



Asset Allocation Change 2/25/19

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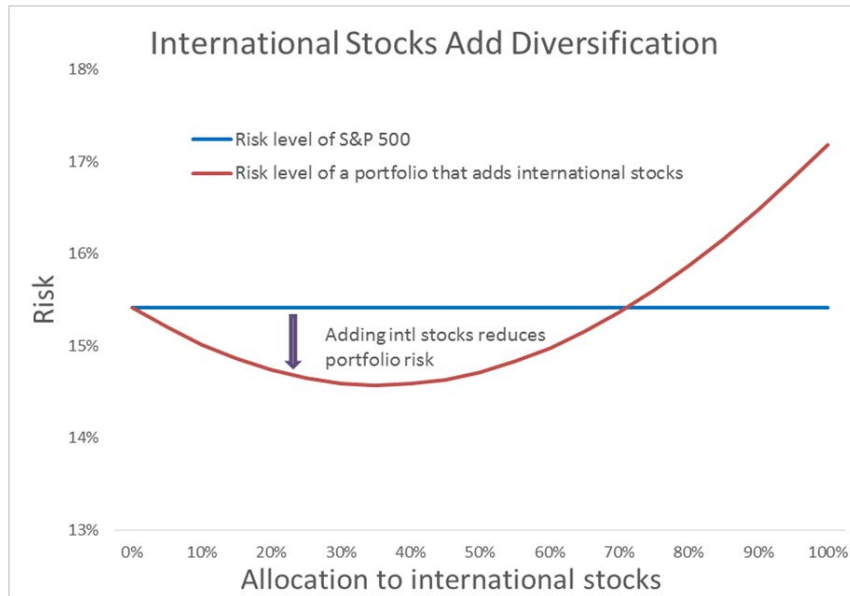
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Portfolio Structure

International stocks add diversification

- › Focus on controlling portfolio risk
- › International stocks are riskier
- › Diversification benefits are small
- › Expect returns to aid portfolio



Growth Benchmark

- › Percent of equities is split 75/25 US/Intl (not ACWI weights of 50/50)
- › Benchmark is simple - stocks and bonds
- › Recent allocations away from US Stocks have underperformed
- › No cash or alts

<u>Growth Benchmark</u>	
Core Bonds	25.0%
Bonds and Cash	25.0%
US Large Cap	56.3%
Intl Developed	13.9%
Emerging Markets	4.9%
Equities	75.0%
Total	100.0%

Overview of changes

Reduce EAFE

- › Europe's growth is slowing especially Germany's
- › Country specific issues – Brexit and Italy
- › Concerns on trade – autos

Extend duration on bonds

- › Federal Reserve on hold after 9 rate increases
- › Inflation in check
- › Near end of cycle

Increase allocation to Emerging Market stocks

- › China enacting some stimulus
- › China taken steps to shore up banking system and confidence
- › External debts OK

Increase allocation to US stocks

- › Improved valuations
- › US consumption source of global demand
- › Expect any slowdown to be relatively mild

Stock market valuations

A crude tool for allocation decisions

US has commanded a premium valuation for a long time

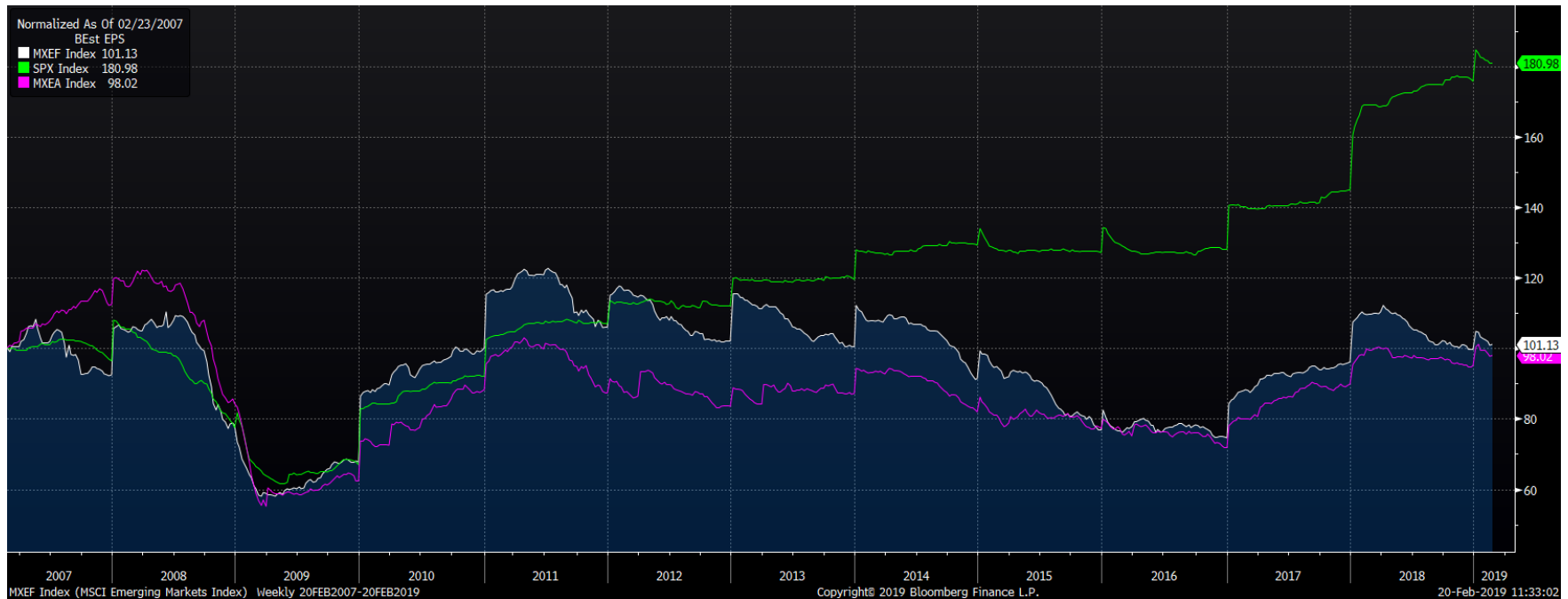
- > Not mean reverting
- > Hard to outperform allocating assets based on valuations alone
- > We are not GMO!



Earnings Growth in US has been superior

Since 2007

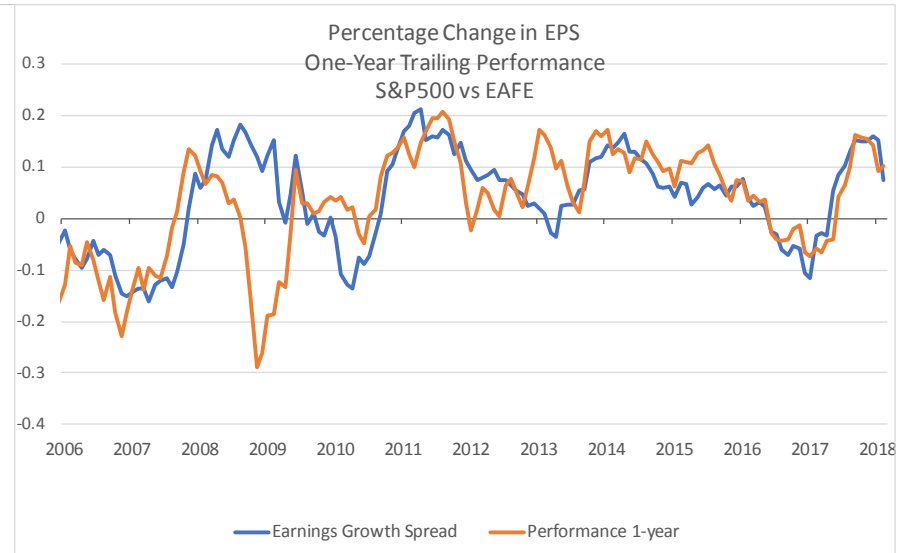
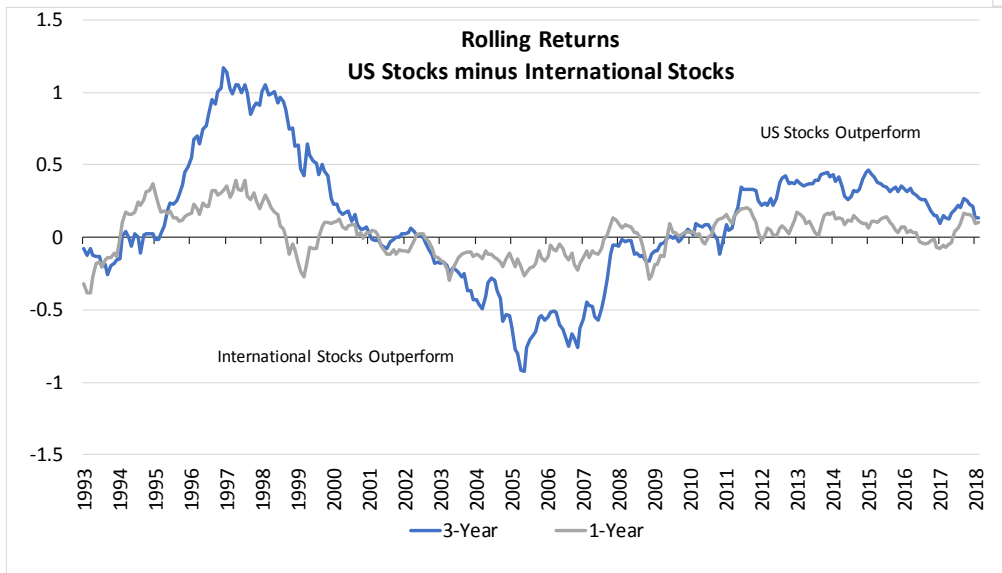
- > US earnings up 81%
- > European earnings up 1%
- > Emerging markets earnings down -2%



US Stocks versus EAFE Stocks

Rolling returns have favored US Stocks

- Historically, this relationship has swung both ways, but we are in a long period of US outperformance



Outperformance/underperformance on a one-year rolling time period has followed the difference between changes in earnings

- Correlation of 51%
- Rolling over?

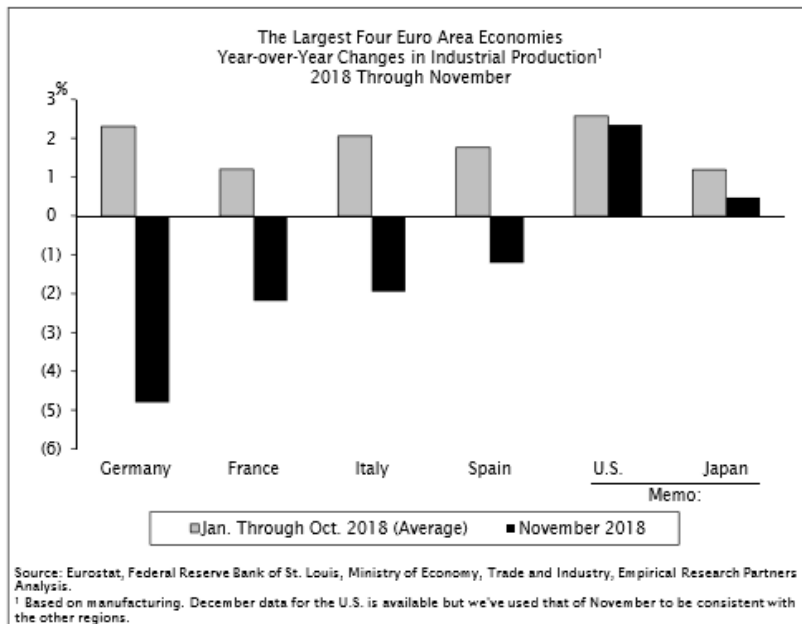
Recent concerns

European manufacturing has been weak

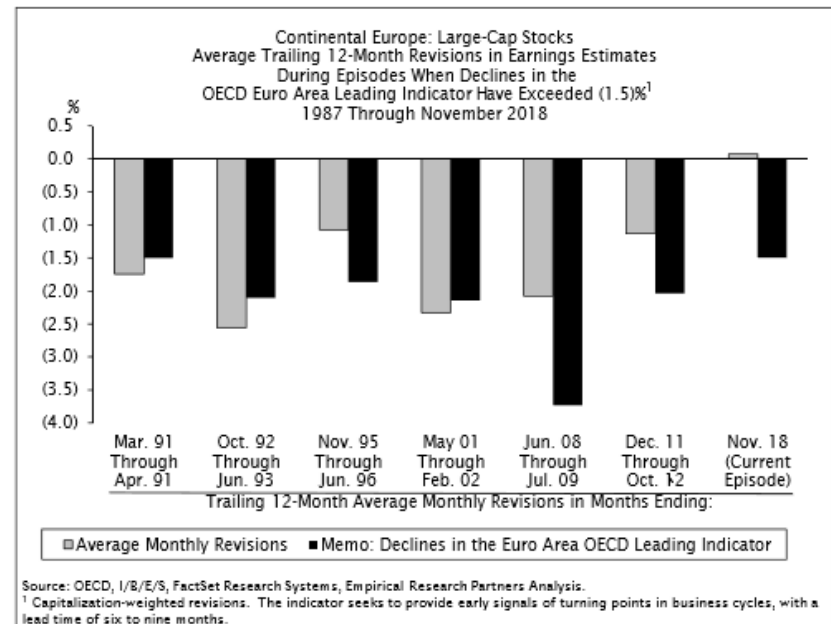
Earnings in Europe will need to reset

- > PMIs have been weak
- > German manufacturing a concern
- > Auto tariffs?

- European manufacturing has been weak lately...



- ...And analysts have been complacent:



Currency swings matter

Adds complexity to forecasting returns

When US Dollar is increasing US stock markets outperform

- > Not a perfect relationship, but clearly currency matters
- > Factors
 - > Government intervention
 - > Interest rates
 - > Capital flows / Speculation
 - > Inflation
 - > Trade deficits
 - > Oil exporters

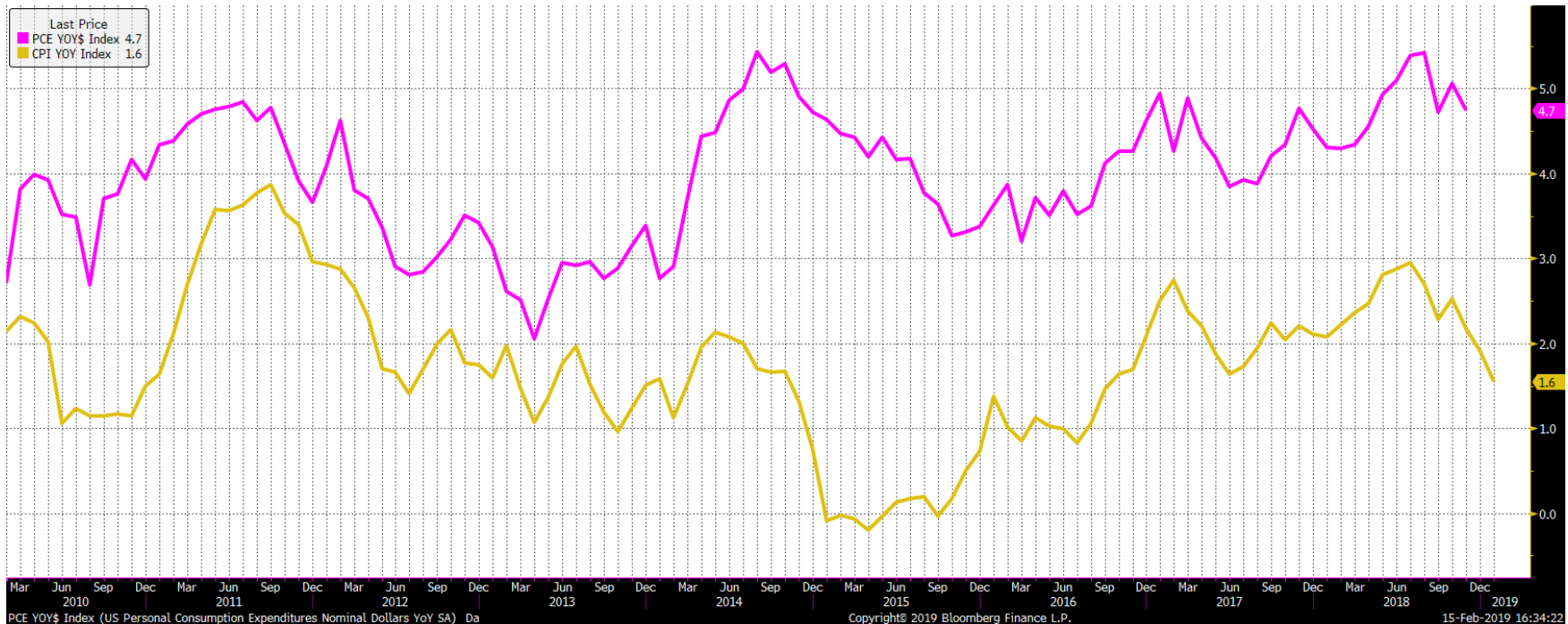


Fixed Income allocation changes

Extend duration on bonds

Nearing end of economic cycle

- > Fed on hold
- > Inflation has rolled over and is falling
- > PMIs are falling
- > Duration is a good hedge to stock market downswings – increases duration from 4.25 to 4.71



Changes

Getting back to benchmark weights

	<u>Growth</u>	<u>Growth</u> <u>Benchmark</u>	<u>Diff</u>	<u>New Growth</u>	<u>Change</u>
Short Bonds	7.0%	0.0%	7.0%	3.0%	-4.0%
Core Bonds	16.5%	25.0%	-8.5%	22.0%	5.5%
Bonds and Cash	23.5%	25.0%	-1.5%	25.0%	
US Large Cap	43.5%	56.3%	-12.8%	46.0%	2.5%
US Small Cap	2.5%	0.0%	2.5%	2.5%	0.0%
Intl Developed	18.5%	13.9%	4.6%	13.5%	-5.0%
Emerging Markets	4.0%	4.9%	-0.9%	5.0%	1.0%
Equities	68.5%	75.0%	-6.5%	67.0%	
REITs	4.0%	0.0%	4.0%	4.0%	0.0%
MLPs	4.0%	0.0%	4.0%	4.0%	0.0%
Market Neutral	0.0%	0.0%		0.0%	0.0%
Alternatives	8.0%	0.0%	8.0%	8.0%	
Total	100.0%	100.0%		100.0%	

Model Allocations

	<u>Conservative</u>	<u>Income</u>	<u>Balanced</u>	<u>Growth</u>	<u>Aggressive</u>
Short Bonds	10.0%	7.0%	5.0%	3.0%	0.0%
Core Bonds	70.0%	53.0%	35.0%	22.0%	10.0%
Bonds and Ca	80.0%	60.0%	40.0%	25.0%	10.0%
US Large Cap	9.1%	22.8%	35.8%	46.0%	57.0%
US Small Cap	1.0%	1.3%	2.0%	2.5%	2.8%
Intl Developed	3.5%	7.0%	11.0%	13.5%	16.5%
Emerging Mark	1.5%	3.0%	4.0%	5.0%	6.0%
Equities	15.1%	34.0%	52.8%	67.0%	82.3%
REITs	3.5%	3.5%	4.0%	4.0%	3.5%
MLPs	1.4%	2.5%	3.3%	4.0%	4.3%
Market Neutra	0.0%	0.0%	0.0%	0.0%	0.0%
Alternatives	4.9%	6.0%	7.3%	8.0%	7.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Vehicle allocations

Bonds	<u>Conservative</u>	<u>Income</u>	<u>Balanced</u>	<u>Growth</u>	<u>Aggressive</u>
FCNVX	4.00%	4.00%	3.00%	2.00%	0.00%
IGSB	6.00%	3.00%	2.00%	1.00%	0.00%
DBLTX	17.50%	13.25%	8.75%	5.50%	2.50%
MWTIX	17.50%	13.25%	8.75%	5.50%	2.50%
TCPNX	17.50%	13.25%	8.75%	5.50%	2.50%
WATFX	17.50%	13.25%	8.75%	5.50%	2.50%
	80.00%	60.00%	40.00%	25.00%	10.00%
Stocks					
HLMEX	1.50%	1.50%	2.00%	2.50%	3.00%
BEXIX	0.00%	1.50%	2.00%	2.50%	3.00%
JPIN	1.50%	3.00%	4.40%	5.50%	6.50%
LISIX	1.00%	2.00%	3.30%	4.00%	5.00%
HILIX	1.00%	2.00%	3.30%	4.00%	5.00%
IJR	1.00%	1.25%	2.00%	2.50%	2.75%
USMV	3.70%	9.00%	14.00%	18.40%	22.25%
MTUM	1.80%	4.75%	7.75%	9.20%	12.50%
TOSZX	3.60%	9.00%	14.00%	18.40%	22.25%
	15.10%	34.00%	52.75%	67.00%	82.25%
Alternatives					
TORTX	1.40%	2.50%	3.25%	4.00%	4.25%
TIREX	3.50%	3.50%	4.00%	4.00%	3.50%
	4.90%	6.00%	7.25%	8.00%	7.75%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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Change to each vehicle

Bonds	<u>Conservative</u>	<u>Income</u>	<u>Balanced</u>	<u>Growth</u>	<u>Aggressive</u>
FCNVX	0.00%	0.00%	0.00%	0.00%	0.00%
IGSB	-17.10%	-12.50%	-7.20%	-4.00%	0.00%
DBLTX	3.00%	2.50%	-0.25%	1.50%	0.00%
MWTIX	4.70%	3.45%	2.95%	1.40%	0.00%
TCPNX	4.60%	3.35%	2.85%	1.20%	0.00%
WATFX	4.70%	3.45%	2.95%	1.40%	0.00%
	-0.10%	0.25%	1.30%	1.50%	0.00%
Stocks					
HLMEX	0.75%	0.50%	0.40%	0.50%	0.00%
BEXIX	0.00%	0.90%	0.55%	0.50%	0.00%
JPIN	-0.50%	-1.25%	-1.60%	-2.00%	0.00%
LISIX	-0.50%	-0.50%	-1.20%	-1.50%	0.00%
HILIX	-0.50%	-0.50%	-1.20%	-1.50%	0.00%
IJR	0.00%	0.00%	0.00%	0.00%	0.00%
USMV	0.40%	0.15%	0.40%	1.00%	0.00%
MTUM	0.15%	0.25%	0.95%	0.50%	0.00%
TOSZX	0.30%	0.20%	0.40%	1.00%	0.00%
	0.10%	-0.25%	-1.30%	-1.50%	0.00%
Alternatives					
TORTX	0.00%	0.00%	0.00%	0.00%	0.00%
TIREX	0.00%	0.00%	0.00%	0.00%	0.00%
	0.00%	0.00%	0.00%	0.00%	0.00%

Condensed models

	2/22/2019				10/29/2018			
	Income	Balanced	Growth	Aggressive	Income	Balanced	Growth	Aggressive
AGG	48.50%	30.75%	19.00%	11.90%	44.00%	30.00%	19.00%	11.90%
SHY	7.00%	5.00%	2.50%	0.00%	11.50%	5.70%	2.50%	0.00%
ITOT	21.75%	33.00%	41.50%	46.85%	20.72%	31.70%	38.15%	43.60%
JPIN	7.00%	11.00%	13.50%	16.50%	9.50%	13.50%	18.25%	21.00%
USMV	5.00%	8.00%	10.00%	11.00%	4.93%	7.80%	9.60%	11.00%
IEFA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
IEMG	3.00%	4.00%	5.00%	6.00%	1.60%	3.05%	4.00%	4.75%
FSRVX	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NRIAX	7.75%	8.25%	8.50%	7.75%	7.75%	8.25%	8.50%	7.75%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Schwab models

		2/22/2019				1/30/2018			
		Income	Balanced	Growth	Aggressive	Income	Balanced	Growth	Aggressive
AGG	SCHZ	48.50%	30.75%	19.00%	11.90%	44.00%	30.00%	19.00%	11.90%
SHY	SCHO	7.00%	5.00%	2.50%	0.00%	11.50%	5.70%	2.50%	0.00%
ITOT	SCHB	21.75%	33.00%	41.50%	46.85%	20.72%	31.70%	38.15%	43.60%
USMV	SPLV	5.00%	8.00%	10.00%	11.00%	4.93%	7.80%	9.60%	11.00%
IEFA	SCHF	7.00%	11.00%	13.50%	16.50%	9.50%	13.50%	18.25%	21.00%
IEMG	SCHE	3.00%	4.00%	5.00%	6.00%	1.60%	3.05%	4.00%	4.75%
FSRVX	SCHH	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NRIAX	NRIAX	7.75%	8.25%	8.50%	7.75%	7.75%	8.25%	8.50%	7.75%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%