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2018 Market Review

After logging strong returns in 2017, global equity markets delivered negative returns in US dollar terms in 2018. Common news stories in 2018 included reports on global economic growth, corporate earnings, record low unemployment in the US, the implementation of Brexit, US trade wars with China and other countries, and a flattening US Treasury yield curve. Global equity markets delivered positive returns through September, followed by a decline in the fourth quarter, resulting in a –4.4% return for the S&P 500 and –9.4% for the MSCI All Country World Index for the year.

The fourth quarter equity market decline has many investors wondering how equities may perform in the near term. Equity market declines of 10% have occurred numerous times in the past. The S&P 500 returned –13.5% in the fourth quarter while the MSCI All Country World Index returned –12.8%. After declines of 10% or more, equity returns over the subsequent 12 months have been positive 71% of the time in US markets and 72% of the time in other developed markets.[1]

[1] Declines are defined as points in time, measured monthly, when the market's return since the prior market maximum has declined by at least 10%. Declines after December 2017 are not included, but subsequent 12-month returns can include 2018 returns. Compound returns are computed for the 12 months after each decline observed and averaged across all declines for the cutoff. US markets (1926–2018) are represented by the S&P 500 and Developed ex US markets (1970–2018) are represented by the MSCI World ex USA Index.

All non-US equity market returns are in USD, net dividends, unless otherwise noted.

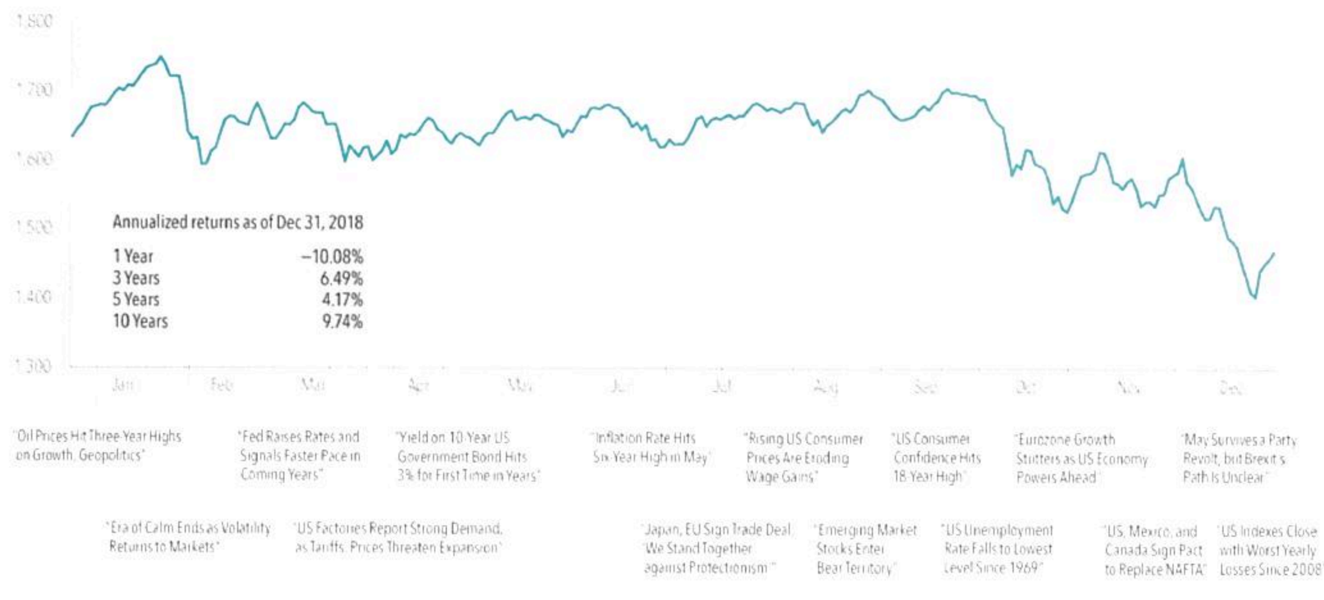
Exhibit 1 highlights some of the year's prominent headlines in the context of global stock market performance as measured by the MSCI All Country World Index (IMI). These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Market Volatility

Exhibit 2 shows the performance of markets subsequent to declines of 10%, 20%, and 30%. For each decline threshold, returns are shown for US large cap, non-US developed markets large cap, and emerging markets large cap stocks in the following 12-month period. While declines in equity markets may cause investor concern, the data provides evidence that markets generally have positive returns after a decline.

Exhibit 1: World Stock Market Performance

MSCI All Country World Index (IMI) with selected headlines from 2018



Source: MSCI. Past performance is not a guarantee of future results. In US dollars, net dividends. Index is not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.

Exhibit 2: Average Compound Returns for Stocks in a Following 12-Month Period

Market Decline Cutoff	US Large Caps	Non-US Developed Markets Large Caps	Emerging Markets Large Caps
10%	11.25%	11.18%	13.51%
20%	11.61%	14.44%	21.52%
30%	14.31%	19.07%	30.05%

Past performance is not a guarantee of future results. Declines are defined as points in time, measured monthly, when the market's return since the prior market maximum has declined by at least 10%, 20%, or 30%, depending on the cutoff. Declines after December 2017 are not included, but subsequent 12-month returns can include 2018 returns. Compound returns are computed for the 12 months after each decline observed and averaged across all declines for the cutoff. US Large Cap is the S&P 500 Index, from January 1926 through December 2018, provided by Standard & Poor's Index Services Group. Non-US Developed Markets Large Cap is the MSCI World ex USA Index (gross div.), from January 1970 through December 2018. Emerging Markets Large Cap is the MSCI Emerging Markets Index (gross div.), from January 1988 through December 2018. MSCI data © MSCI 2019, all rights reserved.

The increased market volatility in the fourth quarter of 2018 underscores the importance of following an investment approach based on diversification and discipline rather than prediction and timing. For investors to successfully predict markets, they must forecast future events more accurately than all other market participants and predict how other market participants will react to their forecasted events.

There is little evidence suggesting that either of these objectives can be accomplished on a consistent basis. Instead of attempting to outguess market prices, investors should take comfort that market prices quickly incorporate relevant information and that information will be reflected in expected returns.

While we cannot control markets, we can control how we invest. As Dimensional's Co-CEO Dave Butler likes to say, "*Control what you can control.*"

Major World Indices as of December 31, 2018:

Index:	One Year:
Dow Jones Industrial Ave	- 5.63%
S&P 500	- 4.38%
Russell 2000	-11.01%
MSCI All Country World	- 9.42%
Bloomberg Barclays US Aggregate Bond	0.01%
Dow Jones US Select REIT	-4.22%

Sources:

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

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