ACROPOLIS®
INVESTMENT MANAGEMENT

PORTFOLIO INSIGHTS

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Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

Markets Endure Double Volatility

Most investors are probably aware of the 10.3 percent correction that the S&P 500 suffered between New Year's Day and February 11th this year.

They also probably saw that the S&P 500 fully recovered during the rest of the quarter and actually posted a small gain.

What is probably lesser known is that there was an unusual amount of divergence between various market segments.

"Always remember, the invisible hand of the marketplace is ambidextrous, it can come at you from either side."

For example, midcap stocks, as measured by the S&P 400 were the best performing US stocks this quarter, up 3.8 percent, while the worst performing was microcap stocks, which fell -5.4 percent, a difference of 9.2 percent. That's the widest spread between these two indexes since the Russell microcap index was created in 2000.

Within small cap stocks, value stocks resoundingly beat growth stocks, as the Russell 2000 Value index gained 1.7 percent while the Russell 2000 Growth index fell -4.7 percent, a difference of 6.4 percent. This difference ranks around the 85th percentile, while the largest spread was in the last quarter of 2000, when small cap value stocks gained 8.1 percent while small cap growth stocks fell -20.2 percent, a spread of 28.3 percent.

Both of these examples reflect important data points for two different strategies. In the first example, the size premium is based on the idea that small cap stocks tend to outperform large cap stocks, but over the last quarter, this didn't work at all. The second strategy, value investing, suggests that cheap stocks should outperform expensive ones, which is exactly what happened, but is a sharp reversal of the recent past (see page seven for more details).

The most obvious volatility for the quarter was simply the overall performance of the market that fell sharply by 10 percent but then snapped back and recovered all of the losses. The second kind of volatility, across strategies, was equally extreme, but less obvious. In this case, we have an example of a big win (value) and a big loss (size) for strategies, which is exactly what we would expect. Over time, we believe that the gains will pay for the losses and then some, but it can be a difficult wait sometimes, so, as always, patience, discipline and diversification are key for long-term success.

There is nothing more deceptive than an obvious fact.

- Sir Arthur Conan Doyle, Author

Stock Market Summary

By David Ott

The S&P 500 returned 1.35 percent in the first quarter, which was very close to the 1.38 percent return for all of 2015.

Like last year, stocks were volatile and suffered a correction, falling -10.3 percent through February 11th, when they hit bottom and started their recovery.

Within the S&P 500, Telecoms and Utilities fared the best, gaining 16.6 and 15.6 percent respectively while Financials and Healthcare stocks suffered the most, down -5.1 and -5.5 percent respectively.

US markets were mixed across asset classes with the S&P 400 Midcap index posting the best returns, up 3.8 percent while microcap stocks, as measured by the Russell Microcap index, fell -5.4 percent. US REITs fared even better, gaining 6.4 percent.

Outside of the US, developed markets, as measured by the MSCI EAFE, declined -3.0 percent.

Here, the range of returns was also significant as the emerging markets index actually posted a 5.7 percent gain, for a range between these two assets classes of 8.7 percent.

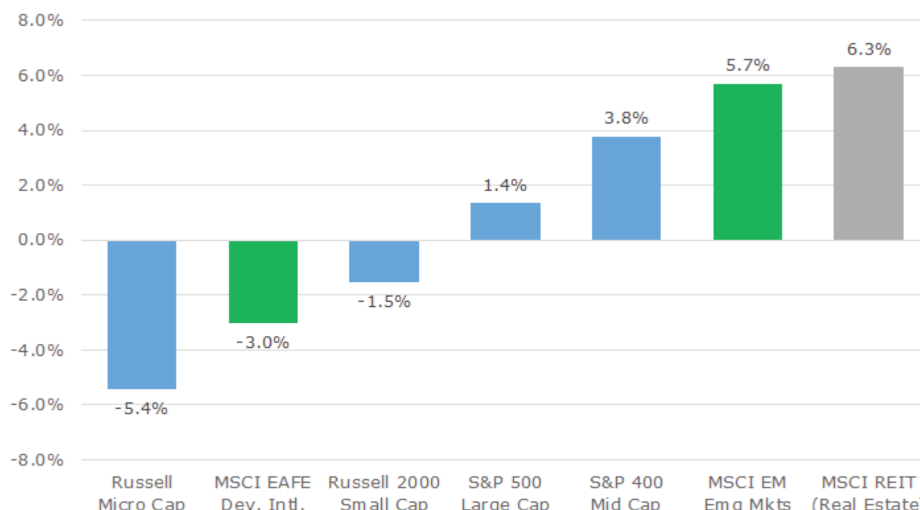
Stock prices were unusually tied to oil markets in the first quarter. The correlation between the S&P 500 and West Texas Intermediate (WTI) crude prices using daily data was 0.55.

Over the last 10 years, the correlation has been closer to 0.35, which means that the relationship was more than 50 percent higher than usual.

It was also interesting that during the first half of the quarter, economic indicators looked relatively solid and many commentators were saying that market prices weren't responding to signals from the real economy.

In the second half of the quarter, as stock prices were improving, economic indicators weakened materially, which extended the broken link between markets and the economy, but in the opposite direction.

At this point, market expectations for volatility, as measured by the CBOE Volatility Index (VIX) have dropped substantially over the first quarter. Of course those expectations can change instantly, but after the wild ride so far, it's nice to see.



Data Source: Bloomberg

Bond Market Review

By Ryan Craft, CFA

In December, the Fed embarked on its long awaited rate hike campaign by raising the Fed Funds rate by 25 bps.

The common wisdom at the end of last year was that 2016 was going to be really bad for bonds as the Fed pushed interest rates higher.

Instead, the benchmark 10yr Treasury saw its yield decline 50 basis points in total during the first quarter.

The broad investment grade bond market provided a total return of more than three percent for the same period, with nearly all classes of bonds performing well.

How were investors so wrong? A tumultuous start of the year for global equity markets caused a flight to safety into US Treasuries, pushing yields down.

The market uncertainty also spooked the Fed, causing them to hold rates steady at their first two meetings of the year.

At the March meeting, the Fed said that they anticipate only two rate hikes in all of 2016, versus the 4-5 hikes they predicted at the December meeting.

This dovish turn by the Fed pushed rates down even further at the end of the quarter. In addition to the Fed essentially changing course, other central banks increased their stimulus efforts.

Yields on European and Japanese benchmark bonds are currently negative all the way out to ten years. This makes US yields look very attractive on a global basis, resulting in foreign cash coming in to buy US debt.

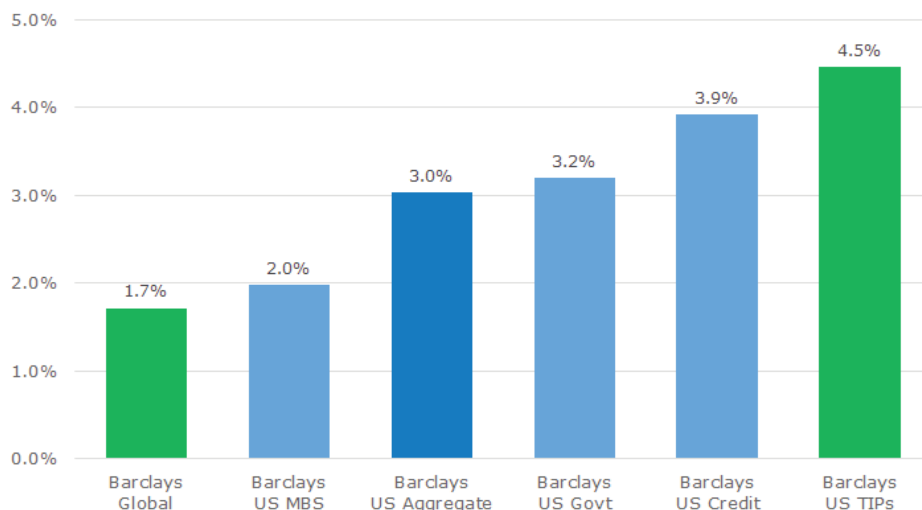
It is unlikely that this strong market will continue for the rest of the year. Investors should expect more volatility in fixed income driven by uncertainty in other, more risky markets.

Commodities, currencies, and equity markets will all heavily influence where bonds go from here as they are all connected by investors' appetite for risk.

The main point that investors should take away from the first quarter's strong bond performance is this – no matter how obvious the next move appears, interest rate changes are impossible to predict.

The most important single central fact about a free market is that no exchange takes place unless both parties benefit.

- Milton Friedman, Economist



Data Source: Bloomberg

Most people don't grow up. Most people age. They find parking spaces, honor their credit cards, get married, have children and call that maturity. What that is, is aging.
- Maya Angelou, Poet

Healthy Aging

By Michael Lissner, CEPA

The transition to retirement is a major milestone and Acropolis helps our clients make a successful transition.

Retiring is often equated with having more leisure time. However, clients should have a strategy for healthy aging.

Leisure is an important part of life which provides many benefits. A few of these are: time to recharge our batteries, something to look forward to, and a change of pace in life.

However, if leisure becomes our primary activity, then those benefits diminish. In other words, things change when leisure becomes the focus of life.

Most people need some stimulation and reason to live. Our mental, physical, and emotional self was not built to "have nothing to do."

More often than not, in my experience, the more ambitious and successful a person has been in their career, the harder it is to transition to a life of pure leisure.

It has been said that there is a big difference between "time-filling" activities and "fulfilling" activities. Unfortunately for many successful people, pure leisure is not "fulfilling."

Those that have made the transition successfully have found ways to balance their leisure time with other activities to keep them engaged, productive, and growing.

At Acropolis we are blessed to see a lot of people transition to retirement and we like to provide some help along the way.

Family First

My parents had close friends (whom I will call George and Martha). My dad and George served in the Navy together. George went on to have a highly successful (and fascinating) career in the Navy and eventually became an Admiral. He and Martha had four children, all of whom turned out well.

George was frequently at sea for extended durations, and even when he was not on deployment, his job was demanding. For decades Martha single handedly ran the household and was used to (and quite good at) taking care of everything.

When he retired problems started. George was well versed in giving orders and was used to everyone jumping at his command. Suddenly "everyone" became just Martha. It did not take very long for Martha to enlighten George about appropriate daytime behavior at home.

What George needed was an activity; and Martha, who already had a daytime set of friends and activities, needed a few hours a day without her husband.

Fortunately, he was able to find a few activities to engage both his mind and body. In relatively short order retirement was treating George, Martha, and their marriage well.

Unfortunately, not all couples make the transition as easily as George and Martha.

While not an "army," most highly successful professionals are used to numerous people hanging on their every word and many have individuals that are employed to do whatever the boss needs.

In my experience, spousal relationships work a little differently. In fact, for most spouses it is a big change to get to spend all day every day together. This change can be harder than it sounds.

Further, for many of us, our close personal relationships define us. These are often the people that we most connect with and that we share our hopes, our dreams, and our

Continued on next page.

lives with. So this is an important transition to get right.

Our desire to share is a basic human need; at least that is what psychologists tell us. (Although I suspect these psychologists have never tried to explain "sharing" to a three year old.)

Our family, and in particular, our spouse, is the one we share with the most. And there are benefits to sharing and having a deep, interdependent relationship with someone else.

Researchers have shown that social relationships affect mental health, physical health, and mortality risk. In effect, adults who are more socially connected are healthier and live longer than their more isolated peers. So, healthy relationships lead to both a healthy life as well as a more enjoyable life.

As we delve more into Healthy Aging, one step that couples can take to make for a successful transition is to develop a new set of interests, and, perhaps a few joint interests.

Building Your Social Network

Strong social relationships keep us younger, healthier, and lower our mortality risk, according to academic research. In addition to living longer, healthy people lead happier lives in retirement.

Social relationships are also important as "no one is an island." For many professionals, a majority of our social relationships are with the people at the office. For example, I spend more time from Monday to Friday with the people at Acropolis than I do with my family. I view them as my work family. (And I suspect a few of them wish I was the annoying brother that mom and dad never had, but that is a different story.)

When you leave the workplace, those relationships tend to fade, some of them rapidly.

For example, last year we had an employee, Deb Southworth, retire. Deb is wonderful and was well liked by clients and her peers. I went from seeing her almost every day to seeing her once every few months. My guess is that "leaving" the Acropolis family was harder on her than it was on me. (After all, I remained surrounded by 25 other great people.)

Socially, it is a huge change to go from seeing the same group of people every day to only seeing them a few times a year. Most people understand that when they retire those relationships will fade. However, I think the severity of the change is often a shock.

As you transition into retirement, your social support network becomes increasingly important. While working, many professionals have been nurturing professional relationships, and they may have relatively few non-professional relationships.

In our experience, successful retirees generally have, or quickly develop, robust social networks. The individuals in these networks provide them with friendship, fulfilling activities, and a reason to get out of bed in the morning.

As part of your retirement plan, we encourage you to think about the quality of your social network. For example, reflect on the people you spend the most time with now and how that would look after retirement. Do you need to expand your social network? Have you put a plan in place to do so?

Getting involved in something else besides work such as joining a club, doing volunteer work, or picking up a new hobby can help with developing new relationships.

Trust is the glue of life. It's the most essential ingredient in effective communication. It's the foundational principle that holds all relationships.

- Franklin Covey, Author

Drawdowns: A New Perspective

By David Ott

Until I read the book 'Hedge Hogging' by Barton Biggs before the 2008 financial crisis, I had never heard the term 'drawdown,' which refers to the peak-to-trough decline of an investment or market.

A drawdown measures the depth and length of a decline and illustrates how long it takes to earn back money lost from the last peak.

It's a commonly used term in the hedge fund community, partly because hedge fund managers don't earn their incentive allocation, or 20 percent of the profits, until a drawdown is reversed.

The chart below shows the drawdown history for the S&P 500 (in blue), five-year Treasury notes (in gray), and a 60/40 mix of the two (in yellow).

The Great Depression is the deepest and longest drawdown in market history, starting in 1929 and ending in the late 1940s.

The drawdown was on its way to a full recovery until 1937 when the Federal Reserve famously tightened monetary policy and the economy and markets fell sharply.

The drawdown in 2008 was the second deepest, although the crash in the mid-1970s and early 2000s were relatively close contenders.

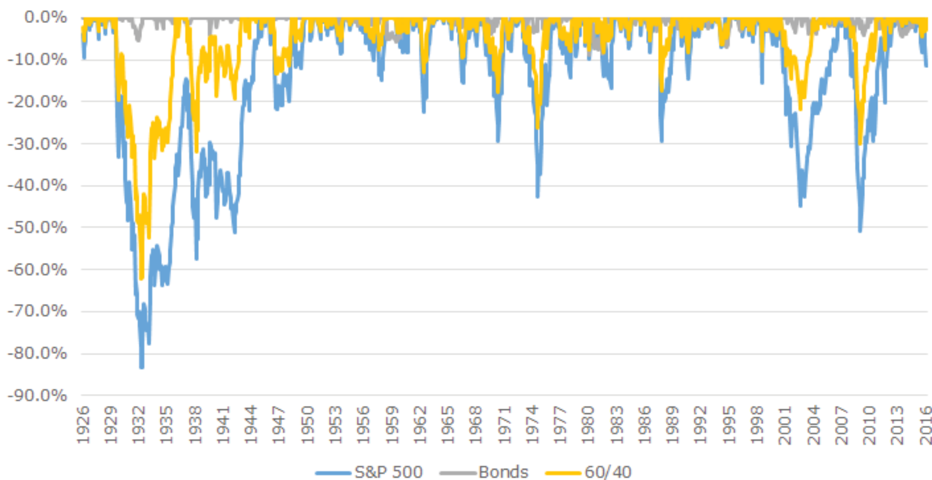
While many investors worry about the impact of rising interest rates, the gray line should help quell those fears. From the 1960s to the early 1980s the drawdown for five-year Treasury notes never exceeded 10 percent, as interest rates rose from 4.5 percent to 13.5 percent.

The 60/40 stock/bond mix illustrates how the losses during a drawdown can be blunted by including bonds in a portfolio.

During the Great Depression, investors with a simple 60/40 stock/bond mix still lost 60 percent of its value, but since then, the losses haven't exceeded 30 percent.

That's still a tremendous loss, so it behooves investors to look at the drawdown history to make sure that they are (reasonably) comfortable with their allocation.

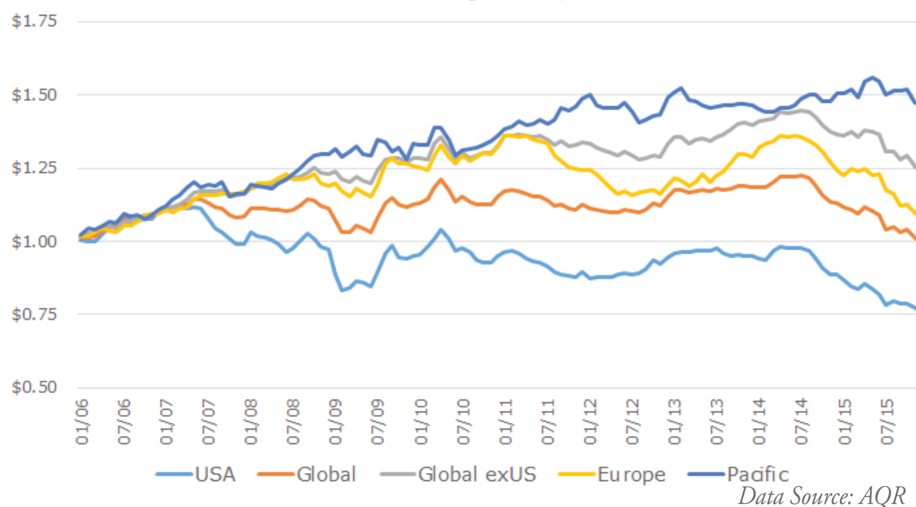
Success consists of going from failure to failure without loss of enthusiasm.
- Winston Churchill, Statesman



Data Source: Bloomberg

Is Value Investing Dead?

By David Ott



Data Source: AQR

Value stocks are undoubtedly having a tough time these days. Value stocks are undergoing their worst period of underperformance since the tech bubble during the late 1990s.

For the 10 years ending March 31st, the Russell 1000 Value index is up 5.7 percent compared to 7.0 percent for the Russell 1000 index of large cap stocks and 8.3 percent for the Russell 1000 Growth index.

Some practitioners are wondering whether value investing, the practice of buying cheap companies is dead.

Personally, I think this is a silly question and my evidence that value is alive and well can be found overseas (an unlikely place for good investment news these days!).

The chart above plots the cumulative growth of what academics call risk premiums, which are the return differentials between different kinds of stocks.

For example, in the Russell index that I referenced above, all three made money, but if you stripped out the overall market return, you could more clearly see the difference between value and growth stocks.

In the chart, we see the value premium for US value stocks in light blue at the bottom, and it has lost money over the last decade. In every other region, however, value has broken even or outperformed.

At the very least, you have to re-ask the question a little differently and wonder if value investing is dead in the US and alive in the rest of the world, which seems like a dubious proposition to us.

We know that every strategy has periods of underperformance but in the long run, we believe the winning periods will pay for the losing periods and then some. That's why we diversify across risk premiums in addition to conventional methods like geography, sector, industry, etc.

It's impossible to know what the future holds, but we don't believe that value investing is dead and that this is a normal, although unfortunate, period of underperformance.

To be a value investor, you have to be willing to suffer pain.

- Jean-Marie Eveillard, Famed Investor

Data Center	2016 YTD
Dow Jones	2.20%
S&P 500	1.35%
S&P Midcap	3.78%
Russell 2000	-1.53%
MSCI EAFE (Intl)	-3.01%
MSCI Emerging Mkt	6.04%

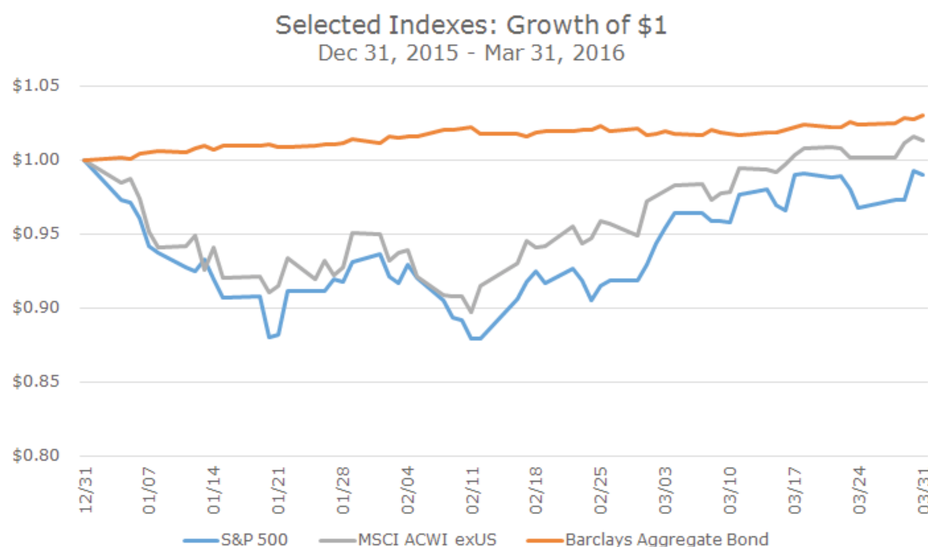
S&P Sectors	2016 YTD
Consumer Discretion.	1.60%
Consumer Staples	5.57%
Energy	4.02%
Financials	-5.06%
Healthcare	-5.50%
Industrials	4.99%
Technology	2.60%
Basic Materials	3.61%
Telecom	16.61%
Utilities	15.56%

Interest Rates	2016
Fed Funds	0.50%
Prime Rate	3.50%
3-mo. Treasuries	0.20%
2-yr. Treasuries	0.72%
5-yr. Treasuries	1.21%
10-yr. Treasuries	1.77%

Currencies	2016
Euro	1.1380
Japanese Yen	112.57
British Pound	1.4360

All Data as of 3/31/2016

The Big Picture



Fast Facts

1826 - The first time the word 'millionaire' was used is in the novel 'Vivian Gray' by Benjamin Disraeli. One million in 1826 is worth approximately $21.1 million today, but there isn't a good equivalent word.

1,826 - The number of billionaires in 2014 according to Forbes, with an aggregate net worth of $7.05 trillion. While 230 members of the group inherited their fortune, 1,191 are self-made (the rest started rich and became billionaires over time).

$75 billion - Bill Gates' net worth according to Forbes. While he has made the top of the list 16 times, he is only the sixth wealthiest man in history. The wealthiest man of all time, John D. Rockefeller, had an estimated net worth of $336 billion in today's dollars.

25 - The age of the youngest self-made billionaire, Evan Spiegal, who co-founded Snapchat, the instant messaging software that sends pictures/videos that self destruct once they are received.

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