

CCA Strategies Update 3rd Quarter 2018

At Cravens & Company, we employ a Multi-Asset/Multi-Strategy approach of managing investments. Our approach is designed to increase our clients' opportunity for success by reducing the possibility of undesirable outcomes. Traditionally, blending different asset classes, (stocks, bonds, real estate, cash), has been the primary tool for building a diversified investment portfolio, but additional diversification can be achieved by combining complementary investment strategies. Guided by your goals, we create custom portfolios by diversifying both asset classes and strategies. Since your situation and objectives are unique and best served by a portfolio designed uniquely for you, your portfolio may not utilize all of the strategies discussed in the following update. We believe you will find our Multi-Asset/Multi-Strategy approach provides a sound foundation for pursuing your goals.

Core Strategies

- **Market Capture Strategy:** Stocks with an emphasis on diversification, tax-efficiency, and always remaining fully invested.
 - Notes: No changes, we have an overweight toward International and Emerging Markets due to valuation.

- **Risk Managed Strategy:** Stocks with an emphasis on diversification, and managing risk.
 - Notes: Due to ongoing volatility and uncertainty, the existing cash allocation has remained unchanged.
 - Target Cash level remained 28%.
 - US allocation is 60% of target.
 - Developed International allocation is 85% of target.
 - Emerging International allocation is 100% of target.
 - We are approaching a trigger point of selling this holding.

- **Fixed Income Strategy:** Bonds with an emphasis on diversification and stability.
 - Notes: Holdings are predominantly short term due to the current low-interest rate environment.
 - Notes: We stayed with floating rate bonds but upgraded the quality of our bonds. Senior Loan and Corporate bonds have been very popular with investors, and many companies have increased their debt levels. The time to increase quality and reduce risk is when the economy is strong. By the time everyone agrees we are in a downturn it is often too late to reduce risk. Also, with the recent move up in short term interest rates the difference in yield was not substantial.
 - Current Yield is 1.9%.
 - Sold Senior Loan Bond Fund
 - Sold Floating Rate Corporate Bond Fund
 - Bought Floating Rate US Treasury Bond Fund.

- **Alternatives Strategy:** Real asset or skill based investments with low correlations to stocks and bonds, such as Real Estate, Commodities, Hedge Funds, and Managed Futures.
 - Notes: No changes.

Focus Strategies

- **High Quality Strategy:** Stocks with an emphasis on large companies with strong balance sheets.
 - Notes: Higher than normal cash allocation continues to reflect our concerns over current stock market valuation.
 - Cash level reduced to 23%.
 - Current Dividend Yield is 1.9%.
 - Bought Adidas
 - Germany's Adidas is the second-largest sports apparel manufacturer in the world. It sells footwear, bags, shirts, watches, and eyewear for almost every sport.
 - Our growth/value screen shows the investment as attractive, especially when compared to rival Nike. It enjoys the same trend changes as Nike, such as consumers buying directly from the company instead of through stores, and improvements in technology lowering production costs. An additional potential plus is backlash from Nike making Colin Kaepernick the face of the Nike brand.
- **Dividend Income Strategy:** Stocks and Bonds with an emphasis on current income.
 - Notes: Higher than normal cash allocation continues to reflect our concerns over current stock market valuation.
 - Cash level remains 20%.
 - Current Dividend Yield is 4.5%.
 - Notes: No changes. Despite holding a higher than normal level of cash this strategy has been challenged this year more than most by the rising interest rate environment. The dividends of these companies are strong, creating the current income which is our goal. Opportunities to invest in companies with higher dividends are more available than they have been in years. In the near future we expect to start putting our cash to work.
- **Laddered Income Strategy:** Bonds with an emphasis on tax-free income.
 - Notes: No changes, holdings are balanced between short-term and long-term bonds.
 - Current Yield to Maturity is 3.1%.
- **Capital Appreciation Strategy:** Stocks with an emphasis on leading growth companies and deep value companies. This strategy pursues higher returns while accepting higher risk.
 - Cash level reduced to 46%.
 - Sold: Alteryx, Charles Schwab, MSCI Argentina, Spark Therapeutics, Texas Capital Bank, Wynn Resorts, Yandex
 - Increased: Nintendo, Softbank, Tencent

- Bought: Adidas, Baidu, Chipotle Mexican Grill, Huya, Intellia Therapeutic, MSCI Brazil Small Cap ETF, MSCI India ETF, Sberbank Russia, Smartsheet, Sogou, Tesla, Ultragenyx Pharma
- Notes: We reduced cash during the quarter, giving in to participating in the rising market. We felt one of two scenarios would play out: either the international markets would rally to catch up with the move in the US market, or the US market would decline just as the international markets had already this year. Since quarter end the US market has joined the global decline so we have reversed course and raised cash levels.

This update is informational in nature and not a recommendation to buy or sell any security. Holdings and opinions are subject to change without notice.

Investing involves risk including the potential loss of principal. International investing involves additional risks including risks associated with foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic and other developments. The two main risks associated with fixed income investing are interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risks refer to the possibility that the issuer of the bond will not be able to make principal and interest payments. Investments in commodities may entail significant risks and can be significantly affected by events such as variations in the commodities markets, weather, disease, embargoes, international, political, and economic developments, the success of exploration projects, tax, and other government regulations, as well as other factors. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of FSC Securities Corporation. There can be no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis do not represent the actual or expected future performance of any investment product.

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