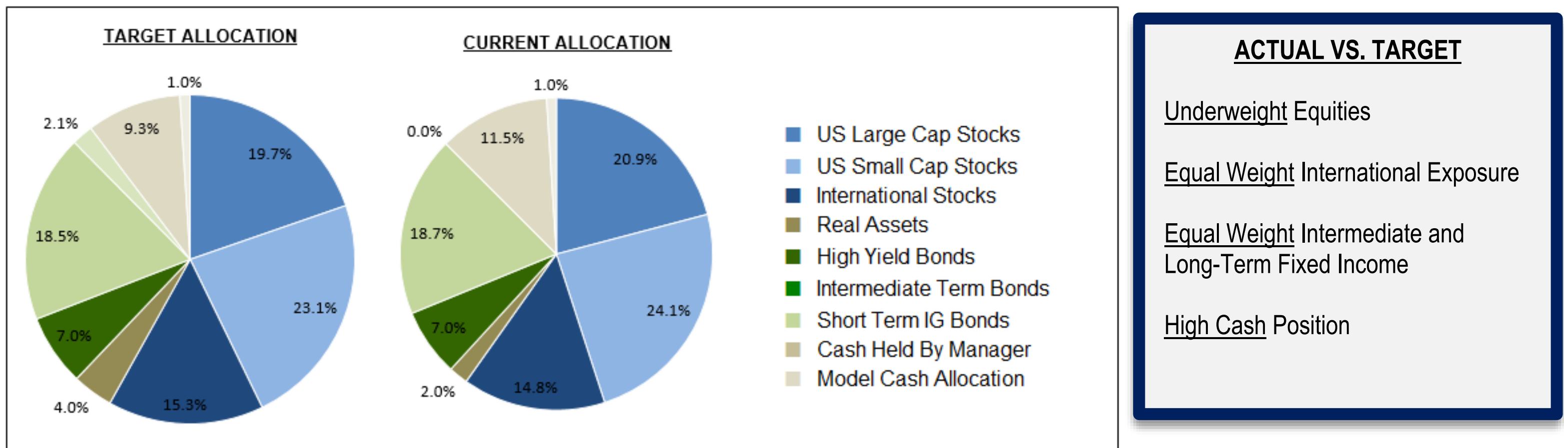
*General overall portfolio comments refer to the Moderate Growth allocations used in both the Pooled Fund Program and the Unified Managed Account Program. These general comments will be referred to as "Moderate Growth" throughout. Specific references to performance, current allocation, or comparison to indexes are derived from the CWA Model 5 Portfolio in the Pooled Fund Program; these specific comments will be referred to as "Model 5" throughout.

## PORTFOLIO ANALYSIS

**Overall Goal.** We construct portfolios to generate a return that maximizes the probability that an investor will meet their retirement goals, as opposed to maximizing their asset base (which interjects significant risk). We believe that a value bias, international exposure and general diversification provide the best avenue to meet this objective. Our portfolios have lower volatility†, but can go through periods where they do not keep pace with the U.S. equity markets (the most common benchmark) because of our focus on value, fixed income and international stocks.

The **Moderate Growth Portfolio** is intended to provide a balanced allocation, with a slight overweight to equities over fixed income. The goal is to provide a balance of growth and income with lower volatility than an all-equity portfolio. Our target and current portfolio asset class allocations for Model 5 are listed below.




## LARGEST EQUITY AND FIXED INCOME POSITIONS

In normal market environments, Moderate Growth has a target allocation of 60% stocks & 40% bonds, with approximately 20% of the portfolio in international equities and fixed income. So, the portfolio is a global one – with a U.S. tilt. By design, the holdings are broadly diversified by location/country, by company size, by credit quality/yield and by maturity/duration. The investment managers have a degree of flexibility which allows them to respond to different market environments, and our equity managers are currently holding a large amount of cash (given current valuations).

*† as of 11/30/2019, the 10-year volatility (standard deviation) of Model 5 is 6.8%, versus 12.4% for the S&P 500 Index.*

## PERFORMANCE

The Moderate Growth portfolios in the Pooled Fund Program and the Unified Managed Account Program have slightly different investments, costs and thus returns. Accordingly, we direct you to your account statement for your individual performance.

In November, Model 5 (net of fees and expenses) outperformed[1] compared to the Global 60/40 Index, outperformed compared to the S&P Moderate Growth Index, and underperformed compared to the U.S. 60/40 Index which posted the following returns:

| PERFORMANCE | NOV | COMMENTS |
|---|---|---|
| Global 60/40 Benchmark Index[2] | 1.16% | Domestic equity markets outperformed global markets during a relatively quiet and upbeat month for stocks. Domestic bonds were flat and global bonds sold off as yield curves steepened moderately post the Fed cutting rates. |
| US 60/40 Benchmark Index[3] | 2.16% | |
| S&P Moderate Growth Index[4] | 1.03% | |

(1) "Market Perform" means within a range of +10 bps to -10 bps of the applicable index for the month (or +/- 8 bps per month for YTD performance); "Outperform" means more than +10 bps for the month (or more than +8 bps per month for YTD performance); "Underperform" means more than -10 bps for the month (or more than -8 bps per month for YTD performance). **Please note performance comparison comments are based upon Model 5 Pooled Fund Program data. There are inherent limitations in the use of model performance – please read the Model Disclosure found on page 6. Investors should consult their individual custodial statement for actual performance of individual portfolios. Actual performance comparisons may differ from model comparisons.**
(2) Global 60/40 Benchmark is 60% MSCI ACWI Index & 40% Barclays Global Aggregate Bond Index.
(3) US 60/40 Benchmark is 60% S&P 500 Index & 40% Barclays U.S. Aggregate Bond Index.
(4) S&P Moderate Growth Index is 50% S&P Target Risk Moderate Index & 50% S&P Target Risk Growth Index.

## MARKET PERFORMANCE

### Equities

| PERFORMANCE | NOV | MULTIPLE | COMMENTS |
|---|---|---|---|
| U.S. Equities[5] | 3.80% | 22.2X | Equities went into a melt up mode during the month bolstered by accommodative Fed policy and a lack of negative geopolitical events. |
| International Developed[6] | 1.16% | 18.0X | International markets had a good month in the midst of the risk on trade persisting through the month. |
| Emerging Markets[7] | -0.13% | 15.0X | Emerging markets were slightly lower during the month. |

(5) U.S. Equities are represented by the Russell 3000 Index.
(6) International Developed is the MSCI EAFE Index.
(7) Emerging Markets is the MSCI EM Index.

## Fixed Income

| PERFORMANCE | NOV | SPREAD OVER UST 10 YEAR | COMMENTS |
|---|---|---|---|
| U.S. Treasuries (Medium Duration)(8) | -0.65% | - | Yields moved higher during the month as the curve began to steepen. |
| U.S. Treasuries (Longer Duration)(9) | -0.50% | 0.47% | The curve steepened during the month. |
| Global Fixed Income(10) | -0.76% | -0.35% | Global bonds underperformed during the month. |
| Emerging Fixed Income(11) | 0.38% | 2.77% | Emerging market bonds were positive during November. |
| High Yield(12) | 0.33% | 3.84% | High Yield posted a positive return, owing more to their equity adjacent nature than to actual rate or credit dynamics. |

(8) U.S. Treasuries (7-10 Years), represented by the Barclays U.S.T 7-10 Yr Total Return Index
(9) U.S. Treasuries (20+ Years), represented by the Barclays U.S.T 20+ Yr Total Return Index
(10) Barclays Global Aggregate Bond Index.
(11) Barclays Emerging Markets EMEA Total Return
(12) Barclays U.S. Corporate High Yield Index.

**Commodities and Real Assets**. The Model 5 portfolios do not have significant exposure to commodities, except indirectly. However, commodities and real assets (real estate) provide a good sense of global demand (in the case of industrial commodities) or fear (gold).

| PERFORMANCE | NOV | TREND | COMMENTS |
|---|---|---|---|
| Energy(13) | 1.03% | UP | Oil again moved higher and is in an up trend. |
| Real Estate(14) | -1.03% | - | Real Estate cooled during the month after a nice move higher. |
| Industrial Metals(15) | -2.68% | - | Metals sold off during the month. |
| Gold(16) | -3.21% | - | Gold weakened during the month and is tight roping a downtrend. |

(13) S&P GSCI Energy Total Return Index.
(14) Dow Jones U.S. Real Estate Index.
(15) S&P GSCI Industrial Metals Total Return Index.
(16) SPDR Gold Shares (GLD).

**Market Comments**

November was a good month for equities, and was generally a “melt up” scenario, with the market charging higher almost every day. The lack of geopolitical noise and an accommodative Fed backdrop served to bolster the serene nature of the market.

As we close out the year, we once again find ourselves cautiously optimistic in the short term. We enter an election year in 2020. 19 of the last 22 elections years have been strongly positive ones for equity markets, which has led to a narrative that election years are inherently bullish. One of the 3 negative years was 2008, however.

We do believe that it is probable that 2020 could start out on a good note. However, the Fed already cutting rates before we get into a recession gives us pause. It is not out of the realm of possibility that we could tip into a recession in the back half of 2020, even given easy monetary policy and the election. We are now in the longest bull market of all time and the longest economic expansion of all time, but one has to wonder how much of the duration of this run is manufactured by liquidity programs, Fed policy and keeping rates low for so long.

The artificial nature of these policies has led to a distortion in valuations in the market and to many companies sporting humongous market caps that defy their own fundamentals. It has also spurred a decade long trend for corporate America, in which companies have bought back their own stock rather than invest in capacity, R&D, job creation, etc. Many companies have also borrowed at historically low rates to purchase their own stock back, a trend that only works as long as they can earn returns on equity in excess of their cost of capital. A softening of the economy could shine a light on many of these issues and cause mean reversion across the markets, which could lead to much of the market leadership seeing their market caps erode back down to reality.

We continue to believe investing with an eye for value and with a margin of safety helps steer capital away from many of these trouble spots. It also forces capital into companies that have stronger balance sheets, cash flow generation and the ability to navigate a potential recession. This might not lend itself to short term outperformance, but we believe it will lead to more opportunity to take advantage of areas of the market at cheaper valuations in the future.

**Note: In late November the proposed acquisition of TD Ameritrade by Charles Schwab was announced. Currently, the merger is anticipated to close in the latter half of 2020 if everything goes smoothly. At this time, we have no additional information regarding our relationship with TD Ameritrade other than what is public. We do not anticipate any material changes to pricing or fees at this time, nor do we anticipate the Schwab/TD partnership to be disruptive to client accounts.**

**As we learn more in the early part of next year we will update you if there are to be any changes that are noteworthy. However, we anticipate this to be business as usual for the foreseeable future.**

## Further Reading

1) **Standing Alone Against the Crowd: Abandon Value? Now?!?, Research Affiliates, November 2019**

This paper, while technical in nature, casts the spotlight on value investing and parts of the market that are currently overvalued. Reading this paper lends support to the idea that value investing in this particular market climate could pay handsome dividends in the not too distant future.

https://www.researchaffiliates.com/en_us/publications/articles/766-standing-alone-against-the-crowd.html

***For questions, or to request additional information, please contact your CWA Financial Planner***

### DISCLOSURES

**PAST PERFORMANCE IS NOT AN INDICATOR OF FUTURE MARKET RETURNS.**
*Cain Watters is a Registered Investment Advisor. Request Form ADV Part 2A for a complete description of Cain Watters Advisors' investment advisory services. Diversification does not ensure a profit and may not protect against loss in declining markets. No inference should be drawn that managed accounts will be profitable in the future or that the Manager will be able to achieve its objectives. Investing involves risk and the possibility of loss, including a permanent loss of principal.*

Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses. All investments and strategies have the potential for profit or loss. Different types of investments involve higher and lower levels of risk. Historical performance returns for investment indexes and/or categories, usually do not deduct transaction and/or custodial charges or an advisory fee, which would decrease historical performance results. There are no assurances that a portfolio will match or exceed any specific benchmark.

*This commentary contains the opinions of the CWA Investment Committee at the time of publication and is subject to change. Market and economic factors can change rapidly, producing materially different results. This update is intended for clients currently invested in CWA Recommended Investment Programs. This is not intended to be personalized investment advice. This does not take into account a particular investor's financial objectives or risk tolerances. Any specific mention of securities is for informational purposes only and is not intended as a recommendation or solicitation to purchase.*

*CWA Model 5 Moderate Growth Pooled Fund Program: The target allocation and portfolio data used throughout this presentation is for the CWA Model 5 recommended for participants in the Pooled Fund Program. This Model is the most common recommendation and is used here to illustrate the CWA methodology. Other CWA Recommended Investment Program models will vary in asset allocation and underlying manager and/or security selection. Clients should discuss these models and programs with their planner prior to selection.*

***The CAPE ratio is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. The ratio is generally applied to broad equity indices to assess whether the market is undervalued or overvalued. While the CAPE ratio is a popular and widely-followed measure, several leading industry practitioners have called into question its utility as a predictor of future stock market returns. The CAPE ratio, an acronym for Cyclically Adjusted P/E (i.e. Price-Earnings) ratio, was popularized by Yale University professor Robert Shiller. It is also known as the Shiller P/E ratio.*

*+Statements relating to Value outperforming Growth are based upon the data of the Fama-French 3-Factor Model. A pioneering study by renowned academics, Eugene Fama and Ken French, suggesting that three risk factors: market (beta), size (market capitalization) and price (book/market value) dimensions explain 96% of historical equity performance.*

***Model Performance Disclosure: Model performance is NOT an indicator of future or actual results. Performance does not represent the returns that any individual investor actually received. Cain Watters Investors may incur a loss.*** *Cain Watters Models contain allocations to several different common pooled trust funds. Each individual pooled trust fund has a defined investment strategy; usually designed around a specific asset class. Investment managers and their respective strategies are chosen to meet each of the pooled funds' objectives. Investors in the models pay a monthly asset based trust fee, based on their average investment balance during the month. Model performance is calculated using the reported net asset value of each individual pooled fund. Performance for the individual funds is then weighted according to the model target allocation. Model performance includes the reinvestment of dividends*

*and interest. The annual trust fee of 0.65% is subtracted from gross returns on a pro-rated basis of 0.0541% per month; and includes trust fees and investment advisory fees. For time periods prior to July 1, 2016 an annual trust fee of 1.05% or 0.0875% per month was used. Model performance has inherent limitations in that it does not reflect the effects of significant cash flows, or take into account actual client asset allocation that may differ materially from the target allocation due to rebalancing policies and changes in market values. This model performance information is provided for illustrative purposes only. Cain Watters Model investors may experience materially different returns.*

*Use of Comparison Benchmark or Index: Indexes cannot be invested in directly. Index performance and statistics are provided for illustrative or comparison purposes and are chosen as commonly accepted representations of the performance of a particular segment of the market.*