

Gradient Capital
ADVISORS, LLC

Q3

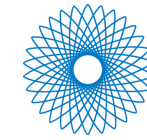
Quarterly Market Review
Third Quarter 2021

Quarterly Market Review

Third Quarter 2021

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.



Gradient Capital
ADVISORS, LLC

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Market Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

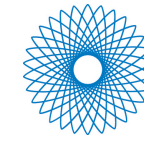
Commodities

Fixed Income

Global Fixed Income







Impact of Diversification

Quarterly Topic: The 50-Year Battle for a Better Way to Invest

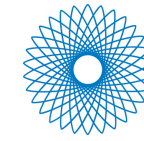


Quarterly Market Summary

Index Returns

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|------------------------|--|--|--|--|---|---|
| 3Q 2021 | STOCKS | | | | BONDS | |
| | -0.10%  | -0.66%  | -8.09%  | -0.08%  | 0.05%  | 0.09%  |
| Since Jan. 2001 | | | | | | |
| Avg. Quarterly Return | 2.4% | 1.7% | 2.9% | 2.5% | 1.1% | 1.1% |
| Best Quarter | 22.0% | 25.9% | 34.7% | 32.3% | 4.6% | 4.6% |
| | 2020 Q2 | 2009 Q2 | 2009 Q2 | 2009 Q3 | 2001 Q3 | 2008 Q4 |
| Worst Quarter | -22.8% | -23.3% | -27.6% | -36.1% | -3.4% | -2.7% |
| | 2008 Q4 | 2020 Q1 | 2008 Q4 | 2008 Q4 | 2021 Q1 | 2015 Q2 |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg data provided by Bloomberg.

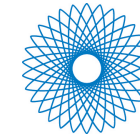


Long-Term Market Summary

Index Returns as of September 30, 2021

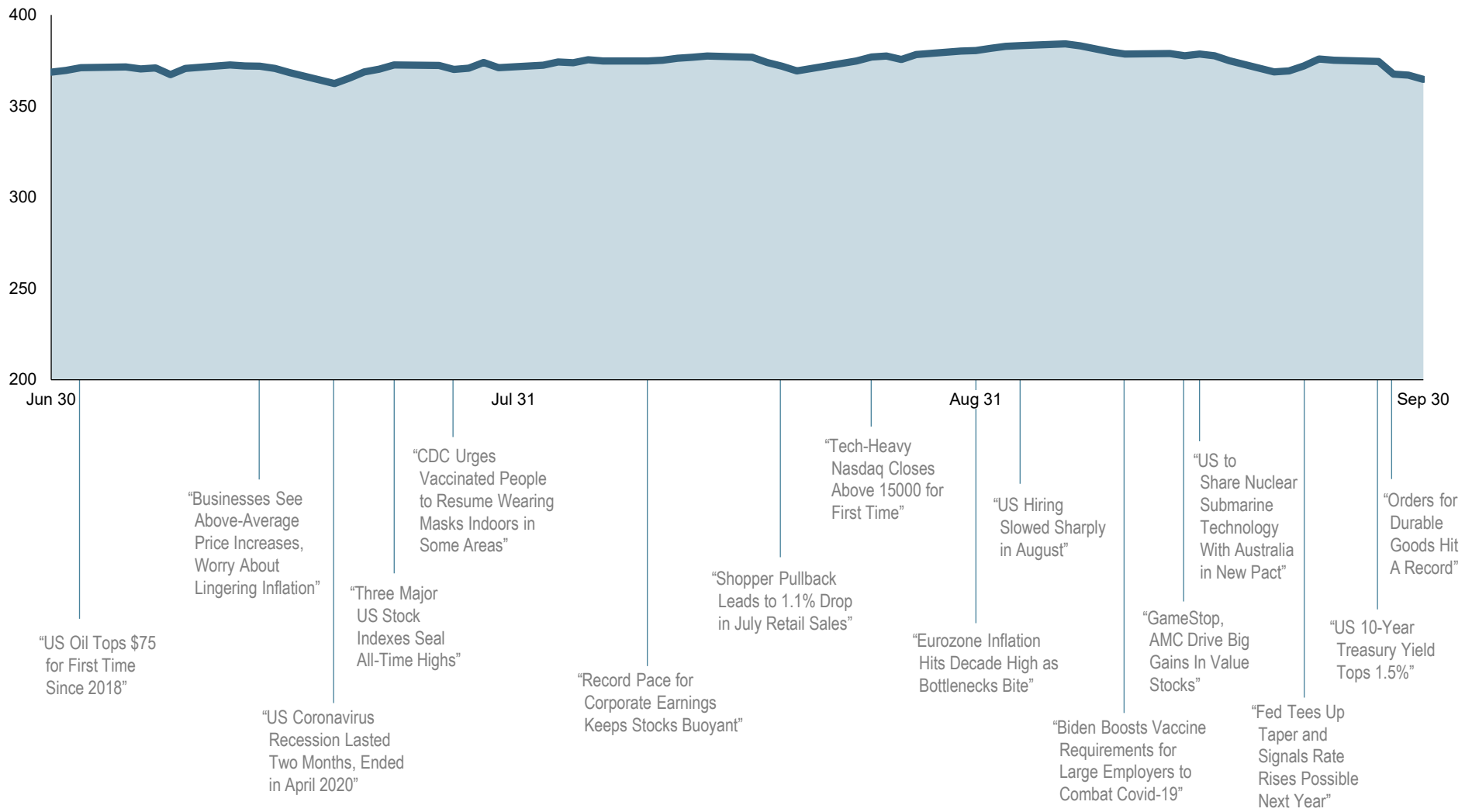
| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | | US Bond Market | Global Bond Market ex US |
|-----------------|-----------------|--------------------------------|-------------------------|--------------------|--|----------------|--------------------------|
| 1 Year | STOCKS | | | | | BONDS | |
| | 31.88% | 26.50% | 18.20% | 31.61% | | -0.90% | -0.54% |
| 5 Years | | | | | | | |
| | 16.85% | 8.88% | 9.23% | 4.65% | | 2.94% | 2.71% |
| 10 Years | | | | | | | |
| | 16.60% | 7.88% | 6.09% | 8.70% | | 3.01% | 3.87% |

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World Stock Market Performance

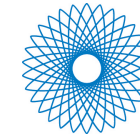
MSCI All Country World Index with selected headlines from Q3 2021



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

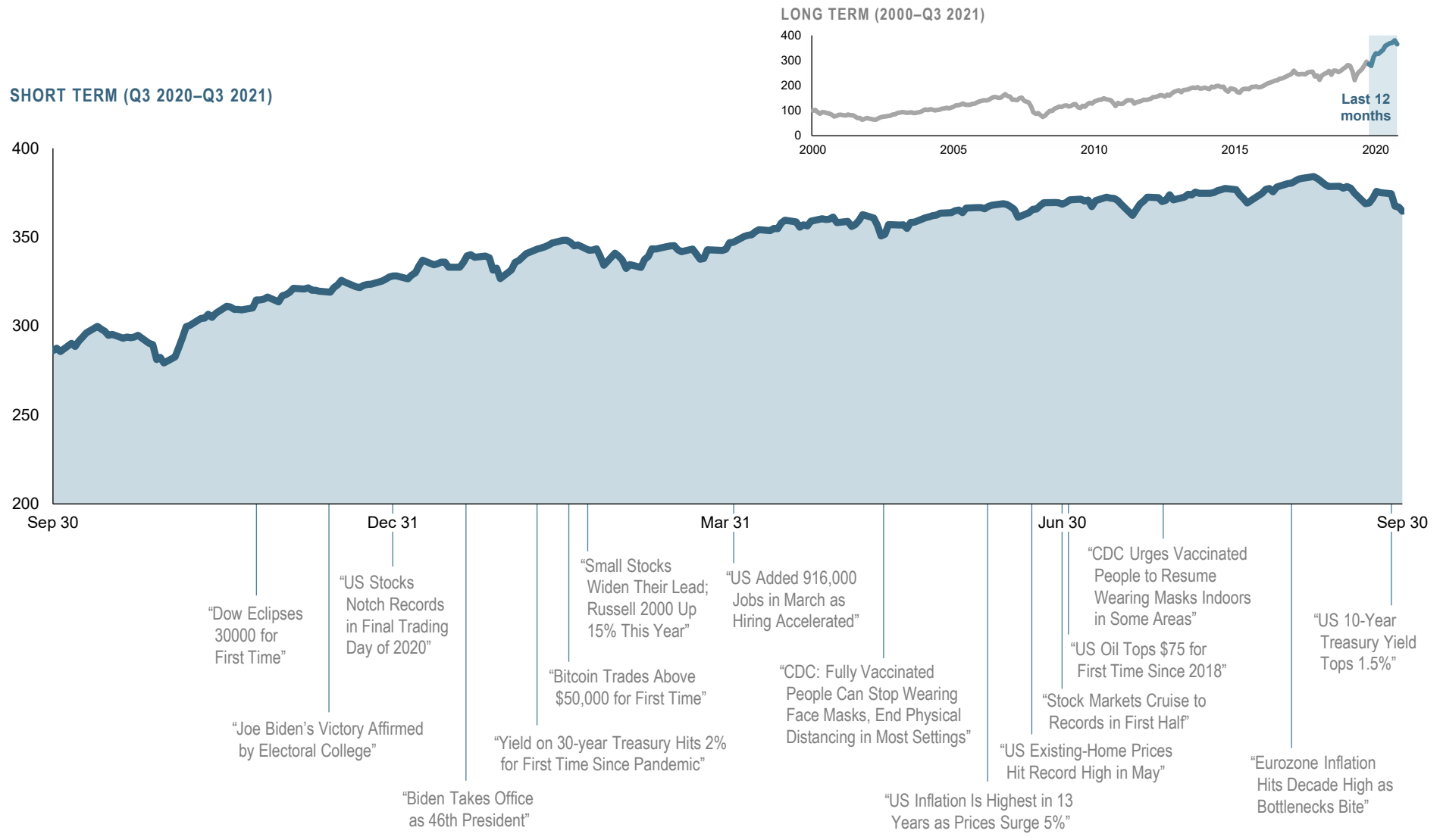
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**



World Stock Market Performance

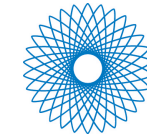
MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.

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World Asset Classes

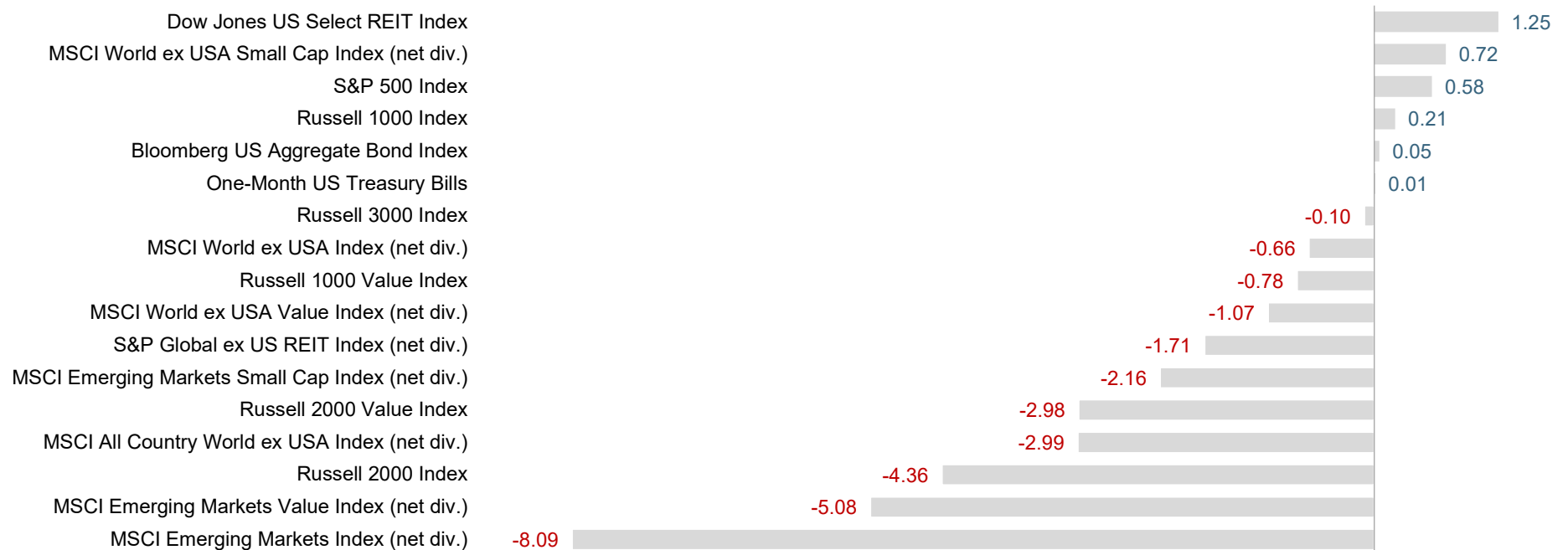
Third Quarter 2021 Index Returns (%)

Equity markets around the globe declined in the third quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets.

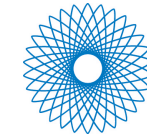
Value performance was mixed in the US, with small value outperforming small growth but large value underperforming large growth. Value underperformed growth in non-US developed markets and outperformed in emerging markets.

Small caps underperformed large caps in the US but outperformed in non-US developed and emerging markets.

REIT indices outperformed equity market indices in the US and underperformed in non-US developed markets.



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Dow Jones data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).



US Stocks

Third Quarter 2021 Index Returns

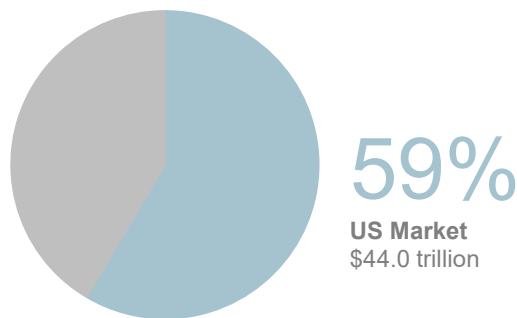
The US equity market was flat for the quarter and outperformed non-US developed markets and emerging markets.

Value underperformed growth in large cap stocks but outperformed growth in small cap stocks.

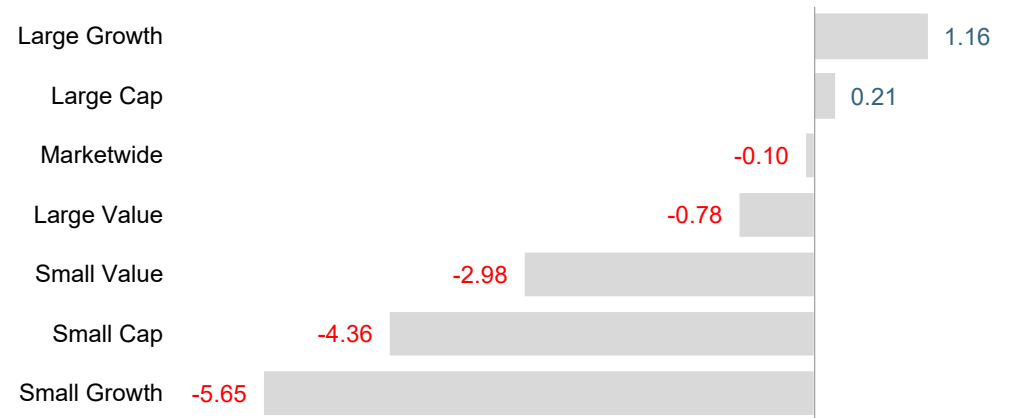
Small caps underperformed large caps.

REIT indices outperformed equity market indices.

World Market Capitalization—US

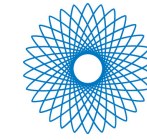


Ranked Returns (%)



| Data Series | QTR | YTD | * Annualized | | | |
|--------------|-------|-------|--------------|---------|---------|----------|
| | | | 1 Year | 3 Years | 5 Years | 10 Years |
| Large Growth | 1.16 | 14.30 | 27.32 | 22.00 | 22.84 | 19.68 |
| Large Cap | 0.21 | 15.19 | 30.96 | 16.43 | 17.11 | 16.76 |
| Marketwide | -0.10 | 14.99 | 31.88 | 16.00 | 16.85 | 16.60 |
| Large Value | -0.78 | 16.14 | 35.01 | 10.07 | 10.94 | 13.51 |
| Small Value | -2.98 | 22.92 | 63.92 | 8.58 | 11.03 | 13.22 |
| Small Cap | -4.36 | 12.41 | 47.68 | 10.54 | 13.45 | 14.63 |
| Small Growth | -5.65 | 2.82 | 33.27 | 11.70 | 15.34 | 15.74 |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved.



International Developed Stocks

Third Quarter 2021 Index Returns

Developed markets outside the US declined less than 1% for the quarter and underperformed US equities but outperformed emerging markets.

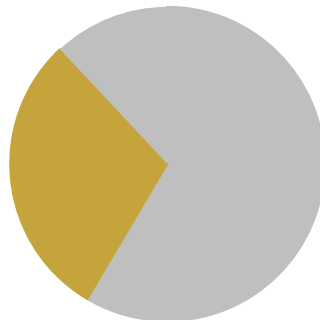
Value underperformed growth.

Small caps outperformed large caps.

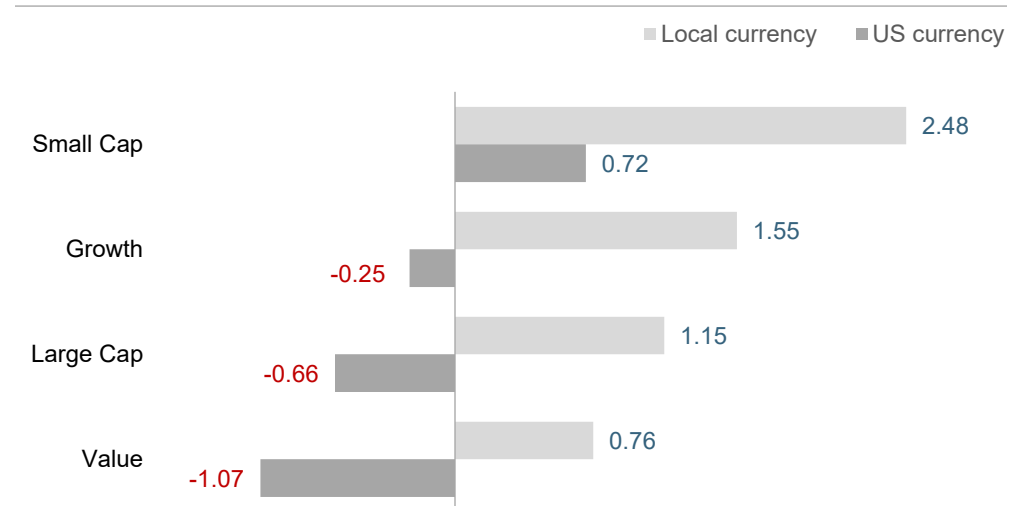
World Market Capitalization—International Developed

30%

International
Developed Market
\$22.2 trillion



Ranked Returns (%)

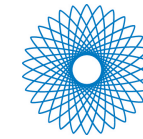


Period Returns (%)

| Asset Class | QTR | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|-------|--------|----------|----------|-----------|
| Small Cap | 0.72 | 10.71 | 30.14 | 9.50 | 10.33 | 10.03 |
| Growth | -0.25 | 6.99 | 20.50 | 11.93 | 11.21 | 9.64 |
| Large Cap | -0.66 | 9.19 | 26.50 | 7.87 | 8.88 | 7.88 |
| Value | -1.07 | 11.15 | 32.60 | 3.45 | 6.25 | 5.95 |

* Annualized

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Emerging Markets Stocks

Third Quarter 2021 Index Returns

Emerging markets posted negative returns for the quarter, underperforming the US and non-US developed equity markets.

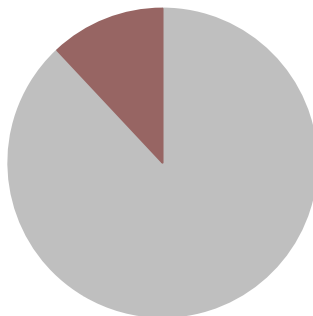
Value outperformed growth.

Small caps outperformed large caps.

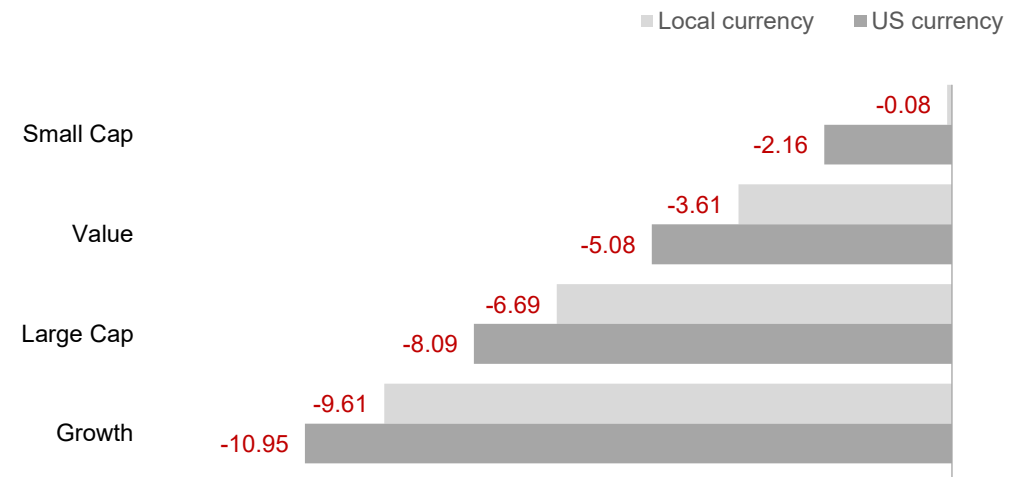
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$9.0 trillion



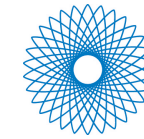
Ranked Returns (%)



Period Returns (%)

| Asset Class | QTR | YTD | 1 Year | * Annualized | | |
|-------------|--------|-------|--------|--------------|----------|-----------|
| | | | | 3 Years* | 5 Years* | 10 Years* |
| Small Cap | -2.16 | 17.20 | 43.24 | 13.11 | 9.75 | 7.21 |
| Value | -5.08 | 4.43 | 28.43 | 4.77 | 6.87 | 3.79 |
| Large Cap | -8.09 | -1.25 | 18.20 | 8.58 | 9.23 | 6.09 |
| Growth | -10.95 | -6.46 | 9.28 | 12.15 | 11.36 | 8.23 |

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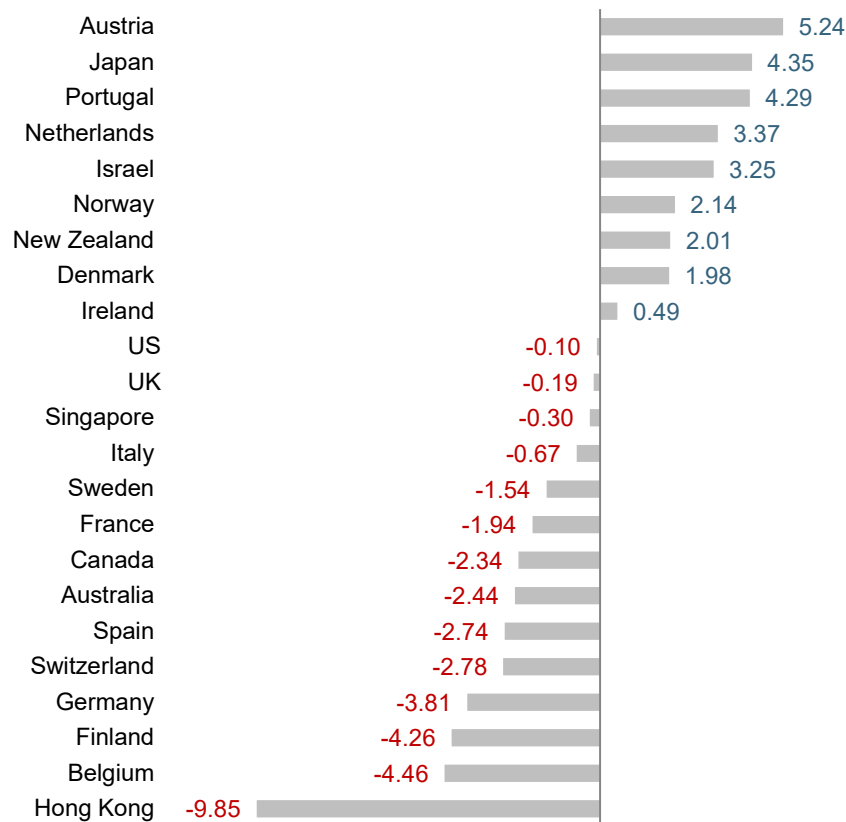


Select Market Performance

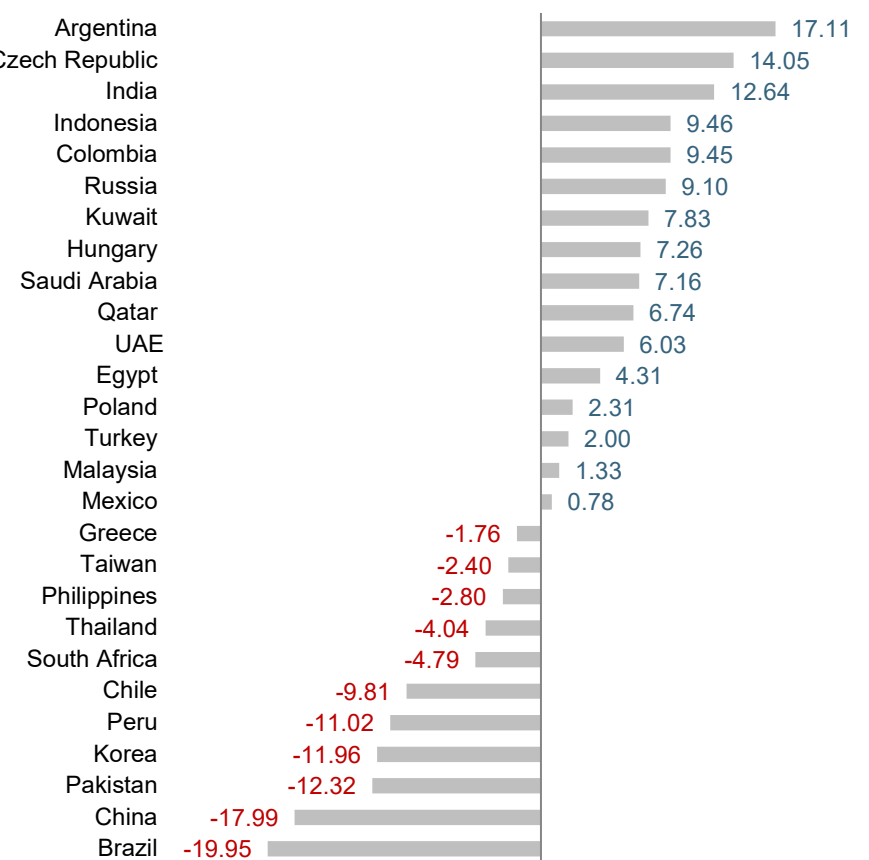
Third Quarter 2021 Index Returns

In US dollar terms, Austria and Japan recorded the highest country performance in developed markets, while Belgium and Hong Kong posted the lowest returns for the quarter. In emerging markets, Argentina and the Czech Republic recorded the highest country performance, while Brazil and China posted the lowest performance.

Ranked Developed Markets Returns (%)

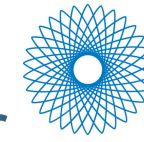


Ranked Emerging Markets Returns (%)



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

MSCI Index returns are in USD net of dividend withholding taxes. Country returns are the country component indices of the MSCI All Country World ex USA IMI for all countries except the United States, where the Russell 3000 index is used instead. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

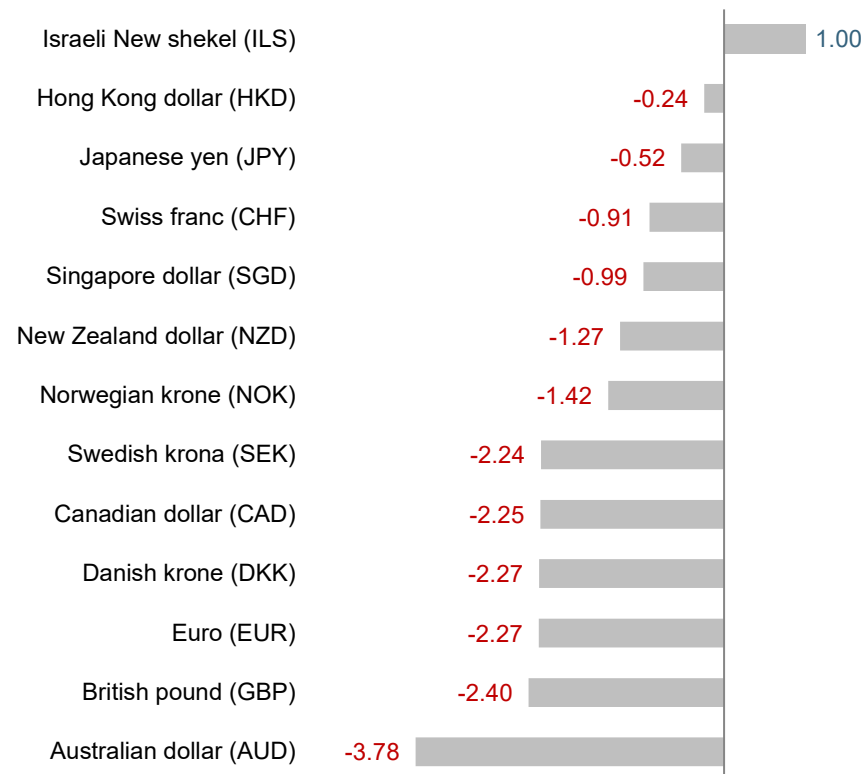


Select Currency Performance vs. US Dollar

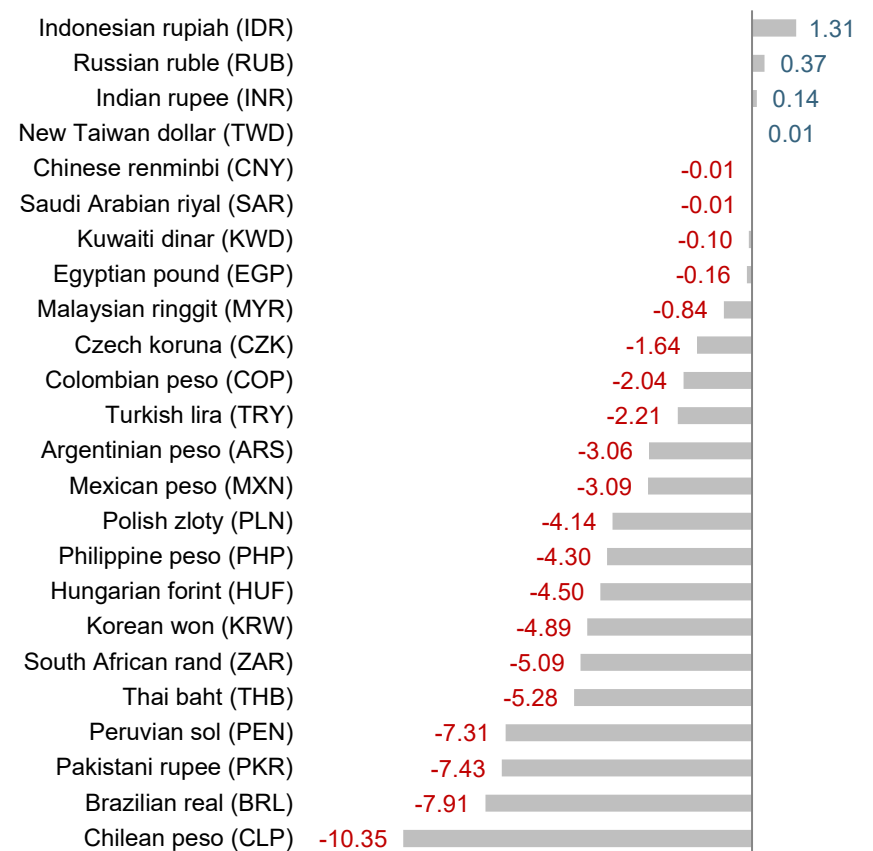
Third Quarter 2021

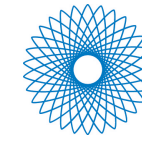
In emerging and developed markets, most currencies depreciated vs. the US dollar.

Ranked Developed Markets (%)



Ranked Emerging Markets (%)





Real Estate Investment Trusts (REITs)

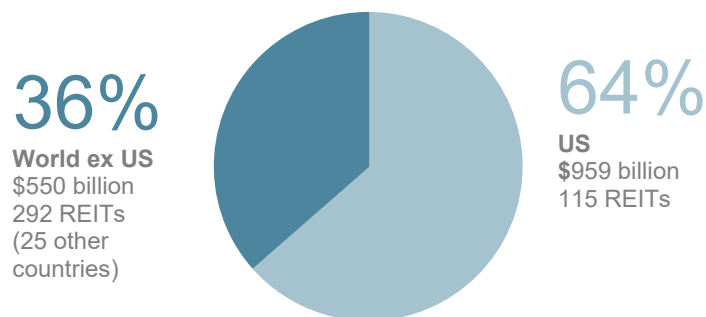
Third Quarter 2021 Index Returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)



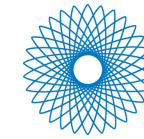
Total Value of REIT Stocks



Period Returns (%)

| Asset Class | * Annualized | | | | | |
|--------------------|--------------|-------|--------|----------|----------|-----------|
| | QTR | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| US REITS | 1.25 | 24.48 | 40.56 | 8.32 | 5.68 | 10.53 |
| Global ex US REITS | -1.71 | 7.80 | 24.01 | 4.52 | 3.28 | 6.81 |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



Commodities

Third Quarter 2021 Index Returns

The Bloomberg Commodity Index Total Return returned 6.59% for the third quarter of 2021.

Natural Gas and Cotton were the best performers, gaining 58.63% and 24.62%, respectively.

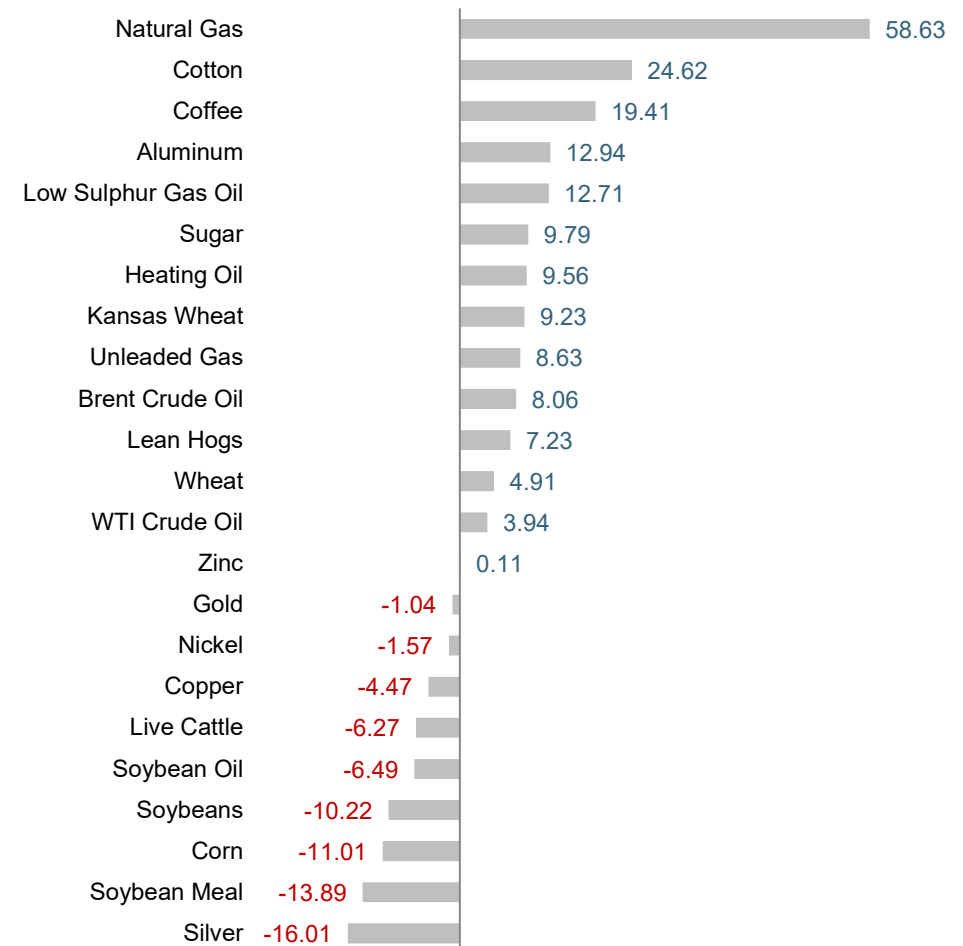
Silver and Soybean Meal were the worst performers, declining 16.01% and 13.89%, respectively.

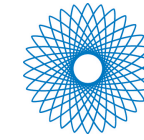
Period Returns (%)

* Annualized

| Asset Class | QTR | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|------|-------|--------|----------|----------|-----------|
| Commodities | 6.59 | 29.13 | 42.29 | 6.86 | 4.54 | -2.66 |

Ranked Returns (%)





Fixed Income

Third Quarter 2021 Index Returns

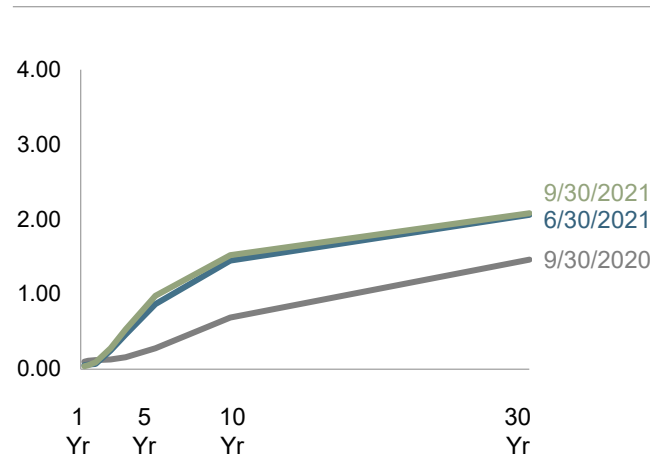
Interest rates in the US Treasury fixed income market generally increased during the third quarter. The yield on the 5-year Treasury note rose 12 basis points (bps), ending at 1.00%. The yield on the 10-year Treasury note increased 8 bps to 1.54%. The 30-year Treasury Bond yield rose 1 bp to finish at 2.05%.

On the short end of the curve, the 1-month Treasury bill yield increased 2 bps, ending at 0.07%, while the 1-year Treasury bill yield decreased 1 bp to 0.09%. The 2-year Treasury note yield increased 5 bps to 0.30%.

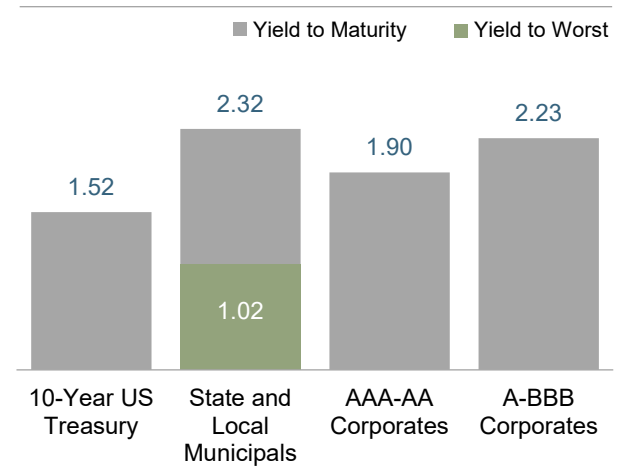
In terms of total returns, short-term corporate bonds returned 0.11%. Intermediate-term corporate bonds gained 0.08%.

The total return for short-term municipal bonds was 0.08%, while intermediate munis lost 0.04%. Revenue bonds performed in line with general obligation bonds for the quarter.

US Treasury Yield Curve (%)



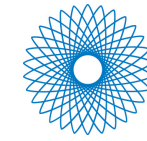
Bond Yield across Issuers (%)



Period Returns (%)

| Asset Class | QTR | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--|-------|-------|--------|----------|----------|-----------|
| Bloomberg US TIPS Index | 1.75 | 3.51 | 5.19 | 7.45 | 4.34 | 3.12 |
| Bloomberg US High Yield Corporate Bond Index | 0.89 | 4.53 | 11.28 | 6.91 | 6.52 | 7.42 |
| Bloomberg US Government Bond Index Long | 0.46 | -7.40 | -10.13 | 9.17 | 3.34 | 4.40 |
| Bloomberg US Aggregate Bond Index | 0.05 | -1.55 | -0.90 | 5.36 | 2.94 | 3.01 |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 0.02 | -0.28 | -0.11 | 2.77 | 1.90 | 1.75 |
| ICE BofA 1-Year US Treasury Note Index | 0.02 | 0.11 | 0.17 | 1.88 | 1.46 | 0.89 |
| ICE BofA US 3-Month Treasury Bill Index | 0.01 | 0.04 | 0.07 | 1.18 | 1.16 | 0.63 |
| Bloomberg Municipal Bond Index | -0.27 | 0.79 | 2.63 | 5.06 | 3.26 | 3.87 |
| FTSE World Government Bond Index 1-5 Years | -1.00 | -3.06 | -0.93 | 2.18 | 0.98 | -0.21 |

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2021 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2021 ICE Data Indices, LLC. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



Global Fixed Income

Third Quarter 2021 Yield Curves

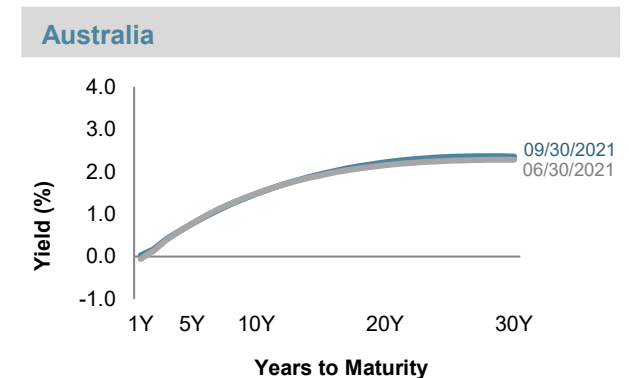
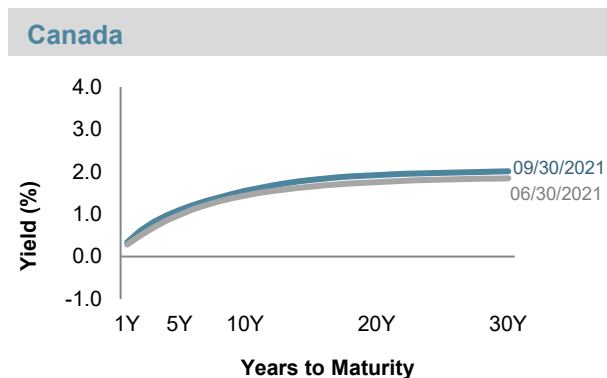
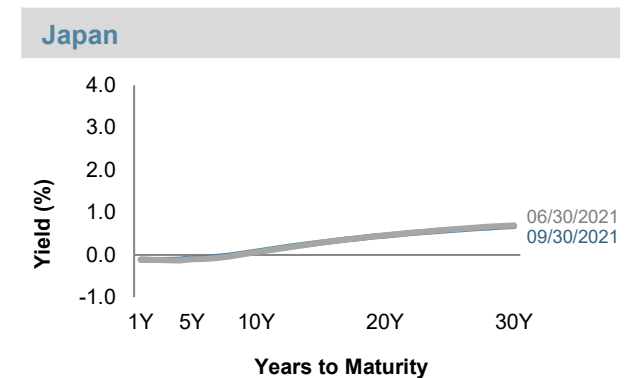
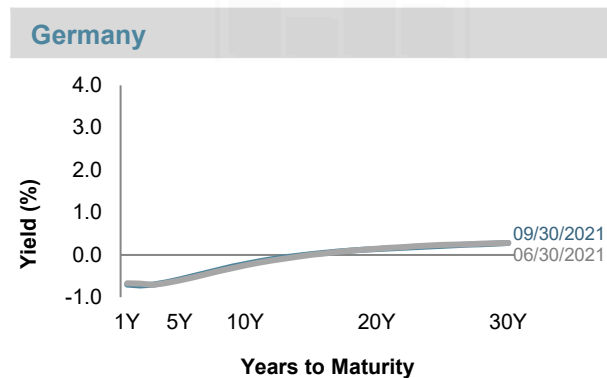
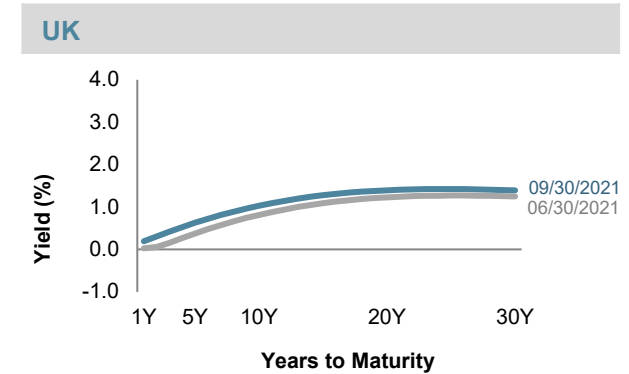
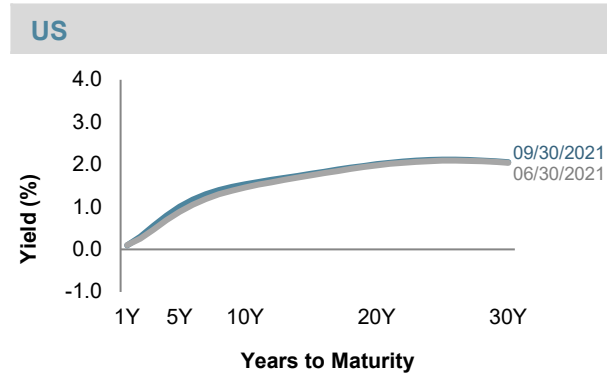
Government bond yields in the global developed markets generally increased for the quarter.

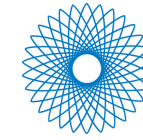
Term premiums were mixed in developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan and Germany.

Changes in Yields (bps) since 6/30/2021

| | 1Y | 5Y | 10Y | 20Y | 30Y |
|-----------|------|------|------|------|------|
| US | -1.0 | 11.9 | 7.6 | 2.7 | 1.0 |
| UK | 16.7 | 25.2 | 21.6 | 16.6 | 14.4 |
| Germany | -2.7 | 2.3 | 3.6 | -0.8 | 0.2 |
| Japan | -0.1 | 2.0 | 1.2 | -0.3 | -1.8 |
| Canada | 5.4 | 11.2 | 10.7 | 16.5 | 16.8 |
| Australia | 8.3 | -0.6 | -1.2 | 6.7 | 8.1 |





Impact of Diversification

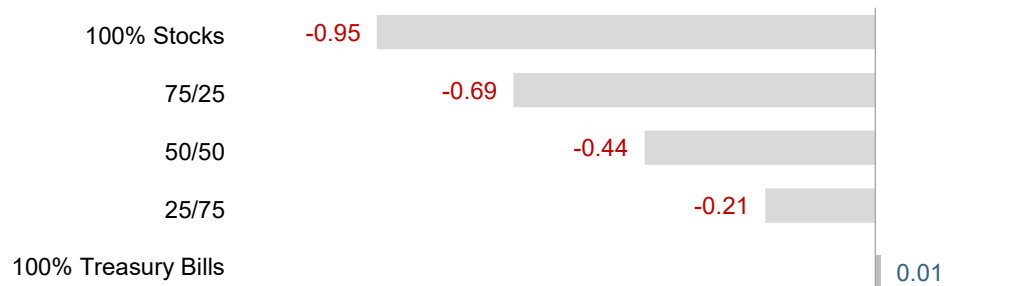
Third Quarter 2021

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time

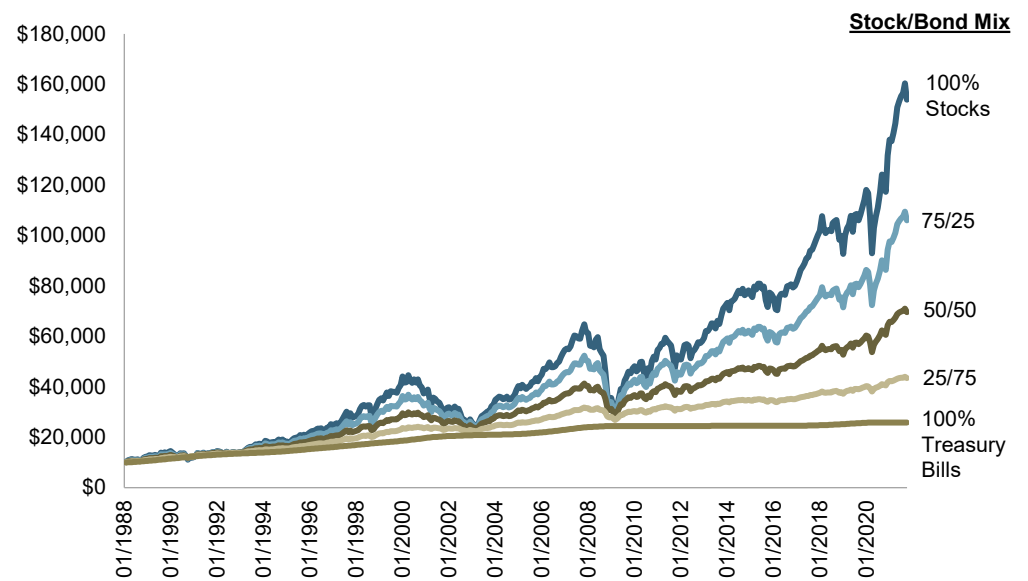
Period Returns (%)

| Asset Class | | | | | | * Annualized |
|---------------------|-------|--------|----------|----------|-----------|----------------------------|
| | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* | 10-Year STDEV ¹ |
| 100% Stocks | 11.49 | 27.98 | 13.14 | 13.77 | 12.50 | 13.46 |
| 75/25 | 8.57 | 20.59 | 10.34 | 10.68 | 9.58 | 10.09 |
| 50/50 | 5.68 | 13.47 | 7.38 | 7.53 | 6.61 | 6.72 |
| 25/75 | 2.83 | 6.62 | 4.28 | 4.31 | 3.60 | 3.35 |
| 100% Treasury Bills | 0.02 | 0.04 | 1.05 | 1.05 | 0.55 | 0.23 |

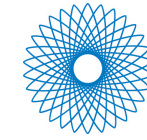
Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2021, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).



The 50-Year Battle for a Better Way to Invest

Third Quarter 2021

David Booth
Executive Chairman and Founder

Mac McQuown recruited me to help create the very first indexed portfolio in 1971. I was 24 years old and living in San Francisco, where more people my age were following the Grateful Dead than the stock market. The think tank Mac set up felt like a start-up, although it was long before anyone used that term. We were excited by the opportunity to turn academic research into a new way of investing. Many people thought we would fail. Some even called what we were trying to do “un-American.”

But we didn’t worry about the attacks; we focused on how indexing could improve the lives of investors. The fund offerings available at the time were actively managed portfolios that tried to outguess the market and were expensive, lacked diversification, and performed poorly. So-called star managers sold investors on their ability to win against the market; they sold products as opposed to solutions. Problem was, there was no compelling evidence they could reliably beat the market. We were confident that indexing—a highly diversified, low-cost investment solution that relied not on a manager’s ability to pick winners but on the human ingenuity of hundreds or thousands of companies—would change lives for the better.

Fifty years later, \$9.1 trillion is invested in index mutual funds and exchange-traded funds (ETFs).¹ This represents 51% of the total \$17.9 trillion in equity ETFs and mutual funds. Six of the original academic consultants Mac hired to work on that first index fund went on to win Nobel Prizes. I have worked with four of them at Dimensional.

When we started Dimensional in 1981, indexing was beginning to catch on. But the primary index used was the S&P 500, made up of 500 of the largest companies in America. My colleague Rex Sinquefeld and I thought investors

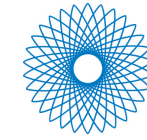
could be better served by adding small capitalization stocks to the mix, since they were underrepresented in portfolios and offered diversification and expected return benefits. We were the first to treat small cap companies as a separate asset category. It was an exciting idea, but it made many people nervous. An academic paper circulated that said the performance of small cap stocks couldn’t be captured because of trading costs. Many academics, even those who worked with us, were skeptical that we could deliver on our big idea of creating a small cap strategy. (After 40 years of results, the skepticism about our ability to deliver has subsided.)

There was perceived risk in trading against professional investors who might take advantage of us with all their knowledge and experience. But we found a way to turn trading to our advantage: flexibility.

Flexibility is one of the key differences between index investing and Dimensional Investing and where so much of our innovation has taken place. Because we weren’t beholden to tracking any particular index, we could harness the power of markets, even beat the indices. The protocols, systems, and teams we’ve developed—as well as the experience we’ve accumulated—have shown to be applicable to a wide range of strategies, from fixed income to value to international investing.

So what happens next? Where will we be in 50 years? I’ve built a career in finance without making predictions, but I do believe that technological innovation is lowering barriers to entry for everyday investors and enabling greater personalization. In 1971, there was one index fund. In 1981, there was one small cap strategy. Today, investors have more access to customized portfolios than ever before.

1. Data obtained from Morningstar on July 6, 2021. The sample includes US-domiciled equity mutual funds and ETFs. Funds of funds and money market funds are excluded.



The 50-Year Battle for a Better Way to Invest

(continued from page 18)

Sitting down with a trusted advisor, investors can develop a plan and build a portfolio solution that gives them the best chance of having a good investment experience. For example, many people are interested in environmental, social, and governance (ESG) strategies, but ESG can mean different things to different people. So rather than choosing from what exists, new technology allows you to get exactly what you want.

For me, working in finance has always been about improving people's lives. We created indexing to improve upon stock picking. We created Dimensional to improve upon indexing. Each day we strive to help our clients in new and better ways. That's why I thought 1971 was the most exciting time to be in this business. Then, I thought 1981 was the most exciting time to be in this business. But the truth is, it's every day, as long as we're able to keep helping people in innovative ways.

Risks include loss of principal and fluctuating value. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small and micro cap securities are subject to greater volatility than those in other asset categories.

John "Mac" McQuown is a member of the Board of Directors of the general partner of Dimensional Fund Advisors LP.

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