

# INVESTMENT UPDATE

September 2017

## Saltmarsh

Financial Advisors, LLC

AN AFFILIATE OF SALTMARSH, CLEVELAND & GUND

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### News Center

Saltmarsh Financial Advisors will begin issuing a quarterly newsletter beginning in December 2017 which will enable us to provide enhanced content related to investment and financial planning matters. September will be the last monthly newsletter.

Be on the lookout in December, March, June and September for the latest quarterly newsletter!

## Lessons for the Next Crisis

It will soon be the 10-year anniversary of when, in early October 2007, the S&P 500 Index hit what was its highest point before losing more than half its value over the next year and a half during the global financial crisis. Over the coming weeks and months, as other anniversaries of major crisis-related events pass (for example, 10 years since the bank run on Northern Rock or 10 years since the collapse of Lehman Brothers), there will likely be a steady stream of retrospectives on what happened as well as opinions on how the environment today may be similar or different from the period leading up to the crisis. It is difficult to draw useful conclusions based on such observations; financial markets have a habit of behaving unpredictably in the short run. There are, however, important lessons that investors might be well-served to remember: Capital markets have rewarded investors over the long term, and having an investment approach you can stick with—especially during tough times—may better prepare you for the next crisis and its aftermath.

### BENEFITS OF HINDSIGHT

In 2008, the stock market dropped in value by almost half. Being a decade removed from the crisis may make

it easier to take the past in stride. The eventual rebound and subsequent years of double-digit gains have also likely helped in this regard. While the events of the crisis were unfolding, however, a future of this sort looked anything but certain. Headlines such as “Worst Crisis Since ’30s, With No End Yet in Sight,”<sup>1</sup> “Markets in Disarray as Lending Locks Up,”<sup>2</sup> and “For Stocks, Worst Single-Day Drop in Two Decades”<sup>3</sup> were common front page news. Reading the news, opening up quarterly statements, or going online to check an account balance were, for many, stomach-churning experiences.

While being an investor today (or during any period, for that matter), is by no means a worry-free experience, the feelings of panic and dread felt by many during the financial crisis were distinctly acute. Many investors reacted emotionally to these developments. In the heat of the moment, some decided it was more than they could stomach, so they sold out of stocks. On the other hand, many who were able to stay the course and stick to their approach recovered from the crisis and benefited from the subsequent rebound in markets.

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# Lessons for the Next Crisis *(Continued)*

It is important to remember that this crisis and the subsequent recovery in financial markets was not the first time in history that periods of substantial volatility have occurred. **Exhibit 1** helps illustrate this point. The exhibit shows the performance of a balanced investment strategy following several crises, including the bankruptcy of Lehman Brothers in September of 2008, which took place in the middle of the financial crisis. Each event is labeled with the month and year that it occurred or peaked.

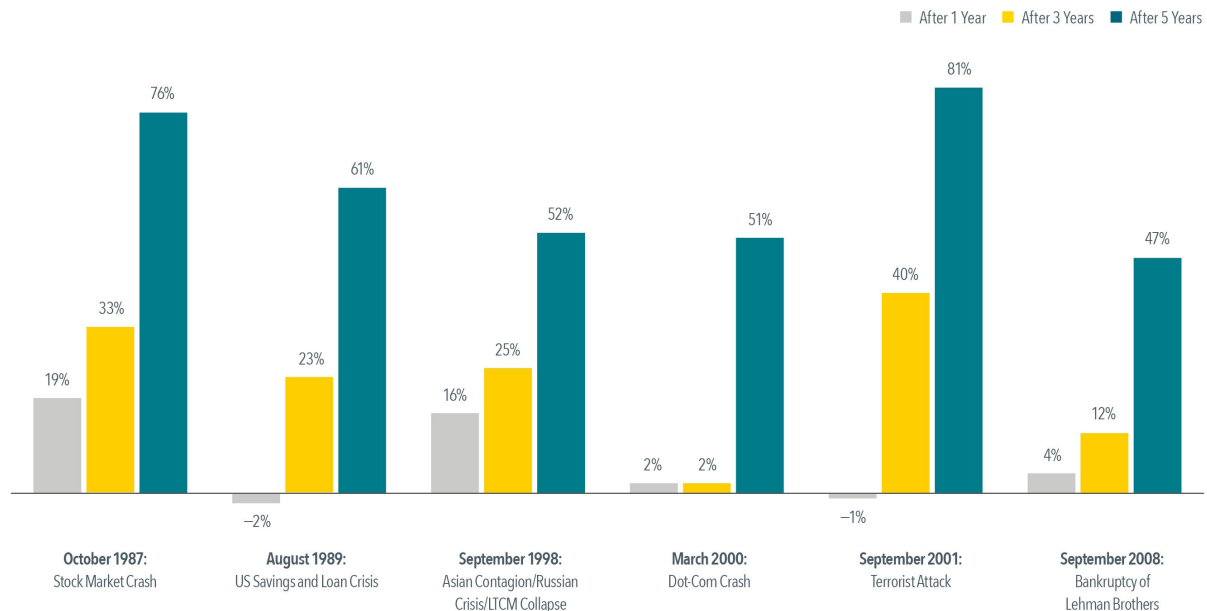
Although a globally diversified balanced investment strategy invested at the time of each event would have suffered losses immediately following most of these events, financial markets did recover, as can be seen by the three- and five-year cumulative returns shown in the exhibit. In advance of such periods of discomfort, having a long-term perspective, appropriate diversification, and an asset allocation that aligns with their risk tolerance and goals can help investors remain disciplined enough to ride out the storm. A financial advisor can play a

critical role in helping to work through these issues and in counseling investors when things look their darkest.

## CONCLUSION

In the mind of some investors, there is always a “crisis of the day” or potential major event looming that could mean the beginning of the next drop in markets. As we know, predicting future events correctly, or how the market will react to future events, is a difficult exercise. It is important to understand, however, that market volatility is a part of investing. To enjoy the benefit of higher potential returns, investors must be willing to accept increased uncertainty. A key part of a good long-term investment experience is being able to stay with your investment philosophy, even during tough times. A well-thought-out, transparent investment approach can help people be better prepared to face uncertainty and may improve their ability to stick with their plan and ultimately capture the long-term returns of capital markets.

**Exhibit 1. The Market’s Response to Crisis**  
**Performance of a Balanced Strategy: 60% Stocks, 40% Bonds (Cumulative Total Return)**



In US dollars. Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index, 12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Marketwide Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% Citigroup World Government Bond Index 1-5 Years (hedged), 10% Citigroup World Government Bond Index 1-3 Years (hedged), 10% BofA Merrill Lynch 1-Year US Treasury Note Index. The S&P data are provided by Standard & Poor’s Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Citigroup Indices used with permission, © 2017 by Citigroup. Bloomberg Barclays data provided by Bloomberg. For illustrative purposes only. Dimensional indices use CRSP and Compustat data. 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. Not to be construed as investment advice. Rebalanced monthly. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. See Appendix for additional information.

- [1. wsj.com/articles/SB122169431617549947](http://www.wsj.com/articles/SB122169431617549947)
- [2. washingtonpost.com/wp-dyn/content/article/2008/09/17/AR2008091700707.html](http://www.washingtonpost.com/wp-dyn/content/article/2008/09/17/AR2008091700707.html)
- [3. nytimes.com/2008/09/30/business/30markets.html](http://www.nytimes.com/2008/09/30/business/30markets.html)

Source: Dimensional Fund Advisors LP. There is no guarantee investment strategies will be successful. Investing involves risks including possible loss of principal. Diversification does not eliminate the risk of market loss. All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

# Gerard O'Reilly to become Co-CEO of DFA

## *Organizational Announcement*



**Gerard O'Reilly, PhD**

Dimensional Fund Advisors LP, based in Austin, Texas, announced today that Gerard O'Reilly will become Co-CEO alongside Dave Butler, Co-CEO and Head of Global Financial Advisor Services. O'Reilly has been with Dimensional since 2004 and is currently the Co-CIO. These changes will be effective the last week of September. O'Reilly will continue as CIO and be added to the parent company's board of directors.

After 17 years with Dimensional, Eduardo Repetto, who has been serving as Co-CEO and Co-CIO, will be leaving Dimensional in September. David Booth continues in his current role as Executive Chairman.

David Booth, Founder and Executive Chairman of Dimensional, said, "Gerard has been a vital member of both our investments and senior management teams over the past 13 years, and I look forward to working with him in this new role. The Co-CEO model has worked well for our clients and the management of our firm over the years and remains the optimal structure for us going forward. "

"Eduardo has made tremendous contributions to Dimensional's success and our investment process," Booth continued. "At Dimensional, our investment process is robust and led by a committee, benefiting from the contributions of a broad team. Our integrated process combines great research with careful execution by our portfolio management and trading teams."

"I'm excited to be taking on this role," said Gerard O'Reilly. "Dimensional has applied many of the great ideas in finance to create solutions that really make a difference in the lives of people investing with us. I look forward to building on our strong foundation and working closely with Dave and our clients to help more people advance toward their goals."

Dave Butler, Co-CEO and Head of Global Financial Advisor Services, added, "Dimensional brings together the best minds in modern finance with cutting edge implementation to meet the needs of clients around the world. Gerard has played an instrumental role in evolving and broadening our capabilities as the science has advanced and our clients' needs have progressed. It is a pleasure to work with him and see the impact he's had. Working together in this expanded capacity will help us continue to push our business and solutions forward for clients."

"It has been a remarkable journey at Dimensional" said Eduardo Repetto. "I am thankful to the clients and my fellow employees that have enabled Dimensional to become this magnificent global business—a business based on sound investment ideas and expert implementation. I have been lucky to have had the opportunity to exchange ideas and develop friendships with so many amazing people from around the world."

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## Gerard O'Reilly to become Co-CEO of DFA *(Continued)* *Organizational Announcement*

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### BIOGRAPHY

Gerard O'Reilly has been with Dimensional since 2004, serving as Co-CIO since 2014 with responsibility for the design, development, and delivery of research that guides the firm's scientific approach to investing. He has been instrumental in the creation and implementation of investment solutions that meet the needs of Dimensional's global clients.

Gerard has worked closely with clients and led a team of researchers, portfolio managers and traders, to design and manage reliable and cost-effective investment strategies based on sound academic research. Gerard is the co-chair of the firm's investment research committee and a member of its investment

committee, which consists of senior executives and investment team leadership that respectively set policy and oversee management of the portfolios and accounts managed by the company.

Prior to joining Dimensional in 2004, O'Reilly obtained his PhD in aeronautics from the California Institute of Technology. He holds a master's of science degree in high performance computing from Trinity College Dublin in his native country of Ireland, where he also received a first class honors degree in theoretical physics and was a recipient of the Foundation Scholarship.

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"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities include Dimensional Fund Advisors LP, Dimensional Holdings Inc., Dimensional Fund Advisors Ltd., DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd., and Dimensional Japan Ltd.

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