CLS's WEEKLY 3

What You Need To Know About the Markets

AUGUST 29, 2017

In This Edition

1. How CLS can add value.
2. Where CLS has conviction.
3. Be greedy when others are fearful.

CLS INVESTMENTS

Market Performance

Equities	LAST WEEK	QTD	YTD '17
Total U.S. Market[1]	+0.85%	+0.75%	+9.75%
Domestic Large-Cap Equity[2]	+0.75%	+1.14%	+10.58%
Domestic Small-Cap Equity[3]	+1.46%	-2.54%	+2.32%
International Equity[4]	+1.13%	+3.99%	+18.65%
Developed International Equity[5]	+0.61%	+2.67%	+16.84%
Emerging Market Equity[6]	+2.46%	+8.00%	+27.91%
Fixed Income	**LAST WEEK**	**QTD**	**YTD '17**
U.S. Investment Grade Bonds[7]	+0.16%	+1.08%	+3.38%
Cash Equivalent[8]	+0.02%	+0.15%	+0.45%
Commodities	**LAST WEEK**	**QTD**	**YTD '17**
Commodity[9]	+0.09%	+1.00%	-4.31%

[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]Bloomberg Barclays Capital U.S. Aggregate Bond Index [8]Bloomberg Barclays Capital 1-3 Month U.S. Treasury Bill Index[9]Bloomberg Commodity Index

As of 8/18/2017

Week in Review

After a period of (relatively) heightened volatility, the markets regained their footing last week. In the U.S., the S&P 500 returned 0.75%, ending the week about 1.50% off the all-time closing high set earlier in the month. Small-caps fared even better with the Russell 2000 returning 1.46%. International markets continued their strong performance in 2017, with emerging markets specifically as the strongest performing broad asset class over the week. Both the bond market and commodities sector managed to eke out small gains.

All eyes were on the annual Jackson Hole Economic Policy Symposium with both Federal Reserve Chair Janet Yellen and European Central Bank President Mario Draghi speaking on Friday. Ultimately, there were no new hints regarding potential shifts in the direction of monetary policy. Other economic news included strong jobless claims, services numbers on the Purchasing Managers' Index (PMI), and output of capital goods. Weak economic reads included home prices, new home sales, and PMI manufacturing data.

Keep Those Emotions in Check!

As investment advisors, one of our most important functions is to tame the emotions of our clients and keep them focused on their long-term goals. This can be a challenging task indeed, but failing to do so may result in money being flushed down the toilet (i.e., the behavior gap). The brilliant investor Howard Marks once wrote in a quarterly memo titled "The Happy Medium:"

"The mood swings of the securities markets resemble the movement of a pendulum . . . [it swings] between euphoria and depression, between celebrating positive developments and obsessing over negatives, and thus between overpriced and underpriced. This oscillation is one of the most dependable features of the investment world, and investor psychology seems to spend much more time at the extremes than it does at the happy medium."

Eight and a half years into the recovery from the 2008 financial crisis, the battle between the bulls and bears rages on. Many investors, spoiled by an extended period of above-average returns and below-average volatility, have become complacent. With nothing but strong gains in the rearview mirror, they can only imagine more of the same on the road ahead. Others panic each time a negative story hits the newswire (more on this later), or simply continue to call for that correction that is way overdue.

CAPE Ratio Quintile	Average CAPE Ratio	Average 12m Forward Return
Bottom (Cheapest)	16.72	17.26%
2nd	20.76	16.61%
3rd	23.95	12.57%
4th	26.39	7.29%
Top (Richest)	35.76	3.85%

Returns based on the S&P 500 Total Return Index since 2/1988

Yes, that same correction that was overdue when I started at CLS in the spring of 2013.

With U.S. equity market valuations currently stretched, CLS's return expectations have been tempered. As value investors, we believe market valuations are major drivers in asset returns. This belief is illustrated in historical data.

The table above is drawn from the Shiller cyclically adjusted price-to- earnings (CAPE) ratio for each month going back approximately 30 years. We grouped the valuation levels into quintiles and then calculated the average return over the next 12 months for each quintile.

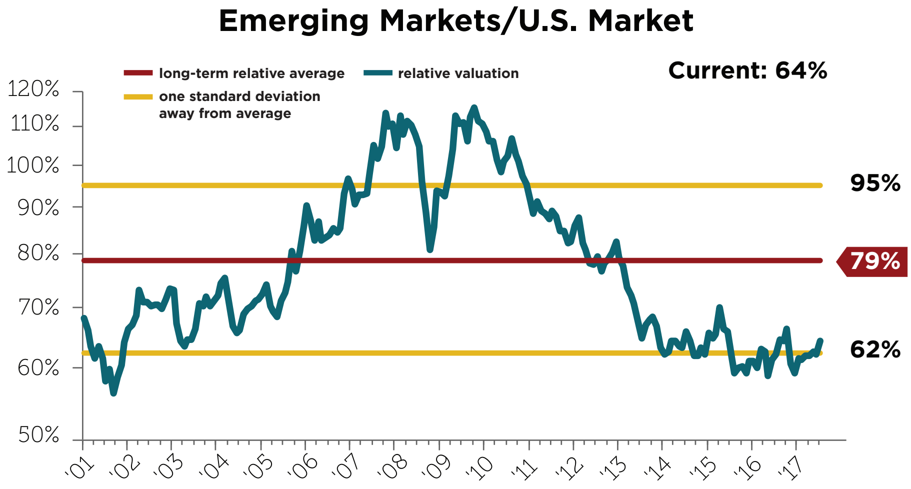
The table beautifully illustrates the effectiveness of a value approach. Monthly valuation levels ranked in the cheapest quintile had the highest return on average over the following 12 months. The returns steadily fall as the market gets more expensive. Ultimately, the lowest return, on average, occurs when the market is in the most expensive quintile.

This is an excellent chart to show a client who is either overly optimistic or fearful. Optimistic investors must remember that in this type of (valuation) environment, returns are much lower than the long-term average. Expecting the strong performance of the recent past to continue indefinitely is not realistic. Fearful investors must remember that even when valuations have been the most stretched, returns have still been firmly positive on average.

When investors' emotions approach one of the extremes of the market pendulum, they become susceptible to making irrational decisions that are inconsistent with their long-term plans. CLS and our advisors are in a unique position to educate and counsel our clients. Guiding them toward what Marks called the "happy medium" is one of our biggest opportunities to add value.

Which Asset Class Are We Most Excited About?

While our return expectations are tempered for the U.S. market, there is one area we are still excited about: emerging markets. We have been fans of this sector for a while, as it represents a crucial part of our Global Value investment theme. We illustrated how valuations drive returns earlier, and there is currently no place where they look more attractive than in emerging markets. Currently, valuations relative to the U.S. market are near their lowest levels since the turn of the century.



Source: CLS Investments, as of 7/31/2017

Emerging markets have had a strong run since the beginning of 2016, and that has certainly benefited CLS portfolios. Despite the strong performance, the asset class is still much cheaper than the rest of the world. Adding positive momentum to an attractively priced asset class is a powerful combination. CLS will continue to favor emerging markets for the foreseeable future.

This week, Portfolio Manager Kostya Etus, CFA published a piece internally that got a lot of positive feedback. I think it has a really good message and is worth sharing.

Josh Jenkins, CFA
Portfolio Manager

Joshua Jenkins manages CLS's moderate- to low-risk mutual funds and income-focused separate account strategies. He is a Portfolio Manager on the Milestone Treasury Obligations Fund, AdvisorOne CLS Growth and Income Fund, and AdvisorOne CLS Flexible Income Fund.

Mr. Jenkins joined CLS in 2013 as a Research Analyst and accepted the role of Portfolio Manager in 2015. Prior to joining CLS, he was an Analyst for Auriga, USA, LLC in New York City.

Mr. Jenkins received his Bachelor of Science degree in Finance from the University of Nebraska at Lincoln and holds the Chartered Financial Analyst (CFA) designation. He is a member of the CFA Society of Nebraska.

Did you know? Josh recently ran a 76-mile race for NorthStar Financial Services Group, LLC.

Crisis Events

By Kostya Etus, CFA

Mr. Market may give a nod to a geopolitical crisis but is really more concerned with economic strength and corporate profitability. While a crisis may weigh on the economy, it is typically not the case.

There have been a lot of headlines recently about North Korea, Venezuela, Charlottesville, and other hotbeds that could result in crisis-type situations — should investors be worried?

Ned Davis Research has compiled a list of 53 historic crisis events (listed on the next page). It evaluated U.S. market performance during the crisis reaction dates as well as performance during subsequent time periods. As expected, investor emotions (fear) resulted in a negative 6.6% average return during the crisis; but over the following one-month, three-month, six-month, and one-year periods, the returns were positive. The loss of the initial reaction netted out by about the six-month mark, and the market returned a staggeringly positive 14.2% average return over the year following a crisis.

As Warren Buffett likes to say, it is wise to be "fearful when others are greedy and greedy when others are fearful." CLS likes to take advantage of what the market provides instead of trying to predict the next crisis. If a crisis does develop, we will use it to our advantage to buy assets at a discount.

EVENT	REACTION DATES	REACTION DATE %GAIN/LOSS	DJIA* PERCENTAGE GAIN DAYS AFTER REACTION DATES			
			22	63	126	253
Panic of 1907	02/15/1907 - 11/20/1907	-42.9	6.9	14.7	29.9	48.3
Exchange Closed WWI	07/22/1914 - 12/24/1914	-10.2	10.0	6.6	21.2	80.2
Woodrow Wilson Stroke	09/25/1919 - 09/26/1919	1.3	5.7	-4.5	-16.0	-21.8
Bombing at JP Morgan Office	09/15/1920 - 09/30/1920	-5.5	2.4	-14.9	-9.5	-17.3
Market Crash of 1929	10/11/1929 - 11/13/1929	-43.7	27.3	34.1	46.0	11.8
Germany invades France	05/09/1940 - 06/22/1940	-17.1	-0.5	8.4	7.0	-5.2
Pearl Harbor	12/06/1941 - 12/10/1941	-6.5	3.8	-2.9	-9.6	5.4
Truman Upset Victory	11/02/1948 - 11/10/1948	-4.9	1.6	3.5	1.9	6.1
Korean War	06/23/1950 - 07/13/1950	-12.0	9.1	15.3	19.2	26.3
Eisenhower Heart Attack	09/23/1955 - 09/26/1955	-6.5	0.0	6.6	11.7	5.7
Suez Canal Crisis	10/30/1956 - 10/31/1956	-1.4	0.3	-0.6	3.4	-9.5
Sputnik	10/03/1957 - 10/22/1957	-9.9	5.5	6.7	7.2	29.2
Cuban Missile Crisis	10/19/1962 - 10/27/1962	1.1	12.1	17.1	24.2	30.4
JFK Assassinated	11/21/1963 - 11/22/1963	-2.9	7.2	12.4	15.1	24.0
Martin Luther King Assassinated	04/03/1968 - 04/05/1968	-0.4	5.3	6.4	9.3	10.8
U.S. Bombs Cambodia	04/29/1970 - 05/14/1970	-7.1	0.4	3.8	13.5	36.7
Kent State Shootings	05/01/1970 - 05/26/1970	-14.0	9.9	20.3	20.7	43.7
Penn Central Bankruptcy	06/19/1970 - 07/07/1970	-7.1	8.0	16.0	24.9	33.8
Arab Oil Embargo	10/16/1973 - 12/05/1973	-18.5	9.3	10.2	7.2	-25.5
Nixon Resigns	08/07/1974 - 08/29/1974	-17.6	-7.9	-5.7	12.5	27.2
Iranian Hostage Crisis	11/02/1979 - 11/07/1979	-2.7	4.7	11.1	2.3	17.0
U.S.S.R. Invades Afghanistan	12/24/1979 - 01/03/1980	-2.2	6.7	-4.0	6.8	21.0
Hunt Silver Crash	02/13/1980 - 03/27/1980	-15.9	6.7	16.2	25.8	30.6
Falkland Islands War	04/01/1982 - 05/07/1982	4.3	-8.5	-9.8	20.8	41.8
Beirut Bombing	10/21/1983 - 10/23/1983	0.0	2.1	-0.5	-6.9	-2.9
U.S. Invades Grenada	10/24/1983 - 11/07/1983	-2.7	3.9	-2.8	-3.2	2.4
Continental Illinois Bailout	05/08/1984 - 05/27/1984	-6.4	2.3	11.5	10.1	18.3
U.S. Bombs Libya	04/14/1986 - 04/21/1986	2.8	-4.3	-4.1	-1.0	25.9
Financial Panic '87	10/02/1987 - 10/19/1987	-34.2	11.5	11.4	15.0	24.2
Invasion of Panama	12/15/1989 - 12/20/1989	-1.9	-2.7	0.3	8.0	-2.2
Iraq Invades Kuwait	08/02/1990 - 08/23/1990	-13.3	0.1	2.3	16.3	22.4
Gulf War	01/16/1991 - 01/17/1991	4.6	11.8	14.3	15.0	24.5
Gorbachev Coup	08/16/1991 - 08/19/1991	-2.4	4.4	1.6	11.3	14.9
ERM U.K. Currency Crisis	09/15/1992 - 10/16/1992	-4.6	0.6	3.2	9.2	14.7
World Trade Center Bombing	02/25/1993 - 02/27/1993	-0.3	2.4	5.1	8.5	14.2
Oklahoma City Bombing	04/18/1995 - 04/20/1995	1.2	3.9	9.7	12.9	30.8
Asian Stock Market Crisis	10/07/1997 - 10/27/1997	-12.4	8.8	10.5	25.0	16.9
U.S. Embassy Bombings Africa	08/06/1998 - 08/14/1998	-1.8	-4.0	4.8	10.4	32.0
U.S.S. Cole Yemen Bombing	10/11/2000 - 10/18/2000	-4.2	6.6	6.1	6.1	-5.1
WTC and Pentagon Terrorist Attacks	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
War in Afghanistan	10/05/2001 - 10/09/2001	-0.7	5.9	11.5	12.4	-16.8
Bali Nightclub Bombing	10/11/2002 - 10/13/2002	0.3	6.6	12.3	6.7	24.4
Iraq War	03/19/2003 - 05/01/2003	2.3	5.5	9.2	15.6	22.0
Madrid Terrorist Attacks	03/10/2004 - 03/24/2004	-2.4	3.9	3.9	-0.1	4.4
London Train Bombing	07/06/2005 - 07/07/2005	0.3	2.3	0.1	5.6	7.8
India Israel and Lebanon Bombings	07/11/2006 - 07/18/2006	-3.0	5.0	10.9	16.4	28.3
Bear Stearns Collapse	03/13/2008 - 03/14/2008	-1.6	5.6	3.0	-4.4	-38.1
Russia Invades Georgia	08/08/2008 - 08/16/2008	-2.2	-4.0	-26.0	-34.2	-19.2
Lehman Brothers Collapse	09/15/2008 - 09/16/2008	1.3	-18.8	-22.6	-32.3	-11.5
Israel Invades Gaza	12/27/2008 - 01/21/2009	-3.0	-13.5	-4.2	7.9	23.6
Boston Marathon Bombing	04/12/2013 - 04/15/2013	-1.8	4.6	6.1	4.4	11.4
Chinese Market Turmoil	08/21/2015 - 08/25/2015	-4.8	4.1	13.6	6.6	17.8
U.K. Votes to Leave E.U.	06/23/2016 - 06/27/2016	-4.8	7.7	5.6	16.3	25.2
	Mean	**-6.6**	**3.8**	**5.4**	**9.0**	**14.2**
	Median	**-3.0**	**4.6**	**6.1**	**9.3**	**17.0**

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 Bloomberg Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Bloomberg 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. While some CLS portfolios may contain one or more of the specific funds mentioned, CLS is not making any comment as to the suitability of these, or any investment product for use in any portfolio. 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.

*The Dow Jones Industrial Average (DJIA) is a price weighted index of 30 of the largest, most widely held stocks traded on the New York Stock Exchange.

2899-CLS-8/29/2017