



Q3

Quarterly Market Review

Third Quarter 2021

Retirement and Estate Planning

“The question isn’t at what age I want to retire, it’s at what income” – George Foreman

Retirement & estate planning are as critical to your financial health & goals as is making the right investment decisions. Retirement is unique to each individual and it’s important to plan for retirement so that you can retire when you feel you have the means to live comfortably given the type of retirement you want for yourself. A recent client study showed that retirement planning has become less of a priority for middle-aged adults. This is a mistake since a retirement plan is a very important element of an overall financial plan.

As a case in point on why planning is important, what happens at the death of a first spouse? Well, there is a largely obscure and little known IRS code called the Widow’s Penalty Tax, a “stealth tax” so to speak that can cause a widow or widower to struggle financially. The following are potential implications:

- When one spouse dies, the surviving spouse could face higher expenses because the surviving spouse may need to hire help for things the deceased spouse used to provide. Also, the surviving spouse is now responsible for all of the bills and has to maintain the household with potentially less money.
- The household begins to receive only one Social Security check instead of two.
- If the deceased spouse was receiving a pension or annuity, it may disappear or change to a reduced amount.
- With regard to the Widow’s Penalty tax, the surviving spouse is pushed into a higher tax bracket. When both spouses are alive, their tax return filing status is married filing jointly. But after one spouse passes away, the surviving spouse’s filing status changes to single. Bob Carlson, editor of Retirement Watch, says taxpayers who are married filing jointly stay in the 12% tax bracket until their taxable income exceeds \$80,250 in 2020. But a single taxpayer stays in the 12% tax bracket only until taxable income exceeds \$40,125. The 22% tax bracket applies to a married couple filing jointly until taxable income exceeds \$171,050 but for a single taxpayer the ceiling is taxable income of \$85,525.
- Also, a surviving spouse could pay more for their Medicare health coverage. Medicare beneficiaries are subject to the Medicare premium surtax, also known as IRMAA (e.g. income-related monthly adjustment amount). As with income taxes, the Medicare premium surtax changes with marital status. A single taxpayer with the same income as a married couple will pay twice the Medicare surtax as the couple.
- Then there is also the tax on Social Security. Social Security benefits are included in gross income at a faster rate for a single taxpayer than for a married couple filing jointly.

Studies show that for about half the couples, one spouse will outlive the other by at least 10 years, which is why it is so important for couples to plan for the Widow's Penalty and other implications in terms of their investment and retirement planning. There are things that you can do to mitigate these issues.

So, it is very important to plan now instead of leaving the surviving spouse to deal with the issues after it's too late. As investment professionals we don't do taxes or estate planning, but we can address investment and retirement issues with you, even if you are single and just need advice on how to budget or preserve capital. We can address the major issues with you, provide guidance and work with your existing professional tax and other advisors to come up with a plan to meet your needs and objectives. And if you don't have other professionals whom you are working with, we can make appropriate recommendations to make sure you get the right help for your situation.

Give us a call today at 858-350-1365 or via email at brian@csjwealth.com or sal@csjwealth.com and we'd be happy to arrange to discuss your situation with you – completely complimentary. Let's start the conversation today so you can have greater peace of mind.

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Quarterly Market Review

Third Quarter 2021

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Market Performance

Select Currency Performance
vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income







Global Fixed Income

Impact of Diversification

Quarterly Topic: The 50-Year Battle for a
Better Way to Invest

Quarterly Market Summary



















Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
3Q 2021	STOCKS					BONDS	
	-0.10%	-0.66%	-8.09%	-0.08%		0.05%	0.09%
							
Since Jan. 2001							
Avg. Quarterly Return	2.4%	1.7%	2.9%	2.5%		1.1%	1.1%
Best Quarter	22.0% 2020 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3		4.6% 2001 Q3	4.6% 2008 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4		-3.4% 2021 Q1	-2.7% 2015 Q2

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 US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

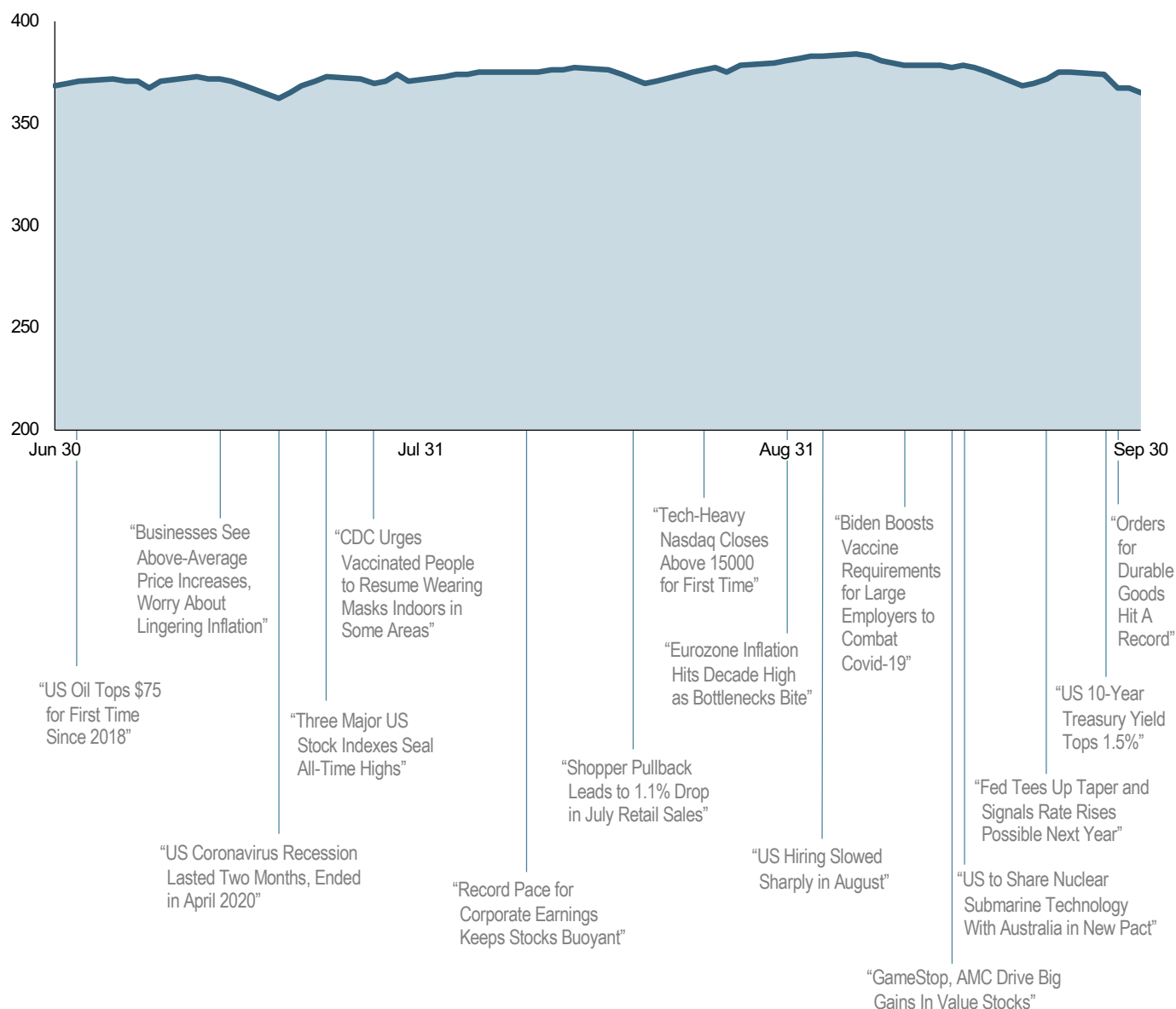
Index Returns as of September 30, 2021

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	31.88%	26.50%	18.20%	31.61%	-0.90%	-0.54%
						
5 Years						
	16.85%	8.88%	9.23%	4.65%	2.94%	2.71%
						
10 Years						
	16.60%	7.88%	6.09%	8.70%	3.01%	3.87%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2021



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

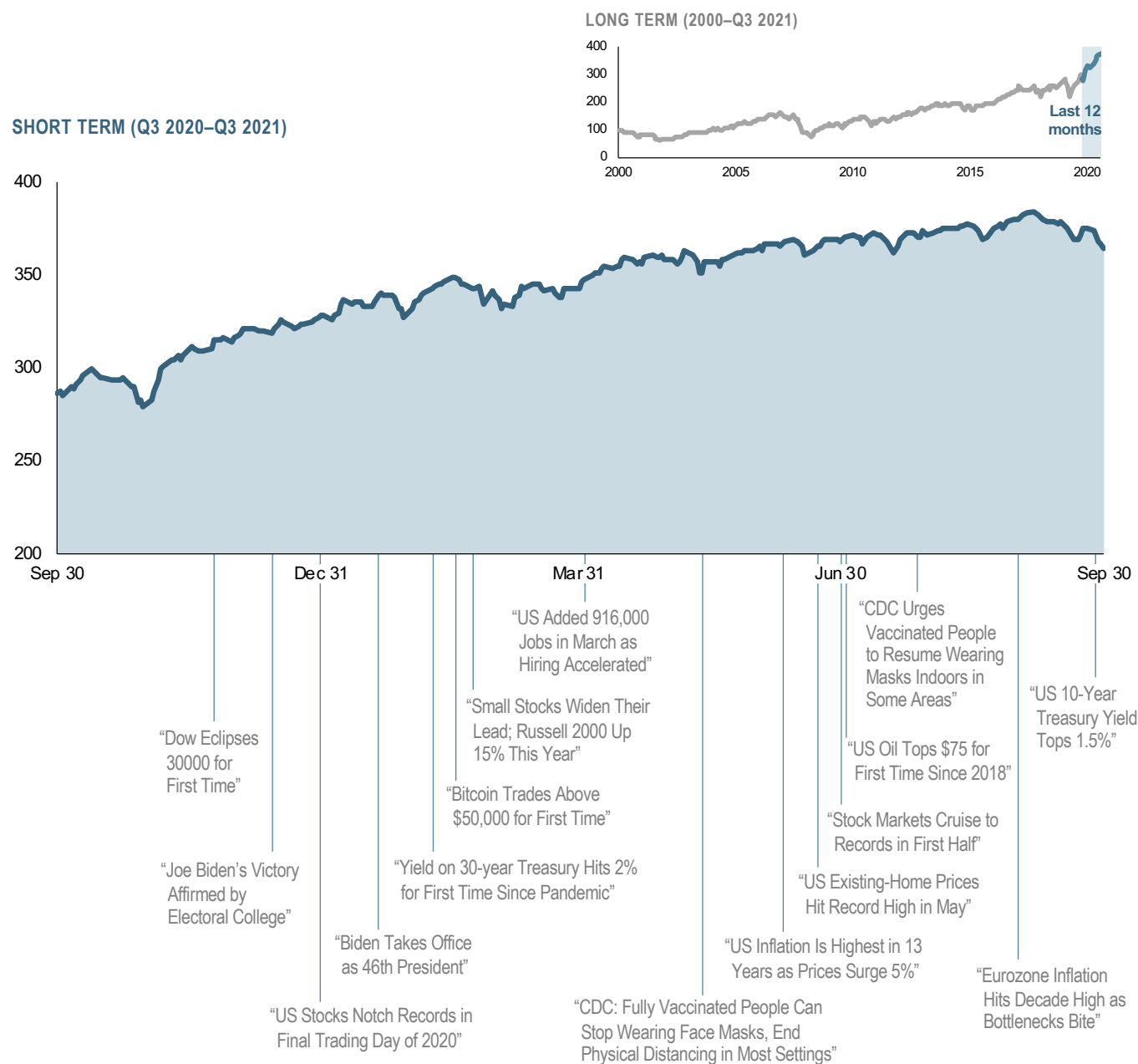
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.

Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

World Asset Classes

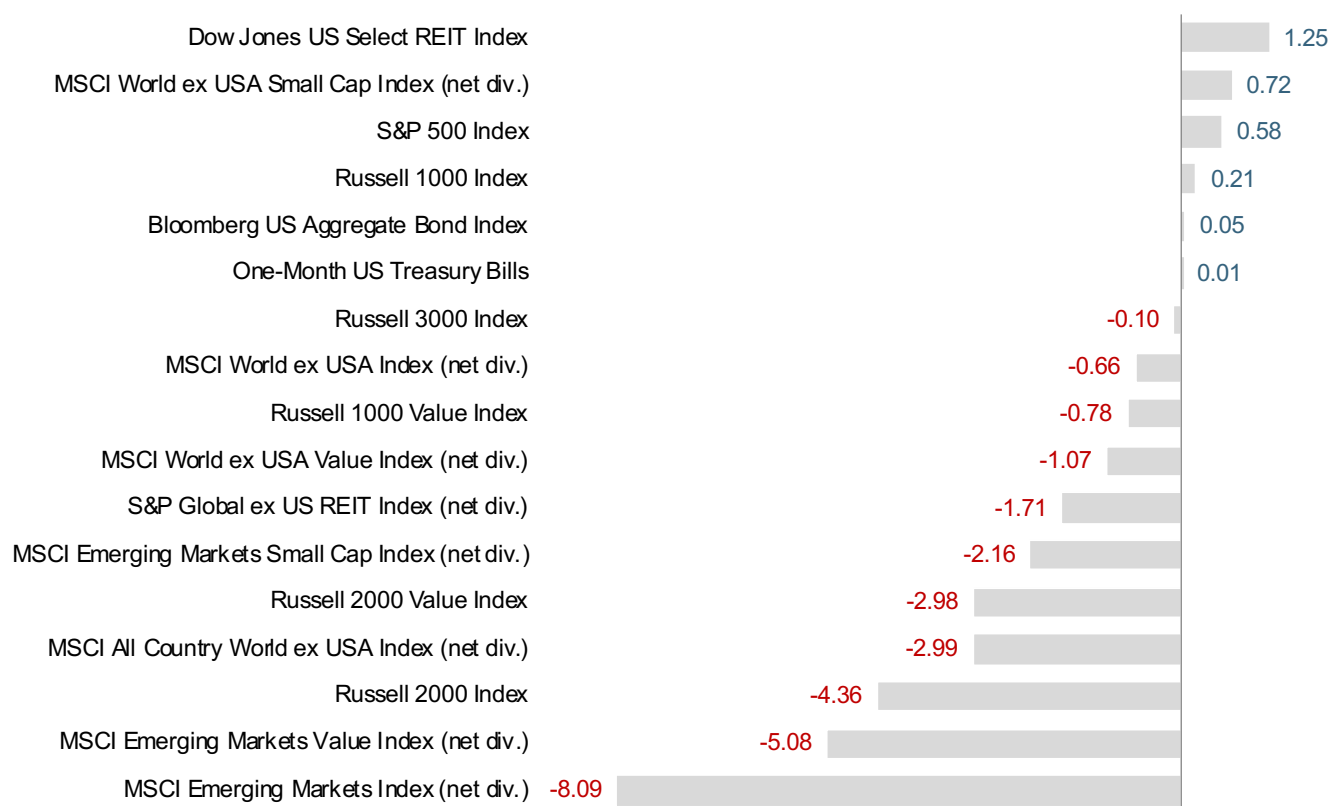
Third Quarter 2021 Index Returns (%)

Equity markets around the globe declined in the third quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets.

Value performance was mixed in the US, with small value outperforming small growth but large value underperforming large growth. Value underperformed growth in non-US developed markets and outperformed in emerging markets.

Small caps underperformed large caps in the US but outperformed in non-US developed and emerging markets.

REIT indices outperformed equity market indices in the US and underperformed in non-US developed markets.



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US Stocks

Third Quarter 2021 Index Returns

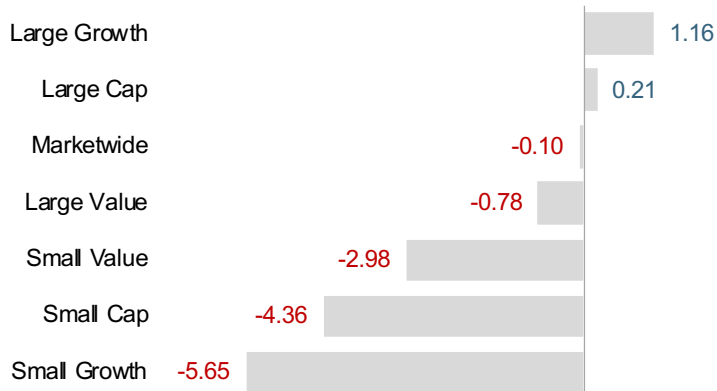
The US equity market was flat for the quarter and outperformed non-US developed markets and emerging markets.

Value underperformed growth in large cap stocks but outperformed growth in small cap stocks.

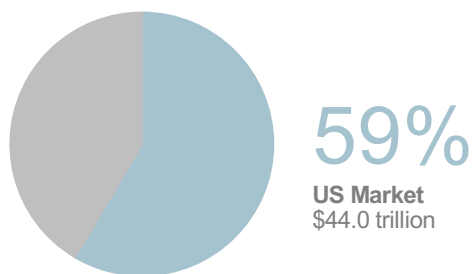
Small caps underperformed large caps.

REIT indices outperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	1.16	14.30	27.32	22.00	22.84	19.68
Large Cap	0.21	15.19	30.96	16.43	17.11	16.76
Marketwide	-0.10	14.99	31.88	16.00	16.85	16.60
Large Value	-0.78	16.14	35.01	10.07	10.94	13.51
Small Value	-2.98	22.92	63.92	8.58	11.03	13.22
Small Cap	-4.36	12.41	47.68	10.54	13.45	14.63
Small Growth	-5.65	2.82	33.27	11.70	15.34	15.74

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International Developed Stocks

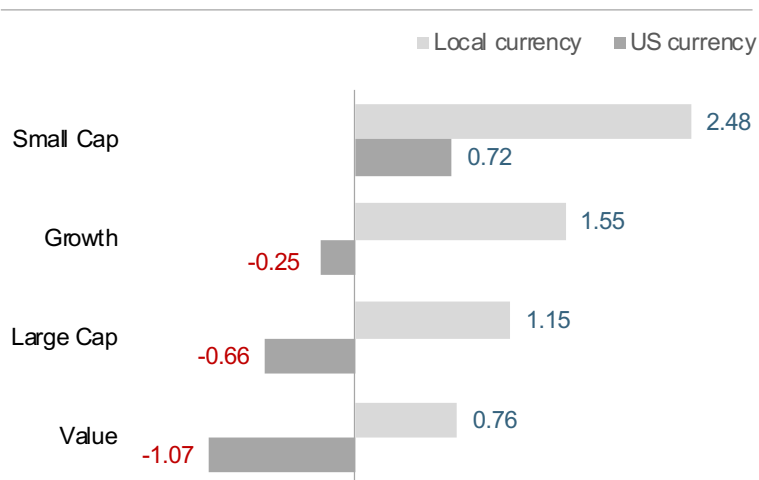
Third Quarter 2021 Index Returns

Developed markets outside the US declined less than 1% for the quarter and underperformed US equities but outperformed emerging markets.

Value underperformed growth.

Small caps outperformed large caps.

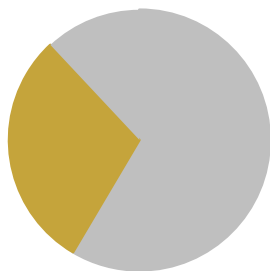
Ranked Returns (%)



World Market Capitalization— International Developed

30%

International
Developed Market
\$22.2 trillion



Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	0.72	10.71	30.14	9.50	10.33	10.03
Growth	-0.25	6.99	20.50	11.93	11.21	9.64
Large Cap	-0.66	9.19	26.50	7.87	8.88	7.88
Value	-1.07	11.15	32.60	3.45	6.25	5.95

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Emerging Markets Stocks

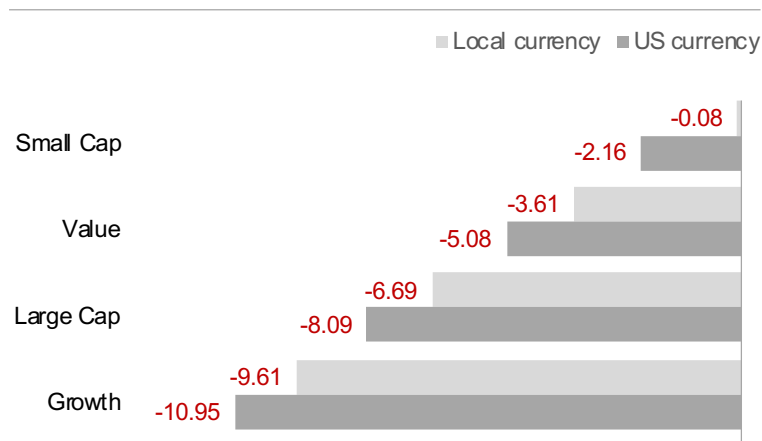
Third Quarter 2021 Index Returns

Emerging markets posted negative returns for the quarter, underperforming the US and non-US developed equity markets.

Value outperformed growth.

Small caps outperformed large caps.

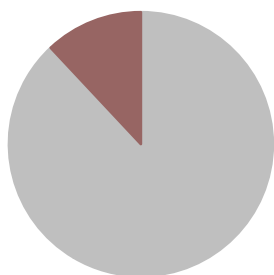
Ranked Returns (%)



World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$9.0 trillion



Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	-2.16	17.20	43.24	13.11	9.75	7.21
Value	-5.08	4.43	28.43	4.77	6.87	3.79
Large Cap	-8.09	-1.25	18.20	8.58	9.23	6.09
Growth	-10.95	-6.46	9.28	12.15	11.36	8.23

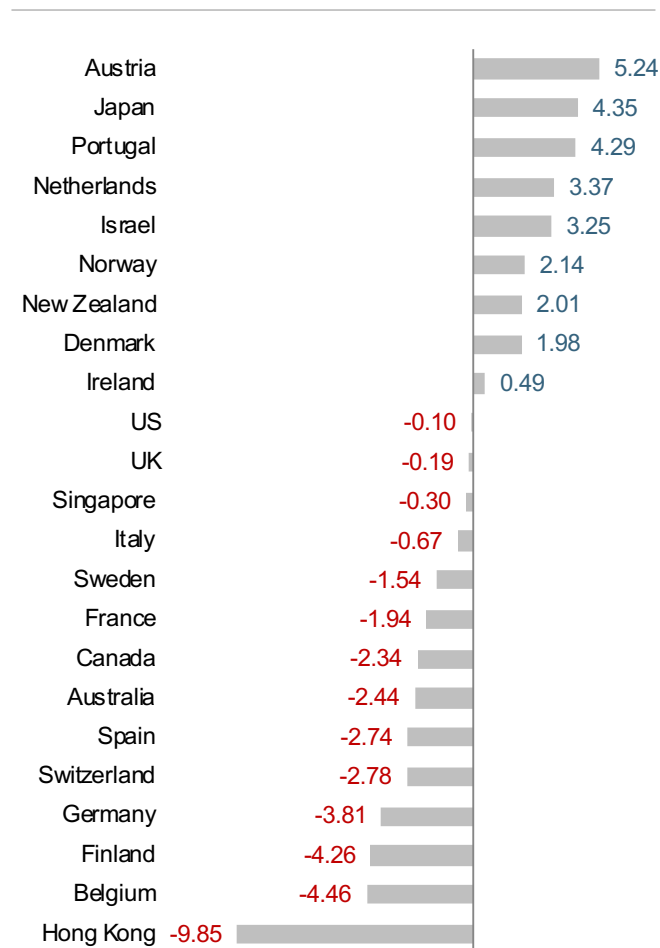
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Select Market Performance

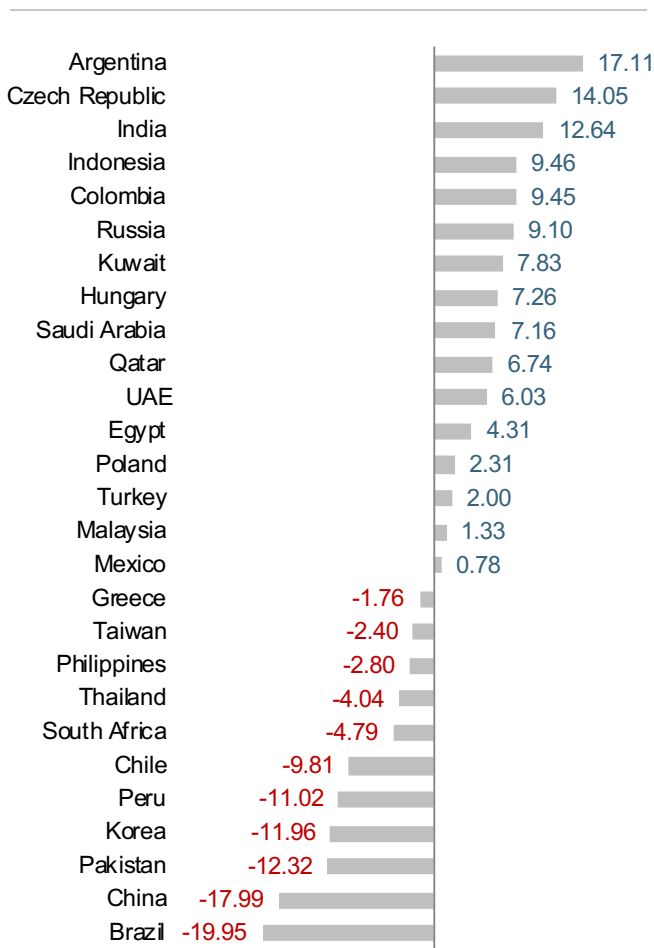
Third Quarter 2021 Index Returns

In US dollar terms, Austria and Japan recorded the highest country performance in developed markets, while Belgium and Hong Kong posted the lowest returns for the quarter. In emerging markets, Argentina and the Czech Republic recorded the highest country performance, while Brazil and China posted the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



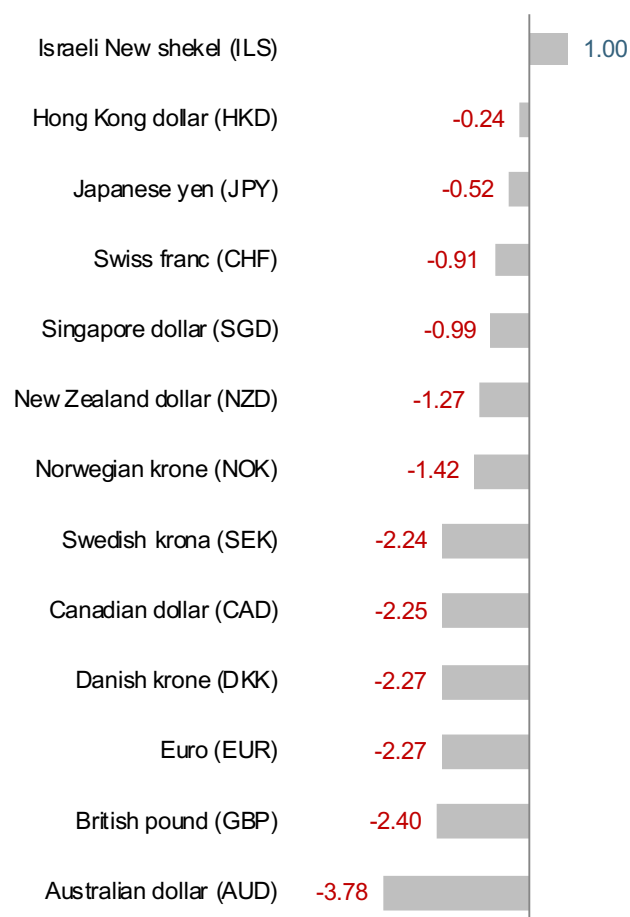
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. MSCI Index returns are in USD net of dividend withholding taxes. Country returns are the country component indices of the MSCI All Country World ex USA IMI for all countries except the United States, where the Russell 3000 index is used instead. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Select Currency Performance vs. US Dollar

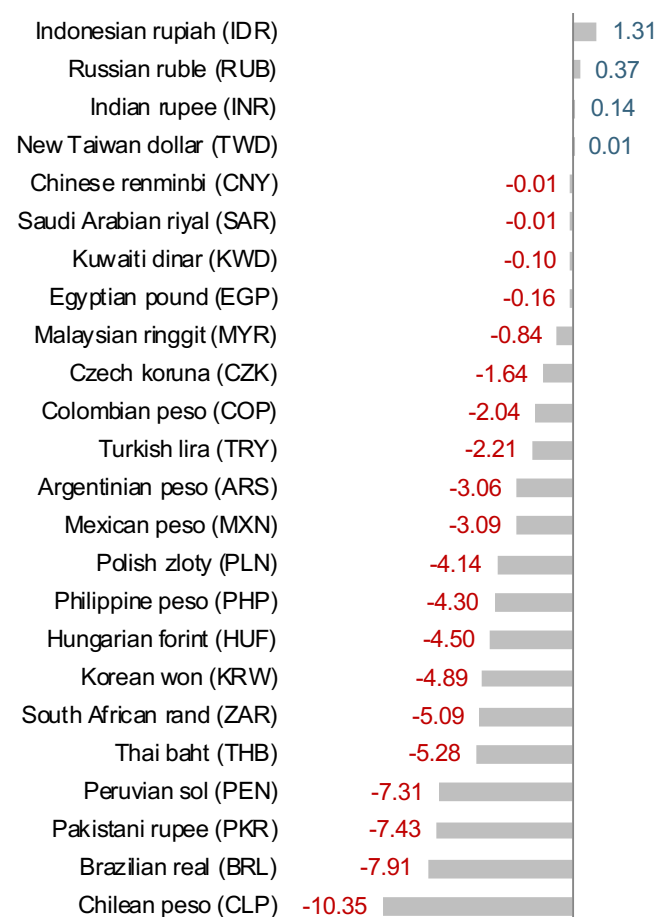
Third Quarter 2021

In emerging and developed markets, most currencies depreciated vs. the US dollar.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



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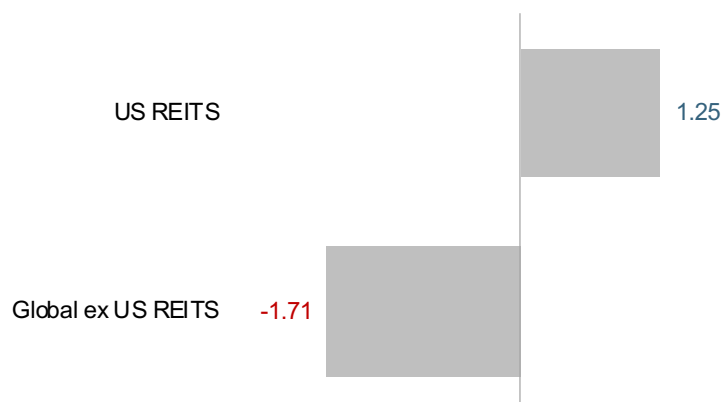
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Real Estate Investment Trusts (REITs)

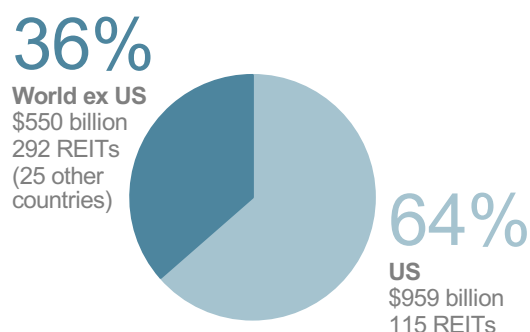
Third Quarter 2021 Index Returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	1.25	24.48	40.56	8.32	5.68	10.53
Global ex US REITS	-1.71	7.80	24.01	4.52	3.28	6.81

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. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Commodities

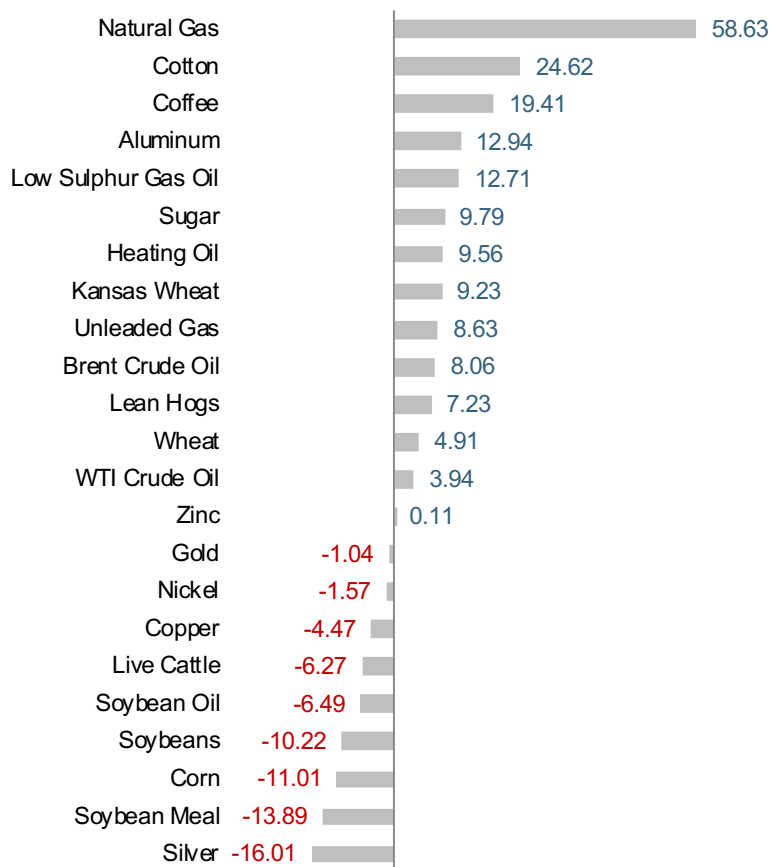
Third Quarter 2021 Index Returns

The Bloomberg Commodity Index Total Return returned 6.59% for the third quarter of 2021.

Natural Gas and Cotton were the best performers, gaining 58.63% and 24.62%, respectively.

Silver and Soybean Meal were the worst performers, declining 16.01% and 13.89%, respectively.

Ranked Returns (%)



Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	6.59	29.13	42.29	6.86	4.54	-2.66

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Fixed Income

Third Quarter 2021 Index Returns

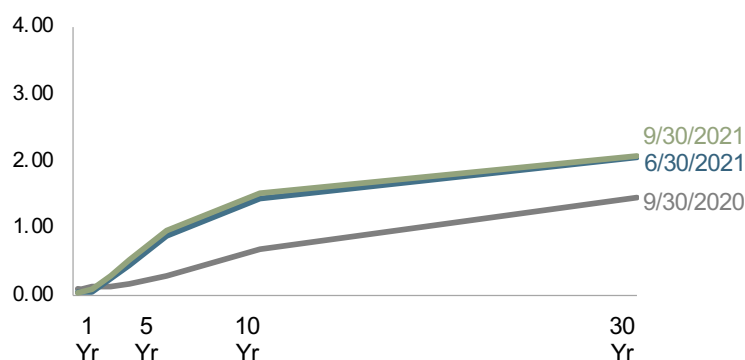
Interest rates in the US Treasury fixed income market generally increased during the third quarter. The yield on the 5-year Treasury note rose 12 basis points (bps), ending at 1.00%. The yield on the 10-year Treasury note increased 8 bps to 1.54%. The 30-year Treasury Bond yield rose 1 bp to finish at 2.05%.

On the short end of the curve, the 1-month Treasury bill yield increased 2 bps, ending at 0.07%, while the 1-year Treasury bill yield decreased 1 bp to 0.09%. The 2-year Treasury note yield increased 5 bps to 0.30%.

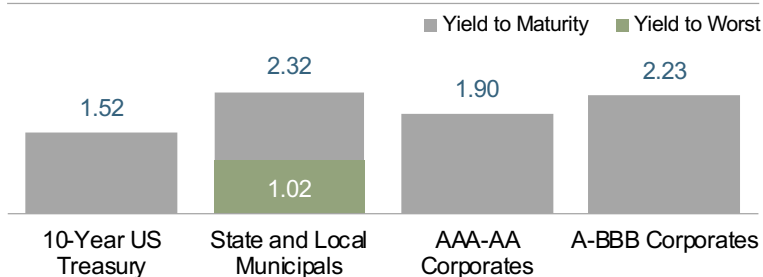
In terms of total returns, short-term corporate bonds returned 0.11%. Intermediate-term corporate bonds gained 0.08%.

The total return for short-term municipal bonds was 0.08%, while intermediate munis lost 0.04%. Revenue bonds performed in line with general obligation bonds for the quarter.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	*Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg US TIPS Index	1.75	3.51	5.19	7.45	4.34	3.12
Bloomberg US High Yield Corporate Bond Index	0.89	4.53	11.28	6.91	6.52	7.42
Bloomberg US Government Bond Index Long	0.46	-7.40	-10.13	9.17	3.34	4.40
Bloomberg US Aggregate Bond Index	0.05	-1.55	-0.90	5.36	2.94	3.01
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.02	-0.28	-0.11	2.77	1.90	1.75
ICE BofA 1-Year US Treasury Note Index	0.02	0.11	0.17	1.88	1.46	0.89
ICE BofA US 3-Month Treasury Bill Index	0.01	0.04	0.07	1.18	1.16	0.63
Bloomberg Municipal Bond Index	-0.27	0.79	2.63	5.06	3.26	3.87
FTSE World Government Bond Index 1-5 Years	-1.00	-3.06	-0.93	2.18	0.98	-0.21

One basis point (bps) equals 0.01%. 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. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2021 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2021 ICE Data Indices, LLC. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Global Fixed Income

Third Quarter 2021 Yield Curves

Government bond yields in the global developed markets generally increased for the quarter.

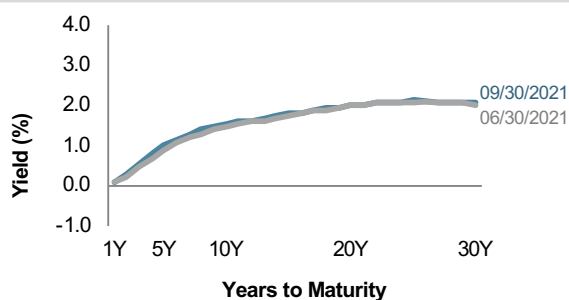
Term premiums were mixed in developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan and Germany.

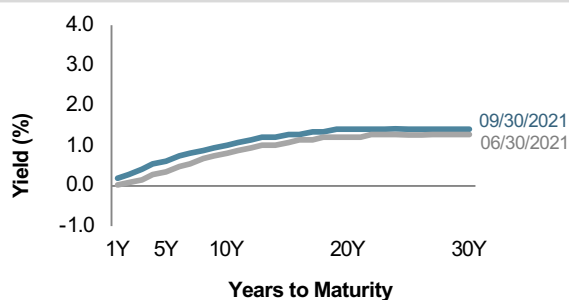
Changes in Yields (bps) since 6/30/2021

	1Y	5Y	10Y	20Y	30Y
US	-1.0	11.9	7.6	2.7	1.0
UK	16.7	25.2	21.6	16.6	14.4
Germany	-2.7	2.3	3.6	-0.8	0.2
Japan	-0.1	2.0	1.2	-0.3	-1.8
Canada	5.4	11.2	10.7	16.5	16.8
Australia	8.3	-0.6	-1.2	6.7	8.1

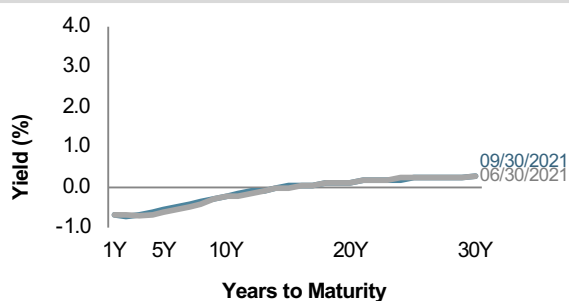
US



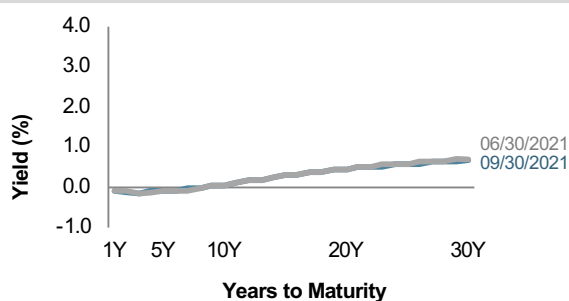
UK



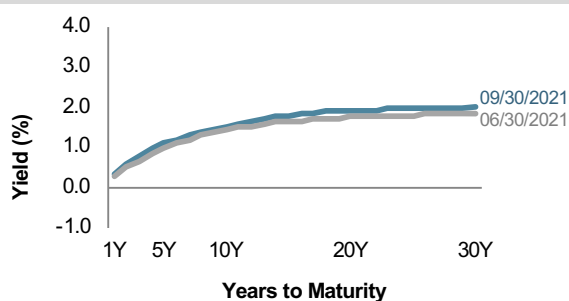
Germany



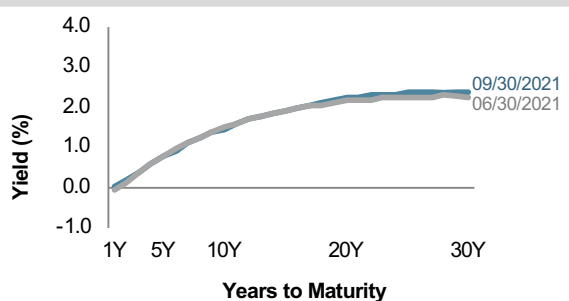
Japan



Canada



Australia



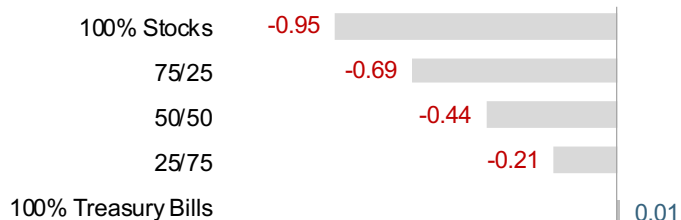
One basis point (bps) equals 0.01%. Source: ICE BofA government yield. ICE BofA index data © 2021 ICE Data Indices, LLC.

Impact of Diversification

Third Quarter 2021

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)

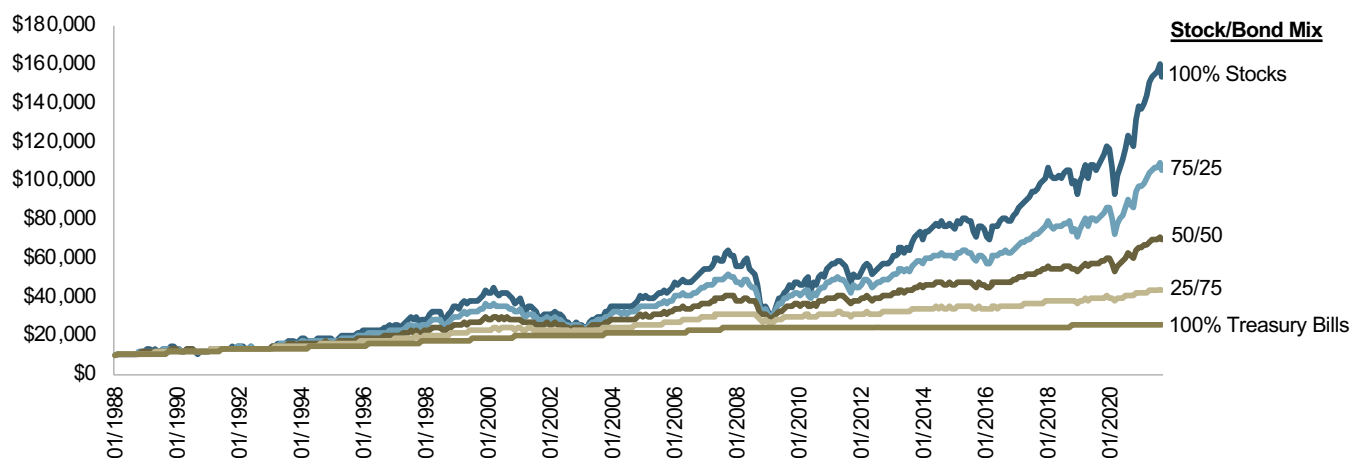


Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV
100% Stocks	11.49	27.98	13.14	13.77	12.50	13.46
75/25	8.57	20.59	10.34	10.68	9.58	10.09
50/50	5.68	13.47	7.38	7.53	6.61	6.72
25/75	2.83	6.62	4.28	4.31	3.60	3.35
100% Treasury Bills	0.02	0.04	1.05	1.05	0.55	0.23

Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2021, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

The 50-Year Battle for a Better Way to Invest

Third Quarter 2021

David Booth
Executive Chairman and Founder

Mac McQuown recruited me to help create the very first indexed portfolio in 1971. I was 24 years old and living in San Francisco, where more people my age were following the Grateful Dead than the stock market. The think tank Mac set up felt like a start-up, although it was long before anyone used that term. We were excited by the opportunity to turn academic research into a new way of investing. Many people thought we would fail. Some even called what we were trying to do “un-American.”

But we didn’t worry about the attacks; we focused on how indexing could improve the lives of investors. The fund offerings available at the time were actively managed portfolios that tried to outguess the market and were expensive, lacked diversification, and performed poorly. So-called star managers sold investors on their ability to win against the market; they sold products as opposed to solutions. Problem was, there was no compelling evidence they could reliably beat the market. We were confident that indexing—a highly diversified, low-cost investment solution that relied not on a manager’s ability to pick winners but on the human ingenuity of hundreds or thousands of companies—would change lives for the better.

Fifty years later, \$9.1 trillion is invested in index mutual funds and exchange-traded funds (ETFs).¹ This represents 51% of the total \$17.9 trillion in equity ETFs and mutual funds. Six of the original academic consultants Mac hired to work on that first index fund went on to win Nobel Prizes. I have worked with four of them at Dimensional.

When we started Dimensional in 1981, indexing was beginning to catch on. But the primary index used was the S&P 500, made up of 500 of the largest companies in America. My colleague Rex Sinquefeld and I thought investors could be better served by adding small capitalization stocks to the mix, since they were underrepresented in portfolios and offered diversification and expected return benefits. We were the first to treat small cap companies as a separate asset category. It was an exciting idea, but it made many people nervous. An academic paper circulated that said the performance of small cap stocks couldn’t be captured because of trading costs. Many academics, even those who worked with us, were skeptical that we could deliver on our big idea of creating a small cap strategy. (After 40 years of results, the skepticism about our ability to deliver has subsided.)

There was perceived risk in trading against professional investors who might take advantage of us with all their knowledge and experience. But we found a way to turn trading to our advantage: flexibility.

Flexibility is one of the key differences between index investing and Dimensional Investing and where so much of our innovation has taken place. Because we weren’t beholden to tracking any particular index, we could harness the power of markets, even beat the indices. The protocols, systems, and teams we’ve developed—as well as the experience we’ve accumulated—have shown to be applicable to a wide range of strategies, from fixed income to value to international investing.

1. Data obtained from Morningstar on July 6, 2021. The sample includes US-domiciled equity mutual funds and ETFs. Funds of funds and money market funds are excluded.

The 50-Year Battle for a Better Way to Invest

(continued from page 18)

So what happens next? Where will we be in 50 years? I've built a career in finance without making predictions, but I do believe that technological innovation is lowering barriers to entry for everyday investors and enabling greater personalization. In 1971, there was one index fund. In 1981, there was one small cap strategy. Today, investors have more access to customized portfolios than ever before.

Sitting down with a trusted advisor, investors can develop a plan and build a portfolio solution that gives them the best chance of having a good investment experience. For example, many people are interested in environmental, social, and governance (ESG) strategies,

but ESG can mean different things to different people. So rather than choosing from what exists, new technology allows you to get exactly what you want.

For me, working in finance has always been about improving people's lives. We created indexing to improve upon stock picking. We created Dimensional to improve upon indexing. Each day we strive to help our clients in new and better ways. That's why I thought 1971 was the most exciting time to be in this business. Then, I thought 1981 was the most exciting time to be in this business. But the truth is, it's every day, as long as we're able to keep helping people in innovative ways.

Risks include loss of principal and fluctuating value. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small and micro cap securities are subject to greater volatility than those in other asset categories.

John "Mac" McQuown is a member of the Board of Directors of the general partner of Dimensional Fund Advisors LP.

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