Monthly Performance Report | February 2018

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
GTAA Growth 100	2017	-	-	-	-	1.63%	-0.09%	1.98%	0.05%	0.43%	1.47%	0.37%	1.40%	7.45%
	2018	1.57%	-2.93%	-	-	-	-	-	-	-	-	-	-	-1.41%

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
GTAA Moderate 50	2017	-	-	-	-	0.63%	-0.12%	0.95%	-0.10%	-0.57%	0.79%	0.09%	0.53%	2.21%
	2018	-0.66%	-1.36%	-	-	-	-	-	-	-		-	-	-2.01%

Shifting from Offence to Defense

The recent turbulence in financial markets has caused a significant shift in the positioning of our portfolios. Our investment models have made the determination that the reward/risk ratio in markets has deteriorated, and that it is currently an opportune time to play defense rather than offence.

Since our inception in May of last year through the end of last month, our Global Tactical Asset Allocation (GTAA) Growth strategy has been between 70% and 90% invested in more volatile pro-growth assets (equities, high yield bonds, etc.). However, as of the end of last month, the strategy reduced its exposure to these assets to 30%, with the remaining 70% of the portfolio invested in short-term investment grade bonds.

Our GTAA Moderate strategy made a similar yet even larger shift, and is currently 100% invested in short-term investment grade corporate bonds.

Fear vs. FOMO:

Investors are currently caught between the classic struggle between fear and FOMO (fear of missing out). On the one hand, they are keenly aware that we are in precarious times, characterized by the second longest bull market on record, stretched valuations, and a recent resurgence in market volatility. On the other hand, they are also fearful of missing out on potential profits should markets rise over the near to medium term.

Whereas there is no easy way to reconcile these two opposing forces, some of the more common approaches that investors employ are summarized below.

Buy and Hold:

At its core, this approach to investing is based on the belief that:

1. Markets rise over time (although this ascent is periodically interrupted by bear markets which lead to severe (albeit temporary) destruction of wealth; and,
2. It is difficult (if not impossible) to accurately predict bull or bear markets.

Given these assumptions, it follows that investors should simply "hunker down" and ride the proverbial roller coaster through thick and thin. Unfortunately, the experience of living through a 30%-40% decline in the value of one's portfolio is emotionally challenging (to say the least), thereby making it difficult for investors to stay the course.

Emotionally motivated investors often sell at the or near the lows of bear markets and then remain too shell-shocked to re-enter in a timely fashion once markets begin recovering. This type of reaction causes inventors to realize significant losses in bear markets while capturing a relatively small portion of gains during bull markets, which in combination leads to unattractive long-term returns.

Finally, despite the fact markets have historically withstood the test of time and proceeded to make new highs following bear markets, the effect on investors' compounded returns have nonetheless been devastating (a 40% loss needs to be followed by a 67% gain to get back to par).

Market Timing:

One possibility that could in theory enable investors to benefit from rising markets while avoiding losses during bear markets involves predicting turning points so that investors can exit at market tops and enter at market bottoms. These forecasts are generally based on macroeconomic data and/or valuation levels. Unfortunately, in practice this is impossible to achieve.

According to Niels Bohr (Nobel laureate in Physics), "Prediction is very difficult, especially if it's about the future." This quote bears particular significance when applied to financial markets. In an article entitled, "Strategists: full of bull", Salil Mehta, former Head of Analytics for the financial stability office of the Department of the US Treasury, points out that not one major Wall Street strategist predicted either of the most recent bear markets of 2001-2 and 2008.

Alternatives/Hedge Funds:

Another popular solution for mitigating losses during times of market turmoil is to invest in hedge funds, which hedge against market declines. However, these vehicles generally come with high fees. Moreover, they have limited liquidity, either due to the fact they require investors to provide significant notice in order to withdraw their capital and/or because they invest in less liquid instruments/securities.

Lastly, the aggregate amount of assets invested in hedge funds globally has exploded from approx. $300 million in 2000 to over $3 trillion today. This tenfold increase in assets has had the predictable effect of increased competition and generally poor returns. In the most recent letter to shareholders, Warren Buffett warned investors that hedge funds have generally delivered subpar returns while charging high fees.

Tactical Asset Allocation (GTAA)

At OWM, our GTAA strategies are based on the following, key principles:

1. Investing is largely about the "magic" of compounding, and that the best way to harness this phenomenon is to avoid large, bear market losses.
2. Markets spend most of their time trending (either up or down).
3. Objective, and quantifiable rules based on statistical evidence can be implemented to capitalize on trending markets to (a) participate in rising markets and (b) avoid large, bear market losses in order to compound investors' money more effectively and achieve higher long-term returns.

We believe that these foundations constitute the most logical straightforward approach to achieving superior risk-adjusted returns through investment cycles.

Investment Strategy and Objectives

Outcome Wealth Management manages portfolios comprised of large, liquid ETFs. Our strategies are designed to provide efficient global diversification, offer better protection in bear markets, and deliver higher long-term returns.

GTAA Growth 100

The GTAA Growth 100 strategy was 70% invested in growth assets in February. Nearly every asset in our investment universe fell during the month, with the most pronounced decline occurring in U.S. REITs, which fell 7.68% and which we managed to avoid. The portfolio also managed to avoid exposure to long-term treasuries, which declined 3%. Our performance was dragged down chiefly by exposure to International REITs and European stocks, which declined 6.7% and 6.2%, respectively, followed by EM and U.S. stocks, which fell by 5.9% and 3.6%, respectively.

For March, the strategy significantly decreased its exposure to growth assets by 40% to 30%, with the remaining 70% of the portfolio invested in U.S. short-term investment grade corporate bonds. Specifically, the strategy maintained its positions in U.S., Japanese, and EM stocks, while liquidating its positions in international REITs, Eurozone stocks, and U.S. high yield bonds.

GTAA Moderate 50

The GTAA Moderate 50 strategy was 50% invested in growth assets during February, with performance drivers that were similar to the GTAA Income 100 strategy, albeit on a muted scale due to the former strategy's lower aggregate weighting in growth assets.

For March, the strategy completely eliminated its exposure to growth assets, and is now 100% invested in U.S. short-term investment grade corporate bonds.

ETF Performance

Symbol	Geography	Asset Class	Feb	YTD	1 Year	3 Year	5 Year
XIU	Canada	Stocks	-3.0	-4.4	3.4	3.4	6.9
SPY	U.S.	Stocks	-3.6	1.8	16.9	10.6	14.0
VNQ	U.S.	REITs	-7.7	-11.6	-9.8	0.2	5.4
PFF	U.S.	Preferred Shares	0.3	-0.9	2.5	3.2	4.1
HYG	U.S.	High Yield Corporate Bonds	-0.9	-0.8	2.7	2.9	3.3
SJNK	U.S.	Short Term High Yield Corporate Bonds	-0.4	0.3	3.2	2.9	2.8
LQD	U.S.	Inv. Grade Corporate Bonds	-2.2	-3.4	1.9	1.9	2.6
SDY	U.S.	High Dividend Stocks	-4.9	-3.0	8.2	9.3	11.7
TLT	U.S.	Long Term Treasuries	-3.0	-6.2	0.1	-0.4	2.6
VCSH	U.S.	Short Term Inv. Grade Corporate Bonds	-0.5	-0.9	0.6	1.4	1.5
IEV	Europe	Stocks	-6.2	-1.0	19.5	3.5	5.9
RWX	International	REITs	-6.7	-3.1	7.9	0.2	2.8
EWJ	Japan	Stocks	-3.0	1.9	20.7	8.7	9.6
EEM	Emerging Markets	Stocks	-5.9	1.9	28.7	7.3	3.8
EMB	Emerging Markets	Sovereign Bonds	-2.2	-2.8	3.6	4.5	3.0

Source: FactSet Research Systems Inc.

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