ASPIRIANT

Insight

Wealth Management Commentary

Achieve more.

October 2012

Third Quarter Market Snapshot

On renewed hopes for a recovery in the global economy, commodities and global equity markets rebounded strongly in the third quarter. Here's a snapshot of how various asset classes performed during the quarter and for the year through September 30, 2012.

3rd Quarter, 2012 Market Performance

S&P GS Commodity Index	**11.5%**
MSCI Emerging Markets	**7.7%**
MSCI EAFE	**6.9%**
S&P 500	**6.4%**
Russell 2000	**5.3%**
DJ Global Sel Real Estate Securities	**3.9%**
Barclays US Aggregate Bond Index	**1.6%**

Year-to-Date, 2012 Market Performance

DJ Global Sel Real Estate Securities	**20.4%**
S&P 500	**16.4%**
Russell 2000	**14.2%**
MSCI Emerging Markets	**12.0%**
MSCI EAFE	**10.1%**
Barclays US Aggregate Bond Index	**4.0%**
S&P GS Commodity Index	**3.5%**

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

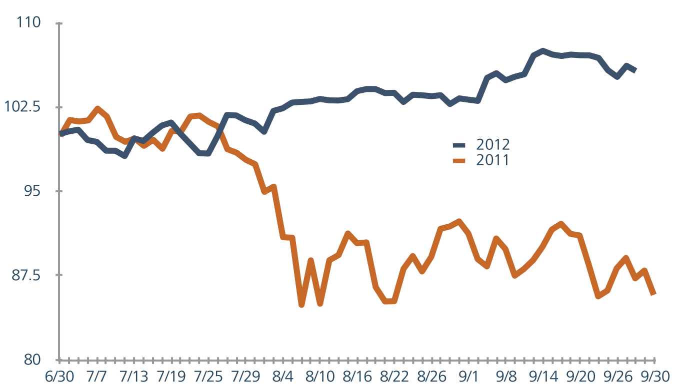
What a difference a year makes. A year ago, global equity markets were focused on the financial crisis in Europe and the debate over the US debt ceiling. The cover of The Economist on June 25, 2011 says it all. Over the course of the third quarter 2011, US Treasury debt was downgraded from AAA and the situation in Europe became dire. In the face of these worries, the S&P 500 dropped precipitously, closing the quarter with a loss of almost 14%. European markets fared even worse than the S&P 500 (the MSCI EAFE index declined 19%), and emerging markets were hit worst of all (the MSCI Emerging Markets Index declined 23%).

The Economist, June 2011

Fast forward a year and at the end of the second quarter 2012, markets were again concerned about the European financial system. The situation in Europe had generally deteriorated, with the European Union not having made much progress toward a permanent resolution of the financial crisis. The euro area as a whole was in recession and Spain was forced to request a bailout for its banking system. Worse this time, the US economy had clearly slowed, and large emerging markets like China and Brazil were also suffering (in large part due to measures taken in 2011 to slow those economies).

And yet, global equity markets found their footing in August and marched steadily upward through the quarter. Unlike 2011, the US market was the laggard, outperformed by Europe and even more by emerging markets. Commodity indices posted even stronger returns, driven by a strong demand for oil. What explains this strong performance despite a continuation of weak fundamentals and significant continuing political risks in Europe and the US?

S&P 500 Level in 3Q 2011 vs. 2012



Source: Yahoo finance. Graph represents the level of the S&P 500 without taking dividends into account. Graph shows the growth of $1 from 6/30/11–9/30/11 vs 6/30/12–9/30/12. Indexes are not actively managed and you may not invest directly in an index.

Though we are humble about our (or anyone's) ability to explain short-term market movements, we think there are a number of key ingredients:

The investor psyche.

Investors are acclimating to living with more uncertainty in the global economy, and the headlines are having noticeably less impact on the day to day movements of markets.

Europe.

The European Central Bank has committed to buying debt of European governments without limit to ensure stability. This commitment was sorely lacking in 2011, and gives stressed southern European nations some breathing room to enact important budget reforms.

The Fed.

The Federal Reserve has extended its commitment to keep interest rates low and has initiated another round of quantitative easing. This has a double effect of making cash and bonds less attractive while supporting an increase in the valuation of other financial assets.

The US economy.

While most economic indicators in the US remain anemic, the housing sector seems to have reached a bottom in many areas, which should begin to support growth going forward in a variety of industries.

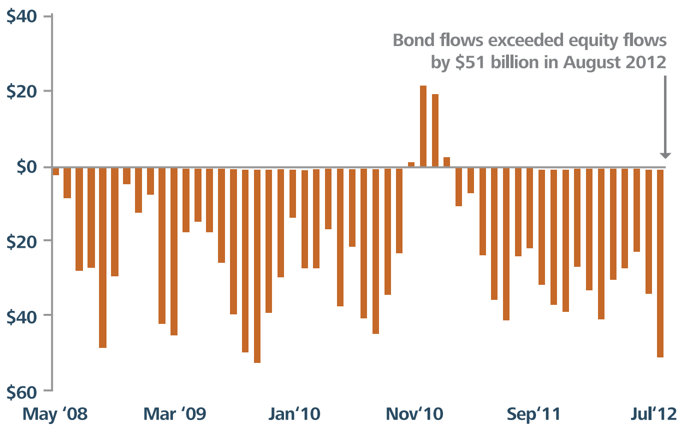
> **"It has been a difficult period to remain a committed long-term investor, but for those who have persevered, it has paid off handsomely.**

Washington, DC.

Markets hate uncertainty, and Washington has offered nothing but uncertainty for two years in several important areas – tax policy, the budget, and healthcare policy, to name a few. It's likely that some of this uncertainty will be resolved soon, for better or worse (depending on your view), regardless of who wins the White House. The near universal agreement about the damaging impacts of the approaching "fiscal cliff" (the automatic increase in tax rates and reduction in government spending in January) seems to have reassured markets that some sort of compromise will be cobbled together in time to push off the worst effects of the cliff until a (hopefully) more durable solution is found in 2013.

Interestingly, US retail investors have not driven the recent rise of US equities, as they have continued to pull assets out of equity funds in favor of bond funds. Unfortunately for many of them, this means they have missed participating in some of the very strong returns of the last 3 ½ years, which have seen equity values double. It has been a difficult period to remain a committed long-term investor, but for those who have persevered, it has paid off handsomely.

Difference Between Flows Into Stock & Bond Funds
Billions, USD,U.S. and international funds, monthly



Source: Investment Company Institute, JP Morgan Asset Management. Data include flows through August 2012 and exclude ETFs.

> **As advisors, it is especially important for us to focus clients on the long-term while being cognizant of shorter-term risks and preparing clients for them.**

And the same resolve that has rewarded investors well over the last 3 ½ years will continue to be important, as it's likely that we'll continue to experience weak growth, macroeconomic uncertainty and periods of heightened volatility as the global economy continues dealing with very high debt levels and the need to deleverage. In this environment, it is easy for investors to become distracted from the pursuit of their long-term objectives through a purposeful, long-term investment strategy. As advisors, it is especially important for us to focus clients on the long-term while being cognizant of shorter-term risks and preparing clients for them. We continue to work on risk management solutions and expect to implement significant changes over the coming quarters.

Jason Thomas, PhD, CFA
Chief Investment Officer