

CCA Strategies Update 3rd Quarter 2017

At Cravens & Company, we employ our Multi-Asset/Multi-Strategy approach in managing investments because we seek to increase our clients' opportunity for success and reduce the possibility of unintended outcomes. Traditionally, blending together 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 together different 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 updated in following. 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, holding long-term, 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: No changes, US stock valuation is a concern while Developed International stocks and especially Emerging Market International stocks are attractive based on valuation.
 - Target Cash level remained at 16%.
 - US allocation is 70% of target.
 - Developed International allocation is 100% of target.
 - Emerging International allocation is 100% of target.
 - Additional Commentary:
 - The lack of volatility this year has been surprising. The largest market decline so far this year, as measured by the S&P 500, is -3%. If we closed the year today this would match the shallowest intra year decline in the past 28 years. The median intra year decline over this period is -%11, so a decline in this neighborhood would be normal, even for a positive year like we are currently experiencing.

- **Fixed Income Strategy:** Bonds with an emphasis on diversification and stability.
 - Notes: No changes, holdings are predominantly short term due to the current low-interest rate environment.
 - Current Yield is 1.7%.

- **Alternatives Strategy:** 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. Three of our four investments are doing well this year, with the lone exception being Managed Futures. We have reviewed our Managed Futures approach and determined the lack of return is currently a challenge for all investments in this asset class. We

feel, and history indicates, the tides will eventually shift, and this investment will provide the diversification and added return we expect when viewed over longer time frames.

Focus Strategies

- **High Quality Strategy:** Stocks with an emphasis on large companies with strong balance sheets.
 - Notes: We reduced our risk level with several sells. We are actively considering investments in several companies, but as of the end of the quarter have not taken that step. Our higher than normal cash allocation is also a reflection of our current concerns over market valuation.
 - Cash level increased from 8% to 19%
 - Current Dividend Yield is 1.8%
 - Sold: Unilever, US Bancorp, Monsanto
 - Reduced: Boeing, Alibaba
 - Additional Commentary:
 - Unilever had increased due to potentially being taken over by another company.
 - Monsanto is waiting regulatory approval to be bought by Bayer AG for cash, but there is concern over the completion of this buyout.
 - The reduction in Boeing and Alibaba was due to both having made significant gains, and each becoming a larger part of the portfolio than we are comfortable with.

- **Dividend Income Strategy:** Stocks and Bonds with an emphasis on current income.
 - Notes: We reduced our risk level with a sale but have been hesitant to reinvest. JP Morgan was sold since the stock has increased substantially in price, it no longer fits the portfolio's goal of maintaining a high dividend yield. Our higher than normal cash allocation is a reflection of our current concerns over market valuation.
 - Cash level increased from 7% to 13%
 - Current Dividend Yield is 3.9%
 - Sold: JP Morgan

- **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 is 2.4%.

- **Energy Income Strategy:** Energy infrastructure holdings with tax-advantaged income.
 - Notes: No changes, while oil prices have rebounded somewhat, the increase in bond interest rates, along with the hurricanes were headwinds this quarter.
 - Current Dividend Yield is 7.7%

- **Capital Appreciation Strategy:** Stocks with an emphasis on leading growth companies and deep value companies. This strategy pursues higher returns while accepting higher risk.
 - Notes: We made a big shift in the quarter to get more conservative. So far this seems like misplaced concern, but at today's market valuations we did not want to be slow to react. The

sales reduced our volatility during the August turbulence, but since then the market has displayed a historically uncommon lack of volatility. We expect to selectively start putting some of the cash to work, but with our performance this year already being strong we have not felt the need to take on our full allotment of risk. Keep in mind this portfolio changes often and the quarter ending holdings and cash level is just a snapshot in time and may quickly change.

- Cash level increased from 5% to 54%
 - Sold: Moelis, MuleSoft , Bluebird Bio, Pinnacle Financial Partners, Proofpoint, Wix.com, Banco Santander, Kite Pharma , Trade Desk, Western Alliance Bancorp , Zion Bancorporation , LogMeIn, Veeva Systems, CTrip, Tesla, Clovis Oncology.
 - Reduced: Alibaba, Square, National Beverage, Tencent, Baozun, Sangamo Therapeutics.
 - Bought: YY, New Relic.
- New Holdings Profiles:
 - Profile: YY Inc. is a social communication platform, which engages users in online group activities through voice, text, and video. The Company's Platform consists of YY Client, the YY.com, and Duowan.com web portals, Mobile YY and Web-based YY. YY Inc. is based in Guangzhou, the People's Republic of China.
 - Profile: New Relic is a software analytics company. The Company offers a solution which includes application development, production monitoring, real-time analytics, mobile application management and digital transformation.
 - Additional Commentary:
 - The selling was a combination of reducing our investment in several stocks which had performed exceptionally well and moving away from some stocks that were showing weakness. We are always seeking to balance between not riding stocks down, but also giving them some leeway to recover. While some of the weak stocks continued to decline, a few have recovered. A few of these have business prospects we are impressed with so may be repurchased.

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. 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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