CLS's

WEEKLY 3

What You Need to Know About the Markets

SEPTEMBER 17, 2019

CLS INVESTMENTS

1 **Value stocks are particularly cheap, but is now the right time to buy?**

2 **Global investors should be open to opportunities everywhere**

3 **Investing may seem dominated by math, but in some ways, it's more relatable to science**

Week in Review

Markets were mostly positive last week. Market participants seemed to be focused on gestures of goodwill by the U.S. and China around trade. Chinese officials allowed exemptions on some U.S. products that were originally on the tariff list, and the U.S postponed a 5% increase in tariffs to Oct. 15. These developments, among others, helped risk assets move higher for the week.

Bonds and other interest-rate-sensitive assets, on the other hand, had a tough week. Bond yields rose sharply across the curve as the benchmark 10-year Treasury yield went from 1.47% to 1.90%. The 0.43% increase caused bonds to lose more than 6% on the long end and less than 1% on the short end. Real estate investment trusts (REITs) also had a tough week as a result, falling more than 1%.

Economic data was light, but retail sales were surprisingly positive – an encouraging sign in this long-run bull market. Inflation, which has been subdued for a long time now, rose more than expected, up more than 2% year-over-year. This helped commodities climb more than 1%.

At CLS, we will keep an eye on the U.S. Federal Reserve (Fed) meeting this week. A rate cut is almost certain, but with positive data and inflation picking up, don't bet all your marbles on the cut. The market expects a 25-basis-point cut, but the likelihood of no move has been gaining traction and now sits at 20%. That's up from 0% one month ago.

Case Eichenberger

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.

Market Performance *(as of 9/13/2019)*

Fixed Income	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.49%	+0.93%	+1.48%	+2.29%	+1.62%	+0.42%	+0.04%
U.S. Investment Grade Bonds[2]	+3.66%	+3.20%	+2.74%	+8.62%	+7.13%	+0.96%	-1.66%
Equities	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+8.78%	+6.51%	+10.84%	+3.86%	+17.48%	-1.19%	+1.36%
Total U.S. Market[4]	+13.49%	+10.56%	+14.24%	+4.78%	+21.73%	+2.40%	+1.10%
Domestic Large-Cap Equity[5]	+13.47%	+11.18%	+15.02%	+5.89%	+21.47%	+2.86%	+0.91%
Domestic Small-Cap Equity[6]	+12.21%	+7.33%	+9.92%	-5.07%	+19.31%	+1.07%	+3.56%
International Equity[7]	+5.04%	+2.77%	+7.58%	+2.76%	+13.21%	-0.14%	+1.90%
Developed International Equity[8]	+5.21%	+2.90%	+7.56%	+2.31%	+14.85%	+0.42%	+1.88%
Emerging Market Equity[9]	+4.52%	+2.30%	+7.83%	+4.71%	+8.45%	-1.80%	+1.97%
Diversifiers	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+3.06%	+0.42%	+1.87%	+0.84%	+4.80%	+0.95%	+0.20%
Commodity[11]	-3.92%	-7.38%	-0.23%	-2.64%	+4.25%	-0.77%	+1.08%

[1]Morningstar Cash Index [2]Bloomberg Barclay's 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 Gbl xU.S. Large-Mid Index [8]Morningstar DM xUS Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversified Alternatives Index [11]Bloomberg Commodity Index.

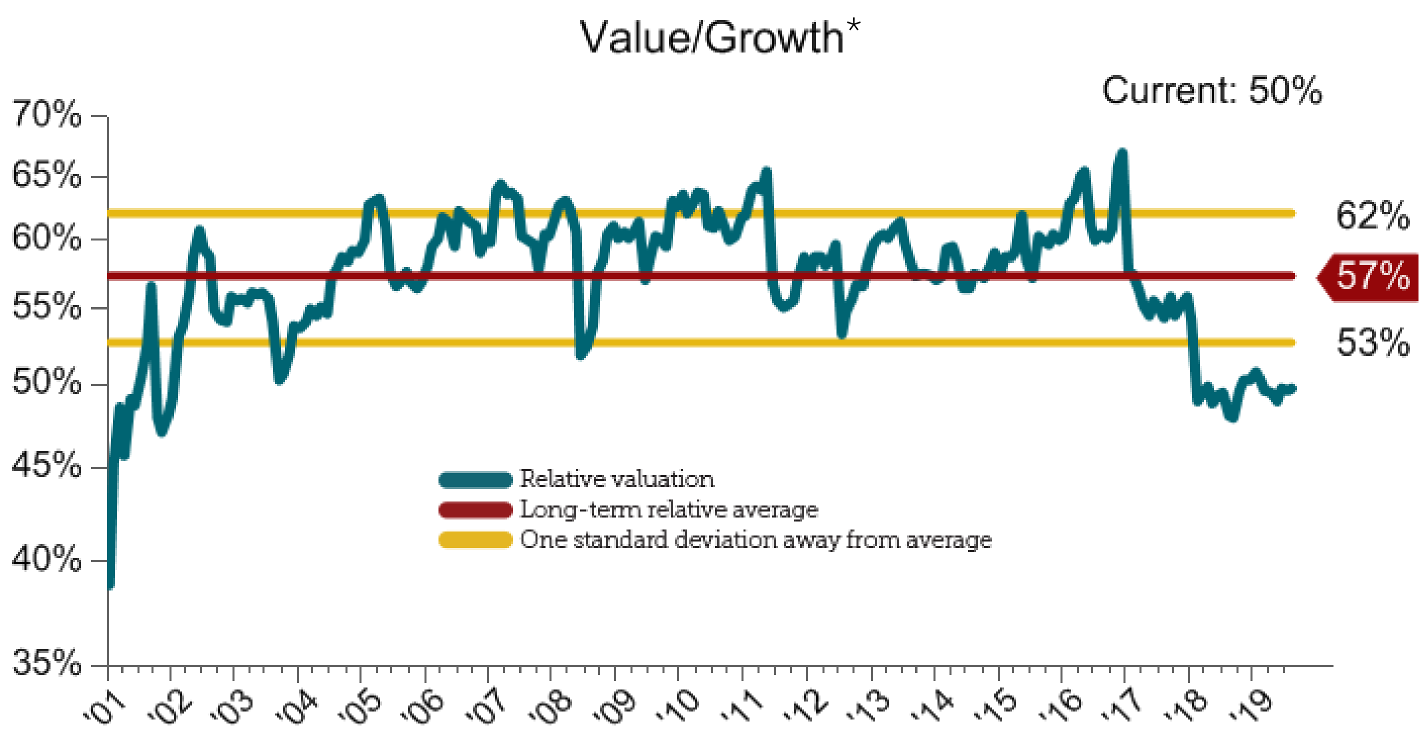
1 The Long Wait in Relative Value Investing

Over the years, value stocks globally have underperformed growth and momentum stocks. Persistently low rates typically favor growth over value, but the more expensive an asset class gets, the lower its future returns.

The difficulty is in knowing exactly when the tide will turn. No one can predict with 100% confidence, which is the reason we diversify. CLS believes in looking across the globe and tilting portfolios toward areas that are on sale and away from those that are trading richly. The chart below from CLS's Monthly Chart Pack shows that U.S. value stocks, which always trade at a discount, are currently very cheap and therefore offer higher expected returns.

Has the tide turned? There were some large moves in the right direction last week. Value stocks in the U.S. and overseas saw tremendous outperformance to the tune of 3%. On the surface, that may not seem large, but value as a (long-only) factor compared to momentum showed a much more striking differential, at more than 6%. This prompted many to say that value stocks are back! CLS agrees that value may likely offer higher returns moving forward, but we are hesitant to offer this as a signal for everyone to jump on the train at once. Our own proprietary research shows that performance needs to continue in order to break out of its sustained downward trend.

Nonetheless, last week was a very positive sign. Traditional value sectors, such as financials and energy, were up 3-4%. And growth sectors, such as tech, were down less than 1%. Only time will tell if this trend can continue, but we believe those who are patient and disciplined will be rewarded.



*ETFs used where index data is unavailable

Source: Factset as of 8/31/2019

2 The Best Stock Markets You'll Never Invest In

Global investing is another approach CLS stands by. Similarly to value's recent underperformance, overseas stocks have seen their share of struggles compared to the high-flying U.S. market. If we dive deeper, I'm willing to bet there are a few countries (that are easily investable via ETFs) you would never touch, and if you saw them in a portfolio, you would fire your manager.

That would be a mistake. A good manager should balance risk with potential return. Sometimes the best value to be had is in the areas no one will look at. Some of these are in countries perceived to be the most corrupt, including Greece and Russia.

These two countries are not without their own unique problems. Greece made headlines for its massive government deficit going into the global financial crisis of 2008-2009, and as a result, the economy contracted by more than 26% in 2013 – hardly a place you'd be happy to park your hard-earned money. Russia, on the other hand, really needs no back story. Since the collapse of the Soviet Union, Russia moved toward a market-based system, but a vast majority of wealth remains concentrated in the hands of a few (oligarchs). Sanctions and falling oil prices have caused Russia's stock market to trade at price-to-earnings ratios of less than six!

With the rosy picture painted above, you might imagine the stock markets in these countries are in a perpetual state of negative returns, or maybe you're surprised these countries even have investable markets. However, they do, and investors strong enough to stomach the risk have been rewarded in 2019. Greece (represented by the ETF GREK) has been one of the best performers this year, up more than 35% (as of Sept. 13), and Russia (represented by the ETF ERUS) is not far behind, up more than 31%. This compares to a return of more than 17% for the global benchmark in 2019.

My point is not necessarily to encourage you to invest in the most corrupt countries and hope for returns, but I suggest not actively shunning them either. You never know where the next market leader will come from. Even when the news is so bad, all it takes is a small improvement in the data to get investors excited again.

Individual Countries	Ticker	YTD Return
Global X MSCI Greece ETF	GREK	35.37
iShares MSCI Russia Capped ETF	ERUS	31.16
iShares MSCI Netherlands ETF	EWIN	24.17
iShares MSCI Switzerland ETF	EWL	23.54
SPDR® S&P 500 ETF	SPY	21.61
iShares MSCI Canada ETF	EWC	21.42
iShares MSCI Italy Capped ETF	EWI	20.19
iShares MSCI Australia ETF	EWA	19.54
iShares MSCI Belgium Capped ETF	EWK	19.09
Global X MSCI Colombia ETF	GXG	18.42
Benchmark 1: Morningstar Global Market Large-Mid Index		17.48

Source: Morningstar as of 9/13/2019

3 Three Ways Investing is More Like Science than Math

I grew up in a household of teachers. My grandmother was a teacher in the 1950s, my uncle taught at a university in Arkansas, and my father taught in a Nebraska high school. They all focused on the field of science. My brother, on the other hand, went into mathematics, and I have been lucky enough to enjoy a career in a blend of the two: finance.

Novice investors believe that math dominates the field of finance. Some believe there are set rules to gain returns. But I believe the field of finance and the markets is much more related to science than math.

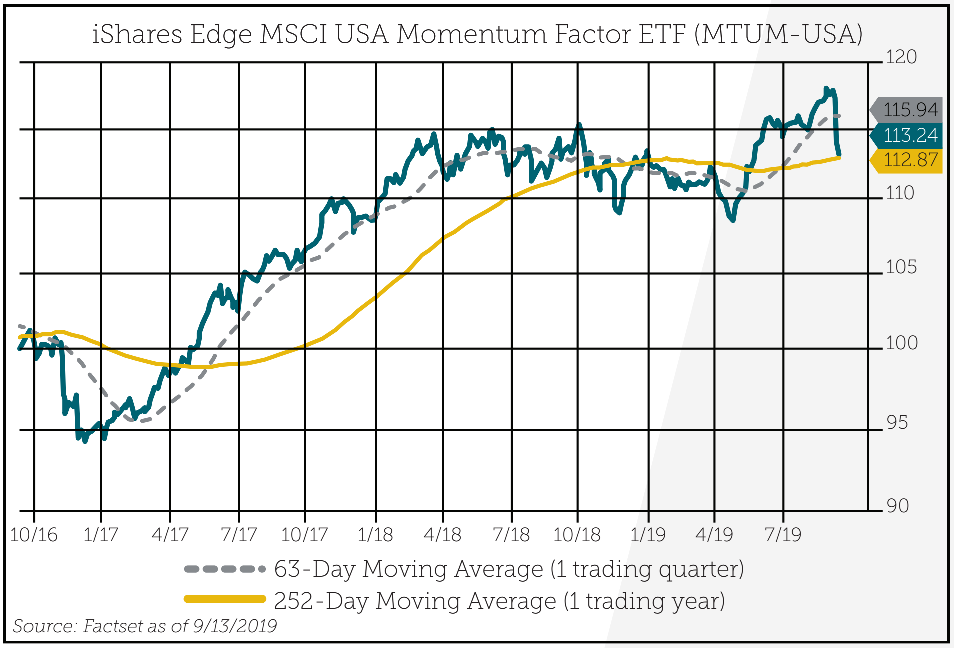
Below are three ways that science and finance are tied at the hip.

Biology is the study of life and living organisms. The market itself is like a living organism. It is the embodiment of all the participants who live and breathe and transact to buy and sell various investable instruments, such as stocks, bonds, and options. Morgan Housel, one of finance's best writers, said investing is "not Excel and charts. It's dopamine and cortisol." I could not agree more. Yes, the math behind all this is very, very important, but learning how to work with individuals and their moods and sentiments is just as important. People with differing opinions and ideas and emotions make the market.

Inertia is the resistance of any physical object to any change in its velocity. In the markets, this plays out as trends. As an investor, it is important to know when not to follow the hot trend and when to let your winners run. Markets often trend in upward and sometimes downward directions. Recently, the inertia of some prominent factors we can invest in has broken down. Take a look at the chart below, which shows a momentum ETF that invests in positive-trending stocks. Seems like an easy bet to make, but sometimes the inertia changes and can come crashing down. The blue line is the daily price change.

Osmosis has a few definitions, but the one we'll use here is an effortless, often unconscious, assimilation. My father, while teaching, used to catch students resting their heads on their biology books, and he would tell them that you cannot learn the subject material by osmosis. Put another way, you can't learn it by just sitting there, being effortless. However, can we gain wealth by being effortless? I believe we can. Often, it is the overly emotional day trader who loses out on the stock market, and it is the patient investor who wins by simply investing in a diversified basket of stocks and bonds and not disrupting the effects of compounding. Osmosis can be your friend in finance and investing.

The markets and investing can be a confusing place, but if you are able to understand the basic principles of investing (math) and learn how to evolve as an investor (biology), you may find it easier to realize your financial goals.



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.

CLS Strategies are not sponsored, endorsed, sold or promoted by Morningstar, Inc. or any of its affiliates (all such entities, collectively, "Morningstar Entities"). The Morningstar Entities make no representation or warranty, express or implied, to the owners of the CLS Strategies or any member of the public regarding the advisability of investing in CLS Strategies generally or in the specific strategy presented here in particular or the ability of the CLS Strategies to track general market performance.

THE MORNINGSTAR ENTITIES DO NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE CLS STRATEGIES OR ANY DATA INCLUDED THEREIN AND MORNINGSTAR ENTITIES SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN.

Any 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. The views expressed herein are exclusively those of CLS Investments, LLC, and are not meant as investment advice and are subject to change. No part of this report may be reproduced in any manner without the express written permission of CLS Investments, LLC. Information contained herein is derived from sources we believe to be reliable, however, we do not represent that this information is complete or accurate and it should not be relied upon as such. 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.

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.

1232-CLS-9/17/2019

CLS INVESTMENTS