CLS's WEEKLY 3

What You Need To Know About the Markets

FEBRUARY 26, 2019

1. The potential pitfalls of sitting out of the markets
2. Proof of the true value of financial advisors
3. A "thank you" to the financial industry, from a one-time outsider

Market Performance as of 2/22/2019

Fixed Income	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.38%	+0.66%	+1.07%	+1.99%	+0.34%	+0.34%	+0.05%
U.S. Investment Grade Bonds[2]	+3.66%	+2.46%	+1.82%	+3.65%	+1.21%	+1.21%	+0.11%
Equities	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+12.45%	+6.50%	+12.64%	-0.75%	+10.88%	+10.88%	+1.23%
Total U.S. Market[4]	+16.31%	+10.50%	+15.51%	+5.57%	+12.70%	+12.70%	+0.71%
Domestic Large-Cap Equity[5]	+16.16%	+11.01%	+15.13%	+5.35%	+11.74%	+11.74%	+0.65%
Domestic Small-Cap Equity[6]	+16.07%	+7.90%	+17.50%	+5.33%	+18.08%	+18.08%	+1.34%
International Equity[7]	+9.51%	+2.63%	+10.41%	-6.84%	+9.62%	+9.62%	+1.95%
Developed International Equity[8]	+9.37%	+2.14%	+8.89%	-6.59%	+8.94%	+8.94%	+1.65%
Emerging Market Equity[9]	+10.34%	+4.44%	+14.86%	-9.65%	+9.79%	+9.79%	+2.79%
Diversifiers	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+4.91%	+0.75%	+2.23%	+0.42%	+2.90%	+2.90%	+0.47%
Commodity[11]	-1.82%	-8.61%	+3.86%	-5.40%	+7.43%	+7.43%	+1.49%

[1]Bloomberg Barclays Capital 1-3 Month U.S. Treasury Bill Index [2]Bloomberg Barclays Capital U.S. Aggregate Bond Index [3]MSCI ACWI Index [4]Russell 3000 Index [5]S&P 500 Index [6]Russell 2000 Index [7]MSCI ACWI ex-U.S. Index [8]MSCI EAFE Index [9]MSCI Emerging Markets Index [10]Morningstar Diversified Alternatives Index [11]Bloomberg Commodity Index

Week in Review

Stocks continued their gains last week with all major indices ending positive. International markets outperformed the U.S., up nearly 2%. Emerging markets were the top performer, up more than 2%. U.S. markets finished the week up less than 1%, while small-cap companies continued their strong performance, up 1%.

Most other asset classes also had positive performance, led by commodities, which were up more than 1%.

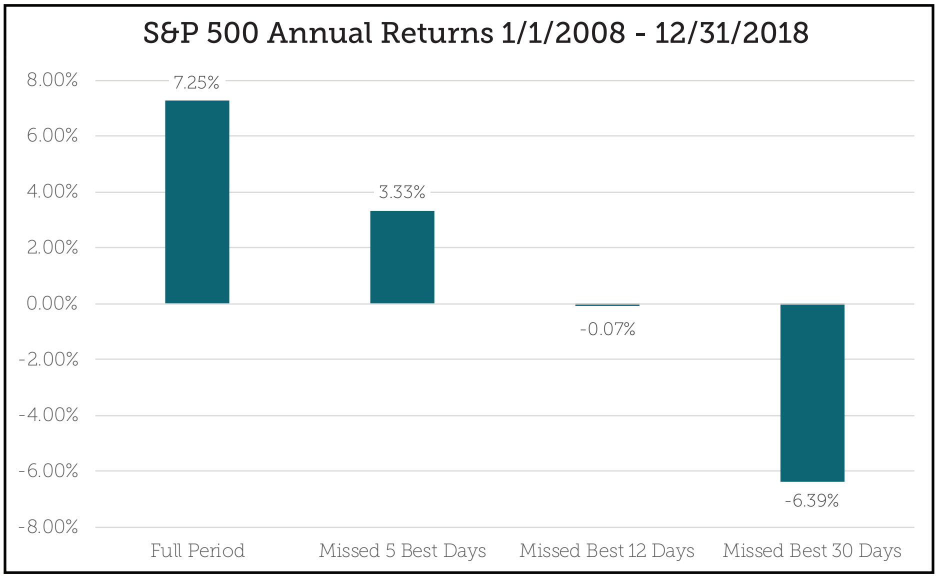
Bonds also edged out small gains as rates were relatively flat throughout the week.

A Day Late and Two Thousand Dollars Short

Content provided by: Michael Hadden, Investment Research Analyst

If you were out of the market for any length of time between 2008 and 2018, you would have missed significant returns. In fact, if you missed the best performing day over that 11-year period, your annualized return would have dropped from 7.25% to only 6.19%. In percentage terms, this may not seem like a dramatic difference, but if you had invested $10,000 on January 1, 2008, and didn't touch it, you would have had $21,600 by December 31, 2018. Alternatively, if you got market jitters and pulled out your money in October 2008, and had not been invested for one day – October 13, 2008 – even if you reinvested the very next day, holding it through the end of 2018, you would have ended with $19,360. One day sitting out of the market would have cost you more than $2,200.

Now, you may say that it's unlikely that you would have missed out, specifically, on the best market return day in 11 years. This may be true, but during the eight days before October 13, 2008, the S&P 500 was down more than 22%. It's not far-fetched to assume that investors pulled their money out of the markets at that time.



This is a specific example of a much broader problem: trying to time the markets. Countless famous investors have said that they have never met someone who could do it successfully over the long term. It doesn't take long to see returns diminish. The chart above shows annualized returns over the 11-year period with examples of missed returns on a few of the best days. It only takes missing out on the five best days to cut returns by more than 50%. Missing the best 12 days reduces returns from more than 7% per year to 0%. That means you could have been invested 99.6% of the time and yet, with some poor timing, finished the period right where you started.

It certainly would take some horribly bad luck (or judgement) to miss out on only the best days, but the results are still astonishing. The example isn't extraordinary either. Often, the best market return days closely follow the worst, increasing the likelihood that investors will try moving out of the market at the worst possible time.

We believe there is no bad time to be invested in the market when you're investing for the long term. The table below from the CLS Reference Guide depicts this well. During more than 80 years of market history,

S&P 500 Percent of Positive Return (Since 1927)

Frequency Return	Daily	Weekly	Monthly	Quarterly	6-Mo	Yearly	3-Year	5-Year	10-Year	20-Year	30-Year
% Positive	52%	56%	59%	63%	66%	68%	77%	78%	88%	96%	100%

Source: Bloomberg data from 12/30/1927 to 11/30/2018 investors have had a better chance for positive returns every day. This only gets more and more likely the longer an investor is in the market.

This can often be forgotten in times of volatility and extended periods of negative returns. These periods can make it hard not to fear the negative returns will continue. However, the next time you find yourself (or a client) wanting to get out of the market, just remember how only a little time out can make all the difference.

Michael Hadden

Investment Research Analyst

Michael Hadden is involved in all aspects of investment research, including performance reporting and Global Investment Performance Standards (GIPS) reporting.

Prior to joining CLS in 2017, Mr. Hadden held internships with Ameritas and Platte Valley Bank, while pursuing his degree. He graduated with honors and high distinction from the University of Nebraska at Lincoln, with a Bachelor of Science degree in Finance and Accounting. He is currently working toward his Chartered Financial Analyst (CFA) designation.

Did you know? Michael started investing in middle school.

The Value of Financial Advice

Content provided by: Jeovany Zelaya, Client Portfolio Manager

The times have changed. We live in a world where anyone can access anything with the push of a button.

Check the stock price of Berkshire Hathaway. Done.

Open a brokerage account. Check.

You can even browse the internet for financial advice.

So, you might be asking yourself, does a financial advisor bring any value to the table? Is he or she worth the cost?

The multiple research reports I highlight below show the answer is an emphatic "Yes!"

Vanguard, the second largest asset management firm with $5.3 trillion in assets under management, wrote a paper titled, "Putting a Value on Your Value[1]," which showed that a competent financial advisor can add about 3% in net returns. The paper's authors write that they don't expect a potential 3% improvement on an annual basis; instead, the benefits of working with a financial advisor will be "lumpy." Here are the authors:

> *"The most significant opportunities to add value do not present themselves consistently, but intermittently over the years, and often during periods of either market duress or euphoria. These opportunities can pique an investor's fear or greed, tempting him or her to abandon a well-thought-out investment plan. In such circumstances, the advisor may have the opportunity to add tens of percentage points of value add, rather than mere basis points, and may more than offset years of advisory fees."*

The chart below shows the breakdown of this 3% value-add:

Morningstar also wrote a white paper quantifying the value of a financial advisor. The paper is titled, "Alpha, Beta and Now...Gamma[2]."

The authors of the article define gamma as "the measurement of additional expected retirement income achieved by an individual investor making intelligent financial-planning decisions." These intelligent financial planning decisions are actions and services provided by the financial advisor, which can add up to 1.82% per year.

AON Hewitt and Financial Engines conducted a study between 2006 and 2008 and found that participants in 401(k) plans who received advice and guidance about target-date funds or the use of managed accounts outperformed their peers who didn't receive advice by 1.86% per year, net of fees. They conducted a similar study between 2009 and 2010 and found that during times of uncertainty, those participants who received help outperformed their peers who did not by 2.92% per year, net of fees[3].

Advisor Behavior	Potential Value Added
Helping investors stay disciplined and providing guidance to do so	1.50%
Placing assets in tax-efficient or tax-managed investments	up to 0.75%
Providing guidance on asset withdrawal order	up to 0.70%
Utilizing low-cost funds	0.45%
Rebalancing the portfolio	0.35%
Allocating assets among broadly diversified investments	Potential slight value add, depending on investor's time horizon, risk tolerance, and financial goals
Providing guidance on total return versus income-only investing	Potential slight value add, depending on investor's desired level of spending and portfolio composition

Source: Vanguard - Putting a Value on your Value: Quantifying Vanguard Advisor's Alpha

[1] *Source: Vanguard – "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha"*
[2] *Source: Morningstar – "Alpha, Beta, and Now...Gamma"*
[3] *Source: The Laws of Wealth: Psychology and The Secret to Investing Success by Dr. Daniel Crosby*

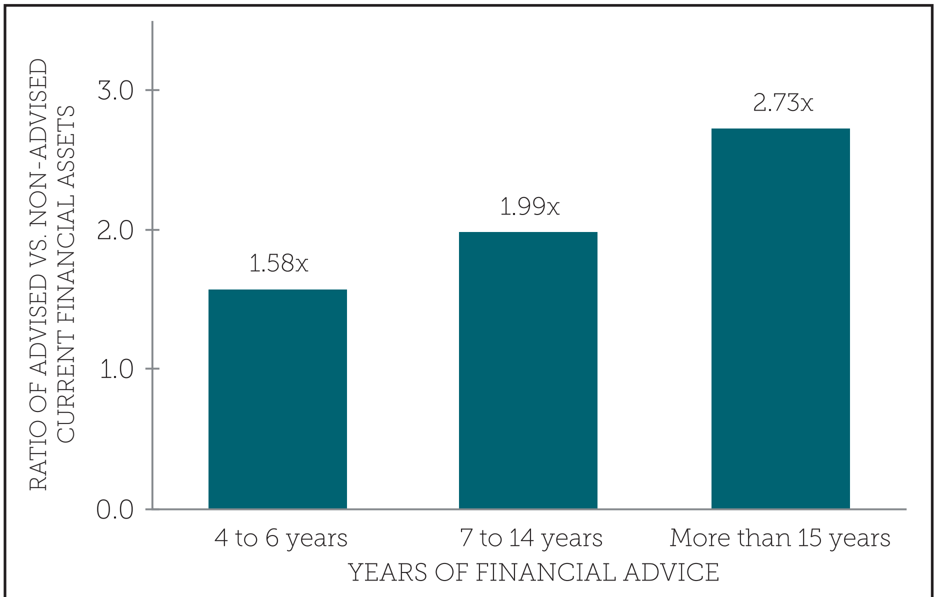
These studies suggest that one of the most important and valuable actions a financial advisor can take is to help an investor stay disciplined and focused on their long-term goals, especially during times of extreme market fear and greed.

The Investment Funds Institute of Canada explained in its "Value of Advice Report[1]" that partnering with a financial advisor, "for periods of four to six years, seven to 14 years, and 15 or more years, contributes positively and significantly to the level of assets... The impact on the level of assets is more pronounced the longer the tenure of the advice relationship." This means that the value-add provided by a financial advisor is compounded over time.

The chart below shows financial assets for households that received financial advice over different time frames, as a multiple of the financial assets of households that did not receive advice.

Does the financial advisor bring value to an investor relationship? Absolutely!

Prudent financial advice is like working out. You might not notice an improvement after your first day; but over time, the results can add up.



Source: The Investment Funds Institute of Canada

Jeovany Zelaya

Client Portfolio Manager

Jeovany Zelaya is a Client Portfolio Manager at CLS Investments. He is responsible for communicating CLS's investment philosophy, process, strategies, and performance to external clients and prospects.

Prior to beginning his current role, Mr. Zelaya served as an Internal Wholesaler of Qualified Plans starting in 2016. His background in sales gives him an edge in providing ongoing updates, analysis, and support to CLS's Sales Team.

Mr. Zelaya holds a Master of Business Administration degree from the University of Nebraska at Omaha. He received his Bachelor of Business Administration degree from the University of Houston and is currently pursuing a Bachelor of Science in Accounting degree from Auburn University. Mr. Zelaya holds his FINRA Series 65 license and is currently a Level III candidate in the Chartered Financial Analyst (CFA) Program.

Did you know? Jeovany grew up in El Salvador.

[1] *Source: The Investment Funds Institute of Canada, The Value of Advice Report 2012*

Content provided by: Robyn Murray, Freelance Writer and Editor

When I first started writing for CLS, I knew very little about investing. Honestly, I didn't really know much about the financial industry at all. OK. I didn't know what a bond was. When I first started copy editing articles written by the Portfolio Management team, there was a lot of Google searching. Terms like market capitalization, indexing, asset allocation, P/E ratios, and net asset values made me feel like I'd forgotten how to read. I bookmarked Investopedia.

Four years later, I know a little more – at least enough to get through most of the material I'm editing without reading two additional pages of explainers. And I have, hopefully, helped make this material easier to understand and digest. However, I am still continually amazed at the depth of knowledge present on the Portfolio Management team. These are people who not only understand highly technical data and can rattle off dozens (hundreds?) of ticker symbols by memory, but they can apply that understanding to real-world events, moving effortlessly between global, geopolitical context, and data-driven minutia. They also understand people and how human behavior shapes events, economies, and the performance of individual portfolios.

It's a smart group. But they're not just smart. They're also honest and trustworthy. They want to do right by people. It matters to them that coming to work every day and doing their job well means other people get to benefit, in the myriad of ways we do benefit, from financial security. Believe me, I've interviewed each and every one of them for our CLS employee profiles, and this is what they think about.

When I interviewed advisors for Higher Calling, the book I worked on with CLS President and Chief Investment Officer Rusty Vanneman, I found the same thing with everyone I talked to. Financial advisors, at least the ones we work with at CLS, are driven, some intensely so, by a desire to help people. Christopher Boggs in New Orleans was thinking about the people he'd met who had no savings and no path to change that. Owen Hand in Beaufort, South Carolina, thought of his clients as friends; many are his neighbors. His work helped them sleep better at night, and that made him feel proud. Randal Lishka in Portland, Oregon, was motivated by trust. His clients trusted him to help them reach their financial goals, and he didn't want to let them down.

And that's great for people like me. People who can feel illiterate when they're reading their return statements or believe financial and investing professionals can't see beyond the bottom line. People who have financial goals that are meaningful. For me: I want to send my son to the best school our state can offer, and it's expensive. I want to buy a house in South Africa so that I can keep myself and my family connected to my home. And I'm relying on the fact that people like you, financial advisors and portfolio managers, are keeping me in mind when you make a trade or adjust my portfolio.

I might not know much, even now, about the technicalities and inner workings of portfolio management. But I know there are people I can trust with my financial goals. Many of them are reading this now.

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