

September 2014 Capital Markets Review

INDEX	PERIOD ENDING SEPTEMBER 30, 2014					
	QTR	YTD	1 YR RETURN	3 YR RETURN	5 YR RETURN	10 YR RETURN
U.S. EQUITY MARKETS						
S&P 500 Index	1.13%	8.34%	19.73%	22.99%	15.70%	8.11%
Russell 3000	0.01%	6.95%	17.76%	23.08%	15.78%	8.44%
Russell 1000	0.65%	7.97%	19.01%	23.23%	15.90%	8.46%
Russell 1000 Value	-0.19%	8.07%	18.89%	23.93%	15.26%	7.84%
Russell 2000	-7.36%	-4.41%	3.93%	21.26%	14.29%	8.19%
Russell 2000 Value	-8.58%	-4.74%	4.13%	20.61%	13.02%	7.25%
NON-U.S. EQUITY MARKETS						
MSCI ACWI Ex US	-5.27%	0.00%	4.77%	11.79%	6.03%	7.06%
MSCI Emerging Markets	-3.49%	2.43%	4.30%	7.19%	4.42%	10.68%
FIXED INCOME						
Barclays Aggregate Bond	0.17%	4.10%	3.96%	2.43%	4.12%	4.62%
Barclays Municipal Bond 3 Year	0.30%	1.34%	1.94%	1.61%	2.12%	3.01%
Barclays US TIPS	-2.04%	3.67%	1.59%	1.34%	4.48%	4.63%
REAL ASSETS/NATURAL RESOURCES						
DJ US Select REIT	-3.00%	14.69%	13.44%	16.19%	15.77%	8.21%
S&P North American Natural Resources	-10.03%	4.75%	10.27%	12.53%	8.82%	9.79%

Commentary

- ❖ The US equity market ended the quarter unchanged as losses in July and September offset a strong result in August. Macro news outside of the US served as the main headwind for US stock values in the quarter, despite a continuation of positive domestic themes including GDP and employment growth, favorable corporate earnings, healthy consumer sentiment, and lower-than-expected inflation. Although equity market volatility spiked in the quarter, the peak level of volatility in the period remained below the long-term historical average.
- ❖ International news was headlined by the continued conflicts in the Middle East and Ukraine, Scotland's potential separation from the United Kingdom, and political protests in Hong Kong. The more crucial story for the international equity markets, however, was the significant increase in the US dollar relative to most major currencies in the period. On a local-currency basis international stocks were slightly positive, but experienced a 5.2% decline in US dollar terms after the currency translation. The US dollar ended the quarter at its highest value since the second quarter of 2009 driven by the relative strength of the US economy and the outlook for a widening interest rate differential versus most major economies. Emerging market performance, on a local-currency basis, was similar to the developed markets in the quarter.
- ❖ Emerging market stocks were slightly positive on a local currency basis in the quarter, but fell 3.5% in US dollar terms. Emerging Asia marked a local currency return of 0.4% as a positive result in China (+1.6%) was offset by negative results by the region's other

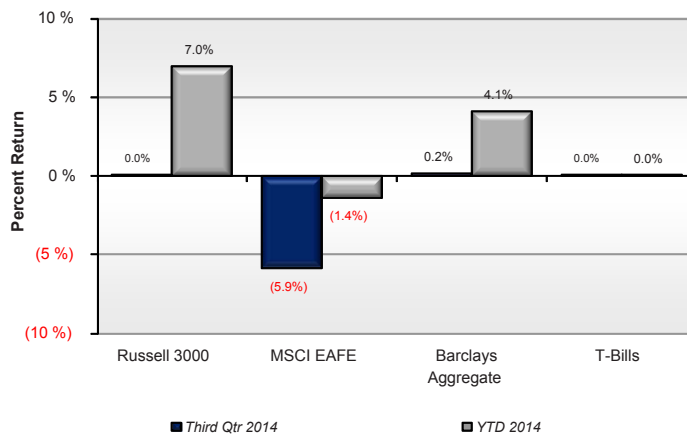
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two largest constituents, Korea (-3.3%) and Taiwan (-1.8%). Emerging Europe sold off 3.3% in local currency terms for the quarter as the Czech Republic and Poland were the only markets to generate positive returns. Greece led the region lower with a -13% return on concerns that a proposed early payback of bailout funds would derail the country's recovery. Latin America returned 2.3% on a local-currency basis in the quarter led by Mexico's 5.7% result, where investors celebrated the government's elimination of a 76 year old state-owned oil monopoly.

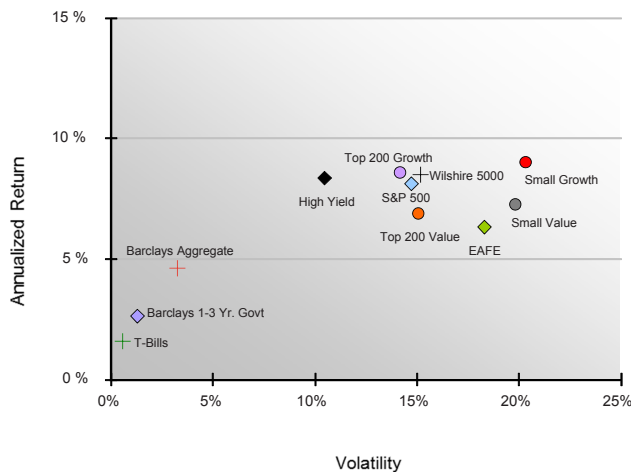
- ❖ The benchmark 10-year yield was unchanged for the quarter, but masked a moderate amount of daily volatility with the yield reaching a high of 2.65% and a low of 2.33%. The yield curve continued to flatten in the quarter, with the 30-year yield declining 0.13 percentage points and longer-term Treasuries returning 2.6%. During the quarter the Federal Reserve reiterated that short-term rates would remain low for a considerable period following the expected October conclusion of the quantitative easing program.
- ❖ TIPS underperformed Nominal Treasuries in the quarter, declining 2% for the period following a lower than expected CPI reading in September. The latest realized CPI reading was 1.7%, down from 2.1% at the end of the prior quarter. The breakeven inflation rate implied in 10-year US TIPS ended the quarter at 1.97%, down from 2.26% at the end of the prior quarter.

Major Capital Market Returns



Note: The following indices represent the returns of the asset classes within the above chart: U.S. Stocks – Russell 3000, Non-U.S. Stocks – MSCI EAFE, Fixed Income – Barclays Aggregate, and U.S. Treasury Bills

Risk/Return - Trailing 10 Years



Source of statistics not otherwise specifically cited within this newsletter: Strategic Capital Investment Advisors

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