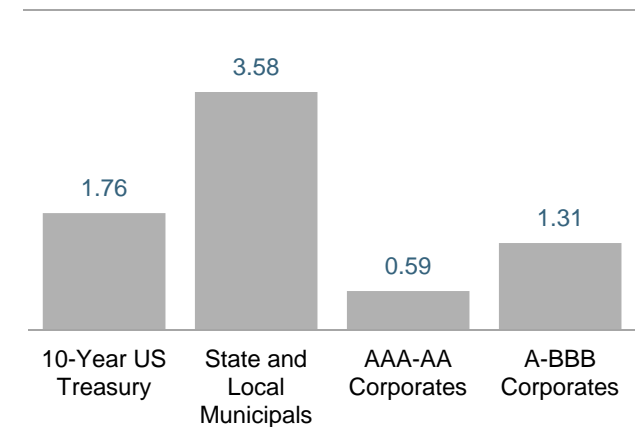
Low credit quality corporate bonds outperformed in both the US and developed markets, as market participants sought yield in a global environment of low rates.

The US TIPS Index generated a positive return. US TIPS have outpaced nominal US Treasury returns over both short- and long-term horizons.

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 (SBB1)	0.06	0.07	0.40	1.65
Bank of America Merrill Lynch Three-Month T-Bills	0.11	0.11	0.52	1.78
Bank of America Merrill Lynch One-Year US Treasury Note	0.24	0.55	1.42	2.19
Citigroup World Government Bond 1-5 Years (hedged)	2.10	2.13	3.04	3.32
US Long-Term Government Bonds (SBB1)	3.31	13.42	9.33	7.50
Barclays Corporate High Yield	15.81	11.86	10.34	10.62
Barclays Municipal Bonds	6.78	6.57	5.91	5.10
Barclays US TIPS Index	6.98	8.90	7.04	6.66

* 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 (SBB1) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices copyright 2012 by Citigroup. The Merrill Lynch Indices are used with permission: copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved.

Global Diversification

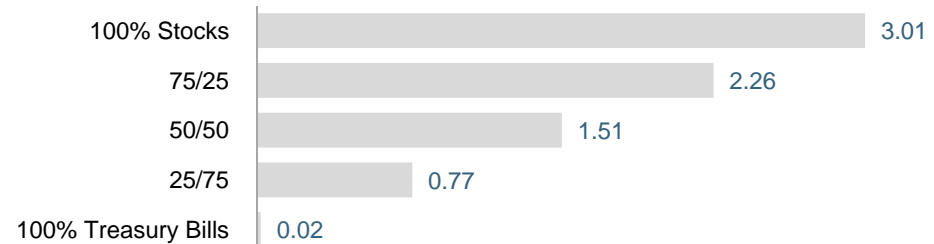
Fourth Quarter 2012 Index Returns

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.

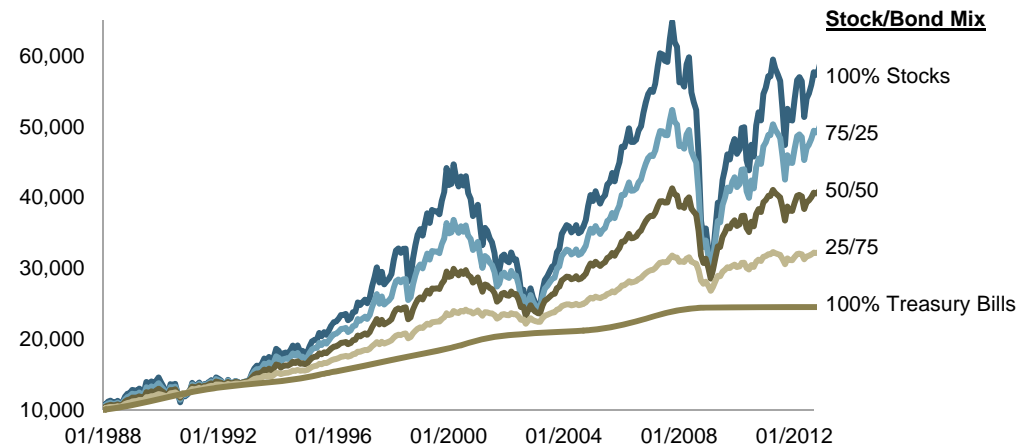
Period Returns (%) * Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	16.80	7.19	-0.61	8.66
75/25	12.57	5.66	0.10	7.16
50/50	8.37	3.95	0.50	5.48
25/75	4.19	2.09	0.59	3.64
100% Treasury Bills	0.06	0.07	0.40	1.65

Ranked Returns for the Quarter (%)



Growth of Wealth: The Relationship between Risk and Return



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. 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 2012, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

The Top Ten Money Excuses

Fourth Quarter 2012

Human beings have an astounding facility for self-deception when it comes to our own money.

We tend to rationalize our own fears. So instead of just recognizing how we feel and reflecting on the thoughts that creates, we cut out the middle man and construct the façade of a logical-sounding argument over a vague feeling.

These arguments are often elaborate, short-term excuses that we use to justify behavior that runs counter to our own long-term interests.

Here are ten of these excuses:

1) "I JUST WANT TO WAIT TILL THINGS BECOME CLEARER."

It's understandable to feel unnerved by volatile markets. But waiting for volatility to "clear" before investing often results in missing the return that can accompany the risk.

2) "I JUST CAN'T TAKE THE RISK ANYMORE."

By focusing exclusively on the risk of losing money and paying a premium for safety, we can end up with insufficient funds for retirement. Avoiding risk can also mean missing an upside.

3) "I WANT TO LIVE TODAY. TOMORROW CAN LOOK AFTER ITSELF."

Often used to justify a reckless purchase, it's not either/or. You can live today and mind your savings. You just need to keep to your budget.

4) "I DON'T CARE ABOUT CAPITAL GAIN. I JUST NEED THE INCOME."

Income is fine. But making income your sole focus can lead you down a dangerous road. Just ask anyone who recently invested in collateralized debt obligations.

5) "I WANT TO GET SOME OF THOSE LOSSES BACK."

It's human nature to be emotionally attached to past bets, even losing ones. But, as the song says, you have to know when to fold 'em.

6) "BUT THIS STOCK/FUND/STRATEGY HAS BEEN GOOD TO ME."

We all have a tendency to hold on to winners too long. But without disciplined rebalancing, your portfolio can end up carrying much more risk than you bargained for.

7) "BUT THE NEWSPAPER SAID..."

Investing by the headlines is like dressing based on yesterday's weather report. The market has usually reacted already and moved on to worrying about something else.

8) "THE GUY AT THE BAR/MY UNCLE/MY BOSS TOLD ME..."

The world is full of experts; many recycle stuff they've heard elsewhere. But even if their tips are right, this kind of advice rarely takes your circumstances into account.

9) "I JUST WANT CERTAINTY."

Wanting confidence in your investments is fine. But certainty? You can spend a lot of money trying to insure yourself against every possible outcome. While it cannot guard against every risk, it's cheaper to diversify your investments.

10) "I'M TOO BUSY TO THINK ABOUT THIS."

We often try to control things we can't change—like market and media noise—and neglect areas where our actions can make a difference—like the costs of investments. That's worth the effort.

Given how easy it is to pull the wool over our own eyes, it can pay to seek independent advice from someone who understands your needs and circumstances and who holds you to the promises you made to yourself in your most lucid moments.

Call it the "no more excuses" strategy.