CLS INVESTMENTS

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WEEKLY 3

What You Need to Know About the Markets

AUGUST 13, 2019

1 We believe market sell-offs can be big opportunities for investors

2 Women continue to have a greater influence on the U.S. economy

3 Interesting similarities between Bitcoin and gold

Week in Review

Despite a volatile week of trading, U.S. equity markets ended modestly down. The week started with the worst declines of 2019, but the S&P 500 Index fell only slightly, less than 1%.

The continuing trade tensions with China drove a flight to quality, which was evident in sector performance. Traditionally defensive sectors, such as real estate and utilities, led the way; energy and financials lagged. Within domestic equities, growth bested value, and large-cap stocks outperformed their small-cap counterparts.

International markets were notably weaker. China's decision to let the yuan fall below the critical threshold of 7.0 per U.S. dollar drove down emerging market stocks nearly 2%. Developed markets fared slightly better but still underperformed their U.S. counterparts.

The fixed income markets continued to rally. Ten-year U.S. Treasury yields fell to their lowest levels since 2016, and the 30-year U.S. Treasury bond approached all-time-low yields. As negative rates begin to take hold overseas, we believe it is almost certain that the U.S. Federal Reserve (Fed) will cut rates again in September.

Shana Sissel, CAIA

Senior Portfolio Manager

Shana Sissel joined the CLS Portfolio Management Team in 2018. She is primarily focused on CLS's high net worth clients and solutions, including a variety of focused equity strategies and customized tax managed direct index optimization portfolios. Ms. Sissel contributes additional expertise on alternative asset solutions and portfolio construction.

Ms. Sissel has nearly two decades of industry experience at leading investment firms, primarily in Boston and Chicago. Most recently, she was a Client Portfolio Manager at Ariel Investments where she represented Ariel's Domestic Research Team. Ms. Sissel also brings a vast background in market research and analysis through various roles held at Fidelity Investments' Strategic Advisor Inc., Mercer Investments, Peak Financial Management, and Russell Investments.

Ms. Sissel earned a Bachelor of Science Degree in Sport Management from the University of Massachusetts at Amherst before receiving her Master of Business Administration Degree from Bentley University's McCallum School of Business. She also holds the Series 65 and the Chartered Alternative Investment Analyst® (CAIA) designation.

As a frequent media contributor, Ms. Sissel has appeared on CNBC and other regional news outlets. She has also been quoted extensively in the Wall Street Journal, Smart Money, and Investment News.

Market Performance *(as of 8/10/2019)*

Fixed Income	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.48%	+0.89%	+1.43%	+2.30%	+1.44%	+0.24%	+0.04%
U.S. Investment Grade Bonds[2]	+3.99%	+3.21%	+2.70%	+9.32%	+7.75%	+1.54%	+0.57%
Equities	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+8.98%	+6.26%	+8.91%	-0.26%	+13.35%	-2.37%	-0.77%
Total U.S. Market[4]	+13.55%	+10.57%	+12.27%	+3.68%	+18.11%	-0.65%	-0.39%
Domestic Large-Cap Equity[5]	+13.48%	+11.13%	+12.95%	+4.63%	+17.65%	-0.37%	-0.40%
Domestic Small-Cap Equity[6]	+12.31%	+7.17%	+7.80%	-6.94%	+14.95%	-2.63%	-1.03%
International Equity[7]	+5.29%	+2.24%	+5.65%	-4.74%	+8.36%	-4.42%	-1.26%
Developed International Equity[8]	+5.52%	+2.40%	+5.75%	-4.39%	+10.11%	-3.73%	-0.98%
Emerging Market Equity[9]	+4.57%	+1.68%	+5.48%	-5.53%	+3.30%	-6.47%	-2.13%
Diversifiers	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+3.32%	+0.41%	+1.32%	-0.48%	+3.55%	-0.25%	-0.21%
Commodity[11]	-4.58%	-8.61%	-1.11%	-6.65%	+2.37%	-2.56%	+0.30%

[1]Morningstar Cash Index [2]Barclays Capital U.S. Aggregate Bond Index [3]Morningstar Global Market 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 Global ex-U.S. Large-Mid Index [8]Morningstar DM ex-US Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversd Alt Index [11]Bloomberg Commodity Index.

1 Buy the Dip

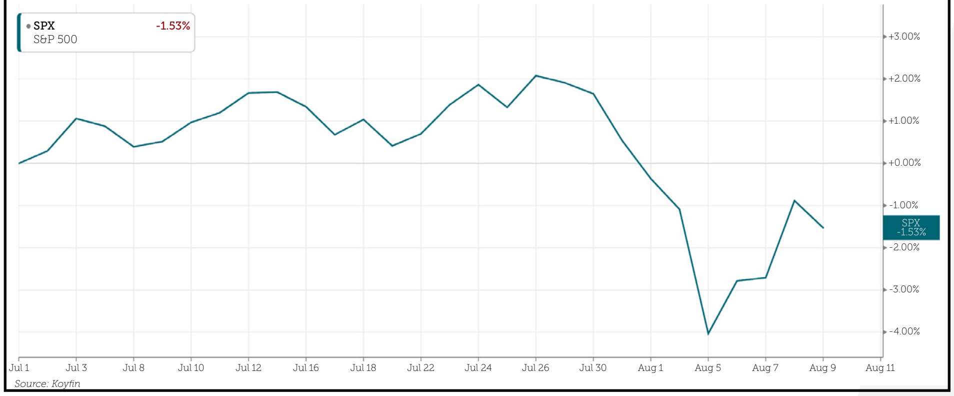
You would have to have been living under a rock over the past few weeks to avoid being bombarded with headlines about the recent market sell-off. For the quarter, the S&P 500 Index is down more than 1%, but the headlines would suggest that a meltdown is occurring and a recession is imminent.

The truth is, 2019 has been a great year for U.S. stocks. Above average, really. So far this year, the S&P 500 Index has returned just over 16%, which is double the long-term average.

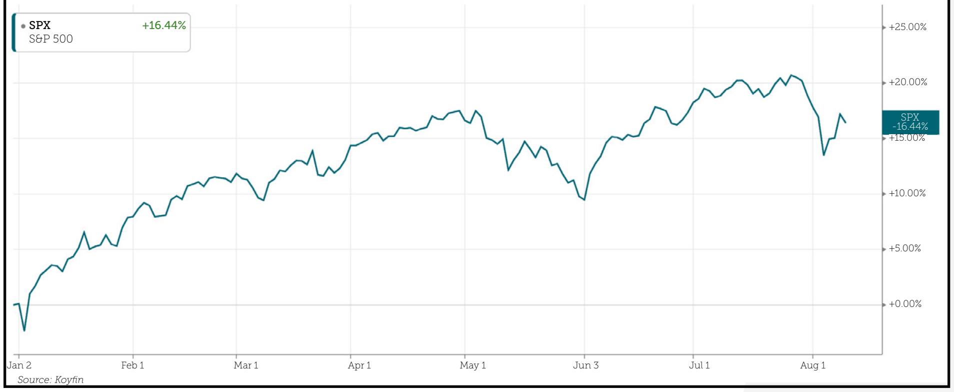
The annual performance of the S&P 500 Index can be highly unpredictable, but, thankfully, most people don't invest only on the first of the year.

Over time, the markets generally trend higher, which is why there are many

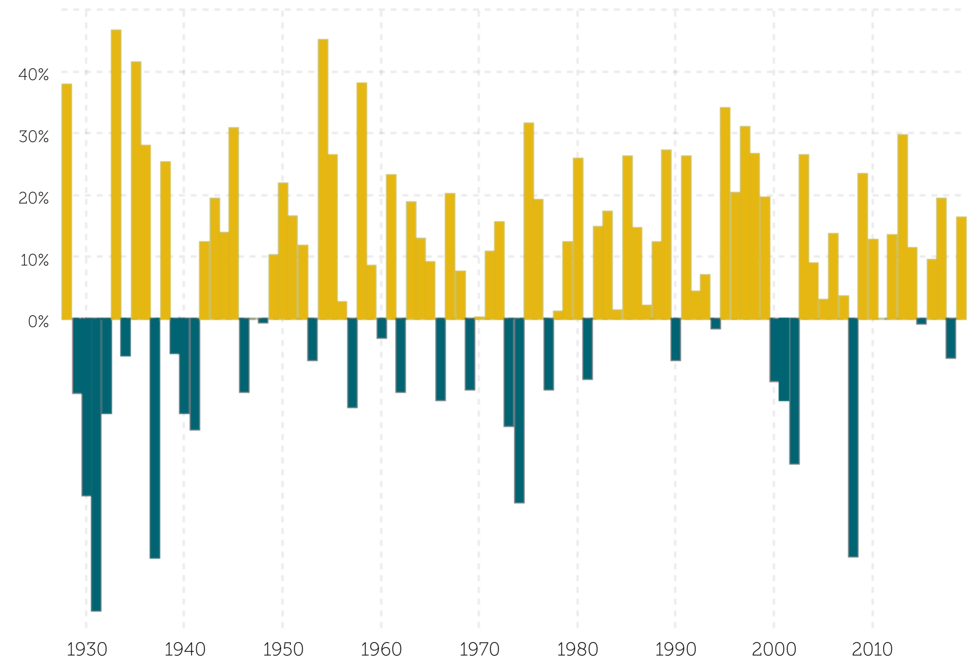
SPX QTD Performance



SPX YTD Performance



Historical Annual Performance of the S&P 500



Performance is calculated as the % change from the last trading day of each year from the last trading day of the previous year.
Source: Macrotrends.net

Past performance is not a guide to future performance. Investing in any security involves certain systematic risks including, but not limited to, market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any unsystematic risks associated with particular investment styles or strategies.

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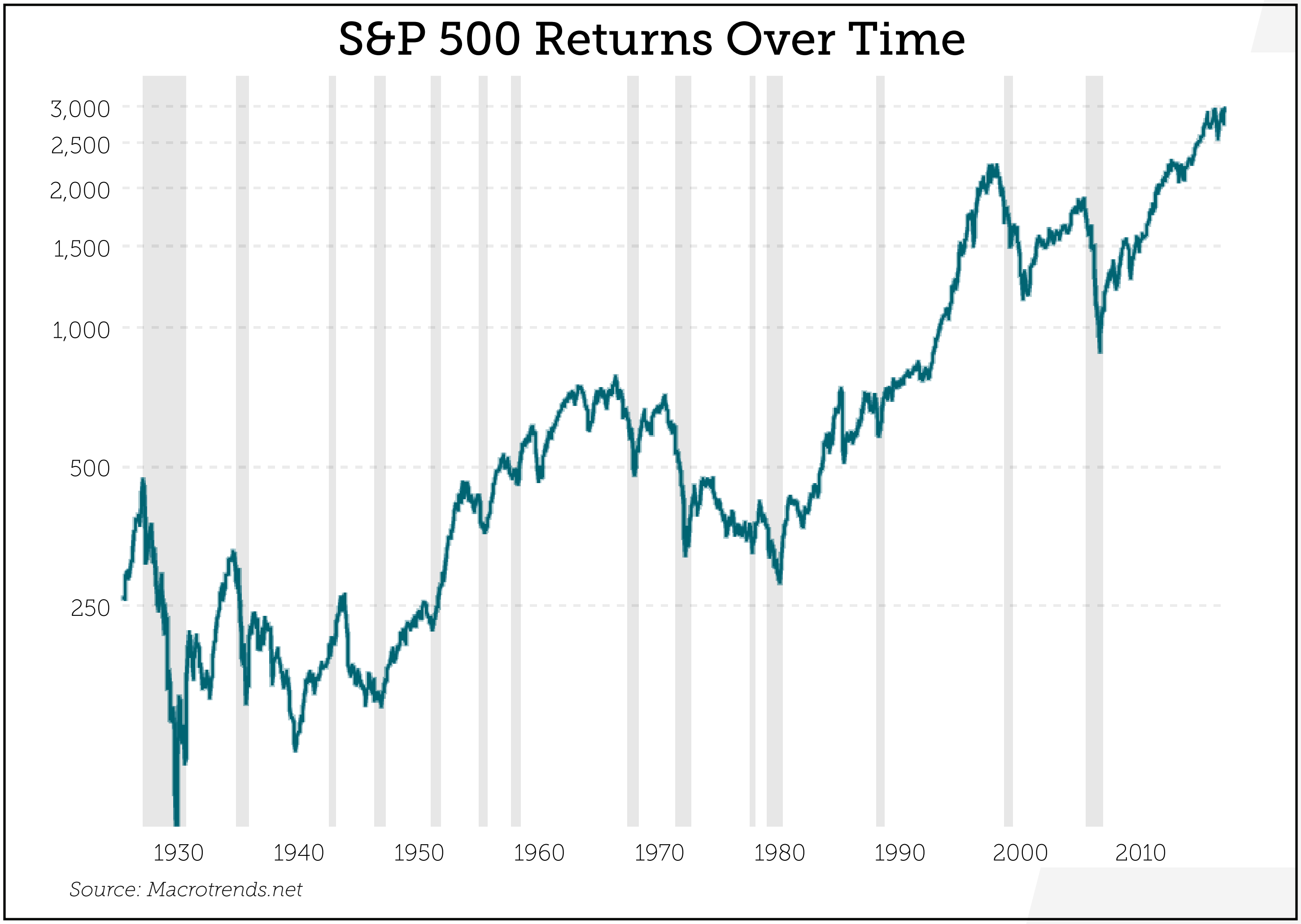
Buy the Dip (Cont.)

different sayings in finance that all generally advise to "buy the dip." The chart below highlights the returns of the S&P 500 Index over time. The shaded areas indicate recession periods.

The moral of the story: We believe that market sell-offs, especially those that seem driven by short-term headlines, are great opportunities for long-term investors to buy stocks.



2 Bringing Home the Bacon

While we often hear about a gender pay gap and gender discrimination in the workplace, we don't hear enough about the progress women have made and how that will impact the economic landscape in the future. Last week, in the Wall Street Journal's "Markets" section, an excellent article highlighted the growing importance of women as drivers of the U.S. economy.

Over the last 50 years, women have reshaped the U.S. workforce. In 1970, 50% of women between the ages of 25 and 54 were in the workforce. Today, that number has risen to more than 75%, while men have seen their workforce participation decline from 96% to 89% over the same period. Much of this change has been driven by more women attending college. Over the last decade, more women have pursued higher education than men. There are now just as many women in the workforce with college degrees as men, and in the coming years, that parity is expected to shift more in favor of women.

This education gap is now beginning to show up among traditional married couples. It is now more common for a woman to have more education than her husband. This is good news for those concerned about the gender pay gap. According to the Department of Labor, on average, a working college graduate aged 25 or older earns 81% more than those workers whose education didn't extend beyond high school. With more women graduating college and entering more lucrative career paths, this should accelerate their earning power.

Women are already beginning to out-earn their partners. A 2017 Pew Research Study found that 31% of women earned as much or more than their husbands, up from 25% in 2000. Improved earnings power often leads to increased input/control over household financial decisions. This is an important point because, as I've noted in the past, women think about money differently than men. Per the Wall Street Journal article referenced above: "A recent survey conducted by Bank of America Merrill Lynch, 41% of women said they would use extra disposable income to pay down debt versus 36% of men. Conversely, 14% of women said they would use the money to buy more things versus 19% of men. Those discrepancies suggest that stereotypes about women overspending are misleading."

As women grow in economic importance, it becomes even more crucial that we close the gender gap in financial literacy. Women continue to lag their male counterparts in their knowledge of basic financial concepts and investing. Organizations such as Rock the Street Wall Street, Invest in Girls and Girls Who Invest are crucial to ensuring that young women enter the workforce with the right foundation to make good financial decisions. It seems cliché and perhaps political to say "the future is female," but the truth is women are growing in their influence of our world, so we must make sure they have the tools they need to succeed.

3 Digital Gold vs. the OG

Bitcoin (BTC) has been back in the news recently as its price has soared. While Bitcoin and the world of cryptocurrencies get all the hype, the OG (original gold) is also experiencing strong performance. Bitcoin enthusiasts like to refer to the cryptocurrency as "Digital Gold" or "Gold 2.0," and the label has stuck for a variety of reasons. Here are a few of the comparisons between Bitcoin and gold highlighted in a recent piece by CoinWeek.

- Both have obvious monetary characteristics.
- Both have a limited supply that gradually increases over time as a result of "mining."
- At some point in the future, the supply growth of each will slow down, ultimately to a fixed amount.
- Just like gold is the king of precious metals, Bitcoin is the most trusted and valuable of the cryptocurrencies.

In truth, cryptocurrency has far more similarities to gold than to fiat currency. However, if you had to choose to invest your money in either Bitcoin or gold today, which would you choose? While I certainly believe the future lies in the blockchain, I'm not quite as sold on cryptocurrencies. You may think I'm antiquated in my thinking, but let me lay out my case. Here are my top five reasons that I'd choose gold over Bitcoin.

1. Gold is a physical commodity that has been used for centuries to facilitate commerce. Until recently, it physically backed the value of most of the world's fiat currency. Its value can be clearly calculated through physical supply and demand, and it has usefulness beyond just being the doomsday currency of choice. Gold has a variety of important real-world uses that make it worth the cost of digging out of the ground. Bitcoin and other cryptocurrency value is not so easy to understand. It lies in perception and potential. It is completely digital and, even today, cannot truly be exchanged for much of anything. Its inherent value lies in its necessity for the blockchain, but it still needs to convert to something else to be used for commerce.

2. Bitcoin's usage value comes exclusively from the blockchain. The simplest way to think about why Bitcoin and crypto assets are important is to understand the game-changing power of the blockchain. The blockchain offers a cheap and fast way to send money to anyone with no need for a bank. It's completely decentralized, which is what makes it so powerful. Make no mistake about it, the blockchain is a game changer, and it's not going away. However, the blockchain needs digital tokens to work; while fiat currency is electronic, it is not digital. That's where crypto becomes important. However, when it comes to actual usage, the most innovative blockchain technologies leverage another cryptocurrency, Ethereum (ETH), not Bitcoin. So, if you are betting on which crypto asset will be most widely used on the blockchain, Ethereum, not Bitcoin, is leading the way in broad adoption.

3. Gold has no true substitute. Gold's history as a store of wealth is unprecedented. Even today, central banks around the world still hold tons of the metal. The fact that we don't see financial institutions holding any other commodities besides gold as reserves is quite telling. More importantly, in looking at its use in the real world, no other metal can replace gold in terms of its chemical properties. Neither platinum, nor copper, nor silver will behave in the same way in chemical reactions, making gold difficult to substitute in technological or industrial applications. On the other hand, Bitcoin is incredibly easy to substitute. As pointed out recently by Everett Millman of Gainesville Coins, "Bitcoin has several prominent competitors in the crypto space. Ethereum (ETH) is noteworthy for the flexibility of its blockchain network, which can accommodate all sorts of apps and smart contracts. Ripple (XRP) is another major cryptocurrency, and its network can handle transactions much faster than Bitcoin."

4. Bitcoin brings greater risk to the table. Bitcoin's purchasing power is wildly unstable. If your money's purchasing power swung 80% in only a few months, it would be extremely hard to make the case for its use as a stable store of wealth or trusted medium for exchange. Additionally, Bitcoin has significant counterparty risk. The value of a currency lies in the reliability of the entity that guarantees its value. Given the unregulated nature of the crypto world, there is really nothing protecting the transactions that occur there. Decentralization has many benefits, but without some sort of regulatory framework, it really is buyer beware. Add to that the rising incidents of hacking within the crypto world, and it's hard to argue

3 Digital Gold vs. the OG (Cont.)

there is minimal risk in Bitcoin as an investment. Physical gold, on the other hand, has zero counterparty risk. If you physically hold gold bullion, you have no risk of anyone defaulting on it.

5. Bitcoin has very little use as a hedge to traditional asset classes. Bitcoin has limited history. For the short time it has existed, it has never demonstrated an ability to hedge the downside risk of much of anything, as shown in the chart below.

In truth, I find the world of the blockchain and crypto assets fascinating, and I enjoy learning as much as I can about the space. However, it's hard to argue that cryptocurrency is anything but risky and speculative today. The potential reward is undeniable, but so is the risk. Unlike speculating on a company or person, cryptocurrency's value is derived solely on the potential of the blockchain. A binary outcome is virtually guaranteed.

Source: Koyfin

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