Cravens & Co.
WEALTH MANAGEMENT

CCA Strategies Update 4th 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, remains fully invested. 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 was increased.
    - Target Cash level increased to 67%.
    - US allocation is 60% of target.
    - Developed International allocation is 0% of target.
    - Emerging International allocation is 0% of target.
  - Notes: All of our international holdings were sold because they reached our downtrend trigger to reduce risk. The trigger is biased toward being slow to sell but reinvesting quickly if markets turn. Therefore we may be buying and selling more actively until the trend of the market is more firmly established.
  - Notes: The large allocation to cash is not as much a prediction of future decline as much as reducing risk due to market conditions which have often gone hand in hand with additional declines. If the market turns upward again, we will take steps to reinvest.

- **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 2.0%.
  - Notes: We benefited from having a very conservative bond portfolio during the quarter. Corporate investment-grade and corporate high-yield bonds were all under pressure but taking steps last year to move away from corporate bonds and toward government bonds helped us avoid this risk.

- **Alternatives Strategy:** *Real asset or skill-based investments with low correlations to stocks and bonds, such as Real Estate, Commodities, Hedge Strategies, and Managed Futures.*
    - Sold Global Natural Resources ETF
    - Notes: The remaining allocation to commodity-oriented companies was sold due to the actual commodities providing greater diversification than commodity-oriented companies. Due to changing inflation expectations, we have not yet reinvested, but we are actively considering investments which would provide diversification for our portfolios.

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 increased to 37%.
        - Current Dividend Yield is 2.0%.
        - Sold Adidas, Coca Cola, Starbucks, Wells Fargo
            - Adidas was sold to reduce taxable gains.
            - Coca Cola and Starbucks were sold to increase our cash holdings during the market decline. We also have concerns over the lack of sales growth at Coca Cola.
            - Wells Fargo was sold due to concerns over how the continued scandals may be affecting their long-term profitability. We are normally drawn to buying companies with headline risk, but concerns over how the banking sector will be affected if a recession evolves tipped the scales towards selling.

- **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%.
        - Sold Wells Fargo
            - Wells Fargo was sold due to concerns over how the continued scandals may be affecting their profitability. We are normally drawn to buying companies with headline risk, but concerns over how the banking sector will be affected if a recession evolves tipped the scales toward selling.
        - Short-Term corporate bond holdings matured and were reinvested.
            - We increased quality due to concerns over a potential recession.

- **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 3.0%.

- **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 have a very high cash allocation due to the market conditions.
        - Cash level increased to 87%.
        - Sold: Chipotle Mexican Grill, Adidas, Baidu, Nintendo, Smartsheet, Tesla, Sogou, Sberbank of Russia, BBVA, Huya, Intellia Therapeutics, Ultragenyx Pharmaceutical, Sangamo Therapeutics, iShares MSCI India ETF, iShares MSCI Brazil ETF
    - Notes: As the last update was being written we were buying stocks. We were concerned over valuations but felt we should increase our market participation in this strategy. While doing this, we put stop loss points under all purchases in case the market turned. Due to the downturn in December, all holdings crossed their stop loss level and were sold. The remaining holdings we expect to hold very long-term: Softbank, Alibaba, and Tencent.