

CLS's WEEKLY 3

What You Need To Know About the Markets

MAY 28, 2019



1. With more than 2,300 ETFs from more than 160 issuers, the players in this saturated industry need continuous innovation to compete and survive.
2. Staying invested and diversifying across multiple asset classes in a globally diversified and balanced portfolio may provide a greater chance of reaching long-term goals.
3. Avoiding performance chasing, staying diversified, and putting aside bias opens up a larger world of opportunities.

Market Performance (as of 5/24/2019)

Fixed Income	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent ¹	+0.43%	+0.80%	+1.29%	+2.23%	+0.97%	+0.38%	+0.06%
U.S. Investment Grade Bonds ²	+3.75%	+2.59%	+2.26%	+6.22%	+3.84%	+0.87%	+0.27%
Equities	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Global Equity Market ³	+10.15%	+5.86%	+10.26%	-0.59%	+11.15%	-0.84%	-0.87%
Total U.S. Market ⁴	+14.74%	+10.21%	+13.05%	+5.03%	+14.02%	-0.06%	-1.17%
Domestic Large-Cap Equity ⁵	+14.49%	+10.76%	+13.59%	+6.19%	+13.40%	+0.19%	-1.17%
Domestic Small-Cap Equity ⁶	+14.36%	+7.08%	+10.20%	-4.30%	+13.41%	-1.81%	-1.52%
International Equity ⁷	+6.56%	+1.88%	+7.76%	-6.47%	+8.27%	-1.76%	-0.55%
Developed International Equity ⁸	+6.76%	+1.88%	+7.03%	-5.60%	+10.10%	-0.33%	-0.55%
Emerging Market Equity ⁹	+5.98%	+1.92%	+10.65%	-8.99%	+2.89%	-5.97%	-0.55%
Diversifiers	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Diversified Alternatives ¹⁰	+3.86%	+0.36%	+1.45%	+0.23%	+3.07%	+0.11%	-0.16%
Commodity ¹¹	-3.73%	-9.55%	-0.87%	-12.02%	+3.58%	-2.58%	-1.21%

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

Week in Review

Global equity markets were generally lower last week. Small-cap domestic companies were the worst performers within equities, down more than 1%. Additionally, value companies outperformed growth. International companies beat domestic companies by losing less, both within developed international and emerging markets.

Fixed income did its job as a diversifier as aggregate bonds squeezed out a positive return with the 10-year Treasury yield falling all the way to 2.32%, the lowest level since late 2017. Commodities had a negative week, down over 1% due to a tumble in oil prices amid trade tensions. Diversified alternatives were just slightly negative, helping to dampen market losses.

In economic news, ongoing tariff disputes between the U.S. and China had a particularly negative effect on technology and energy companies over the week. In addition, the U.S. manufacturing PMI (Purchasing Managers Index) for May hit the lowest level since September 2009, highlighting a slowdown in business activity. Elsewhere, Brexit worries continue as Prime Minister Theresa May announced she would step down from her role on June 7 – the market reaction was surprisingly tame.

Thematic ETFs: The Current Stage in ETF Evolution

"If there's one thing the history of evolution has taught us, it's that life will not be contained. Life breaks free, it expands to new territories and crashes through barriers painfully, maybe even dangerously, but, uh, well, there it is."

–Ian Malcolm, *Jurassic Park* (1993)

ETFs were once the baby of the investing world, the newest financial innovation. But it seems they have achieved at least teenager status, as there are now more than 2,300 ETFs available to purchase in the U.S. What may surprise you is that there are 161 unique ETF issuers, according to Morningstar data. Bet you can't name more than 30!

With this saturated ETF landscape, it is getting tougher to compete on price alone, and there are only so many traditional asset classes to re-create.

So, what are all these issuers doing to be different, to compete, and to survive?

They are coming up with new and innovative ways to invest. While mature companies have huge think tanks devoted to product development, which certainly create some revolutionary ideas, it is often the kid sitting in their parents' basement that develops the next great ETF idea.

Currently, some of the best ETF ideas are in the realm of thematic investing. This style of investing

is called thematic because ETFs are being launched with a specific "theme" or idea that may not have existed in the past but could be a meaningful part of the future. Here are the top themes in the marketplace, along with a few ETF ideas on how to play each (we think a great ETF starts with a great ticker!):

1. Disruptive Technologies

What are the technologies and innovations that are driving change in our world? These include companies working on artificial intelligence, virtual reality, automated transportation, cybersecurity, space exploration, robotics, and next-generation networking, such as 5G, to name a few.

SPDR Kensho New Economy Composite ETF (KOMP): Kensho Technologies has partnered with State Street to provide a suite of ETFs revolving around disruptive technologies, headlined by this composite, which includes 16 innovative technology sub-themes.

Procure Space ETF (UFO): This recently launched fund gives investors a way to participate in the space race.

2. Demographic Shifts

We have an aging population that needs support and enhancements within the medical field. At the same time, we have tech-savvy millennials eager to make an impact on the

world. And last, but certainly not least, we have a strong movement for women's empowerment.

Global X Millennials Thematic ETF (MILN): This ETF invests in companies that derive revenue from spending categories associated with millennials.

The Long-Term Care ETF (OLD): This fund focuses on long-term care services and products required by an aging population.

SPDR SSGA Gender Diversity Index ETF (SHE): SHE tracks companies that employ women in high-level leadership roles.

3. Government Policy

A day doesn't go by without breaking political news, and people are getting more involved and attentive as to what the government is doing. Of course, governmental policies can have a meaningful impact on various companies and industries.

EventShares U.S. Policy Alpha ETF (PLCY): This ETF invests in companies that may be positively impacted by current and proposed government policies and regulations.

4. Clean Energy

While considered a subset of ESG (environmental, social, and governance), the world's search for clean and renewable energy is truly heating up. With global warming top of mind, there has

Thematic ETFs: The Current Stage in ETF Evolution (Cont.)

been more focus on reducing carbon emissions across all industries.

Invesco Solar ETF (TAN) and First Trust Global Wind Energy ETF (FAN): These funds provide exposure to solar and wind energy companies, respectively.

5. Crypto & Cannabis

Everyone's two favorite words over the last couple of years! Growth in both industries has sparked a lot of interest from investors and ETF issuers.

Amplify Transformational Data Sharing ETF (BLOK): This ETF

invests in global companies focusing on blockchain technologies.

AdvisorShares Pure Cannabis ETF (YOLO): YOLO provides actively managed exposure to cannabis companies, both in the U.S. and abroad.



Kostya Etus, CFA *Senior Portfolio manager*

Konstantin "Kostya" Etus specializes in international investments. He is a co-manager on two mutual funds (aggressive allocation and international) and manager on various separate account strategies, including Core Plus ETF and ESG. In addition, he manages 529 plans.

Mr. Etus began his career at CLS in 2011 as a Trading Specialist and became a Research/Portfolio Analyst in early 2013. In 2016, he was promoted to Portfolio Manager. Prior to working at CLS, Mr. Etus worked as an Associate Financial Analyst at ConAgra Foods, Inc., managing the company's global cash network.

He graduated from the University of Nebraska at Omaha with a Bachelor of Science degree in Business Administration and obtained Master of Investment Management and Financial Analysis and Master of Business Administration degrees from Creighton University. He holds the FINRA Series 65 securities registration and the Chartered Financial Analyst (CFA) designation.

Did you know? [Kostya grew up in Soviet Russia.](#)

GLOBAL AND BALANCED: Helping Investors Succeed (Cont.)

exposure to a variety of asset classes limits the negative impact of underperforming allocations. It also provides more stable returns, thereby helping to keep you invested for the long term.

Saving Us From Ourselves

Most investors understand the negative effects of buying high and selling low. But in times of market uncertainty, emotions can make irrational decisions seem rational. A natural human tendency is to buy at market peaks when things are good and sell during market troughs when fear is high.

To quantify the human nature effect, let's evaluate the difference between investor-driven returns and the actual returns of an investment. The difference



between these two performance figures is known as the "behavior gap" (the cost associated with human behavior). A recent study by Dalbar, an independent research firm, showed that investors lost about 3.6% in average annual returns between 2007 and 2017 because of their

behavioral biases and emotion-based investment mistakes.

It seems that no matter what people are investing in, they need to be saved from themselves. This is where globally diversified, balanced portfolios come to the rescue.

Country Ranks: A 10-Year View

"Yesterday we were an army with no country, tomorrow, we have to decide which country we want to buy!"

–Simon, Die Hard (1995)

The U.S. is often thought of as having the strongest returns post-2008 (post financial crisis). That is actually not true. Between 2009 and 2018, Thailand, the Philippines, and Indonesia had stronger returns. But what is even more interesting is that the U.S. was not the top performing country in any year within that period – yet another reminder of the benefits of global diversification.

The chart on the following page ranks 47 countries (which are investable through ETFs) by performance each year since 2009. The horizontal black line in the

middle marks the halfway point. There are a few key observations:

1. Diversification typically works. Not only was the U.S. never number one, it was in the top half for only six of the 10 years recorded. The MSCI All Country World Index (ACWI) and an equal-weighted average of all the countries were also in the top half for six years, but their rankings were more consistent and stable across time.

2. Performance chasing can be dangerous. Typically, the countries at the extremes tend to have a reversal the following year. Notice the downward arrows. The country that was the top performer in a given year tends to be toward the bottom

of the list the following year. This relationship generally holds true on the other end; last year's dogs tend to be this year's winners.

3. It's a large world out there. There are a lot of countries in the world, and through the power of ETFs we can now invest in almost 50 of them. But home and familiarity biases tend to drive U.S. investors to U.S. investments because they are more comfortable with what they know and understand. But an investment manager who can sift through the media noise and evaluate the economic, fundamental, and valuation situations of various countries can have the upper hand due to the vast opportunity set available to them.

Country Ranks: A 10-Year View (Cont.)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Brazil	Argentina	Ireland	Turkey	UAE	Egypt	Denmark	Brazil	Argentina	Qatar
Indonesia	Thailand	Qatar	Nigeria	Argentina	Indonesia	Ireland	Peru	Vietnam	Peru
Russia	Peru	Indonesia	Egypt	Greece	Philippines	Belgium	Russia	Austria	Brazil
India	Chile	New Zealand	Philippines	Finland	India	Israel	Thailand	Poland	Russia
Turkey	Colombia	USA	Belgium	Ireland	Israel	Japan	Colombia	China	Finland
Norway	Malaysia	Malaysia	Poland	USA	Argentina	Russia	Canada	Korea	New Zealand
Chile	South Africa	Philippines	Colombia	Germany	Turkey	Austria	Taiwan	Chile	USA
Colombia	Indonesia	United Kingdom	Thailand	Spain	Qatar	Italy	New Zealand	India	Israel
Taiwan	Philippines	Thailand	Denmark	Netherlands	Thailand	Finland	South Africa	Peru	Thailand
Thailand	Sweden	Colombia	Singapore	Qatar	USA	Netherlands	Indonesia	Turkey	Malaysia
Australia	Qatar	Switzerland	Germany	Nigeria	Peru	Portugal	Chile	Nigeria	India
Singapore	Denmark	ACWI	UAE	Belgium	Taiwan	USA	Norway	Hong Kong	Hong Kong
Peru	Mexico	Norway	New Zealand	Japan	China	Switzerland	UAE	South Africa	Norway
Korea	Korea	Belgium	Mexico	Switzerland	New Zealand	France	Australia	Singapore	Taiwan
Philippines	Nigeria	Australia	Hong Kong	France	UAE	Argentina	Austria	Denmark	Switzerland
Sweden	Hong Kong	Korea	India	Denmark	Denmark	Hong Kong	USA	Thailand	Indonesia
Argentina	Singapore	Mexico	Austria	Sweden	Vietnam	Germany	Korea	Netherlands	Singapore
China	Taiwan	Netherlands	China	ACWI	South Africa	ACWI	ACWI	France	ACWI
Hong Kong	India	Spain	Australia	United Kingdom	Hong Kong	Sweden	Qatar	Greece	Portugal
South Africa	Turkey	Canada	Sweden	Italy	ACWI	Vietnam	All Country Ave	Italy	Colombia
Belgium	Canada	ACWI Ex USA	France	ACWI Ex USA	Belgium	ACWI Ex USA	Argentina	All Country Ave	Australia
Mexico	Russia	Japan	Korea	All Country Ave	Singapore	India	France	Norway	UAE
Canada	All Country Ave	South Africa	Netherlands	Austria	Ireland	New Zealand	Netherlands	Germany	Vietnam
All Country Ave	Japan	Nigeria	All Country Ave	New Zealand	Canada	Korea	ACWI Ex USA	Taiwan	France
Israel	Poland	Sweden	Switzerland	Hong Kong	Switzerland	Philippines	Portugal	ACWI Ex USA	Poland
Malaysia	USA	Denmark	Peru	Portugal	Finland	United Kingdom	Germany	Spain	Japan
New Zealand	Australia	Hong Kong	Vietnam	Israel	All Country Ave	China	Japan	Malaysia	Netherlands
Spain	ACWI	France	South Africa	Norway	Australia	Australia	Hong Kong	Philippines	All Country Ave
United Kingdom	Egypt	All Country Ave	Norway	Taiwan	Netherlands	All Country Ave	Singapore	Indonesia	Sweden
Austria	Switzerland	Singapore	ACWI Ex USA	Egypt	ACWI Ex USA	Taiwan	China	Brazil	Egypt
Netherlands	ACWI Ex USA	Germany	Taiwan	Malaysia	Japan	Mexico	Sweden	Japan	United Kingdom
Poland	Norway	China	ACWI	Vietnam	Spain	UAE	Poland	ACWI	ACWI Ex USA
ACWI Ex USA	Vietnam	UAE	USA	Canada	United Kingdom	Norway	United Kingdom	Portugal	Nigeria
Portugal	Finland	Russia	United Kingdom	Australia	Sweden	Spain	Spain	Switzerland	Denmark
Egypt	Austria	Chile	Finland	Korea	Mexico	Chile	India	Finland	Mexico
Denmark	United Kingdom	Taiwan	Malaysia	China	Italy	Singapore	Malaysia	United Kingdom	Spain
ACWI	Germany	Peru	Russia	Poland	France	Indonesia	Finland	USA	Philippines
France	New Zealand	Brazil	Italy	Singapore	Germany	Qatar	Switzerland	Sweden	Canada
Vietnam	Brazil	Portugal	Canada	Russia	Mexico	Malaysia	Philippines	Australia	Italy
UAE	China	Italy	Japan	Mexico	Korea	Nigeria	Ireland	Belgium	China
Italy	Israel	Israel	Chile	Philippines	Chile	Thailand	Belgium	Ireland	Chile
USA	Netherlands	Poland	Ireland	India	Brazil	Egypt	Vietnam	Colombia	Korea
Switzerland	Belgium	Finland	Indonesia	South Africa	Poland	Canada	Turkey	Canada	Germany
Germany	France	Turkey	Greece	Thailand	Colombia	Poland	Mexico	Mexico	South Africa
Greece	UAE	Austria	Portugal	Brazil	Norway	South Africa	Italy	New Zealand	Ireland
Ireland	Portugal	India	Spain	Colombia	Nigeria	Peru	Egypt	Russia	Belgium
Finland	Italy	Vietnam	Brazil	Chile	Austria	Turkey	Greece	Egypt	Austria
Qatar	Ireland	Argentina	Qatar	Indonesia	Portugal	Brazil	Denmark	UAE	Greece
Japan	Spain	Egypt	Israel	Turkey	Greece	Colombia	Israel	Israel	Turkey
Nigeria	Greece	Greece	Argentina	Peru	Russia	Greece	Nigeria	Qatar	Argentina

Source: Morningstar using MSCI indices, 1/1/2009 - 12/31/2018

This information is prepared for general information only. Past performance is not a guide to future performance.

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.

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