

Tactical Trade Rationale

1/28/19

This past Friday, given the near 13% rally in US equities off the Christmas Eve lows¹, we paired back equity exposure to a *neutral* position versus benchmarks in the Fundamentum Tactical Portfolios. We came into the 4th quarter of 2018 with ample cash (8-9%) and used the market weakness throughout the quarter to nibble at equities. This resulted in our Tactical strategies being 3-5% overweight equities relative their neutral positions coming into 2019. We believed sentiment was too bearish and equities had fallen to levels where there was more opportunity than risk, warranting the overweight. With the bounce seen since the lows however, we believe the risk/return outlook is now better-balanced necessitating a neutral allocation as we head into the thick of earnings season. The risks in front of the market are largely the same. They are *fundamental* (slowing global economic growth with the accompanying reductions in earnings expectations for U.S. companies), *geopolitical* (binary potential outcomes on Brexit negotiations, U.S./China trade talks and a new potential U.S. government shutdown), and *policy-oriented* (global monetary and fiscal measures). Until we get more clarity on these risks throughout the rest of the quarter, we think more acute volatility could return. Therefore, with the trades implemented Friday, we simply wanted to take a few chips off the table until we learn more.

As always, we appreciate your confidence in our team and are always available for questions.

Fundamentum Investment Committee

Chad Roope, CFA-Portfolio Manager
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Matt Dunn, CFA - Chief Compliance Officer

Sources:

¹ Morningstar Direct
² Factset

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