Investment Insights

Second Quarter 2017

BNY MELLON | LOCKWOOD

Rubber Meets the Road

We believe one of the key risks to the price performance of a balanced portfolio of stocks and bonds is a downturn in the economic cycle. As the bull market and economic expansion age, we should keep a wary eye on where we are in this cycle and how long it will persist. The economic expansion that began in June 2009 is now the third longest (and one of the weakest) since the end of the Civil War. While age itself does not indicate any immediate cycle reversal, we should start thinking about our expectations for how long the good times can last.

For fundamental investors, macroeconomic factors drive portfolio outcomes. Macroeconomic developments form the roads under the rubber of the capital markets. If you drive over rough road, the economic potholes disrupt investor portfolios. Lately, the markets have been gliding on fresh asphalt and the markets have had a super smooth ride.

Market Overview

Return (%) as of 6/30/2017
(3 Yr. and 5 Yr. returns are annualized)

Index	2nd Qtr	1 Yr.	3 Yr.	5 Yr.	2016	2015	2014	2013
S&P 500	3.1	17.9	9.6	14.6	12.0	1.4	13.7	32.4
MSCI USA Small Cap	2.2	21.1	7.4	14.6	19.8	(3.7)	7.6	38.3
MSCi EAFE (net of taxes)	6.1	20.3	1.1	8.7	1.0	(0.8)	(4.9)	22.8
MSCI Emerging Mrkts (net of taxes)	6.3	23.7	1.1	4.0	11.2	(14.9)	(2.2)	(2.6)
Bloomberg Barclays U.S. Aggregate Bond	1.4	(0.3)	2.5	2.2	2.6	0.6	6.0	(2.0)
Bloomberg Barclays Global Aggregate ex U.S.	3.5	(3.8)	(2.4)	(0.4)	1.5	(6.0)	(3.1)	(3.1)
S&P GSCI Crude Oil	(9.0)	(4.7)	(24.1)	(11.5)	45.0	(30.5)	(45.9)	7.2
S&P GSCI Gold	(0.8)	7.8	(2.7)	(5.5)	7.8	(10.9)	(1.8)	(28.7)
Bloomberg Commodity	(3.0)	(6.5)	(14.8)	(9.2)	11.8	(24.7)	(17.0)	(9.5)
Barclays U.S. Tsy Bill 6-9 Month	0.2	0.4	0.3	0.2	0.5	0.2	0.1	0.1
Inflation §	(0.2)	1.9	1.0	1.3	1.7	0.4	0.7	1.5

Sources: MSCI; Bloomberg Barclays; Standard and Poor's 2017, (© S&P DowJones Indices LLC. All rights reserved); Bureau of Labor Statistics. § Inflation data through May 2017.

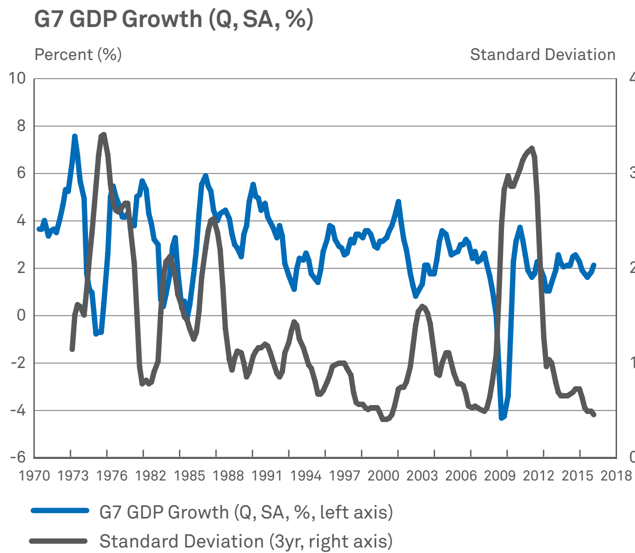
Each asset class is represented by a widely recognized industry benchmark. For additional information and a list of indices used to represent each asset class, please refer to the Important Disclosures at the end of this document. ***Past performance is not a guarantee of future results.*** *Indices are unmanaged and are not available for direct investment.*

Volatility in markets has been almost non-existent.

Whether we examine implied volatility (the VIX, or the implied volatility on the S&P 500), actual realized volatility or forecast volatility, markets have been extremely calm. Importantly, equities have not been the only quiet asset class. Indices that track broad-based Treasury bond market volatility (MOVE, or the Merrill Lynch Option Volatility Estimate) have also registered some of the lowest levels recorded since the creation of that index in 1988.

Markets are only reflecting the broader calm in global measures of output. We measured the output growth in the Group of Seven (G7) Gross Domestic Product (GDP). We also measured a three-year standard deviation of the annual growth rate (quarterly, seasonally-adjusted) of GDP in constant dollars, a data series available from the St. Louis Federal Reserve. Since 1970, the standard deviation has only been near this low twice before (Q2:1999, Q2-Q3:2007). It also made relative lows in Q3:1993 and Q2:1979. The G7 countries include Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, all large industrialized democracies.

G7 GDP Growth (Q, SA, %)

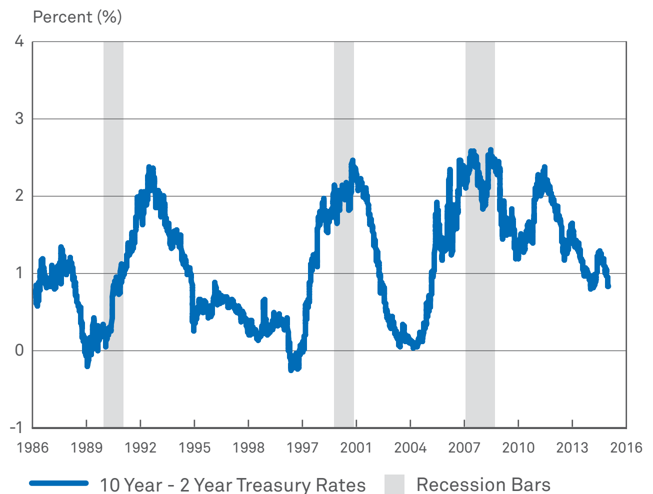


Source: St. Louis Federal Reserve. Data as of May 30, 2017. Visual created by Lockwood Advisors, Inc.

Whether this smooth ride prefaces a rough road ahead is anyone's guess. Investors should begin to consider how long we can expect this low volatility period to last, in either the markets or the economy. We note that the lows in the standard deviation of growth have tended to bottom out somewhat before periods of recession or substantially subpar economic growth. Perhaps the popular position among market strategists that calm begets volatility is not so farfetched. We expect cyclical risks, muted now, to begin to rise from very low levels.

Other indicators with good track records at predicting economic cycle downturns have also begun to move in the wrong direction. The yield curve, at least as defined by the difference between the 10-year U.S. Treasury yield and the 2-year U.S. Treasury yield, has flattened considerably. This series has tended to be one of the most reliable indicators of impending growth slowdowns.

Yield Curve: 10 Year - 2 Year Treasury Rates (%)



Sources: Federal Reserve and National Bureau of Economic Research (NBER). Data as of June 26, 2017. Visual created by Lockwood Advisors, Inc.

We should consider this data in the context of monetary policy decisions from the Federal Reserve and global central banks. While many people have pointed to the volatility-suppressing effects of extraordinary global monetary policy post-crisis, this series shows that global growth volatility has been as low or lower in subsequent periods (when Quantitative Easing [QE] or Quantitative and Qualitative Easing [QQE] programs were not operational). Still, we believe global monetary policies have almost certainly suppressed volatility below where it would have been absent the policies.

At this point, we believe markets are simply mirroring the benign volatility in global output. Investors that believe in the primacy of economics can simply point to global growth as an explanation for extraordinarily low market volatility. While this low global growth persists, investors probably will continue to get a pretty smooth ride in capital markets.

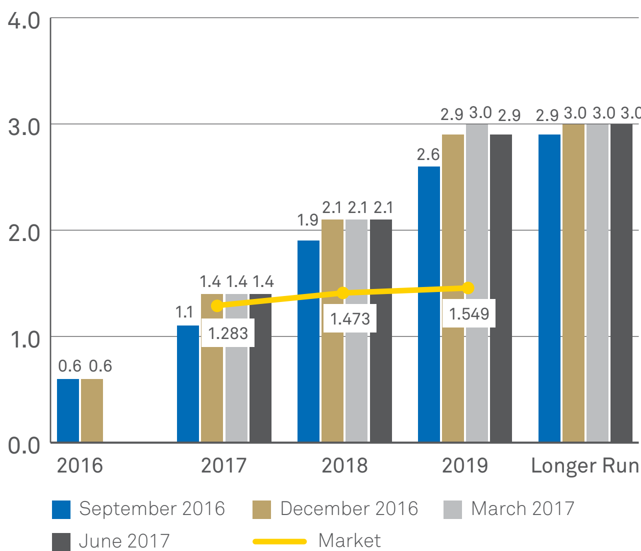
Three Steps and a Stumble: Four Steps and a Fumble?

Last quarter, we noted how equity markets have tended to pause or correct when the Fed raises rates three times in succession. Hence, the stock market maxim "Three Steps and a Stumble." In March 2017, the Fed raised rates for the third time since it began an extended tightening cycle in December 2015. In June 2017, the Fed raised rates for the fourth time.

The Federal Reserve Open Market Committee (FOMC) appears to be shifting gears toward a more hawkish policy as labor markets tighten. The Fed considers the ample empirical evidence that shows accelerating wage gains as unemployment rates fall below the NAIRU (non-accelerating inflation rate of unemployment). Since price stability is a core plank of the Fed's policy goals, the Fed will likely be more inclined to raise rates if it worries about future wage inflation feeding through to escalate broad-based price measures like the Consumer Price Index (CPI).

The U.S. bond markets have not worried too much about the Fed since the "taper tantrum" in the spring of 2013. After all, QE has ended in the U.S. Even at the new Federal Funds target range of 1.00%–1.25%, real short-term rates are still negative (i.e., inflation is higher than the short-term policy rate). The markets don't really believe that the Fed can raise rates as quickly as the FOMC internal forecasts suggest. If you compare the Fed's Dot Plots with a market-based forecast of future Fed Funds rates, we believe it is palpably clear the market does not believe the Fed will fulfill its rate hike forecasts. For 2019, the difference is nearly 140 basis points (1.45%). That is a large disparity of views.

Projections for Federal Funds Rate at End of Year (%)

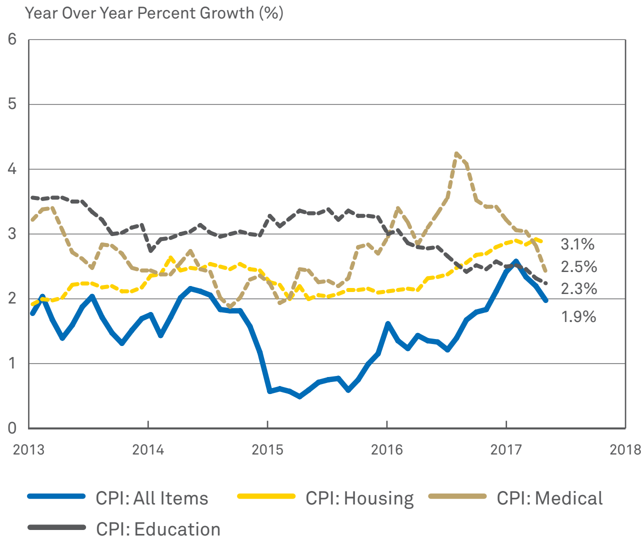


Sources: Federal Reserve and Bloomberg. Data as of June 28, 2017. Visual created by Lockwood Advisors, Inc.

Reflationary forces in the economy have stalled since the beginning of the year. Disinflationary forces continue to prove very powerful and durable. Some Fed staffers and policy makers have begun to discuss raising the target inflation rate (currently 2%) to a higher number, perhaps 3%. That would redefine the prospect of "price stability" to a higher inflation goal and raise the prospect of additional Fed stimulus to reach a new, higher inflation target. In our view, there are quite a few challenges to adopting a 3% inflation target, so time will tell whether the Fed actually begins to embrace the idea. At this stage, it may provide a policy option in the future if inflation persists at stubbornly low levels. Although the Fed has not met its existing 2% inflation goal (at least according to its preferred price measure, the Personal Consumption Expenditure Deflator), the CPI has been above 2% for most of 2017 until the most recent monthly observation. Currently, the CPI stands at 1.9% (CPI core ex-food and energy at 1.7%) annually.

Our view on inflation has changed since last quarter. As time has passed, we have gone beyond the index effects of lower oil prices from the 2015–2016 oil price swoon. Most of the major components of the headline inflation indices have cooled decidedly in recent periods. While labor markets should pressure wage rates higher at this stage in the cycle, we believe wage gains in labor could remain muted because of longer-term structural problems in the U.S. labor market (25 million total men and women in the age 25–54 bracket remain out of the U.S. labor data entirely). With housing, medical and inflation costs cooling, wireless services prices dropping, energy prices hitting another soft patch and weakness in auto production, we believe disinflation could dominate the landscape for a period of time, at least several quarters.

Fastest Growing CPI Components



Source: Federal Reserve Bank of St. Louis. Visual created by Lockwood Advisors, Inc. Inflation data through May 2017. Housing (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture) comprises 42.2 percent, Education and Communication (college tuition, postage, telephone services, computer software and accessories) accounts for 7.1 percent, and Medical Care (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services) constitutes 7.7 percent of the Consumer Price Index for All Urban Consumers: All Items (http://www.bls.gov/cpi/).

We have had four major backups in rates since the end of the great recession crisis. Over the past year, rates have risen strongly since the election, but never got back to 2016's high of 2.64% in mid-December 2016. Since March 2017, the bond market has rallied substantially off the decline in inflation and a spate of weaker-than-expected (based on consensus expectations) economic output data. Bond yields, represented by the 10-year U.S. Treasury note, fell from 2.45% at the end of the year, to 2.31% at the end of the quarter. While we may be far away from the next recession, the bond market reflects concern that growth may not liftoff as much as expected.

U.S. 10-Year Treasury Note Yield

Sources: St. Louis Federal Reserve and U.S. Treasury Department Data as of June 30, 2017. Visual created by Lockwood Advisors.

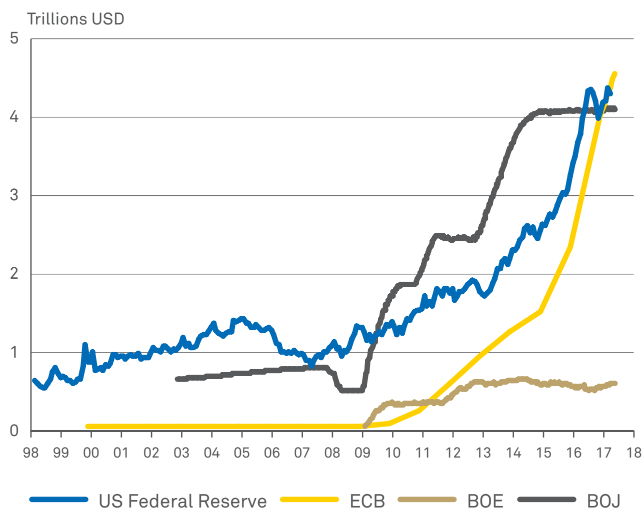
The Fed's Balance Sheet

We have spoken a lot about the Fed already, but we are not done. One of the biggest potential effects on the capital markets over the next few years will be how the Fed manages an intended normalization of its balance sheet. The Fed has amassed some $4.5 trillion in U.S. Treasuries and mortgages on the asset side of its ledger and intends to shrink the balance sheet. The liabilities side consists mostly of cash and excess reserves held at member banks of the Federal Reserve System. The Fed has put forth a schedule for how the program might operate, without actually putting the policy in place.

As the Fed purchased bonds during various QE programs post-crisis, it drove down Treasury rates of various maturities. That is, the Fed bought bonds in open market operations. Other bonds of various credits and maturities from public and private issuers benefitted from the lower Treasury rates because they tend to price off a spread to risk-free Treasury curve. Thus, QE helped lower interest rates of all kinds of various credits and maturities and helped the economy recover.

As the Fed moves to unwind its large balance sheet, the effect on interest rates is not as clear. The Fed will not actually sell bonds in the open market. That would be a different story. Sales of bonds would clearly lift rates and spreads very quickly. Even the rumor the Fed intended to pursue bond sales could move interest rates. That is not what the Fed intends to do. It will simply let them run off and mature. The maturity schedule of bonds on the asset side of the balance sheet is well known, but the effect of normalization will simply shrink the balance sheet (a bond matures for cash, cancelling the cash on the liability side of the Fed's ledger). The mechanism for how the unwind will affect interest rates is called the portfolio balance channel and has been studied by numerous well-known economists. However, many market practitioners still have a lot of questions about whether or how the mechanism will increase rates. Moreover, how will economic cycle concerns or fiscal deficits (supply of Treasuries) affect either the Fed's intended normalization policy or their policy rate path? All of this serves to remind us that we are in a period of unprecedented monetary tampering with the real economy. In our view, how the Fed manages these policies will be central to capital market prospects over the coming years.

Central Bank Balance Sheets (USD)



Sources: Board of Governors of the Federal Reserve System (US), Federal Reserve Bank of St. Louis, Bank of Japan (BOJ), Bank of England (BOE) and European Central Bank (ECB). Data as for US Federal Reserve, ECB and BOE as of June 30, 2017; Data for BOJ as of May, 1, 2017. Visual created by Lockwood Advisors, Inc.

More on the Fed

We still have more to discuss about the Fed. We need to consider its future political composition. We are well within a time zone when the market needs to consider what the Fed and the FOMC will look like in a few years hence. Janet Yellen's term will expire in early 2018. Mr. Trump and Ms. Yellen have been noncommittal about whether she will continue at the helm. The main Federal Reserve Board is already down to four members from seven. We do not know, other than unsubstantiated rumors, who will fill the empty seats. It is worth considering that several snap appointments could alter the makeup of the FOMC quite quickly. Whether that will affect the policy decisions of the institution remains to be seen.

Markets Calm Regardless

As we have mentioned, stock market reaction has remained calm, despite these concerns, incoherent and unsettled public policy at home and across the globe, treacherous domestic politics and elevated geopolitical risk. There is still no resolution to a looming Federal budget crisis or to budget and pension stalemates affecting several states, most notably Illinois. We will face a German election in the fall. We believe the geopolitical risks in the Middle East and North Korea loom large.

Stocks Tack on Gains in Second Quarter, Except Energy

Markets have remained resilient. The S&P 500 Index, after posting a healthy 6.1% rise for the first quarter 2017, rose 3.1% in the second quarter, tacking on additional gains. Top-line earnings have been pretty good across the board, with the exception of the Energy sector, although we would caution that ex-items earnings do not paint the same optimistic picture. Large capitalization stocks fared better than smaller cap stocks, and growth-oriented stocks outpaced their value-oriented brethren across the market capitalization spectrum. Technology has been digesting large gains since the beginning of the year, but still held in positive territory for the year and for the quarter despite the slump at the end of June. In the second quarter, the Telecommunications and Energy sectors were the notable laggards.

U.S. Equity Style Performance (%) Second Quarter 2017			
	Value	Core	Growth
Large	1.9	3.1	4.2
Mid	2.3	2.8	3.2
Small	0.3	2.2	4.1

Source: MSCI, Inc. MSCI USA (Large), MSCI USA Small (Small), and MSCI Mid (Mid) indices.

Past performance is not a guarantee of future results.

Indices are unmanaged and are not available for direct investment.

Second Quarter 2017			
Top-Performing Sectors (%)		Bottom-Performing Sectors (%)	
Health Care	7.1	Telecommunication Services	(7.0)
Industrials	4.7	Energy	(6.4)
Financials	4.2	Consumer Staples	1.6

Source: Standard & Poor's.

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The decline in energy prices bolsters the disinflationary forces affecting the economy and capital markets. To the extent that energy prices have fallen because of productivity gains in procuring additional supply (fracking and shale gas), we believe there is a very positive narrative about entrepreneurship and technological adaptation. However, there are still large amounts of capital tied up in energy projects and the debt could prove vulnerable if we experience another wave of oil price declines. The overall effect on the U.S. economy is a mixed bag. Yes, consumers get savings at the pump, but the decline in energy prices puts large infrastructure projects at risk and endangers large swaths of capital across the globe. It also increases emerging markets political risk in countries that use oil market revenue to bolster public spending (Venezuela, Saudi Arabia, Russia and other Middle Eastern nations).

Global

Foreign and emerging market stocks have had a stellar first half of the year (as measured by the MSCI EAFE Index [net of taxes] and MSCI Emerging Markets Index [net of taxes], respectively). Almost all of the macroeconomic and event risk that had circled around foreign stocks since the beginning of the year appears to have resolved in the market's favor. The market climbed the wall of worry. Markets worried that the U.S. dollar would rise rapidly in the face of dollar-friendly policies from Washington (personal and corporate tax cuts, foreign earnings repatriation, an infrastructure build). The U.S .dollar has not rallied and all the policies are in political limbo. The markets worried about the French election and we ended up getting a relatively market-friendly result. The markets worried about a horrific result from Britain's exit from the European Union (stay tuned) and we have just begun the exit negotiations. All of the geopolitical risks, which look elevated, have not materialized. Thus, foreign equities, already substantially less expensive on a multiple basis than U.S. stocks, have had ample room to rally.

World Ex-U.S. Country Performance (%) Second Quarter 2017			
Top-Performing Countries		Bottom-Performing Countries	
Developed Markets		Developed Markets	
Austria	21.8	Australia	(1.9)
Denmark	15.3	Canada	0.6
Finland	13.4	Portugal	3.1
Emerging Markets		Emerging Markets	
Greece	33.8	Qatar	(10.9)
Hungary	19.4	Russia	(10.0)
Turkey	19.3	Brazil	(6.7)

Source: MSCI; all returns net of taxes.

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On the monetary front in Europe, we could see bond market pressure as the European Central Bank (ECB) begins to discuss the prospect of tapering their central bank bond purchases, due to run through the end of 2017. Any worries of a "taper tantrum II, Euro version" have not yet come to pass. Inflation has not been cooperating. The most recent Eurozone inflation measure posted a mere 1.3% increase in prices. This is hardly the stuff that would convince policy-makers of an urgent need to curtail ECB bond purchases.

Safe Havens

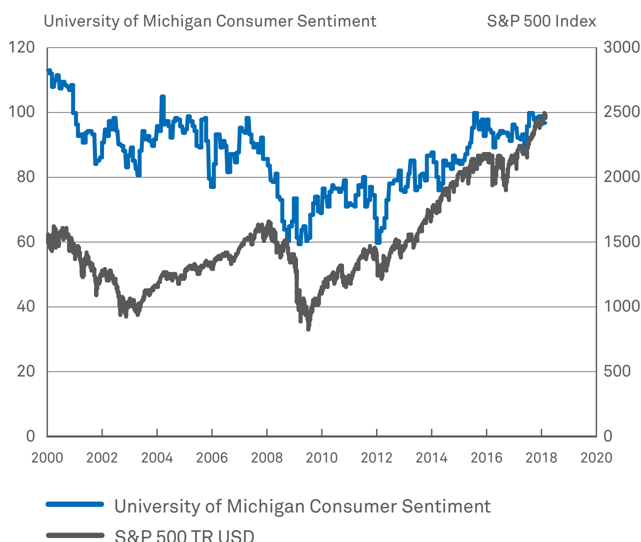
Global tensions have spurred various defensive positions like gold are posting solid gains this year (note jumps in high grade bond positions). The spot gold price registered a jump in the first quarter and has stayed relatively steady in the second quarter. While investors are still buying stocks, they are also buying "safe" haven instruments like U.S. Treasuries and precious metals.

Steady as She Goes

Our view has not changed much since last quarter, other than a shift on the prospect for disinflation. We believe we are still in a late-cycle expansion with a central bank that looks like it is changing gears. Equity prices and valuations stand at near-record multiples. In our view, we face serious global political challenges. We have become skeptical that any of the new Administration's policy proposals, market friendly or not, will actually become codified law. Yet, markets remain resilient, sentiment remains strong and labor markets continue to chug along.

As we have mentioned earlier, we believe the chief danger to balanced portfolios is recession. Although we expect recession risks to rise from here, they should rise from very low levels. In our view, short-term indicators of cyclical risk do not point to any immediate risks. Until these change, we believe the current economic expansion continues apace.

Consumer Sentiment vs. S&P 500



Source: St. Louis Federal Reserve. Data as of June 30, 2017. Visual created by Lockwood Advisors.

We ask advisors to take a longer-view of market cycles, whether that helps shape their client experience or when evaluating investment manager performance. We believe the only way to focus on longer-term goals of portfolio management is to avoid the noise and distractions of potential near-term volatility. We have noted quite a few risks to our outlook and remain wary and watchful of potential changes. For the immediate present, we believe the current cycle remains intact.

Important Disclosures

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Past performance is not a guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate, so that an investor's assets, when sold, may be worth more or less than their original cost.

The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Index performance assumes the reinvestment of all distributions but does not assume any transaction costs, taxes, management fees or other expenses, which would reduce the performance shown. Indices unmanaged and are not available for direct investment.

Bloomberg Barclays Global Aggregate ex-U.S. Bond Index: The Bloomberg Barclays Global Aggregate ex-U.S. Bond Index is designed to be a broad-based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States.

Bloomberg Barclays Global Aggregate Index: The Bloomberg Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate and the Asian-Pacific Aggregate indices. The index also includes euro-dollar and euro-yen corporate bonds; Canadian government, agency and corporate securities; and USD investment-grade 144A securities.

Bloomberg Barclays U.S. Aggregate Bond Index: The Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are SEC registered, taxable and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Securities must have at least one year to final maturity regardless of call features and must have at least $250 million par amount outstanding.

Bloomberg Barclays U.S. Treasury Bill 6–9 Month Index: The Bloomberg Barclays U.S. Treasury Bill 6–9 Month Index represents United States-issued government debt with a bond maturity between six months and nine months.

Bloomberg Commodity Index: The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The index is composed of exchange-traded futures and represents 20 physical commodities, which are weighted to account for economic significance and market liquidity (subject to weighting restrictions). On July 1, 2014, the Dow Jones-UBS Commodity Index rebranded as the Bloomberg Commodity Index.

Consumer Price Index (CPI): The Consumer Price Index (CPI), as measured by the U.S. Bureau of Labor Statistics, represents changes in prices of all goods and services purchased for consumption by urban households.

MSCI EAFE (Europe, Australasia and the Far East) Index (net of taxes)**:** The MSCI EAFE (Europe, Australasia and the Far East) Index (net of taxes) is a free-float-adjusted market-capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. As of May 30, 2017, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The index is net because dividends are reinvested after deducting a withholding

tax from dividend distributions. Since taxes are withheld from the MSCI EAFE Index (net of taxes), the performance of the MSCI EAFE Index (net of taxes) will generally be lower than that of the MSCI EAFE Index (gross of taxes).

MSCI Emerging Markets Index (net of taxes): The MSCI Emerging Markets Index (net of taxes) is a free-float-adjusted, market-capitalization index that is designed to measure equity market performance of emerging markets. As of May 30, 2017, the MSCI Emerging Markets Index consisted of the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The index is net because dividends are reinvested after deducting a withholding tax from dividend distributions. Since taxes are withheld from the MSCI Emerging Markets Index (net of taxes), the performance of the MSCI Emerging Markets Index (net of taxes) will generally be lower than that of the MSCI Emerging Markets Index (gross of taxes).

MSCI USA Mid Cap Index: The MSCI USA Value Index is an unmanaged index designed to measure the performance of the mid cap segments of the US market. The index covers approximately 15% of the free float-adjusted market capitalization in the U.S.

MSCI USA Mid Cap Growth Index: The MSCI USA Mid Cap Growth Index is an unmanaged index designed to capture mid-cap securities exhibiting overall growth style characteristics in the U.S. The growth investment style characteristics for index construction are defined using five variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI USA Mid Cap Value Index: The MSCI USA Mid Cap Value Index is an unmanaged index designed to capture mid-cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI USA Index: The MSCI USA Index is an unmanaged index designed to measure the performance of the large- and mid-cap segments of the U.S. market. The index covers approximately 85% of the free float-adjusted market capitalization in the U.S. The MSCI USA Index represents more than 50% of the MSCI ACWI (All Country World Index).

MSCI USA Growth Index: The MSCI USA Growth Index is an unmanaged index designed to capture large- and mid-cap securities exhibiting overall growth style characteristics in the U.S. The growth investment style characteristics for index construction are defined using five variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI USA Value Index: The MSCI USA Value Index is an unmanaged index designed to capture large- and mid-cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI USA Small Cap Index: The MSCI USA Small Cap Index is an unmanaged index designed to measure the performance of the small-cap segment of the US equity market. The index represents approximately 14% of the free float-adjusted market capitalization in the U.S.

MSCI USA Small Cap Growth Index: The MSCI USA Small Cap Growth Index is an unmanaged index designed to capture small-cap securities exhibiting overall growth style characteristics in the U.S. The growth investment style characteristics for index construction are defined using five variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI USA Small Cap Value Index: The MSCI USA Small Cap Value Index is an unmanaged index designed to capture small-cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

S&P GSCI Gold Index: The S&P GSCI Gold Index, a sub-index of the S&P GSCI Index, provides investors with a reliable and publicly available benchmark for investment performance in the gold commodity markets. The index is designed to be tradable, readily accessible to market participants and cost efficient to implement. The S&P GSCI Index is widely recognized as the leading measure of general commodity price movements and inflation in the world economy.

S&P GSCI Crude Oil Spot Index: The S&P GSCI Crude Oil Spot Index, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the crude oil commodity markets. The index is designed to be tradable, readily accessible to market participants and cost efficient to implement. The S&P GSCI is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Spot price in the S&P GSCI means the price of the S&P GSCI futures holdings.

S&P 500 Index: The S&P 500 Index, an unmanaged index, includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957, it consisted of 90 of the largest stocks. Although the S&P 500 focuses on the large-cap segment of the market, with approximately 80% coverage of U.S. equities, it is also used as a proxy for the total U.S. equity market.

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Sources: Bloomberg Barclays, Bureau of Labor Statistics, Federal Reserve Board, MSCI, Standard & Poor's, Federal Reserve Bank of St. Louis, U.S. Treasury Department, Bank of Japan, Bank of England, European Central Bank Bloomberg Barclays and U.S. Bureau of Labor Statistics.

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