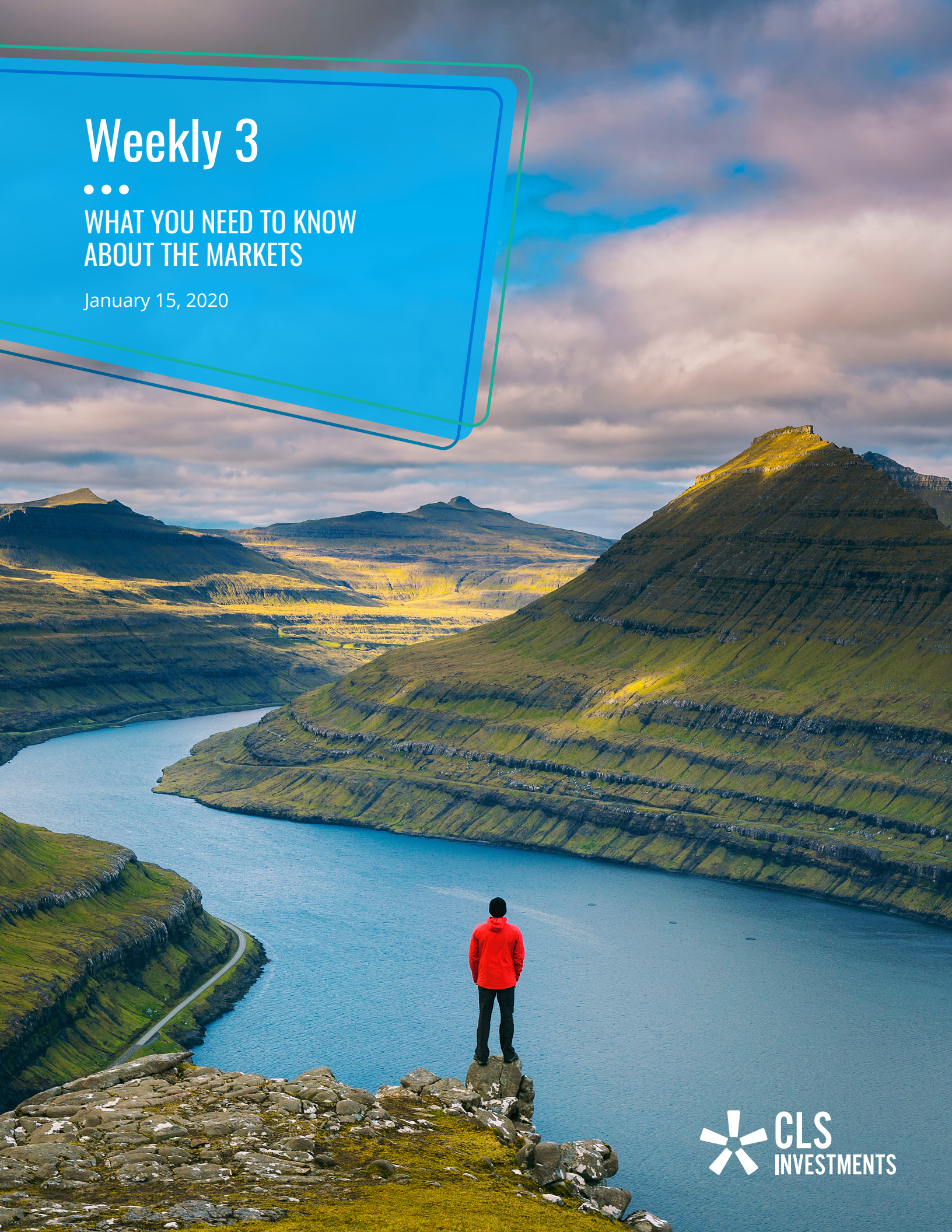


Weekly 3

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WHAT YOU NEED TO KNOW ABOUT THE MARKETS

January 15, 2020



Week in Review

Another week, another all-time high for global stocks. The uncertainty related to tensions with Iran (see next section) that began the week faded quickly, and stocks marched higher. Easing tensions, signs that the phase one trade deal will be signed with China soon, and good-enough economic numbers all buoyed sentiment. Emerging market stocks rose for the sixth week in a row.

Bonds fell slightly on the week with the closely followed 10-year Treasury closing at 1.82%. The last non-farm payroll report for 2019, or the decade if you want to be dramatic, came in slightly below expectations at 145,000 jobs, and the unemployment rate remained at 3.5%. December marks the seventh consecutive month of more than 100,000 jobs created.

Commodities fell on the week as the dollar rebounded, and easing tensions in the Middle East sent oil prices lower (after initially spiking). Gold prices rose, however, and continue to be one of the best performing asset classes so far this year. Corporate earnings season begins this week.

Market Performance

as of 01/10/2019

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent ¹	+0.55%	+1.04%	+1.63%	+2.15%	+0.05	+0.05	+0.03
U.S. Investment Grade Bonds ²	+3.74%	+2.96%	+4.05%	+9.20%	+0.45%	+0.45%	-0.09%
EQUITIES	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Global Equity Market ³	+8.78%	+8.92%	+12.15%	+22.82%	+0.90%	+0.90%	+0.63%
Total U.S. Market ⁴	+13.32%	+11.77%	+14.68%	+27.53%	+1.12%	+1.12%	+0.96%
Domestic Large-Cap Equity ⁵	+13.44%	+12.50%	+15.99%	+29.20%	+1.40%	+1.40%	+1.12%
Domestic Small-Cap Equity ⁶	+11.65%	+8.08%	+7.70%	+17.03%	-0.34%	-0.34%	-0.10%
International Equity ⁷	+5.12%	+6.32%	+9.54%	+17.63%	+0.53%	+0.53%	+0.17%
Developed International Equity ⁸	+5.37%	+6.28%	+8.95%	+17.87%	+0.15%	+0.15%	-0.08%
Emerging Market Equity ⁹	+4.22%	+6.30%	+11.60%	+16.84%	+1.62%	+1.62%	+0.89%
DIVERSIFIERS	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Diversified Alternatives ¹⁰	+2.81%	+0.94%	+2.15%	+6.20%	+0.00%	+0.00%	+0.08%
Commodity ¹¹	-4.97%	-3.83%	-0.75%	+3.67%	-0.18%	-0.18%	-0.78%

¹Morningstar Cash Index ²Bloomberg Barclay's Capital U.S. Aggregate Bond Index ³Morningstar Global Market Large-Mid Index ⁴Morningstar U.S. Market Index ⁵Morningstar U.S. Large Cap Index ⁶Morningstar U.S. Small Cap Index ⁷Morningstar Gbl ex U.S. Large-Mid Index ⁸Morningstar DM ex U.S. Large-Mid Index ⁹Morningstar EM Large-Mid Index ¹⁰Morningstar Diversified Alternatives Index ¹¹Bloomberg Commodity Index.

1

Crises can make investors nervous, but they also present buying opportunities.

2

2019 was a great year for ETFs, and the future looks even brighter.

3

The SECURE Act could make it easier for people to retire with more security.

On the Brink?

The U.S. attack on a prominent Iranian general on January 3 took markets by surprise. Stocks fell, while oil and gold rallied. Hope of a resolution to the trade war with China took a back seat as minds raced about real war. But it didn't take long at all for markets to recover. Before we knew it, new highs were being set. Of course, we don't know if this situation is behind us completely, but there are still a couple of lessons to be learned (or at least revisited).

It's Always a Buying Opportunity

I can say with confidence that any market correction – regardless of its cause – is a buying opportunity for long-term investors. Markets are higher today than they were after the recent attack, higher today than after the financial crisis, the Great Depression, or either world war.

The chart and table below are from one of my favorite studies. You may have seen them used before, but they show the market reaction during and after specific “crisis” events. Everything from the Bay of Pigs invasion to Brexit is included. There does appear to be a negative bias during the time of the event. That is natural as market participants reassess. We also don't necessarily know the prevailing market environment; it can be more difficult than people think to truly isolate a cause for market movement. But importantly, the decline is short-lived. In the weeks, months, quarters, and years following these events, the market averages double-digit returns. In fact, if we exclude two of the crisis events during the 2008 financial crisis, the end numbers improve dramatically. And we all know how good the returns have been coming out of 2008 because, well, we are living in them.

DAYS FOLLOWING REACTION DATES					
CRISIS EVENTS SINCE 1979	REACTION DATE %	22	63	126	253
Mean	-3.3%	1.5%	1.9%	3.8%	10.6%
Median	-2.3%	2.4%	3.5%	4.8%	13.1%
% Positive	21%	76%	70%	73%	73%

DAYS FOLLOWING REACTION DATES					
CRISIS EVENTS SINCE 1979 (EX. 2008)	REACTION DATE %	22	63	126	253
Mean	-3.6%	2.2%	3.7%	6.4%	14.8%
Median	-2.5%	2.5%	3.5%	5.1%	17.6%
% Positive	20%	80%	73%	80%	80%

Sources: CLS Investments, Ned Davis Research, Morningstar

1



GRANT ENGELBART,
CFA, CAIA

Director of Research &
Senior Portfolio Manager

Grant Engelbart manages CLS's aggressive mutual funds and several ETF and mutual fund separate account strategies, including CLS's American Funds portfolios. He also leads the alternative broad asset class team and serves on several committees across CLS's parent company, Orion Advisor Solutions, LLC.

Mr. Engelbart first joined CLS as an intern in 2007. He returned in 2009 and held several roles in trading and investment research prior to accepting the role of Portfolio Manager in 2013. He previously held positions at TD Ameritrade and State Street Corporation.

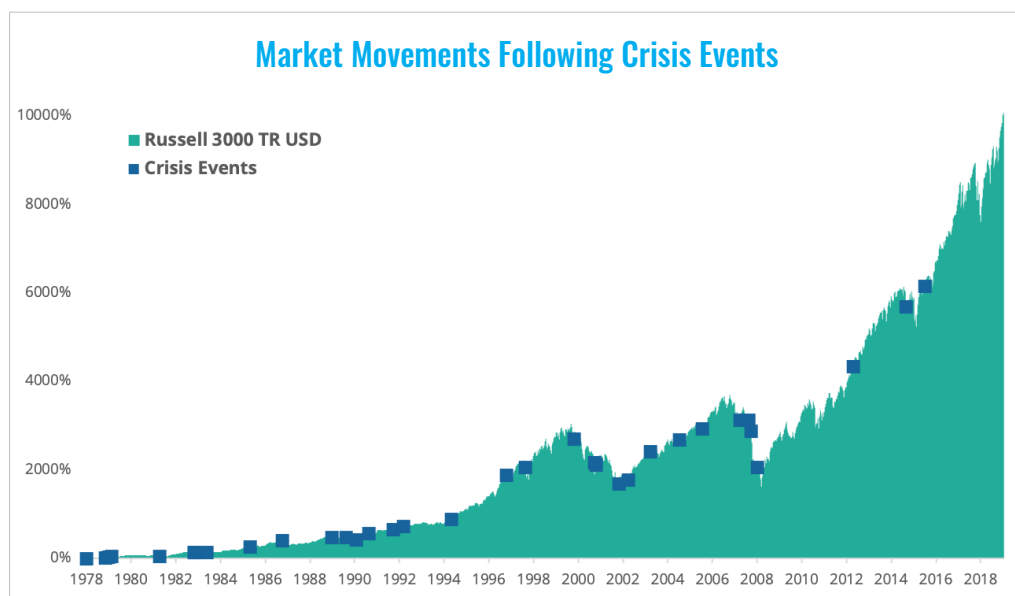
Mr. Engelbart received his Bachelor of Science degree in Finance from the University of Nebraska at Lincoln. He holds the Chartered Financial Analyst® (CFA) designation, Chartered Alternative Investment Analyst® (CAIA) designation, and Series 65 license. He is a member of the CFA Society of Nebraska and the CAIA Chicago Chapter.

Mr. Engelbart was named one of the Top Ten Money Managers to Watch by Money Management Executive in 2018.*

Did you know? [Grant invested in his first fund at age 13.](#)

On the Brink? (cont.)

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Source: Morningstar, Ned Davis Research

Diversification Still Works

Some investors may be scratching their heads trying to understand the point of owning any asset class besides large-cap U.S. growth stocks. I won't preach the benefits of international investing, staying balanced, or why I believe you need to own emerging markets and value stocks right now (although you can find all that info here and here), but I will mention commodities. Commodities have been shunned by investors for having too much volatility and not delivering on returns as of late. But investors may be missing the point. With that volatility comes a lack of correlation to other asset classes, which in turn brings down your overall portfolio risk. We saw this in action after the Iran incident. Gold and oil (both had returns of nearly 20% in 2019, not too shabby) climbed several percentage points more than global stocks did. If you are worried about tensions escalating, commodities make a lot of sense. Not to mention their attractive relative valuations and ability to hedge against unexpected inflation.

The State of the ETF Union

2

Despite being a month or so away from the actual State of the Union address, the beginning of the year is a good time to look at how the ETF marketplace has evolved. 2019 was quite a year in the ETF space for a number of reasons. Let's look at some of the major developments.

1. No More Commissions!

In an [exciting day](#) of rapid industry change, Schwab cut commissions across ETFs, stocks, and options (they were not the first to do so), which then led TD Ameritrade to cut commissions that same day. Fidelity and Vanguard, which already had an extensive commission-free ETF list, cut commissions in the weeks following.

2. Active Non-Transparent

Earlier in the year, Precidian won approval for an active non-transparent ETF structure known as "ActiveShares." These would be very similar to traditional ETFs but without the daily disclosure requirements that have held back many active equity managers worried about front-running their trades. Later in the year, several other proposed structures were approved by the SEC (these included companies such as T. Rowe Price and Fidelity). Several large equity managers are at least interested in these structures, as names like Capital Group (American Funds), BlackRock, and JP Morgan have signed on. We've yet to actually see a product launch, but this could be a key development for ETFs going forward.

3. Best and Worst Performers

2019 was a great year for many asset classes. Looking at non-levered or inverse (or VIX) ETFs, risk-on sectors such as clean energy, semiconductors, biotech, silver miners, and the [mischievous OIL exchange-traded note](#), took the top spots. Bringing up the rear were natural gas products, one of the longest-running "alternative harvest" ETFs, and a mixed bag of frontier market ETFs.

NAME	TICKER	2019 RETURN	NAME	TICKER	2019 RETURN
Invesco Solar ETF	TAN	65.7%	iPath® Bloomberg Natural Gas SubTR ETN B	GAZ	-37.5%
SPDR® S&P Semiconductor ETF	XSD	64.6%	United States Natural Gas	UNG	-30.5%
VanEck Vectors Semiconductor ETF	SMH	64.5%	ETFMG Alternative Harvest ETF	MJ	-28.6%
Virtus LifeSci Biotech Clinical Tris ETF	BBC	62.6%	Velocity Shares Long LIBOR ETN	ULBR	-27.7%
iShares PHLX Semiconductor ETF	SOXX	62.4%	VanEck Vectors India Small-Cap ETF	SCIF	-21.6%
SPDR® Kensho Clean Power ETF	CNRG	62.0%	iShares MSCI Chile Capped ETF	ECH	-18.1%
Invesco WilderHill Clean Energy ETF	PBW	61.9%	United States 12 Month Natural Gas	UNL	-17.8%
First Trust Nasdaq Semiconductor ETF	FTXL	61.4%	Breakwave Dry Bulk Shipping ETF	BDRY	-17.2%
ETFMG Prime Junior Silver ETF	SILI	56.3%	Global X MSCI Nigeria ETF	NGE	-16.4%
iPath® S&P GSCI® Crude Oil TR ETN	OILNF	53.8%	First Trust Natural Gas ETF	FCG	-15.7%

Source: Morningstar

The State of the ETF Union (cont.)

4. Total Growth

ETFs saw \$326 billion in inflows in 2019, the second largest on record (2017). Total ETF AUM grew 31% to just more than \$4.4 trillion. Approximately 250 ETFs were launched in 2019, and about 150 closed down. Amazingly, at least four different ETFs opened and closed within the year — talk about a short leash. Growth overall continues to be strong, but it also continues to be highly concentrated in the largest issuers. As 2020 begins, monitoring developments such as the ETF rule, non-transparent active, and commission-free platforms will be important to see if new and growing issuers can take market share.

2

The SECURE Act

3

Let's end with everyone's favorite subject – legislation! On December 20, 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act. This received less news coverage than other recent legislation, and given the slower time of year in which it was passed, may have been overlooked by some, so let's dive in.

- **Required minimum distribution age is now 72 (up from 70 ½).**
- **IRA contributions can continue past age 70 ½ (no age limit as long as you are still working).**
- **Most inherited IRAs must be taken within 10 years of receiving assets (just about the only “bad” change, but there are many exceptions).**
- **Part-time workers may now be eligible to join their company's 401(k) plan.**
- **Small businesses may receive benefits, such as a tax credit for starting a plan, and multiple employer plans (MEPs) were expanded so unrelated small businesses can bundle together.**
- **Parents can withdraw up to \$5,000 penalty-free for the birth or adoption of child.**
- **529 assets can be used to pay down up to \$10,000 in student loan debt.**
- **Auto-enroll contributions now max out at 15% versus 10%.**
- **Additional transparency is now offered around purchasing an annuity with your qualified account.**

Taken on their own, most of these changes aren't earth-shattering. But, in sum, they are important and needed. Generally, allowing more people to participate in retirement plans and to do so longer in life is a positive development. These changes can only go so far, however. Advisors can take the next step by helping new waves of participants understand their savings options and offering management solutions to keep them invested for the long term.

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 Morningstar Diversified Alternatives Index allocates among a comprehensive set of alternative underlying ETFs that employ alternative and non-traditional strategies such as long/short, market neutral, managed futures, hedge fund replication, private equity, infrastructure or inflation-related investments. 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 Russell 3000 Index is an unmanaged index considered representative of the U.S. stock market. The index is composed of the 3,000 largest U.S. stocks. 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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*CLS Investment, LLC ("CLS") Senior Portfolio Manager & Co-Director of Research, Grant Engelbart, CFA, CAIA, was selected as a "Top 10 Fund Managers to Watch" in 2018 by Money Management Executive. Money Management Executive is an unbiased, third-party publication covering the asset management industry. Money Management Executive chose the list of managers to watch by screening Morningstar data from funds with a single manager, ranked as having the best three-year annualized returns in their respective categories. The list of managers was published March 12, 2018. Money Management Executive is not affiliated with CLS. Ratings and awards may not be representative of any one client's experience and are not indicative of CLS's future performance.



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