



A C A D E M Y
FINANCIAL, INC.
EVALUATE • ENVISION • EXECUTE

2019 Rebalance and Reallocation

This material applies to Premier Plus Advisory

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“Listening to and understanding our client’s financial goals allows us to provide the highest level of investment planning advice and service.”

Fund Changes

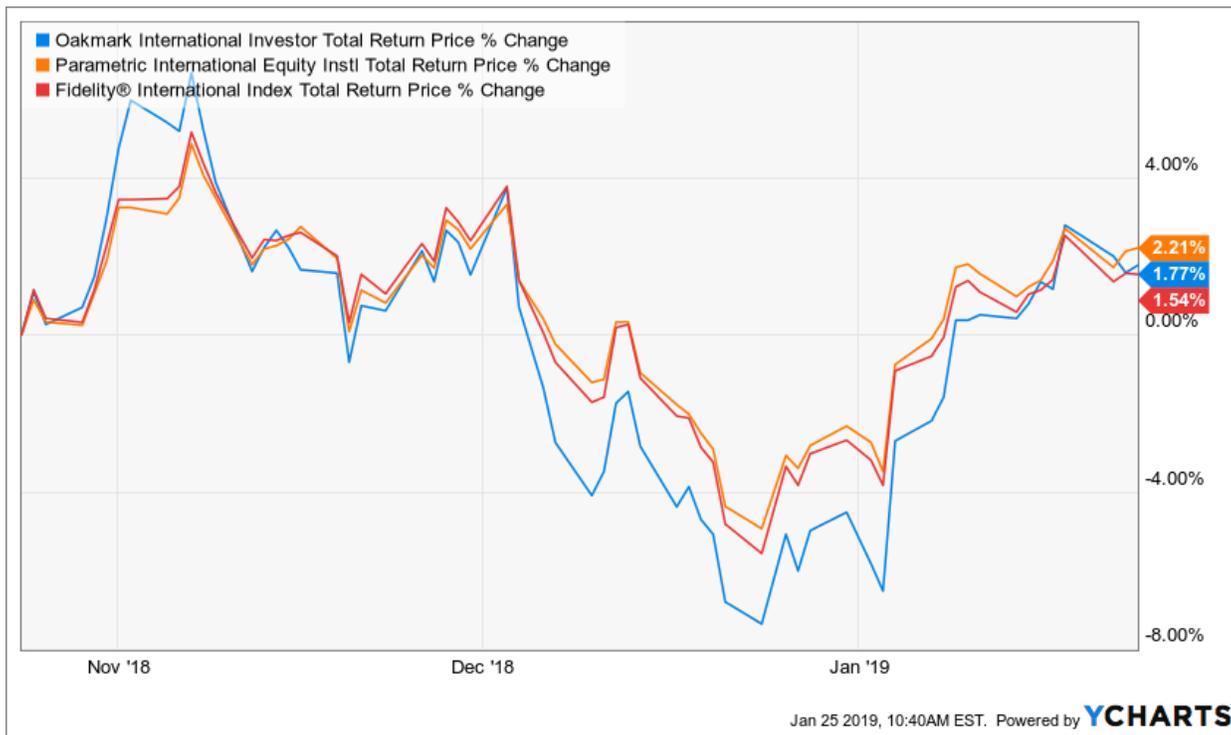
Oakmark International - Sell

The decision to sell Oakmark International was a balance between the strong reasons we purchased the fund last year and the unexpected performance on the downside. The fund has had an experienced management team that is still in place and is committed to a contrarian investment philosophy towards deep discount large cap internationals. We can appreciate a manager with conviction, but what gave us pause is the unexpected magnitude of the downside due to that conviction. When we purchased a Oakmark and the highly rated fund management team, we accepted that the opportunity to outperform the benchmark had risk to underperform. The excessive variance to the downside was unacceptable to maintain going forward.

Parametric International Equity – Buy

Fidelity International Equity – Buy

We reduced our exposure to Large Cap International by 1-3% and replaced Oakmark with two funds, increasing our diversification and decreasing risk. Fidelity International Equity Index Fund will mirror the International equity market benchmark while the Parametric International fund will look to outperform through active management. Parametric is a large cap diversified fund with a three-person management team with an average tenure of 9 years. Performance in both up and down markets has a strong track record. In addition, the variance in either direction was well within an acceptable range. Below is a chart showing the past 3 months of performance for all three funds. By chance they had very similar returns but noticeably different variance. The comparison of Oakmark in blue shows the variance even in a short time period of high market volatility.



Glenmede Long/Short - Sell

In the alternative investment space, the Long/Short fund created a hedge against the downside. It was a relatively expensive fund due to the highly active nature, analysis, and timing of trades involved. As we assessed its performance during the up and down markets during 2018 we didn't think the amount of protection it gave on the downside justified our position.

Fidelity Low Volatility Factor ETF: As a low cost ETC, the FDLO ETF should correlate to the upside while at the same time provide some protection on the downside, though not as much as the Glen Mede Long Short. The purchase is in keeping with our relatively bullish view towards equities as the markets started a partial recovery in the 1st quarter. We have reduced our overall investments in alternatives by about half over the past 2 years.

Fidelity Advisor Total Bond Z - Buy Fidelity US Bond Index - Reduce

For our Index portfolios, the Advisor Total Bond fund had a much higher exposure to Mortgages without the heavier weightings in U.S. Treasury. Their investment approach is to barbell the yield curve with short term Treasury notes that mature within 12 months combined with longer term mortgages. This adds yield and additional interest rate risk to the overall bond portfolio which we find preferable as we diversify away from the standard longer duration US Treasury Bonds. Credit risk is still low.

Fidelity Ticker Changes

During the 4th quarter, Fidelity reclassified several their share classes to merge with the one share class with the lower fund fees. This is positive across the board for all Fidelity fund holders. If you see a ticker change in a Fidelity fund, it was a simple reclassification and has no bearing on cost basis or other tax implications.

Allocation Changes

We are making two adjustments to our overall portfolios. The first is to slightly increase our exposure to equity vs fixed income and continue the reduction in the alternative investment space. Within Large Cap equities we reduced the overweight in growth and increased the allocation of core and value funds. The net affect is a slightly more bullish outlook towards the equity markets yet within equity we reduce some volatility with a tilt away from growth and towards value.

Fund and information provided by Ycharts and Morningstar. Ycharts and Morningstar are separate entities and are not affiliated with Lincoln Financial Advisors.

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