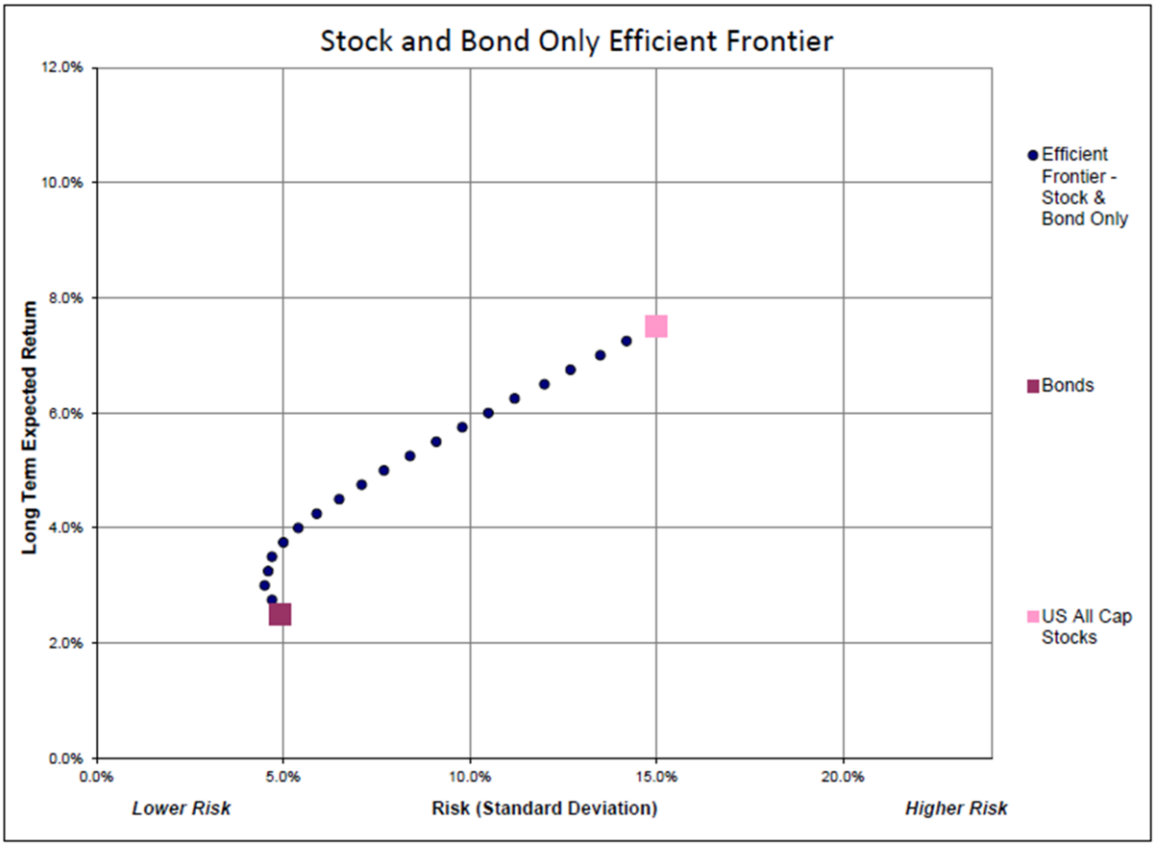
BUILDING BENJAMINS

Global Strategy Update

JUNE 2017

Global diversification can improve a portfolio's expected risk reward profile. The historical U.S. individual investor typically invested in a mix of U.S. stocks and bonds. This strategy was hugely successful post-World War Two as the U.S. established itself as the largest and most dominant economy on the globe. However, with secular growth slowing and interest rates near all-time lows, an exclusively stock and bond portfolio is unlikely to provide returns approaching its historical levels. For modelling and cash flow analysis purposes, we expect the broad U.S. stock market to provide returns of approximately 7.5%, modestly below long-term historical norms, and Investment Grade Bonds to provide an even lower approximated expected return of only 2.5%. (Please see full disclaimer at the end of this document.)

Diversification across stocks and bonds has and continues to be a method to lower portfolio volatility (***Standard Deviation*** is a typical measure of risk). We have plotted a mix of stocks and bonds on the graph below. The vertical axis is the expected return, E(R). The horizontal axis is the expected standard deviation, E(SD). The graph below is commonly referred to as the "efficient frontier" for a two asset class world that only has stocks and bonds.



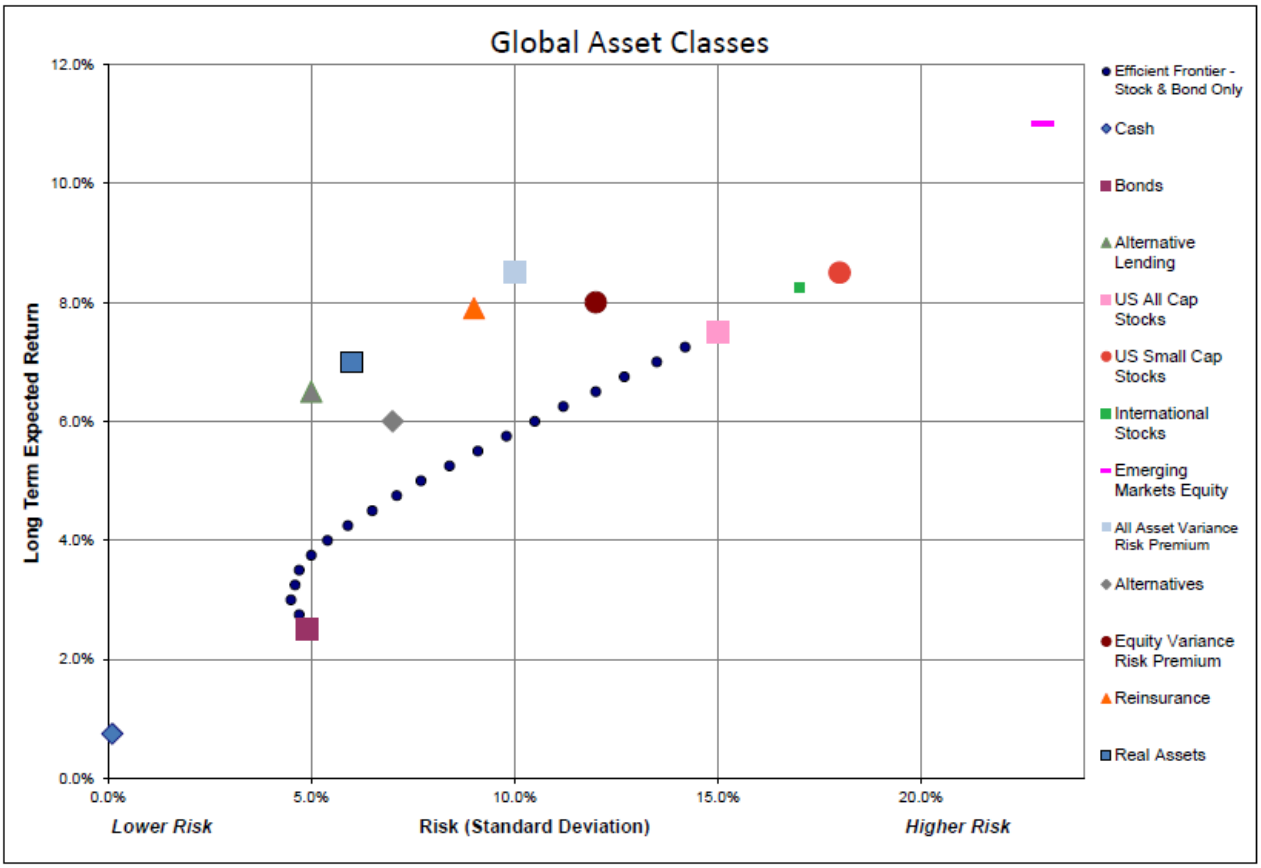
Efficient Frontier
Points Along the Curve

Stock and Bond Only Efficient Frontier

Asset Class Mix		Long Term Expected Return	Expected Risk
US All Cap	Bonds		
0%	100%	2.50%	4.9%
10%	90%	3.00%	4.5%
20%	80%	3.50%	4.7%
30%	70%	4.00%	5.4%
40%	60%	4.50%	6.5%
45%	55%	4.75%	7.1%
50%	50%	5.00%	7.7%
55%	45%	5.25%	8.4%
65%	35%	5.75%	9.8%
70%	30%	6.00%	10.5%
80%	20%	6.50%	12.0%
90%	10%	7.00%	13.5%
100%	0%	7.50%	15.0%

As depicted in the graph above, the greater the stock allocation, the higher the expected risk and the expected return. As an investor diversifies and adds more bonds into the portfolio, both the expected risk and the expected return move lower, until the allocation approaches almost all bonds; and then the expected returns continue to head down but expected risks actually increase modestly. Specifically, moving to a 100% bond portfolio actually increases the portfolio risk while reducing expected returns.

The good news is we are not limited to investing exclusively in U.S. stocks and bonds. In a globally diversified portfolio, we have the option of including other asset classes to diversify and improve the expected risk return profile.



The graph above shows these asset classes plotted next to the Stock and Bond Only Efficient Frontier (SBOEF). One should note that some are below the SBOEF, but some are above. However, expected returns and expected risks are only part of the story. Each asset class has a different correlation with every other asset class. (***Correlation*** is a measure of how assets move together) The higher the correlation, the more the moves are similar in magnitude and direction. When we diversify across asset classes that have low or moderate correlations, the diversification will lower overall portfolio expected risk (standard deviation). We have built several model strategies comprised of different percentages of these additional asset classes, which take advantage of the benefits of diversification and less than perfect correlation.

Asset Class Returns

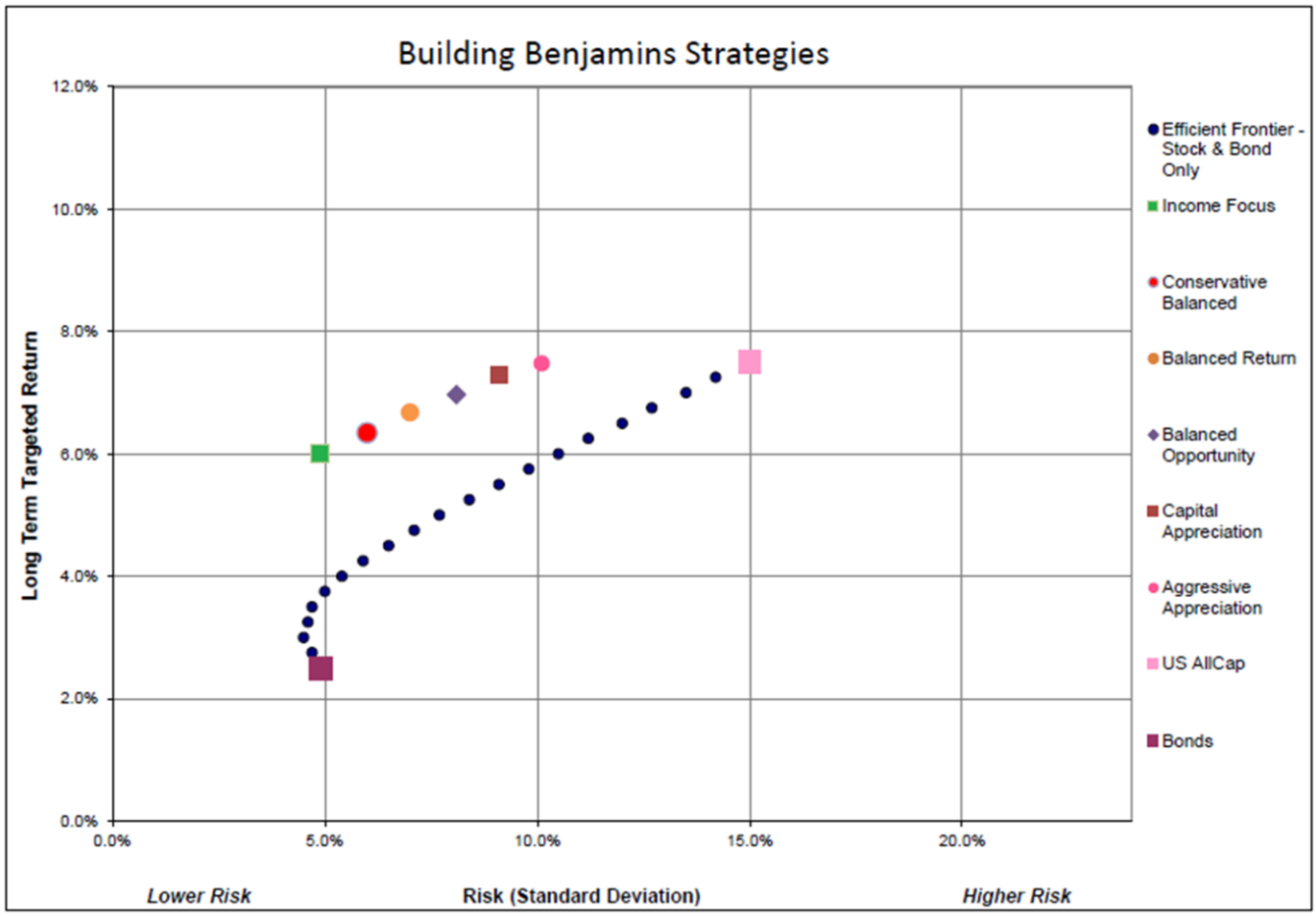
Asset Class	Long Term Expected Return	Expected Risk
Cash	0.75%	0.1%
Bonds	2.50%	4.9%
Alternative Lending	6.50%	5.0%
US All Cap Stocks	7.50%	15.0%
US Small Cap Stocks	8.50%	18.0%
International Stocks	8.25%	17.0%
Emerging Markets Equity	11.00%	23.0%
All Asset Variance Risk Premium	8.50%	10.0%
Alternatives	6.00%	7.0%
Equity Variance Risk Premium	8.00%	12.0%
Reinsurance	7.90%	9.0%
Real Assets	7.00%	6.0%

The table below outlines the expected return and expected risk parameters for these strategies. Please see full disclaimer at the end of this document keeping in mind that these are not projections, but are only used for modeling and long term cash flow analysis.

Model Strategies

Strategy	Long Term Targeted Return	Expected Risk
(returns net of fees)		
Income Focus	5.99%	4.9%
Conservative Balanced	6.34%	6.0%
Balanced Return	6.68%	7.0%
Balanced Opportunity	6.97%	8.1%
Capital Appreciation	7.29%	9.1%
Aggressive Appreciation	7.48%	10.1%

These strategies have improved expected risk and expected return metrics versus the Stock and Bond Only Efficient Frontier. The graph below shows how these strategies compare to the SBOEF. As you can see, the diversification manages to improve expected return at the same level of expected risk compared to the stock and bond only efficient frontier; thus the diversified global strategies have expected return and expected risk profiles that are better than the typical U.S. investor's portfolio of only stocks and bonds over long investment horizons of ten or more years.



While the future, and specifically, returns, are unpredictable, looking at how asset classes relate and work together is a valuable process that helps us build better portfolios. The expected returns and expected risks are not forecasts but are essential tools as we strive to build portfolios that have strong expected risk/expected return profiles. Furthermore, each client has expectations related to personal future spending patterns and financial goals that govern our counsel regarding portfolio diversification. As we have stated in many forms of communication, our job as investment advisors is to provide an investment array that helps meet these present and future capabilities without undue risk, but also with focused attention to global economic conditions and market opportunities.

We look forward to talking with you about this Global Strategy Update and specifically how it is impacting your portfolio. Please read the full disclosure directly below.

DISCLAIMER

For illustrative and discussion purposes only, to show possible return profiles of various asset classes. This illustration does not reflect historical returns nor is it a projection of future returns. Past performance is not indicative of future results. Investing involves risk and may result in losses. At a given time, any risk asset class or asset may lose value and result in substantial losses. Inflation risk is an additional risk for financial assets. This illustration is not GIPS compliant and is shown only for illustrative purposes. Tradition does not make any assertions, estimates or guarantees about future results. Future results are unpredictable and could result in losses. Expected return and expected risk are not forecasted returns or risks but are only statistical definitions for modeling purposes. The above is not meant to be a full or complete discussion of all the risks involved in investing as that is beyond the scope of the article; many of the risks involved in investing are not specifically named above but nonetheless still exist.