



# Investment Perspective

FROM BROTHERS FOUNDATION FUNDS

NOVEMBER 2016

## MARKETS AND THE ECONOMY

The S&P 500 Index booked its third consecutive monthly lackluster performance, declining 1.8 percent during October. The first estimate for third quarter GDP growth was an annualized rate of 2.9 percent, up 1.5 percent from a year ago. The largest positive contributions were consumer spending, net exports, and inventories. The unemployment rate ticked up to 5 percent in September from 4.9 percent in August, primarily due to gain in labor participation rate. Led by energy prices, in particular gasoline prices that jumped 5.8 percent, the consumer price index increased 0.2 percent in September, up 1.5 percent from a year ago. September presented a solid month of income and spending gains for consumers versus the prior month. Personal income increased 0.3 percent and personal consumption rose 0.5 percent. The Federal Reserve left its benchmark interest rate unchanged. The bond market, as measured by the Bloomberg Barclays Government/Credit Index, decreased 1 percent in October.

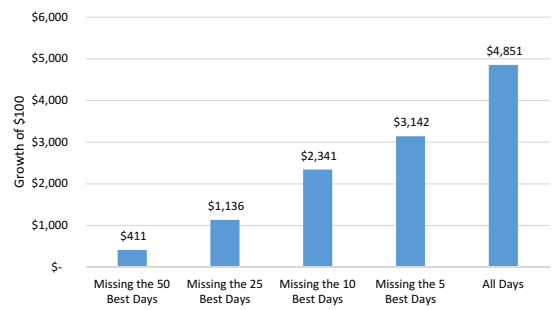
Eurozone GDP grew at an annualized rate of 1.4 percent during the third quarter. Inflation in the Eurozone was an annualized 0.5 percent in October. The European Central Bank expressed concern about the impact of negative interest rates on the banking sector. It chose not to expand its bond buying stimulus program. The U.K.'s GDP grew at an annualized rate of 2 percent during the third quarter. Driven by monetary and fiscal stimulus, China's third quarter GDP grew 6.7 percent from a year ago. Brazil's central bank cut its benchmark interest rate from 14.25 percent to 14 percent as inflation slowed; inflation in September was up 8.5 percent from a year ago, easing from a 9 percent annualized increase in August. The Bank of Japan kept its benchmark interest rate at zero and left its target for bank deposits at minus 0.1 percent. International equities, as measured by the MSCI EAFE Index, declined 2 percent in October.

Clearly, despite the inherent volatility of the stock market, it is better to keep funds fully invested in the market rather than try to guess the timing of the market in anticipation of corrections and subsequent recoveries.

## THE DIFFICULTY OF TIMING THE STOCK MARKET

Since markets hit their 2016 troughs back in February, they have continued to rally and hit new all-time highs over the course of this year. With the upcoming election, talks and discussions surrounding a market bubble and looming recession, investors have begun to ask themselves if now is the right time to start lowering their equity market allocations to better position and protect themselves.

Of course, reducing equity exposure in anticipation of a market downturn requires close-to-perfect timing on the front end (reducing equity exposure), and on the back end (renewing equity exposure). The cost of



Source: Bloomberg  
Note: Returns calculated using daily price returns of the S&P 500 Index over the past 50 years, for the period ending Sept. 30.

getting this timing wrong can be dramatic, especially if some of the days that funds are on the sidelines end up being some of the strongest days of market returns on record — which is especially true on the days coming out of a correction. Our chart above illustrates the dramatic shortfall that can emerge if investors are out of the market on notably high returning days in the market. Clearly, despite the inherent volatility of the stock market, it is better to keep funds fully invested in the market rather than try to guess the timing of the market in anticipation of corrections and subsequent recoveries.

Source: Marquette Associates, Oct. 13, 2016. Adapted with permission.

Please contact Steve Mason, director of Brethren Foundation, with questions or comments.



# Fund Performance Report

for the period ending Oct. 31, 2016



All periods longer than one year are annualized.

Funds (Net of Investment Fees) Benchmarks (Gross)	Current Month	Three Months	Year-to-Date	Three Years	Five Years	Ten Years
<b>SHORT-TERM</b>						
<b>Short-Term Fund</b>	0.1%	0.1%	0.5%	0.3%	0.6%	1.6%
Merrill Lynch 6-Month Treasury Bill Index <sup>1</sup>	0.1%	0.2%	0.6%	0.3%	0.3%	0.9%
<b>COMMUNITY DEVELOPMENT</b>						
<b>Community Development Investment Fund <sup>2</sup></b>	0.1%	0.4%	1.3%	1.7%	1.9%	2.4%
No Benchmark	—	—	—	—	—	—
<b>FIXED INCOME</b>						
<b>Bond Core Fund</b>	(0.9)%	(1.2)%	5.9%	3.8%	3.5%	5.2%
Bloomberg Barclays U.S. Government/Credit Bond Index	(1.0)%	(1.4)%	5.6%	3.6%	3.0%	4.7%
<b>Bond Fund</b>	(0.7)%	(0.9)%	6.5%	4.1%	3.6%	5.3%
Bloomberg Barclays U.S. Government/Credit Bond Index	(1.0)%	(1.4)%	5.6%	3.6%	3.0%	4.7%
<b>Treasury Inflation-Protected Securities Fund <sup>3</sup></b>	(0.7)%	(0.1)%	6.9%	1.2%	1.0%	—
Bloomberg Barclays U.S. TIPS Index	(0.4)%	(0.3)%	6.8%	2.1%	1.5%	—
<b>Bank Loans Fund <sup>3,4</sup></b>	—	—	—	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	—	—	—	—	—	—
<b>High Yield Bond Fund <sup>3</sup></b>	0.8%	3.2%	12.7%	4.3%	7.0%	—
Bloomberg Barclays U.S. Corporate High Yield Bond Index	0.4%	3.2%	15.6%	4.6%	7.2%	—
<b>Global Aggregate Fixed Income Fund <sup>3,4</sup></b>	—	—	—	—	—	—
Bloomberg Barclays Global Aggregate Bond Index	—	—	—	—	—	—
<b>DOMESTIC EQUITY</b>						
<b>Domestic Stock Large Cap Core Fund</b>	(2.3)%	(1.0)%	2.7%	(0.9)%	7.0%	3.9%
S&P 500 Index	(1.8)%	(1.7)%	5.9%	8.8%	13.6%	6.7%
<b>Domestic Stock Large Cap Core Index Fund <sup>5</sup></b>	(2.1)%	(1.8)%	—	—	—	—
S&P 500 Index	(1.8)%	(1.7)%	—	—	—	—
<b>Domestic Stock Mid Cap Fund</b>	(4.6)%	(3.8)%	(2.5)%	5.1%	14.4%	—
Russell Midcap Index	(3.2)%	(3.2)%	6.8%	7.3%	13.1%	—
<b>Domestic Stock Growth Fund</b>	(2.8)%	(2.2)%	3.1%	6.6%	11.5%	—
Russell 1000 Growth Index	(2.3)%	(2.5)%	3.5%	9.4%	13.7%	—
<b>Domestic Stock Fund</b>	(3.2)%	(2.4)%	1.5%	4.0%	11.2%	6.9%
S&P 500 Index	(1.8)%	(1.7)%	5.9%	8.8%	13.6%	6.7%
<b>Small Cap Fund</b>	(3.2)%	(1.6)%	7.3%	6.9%	11.0%	8.8%
Russell 2000 Index	(4.8)%	(2.0)%	6.2%	4.1%	11.5%	6.0%
<b>INTERNATIONAL EQUITY</b>						
<b>International Stock Core Fund</b>	(1.7)%	1.0%	1.6%	(1.2)%	4.6%	1.4%
MSCI EAFE Index	(2.0)%	(0.8)%	(0.4)%	(1.3)%	5.0%	1.2%
<b>Emerging Markets Stock Fund <sup>3</sup></b>	1.9%	5.3%	22.9%	(2.8)%	(0.6)%	—
MSCI Emerging Markets Index	0.2%	4.1%	16.3%	(2.0)%	0.5%	—
<b>ALTERNATIVE INVESTMENTS</b>						
<b>Commodities-Based Fund <sup>3</sup></b>	0.9%	3.7%	13.3%	(13.0)%	(10.6)%	—
Bloomberg Commodity Total Return Index	(0.5)%	0.8%	8.3%	(12.0)%	(10.6)%	—
<b>Public Real Estate Fund <sup>3</sup></b>	(7.0)%	(9.8)%	(1.0)%	2.6%	5.6%	—
S&P Developed Property Index	(5.3)%	(8.5)%	5.1%	5.8%	9.7%	—
<b>Multi-Strategy Hedge Fund <sup>3,4</sup></b>	—	—	—	—	—	—
60% S&P 500 Index/40% Bloomberg Barclays U.S. Aggregate Bond Index	—	—	—	—	—	—
<b>Global Inflation Protection Fund <sup>3</sup></b>	0.3%	2.0%	17.8%	—	—	—
CPI + 5% <sup>6</sup>	0.6%	1.4%	5.9%	—	—	—
<b>EQUITY AND FIXED INCOME</b>						
<b>Balanced Fund</b>	(2.2)%	(1.8)%	3.5%	4.2%	8.3%	6.6%
Blended Balanced Index <sup>7</sup>	(1.5)%	(1.5)%	5.9%	6.9%	9.4%	6.2%
<b>TACTICAL FUNDS (additional fees apply)</b>						
<b>Conservative Fund <sup>3</sup></b>	0.0%	0.1%	—	—	—	—
Blended Conservative Index	0.0%	0.0%	—	—	—	—
<b>Income Fund <sup>3</sup></b>	(0.9)%	0.0%	5.7%	—	—	—
Blended Income Index	(1.2)%	(1.1)%	5.5%	—	—	—
<b>SRI Income Fund <sup>4</sup></b>	—	—	—	—	—	—
Blended SRI Income Index	—	—	—	—	—	—
<b>Income &amp; Growth Fund <sup>3</sup></b>	(1.0)%	0.3%	6.9%	2.2%	—	—
Blended Income & Growth Index	(1.3)%	(0.9)%	5.3%	3.7%	—	—
<b>SRI Income &amp; Growth Fund</b>	(1.7)%	(1.0)%	4.3%	—	—	—
Blended SRI Income & Growth Index	(1.4)%	(1.0)%	5.3%	—	—	—
<b>Growth Fund <sup>3</sup></b>	(1.1)%	0.5%	6.8%	1.9%	—	—
Blended Growth Index	(1.4)%	(0.8)%	5.2%	3.6%	—	—
<b>SRI Growth Fund</b>	(1.9)%	(0.9)%	3.8%	—	—	—
Blended SRI Growth Index	(1.5)%	(0.9)%	5.2%	—	—	—
<b>Aggressive Growth Fund <sup>3</sup></b>	(1.1)%	0.6%	7.0%	1.1%	—	—
Blended Aggressive Growth Index	(1.3)%	(0.7)%	5.2%	3.7%	—	—
<b>SRI Aggressive Growth Fund <sup>4</sup></b>	—	—	—	—	—	—
Blended SRI Aggressive Growth Index	—	—	—	—	—	—
<b>U.S. INFLATION</b>						
<b>Consumer Price Index (September 2016) <sup>6</sup></b>	0.2%	0.2%	1.7%	1.0%	1.2%	1.8%

Performance Report

<sup>1</sup>Changed May 1, 2009. 10-year blended with 90-day Treasury Bill. <sup>2</sup>CDIF interest accrues on a daily basis. <sup>3</sup>These investment funds may not meet socially responsible investing guidelines because they are invested in mutual funds. All other investment funds must meet socially responsible investing guidelines. <sup>4</sup>No assets invested in this fund. <sup>5</sup>Expected to match benchmark gross of fees. Typically, will not match benchmark net of fees and due to required cash position. <sup>6</sup>Most recent data available. CPI data are from the Consumer Price Index for All Urban Consumers. All items are not seasonally weighted. <sup>7</sup>Weighted average of the S&P 500 Index (60 percent) and the Barclays U.S. Capital Government/Credit Bond Index (40 percent).