

# CEDARCAPITAL

## MARKET ADVANTAGE RESEARCH COMMENTARY 2018Q4

The fourth quarter saw a return of volatility and declines across several asset classes, including domestic and international equities. The S&P 1500 Total Return Index ended the quarter with a loss of -14.0%. The MSCI Emerging Markets Total Return Index fell -7.5% while the MSCI EAFE Total Return Index declined -12.5%.

On the fixed income side, concerns over rising interest rates were momentarily put aside as U.S. treasuries served as a safe haven from the equity volatility, with the ICE US Treasury 3-7 Year TR Index finishing the quarter with a gain of 2.7%. The Barclays US Aggregate Bond TR Index was up 1.6% while high yield saw the iBoxx USD Liquid High Yield Index move lower by -4.2% for the quarter. On the alternatives front, the HFRX Global Hedge Index closed out the quarter with a loss of -5.6%.

**TABLE 1 | INDEX PERFORMANCE | as of December 31, 2018**

CATEGORY	TARGET FOCUS	TICKER	DESCRIPTION	QTD	YTD	1-YR	
EQUITY	Strategic	Strategic U.S.	SPRTR	S&P 1500 Composite TR	-14.0%	-5.0%	-5.0%
		Strategic DM	NDDUEAFE	MSCI EAFE NETR USD Index	-12.5%	-13.8%	-13.8%
		Strategic EM	NDUEEGF	MSCI Emerging NETR USD Index	-7.5%	-14.6%	-14.6%
		Strategic Global	NDUEACWF	MSCI AC World NETR USD Index	-12.8%	-9.4%	-9.4%
	Tactical	Tactical U.S.	—	U.S. Tactical Equity Dataset	-12.8%	-6.1%	-6.1%
		Tactical Global	—	Global Tactical Equity Dataset	-8.4%	-4.7%	-4.7%
FIXED INCOME	Strategic	Treasuries	IDCOT3TR	ICE U.S. Treasury 3 -7 Year TR Index	2.7%	1.5%	1.5%
		Corporate	LBUSTRUU	Barclays US Agg TR Value Unhedged USD	1.6%	0.0%	0.0%
		High Yield	IBOXHY	iBoxx USD Liquid High Yield Index	-4.2%	-1.5%	-1.5%
	Tactical	Blend	—	U.S. Tactical Fixed Income Dataset	-2.2%	-1.9%	-1.9%
ALTS	PE/VC	Private Equity	TRPEI	Thomson Reuters Private Equity Buyout Index	-20.6%	-11.9%	-11.9%
		Venture Capital	TRVCI	Thomson Reuters Venture Capital Index	-23.8%	8.5%	8.5%
	Absolute Return	HFRXAR	HFRX Absolute Return Index	-1.5%	-0.5%	-0.5%	
	Real Assets	SPRAET	S&P Real Assets Equity Index TR	-8.3%	-7.3%	-7.3%	
	Index	HFRXGL	HFRX Global Hedge Fund Index	-5.6%	-6.7%	-6.7%	

Source: Internal, Bloomberg

**TABLE 2 | RETURNS FOR VARIOUS INDEX BLENDS | as of December 31, 2018**

INDEX BLENDS	QTD	YTD	1-YR
Equity Blend: 65% ACWI + 35% Global Tactical	-11.2%	-7.8%	-7.8%
Fixed Blend: 65% AGG + 35% US Tactical Fixed	0.3%	-0.6%	-0.6%
Alts Blend: 17% PE + 17% VC + 33% Abs + 33% Real Assets	-10.8%	-3.1%	-3.1%
20% Equity Blend/70% Fixed Blend/10% Alts Blend	-3.1%	-2.3%	-2.3%
30% Equity Blend/50% Fixed Blend/20% Alts Blend	-5.4%	-3.3%	-3.3%
50% Equity Blend/20% Fixed Blend/30% Alts Blend	-8.8%	-4.9%	-4.9%

Source: Internal, Bloomberg

Reviewing each major category:

**Strategic** – Comparison of the MSCI All Country World Index to the Barclays Aggregate Bond index illustrates how the spike in equity volatility and the sharp sell-off in equities serve as a reminder to investors of the value of fixed income as a diversifier in a portfolio. In a reversal of a trend started in the second quarter, emerging markets were the relative strong point on the equity side with a -7.5% performance for the MSCI Emerging Net TR Index compared to other major equity market segments which were down over 10% for the quarter.

**Tactical** – For global equities, tactical managed to outpace strategic as multiple strategies went to some element of “risk off” portfolio positioning, posting a loss of -8.4% compared to -12.8% for the MSCI AC World NETR USD Index. It was a similar story on the domestic side, although the performance difference was not quite as pronounced, with tactical posting a return of -12.8% compared to the S&P 1500 Total Return Index performance of -14.0%. On the fixed income side, tactical underperformed the Barclays US Agg TR Value Unhedged USD Index with a return of -2.2% vs. +1.6%, hampered by high yield exposure during the quarter.

**Alternatives** – Research suggests a properly balanced alternative sleeve involves a combination of private equity (including venture capital), absolute return strategies and real asset exposure. Such a combination as represented by the Alts Blend in Table 2 posted a -10.8% return for the period held back by the weak performance in the venture capital and private equity category. However, for the year-to-date period, this combined approach has proven favorable relative to the HFRX Global Hedge Index, which represents the broad hedge fund industry.

In keeping with the structure of a balanced blend of strategic, tactical and alternative indices, it is important to recognize that in any given period, certain elements will be the drivers to overall performance. Which elements prove to be key contributors to returns will naturally vary throughout time and market environments. While this most recent reporting period saw negative performance from equities and alternatives with fixed income acting as positive ballast, there is no guarantee this pattern will continue into the future. As such, based on our research, we believe one of the best ways to construct portfolios is to blend strategic, tactical and alternative components as done through the Cedar MAPs framework to establish a well-balanced portfolio consistent with investor objectives and risk tolerance. A well-designed portfolio paired with discipline can often be one of the most effective ways to achieve investment success.

**DISCLOSURES**

*This commentary is prepared by Cedar Capital, LLC (“Cedar Capital”) for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any security. The information contained herein is neither investment advice nor legal opinion. The views expressed are those of the author as of the date of the publication of this report, and are subject to change without notice.*

*This material does not take into account any investor’s particular investment objectives, strategies, tax status, or investment horizon. Financial Professionals should carefully consider their client’s investment objectives, risks, charges and expenses prior to investing in any strategy.*

*Allocations and performance are provided for illustrative purposes only. The allocations and performance shown are hypothetical and do not represent an actual account or the results of any actual trading. The information presented is published index data, except in limited circumstances, whereby Cedar Capital deemed there was not a representative index as described herein.*

*Total Return indexes reflect the reinvestment of income. Net total return indexes reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.*

*In certain instances, a representative index was not available for specific asset classes including tactical allocation. In such cases, Cedar Capital utilized custom datasets (“Tactical Datasets”) which are designed to be representative of the general overall performance of the respective tactical asset classes.*

*The Tactical Datasets were created by Cedar Capital utilizing the Morningstar ETF Strategist Database (the “Database”). The Tactical Datasets are not representative of an investment strategy managed by Cedar Capital. The Tactical Dataset data presented is hypothetical and is provided for illustrative purposes only. The Tactical Dataset performance represents separately managed account performance as reported to the Database but cannot be confirmed by Cedar Capital.*

*Indexes and Tactical Datasets are unmanaged and cannot be invested into directly. Indexes and datasets do not reflect the deduction of fees or other expenses. **Historical performance for market indices and/or datasets are presented gross-of-fees and do not reflect the deduction of transaction and/or other custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing the historical performance results.***

***Past performance is no guarantee of future results. There are risks associated with any investment strategy, including the possible loss of principal. There is no guarantee that any investment strategy will achieve its objectives. Diversification does not guarantee a profit or eliminate the risk of loss.***

*Overall market risk, including volatility, may affect performance. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment strategy will either be suitable or profitable for a client’s investment portfolio.*

*Equity investments are subject to overall market risk and volatility. Fixed income investments are subject to issuer credit risks and the effects of interest rate fluctuations. Alternative investments typically hold more non-traditional investments and may employ more complex trading strategies including leverage through the use of derivatives. Investors considering alternative investments should carefully consider their unique characteristics and additional risks. Tactical investment strategies may result in the portfolios being more concentrated in a specific asset class, which could reduce overall return if these asset classes underperform.*

*The **S&P Composite 1500 Total Return Index** combines three leading indices, the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 to cover approximately 90% of the U.S. market capitalization.*

*The **MSCI EAFE Total Return Net Index** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.*

*The **MSCI Emerging Markets Total Return Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.*

*The **MSCI ACWI Total Return Index** is a free float-adjusted market capitalization weighted index that is designed to measure the performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging market country indices.*

*The **ICE U.S. Treasury 3-7 Year Bond Index** measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to three years and less than seven years.*

*The **Barclays US Aggregate Bond Total Return Index** is an index designed to provide a measure of the performance of the U.S. investment grade bond market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass through securities and asset backed securities that are publicly offered for sale in the U.S.*

*The **iBoxx USD Liquid High Yield Index** is a modified market-value weighted index designed to provide a balanced representation of U.S. dollar-denominated high yield corporate bonds for sale within the United States by means of including the most liquid high yield corporate bonds available as determined by the index provider.*

*The **Thomson Reuters Private Equity Buyout Index** replicates the performance of the Thomson Reuters Private Equity Buyout Research Index, which is designed to be a comprehensive and highly representative indicator of the US PE Buyout industry, through a combination of liquid, publicly listed assets.*

*The **Thomson Reuters Venture Capital Index** replicates the performance of the Thomson Reuters Venture Capital Research Index, which is designed to be a comprehensive and highly representative indicator of the US venture capital industry, through a combination of liquid, publicly listed assets.*

*The **HFRX Absolute Return Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.*

*The **S&P Real Assets Equity Total Return Index** is a static weighted return of investable and liquid equity indexed components that measures the performance of real return strategies that invest in listed global property, infrastructure, natural resources, and timber and forestry companies.*

*The **HFRX Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.*

*Cedar Capital is registered as an investment adviser with the United States Securities and Exchange Commission (SEC). Registration does not constitute an endorsement of the firm by the SEC nor does it indicate that the Adviser has attained a particular level of skill or ability.*