

CCA Strategies Update 4th 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 more 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.

- **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 1.86%.

- **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: Allocation increased in balanced portfolios.
 - Additional Commentary:
 - During the quarter we increased allocations to alternatives in all of our core strategy blends. Asset class changes like this are fairly rare for our portfolios. The reasoning behind the shift is with both stocks and bonds, generally considered expensive, an increase in alternatives provides the opportunity to participate if the global stock markets continue increasing, but provides additional diversification against several economic scenarios which could be a challenge for stocks and/or bonds. To date, we

have had the unexpected surprise of our allocations to both international real estate and commodity based companies solidly outperforming many of our other investments.

Focus Strategies

- **High Quality Strategy:** Stocks with an emphasis on large companies with strong balance sheets.
 - Notes: Our higher than normal cash allocation is also a reflection of our current concerns over stock market valuation.
 - Cash level decreased from 19% to 18%.
 - Current Dividend Yield is 1.7%.
 - Sold: Schlumberger

- **Dividend & Interest Strategy:** Stocks and Bonds with an emphasis on current income.
 - Notes: Our higher than normal cash allocation is a reflection of our current concerns over stock market valuation. We also had some bonds come due at the end of the year. We see opportunity in short-term bonds and utilities and will soon decrease the cash level.
 - Cash level increased from 13% to 18%.
 - Current Dividend Yield is 3.8%.
 - Sold: Teva Pharmaceuticals, Glaxo SmithKline

- **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 2.4%.

- **Energy Income Strategy:** Energy infrastructure holdings with tax-advantaged income.
 - Notes: We sold several holdings with losses to reduce taxes. In the interim, we will hold an exchange-traded note, then reinvest after 30 days.
 - Current Dividend Yield is 7.4%
 - Sold: Energy Transfer Partners, Buckeye Partners, Plains All American Pipeline
 - Bought: JP Morgan Alerian ETN

- **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 stayed conservative during the quarter.
 - Cash level increased from 54% to 62%
 - Sold: Voyager Therapeutics, Spark Therapeutics, Teladoc, Vertex Pharmaceuticals, Square, Mimedx Group, Workday, Q2Holdings, Shopify, GrubHub, New Media, Pure Storage, Baozun Inc.
 - Reduced: YY Inc.
 - Bought: Nutanix, Texas Capital Banc, 58.com.
 - Increased: SoftBank.

- New Holdings Profiles:
 - Profile: Nutanix provides cloud capabilities for businesses. It provides an enterprise cloud platform that merges engineering, design, virtualization, and storage into one integrated solution.
 - Profile: Texas Capital Bancshares is engaged in providing lending services to businesses. Its services included credit solutions, treasury and liquidity services, mortgage finance, private wealth solutions, and personal banking solutions. Operations are centered in Dallas with a presence in five other metropolitan areas.
 - Profile: 58.com Inc. operates an online marketplace which serves local merchants and consumers in China. Its online marketplace enables local merchants and consumers to connect, share information, and conduct business.
- Additional Commentary: As of this letter, the global stock markets have gone a record number of days without a 5% decline. This extreme lack of volatility makes our normal action of trimming back on holdings during market increases and adding to holdings during market pullbacks challenging. On the positive side, our stock selection has allowed us to keep up with the market returns, even with higher than normal cash allocations.

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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