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2017 Investment Performance Through A 10-Year Lens

Saturday's With Jim

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1/27/18

Dear Friends,

The table below shows how hard it is to predict a following year's best performing investment type (asset class) based on prior year performance or just about anything else. The table is organized each year by the best performing asset class at the top and the worst performing one at the bottom. Percent return numbers are provided below each asset class listing to show how it did relative to the others in a given year. The years 2008-2017 are individually shown with a 10-year average.

10-Year Asset Allocation Performance Table

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10 Years
Bonds 7.6%	EM 68.9%	REITs 28.4%	TIPS 13.3%	EM 19.1%	Small Cap 41.0%	REITs 30.4%	REITs 2.4%	Small Cap 26.6%	EM 37.3%	Small Cap 10.7%
Cash 1.6%	Small Cap 41.6%	Small Cap 27.2%	REITs 8.6%	Int'l Stocks 18.8%	Mid Cap 35.2%	Large Cap 13.5%	Large Cap 1.3%	Mid Cap 20.5%	Int'l Stocks 25.1%	Mid Cap 9.7%
TIPS -0.5%	Mid Cap 37.6%	Mid Cap 26.3%	Bonds 7.7%	REITs 17.6%	Large Cap 32.3%	Mid Cap 9.4%	Bonds 0.5%	Comdty 12.9%	Large Cap 21.7%	Large Cap 8.5%
Mid Cap -36.5%	REITs 30.1%	EM 16.5%	Large Cap 1.9%	Large Cap 16.0%	Int'l Stocks 21.4%	Bonds 6.0%	Cash -0.1%	Large Cap 12.0%	Mid Cap 15.9%	REITs 7.7%
Large Cap -36.8%	Int'l Stocks 27.0%	Comdty 16.2%	Small Cap 1.1%	Small Cap 15.7%	REITs 2.3%	Small Cap 5.5%	Int'l Stocks -1.0%	EM 10.9%	Small Cap 13.1%	Bonds 3.9%
REITs -37.0%	Large Cap 26.4%	Large Cap 15.1%	Cash 0.0%	Mid Cap 15.2%	Cash -0.1%	TIPS 3.6%	TIPS -1.8%	REITs 8.6%	REITs 4.9%	TIPS 3.4%
Comdty -37.4%	Comdty 20.1%	Int'l Stocks 8.2%	Mid Cap -1.5%	TIPS 6.4%	Bonds -2.0%	Cash -0.1%	Small Cap -1.8%	TIPS 4.7%	Bonds 3.6%	Int'l Stocks 1.9%
Small Cap -37.6%	TIPS 8.9%	Bonds 6.4%	Int'l Stocks -12.3%	Bonds 3.8%	EM -3.7%	EM -3.9%	Mid Cap -2.5%	Bonds 2.4%	TIPS 2.9%	EM 1.4%
Int'l Stocks -41.0%	Bonds 3.3%	TIPS 6.1%	Comdty -14.0%	Cash 0.0%	TIPS -8.5%	Int'l Stocks -6.2%	EM -16.2%	Int'l Stocks 1.4%	Comdty 0.7%	Cash 0.2%
EM -48.9%	Cash 0.3%	Cash 0.0%	EM -18.8%	Comdty -2.1%	Comdty -11.1%	Comdty -18.6%	Comdty -28.2%	Cash 0.1%	Cash 0.7%	Comdty -8.0%

Funds: EEM, VNQ, MDY, SLY, SPY, EFA, TIP, AGG, DJP, BIL

Source: Ben Carlson's asset allocation quilt, extracted 1/20/18;
http://awealthofcommonsense.com/2018/01/updating-my-favorite-performance-chart-for-2017

What Can We Learn From This Table

We can ask an all important question, "How should we position our investments at the beginning of each year if there is so much change in the rankings of winners, middle of the roaders and losers every year or two?" Indeed, how can we possibly guess the ten year winners if we need to reset (examine) our investment positioning each year? We think it best to avoid serious tinkering with portfolios beyond making clearly necessary adjustments and rebalancing to a base allocation roughly annually. Rebalancing sells a portion of the winners, while buying an equal portion of the losers over a year's time. Rebalancing allows us to profit when our winners eventually falter, while our losers regain a former prominence. Rebalancing strategies obviate the need to guess what may do well in any given year.

The table only lists ten asset classes. The investment universe can be sliced and diced in innumerable ways. So not only are investment results not knowable a priori, we can be overwhelmed by the dizzying number of choices we have.

Most people will invest with "home bias," the tendency to select investments in their home country. From 2008 through 2017, as the 10-year averages point out, U.S. home bias was a winning strategy. But off the chart, from 2000-2009, commodities, emerging markets and international markets were the winners. Could 2017 have been a turning point for these markets once again?

Diversifying across a significant number of investment options, preferably those which don't zig and zag together, offers the best chance for long-term investors to earn competitive returns.

Next year, 2008's "outlier" will drop off and there will likely be not one bear market (seriously down) year in the bunch. Just as it is true that past performance is no guarantee of future performance, so it is a corollary that a decade of robust investment growth is likely to be followed by a decade of investment struggle. The long-term investor with a clear, defensible plan who executes it well will not blink at the "night and day" nature of investment results. S/he will be prepared for the results and invest accordingly.