


INVESTMENT COMMENT
3rd Quarter Review and Strategy Update

October 8, 2015

Global capital markets provided some excitement during the 3rd Quarter. As noted in our mid-quarter Investment Comment on August 23¹, Emerging Markets led Risk segments lower with negative returns. US Real Estate Investment Trusts was the lone exception (+2.1%). Our August comment reminded investors not to read too much from the latest stock market volatility and that “this is nothing like 2008”. Now that the quarter has ended, we can see that **overall 3rd Quarter and YTD 2015 returns were driven by a mere six trading days from August 18 to 25 (MSCI AC World -9.0%, S&P 500 -10.9%)**.

Our August comment detailed several concerns that seemed to culminate in this rapid ~ 10% re-pricing in global Risk asset markets. As disciplined investors with globally-balanced exposures to various segments of Risk, we do not engage in the futile effort of foreseeing such a six-day event. However, following this market movement, the financial media cranked-up typical “advice” with tantalizing headlines like “What’s next for stocks after worst quarter in four years”² and market pundits willing to make “bold” predictions about where markets will move in the next days, weeks, or months.

The fact is: this is how stock markets behave – we understand this from a simple review of historical evidence. 3rd Quarter stock market returns may be the worst in 4 years, but over the past 25 years there have been 12 quarters with even lower returns and in 7 of these instances the next quarter’s returns were solidly positive³. Media focus on short time periods creates excitement, but market forecasts are simply useless for investors. Admittedly, we do enjoy following market predictions for entertainment value. For example, earlier this

Selected Asset Classes As of September 30, 2015	3 rd Quarter	2015 YTD
PORTFOLIO RISK SEGMENTS		
US Large Cap	-7.3%	-5.5%
US Large Cap Value	-7.3%	-7.5%
US Small Cap	-10.4%	-6.6%
US Small Cap Value	-9.1%	-7.3%
International Large Cap	-9.7%	-3.9%
International Large Cap Value	-11.5%	-7.3%
International Small Cap	-6.4%	+3.5%
International Small Cap Value	-8.0%	+1.4%
Emerging Markets	-17.0%	-14.4%
Emerging Markets Small Cap	-17.9%	-16.2%
Emerging Markets Value	-19.2%	-17.9%
US Real Estate Investment	+2.1%	-4.3%
International Real Estate	-7.7%	-3.6%
SELECTED PORTFOLIO LOW-RISK		
US Treasury 1-3yr Notes	+0.3%	+1.0%
US Treasury 7-10yr Notes	+3.2%	+3.1%
US Treasury 20-30yr Notes	+5.9%	-0.2%
US Treasury Inflation-Protected	-0.9%	-1.0%
Inv Grade Short Duration	+0.4%	+1.3%
Inv Grade Intermediate Duration	+1.1%	+1.8%
Inv Grade Long Duration	+2.6%	-2.3%
International Bonds (Non-Dollar)	-1.9%	-6.8%
EQUITY INDICES		
MSCI All-Country World Index	-9.3%	-6.6%
S&P 500 Index	-6.4%	-5.3%
BALANCED PORTFOLIOS		
Vanguard 60/40 Fund	-3.9%	-2.9%
DFA 60/40 Fund	-5.8%	-4.0%
DFA 25/75 Fund	-2.1%	-0.9%
OTHER NOTABLE MARKET DATA		
Crude Oil	-25.4%	-15.4%
Gold	-4.9%	-5.9%
High Yield Intermediate Bonds	-2.7%	-0.9%

Source: Bloomberg Professional

Note: Returns include reinvested dividends

¹ See August 23, 2015 Investment Comment (LIBRARY tab, marylandcap.com)

² CNBC.com, September 30, 2015

³ Based on S&P 500 Index returns, similar results for MSCI All-Country World Index returns.

year Texas energy entrepreneur T. Boone Pickens predicted oil prices would rise above \$70 per barrel by year end. He recently admitted that “my prediction isn’t looking good”⁴ and we would agree. But, who knows? Instead of taking forecasts seriously and changing investments accordingly, we adhere to our established investment plan while taking advantage of market movements to rebalance exposures and “harvest” tax-losses, where possible. During the 3rd Quarter we did some of these transactions and will likely do more during October.

We have completed our 10th year as a registered investment advisory firm. As we review our written comments in the [LIBRARY](#) tab at marylandcap.com, we note that our investment strategy has navigated through some truly tumultuous times. Although the typestyle and format of our comments has changed, our evidence-based approach to investment management has remained consistent.

A handwritten signature in black ink, appearing to be 'A. Pickens', written in a cursive style.

⁴ CNBC [interview](#) on finance.yahoo.com, October 8, 2015

