ASPIRIANT

Insight

Wealth Management Commentary

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July 2012

Second Quarter Market Snapshot

After the first quarter's strong gains, global equity markets retrenched in the second quarter. Here's a snapshot of how various asset classes performed during the quarter and for the year through June 30:

2nd Quarter, 2012 Market Performance

DJ Global Sel Real Estate Securities	2.5%
Barclays US Aggregate Bond Index	2.1%
S&P 500	-2.8%
Russell 2000	-3.5%
MSCI EAFE	-7.1%
MSCI Emerging Markets	-8.9%
S&P GS Commodity Index	-12.4%

Year-to-Date, 2012 Market Performance

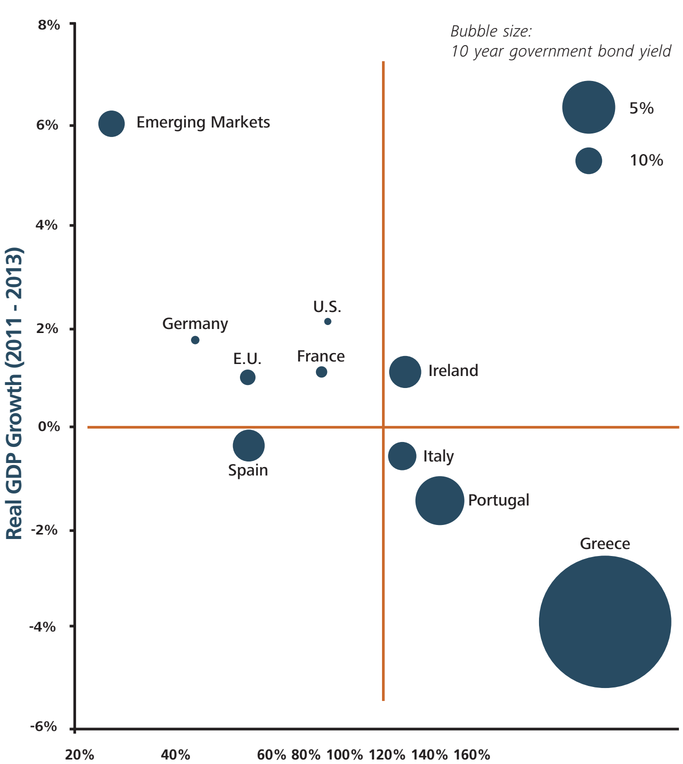
DJ Global Sel Real Estate Securities	16.0%
S&P 500	9.5%
Russell 2000	8.5%
MSCI Emerging Markets	3.9%
MSCI EAFE	3.0%
Barclays US Aggregate Bond Index	2.4%
S&P GS Commodity Index	-7.2%

Source: Morningstar Direct and Bloomberg. Returns are index returns only, and therefore do not reflect fund manager fees or Aspiriant fees.

The European financial crisis moved again to the forefront in the second quarter, with the European economy caught between an irresistible force and an immovable object. The irresistible force is the lack of competitiveness of a number of European economies and their high debt burden, which has led to punishment by the markets, calls for austerity, and economic contraction (in part because of the austerity). The immovable object is Germany, which will bear much of the economic burden in the euro-zone clean-up and, therefore, is demanding severe and rapid austerity in return for loans.

The graphic below clearly shows the problem—the countries with high debt levels (appearing toward the right of the graph) are growing slowly (appearing toward the bottom of the graph) and have high debt service burdens because interest rates are high (shown by the large size of the circles). Greece is in the worst of all positions—a large circle in the lower right hand corner of the graph.

GDP Growth, Debt to GDP and Borrowing Costs



Net Debt to GDP Ratio (2012 est.)

Source: IMF, BLS, J.P. Morgan Asset Management. As of 6/30/12

> **Our chief concern is that the world's biggest debt-related problems are not economic; rather, they are political in nature, making it very difficult to confidently assess the likelihood of crises or the probable impacts on investment portfolios.**

The now-familiar pattern—markets appreciating on optimism that Europe is close to comprehensive and effective action, only to retreat as it becomes clear that a solution remains elusive—is now in its third year. We wish that we could say that we see a clear path to resolution of these problems and the see-saw equity markets that they create, but the fact is that the global de-leveraging process that's underway is very complex and will take years to play out completely. The private sector (companies and families) is in much better shape than in 2008, but the public sector is earlier in the process and will take time to work out.

The longer-term outlook continues to be compelling despite the difficult past 12 months and the uncertain near-term outlook. Bull markets almost always start when pessimism is at its highest, fear dominates and, therefore, companies are priced very low relative to their earnings. While US markets appear to be reasonably valued, overseas equities have declined more than 20% recently despite having generally strong earnings and improving balance sheets; consequently, they appear substantially undervalued and poised to perform quite well over time.

This extended period of heightened volatility is likely to continue for at least the next few years, and the realignments going on in the global economy are creating many political and economic risks. Our chief concern is that the world's biggest debt-related problems are not economic; rather, they are political in nature, making it very difficult to confidently assess the likelihood of crises or the probable impacts on investment portfolios. In light of this unusual risk profile, we are hosting a series of client forums on the topic of risk management in portfolios, and we expect to implement significant changes during the third and fourth quarters.

Jason Thomas, PhD, CFA
Chief Investment Officer