



Sensenig Capital \ Wealth Management

Q4

Quarterly Market Review

Fourth Quarter 2014

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This report features world capital market performance and a timeline of events for the past 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 quarterly topic.

Overview:

Market Summary

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World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

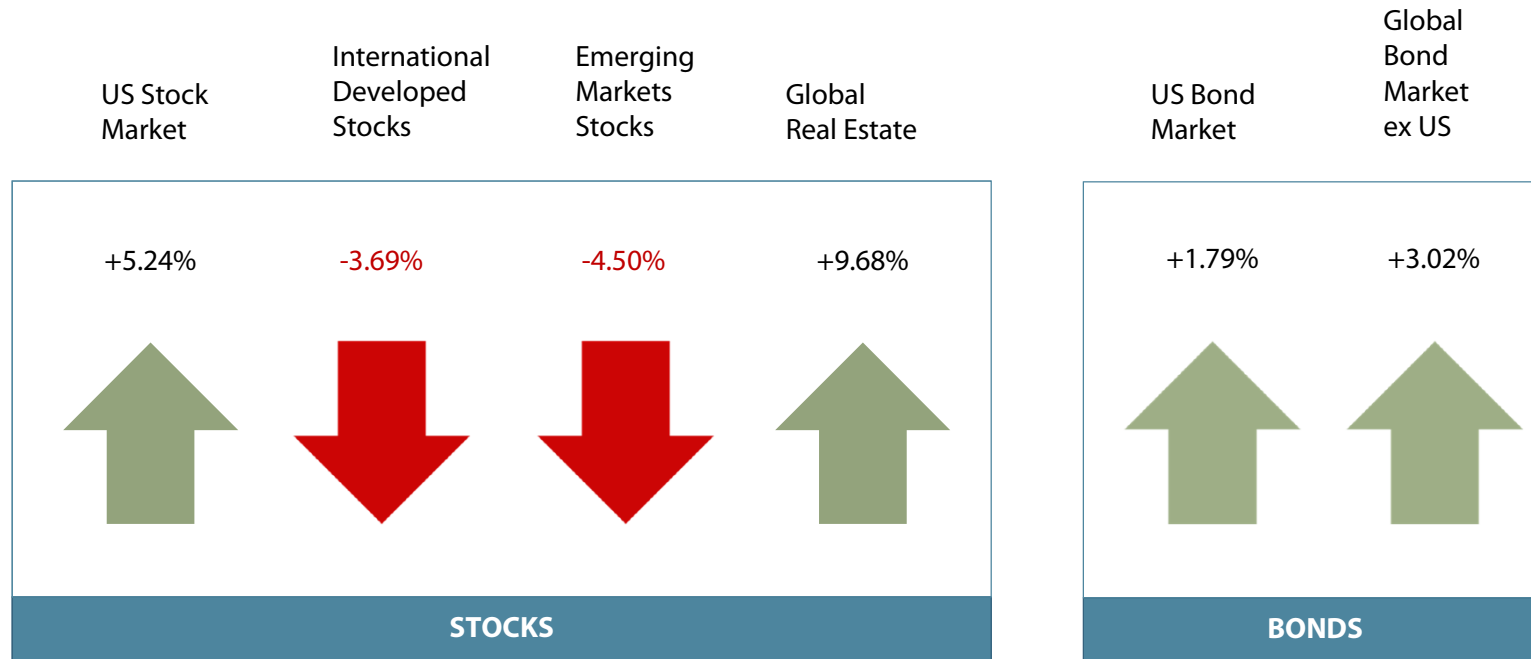
Fixed Income

Global Diversification

Quarterly Topic: Living with Volatility, Again

Market Summary

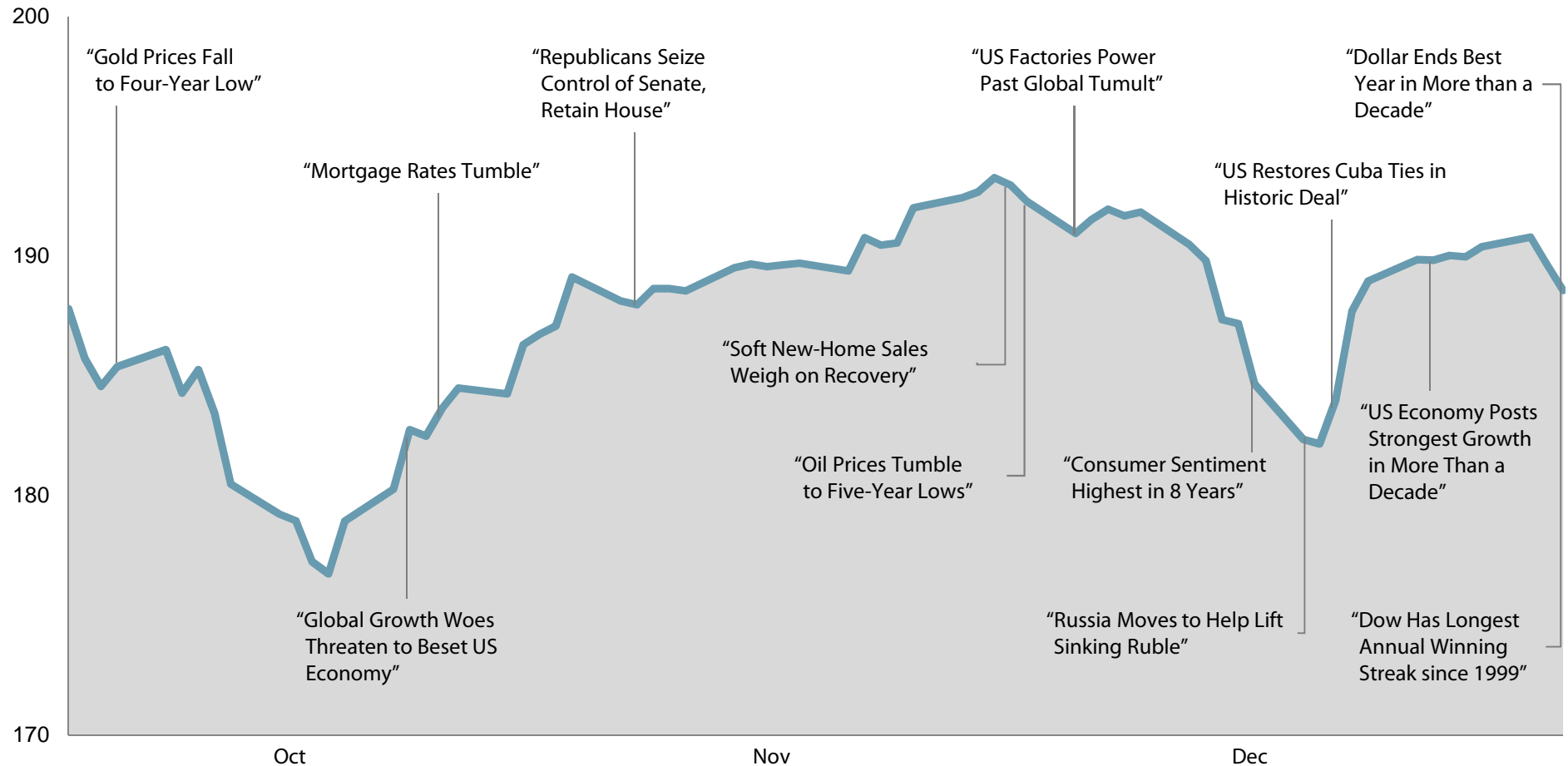
Fourth Quarter 2014 Index Returns



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 ex US Market (Citigroup WGBI ex USA 1–30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995–2015, all rights reserved. MSCI data © MSCI 2015, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2014 by Citigroup.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2014



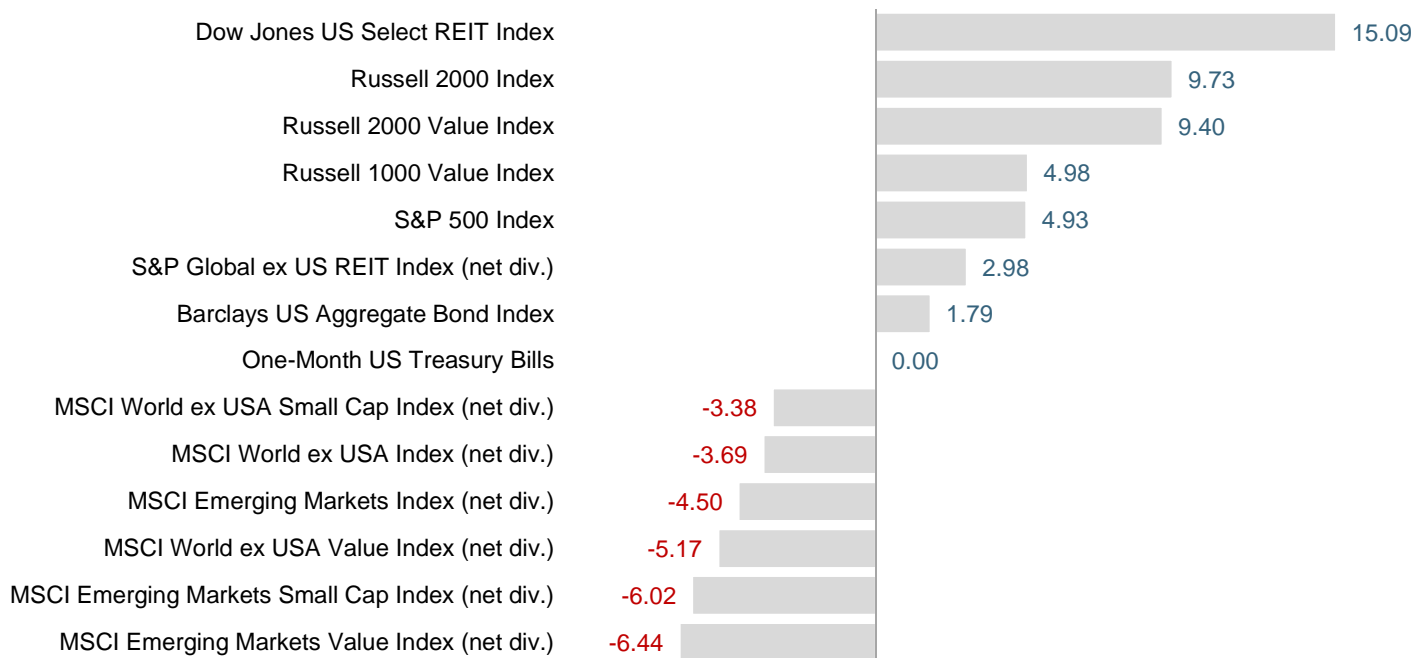
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index. MSCI data © MSCI 2015, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Asset Classes

Fourth Quarter 2014 Index Returns

REITs, particularly in the US, had higher returns than most asset classes in the fourth quarter, outperforming equity indices. US equities performed better than non-US developed and emerging markets. Many equity markets outside the US declined in US dollar terms. Currency movements played a role; the dollar appreciated against most currencies. Small caps outperformed large caps in the US. In developed markets outside the US, small caps slightly outperformed large caps but underperformed in emerging markets. Broad market value indices outperformed growth indices in the US but underperformed in developed markets outside the US and in emerging markets. The results were mixed across size ranges in the various markets.



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US Stocks

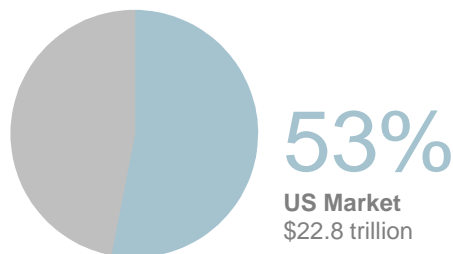
Fourth Quarter 2014 Index Returns

The US equity market performed better than most other markets for the quarter. Small cap indices outperformed large cap indices.

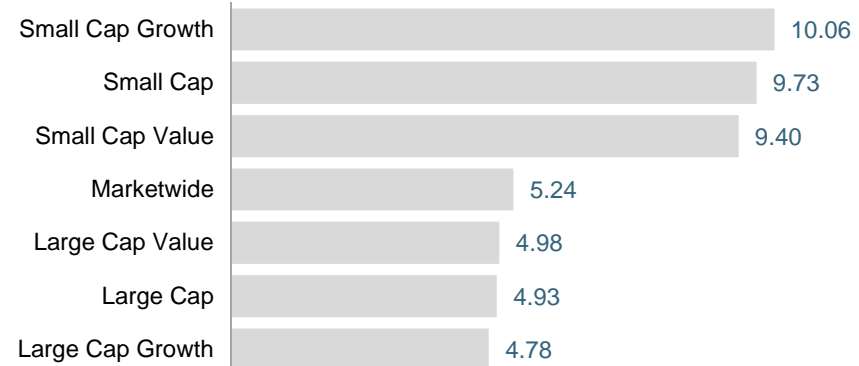
Marketwide value indices outperformed growth indices, and large and mid-cap value indices outperformed their growth counterparts. However, value underperformed growth among both small and micro cap stocks.

REITs, which are included to varying degrees in many benchmarks, boosted index returns.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	12.56	12.56	20.51	15.63	7.94
Large Cap	13.69	13.69	20.41	15.45	7.67
Large Cap Value	13.45	13.45	20.89	15.42	7.30
Large Cap Growth	13.05	13.05	20.26	15.81	8.49
Small Cap	4.89	4.89	19.21	15.55	7.77
Small Cap Value	4.22	4.22	18.29	14.26	6.89
Small Cap Growth	5.60	5.60	20.14	16.80	8.54

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International Developed Stocks

Fourth Quarter 2014 Index Returns

International developed broad market indices measured in US dollars underperformed the US indices but outperformed emerging markets as a group. Small caps slightly outperformed large caps.

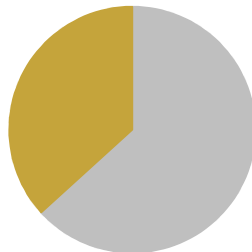
Value underperformed growth across all size segments.

The US dollar strengthened against most currencies during the quarter.

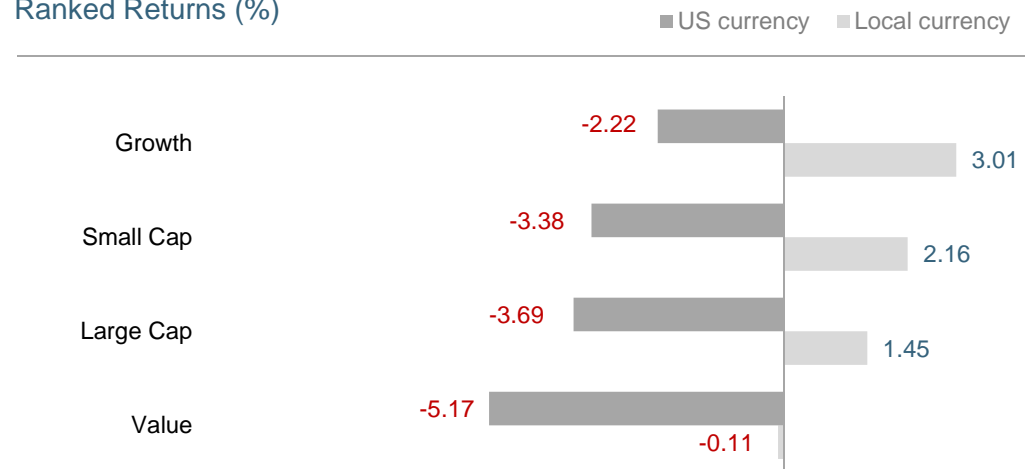
World Market Capitalization—International Developed

37%

International Developed Market
\$15.8 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-4.32	-4.32	10.47	5.21	4.64
Small Cap	-5.35	-5.35	11.77	7.91	5.87
Value	-5.41	-5.41	10.46	4.52	4.18
Growth	-3.26	-3.26	10.43	5.85	5.04

* Annualized

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Emerging Markets Stocks

Fourth Quarter 2014 Index Returns

Broad market emerging markets indices underperformed developed markets, including the US.

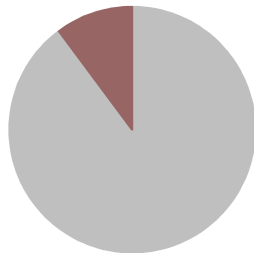
Small cap indices underperformed large cap indices for the quarter. Value indices underperformed growth indices in large caps and mid-caps but outperformed in small caps.

The US dollar strengthened against most currencies during the quarter.

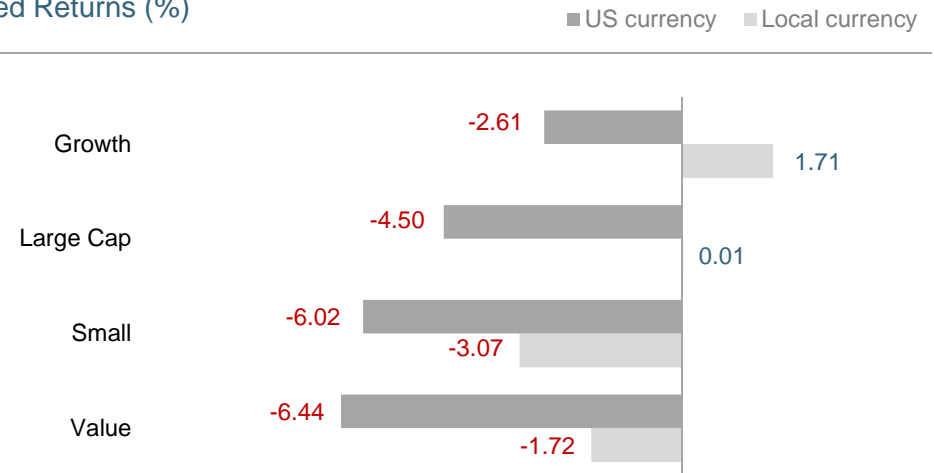
World Market Capitalization—Emerging Markets

10%

Emerging Markets
\$4.4 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-2.19	-2.19	4.04	1.78	8.43
Small Cap	1.01	1.01	7.65	2.93	9.63
Value	-4.08	-4.08	1.79	0.51	8.59
Growth	-0.35	-0.35	6.24	3.00	8.22

* Annualized

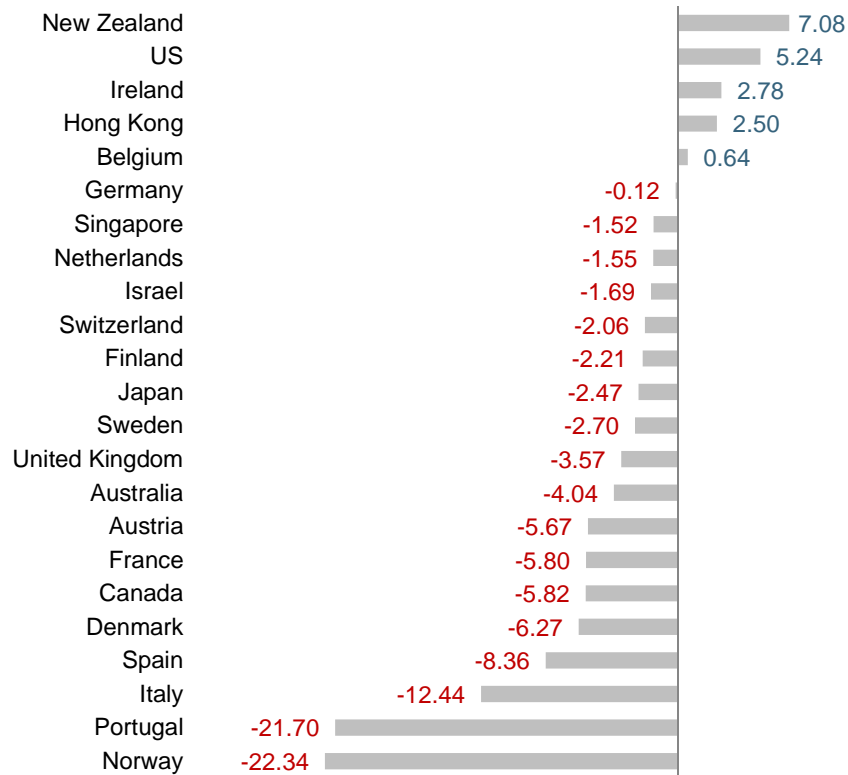
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small 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 represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2015, all rights reserved.

Select Country Performance

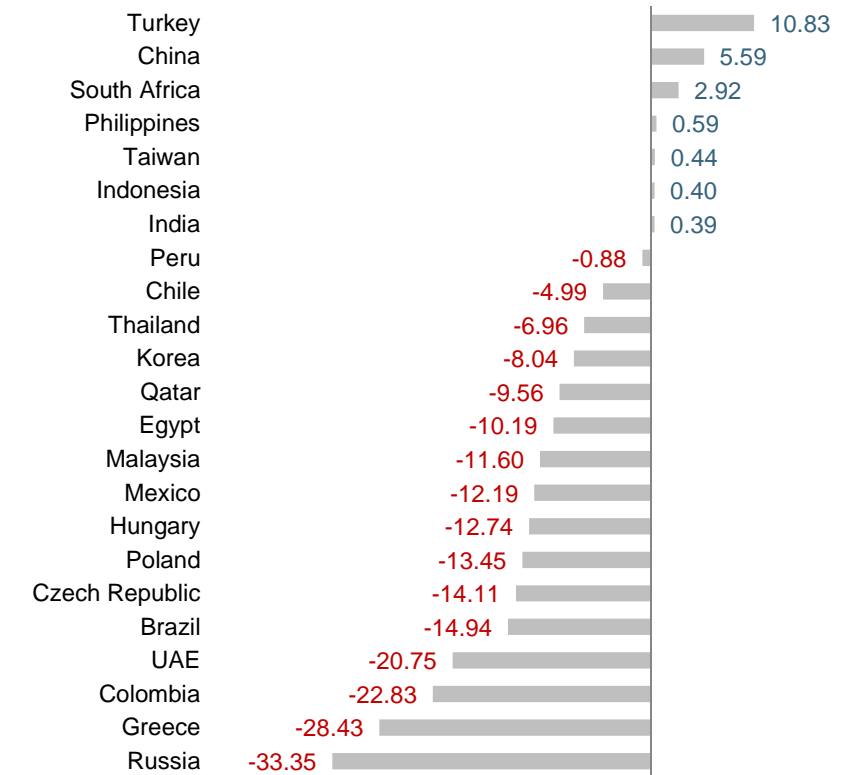
Fourth Quarter 2014 Index Returns

In US dollar terms, New Zealand was the best performer in developed markets during the fourth quarter. The fall in commodity prices, in particular the decline in the price of oil, contributed to the lower performance of commodity-dominated countries such as Norway and Russia. Turkey and China recorded the highest performance among emerging markets.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



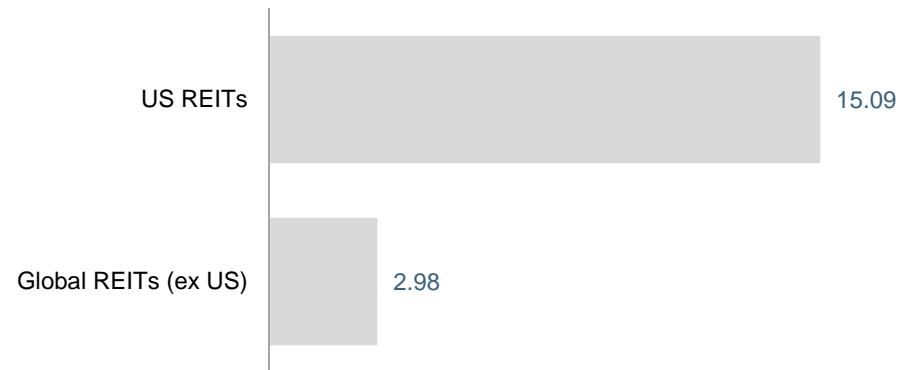
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2015, all rights reserved. Russell data © Russell Investment Group 1995–2015, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Real Estate Investment Trusts (REITs)

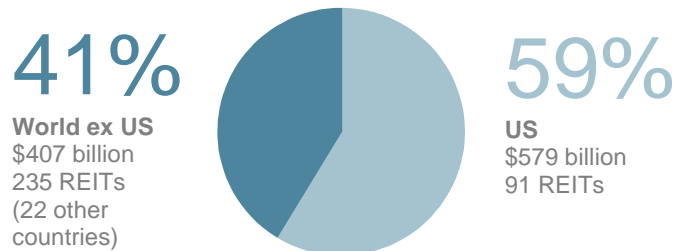
Fourth Quarter 2014 Index Returns

US REITs outperformed the broad equity market for the quarter. REIT indices in developed markets outside the US outperformed broad market equity indices.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
US REITs	32.00	32.00	16.10	16.99	8.13
Global REITs (ex US)	10.94	10.94	14.42	9.86	4.29

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. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market and S&P Global ex US REIT Index used as proxy for the World ex US market. 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 Index Services Group © 2014.

Fixed Income

Fourth Quarter 2014 Index Returns

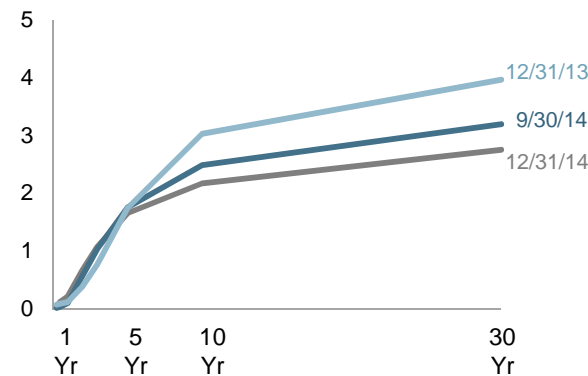
Interest rates across US fixed income markets generally declined during the quarter. The yield on the 10-year Treasury note ended at 2.17%, a dip of 34 basis points over the period. (One basis point equals one-hundredth of a percentage point.) Long-term US Treasury bonds gained 27% in 2014.

While intermediate- and long-term rates declined, short-term rates increased. The two-year Treasury note was up 10 bps to 0.68%.

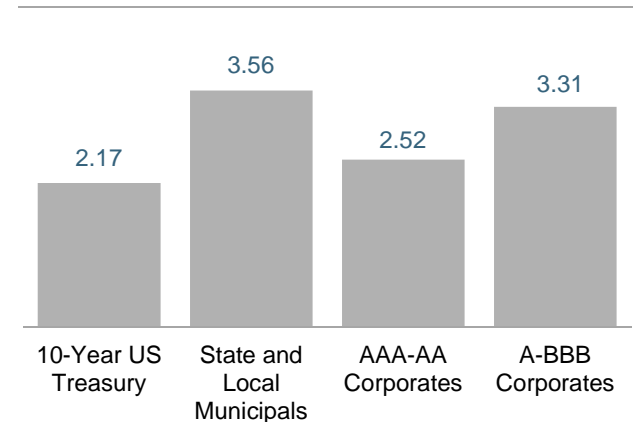
Long-term corporate bonds returned 3.98% for the quarter and 15.73% for the year. Intermediate-term corporates gained 85 bps for the quarter and 4.35% for the year.

Municipal revenue bonds (+1.54%) again slightly outpaced municipal general obligation bonds (+1.11%) for the quarter. Long-term munis continued to outperform all other areas of the curve.

US Treasury Yield Curve



Bond Yields across Issuers



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.04	0.04	0.07	0.09	1.54
BofA Merrill Lynch 1-Year US Treasury Note Index	0.18	0.18	0.23	0.41	2.00
Citigroup WGBI 1–5 Years (hedged to USD)	1.90	1.90	1.54	1.78	3.11
Long-Term Government Bonds	23.87	23.87	4.29	9.88	7.48
Barclays US Aggregate Bond Index	5.97	5.97	2.66	4.45	4.71
Barclays US Corporate High Yield Index	2.45	2.45	8.43	9.03	7.74
Barclays Municipal Bond Index	9.05	9.05	4.30	5.16	4.74
Barclays US TIPS Index	3.64	3.64	0.44	4.11	4.38

* 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 (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices © 2014 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2014 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

Global Diversification

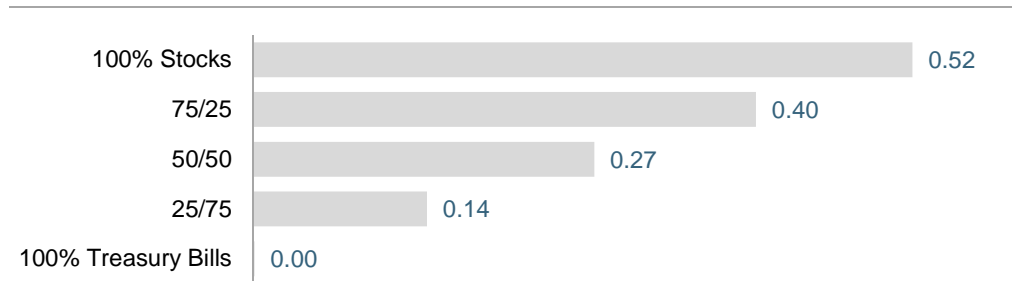
Fourth Quarter 2014 Index Returns

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 have higher expected returns over time.

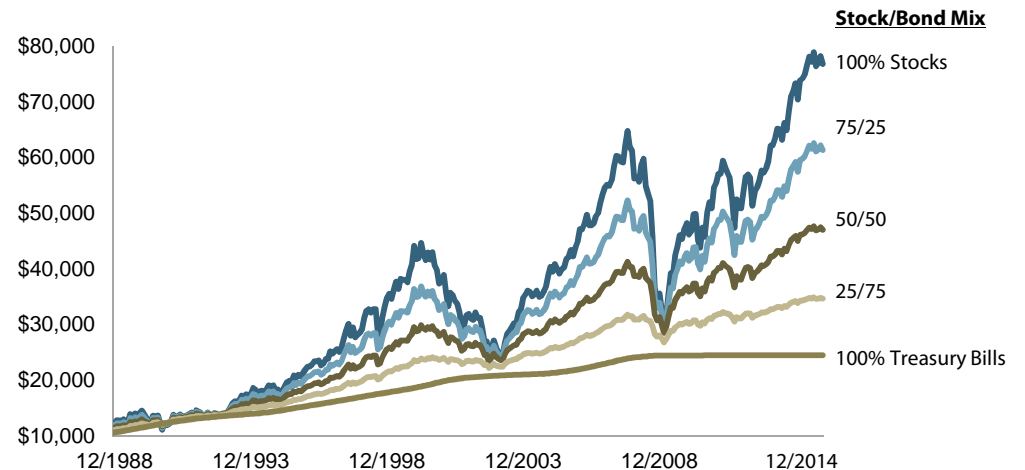
Period Returns (%)					
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	4.71	4.71	14.72	9.74	6.65
75/25	3.58	3.58	10.99	7.45	5.60
50/50	2.43	2.43	7.29	5.07	4.37
25/75	1.24	1.24	3.64	2.60	2.98
100% Treasury Bills	0.02	0.02	0.03	0.05	1.42

* Annualized

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



Diversification does not eliminate the risk of market loss. **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 of 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 allocations rebalanced monthly, no withdrawals. Data © MSCI 2015, 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).

Living with Volatility, Again

Fourth Quarter 2014

Volatility is back. Just as many people were starting to think markets only ever move in one direction, the pendulum has swung the other way. Anxiety is a completely natural response to these events. Acting on those emotions, though, can end up doing us more harm than good.

There are a number of tidy-sounding theories about why markets have become more volatile. Among the issues frequently splashed across newspaper front pages: global growth fears, policy uncertainty, geopolitical risk, and even the Ebola virus.

In many cases, these issues are not new. The US Federal Reserve gave notice it was contemplating its exit from quantitative easing (an unconventional monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective). Much of Europe has been struggling with sluggish growth or recession for years, and there are always geopolitical tensions somewhere.

In some ways, the increase in volatility could be just as much a reflection of the fact that volatility has been very low for some time.

Markets do not move in one direction. If they did, there would be no return from investing in stocks and bonds. And if volatility remained low forever, there would probably be more reason to worry.

For those still anxious, here are six simple truths to help you live with volatility:

1. Don't make presumptions.

Remember that markets are unpredictable and do not always react the way the experts predict they will. When central banks relaxed monetary policy during the crisis of 2008-09, many analysts warned of an inflation breakout. If anything, the reverse has been the case with central banks fretting about deflation.

2. Someone is buying.

Quitting equity markets when prices are falling is like running from a sale. While prices have been discounted to reflect higher risk, that's another way of saying expected returns are higher. And while the media headlines proclaim that "investors are dumping stocks," remember someone is buying them. Those people are often the long-term investors.

3. Market timing is hard.

Recoveries can come as quickly and just as violently as the prior correction. For instance, in March 2009—when market sentiment was at its worst—the S&P 500 turned and put in seven consecutive months of gains totalling almost 80%. This is a reminder of the dangers for long-term investors of turning paper losses into real ones and paying for the risk without waiting around for the recovery.

4. Never forget the power of diversification.

While equity markets have turned rocky again, highly rated government bonds have flourished. This helps limit the damage to balanced fund investors. So diversification spreads risk and can lessen the bumps in the road.

5. Nothing lasts forever.

Just as loading up on risk when prices are high can leave you exposed to a correction, dumping risk altogether when prices are low means you can miss the turn when it comes. As always in life, moderation is a good policy.

6. Discipline is rewarded.

The market volatility is worrisome, no doubt. But through discipline, diversification, and understanding how markets work, the ride can be made bearable. At some point, value re-emerges, risk appetites reawaken, and for those who acknowledged their emotions without acting on them, relief replaces anxiety.

Adapted from "Living with Volatility, Again" by Jim Parker, Outside the Flags column on Dimensional's website, October 2014. Dimensional Fund Advisors LP ("Dimensional") is an investment advisor registered with the Securities and Exchange Commission. Diversification does not eliminate the risk of market loss. There is no guarantee investment strategies will be successful. The S&P 500 Index is not available for direct investment and does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. This content is provided for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.