



## **PORTFOLIO UPDATE – OCTOBER 12, 2018**

Since the beginning of October, we have experienced a surge in volatility and a significant downdraft across global markets. It is hard to pinpoint any one particular cause for the market disruption. Despite a healthy U.S. economy, investors harbor growing fears about rising interest rates, the ongoing trade conflicts, and the potential end of a lengthy bull market. The fears appeared to coalesce last week, resulting in spiking interest rates and a broad market sell-off. A notable cause for concern was the breakdown of the historical inverse correlation between stocks and bonds – they fell in unison which is not typical. Coming into this week, interest rates moderated but the equity market decline accelerated. With signs of indiscriminate selling, the market action appeared to be momentum driven. Based on concerns about further downside risk, we chose to take a more defensive posture across portfolios by removing our positions in Asia ex-Japan and the Eurozone, and reducing our U.S. small cap holdings.

These non-U.S. equity markets have been weak for most of the year but we have maintained our positioning based on continued economic growth and favorable valuations. However, as we have discussed in recent notes, it appears that growth has peaked in the Eurozone. Combined with the ongoing contentious negotiations regarding Britain's exit from the EU and concerning developments from Italy's recently installed populist administration, we think equities could continue to come under pressure. In regard to Asia, while we remain optimistic about the long-term growth potential, it has become increasingly hard to ignore the near-term challenges to these markets presented by the strong U.S. dollar, heavy debt burdens, and the ongoing trade conflicts, particularly in regard to China.

The reduction in U.S. small cap exposure was primarily driven by a desire to reduce overall risk. This segment of the market is more volatile and subject to momentum as investors seek safe havens. We thought it was prudent in the current environment to reduce our exposure.

In terms of overall positioning, we maintain a long-standing preference for the U.S. across equities and fixed income. Within U.S. equities, with the reduction in small cap, we maintain an overweight across the larger cap portion of the market. We are significantly underweight non-U.S. equities with a neutral weighting to Japan. Our overweight to the U.S. is primarily funded from non-U.S. bonds. Within fixed income, we are overweight in the U.S. with a preference for corporate credit. We do not have any current exposure to non-U.S. fixed income. Our portfolios maintain lower duration than the benchmark. With our reduction across equities, our cash position is now significantly overweight relative to our benchmark.



## DISCLOSURES

Wilde Capital Management, LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.

It is important to remember that there are risks inherent in any investment and that there is no assurance that any money manager, fund, asset class, style, index or strategy will provide positive performance over time.

Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in U.S. and longer-established non-U.S. markets.

An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

Portfolios that invest in real estate investment trusts (REITs) are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions.

Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

### Important Disclosures: Exchange-Traded Funds

Exchange-traded funds (ETFs) are investment vehicles that are legally classified as open-end investment companies or unit investment trusts (UITs), but differ from traditional open-end investment companies or UITs. ETF shares are bought and sold at market price (not net asset value) and are not individually redeemed from the fund. This can result in the fund trading at a premium or discount to its net asset value, which will affect an investor's value. Shares of certain ETFs have no or limited voting rights. ETFs are subject to risks similar to those of stocks.

ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

Certain ETFs have elected to be treated as partnerships for federal, state and local income tax purposes. Accordingly, investors in such ETFs will be taxed as a beneficial owner of an interest in a partnership. Tax information for such ETFs will be reported to investors on an IRS schedule K-1. Investors should consult with their tax advisors in determining the tax consequences of any investment, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.