# CLS's WEEKLY 3

*What You Need To Know About the Markets*

MARCH 13, 2019

1. There is tremendous opportunity in China, but it takes proper due diligence to make the right investments
2. Why paying less attention to your portfolio can help avoid the pitfall of trying to time the market
3. A valuable lesson from Warren Buffett on the importance of focusing on the big picture

## Market Performance (as of 3/8/2019)

| Fixed Income | 10-YEAR | 5-YEAR | 3-YEAR | 1-YEAR | YTD | QTD | LAST WEEK |
|---|---|---|---|---|---|---|---|
| Cash Equivalent[1] | +0.38% | +0.69% | +1.13% | +2.06% | +0.44% | +0.44% | +0.05% |
| U.S. Investment Grade Bonds[2] | +3.73% | +2.53% | +1.87% | +3.69% | +1.49% | +1.49% | +0.68% |
| **Equities** | **10-YEAR** | **5-YEAR** | **3-YEAR** | **1-YEAR** | **YTD** | **QTD** | **LAST WEEK** |
| Global Equity Market[3] | +13.52% | +5.88% | +11.03% | -2.81% | +8.93% | +8.93% | -2.09% |
| Total U.S. Market[4] | +17.52% | +9.70% | +13.92% | +1.99% | +10.49% | +10.49% | -2.32% |
| Domestic Large-Cap Equity[5] | +16.97% | +10.34% | +14.18% | +2.31% | +9.40% | +9.40% | -2.04% |
| Domestic Small-Cap Equity[6] | +18.51% | +6.35% | +12.67% | -0.96% | +13.80% | +13.80% | -3.88% |
| International Equity[7] | +10.47% | +2.39% | +8.57% | -7.39% | +7.63% | +7.63% | -1.95% |
| Developed International Equity[8] | +10.36% | +1.85% | +7.57% | -6.62% | +7.95% | +7.95% | -1.97% |
| Emerging Market Equity[9] | +10.98% | +4.30% | +12.17% | -9.78% | +6.67% | +6.67% | -1.87% |
| **Diversifiers** | **10-YEAR** | **5-YEAR** | **3-YEAR** | **1-YEAR** | **YTD** | **QTD** | **LAST WEEK** |
| Diversified Alternatives[10] | +5.15% | +0.55% | +1.64% | +0.15% | +2.52% | +2.52% | -0.26% |
| Commodity[11] | -2.29% | -9.30% | +2.10% | -6.14% | +5.36% | +5.36% | -0.57% |

*[1]Morningstar Cash Index [2]Bloomberg Barclays Capital U.S. Aggregate Bond Index [3]Morningstar GblMkt Large-Mid Index [4]Morningstar U.S. Market Index [5]Morningstar U.S. Large Cap Index [6]Morningstar U.S. Small Cap Index [7]Morningstar Gbl xU.S. Large-Mid Index [8]Morningstar DM xUS Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversd Alt Index [11]Bloomberg Commodity Index*

## Week in Review

First off, take a look at the 10-year annualized numbers for our major markets at the top of this page. All equity markets are above a 10% annualized return, and some are close to 20%! This happens as we officially roll off the bottom of the global financial crisis and start a new bull market.

Last week, global markets took a breather after a rip-roaring start to 2019. As CLS President and CIO Rusty Vanneman wrote on March 6, markets were off to their best start in decades, but a step back was reasonable to expect and, as it turned out, imminent.

The U.S. market (including small-cap and mid-cap stocks) was down more than 2% last week, with shares of international companies down slightly less. The best performer on the week, as is typical when stocks are down, was bonds, which were up close to 1%.

Economic headlines revolved around a weak jobs report that came in drastically below consensus estimates. However, that number should be taken with a grain of salt, as it will be revised with next month's results, and the temporary government shutdown may have an impact.

## *How Hot is China's Start to 2019? Do Your Homework*

Without a doubt, the most talked about investment news of the last year has been trade tensions between the U.S. and China. But these tensions appear to be easing, talk of tariffs has quieted, and both countries' stock markets have had a hot start to 2019, returning more than 10%.

However, investors must do their homework if they are looking to gain an edge over broad indexes by investing in China, which is one of the world's fastest growing economies. According to ETF.com, there are more than 50 ETFs that can help investors gain exposure to Chinese stock markets, and because of that, picking the right one can be difficult.

For example, the largest and longest-running ETF in the space is FXI, which launched in 2004 and has more than $6 billion in assets under management (AUM). It trades very well, as the spread is very small between the bid and the ask. It is also a favorite among the largest money managers because it provides quick access to the Chinese stock market. However, this fund does not hold mainland China stocks, leaving out a whole subset of A-Shares that are now investable. It also scores 133 on CLS's Risk Budget spectrum*, meaning it is jalapeno-pepper hot for most investors' mild pallets.

A quick look at Morningstar's data shows that FXI is gaining similar returns to the U.S. market this year. But that's where doing your homework may provide an edge.

Two ETFs CLS sees as strong options for investors looking to gain exposure to China are GXC and CN. These ETFs invest in a wide range of available stocks, including A-Shares listed on the mainland, which have boosted returns in 2019. The inclusion of A-Shares also increases the Risk Budgets a tad to 136 and 135 respectively, which is very hot.

Lastly, we would be remiss if we didn't mention the best-performing Chinese (non-leveraged) ETF in 2019. CNXT is up more than 33% this year alone. It invests in smaller Chinese companies on the Shenzhen Stock Exchange. It is a very niche fund that comes in at a habanero-pepper-like Risk Budget of 161.

All in all, we believe there is tremendous opportunity to invest in China, and that opportunity is expected to grow. However, the due diligence process will become very blurry as new markets open and funds are launched. CLS is up to the task and will do so while seeking to rebalance risk and return for our investors.


### Case Eichenberger, CIMA

***Senior Client Portfolio Manager***


*Case Eichenberger co-manages CLS's American Funds strategies and the CLS Shelter Fund, works closely with CLS's separate account strategies (Master Manager), and communicates with advisors and their clients both remotely and in-person.*

*Since joining CLS in 2007, Mr. Eichenberger has held various roles, including Relationship Representative and Internal Wholesaler. In 2015, he accepted the role of Client Portfolio Manager and was promoted to Senior Client Portfolio Manager in 2018.*

*Mr. Eichenberger received his Bachelor of Science degree in Business Administration from Midland University. He holds the FINRA Series 6, 63, and 65 licenses and Certified Investment Management Analyst (CIMA®) designation. During the accreditation process, he attended the Wharton School of Business at the University of Pennsylvania.*

*Mr. Eichenberger is a member of Greater Omaha Young Professionals and a volunteer for Habitat for Humanity.*

*Did you know? Case comes from a long line of educators.*

**The CLS Risk Budget spectrum is a scale to judge how volatile an asset is.  If an asset has a score of 100, it take on all the volatility of the global stock market.  If an asset is above 100 it is equally more volatile than the global stock market.*

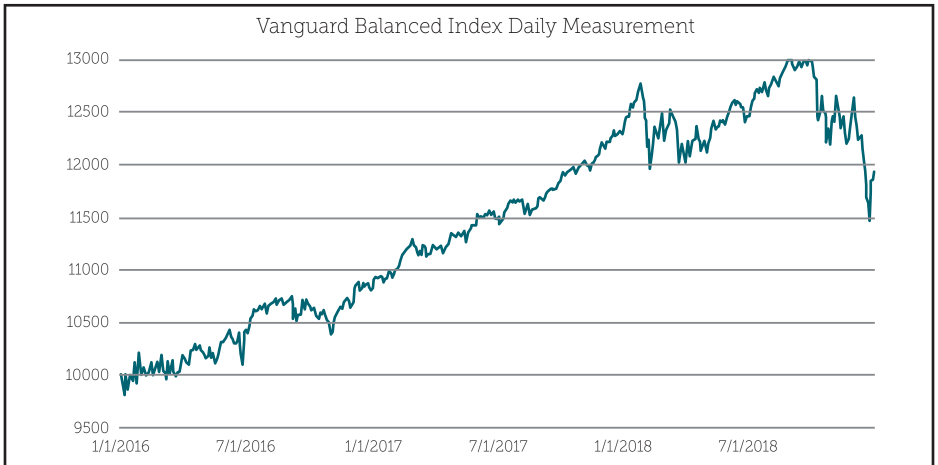
## *Paying Attention? Maybe Try Less to Get More*

*Last week, CLS Senior Portfolio Manager Kostya Etus and I attended an executive training session at the UCLA business school. The course covered behavioral finance, reviewing the impacts of human behavior on investing, and ideas to help us improve investor results. The next two sections pertain to common struggles that all investors face.*

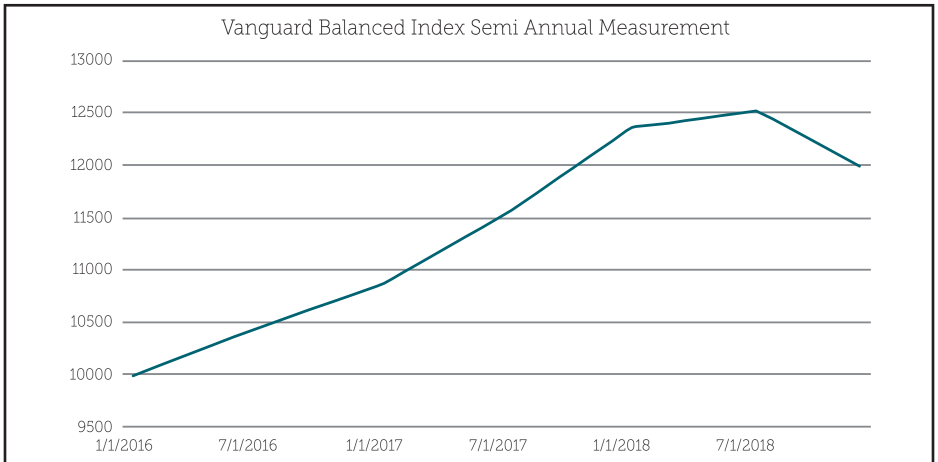
Investing is simple, but it's not easy. The more you pay attention, the more you trade. The harder you try, the lower your returns. This is the reason that the behavior gap exists.

Consider the accompanying charts. Each illustrates the last three years of returns in the Vanguard Balanced Fund. The top shows returns reviewed on a daily basis, and the bottom shows returns reviewed biannually.

So, should you check returns every day or twice a year? Which offers a better chance of avoiding the pitfalls of timing the market? While the fund gets to the same place either way, I know my answer. I believe the best option is to choose a Risk Budgeted portfolio that seeks to get you to retirement, diversify globally, and wait!



*Source: Morningstar*



*Source: Morningstar*

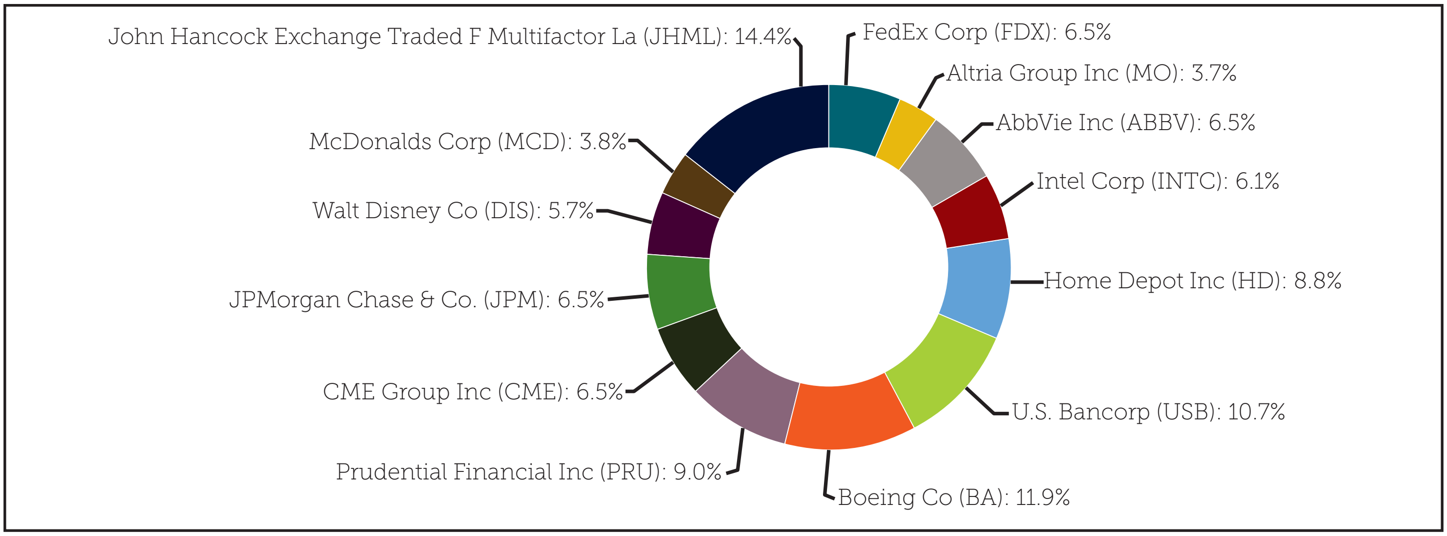
## *Focus on the Forest, Forget the Trees*

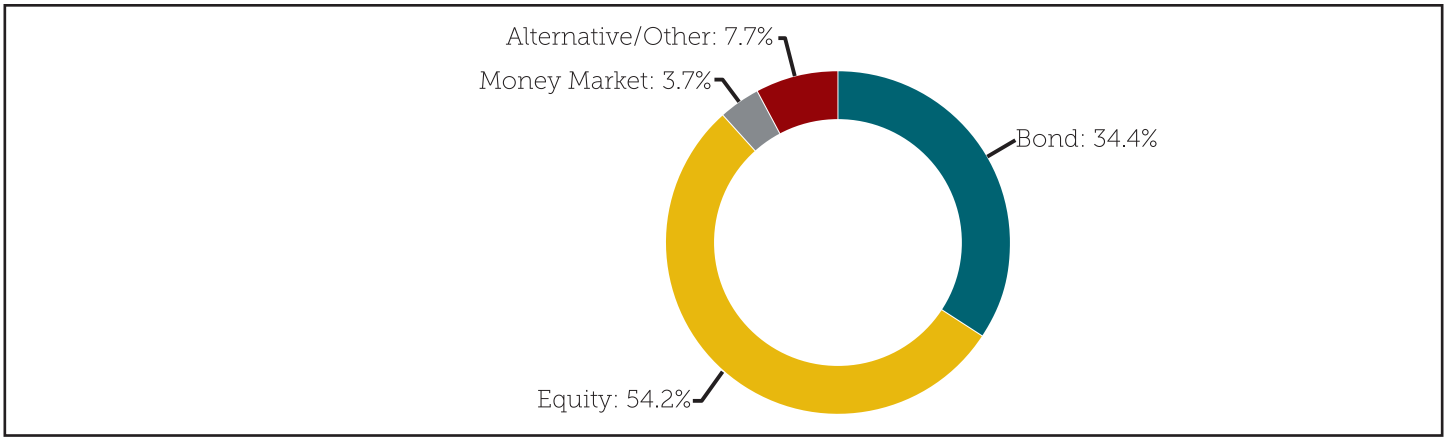
Omaha's most famous billionaire, Warren Buffett, recently released his annual shareholder letter. The widely read letter always includes great tips for successful investing and some subtle jabs at certain industries. On page four of this year's edition, Buffett talks about how we (clients, analysts, portfolio managers, etc.) can get lost by focusing on the smallest positions in a portfolio. This can lead to incorrect judgements and potentially bad outcomes.

Buffett talks about the "five groves" of Berkshire: the five most important elements that make up the company. These include clusters of businesses, financial assets, and insurance. At CLS, we have similar "groves" that make up our global, multi-asset portfolios. But these can be broken down into individual "trees" and "twigs." Consider the snapshot on the first, which breaks down one client's large-cap core equity holding.

It's pretty easy to focus on a small tree, say, AbbVie Inc. (ABBV). The stock is down close to 14% this year. But taking a step back and focusing on the forest, we note this position is only a small percentage of the entire account. Focusing on the less-detailed breakdown below provides a clearer picture.

The three 'groves' of our typical managed account are global equities for growth, alternatives for added correlation benefits and bonds for income/risk management. Each has its spot in the portfolio, which we should judge as a whole. Focus on the forest, not the trees.




*This information is for illustration purposes only and may not be representative of current or future portfolios. The information should not be considered investment advice.*

*The Morningstar Global Market Large-Mid Index is an index that measures the performance of the global market's equity markets targeting the top 90% of stocks by market capitalization. The Morningstar U.S. Market Index is an index that measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index. The Morningstar U.S. Large Cap Index is an index that measures the performance of U.S. large-cap stocks. These stocks represent the largest 70% capitalization of the investable universe. The Morningstar U.S. Small Cap Index is an index that measures the performance of U.S. small-cap stocks. These stocks fall between the 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small Cap Index represents 7% of the investable universe. Morningstar Global ex U.S. Large-Mid Index is an index that measures the performance of Global Markets (ex-U.S.) equity markets targeting the top 90% of stocks by market capitalization. The Morningstar DM ex U.S. Large-Mid Index is an index that measures the performance of developed markets ex-U.S. equity markets targeting the top 90% of stocks by market capitalization. The Morningstar EM Large-Mid Index is an index that measures the performance of emerging markets targeting the top 90% of stocks by market capitalization. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Morningstar Cash Index is an index that measures the performance of a Treasury Bill with six to eight weeks until maturity in the U.S. market. The Bloomberg Commodity Index is made up of exchange-traded futures on physical commodities and represents commodities that are weighted to account for economic significant and market liquidity. This index provides investors with a means of understanding the performance of commodity futures markets and serves as a benchmark for investment performance of commodities as an asset class. The volatility of the indexes may be materially different from the individual performance attained by a specific investor. In addition, portfolio holdings of investors may differ significantly from the securities that comprise the indexes. You cannot invest directly in an index.*



CIMA® professionals integrate a complex body of investment knowledge, ethically contributing to prudent investment decisions by providing objective advice and guidance to individual investors and institutional investors. To learn more about the CIMA, visit https://www.imca.org/cima

*0315-CLS-3/13/2019*