

Q2

Quarterly Market Review

Second Quarter 2021

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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:

Is Freedom Free? Solving the Equation

Market Summary

World Stock Market Performance

World Asset Classes

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Emerging Markets Stocks

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Select Currency Performance vs. US Dollar

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Commodities

Fixed Income

Global Fixed Income

Impact of Diversification

Is Freedom Free? Solving the equation

Dear Partners,

We continue to thank you for your trust, relationships, and advocacy. We wouldn't be here if it wasn't for you, and we continue to work hard everyday to ensure this is a symbiotic relationship. As we talk with clients during the summer months, most are enjoying their summer vacations and/or time with family & friends. A welcome change from this time last year when we were stuck in lock-down and subject to social distancing rules. This past year has made me think a lot about freedom, which people around the country are starting to enjoy once again, and perhaps we all took for granted previously.

Every Friday night in college, we would watch Braveheart before our football games on Saturday for some inspiration. As William Wallace prepares his troops to battle for independence, very much the underdog, he unleashes a motivational speech ending with an emphatic, "they may take our lives, but they will never take our FREEDOM!" Yes, since March 2020, we as people have gone through a battle of sorts. It has unfortunately taken many lives, yet as the economy opens up and summer vacations unravel, the response I have witnessed is an emphatic, "it will never take our FREEDOM!"

While freedom comes in many forms, the freedom we emphasize at SAM is that of Financial Freedom. As history has proven time and time again, freedom has a cost, and so does Financial Freedom. However, freedom also has many benefits, as does Financial Freedom.

Though the United States is the wealthiest economy in the world, most people still search for Financial Freedom. The following formula is how we believe you can achieve it:

Time x (Discipline)² = Financial Freedom

We will explore this formula in more detail throughout this passage.

Independence Takes Time

Earlier this month, we Americans celebrated America's independence from Great Britain, which occurred on July 4th, 1776. This marks the day US Congress adopted the Declaration of Independence. While I do not claim to be a history buff (it was honestly my worst subject in school), there was a culmination of events that lasted decades which led to that day, the first being [The French and Indian War in 1754](#). When you consider the first British settlement in America took place in 1607 in Jamestown, Virginia, you can see it took 169 years for the US to declare its independence, post 22 years of various wars and acts.

Our Founding Fathers had a strong sense of delayed gratification knowing that freedom takes time. This also rings true when creating the foundation for one's Financial Freedom. As we have written about in [blogs in the past](#), time is your number one friend in compounding wealth.

Discipline-Squared

The luxury of time is meaningless if you don't act on this cherished time with disciplined habits that create your Financial Freedom. To start, it's helpful to begin with the end in mind, asking yourself, "what does Financial Freedom mean to me?" The answer typically varies from person-to-person. For some, it means the ability to spend time with your kids, take a vacation whenever you want with your wife, start a business, donate (time or money) to a favorite cause, or simply wake up every day with the freedom to choose what you want to do on your own terms.

Is Freedom Free? Solving the equation

(continued from page 3)

The next step is to truly understand the difference between being “rich” and being “wealthy.” As my father-in-law has taught me, based on the ethical maxims of [Jewish traditions](#), “who is wealthy? One who is happy with his lot!”

This is an important lesson, as many people want to be rich and make millions of dollars a year. Many professional athletes make millions of dollars a year, yet most are also bankrupt or face serious financial hardships post retiring from their respective sport, with [Sports Illustrated reporting](#) that 78% of NFL players and 60% of NBA players fall into this category.

To understand this alarming statistic, I often propose the following question to clients and prospective clients: Who is wealthier between someone who makes \$1M or \$50k? The answer given without hesitation is the person who makes \$1M (typically with a perplexed look on their face). Then I propose a second question: Who is wealthier? A person that makes the \$1M a year yet spends \$990k, or a person who makes \$50k yet spends \$30k? The answer then correctly changes to the person who makes \$50k, as he is building \$20k in wealth vs. \$10k and also has lower overall dependence (which is the opposite of independence!) on a huge lot to satisfy his life. Now, we aren’t using this stark contrasting example to advocate “penny pinching,” just to understand the concept of “rich” vs. “wealthy.” In this example, the person who makes \$1M is definitely richer, displaying the ability to acquire material possessions, but the person who saves \$20k per year is undoubtably wealthier.

Getting in the Zone!

The number one longer-term focused question we often hear from clients is “when will I be able to retire?” [Retirement](#) is defined as “withdrawal from one’s position or active working life.” However, if you truly love what you do, is it considered work? For me, I truly love what I do for a living, so I don’t consider this “work” or think about “retiring” until my brain stops functioning properly. So, really, the question that is being asked is “when can I finally enjoy my freedom?”



To answer this, we think about it in terms of spending zones: 3% is the “green” zone, 3-5% is the “yellow” zone, and >5% is the “red” zone. One’s spend-rate is simply the amount of cash flow they need from their investable liquid assets to be “happy with their lot.” For example, if you need \$100k to live the life that makes you happy, and your investable liquid assets are \$3M, your spend-rate is 3.3% (\$100k/\$3M).

Is Freedom Free? Solving the equation

(continued from page 4)

While there is a lot of overly complicated math and studies behind these numbers (we've even created a cool historical calculator which we can share on request), I try to use simple logic to explain this concept.

Simply put, if you spend 3% of your investable assets every year (top of green zone), you have 33 1/3 years (100/3) before you run out of money - giving ample runway to not outlive your money. Additionally, when factoring in inflation (2-3%) and taxes (1-2%) you would need a return of ~7% to retain the purchasing power of your portfolio for future generations to come. Over time, but not all the time, historically speaking, a 7% annual return is a highly achievable goal.

Now, if you jump to a 5% spend rate (top of yellow zone), you have 20 years (100/5) before running out of money. That gives you a lot less flexibility, especially considering most people want to stop working at age 60-65. This puts you close to current average life expectancy. And, as healthcare continues to improve, so should life expectancy. Additionally, when factoring inflation and taxes, your return needed to retain purchasing power jumps to about 9%. Historically speaking, this is at the upper end of the return expectations of a 100% equity portfolio. Given the current low interest rate environment we are in, it could prove difficult to achieve.

Taking the spend rate up another increment to 7% (well into the red zone), you have about 14 1/3 years (100/7) before running out of money, which is prior to life expectancy based on a retirement age of 60-65. Additionally, when factoring in inflation and taxes, an ~11% return would be needed to retain your purchasing power. This is a return above historical norms for even a 100% equity portfolio.

So, while time will help you obtain Financial Freedom, it takes exponentially more discipline to fully grasp and own the concept of "being happy with your lot!" By definition, $Time \times (Discipline)^2$, which means you can have all the time in the world, but with zero Discipline, you have zero chance of Financial Freedom.

Welcome, We Have Been Waiting for You!

As you take advantage of your freedom this summer, please try to reflect on whether freedom is truly free. Many would argue that the independence we celebrate on July 4th, as we declared our independence from British rule, was not free, nor is it 245 years later.

However, you can be truly free if you have Financial Freedom. While the odds may seem stacked against you, remember it's all in your control as:

$$Financial\ Freedom = Time \times (Discipline)^2$$







Time is on your side, so have the discipline to understand your "happiness lot" and exercise your right to be financially free!

Jason and Your SAM Family



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
2Q 2021	STOCKS				BONDS	
	8.24%	5.65%	5.05%	10.17%	1.83%	0.35%
						
Since Jan. 2001						
Avg. Quarterly Return	2.4%	1.7%	3.1%	2.6%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.4%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2021 Q1	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 Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays 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 Barclays data provided by Bloomberg.

Long-Term Market Summary

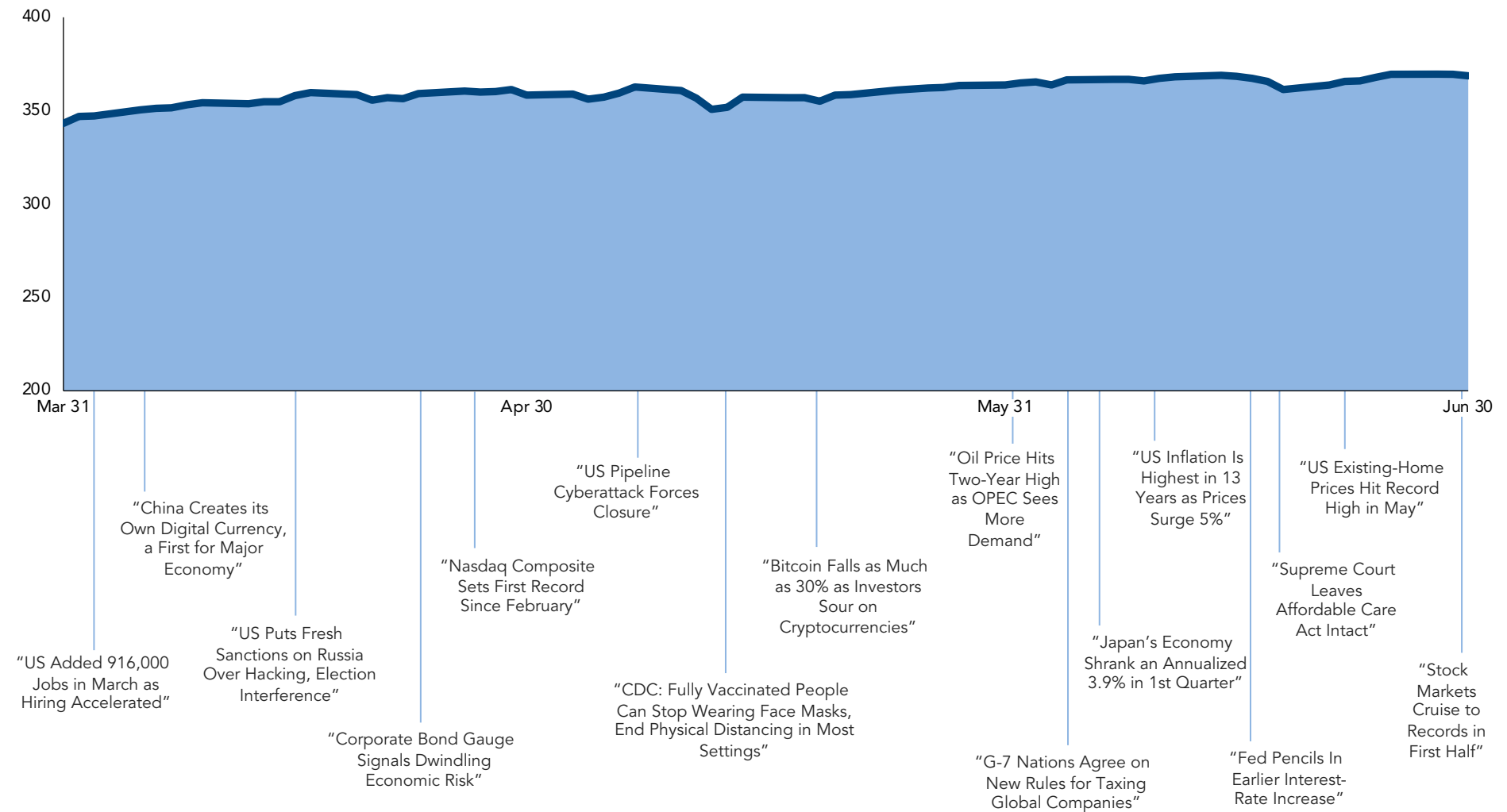
Index Returns as of June 30, 2021

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	44.16%	33.60%	40.90%	34.83%	-0.33%	0.05%
						
5 Years	17.89%	10.36%	13.03%	4.62%	3.03%	2.80%
						
10 Years	14.70%	5.70%	4.28%	6.85%	3.39%	4.12%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2021



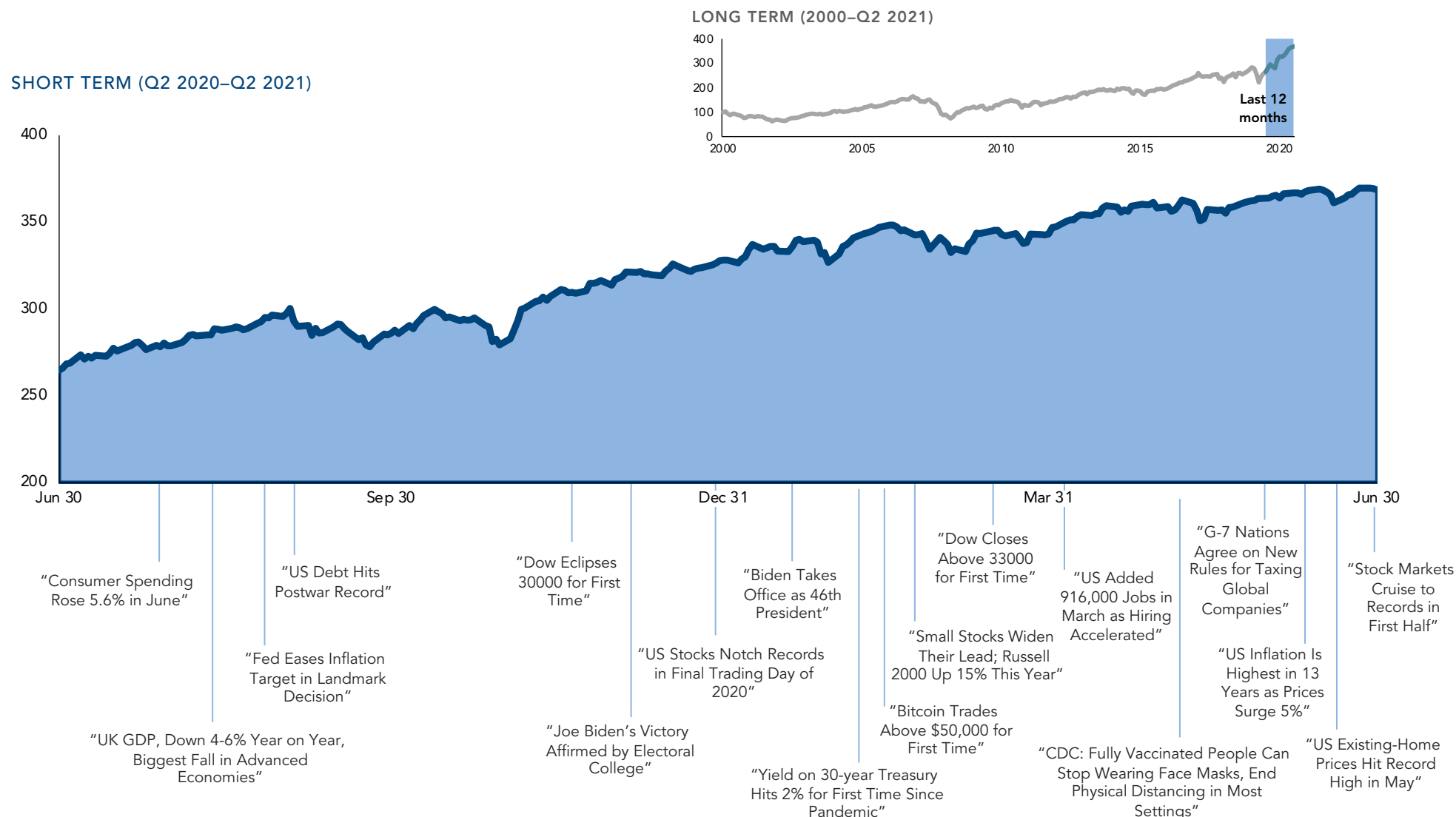
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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

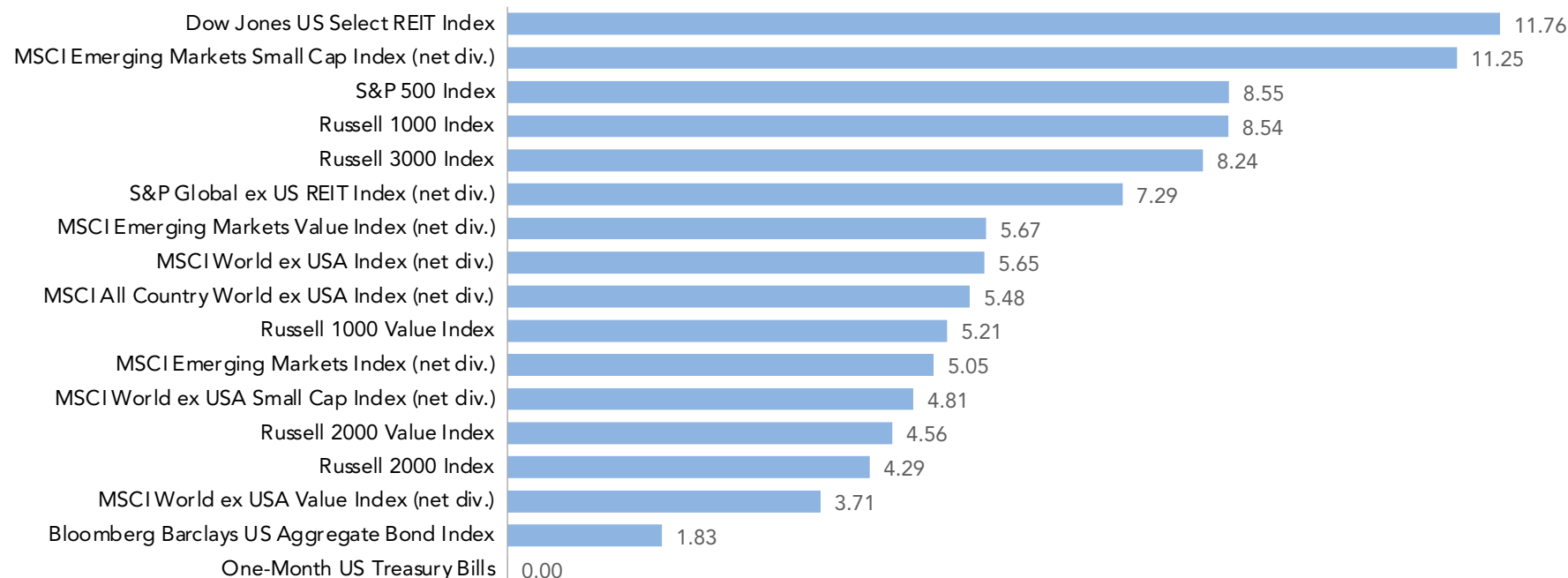
Second Quarter 2021 Index Returns (%)

Equity markets around the globe posted positive returns in the second quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets for the quarter.

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 and non-US developed markets but outperformed in emerging markets.

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



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US Stocks

Second Quarter 2021 Index Returns

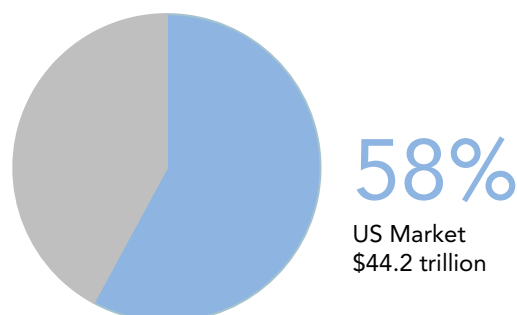
The US equity market posted positive returns for the quarter and outperformed non-US developed markets and emerging markets.

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

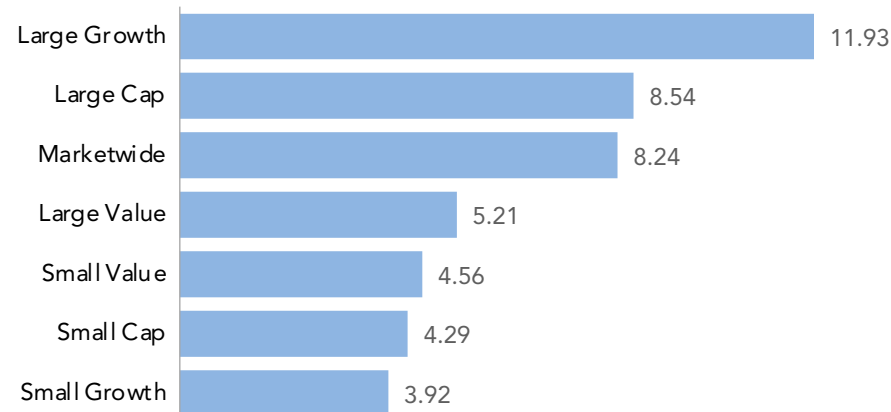
Small caps underperformed large caps.

REIT indices outperformed equity market indices.

World Market Capitalization—US



Ranked Returns (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years**	5 Years**	10 Years**
Large Growth	12.99	42.50	25.14	23.66	17.87
Large Cap	14.95	43.07	19.16	17.99	14.90
Marketwide	15.11	44.16	18.73	17.89	14.70
Large Value	17.05	43.68	12.42	11.87	11.61
Small Value	26.69	73.28	10.27	13.62	10.85
Small Cap	17.54	62.03	13.52	16.47	12.34
Small Growth	8.98	51.36	15.94	18.76	13.52

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International Developed Stocks

Second Quarter 2021 Index Returns

Developed markets outside the US posted positive returns for the quarter, underperforming US equities but outperforming emerging markets.

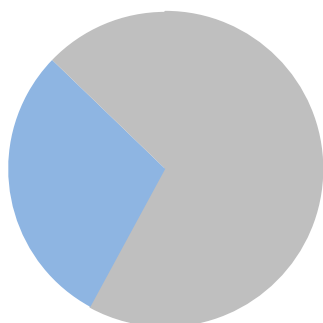
Value underperformed growth.

Small caps underperformed large caps.

World Market Capitalization—International Developed

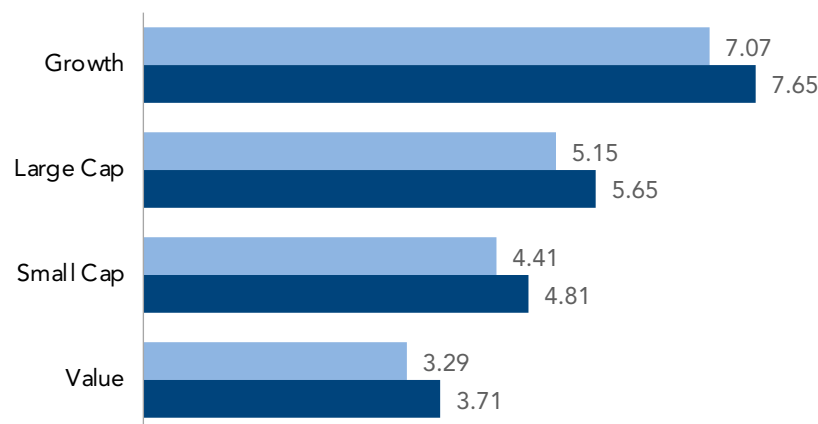
29%

International
Developed Market
\$22.3 trillion



Ranked Returns (%)

Local currency US currency



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Value	12.35	35.85	4.22	8.07	3.87
Large Cap	9.92	33.60	8.57	10.36	5.70
Small Cap	9.92	42.28	8.92	11.88	7.66
Growth	7.26	31.08	12.56	12.35	7.35

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Emerging Markets Stocks

Second Quarter 2021 Index Returns

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

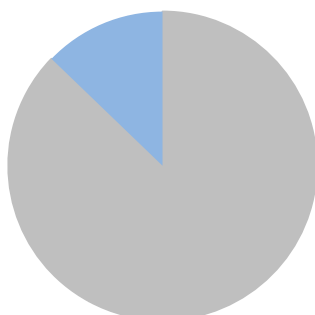
Value outperformed growth.

Small caps outperformed large caps.

World Market Capitalization—Emerging Markets

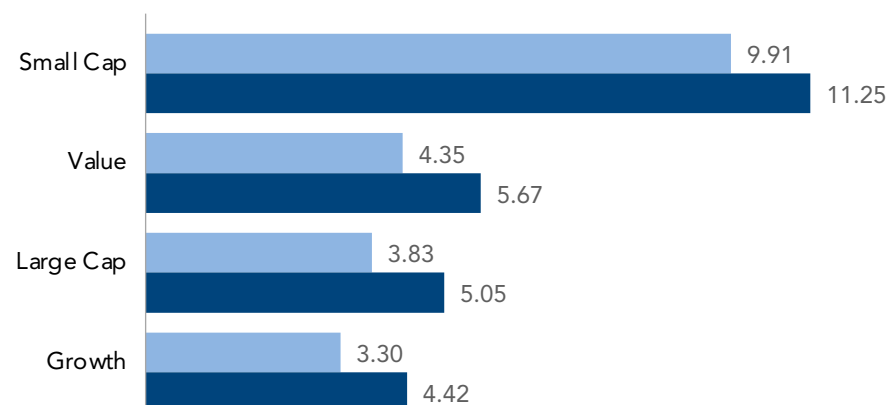
13%

Emerging Markets
\$9.8 trillion



Ranked Returns (%)

Local currency US currency



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	19.78	63.75	12.31	11.86	4.55
Value	10.01	41.59	7.81	9.70	1.80
Large Cap	7.45	40.90	11.27	13.03	4.28
Growth	5.04	40.08	14.44	16.14	6.63

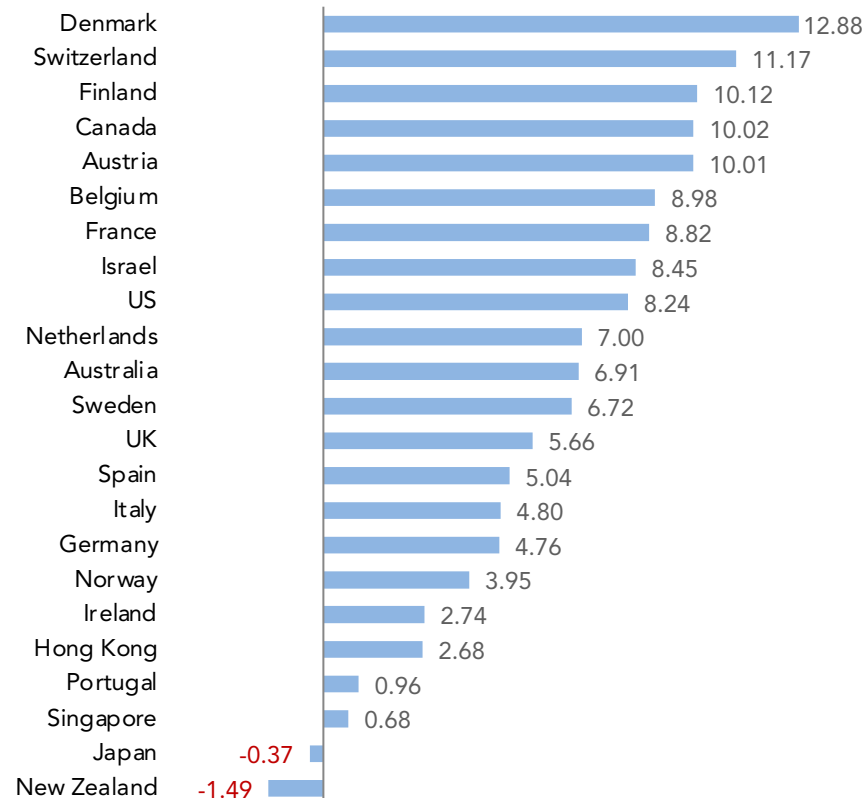
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Select Market Performance

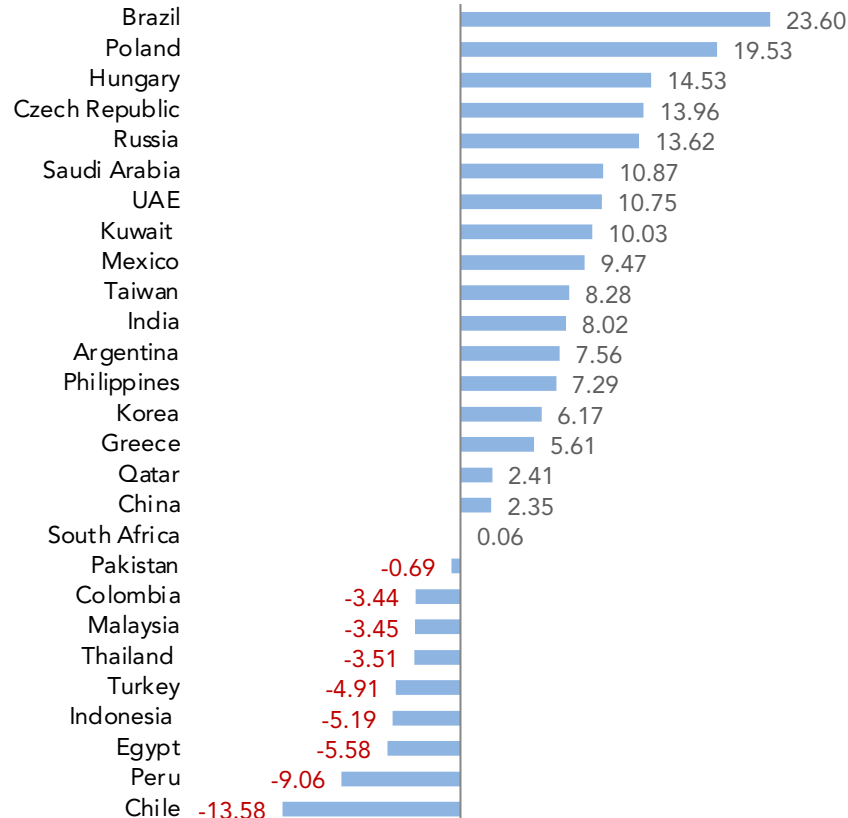
Second Quarter 2021 Index Returns

In US dollar terms, Denmark and Switzerland recorded the highest country performance in developed markets, while New Zealand and Japan posted the lowest returns for the quarter. In emerging markets, Brazil and Poland recorded the highest country performance, while Chile and Peru posted the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



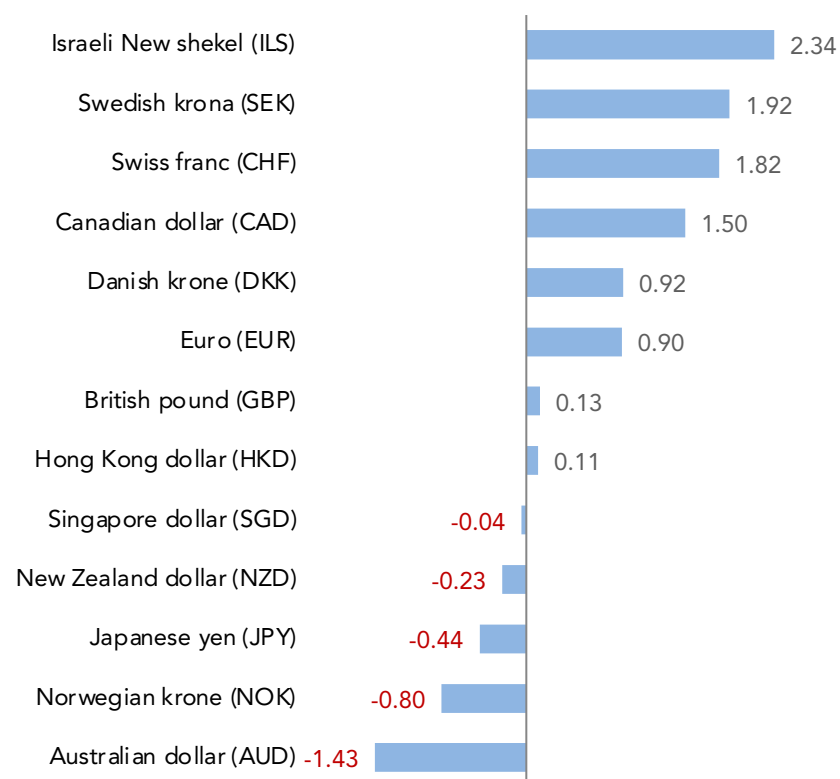
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. MSCI Index returns are in USD net of dividend withholding taxes. Country returns are the country 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

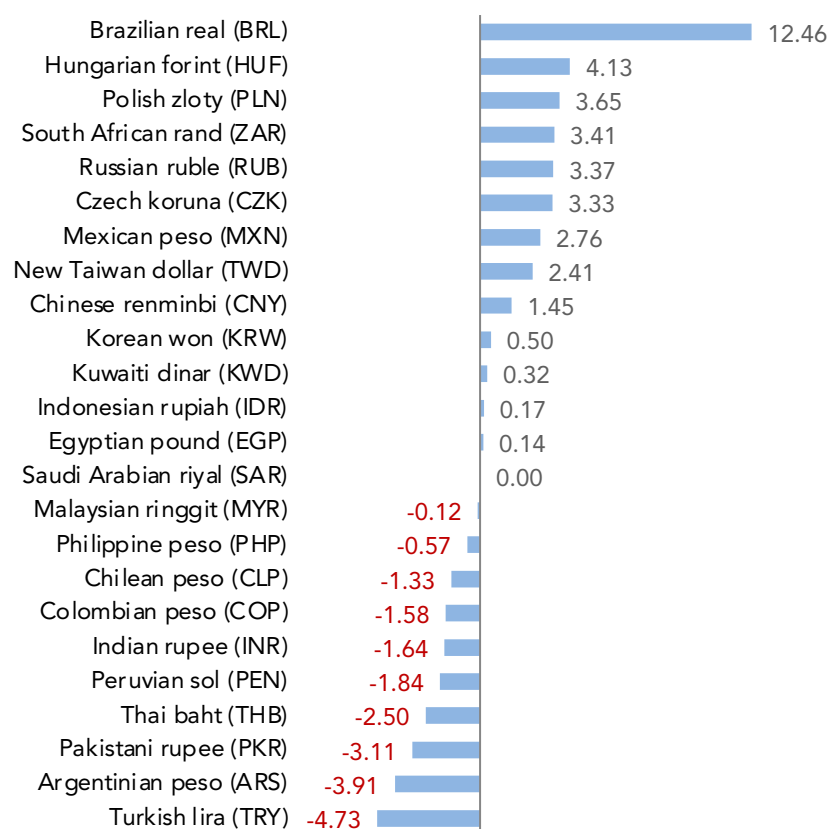
Second Quarter 2021

In developed markets, several currencies appreciated vs. the US dollar, but some, notably the Australian dollar, depreciated. In emerging markets, most currencies appreciated vs. the US dollar, but some, notably the Turkish lira, depreciated.

Ranked Developed Markets (%)



Ranked Emerging Markets (%)

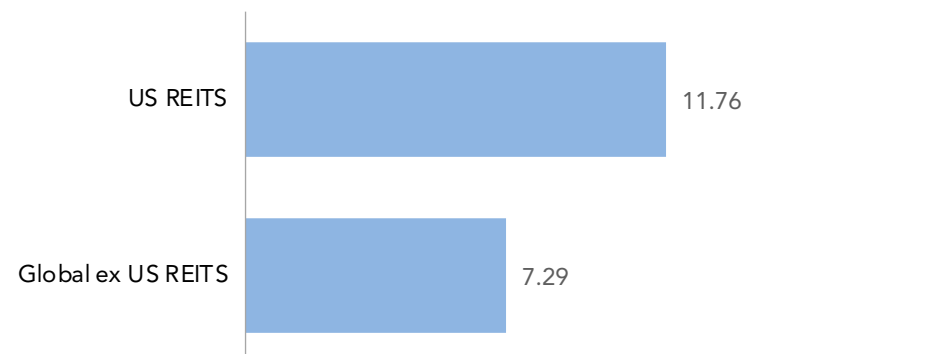


Real Estate Investment Trusts (REITs)

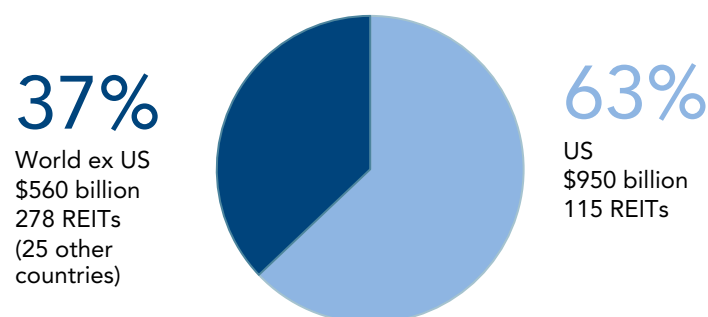
Second Quarter 2021 Index Returns

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

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years**	5 Years**	10 Years**
US REITS	22.94	39.98	8.13	5.16	8.67
Global ex US REITS	9.68	31.93	4.63	4.11	5.00

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

Second Quarter 2021 Index Returns

The Bloomberg Commodity Index Total Return returned 13.3% for the second quarter of 2021.

Soybean Oil and Natural Gas were the best performers, returning 31.82% and 30.29%, respectively.

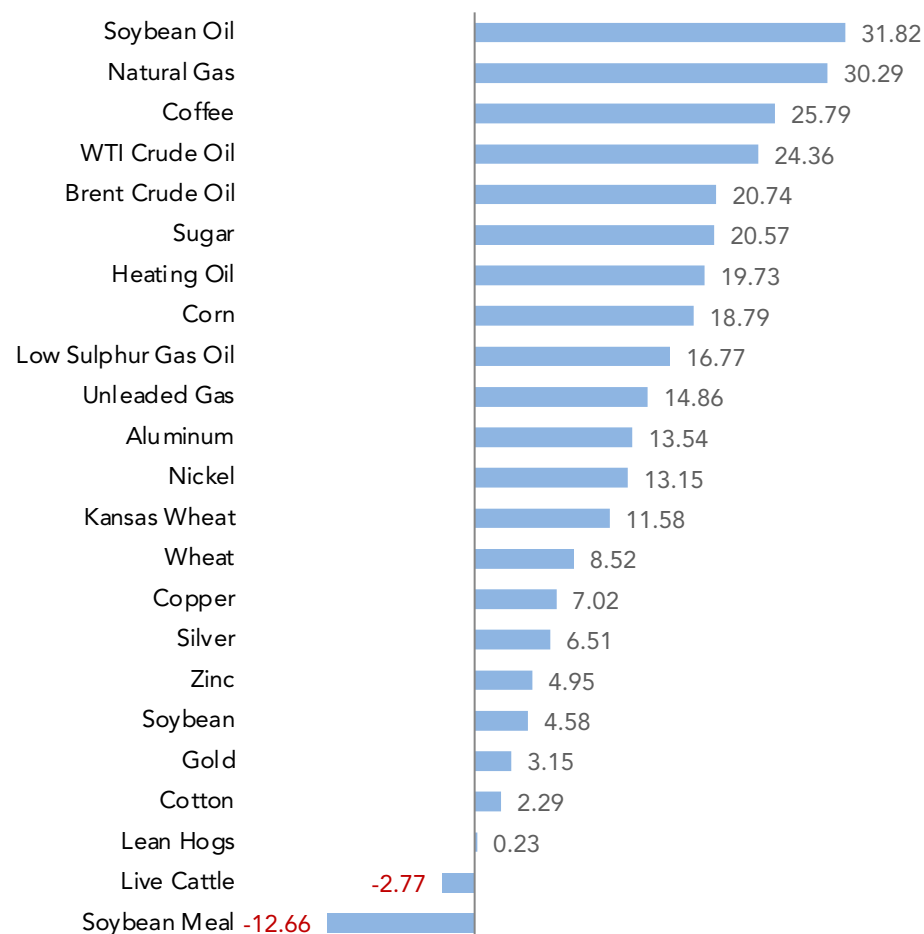
Soybean Meal and Live Cattle were the worst performers, declining 12.66% and 2.77%, respectively.

Period Returns (%)

** Annualized*

Asset Class	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years**
Commodities	13.30	21.15	45.61	3.90	2.40	-4.44

Ranked Returns (%)



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

Second Quarter 2021 Index Returns

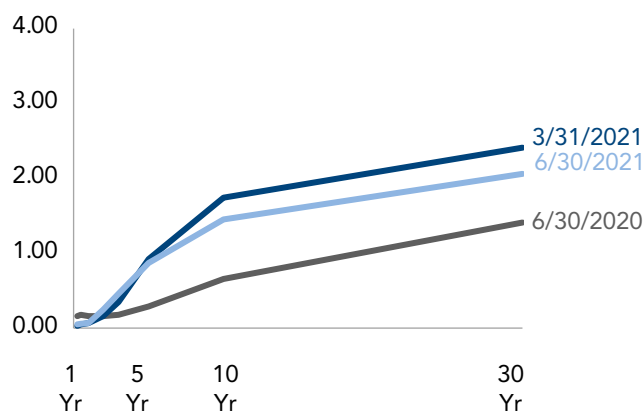
Changes in interest rates in the US Treasury fixed income market were generally mixed during the second quarter of 2021. The yield on the 5-Year Treasury note decreased 7 basis points (bps) to 0.88%. The yield on the 10-Year T-note decreased 28 bps to 1.46%. The 30-Year Treasury bond yield declined 35 bps to 2.04%.

On the short end of the yield curve, the 1-Month US Treasury bill yield remained unchanged at 0.05%, and the 1-Year T-bill yield increased 2 basis point to 0.10%. The 2-Year Treasury note increased 10 bps to 0.25%.

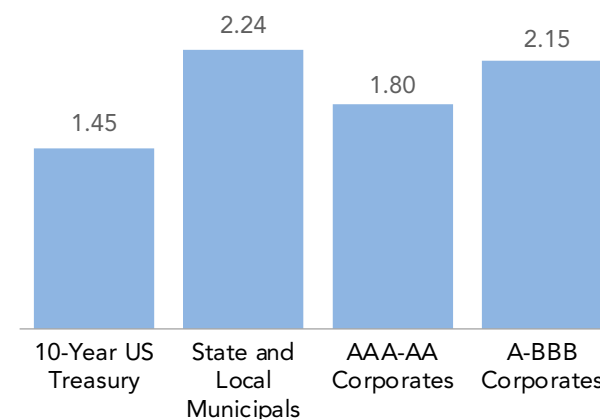
In terms of total returns, short-term corporate bonds gained 0.70%. Intermediate-term corporate bonds returned 1.70%.

The total return for short-term municipal bonds was 0.30%, while intermediate-term munis returned 0.80%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years**
Bloomberg Barclays US Government Bond Index Long	6.43	-7.82	-10.42	7.97	3.18	6.62
Bloomberg Barclays US TIPS Index	3.25	1.73	6.51	6.53	4.17	3.40
Bloomberg Barclays US High Yield Corporate Bond Index	2.74	3.62	15.37	7.45	7.48	6.66
Bloomberg Barclays US Aggregate Bond Index	1.83	-1.60	-0.33	5.34	3.03	3.39
Bloomberg Barclays Municipal Bond Index	1.42	1.06	4.17	5.10	3.25	4.28
FTSE World Government Bond Index 1-5 Years	0.31	-2.08	2.08	2.31	1.27	-0.13
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.07	-0.30	0.11	2.82	1.92	1.88
ICE BofA 1-Year US Treasury Note Index	0.02	0.09	0.22	2.01	1.47	0.90
ICE BofA US 3-Month Treasury Bill Index	0.00	0.02	0.09	1.34	1.17	0.63

*Annualized

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 Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) 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

Second Quarter 2021 Yield Curves

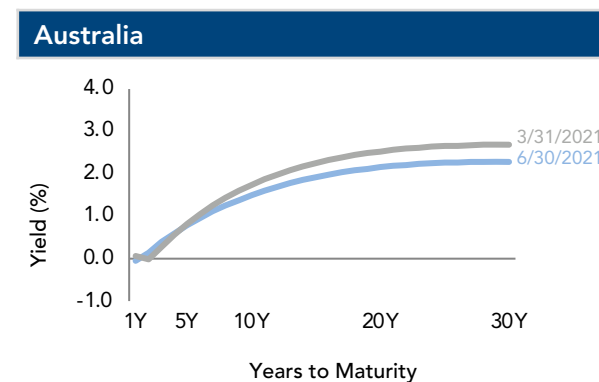
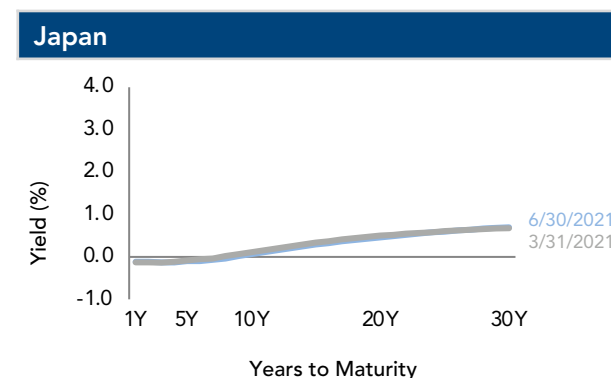
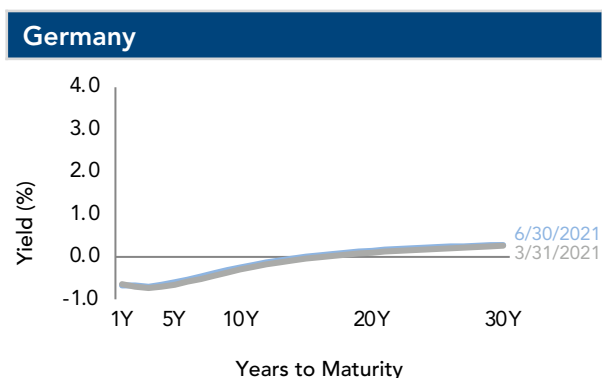
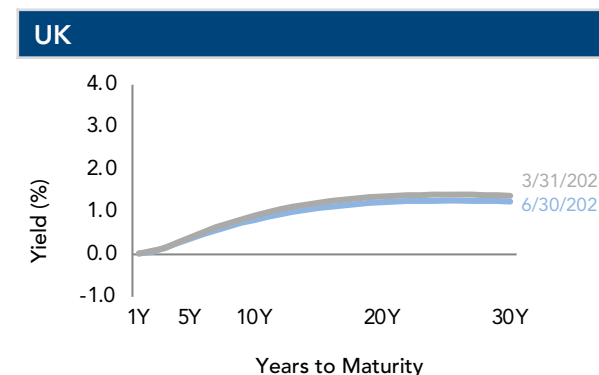
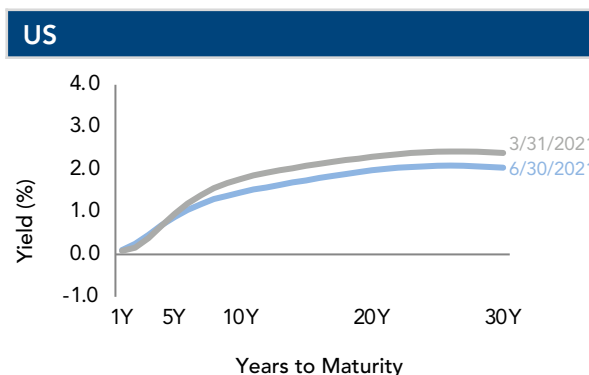
Changes in government bond yields in the global developed markets were mixed for the quarter.

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 3/31/2021

	1Y	5Y	10Y	20Y	30Y
US	1.8	-6.5	-31.9	-31.8	-35.0
UK	0.8	-3.1	-9.9	-13.8	-13.8
Germany	-2.2	5.4	5.1	4.4	1.5
Japan	1.9	-1.5	-4.4	-3.7	2.2
Canada	11.1	1.8	-16.0	-16.1	-12.8
Australia	-11.0	-3.2	-24.7	-37.3	-40.5



Impact of Diversification

Second Quarter 2021

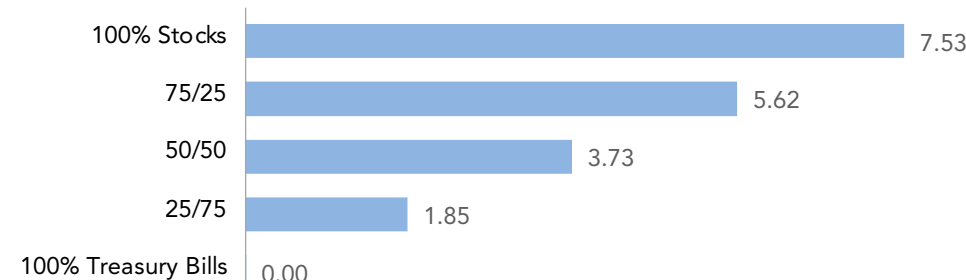
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)

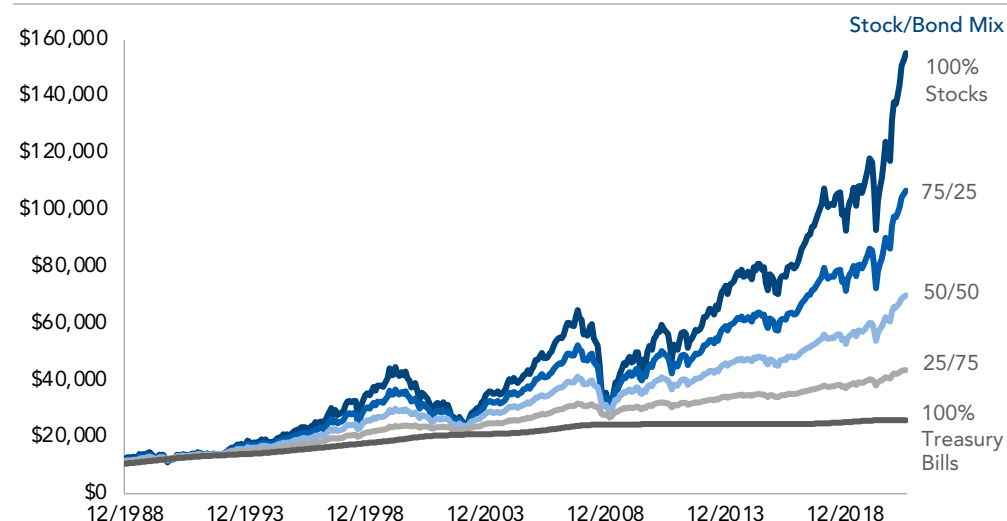
* Annualized

Asset Class	YTD	1 Year	3 Years**	5 Years**	10 Years**	10-Year STDEV ¹
100% Stocks	12.56	39.87	15.14	15.20	10.48	14.03
75/25	9.32	28.96	11.84	11.73	8.12	10.52
50/50	6.15	18.71	8.40	8.20	5.67	7.00
25/75	3.05	9.08	4.85	4.64	3.14	3.49
100% Treasury Bills	0.01	0.06	1.21	1.06	0.55	0.23

Ranked Returns (%)



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).

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July 2021

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