Winter 2020
"Stress Less"

It seems that every January the same thing happens. Many people attempt to predict the stock market for the new year based on the previous year's performance. **Rebalance** does not make predictions, but rather poses this question: What are the lessons from 2019 that we can apply to 2020?

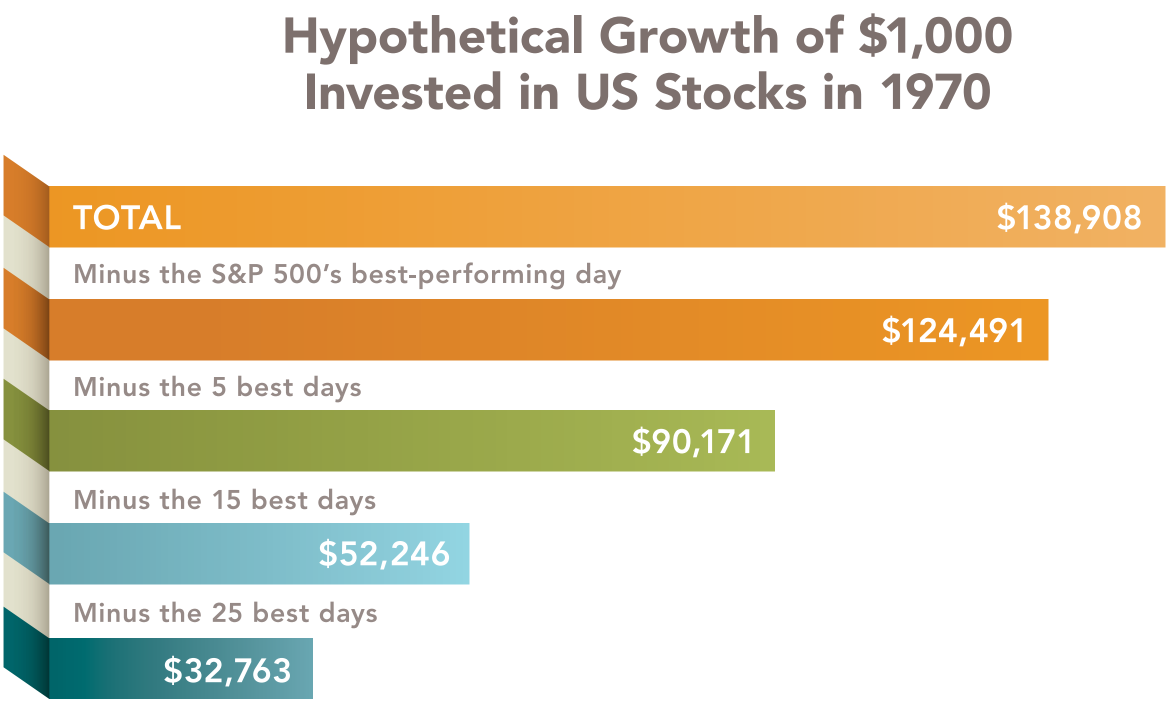
Let's go back to where we were this time last year. The words running across CNBC's home page were, "**U.S. stocks post worst year in a decade as the S&P 500 falls more than 6% in 2018.**" The Wall Street Journal summarized the state of market affairs with this headline: "*U.S. Indexes Close with Worst Yearly Losses Since 2008*." Amidst gloomy predictions for 2019, we wrote in that year's market update about the limitations of forecasting:

Things felt ominous. We started the year with a lot of anxious clients. Some wanted to get out of the stock market and wait for prices to go down. They thought that after 11 years, the bull market was finally on its way out. Unfortunately, some decided to time the market.

We all know what happened last year. Global equity markets finished the year up more than 25% and fixed income gained more than 8%.

FOMO

At Rebalance, our clients have as much Fear Of Missing Out (FOMO) on a stock market surge as they have fear of a drop in the market. Missing just a few of the market's best days can be harmful to an investor. Take a look at a hypothetical investment in the stocks that make up the S&P 500 Index. A $1,000 investment grows to $138,908 from 1970 through the end of August 2019. Miss the S&P 500's five best days and that's $90,171. Miss the 25 best days and the return dwindles to $32,763.



Note: Based on the total returns of the S&P 500 from Jan. 1, 1970, to Aug. 31 2019.

Missing out on big stock market growth has as much impact on a portfolio as losing that amount. How long does it take to make that kind of loss back? And how is someone who got out of the stock market supposed to know when to get back in?

The lesson from 2019 continues to be:

The market has no memory. Don't time the market in 2020. Don't try to figure out when to get in and when to get out — you'd have to be right twice.

Instead, figure out how much of your portfolio you are comfortable investing in equities over the long-term so that you can capture the ups, and ride out the downs. **Rebalance** can help you make this determination, as well as prepare you to stay invested during times of uncertainty.

Not enough "experts" subscribe to this point of view. They are still trying to predict the future. You have likely heard the saying, "*The definition of insanity is doing the same thing over and over again and expecting a different result*." We have seen people make this same mistake for decades.

We will never know when the best time to get into the market is, because we cannot predict the future. And if you think about it, that makes sense. If the stock market is doing its job, prices should be set at a level where you experience anxiety. It is unrealistic to think the stockmarket would ever offer an obvious time to "get in." If it did, there would be no risk and, more importantly, no reward.

We have created a "Wall of Worry" chart (Appendix A) to illustrate that historically, investment portfolios always recover. As long you do not bet on segments of the global economy (such as energy or tech stocks), and use the **Rebalance** investment approach of broad global diversification, research and history suggest your savings will continue to appreciate.

A 2020 Resolution

Looking forward, investors should keep in mind 2019's most important lessons. Stay a long-term investor in a broadly diversified portfolio, reduce your anxiety by accepting the market's inevitable ups and downs. Stop trying to figure out — or even have opinions — about the direction of the markets. You will find you have more time to do the stuff that you love to do. Easier said than done, right?

At **Rebalance**, Certified Financial Planner (CFP®) Christie Whitney is our Vice President of Investment Advice and Director of Financial Planning. She helps our clients with much of investing-induced anxiety by distinguishing between the investing time frame and the particular investment vehicle. In financial planning, Christie and her team help **Rebalance** clients address the reality of the markets by considering three buckets:

We invest each individual bucket based upon a specific purpose and time frame.

For paying for regular living expenses anticipated within three years, the *Consumption* bucket holds mostly short-term fixed income investments. If you need money for consumption next month you should not invest in something that has a long-term time horizon, such as stocks.

Since no stock market funds are held inside the *Consumption* bucket, clients can relax about the inevitable, but unpredictable, short-term stock market volatility. The longest bear market on record is about 2.8 years and the average about half that long. Stock market funds are used in *Contingency* and *Goals* buckets.

World Markets Review

Fourth Quarter 2019

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
Q4 2019	**Stocks**					**Bonds**	
	9.10%	7.86%	11.84%	0.80%		0.18%	-1.11%
Since Jan 2001							
Avg. Quarterly Return	2.1%	1.5%	2.9%	2.6%		1.2%	1.1%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009		4.6% Q3 2001	4.6% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.1% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008		-3.0% Q4 2016	-2.7% Q2 2015

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 [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

The **Rebalance Investment Committee** works with two broad asset classes as the basic building blocks of our client portfolios: Growth and Income. During the fourth quarter of 2019 these asset classes performed as follows:

Growth Asset Classes

Large U.S. Stocks. U.S. stocks hit new highs as the U.S.-China trade dispute cooled and an initial deal to restore global commercial ties was signed. Nearly every sector of the market except energy stocks posted double-digit gains for the year. It was the largest annual gain for U.S. equities since 2013, with gains in 10 out of 12 months for the year. An accommodative Federal Reserve also played a role, cutting rates three times in 2019 as the economy slowed. Unemployment remains at its lowest level in five decades, while hourly earnings have grown steadily.
Small Cap Stocks. Small company stocks, many of them banks and manufacturing concerns, typically provide returns in excess of large cap stocks. Nevertheless, investors must take on more volatility in exchange for better returns. Over 2019 the Small Cap 600 Index appreciated 22.7%, but that performance lagged the large cap S&P 500.

International Developed Stocks. A break in the U.S.-China trade war logjam helped small foreign stocks improve just as the world economy seemed ready to shake off fears of a global slowdown. Slower European manufacturing and a challenging slowdown in China's overall economy kept international shares in check compared to U.S. stocks. The conservative landslide in Great Britain seemed to provide at least some sense of resolution to the Brexit mess, though we are only at the beginning of that political process. Given relatively low valuations, many forecasters predict international developed stocks will outperform U.S. stocks in the next decade.

Emerging Market Stocks. Increased manufacturing competition from cheaper emerging market producers such as Vietnam and Indonesia, both places with many more young workers, is hurting China's growth. India cut corporate tax rates to spur growth and to invite foreign production to its shores. Brazil's recovery has been slow going as the government struggles to reform entitlement programs that would reduce its deficit. All eyes are on the U.S.-China trade deal as a potential balm for renewed growth worldwide.

Real Estate. The twin booms of aging boomers seeking senior housing and millennials coming into their first home ownership experience propped up the U.S. housing market. However, a lack of supply in growing markets has priced out many who might otherwise be buyers. Lower rates from the Fed helped support lending, while a generally strong economy has meant strong demand for commercial space and few empty buildings. Excess mall space, as retailers feel the pinch from online sales growth, remains a weak spot in the REIT segment.

Income Asset Classes

U.S. Government Bonds and TIPs. Following the Fed's actions to calm markets with three rate cuts earlier this year, injections of additional liquidity measures served as an effective backstop for financial markets. The improving economic and inflation picture lifted rates and steepened the U.S. Treasury curve. Demand for U.S. Treasuries and TIPs waned during the quarter, pushing the ten year Treasury yield down to 1.92%.

U.S. Corporate Bonds. Investment-grade bonds rose on Fed rate cuts and hints that a trade deal between the United States and China, however preliminary, might signal the end of global trade tensions. This happened against a backdrop of the overall U.S. bond market, which saw yields fall and thus bond prices rise. Earlier in the year, an inverted yield curve seemed to hint at a recession coming down the pike, but the bond market seems to have turned the corner on that eventuality.
High Yield Corporate Bonds. As the U.S.-China trade deal began to find its footing and fears of recession fell back, demand for generally riskier high-yield debt rose in response. Favorable corporate earnings also supported the extra risk in high yield. As investors continue to collect yearly 6% on these bonds, default rates remained relatively low while demand for yield stayed high, as other higher-grade corporates yielded about 3.4%.

Emerging Market Bonds. Emerging economy bonds performed well as their currencies strengthened. Low global rates made emerging country debt attractive on a relative basis. Meanwhile, economic turmoil in places such as Turkey, Brazil and Mexico seemed to have no knock-on effect on demand for higher-yielding sovereign debt from emerging economies.
Preferred Stocks. Preferred stock has features of both stocks and bonds. The average yield is 5.3% and is included in our clients' Income portfolios. There is some volatility when the Fed raises and lowers interest rates. For portfolios held long term where investors use the income for steady cash flow, these stocks are a highly attractive portfolio diversifier. Additionally, for taxable accounts, their dividends are largely "qualified" which means they are taxed under capital gains tax rates that are lower than income tax rates, typically between 0% and 20%, depending on the tax bracket.

The Rebalance Investment Committee

The Rebalance Investment Committee meets several times a year to review our client portfolio options, asset class selections, and overall economic factors. The Committee's goal is to curate client portfolios that generate the most investment return for the least amount of risk.

The Rebalance Investment Committee meeting in New York, April 2019 (left to right: Scott Puritz, Charles Ellis, Jay Vivian, Burt Malkiel, and Mitch Tuchman)

The **Rebalance Investment Committee** actively develops, oversees and sets policies for the portfolios offered to the firm's clients. Their core ideas include diversification across multiple types of assets on a global basis and disciplined portfolio rebalancing. They also advocate techniques for keeping investment fees low.

Burton Malkiel, Charles Ellis and Jay Vivian comprise the core of the **Rebalance Investment Committee**. They are renowned for creating and implementing sophisticated investment methods used today by elite pensions and endowments.

Rebalance and its clients are fortunate to have such respected and savvy financial experts guiding key investment decisions.

Professor Malkiel is an emeritus Princeton University economics professor, a former board member of The Vanguard Group, and the author of the investment classic *A Random Walk Down Wall Street*.

Dr. Ellis was for three decades the managing partner of Greenwich Associates, the leading strategic advisor and consultant to large institutional investors around the world. He was Chairman of the Investment Committee of the famed Yale Endowment, and he has served on the governing boards of The Vanguard Group, Yale, Harvard, NYU Stern, Exeter, the Whitehead Institute, and the Robert Wood Johnson Foundation.

Jay Vivian is the former Managing Director of the IBM Retirement Funds, responsible for over $100 billion in IBM investment funds for more than 400,000 employees worldwide.

We thank them for their input and wisdom.
Very truly yours,

Your **Rebalance** Team

Appendix A

The Stock Market Climbs A Wall of Worry

The world is a scary place. Every year, there are new things to worry about. But through it all – World Wars, violence, recessions, depressions, hurricanes, terrorist attacks and other catastrophes – the Global Stock Market has continued to grow over many decades.

Year	Events	S&P 500 Total Returns*
1934	Massive Wall Street reforms passed; National Recovery Act price controls; Hitler declares himself Fuhrer	-1%
1935	Italy invades Africa; Hitler rejects Versailles treaty; Dust Bowl; Social Security Act; NRA overturned	47%
1936	Hitler occupies Rhineland; Nazi appeasement; Spanish Civil War; top US tax bracket hits 79%	32%
1937	Short but sharp US recession - Capital spending & industrial production drop; Japan invades China	-35%
1938	Nazis annex Austria and invade Czechoslovakia; New England hit by major hurricane	29%
1939	Germany & Italy sign military pact; Britain, France and Poland form alliance Poland invaded, beginning WWII	-1%
1940	France falls to Hitler; Battle of Britain; top US income tax bracket over 81%; Wall Street regulations passed	-11%
1941	Pearl Harbor; Germany invades USSR; US declares war on Japan, Italy & Germany	-13%
1942	Wartime price controls; Battle of Midway; top US income tax bracket over 88%	19%
1943	US Meat & Cheese rationed; price & wage controls; major U-boat attacks; fed. deficit exceeds 30% of US GDP	25%
1944	Consumer goods shortages; Allies invade Normandy; top US income tax bracket hits record 94%	19%
1945	Post-war recession predicted; Invasion of Iwo Jima; FDR dies; Atom bomb dropped in Japan, Europe in ruins as war ends	36%
1946	US net debt exceeds 100% of GDP; Employment Act of 1946 passed; Steel & shipyard workers strike	-8%
1947	Cold War; high US inflation; Israel/Palestine debate swirls; Indo-Pakistani War; Communists take Hungary	5%
1948	Berlin blockade; US seizes railroads to avert strike; Israel independence, immediately invaded; US recession	6%
1949	Russia explodes atom bomb; Britain devalues the pound; Communists control China; Taiwan/China tensions begin	18%
1950	Korean War; McCarthy and the "Red Scare"; China invades Tibet; Global population exceeds 2.5 billion	31%
1951	Excess Profits Tax; Rosenberg trial; Korean War continues; US tests H-bomb; Marshall Plan ends	24%
1952	US seizes steel mills to avert strike; Egyptian revolution' Jordanian coup; America's polio scare hits a high	18%
1953	Europe hit by North Sea floods; Russia explodes H-bomb; Recession; Stalin dies; Korean War ends	-1%
1954	Dow 300 - fear of heights; Taiwan/China conflict; French Indochina War; Brown v. Board integration debate	53%
1955	Eisenhower illness; Warsaw Pact formed; North Vietnam invades South; US 7th Fleet aids Taiwan's army	33%
1956	Suez Crisis - Israel and Egypt fight; Asian flu; Hungarian Revolution crushed by Soviets;	7%
1957	Russia launches Sputnik; Recession; Little Rock Central High integration crisis; Eisenhower suffers stroke	-10%
1958	Recession; Taiwan/China conflict; Marines dispatched to Beirut; Khrushchev attempts to unify control of Berlin	44%

*Includes reinvested dividends

Appendix A (cont.)

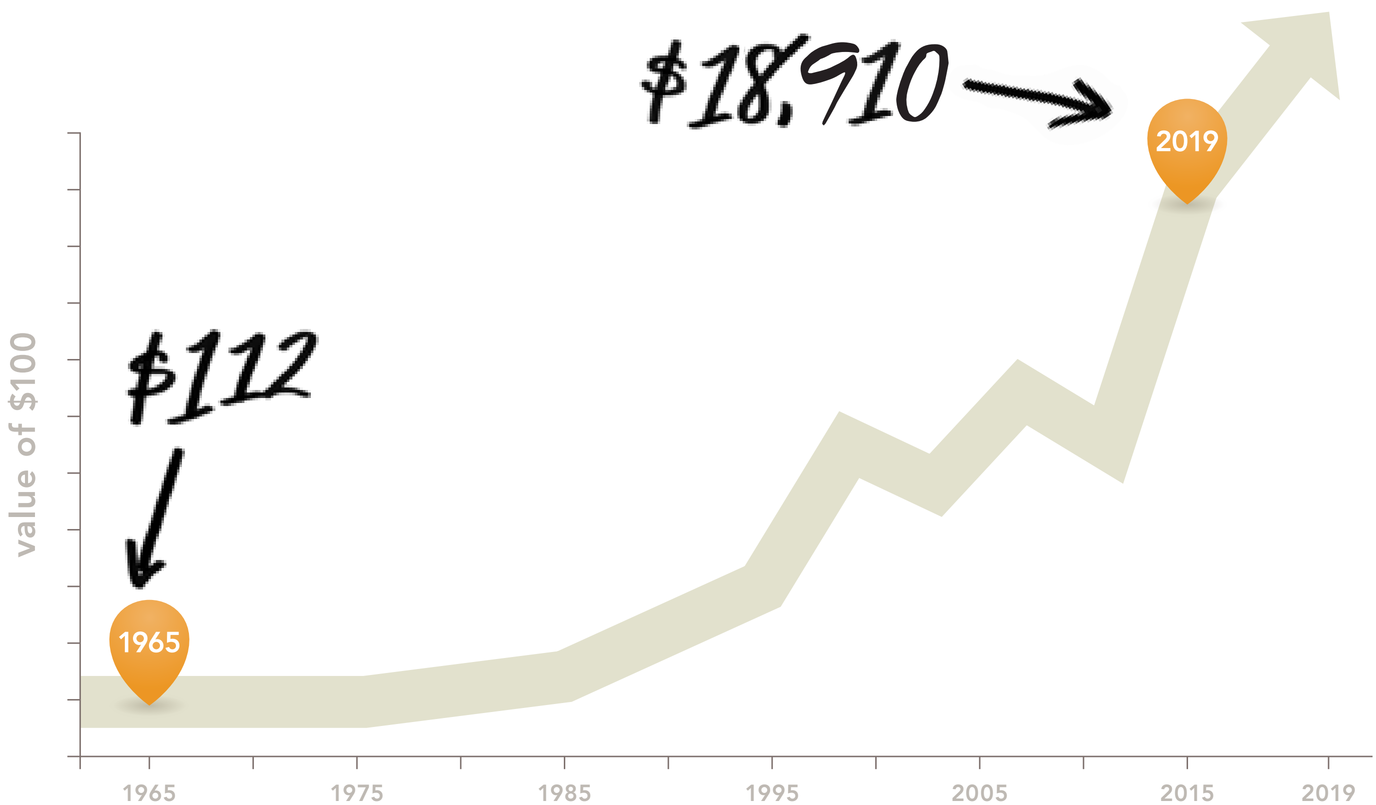
Year	Events	Global Stock Market Returns
1959	Castro seizes power in Cuba; US steel strikes; Cuban-backed revolt in Dominican Republic fails	12%
1960	Recession; Russia downs U-2 spy plan' Castro nationalizes foreign property; Global population over 3 billion	0%
1961	Berlin Wall erected; Green Berets sent to Vietnam; Bay of Pigs invasion fails; Freedom Riders-civil rights debate	27%
1962	Cuban Missile Crisis; JFK cracks on steel prices, Cuba embargo; China/India fight	-9%
1963	President Kennedy assassinated; South Vietnam government overthrown; integration/segregation debates swirl	23%
1964	Gulf of Tonkin; Race riots; Brazil coup d'état; segregation abolished; Khrushchev deposed-USSR leadership uncertain	16%
1965	Civil rights marches; regular US troops in Vietnam; India/Pakistan war; China/Taiwan naval battle; US draft card burnings	12%
1966	Vietnam War escalates; Nigerian coup; Chinese Cultural Revolution begins-results in millions of deaths	-10%
1967	US race riots, British Parliament votes to nationalize 90% of steel industry; Six-Day War between Israel and Arab nations	24%
1968	USS Pueblo seized; Tet Offensive; Martin Luther King & RFK assassinated; Watts riots; Bitter election campaign	11%
1969	US recession; Prime rate at record high; N. Korea down US navy plan; Ghaddafi takes Libya	-8%
1970	US invades Cambodia; Bankruptcy of Penn Central; Aussie Poseidon bubble bursts; Kent State shootings	4%
1971	Wage & price freezes; Bretton-Woods era ends, gold standard abolished; US Dollar devalued	14%
1972	US mines Vietnamese ports; Israeli athletes murdered at Munich Olympics; Iraq nationalizes oil companies	19%
1973	Energy crisis-Arab oil embargo; US recession begins; Watergate scandal; Agnew resigned; Yom Kippur War	-14%
1974	Steepest market drip in four decades; Nixon resign; Yen devalued; Franklin National Bank collapses	-26%
1975	NYC bankrupt; North Vietnam wins war; UK nationalizes automaker; Spanish dictator Francisco Franco dies	37%
1976	OPEC raises oil prices US government takes over many private railroads; Lebanese Civil War	24%
1977	Social Security taxes raised; Spanish neo-fascists attack during political assembly; NYC blackout	-7%
1978	Rising interest rates; US net debt crosses $600 billion, double 1970's level; Cleveland, Ohio defaults	7%
1979	CPI inflation spikes; Three Mile Island nuclear disaster; Iran seizes US embassy; USSR invades Afghanistan	19%
1980	All-time high interest rates; Love Canal; Iran-Iraq War; Chrysler bailout; Silver crash; Carter blocks grain exports to USSR	32%
1981	Steep recession begins; Regan shot; Energy bubble bursts; AIDS identified for the first time; Israel bombs Iraqi nuclear facility	-5%
1982	Worst recession in 40 years-profits plummet; Unemployment spikes; Falklands War; US embargoes Libyan oil	20%
1983	US invades Grenada; US embassy in Beirut bombed; WPPSS biggest muni bond default ever; US net debt hits $1 trillion	22%
1984	FDIC bails out Continental Illinois; "Ma Bell" monopoly broken up; Net debt his $1.5 trillion-double 1980 level	6%
1985	Arms race; Ohio banks closed to stop run; US is largest debtor nation; Net debts hits $1.5 trillion-double 1980 level	31%
1986	US bombs Libya; Boesky pleads guilty to insider trading; Challenger explodes; Chernobyl	18%
1987	Record-setting single day market decline; Iran-Contra investigation blames Reagan; World population hits 5 billion	6%

Appendix A (cont.)

Year	Events	Global Stock Market Returns
1988	First Republic Bank fails; Noriega indicated by US; Pan Am 103 bombing; UK's "Big Bang" financial market reforms	17%
1989	Tiananmen Square; SF earthquake; US troops in Panama; Exxon Valdez spill; S&L crisis-500+ banks fail, RTC formed	31%
1990	Recession begins; Consumer confidence plummets; Iraq invades Kuwait-tensions rise; German reunification fears	-3%
1991	US begins air war in Iraq; Unemployment rises to 7%; Irish terrorists attack 10 Downing Street; USSR collapses	30%
1992	Hurricane Andrew devastates Florida; Race riots in LA following LAPD acquittals; Recession fears; Bitter election contest	7%
1993	Tax increase; World Trade Center bombed; European double-dip recession; British pound devalued	10%
1994	Attempted nationalized health care; Mexican peso crisis; Former Yugoslavia descends into civil war, Kim II Sung dies	1%
1995	Weak dollar panic; Clinton bails out Mexico; Aum Shinrikyo sarin gas attacks in Japan; Oklahoma City bombing	37%
1996	Fears of inflation; Whitewater investigation; Khobar Towers bombing; Greenspan cities investors' "irrational exuberance"	23%
1997	Tech "mini crash" in October & "Pacific Rim crisis"; China takes control of Hong Kong; Iraq disarmament crisis swirls	33%
1998	Russian Ruble crisis; "Asian Flu"; Long-term Capital Management debacle; US embassy bombings in Africa	28%
1999	Y2K paranoia & correction; Clinton impeached; Venezuela's Hugo Chavez takes power; War in Balkans	21%
2000	Dot-com bubble begins to burst; Gore v. Bush-hanging chads & contested Presidential election; USS Cole bombed	-9%
2001	Recession; September 11th terrorist attacks; IRA bombs BBC; US/Afghan War; Contentious Patriot Act becomes law	-12%
2002	Corporate accounting scandals; Sarbanes-Oxley Act passed; Terrorism fears; Tensions with Iraq and "Axis of Evil"	-22%
2003	Mutual fund scandals; Conflict in Iraq; SARS; Space Shuttle Columbia explodes; Israeli airstrikes within Syria	28%
2004	Fears of a weak dollar and US "triple deficits"; Madrid train bombings; Indian Ocean tsunami kills over 100,000	11%
2005	Tension with North Korea & Iran; Hurricane Katrina; Oil price spikes to $70; 7/7 London bombings	5%
2006	North Korea testing nuclear weapons; Continued war in Iraq & Afghanistan; Mexican Drug War begins	16%
2007	Financials take writedowns; Significant accounting rule changes; Israel strikes suspected Syrian nuclear facility; Subprime	5%
2008	Global financial panic; Steepest calendar year stock market declines since 1930s; oil exceeds $140; government bailouts	-37%
2009	Unemployment exceeds 10%; Massive global fiscal and monetary stimulus; US automaker bailouts	26%
2010	PIIGS sovereign debt scares; Double-dip recession fears; "Flash Crash"; US health care and financial reform laws passed	15%
2011	Arab spring; Japanese earthquake and tsunami; Continuing PIIGS sovereign debt concerns; Bin Laden killed; US downgrade	2%
2012	Bank ratings slashed; LIBOR scandal; Superstorm Sandy; European bailout; Middle East wars	16%
2013	US 'sequestration'; Boston Marathon bombing; government shutdown; Detroit bankruptcy	32%
2014	3rd Europe recession since '08; African Ebola; Russia attacks Ukraine; ISIS emerges; oil crashes	14%
2015	Oil crashes nearly 50%; ISIS bombings; Greece defaults on billions; China slows; Putin invades Ukraine; Euro bonds negative	1%
2016	Global stocks crash nearly 10%; Brexit shocks Europe; first Fed rate hike in a decade; Wells Fargo scandal; Trump elected	12%
2017	President Trump sworn in; U.S.-North Korea tensions flare; major hurricanes in Texas, Florida, Puerto Rico	22%
2018	Trade war begins; two government shutdowns; Democrats take the House; U.S. leaves Iran nuclear deal	-4%
2019	Longest U.S. government shutdown in history; terror attacks in New Zealand; Mueller report released; House impeaches Trump	31%

Appendix A (cont.)

Stock Market Climbs a Wall of Worry: 1965 - 2019



Year	1965	1975	1985	1995	2005	2015	2019
Value of $100 (beginning 1/1/1965)	$112	$156	$538	$2,324	$5,490	$11,051	$18,910