Sensenig Capital \ Wealth Management

# Q4

## Quarterly Market Review

Fourth Quarter 2012

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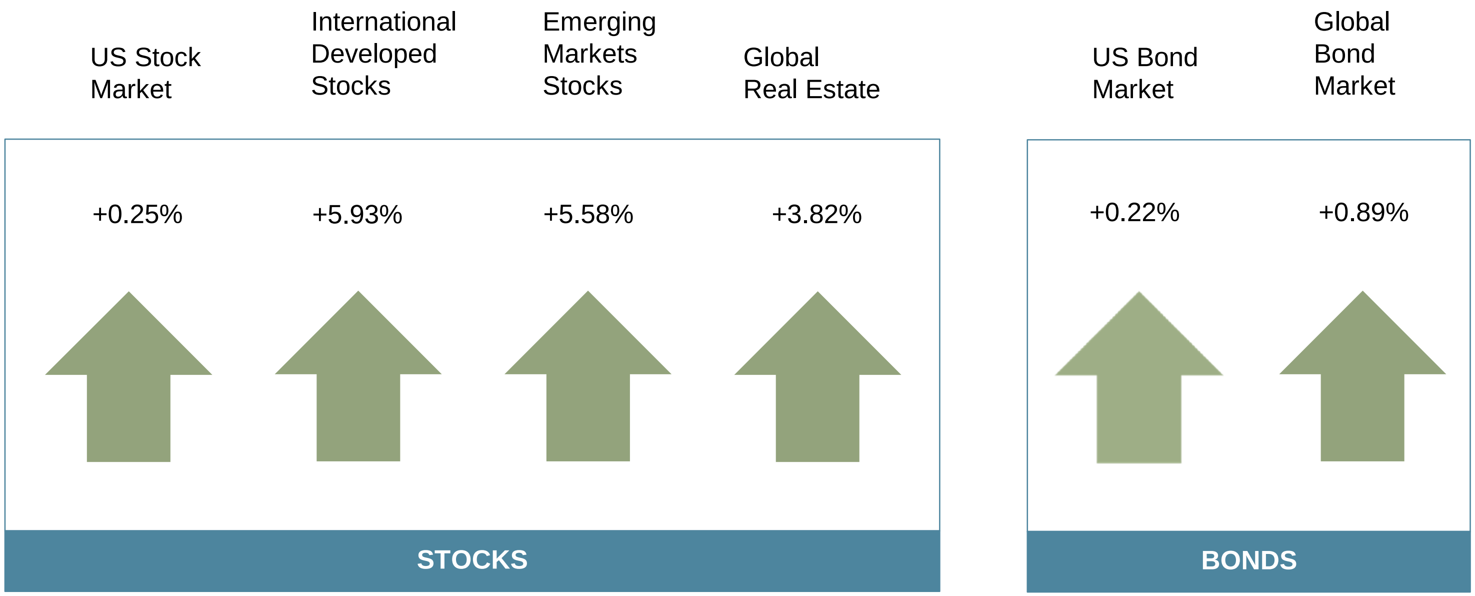
This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a topic of the quarter.

## Overview:

# Market Summary

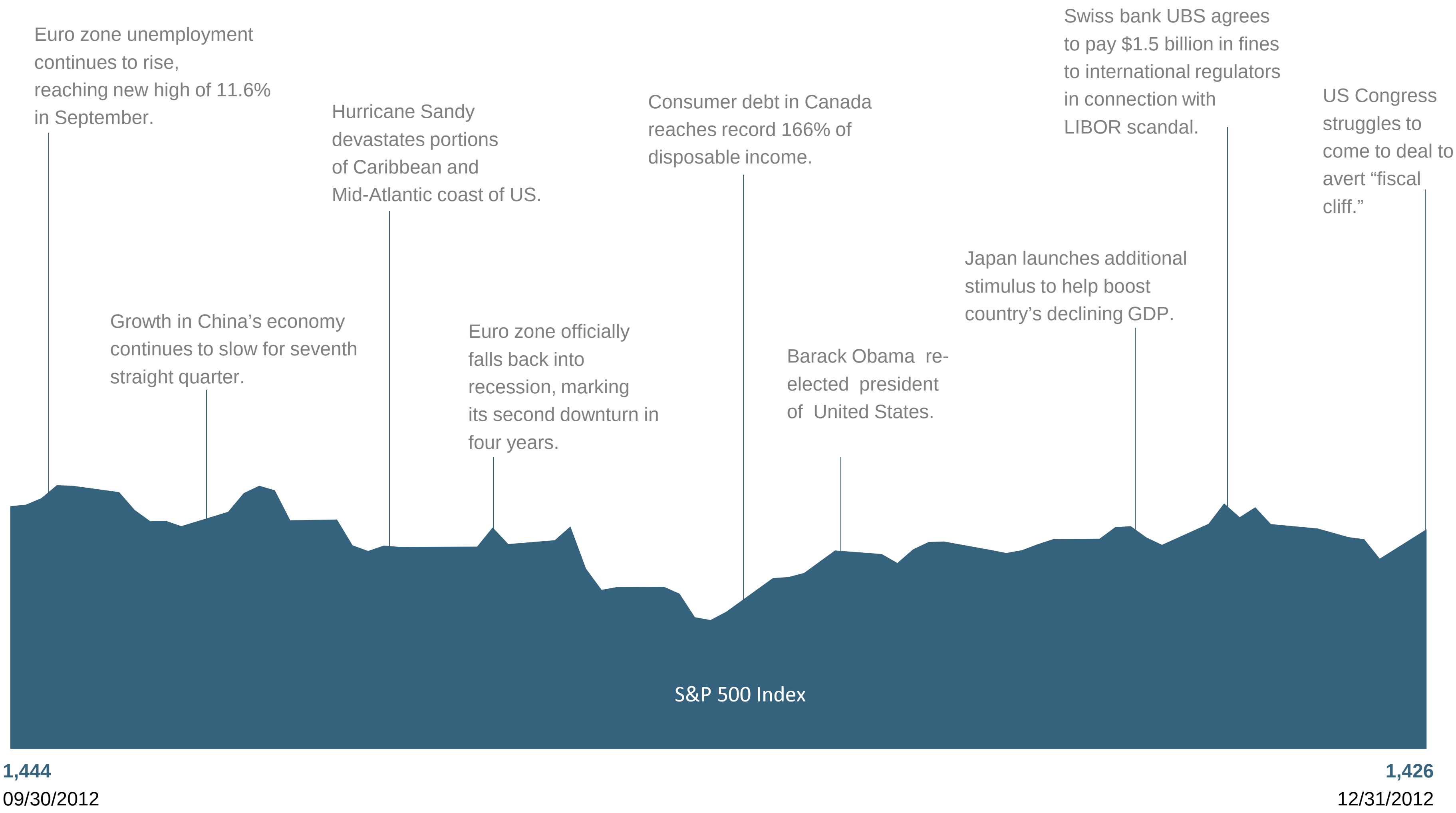
## Fourth Quarter 2012 Index Returns




**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. Sinquefield).

# Timeline of Events: Quarter in Review

## Fourth Quarter 2012

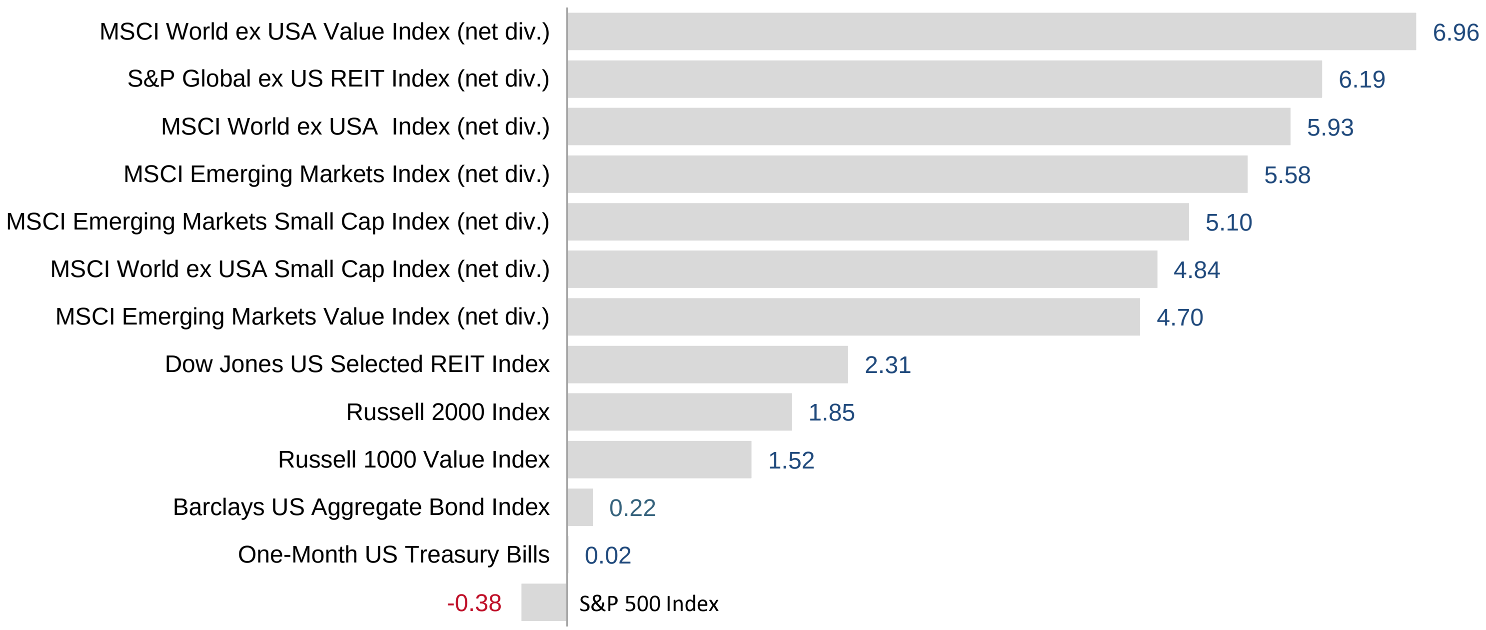



The graph illustrates the S&P 500 Index price changes over the quarter. The return of the price-only index is generally lower than the total return of the index that also includes the dividend returns. Source: The S&P data are provided by Standard & Poor's Index Services Group. The events highlighted 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.

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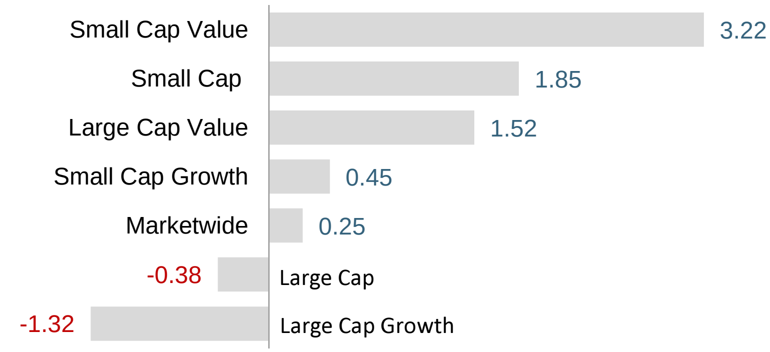
# US Stocks

## Fourth Quarter 2012 Index Returns

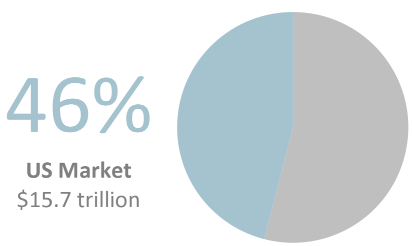
US small cap stocks and US value stocks experienced positive performance in the fourth quarter, which contributed to slightly positive broad market returns of 0.25%. Large cap and large cap growth stocks had negative returns of -0.38% and -1.32%, respectively. Small cap value stocks enjoyed the best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

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

### Ranked Returns for the Quarter (%)




### World Market Capitalization—US




### Period Returns (%)

** Annualized*

| 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 |

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# International Developed Stocks

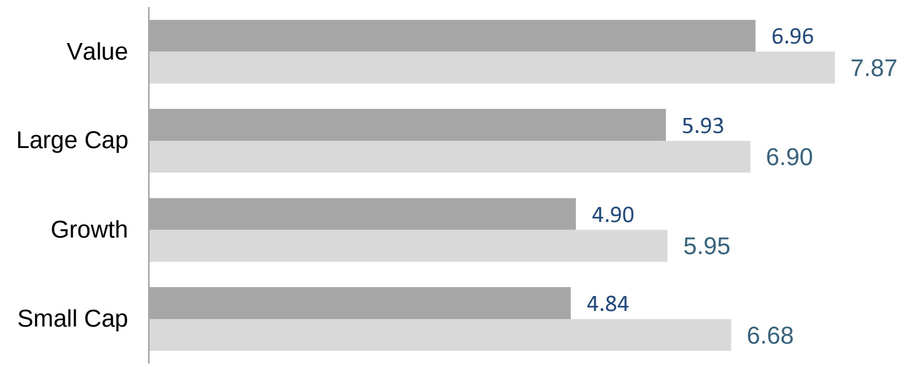
## Fourth Quarter 2012 Index Returns

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

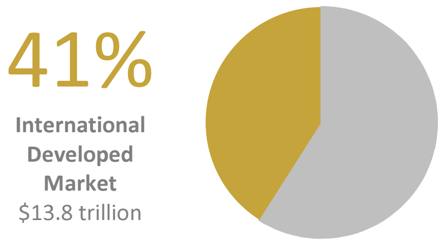
The US dollar appreciated relative to most major foreign developed currencies.

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

### Ranked Returns for the Quarter (%)




### World Market Capitalization—International Developed




### Period Returns (%)

** Annualized*

| 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 |

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# Emerging Markets Stocks

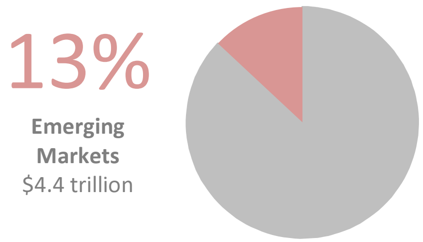
## Fourth Quarter 2012 Index Returns

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 and small cap stocks but underperformed in large caps.

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

### Ranked Returns for the Quarter (%)


### World Market Capitalization—Emerging Markets




### Period Returns (%)

** Annualized*

| 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 |

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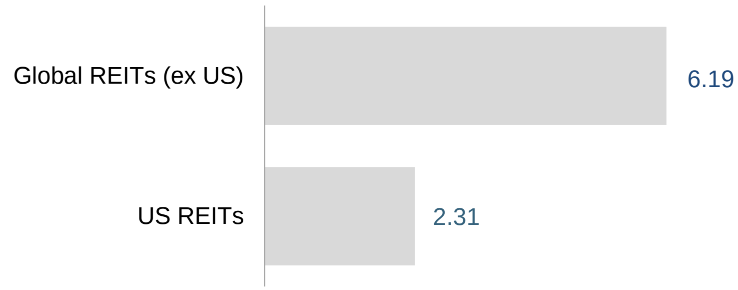
# Real Estate Investment Trusts (REITs)

## Fourth Quarter 2012 Index Returns

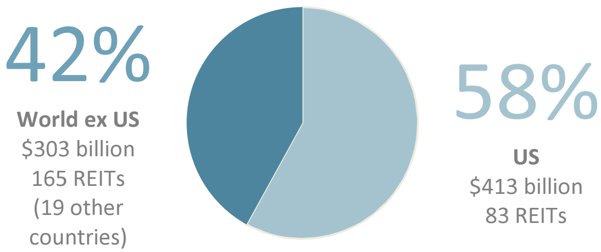
International REITs continued to outperform US REITs in the fourth quarter, posting a positive return of 6.19% vs. 2.31%.

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 (%)

** Annualized*

| Asset Class | 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 |

**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.** Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's © 2012.

# Fixed Income

## Fourth Quarter 2012 Index Returns

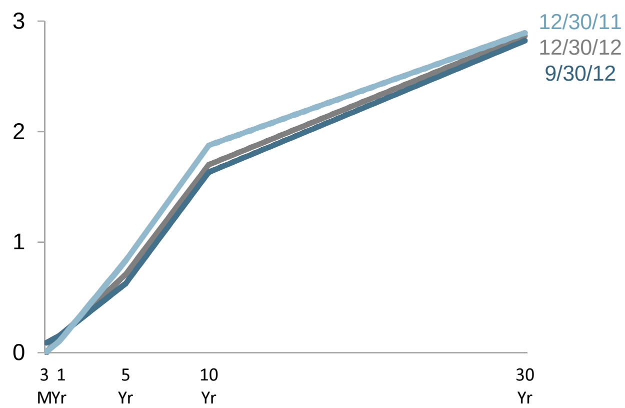
Global bonds outperformed the US bond market in the fourth quarter, and investors' hunger for yield remained strong.

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

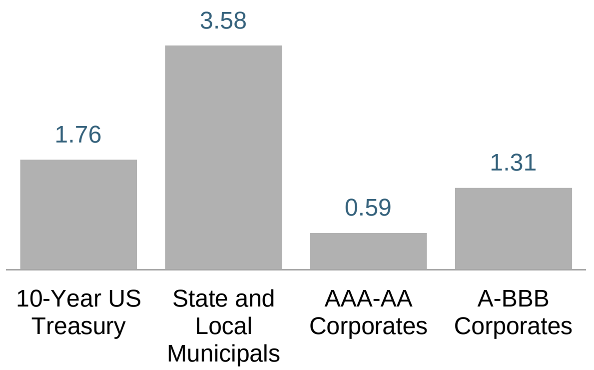
Low credit quality corporate bonds outperformed in both the US and developed markets, as market participants sought yield in a global environment of low rates.

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 (%)

** Annualized*

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|
| One-Month US Treasury Bills (SBBI) | 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 (SBBI) | 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 |

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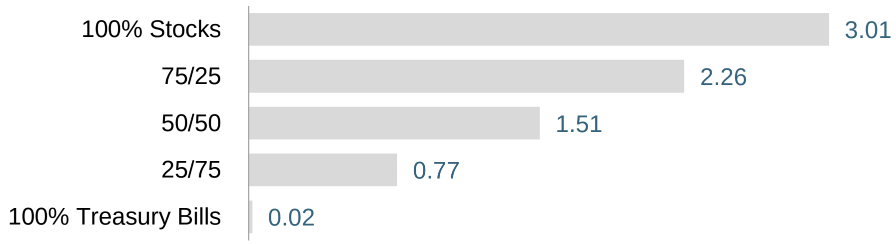
# Global Diversification

## 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.

### Ranked Returns for the Quarter (%)

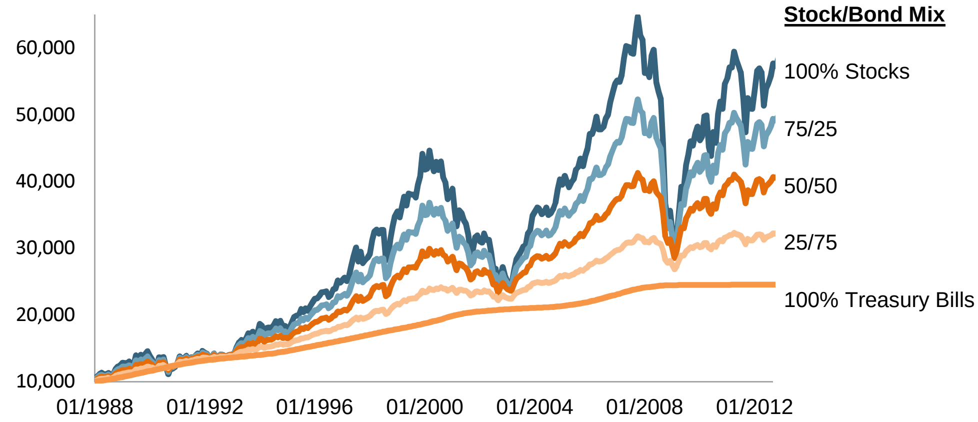



### Period Returns (%)

** 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 |

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

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# 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.