ABUNDANCE
WEALTH COUNSELORS

Market Intelligence

September 2017

Index	July Return	1 Year
MSCI ACWI	0.38%	17.11%
S&P 500	0.31%	16.23%
MSCI EAFE	-0.04%	17.64%
Barclay's Aggregate Bond	0.59%	0.81%
Bloomberg Commodity	0.40%	2.99%

Rising Tensions Internationally

During the month of August US-North Korean tension mounted as the DPRK launched numerous missiles, one directly over Japan. This along with terrorist attacks in Spain has led to an increase in global political risk. Even with the geo-political uncertainty, overall August was a positive month for equities. In addition, the US economy continues to show strong growth with second quarter GDP growth revised up to 3% and with low unemployment.

Hurricane Insurance

Hurricane Harvey made landfall in southern Texas late last month. It devastated Houston and the surrounding areas with damages expected to be as high as $100 billion. According to Bloomberg, less than a third of Harvey's losses are expected to be covered by insurance. Similarly, investors who held aggressive portfolios prior to the financial crisis in 2008 lost considerably more than expected by not having a more balanced portfolio. While we are not predicting another significant economic crisis, it is important to consider portfolio protection should a crisis occur. In portfolio management, fixed income, or bonds, act as insurance during market "hurricanes".

In a bull market like we are currently in, stocks generally outperform bonds. But while investment grade bonds generally produce lower returns than a portfolio of stocks, their benefit becomes clear when examining portfolio performance in bear markets.

As illustrated in the graph on the following page, a 100% stock portfolio considerably worse off in bear markets than a diversified portfolio. A clear example of this is the mid-1970's recession. In 1973, the OPEC oil embargo and the fall of the Bretton Woods system triggered a bear market in stocks. The United States was in a recession from 1973 to 1975 and the effects of the crisis were felt through 1976. If you had invested $1,000 in a broad segment of the stock market over that period you would have made about $14. A diversified portfolio with exposure to bonds would have returned around $150. In 1974 alone, an all equity portfolio returned -22.6%. During that same year bonds were up 6.5%. Maintaining a bond position in a portfolio protects one from the extreme downside loss that you can face when holding an all-equity position.

At Abundance, we strive to find the right balance between stocks and bonds for our investors based upon their risk tolerance and investment time horizon. Market conditions are always somewhat uncertain, so a diversified portfolio helps to protect one's wealth from an extreme downside loss during bear markets.

Diversified Portfolios in Various Market Conditions

Performance during and after select bear markets

Past performance is no guarantee of future results. Diversified portfolio: 35% stocks, 40% bonds, 25% Treasury bills. Hypothetical value of $1,000 invested at the beginning of January 1973 and November 2007, respectively. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.

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