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NON-PROFIT INVESTMENT REPORT FOURTH QUARTER 2016

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Attention Non-Profit CEOs and CFOs!

This newsletter contains timely information for your non-profit organization. The table of investment asset class returns may help you assess the performance of your investment program and portfolio.

Market Commentary

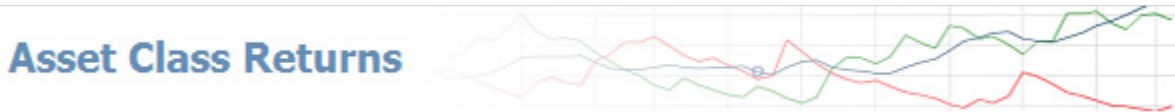
All of the asset classes in the table below were positive for the full year. U.S. equities saw nice gains in Q4 and for the full year. The Fed's resumption of interest rate increases in Q4 was one factor that impacted fixed income returns.

A review of the performance of various asset classes for 2016 also shows the benefit of diversification in any year. Each asset class is part of a market cycle. However, the complexity is that each of those market cycles is of different durations, phases, and magnitude at any point in time. No one market cycle dominates a composite portfolio. In 2016, many equity asset classes enjoyed a positive year as the bull market cycle continued. Also in 2016, many fixed-income asset classes experienced weaker than average returns as the cycle of rising interest rates began to emerge for the first time in many years. Real estate asset classes were subject to different pressures that supported their nice gains in the first half of the year and much weaker results in the second half of the year. All this is to simply say, participating in multiple asset classes generally works to the advantage of the patient investor by helping to reduce risk of loss potential from a concentration in a single asset class.

There was considerable uncertainty in the investment markets prior to the November election. The surprising Trump victory provided a boost to the markets as the year ended. Now, as the new Trump administration takes shape, uncertainty will likely continue as he formalizes his cabinet, advisors, and agency appointments. Their approach to many key issues will likely have some impact on how the economy and markets evolve in 2017. Whether those influences will be positive or negative is still to be determined!

What about expectations for 2017? Is the fact that markets are hitting new highs, or that this bull market is almost the longest in history, a reasonable rationale for making portfolio changes? We think not. In fact, we believe there is no single market event or factor that should create a compelling need to make a change in a prudent long-term strategy.

The U.S. and other world economies seem healthy enough to sustain modest expectations for 2017. The rising interest rate environment may prove to be a challenge for realizing any substantial real returns in the core fixed income holdings, yet they remain a very important component in managing risk.



Here are the 4th quarter 2016 and full year 2016 returns of typical benchmarks for selected asset classes. A diversified portfolio may include some investments in many (or all) of these asset classes. This table is sorted by (4th Quarter 2016) percentage return.

<u>Asset Class</u>	<u>Q4 2016</u>	<u>2016</u>	<u>Benchmark Index</u>
Domestic Stock Small Cap Blend	8.83%	21.31%	Russell 2000 Index
Domestic Stock Large Cap Value	6.68%	17.34%	Russell 1000 Value
Domestic Stock Large Cap Blend	3.82%	11.96%	S&P 500 Composite Total Return
Commodities Natural Resources	3.75%	13.27%	Dow Jones UBS Commodity Total Return
Annual Inflation Rate	0.00%	2.07%	Consumer Price Index
International Stock Large Cap Blend	-0.71%	1.00%	MSCI EAFE Net Total Return
Domestic Fixed Income Short Term Bond	-1.05%	1.56%	Barclays 1-5 Year Government/Credit Bond
Domestic Fixed Income Intermediate Term Bond	-2.07%	2.08%	Barclays Intermediate US Government/Credit Bond
International Fixed Income Hedged	-2.16%	5.46%	J.P. Morgan Global Non-US Hedged
Domestic Fixed Income Treasury Inflation Protected (TIPS)	-2.41%	4.68%	Barclays TIPS Index
International Stock Small Cap Blend	-2.86%	2.18%	MSCI EAFE Small Cap Net Total Return
Real Estate United States	-3.28%	8.63%	FTSE EPRA/NAREIT Equity
Real Estate International	-8.01%	1.78%	FTSE EPRA/NAREIT Global Real Estate excl. US
International Fixed Income Un-Hedged	-11.03%	1.86%	J.P. Morgan Global Non-US Un-Hedged

- Asset Class Returns in this table are represented by Benchmark Index performance numbers derived from Morningstar. Organizations cannot invest directly in an index. Index returns do not include investment advisory fees or trading expenses. An investment benchmark is a standard against which the performance of an individual security or group of securities is measured. For example, the average annual performance of a class of securities over time is a benchmark against which the current performance of members of that class and the class itself can be measured.
- Actual portfolios should be constructed based upon an individual or entities specific financial resources, investment goals, risk tolerances, investing time horizons, tax situation, and other relevant factors. Not all recommendations will be suitable for all investors. Individual allocations and performance will vary.
- Performance results shown do not include a deduction for investment management fees or expenses. If management fees and expenses were included, the returns would likely be reduced by one percentage point or more for the annualized management fee, and there would also be additional trading commissions and expenses.
- Past performance is not a guarantee of future results. There is no guarantee that historical returns will be repeated, achieved, or met in the future. There is no guarantee that annual returns will be achieved or met in any year, especially during times of high market volatility.

Additional Market Indicators



Interest rates, energy prices, unemployment rates, and major market benchmarks are some of the fundamental macro indicators about the health of the U.S. economy.

<u>2016 Market Indicators</u>	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>Q4 2016 Change</u>
Federal Funds Rate	0.50%	0.75%	50.00%
Prime Rate	3.50%	3.75%	7.14%
Oil (Barrel)	\$48.24	\$53.72	11.36%
Gasoline (Gallon)	\$2.34	\$2.33	-0.43%
Unemployment Rate	5.00%	4.90%	-2.00%
Dow Jones Industrial Average	18308.15	19762.60	7.94%
S&P 500 (Price)	2168.27	2238.83	3.25%
NASDAQ Composite	5312.00	5383.12	1.34%

2017 Retirement Plan Contribution Limits

- The maximum elective deferral amount remains unchanged for 2017 at \$18,000.
- The maximum catch-up contribution for those age 50 and older remains unchanged for 2017 at \$6,000.
- The maximum defined contribution limit for 2017 rises slightly from \$53,000 to \$54,000.

Creating an RFP for Investment Advisory Services

When the time comes for your non-profit organization to prepare and issue a Request for Proposal (RFP) for investment advisory services you should take some time to discuss what is important to you.

There are many examples of RFP questions and formats that are graciously shared among the community. Each one is generally modified a bit to more closely represent the needs and circumstances of the organization that is starting this process.

We believe it is important to review which RFP questions to include in an RFP from two perspectives.

First, consider what is really important to your organization when entering a relationship with a third party that will be an active partner in managing a critical organization resource. If you

have had good experiences, or not so good experiences, with current or previous advisors, then adding a few questions to help you assess a new advisor in that area is probably worthwhile.

Second, consider who in your organization will be evaluating the proposals received. In some cases, RFP questions include detailed responses by the offering firm about investment approaches, tools, and processes. Asking a member of the evaluation team to judge both the reasonableness of such a detailed response, and which of several individual responses is better for the organization, may not be a core competency of the evaluators. This is not to say that such questions are not important, but rather to suggest that questions should be posed in a way that best supports how the evaluators will proceed during the selection process.

An RFP that is structured to get the clearest possible responses to how an investment advisor will provide the services you need and want should be to everyone's advantage.

Disclosures

The discussion of investment strategy and philosophy found in this newsletter is not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisers. Rembert Pendleton Jackson can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.

The S&P 500 index is presented as a general representation of the behavior of the domestic equity markets. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices. An investor may not directly invest in an index.

Information presented herein is based upon facts derived from publicly available information, and is also based on certain assumptions, including that there are no additional changes to current law, and that demographic information regarding retirement plan contributions also remains unchanged.

Some information in this presentation is gleaned from third party sources, and while believed to be reliable, is not independently verified.

RPJ Investment Advisory Services

If you are considering using the services of an investment advisor to assist with the prudent management of your funds, we would consider it a privilege to have the opportunity to serve you.

For more information about our firm and our services please [visit our website](#) or give us a call at 703-821-6655.

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