TOTAL RETURN ETF STRATEGY

NEWSQUARE CAPITAL

QUARTERLY COMMENTARY

2nd Quarter • 2018

Commentary

Despite continued day-to-day volatility, US stocks posted positive returns in the second quarter, buoyed by a stronger US dollar and a rosy outlook for US economic growth. The S&P 500 and other broad US indices advanced for the three-month period, extending the current multi-year bull market. Concerns revolving around a global trade war, rising interest rates, the sustainability of the European Union, and the potential for US Federal Reserve (Fed) policy mistakes led to some short-term ups and downs, but investors seemed to retain their conviction in the aging bull market.

For global equities, it was a different story. Emerging-market stocks declined sharply, while their developed-market peers also retreated, potentially due to a stronger US dollar, rising interest rates, trade tensions, and softer economic growth in Europe, Japan, and China. Commodity prices varied, as oil topped $70 per barrel, which helped energy-sector stocks, but gold declined.

Total Return ETF Description

The NewSquare Total Return ETF Strategy is a global, multi-sector, fixed income-focused strategy for investors who seek both income and long-term appreciation. Using exchange-traded funds, or ETFs, which offer cost effectiveness and tax efficiency, the strategy offers the relatively low risk levels of a diversified fixed income portfolio augmented by limited supplemental investments in equity and alternative asset classes. An extension of the NewSquare Macro Series, the strategy is driven by the macro-economic analysis of our seasoned management team.

Most bond sectors recorded flat to marginally positive returns as yields broadly rose. However, the yield curve—the difference between interest rates on short-term and long-term government bonds—continued to flatten. Although frequently a warning sign of potential economic weakness, we believe this year's flattening can be attributed to the combination of improving economic data and expectations for rising short-term rates, together with a trade tension-inspired flight to quality, which is restraining long-term yields. After a sharp decline in the first quarter, real estate investment trusts (REITs) rebounded during the period. REITs are often viewed as a bond proxy and were bolstered by the flattening yield curve.

Outlook

Within this strategy, we have turned our focus to the bull market's longevity and sustainability. We believe we are entering a time of growing downside risks, which is typical in the latter stages of the business cycle. Potential risk factors include escalating trade conflicts, higher inflation leading the Fed to accelerate its pace of interest rate increases, higher oil prices, and federal government budget battles. At this time, we do not believe a US economic recession to be imminent. In times like these, we look to the fundamentals of the economy, and we believe they remain strong.

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Our investment process focuses on the benefits of asset class diversification, which typically brings lower volatility. We continue to believe that striking a balance between risk and return is critical. Given what we view as a high degree of uncertainty and growing downside risks, we reduced exposure to risk-based assets during the quarter, primarily by moving from an overweight to an equal-weight position in international, developed-market stocks. At quarter's end, our portfolios were slightly underweight risk-based assets, particularly in areas with what we view as the richest valuations, such as real estate and high-yield debt. We are slightly overweight fixed income and cash. Within fixed income, we moved to reduce the average durations of the portfolios, to below those of the benchmarks.