WEEKLY MARKET REVIEW

DECEMBER 13, 2016

In This Edition

- *Disregard the U.S. all-time high hype.*
- *Evidence for market optimisim.*
- *The value of smart beta ETFs.*

CLS INVESTMENTS

Market Performance

Equities	LAST WEEK	QTD	YTD '16
Total U.S. Market[1]	+3.37%	+5.28%	+13.90%
Domestic Large-Cap Equity[2]	+3.13%	+4.67%	+12.87%
Domestic Small-Cap Equity[3]	+5.64%	+11.17%	+23.91%
International Equity[4]	+2.91%	-1.07%	+4.69%
Developed International Equity[5]	+2.91%	-1.14%	+0.57%
Emerging Market Equity[6]	+2.91%	-2.70%	+12.89%
Fixed Income	**LAST WEEK**	**QTD**	**YTD '16**
U.S. Bonds[7]	-0.26%	-3.45%	+2.14%
Cash Equivalent[8]	0.00%	+0.04%	+0.23%
Commodities	**LAST WEEK**	**QTD**	**YTD '16**
Commodity[9]	+1.28%	+3.36%	+12.54%

[1]Russell 3000 [2]S&P 500 Index [3]Russell 2000 Index [4]MSCI ACWI ex-U.S. Index [5]MSCI EAFE Index [6]MSCI Emerging Markets Index [7]Barclays Capital U.S. Aggregate Bond Index [8]Barclays Capital 1-3 Month U.S. Treasury Bill Index[9]Bloomberg Commodity

As of 12/09/2016

Week in Review

Global equities continued to move higher last week as better economic data and the ongoing monetary stimulus by the European Central Bank was in focus for the markets. U.S. stocks, as defined by the Russell 3000 Index, were higher by 3.4% with small-caps outperforming large-caps by 2.5%. International equities also finished stronger with the MSCI All Country World ex-U.S. Index clsoing higher by 2.9%. Bonds were slightly lower as the U.S. 10-year Treasury yield moved higher by 7 basis points to yield 2.47%.

Why Global Investors Shouldn't Care About U.S. All-Time Highs

You may have noticed the "media machine" has picked up again, spouting headlines about U.S. stocks moving to all-time highs. Much of the recent movement has been an expectations game as we roll into 2017 with a new U.S. president and Congress.

As a result, CLS has received many inquiries over the past week that usually go something like this: "When you receive my assets to manage, knowing that the U.S. markets are at all-time highs, should we wait for a pullback or consider dollar-cost averaging?"

The short answer is investors tend to be better off remaining fully invested than waiting for the perfect moment to enter the market. Why is that? First of all, according to a recent CLS study, even when investors invest at the market's absolute high each year, they still outpace the investors who remained in cash by about 6% per year. Second, as a Vanguard study showed, over time, lump sum investing tends to be a superior investing approach rather than dollar-cost averaging because stocks deliver a more beneficial rate of return than cash. Finally, it is important for investors to remember that CLS is a global asset manager and will maintain a diversified equity allocation across all markets, not just the U.S markets. In fact, many international markets have come off their all-time highs and represent a lot of opportunity with below-average valuations.

Ultimately, investors should disregard the hype behind U.S. all-time highs and instead remain focused on the long-term opportunities available globally.

Joe Smith, CFA
Senior Market Strategist

In 2015, Joe Smith, CFA, joined CLS in the role of Senior Market Strategist. Prior to joining CLS, Mr. Smith worked at Russell Investments, where he served as an Analyst responsible for asset allocation research, portfolio construction, optimization design, and risk management research. He later joined Russell ETFs as Manager of ETF Product Development and Research, a role in which he developed quantitative indexing strategies implemented as ETFs. Mr. Smith also worked for Charles Schwab Investment Management as Senior Product Specialist supporting product management activities for the Schwab ETFs fund family. In addition, he worked for CLS during the summer of 2014 as an Investment Analyst.

Mr. Smith received his Bachelor of Science in Economics from the University of Washington. He later received his Master of Business Administration (MBA) degree from the Tepper School of Business at Carnegie Mellon University.

Mr. Smith holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Society of San Francisco, Pittsburgh, and Nebraska. He also is a member of the Society of Quantitative Analysts.

Looking at the Market as a Glass Half Full

2016 has turned out to be a remarkable year with various twists and turns along the way in the markets. For many investors, it may have felt like it wasn't a good year to be globally invested. However, the numbers suggest many investors were actually up on average, not down.

Evidence #1: Emerging markets and U.S. equities have delivered similar performance

Emerging markets have been a clear winner in 2016, returning 13.1% as of this writing on December 9. That compares with the U.S., which has a slight edge at 13.4% over the same period. In fact, before the U.S. elections, emerging markets had enjoyed an even more pronounced run as commodity prices moved higher and economic growth in Asia defied negative expectations from 2015. Not much has changed for emerging markets. Valuations, monetary policy, and fiscal considerations are likely to look attractive for emerging markets going into 2017.

Evidence #2: Bonds are still positive despite rates moving higher

There has been a lot of negative talk surrounding bonds this year with the anticipated rate hikes by the Federal Reserve (Fed). Despite this, fixed income has delivered fairly positive results even with yields incrementally moving higher (most of which came post-election) and still being up 2.5% as of December 9. More specifically, being allocated in spread sectors, such as emerging market debt and high yield, has lifted returns for those looking for an extra bit of yield pick-up globally. Bonds are still going to be an important opportunity for investors to diversify their risk and supplement their income needs into the future.

Evidence #3: Commodities bounced back from 2015 lows

Most of us have probably long forgotten that oil hit a low point of $26/barrel earlier this year (February 11, 2016). Commodities overall have roared back as supply has reduced and demand has risen, returning around 11.8% year-to-date. The run for commodities is likely to continue as more demand-side considerations play into economic growth stories both domestically and abroad over the next few years.

Evidence #4: Value investing is back in favor

Another under-the-radar piece of evidence is that value-tilted portfolios have made a comeback in 2016. This has benefited many investors as cyclical stocks, such as financials, have reaped the benefits of improving economic numbers and higher interest rates. The MSCI ACWI Value Index has outperformed the MSCI ACWI by 5% so far this year. Value will likely continue to benefit as overall economic numbers improve around the world.

Putting it all together, investors should remember that being invested means it is important to not only remain fully invested, but also avoid measuring outcomes based on one portion of the markets — namely the U.S. Remaining a disciplined, global investor over the long haul can help many investors take comfort in their investment goals being on track.

Beating Broad Market Averages with Smart Beta ETFs

Smart beta ETFs continue to serve a more important role in CLS portfolios. In fact, CLS is one of the largest users of smart beta ETFs within the ETF industry. Why is that the case? Smart beta ETFs are unique because they provide a clever way to access targeted investment exposures that capture the essence of what many investors look for in an active manager. These ETFs are generally designed to use a set of rules to determine the securities held in the portfolio without allowing for subjective judgement and style drift to come into play.

One such ETF that CLS has been allocating to extensively, in order to increase our smart beta exposure to value, is the PowerShares FTSE RAFI Emerging Markets ETF (PXH). PXH is unique in that it doesn't simply stick with one valuation characteristic to define whether or not a company is cheap or expensive. Each stock in the targeted universe is measured based on how cheap or expensive it is relative to book value, cash flows of the firm, revenues generated by the firm, and dividends paid. This information is aggregated into a composite score for each stock, which then fundamentally weighs each security based on its composite score relative to the rest of the target universe.

So, what is the takeaway from this? Investors should know that CLS continues to enhance the way we deliver value, not just with Risk Budgeting and active asset allocation, but also by security selection within the ETF universe. Smart beta ETFs provide useful tools to go beyond investing in the averages associated with a broad market index. In many ways, they provide the best of both worlds — the intelligent insight of rules-based active management and the consistency and low cost of passive investing.

The Russell 3000 Index is an unmanaged index considered representative of the U.S. stock market. The index is composed of the 3,000 largest U.S. stocks. The S&P 500® Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Russell 2000® is an index comprised of the 2,000 smallest companies on the Russell 3000 list and offers investors access to small-cap companies. It is a widely recognized indicator of small capitalization company performance. The MSCI All-Countries World Index, excluding U.S. (ACWI ex US) is an index considered representative of stock markets of developed and emerging markets, excluding those of the US. The MSCI EAFE Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East. The MSCI Emerging Markets Index is a composite index which tracks performance of large and mid-cap firms across 21 countries classified as emerging market countries. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Barclay's Capital 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. The Bloomberg Commodity Index is made up of 22 exchange-traded futures on physical commodities and represents 20 commodities that are weighted to account for economic significant and market liquidity. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

The graphs and charts contained in this work are for informational purposes only. No graph or chart should be regarded as a guide to investing. This material does not constitute any representation as to the suitability or appropriateness of any security, financial product or instrument. There is no guarantee that investment in any program or strategy discussed herein will be profitable or will not incur loss. This information is prepared for general information only. It does not have regard to the specific investment objectives, financial situation, and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that security values may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not a guide to future performance. Individual client accounts may vary. Investing in any security involves certain non-diversifiable risks including, but not limited to, market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any specific, or diversifiable, risks associated with particular investment styles or strategies.

At certain places, we offer direct access or 'links' to other Internet websites. These sites contain information that has been created, published, maintained or otherwise posted by institutions or organizations independent of CLS Investments, LLC (CLS). CLS does not endorse, approve, certify or control these websites and does not assume responsibility for the accuracy, completeness or timeliness of the information located there. Visitors to these websites should not use or rely on the information contained therein until consulting with their finance professional. CLS does not necessarily endorse or recommend any product or service described at these websites.

2765-CLS-12/13/2016