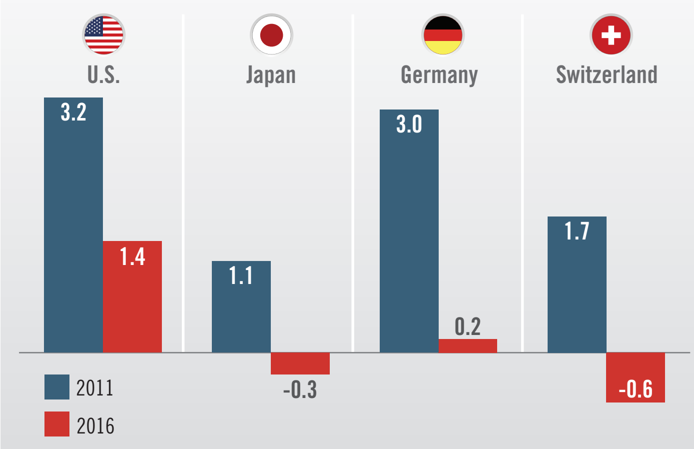
Q2 2016: Lurching Forward

Equity markets have been following the path of one step back, two steps forward. Sharp market declines have been followed by quick recoveries. Yet while U.S. stocks have generally moved higher, it remains an unsettling time for investors trying to make sense of the macro muddle—Brexit, the U.S. election, negative bond yields, jobs and wages, China, etc. The search for a balance of income, growth, and safety in their portfolios continues.

Running Away from Yield

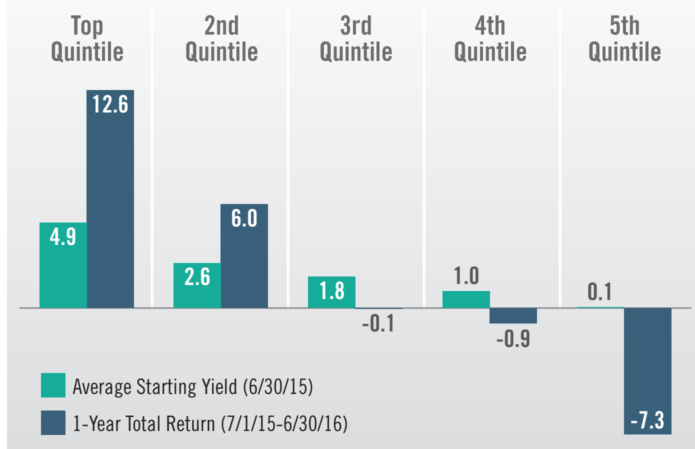
10 Year Government Bond Yields (%)[1]



- Negative government bond yields in major markets is unprecedented in financial history.

Running Toward Yield

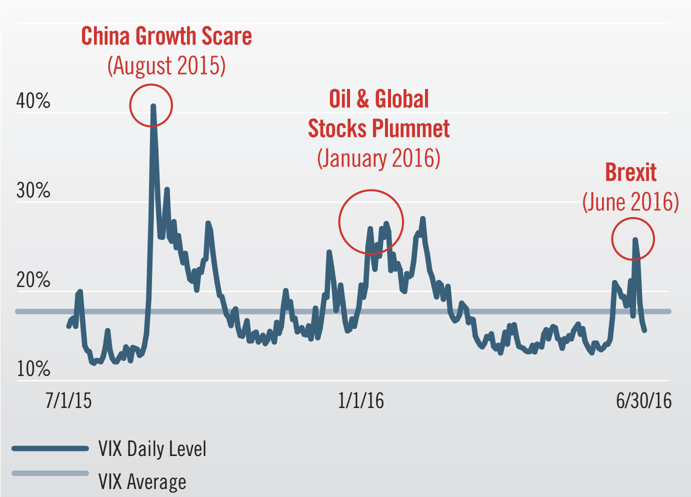
Yield & Returns of S&P 500® Stocks (%)[2]



- Investors bid up higher yielding stocks in utilities, staples, and real estate, while shunning stocks with lower yields.

Up and Down and Up and…

VIX Index[3]



- Market volatility is "spiking" more frequently than is historically normal. But, markets are snapping back quickly, making bargain hunting difficult.

Performance of a Diversified Portfolio[4]

Year to Date

3.9%

- In the first half of 2016, U.S. stocks, bonds, and alternatives (commodities and real estate) lifted the diversified portfolio. A 2.6% gain in Q2 followed a 1.3% return in Q1.
- A strong dollar and tepid results from Europe and Japan have driven weakness in international equities.
- The price of oil nearly doubled off of its February low, driving very strong returns for energy stocks. Value stocks have continued their resurgence over growth stocks.
- The longer-term results from a diversified portfolio have been less appealing. It gained **0.4%** and **0.7%** over the past one and two years, respectively.

[1]Source: Bloomberg. 2011 data as of 7/1/2011. 2016 data as of 7/6/2016.
[2]Source: Bloomberg. As of 6/30/16.
[3]Source: Bloomberg. As of 6/30/16.
[4]Source: Virtus Performance Analytics. Period shown is 1/1/2016–6/30/2016. Returns compounded monthly. See following page for composition and definitions.
Past performance is not indicative of future results.

VIRTUS INVESTMENT PARTNERS

VITAL CONSIDERATIONS

1 Risk Management

Protecting against losses should be a primary concern for investors. That means asking hard questions about whether an investment's potential returns are justified by its anticipated risks. It also means appreciating that a key risk we must manage is not reaching our financial goals, which could stem from a portfolio that is too conservatively positioned.

2 Diversification

Predicting the top performers with consistency is impossible. Thus, diversification remains the cornerstone principle behind any sound portfolio. But, just because something works much of the time doesn't mean that it works all of the time. Sometimes a portfolio will have only a slim allocation to a "hot" market; other times, many markets will cluster around the same returns, resulting in not much being gained from spreading one's bets. Nonetheless, there's no substitute for diversification when attempting to achieve our long-term financial goals.

3 Investor Behavior

Ultimately, our long-term investment results are driven by the good and bad decisions we make over the course of a lifetime—more so than picking the right stock, bond, or fund. Because humans are hardwired with a litany of emotional and cognitive biases, we sometimes make regrettable choices. Perhaps we buy at the top of a market when we feel comfortable, or sell at the bottom when we are concerned. A focus on calm, patient decision making in the context of a well-defined financial plan—one with reasonable expectations—will keep investors in good stead over the long haul.

Virtus Has Answers. Virtus Investment Partners takes pride in offering a broad and growing array of carefully curated solutions geared toward successfully meeting well-defined investment objectives. These include **lower correlated strategies** to fortify client portfolios by dampening overall volatility, allowing for calmer, better decision making; **opportunistic investments,** to capitalize on global market trends; **portfolio-centric solutions** which may hedge potential losses without sacrificing too much upside; and **evergreen alpha opportunities**, where sound fundamental analysis trumps market timing.

The **Diversified Portfolio** assumes the following weights: 25% in the S&P 500®, 10% in the Russell 2000®, 15% in the MSCI EAFE®, 5% in the MSCI EM, 25% in the Barclays U.S. Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index, and 5% in the NAREIT Equity REITs Index. Assumes annual rebalancing. Data represents total return for stated period. The Diversified Portfolio is not representative of any Virtus portfolio. Investors should consult their financial professional to identify suitable portfolio allocations. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among different asset classes reduces risk.

Index Definitions— The **VIX (Chicago Board Options Exchange (CBOE) Volatility Index)** shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The **MSCI EAFE® Index** (net) is a free-float-adjusted market-capitalization weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. The index is calculated on a total return basis with net dividends reinvested. The **MSCI Emerging Markets Index** (net) is a free float-adjusted market capitalization-weighted index designed to measure equity market performance in the global emerging markets. The index is calculated on a total return basis with net dividends reinvested. The **Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible. The **Barclays Global High Yield Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities. The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities and represents 22 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc. The **FTSE NAREIT Equity REITs Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.