

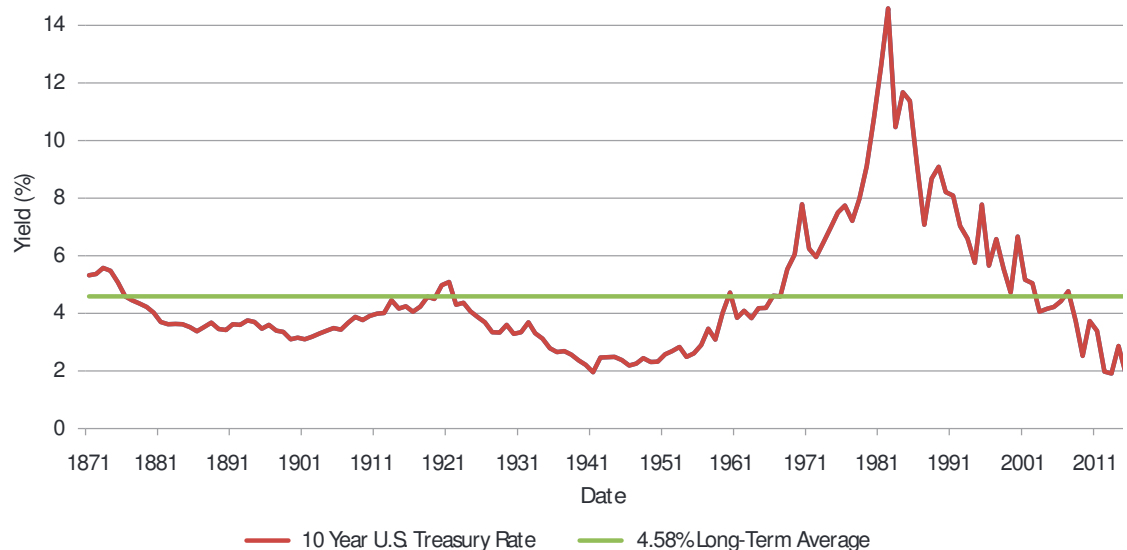
Portfolio Perspectives

Be Careful Where You Look for Yield



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Treasury Yields Over Time



Sources: US Treasury for recent 10 Year Treasury Rates and Robert Shiller and his book *Irrational Exuberance* for historic 10 Year Treasury Yields.

What is referred to as both hard and cold and is loved by people old and young? Cash! For investors, cash — or income — often comes in the form of interest payments received from bonds. But since 1982, the income received from bonds has been declining at a steady pace.

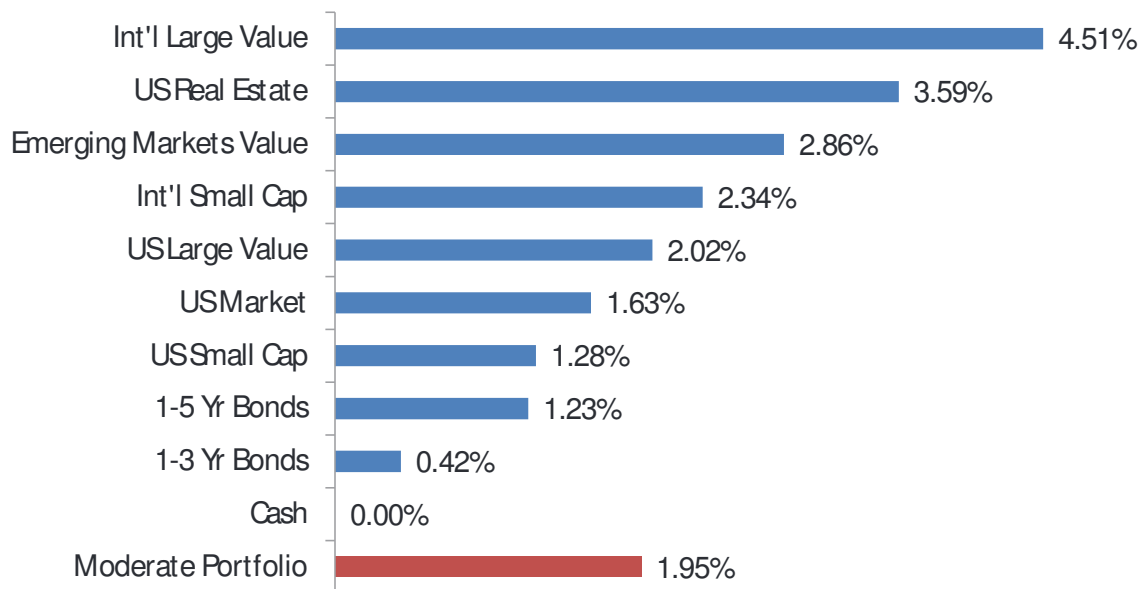
As seen in the chart above, which shows the yield for 10-Year U.S. Treasuries over time, current rates are well below their 1982 high of 14.59% and below the long-term average of 4.58%, sitting at 1.88% at the start of 2015. Paltry yields have investors taking risks in bonds that may

not be prudent given their appetite for risk. And this could spell disaster when rates begin to rise.

Bond yields are a function of risk and one of the main drivers of risk in bonds is duration — the average amount of time it takes to receive all bond cash flows. Bonds with longer durations usually have higher yields but are also riskier and more sensitive to interest rate changes than bonds with shorter durations. Δ at means a 10-year bond will decline in value more than a 1-year bond when rates rise.

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12 Month Yields as of May 31, 2015



Source: Morningstar Direct June 2015

Index representation as follows: Intl Large Value (MSCI EAFE Value), US Real Estate (DJ US Real Estate), Emerging Markets Value (MSCI Emerging Markets Value), Intl Small Cap (MSCI EAFE Small-Cap), US Large Value (Russell 1000 Value), US Market (Russell 3000), US Small Cap (Russell 2000), 1-5 Yr Bonds (Barclays US 1-5Y GovCredit), 1-3 Yr Bonds (1-3 Year US Treasury Bond), Cash (Barclays Short Treasury), Moderate Portfolio: 2% Cash, 16% 1-3 Yr Bonds, 17% 1-5 Yr Bonds, 15% US Market, 12% US Large Value, 8% US Small Cap, 14% Intl Large Value, 7% Intl Small Cap, 5% Emerging Markets Value, 4% US Real Estate. Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. All investments involve risk, including loss of principal.

Before moving into longer duration, i.e. riskier, bonds, first consider the other sources of income within a well-diversified portfolio. The chart above shows the yield — which can include interest, dividends and capital gains — for various asset classes over the last year. As seen in the chart, there are other sources of income that currently have much higher yields than bonds. Both International Large Value stocks and Real Estate investments are yielding more than 3%. A diversified portfolio of these asset classes is yielding around 2%.

The next time you are concerned about getting low income from bonds, don't overlook the other assets in your portfolio that are also providing income.

Bonds are subject to market and interest rate risk. Bond values will decline as interest rates rise, issuer's creditworthiness declines, and are subject to availability and changes in price.

Stock investing involves risks, including increased volatility (up and down movement in the value of your assets) and loss of principal.

The risks associated with investing in stocks and overweighting small company and value stocks potentially include increased volatility (up and down movement in the value of your assets) and loss of principal.

Real estate securities funds are subject to changes in economic conditions, credit risk and interest rate fluctuations.

Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. As a result, they may not be suitable investment options for everyone. Emerging Markets represents securities in countries with developing economies and provide potentially high returns. Many Latin American, Eastern European and Asian countries are considered emerging markets.

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