

2nd Quarter 2021

Client Newsletter

"Everyone is ignorant, only on different subjects." - Will Rogers

Will Rogers was very perceptive commentator on society with a very jaundiced eye about what goes on in Wall Street. It seems like a good attitude to take in order to have a successful investment experience. Focusing on what you can control like savings versus spending, asset allocations and locations, how long you work and how hard you work out, and developing a solid retirement plan are things that you can control. Tax policy, regulatory reforms, Government policies, market returns, tax policies are all outside of our control so don't spend time a lot of time worrying about them.

The second quarter of 2021 had strong returns across equity markets. The US stock market as measured by the Russell 3000 was the best performer among major markets, for the second quarter in a row, being up 8.24% for the quarter and 44.16% for the 12 month period.

In the second quarter we saw a reversal of the premiums from the first quarter. Large growth stocks as measured by the Russell 1000 growth were up 11.93% the quarter being the best performing domestic equities. Small growth was the worst performer for the quarter returning 3.92%. For the full quarter value stocks underperformed growth stocks in the large cap space but over performed in the small-cap space.

In the international developed markets the MSCI world (ex – US) was up 5.65% for the second quarter. In markets outside the US growth stocks outperformed value stocks. The MSCI world (ex – US) growth was up 7.65% in US dollar terms while the MSCI world (ex – US) value was up 3.71% for the quarter. For the last 12 months value is outperforming growth in small is outperforming large. For the second quarter the MSCI world (ex – US) small was up 4.81% with a large enough 5.65%.

Emerging markets returned 5.05% for the quarter. Small-cap emerging market stocks significantly outperformed large-cap emerging market stocks and were one of the best performing asset classes for the quarter. The MSCI emerging markets small-cap index was up 11.25% quarter while the MSCI

large-cap index was up 5.05% for the quarter. In terms of the premiums value outperformed growth by 5.67% to 4.42%. For the last 12 months small-cap emerging markets have been the best performing factor and value has outperformed growth.

Real estate investment trusts with the best performing asset class quarter. US REITs returned 11.76% while global REITs ex-US returned 7.29%. Many prognosticators still believe we are in a significant period of Transition in the real estate industry. It appears as a significant movement in residential real estate between cities and suburbs, and between various states. The length and severity of the effect that new methods of working due to Covid has one office space uses and vacancies will take several years to play out as leases come up for renewal.

Commodities had significantly positive gains across almost all sectors with only live cattle and soybean meal being down for the quarter. The Bloomberg commodity Index total return was a positive 13.3% for the quarter. The uptick in demand that came with the expansion of the economy after many of the Covid lockdown rules have expired has driven prices higher in many industries particularly in housing construction and energy. We've also seen upticks in commodity prices in response to the last several Federal Reserve inflation numbers.

Fixed income markets reversed from last quarter and were positive for the second quarter of 2021 with the US bond market as measured by the Barclays US aggregate Bond Index returned 1.83%. In the US yields on five and 10 year treasury notes decreased 7 basis points and 28 basis points respectively. For the year to date Barclays US aggregate Bond Index remains down -1.6% while the Barclays US government long bond index remains down a -7.82%. Jeremy Siegel said on his very recent call that he believes last May was the end of the 50 year bond market. If, in the next several years, bond yields back to traditional ranges where there is a premium above inflation this will be good for investors but will come at the cost of some volatility in the interim.

Will Rogers also said "The quickest way to double your money is to fold it in half and put it in your back pocket" which is the only easy way I know to make that work. The time tested way is to hold a well diversified portfolio patiently and let time do its magic. Focusing on things that you can control is a much better value than focusing on those you can't.

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Index Returns*

	Quarter Return 4/1/2021 - 6/30/2021	1 Year Ending 6/30/2021	3 Years Ending 6/30/2021
U.S. Stocks			
US Large (S&P 500 Index)	8.55%	40.79%	18.67%
US Large Value (Russell 1000 Value Index)	5.21%	43.68%	12.42%
US Small Cap (Russell 2000 Index)	4.29%	62.03%	13.52%
US Small Cap Value (Russell 2000 Value Index)	4.56%	73.28%	10.27%
US Micro Cap Index (Russell Micro Cap Index)	4.14%	75.77%	14.47%
CRSP US Total Market Index	8.29%	44.35%	18.76%
CRSP US Large Cap Value Index	5.25%	41.31%	12.86%
CRSP US Small Cap Index	5.59%	56.47%	14.73%
CRSP US Small Cap Value Index	5.40%	65.61%	10.82%
International Stocks			
International Large (MSCI World ex USA Index)	5.65%	33.60%	8.57%
International Large Value (MSCI World ex USA Value Index)	3.71%	35.85%	4.22%
International Small Cap (MSCI World ex USA Small Cap Index)	4.81%	42.28%	8.92%
Emerging Mkts (MSCI Emerging Markets Index)	5.05%	40.90%	11.27%
Emerging Mkts Small Cap (MSCI Emerg Mkt Sm Cap Index)	11.25%	63.75%	12.31%
Bonds			
Short Term Bond (ICE BofAML US Treasury Index 1-3 Years)	0.06%	0.54%	2.99%
Aggregate Bond (Bloomberg Barclays U.S. Aggregate Bond Index)	1.83%	-0.33%	5.34%
Alternative Investments			
BTOP 50 Index (Managed Futures)	3.31%	14.59%	5.59%

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