

Quality and Momentum, Top Performers in Q1

U.S. listed, smart beta ETFs declined \$771 million to \$707.1 billion in AUM during the first quarter of 2018. The U.S. listed, multi-factor segment of smart beta ETF assets grew 5.5% to \$75.2bn. During a quarter of elevated market volatility, Quality and Momentum were the best performing factors.

Diversifying a portfolio by asset class, region and sector is important for investors looking to reduce risk. Diversifying by factors, adds another method for investors looking to reduce the volatility in their portfolio returns. The 6 main factors are quality, volatility, yield, momentum, value and size.

Reasons to consider a multi-factor approach:

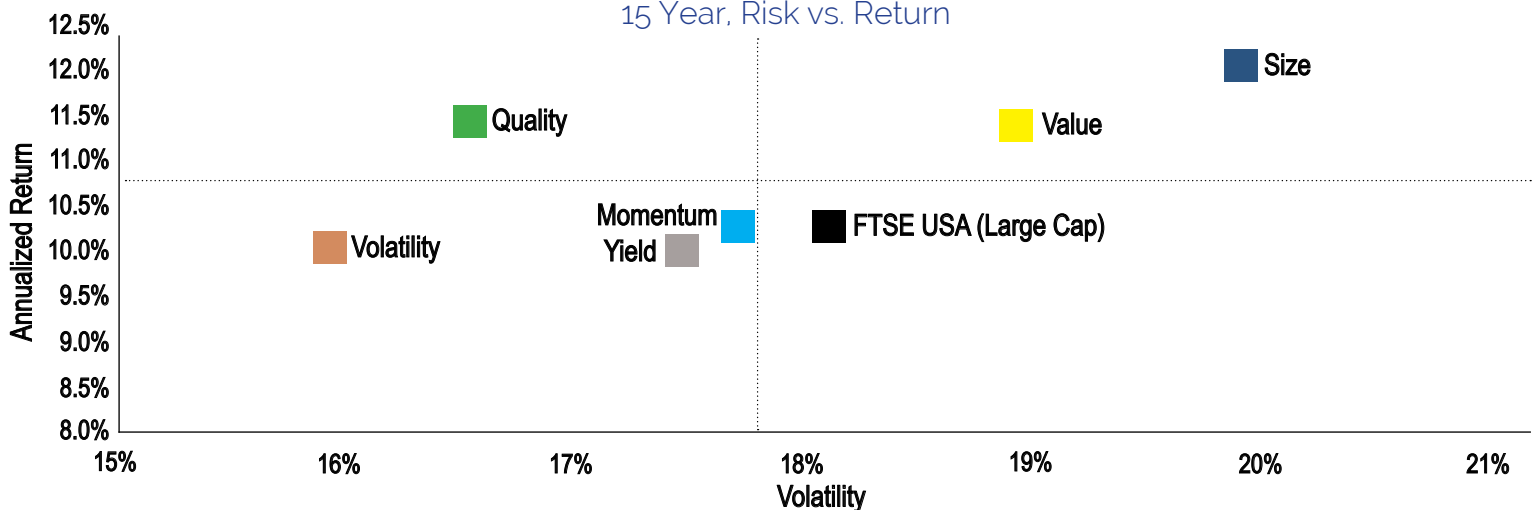
- Single factor cyclical may result in extended periods of underperformance compared to a market cap weighted index, potentially causing investors to exit positions too early. A multi-factor approach, mitigates this risk by diversifying among several factors.
- Comparing yearly returns since 2002, the market cap weighted FTSE USA starting universe is often outperformed by several single factors. Combining factors, may not only reduce risk but may also boost performance in investor portfolios.

Yearly Return Comparison

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-12.4%	40.0%	19.6%	12.1%	20.7%	12.0%	-28.2%	39.2%	24.8%	11.4%	17.4%	37.7%	16.1%	3.5%	17.3%	27.0%	0.7%
-17.6%	32.7%	17.6%	9.1%	19.3%	9.2%	-29.4%	27.2%	15.7%	8.8%	17.3%	37.1%	13.8%	2.9%	16.0%	24.0%	0.2%
-18.2%	28.4%	12.0%	9.0%	18.3%	6.0%	-33.5%	24.9%	15.1%	8.1%	16.3%	32.8%	13.7%	2.8%	14.6%	22.1%	-0.4%
-18.5%	25.9%	11.5%	7.7%	15.7%	4.3%	-34.0%	24.5%	14.9%	1.9%	16.3%	32.8%	13.3%	1.0%	11.8%	21.4%	-0.6%
-18.6%	25.3%	11.1%	6.3%	14.7%	3.8%	-35.6%	21.4%	12.9%	1.7%	14.5%	32.4%	12.9%	0.4%	11.8%	19.6%	-2.0%
-20.9%	23.8%	10.3%	4.7%	14.7%	1.7%	-36.8%	20.0%	12.7%	-1.2%	13.5%	29.0%	12.6%	-2.3%	9.2%	19.3%	-2.1%
22.3%	19.2%	9.2%	4.5%	14.7%	1.4%	-40.5%	17.9%	12.1%	-1.4%	11.6%	28.4%	12.4%	-3.2%	7.8%	17.3%	-3.4%

■ Quality
 ■ Volatility
 ■ Yield
 ■ Momentum
 ■ Value
 ■ Size
 ■ FTSE USA (Large Cap)

15 Year, Risk vs. Return



Source: FTSE Russell. Data as of 3/31/2018. *Volatility expressed as 15 year annualized daily standard deviation.

Quality is the FTSE USA Quality index; Volatility is the FTSE USA Low Volatility index; Yield is the FTSE USA Yield index; Momentum is the FTSE USA Momentum index; Value is the FTSE USA Value index; Size is the FTSE USA Size index; FTSE USA is the FTSE USA index. Past performance is no guarantee of future results. One cannot invest directly in an index.

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Fed Model: How Does it Look After the Rate Rise?

- The Fed model compares the stock market forward earnings yield to long term government bonds yields. The asset class with the higher yield, is often viewed as relatively attractive.
- After the recent rate increase, stocks continue to appear attractive relative to bonds.
- Earnings growth estimates remain positive through 2020.

Fed Model - S&P 500 Earnings Yield vs. 10 Year Government Bond Yield

S&P 500 - Earnings Per Share

Source: Bloomberg. Data as of 2/28/2018. * The U.S. 10 Year Government Bond Yield.

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Fed Model: How Does it Look After the Rate Rise?

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Market Correction - Region and Sector Performance Comparison

Last week, the S&P 500 entered correction territory by declining over 10% from the market peak on Jan 26. This most recent sell-off was likely caused by a combination of factors, including wages increasing at a faster pace than market expectations and accompanying inflation fears. A possible consequence would be an increased pace of Fed rate hikes which could put pressure on various regions and sectors. Conversely, strong corporate earnings and global economic expansion continue to provide a supportive backdrop for stocks and unique opportunities to conservatively invest.

Below, is a performance comparison for various regions and sectors between Jan 26 and Feb 9.

Regions - Total Return
01/26/2018 - 02/09/2018

- Russell 2000: -8.0%
- S&P 500: -8.7%
- International: -9.9%
- Asia: -8.9%
- Europe: -10.1%

S&P 500 Sectors - Total Return
01/26/2018 - 02/09/2018

- Utilities: -4.9%
- Consumer Discretionary: -7.9%
- Telecommunications: -8.0%
- Real Estate: -8.0%
- Consumer Staples: -8.7%
- Industrials: -8.9%
- Financials: -9.3%
- Materials: -9.9%
- Information Technology: -8.9%
- Health Care: -10.4%
- Energy: -14.0%

Source: Bloomberg. Data from 01/26/2018 to 02/09/2018. Total returns in USD. S&P 500, S&P 500 Index, Russell 2000, Russell 2000 Index, Europe: EURO STOXX 50 Net Return USD, International: FTSE World ex US Total Return Index, Asia: MSCI Asia Pacific Index.

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Market Correction – Region and Sector Performance Comparison

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Is Volatility Back? Time to Think Defense?

Also known as Wall Street's "fear gauge", the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is often used as a proxy for market volatility. Spikes in the VIX often correspond with periods of market stress. On November 3, 2017, the VIX index closed at 9.14, an all-time low.

The VIX has closed below 10 a total of 63 times since 1990. 52 of these occurrences have happened in 2017. To say that the current low volatility environment is unprecedented, is not a stretch. With the recent uptick in market volatility, could the market be due for a correction? There are certainly arguments to stay invested in the market, but it might be a good time for investors to revisit their portfolios and assess their risk tolerance. Lower volatility, high quality stocks may allow investors to maintain their equity exposure but avoid the full brunt of market pull-backs.

	VIX Level	Date
Low	9.14	04/09/2018
All-Time Low	9.14	11/03/2017
All-Time High	86.86	11/02/2008
Average	19.34	
5 Year Low	9.14	11/03/2017
5 Year High	40.74	09/24/2015
5 Year Average	14.36	
# of times closed below 10	63	
# of times closed below 10 in 2017	52	

Chicago Board Options Exchange (CBOE) Volatility Index

Chicago Board Options Exchange (CBOE) Volatility Index - January 2018

Source: Bloomberg. Data as of 1/31/2018. Past performance is not a guarantee of future results. One cannot invest in an index.

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Is Volatility Back? Time to Think Defense?

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