AllocateRite | Cloud-Based AI-Powered Digital Asset Management Technology™

Monthly Rebalancing Bulletin and Commentary

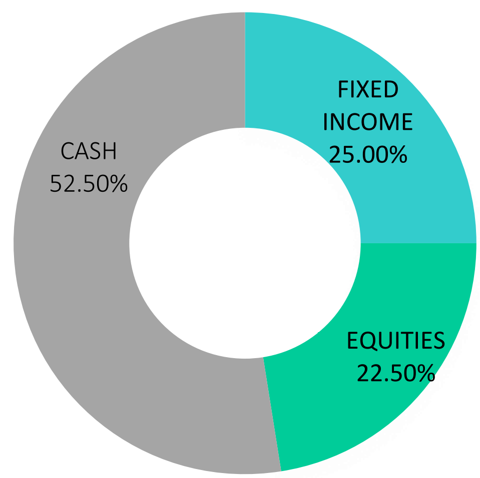
October 4, 2017

U.S. Domestic Composite

On October 4, 2017, the U.S. Domestic Composite ("ARUSDOM"- Bloomberg ticker) marginally added to its exposure of risk assets by increasing its allocation to Equities (+5%) and reducing the allocation to Cash. Equities is now equally weighted at 2.5% across all major sectors. The economy continues to show no real signs of inflationary pressure and the Fed's measured approach on rates reinforces a lesser likelihood of any near term curve steepening.

- US equity markets have seen a continuation of a momentum driven rally including a string of new highs. The S&P 500 gained 2.1%, while U.S. small cap stocks rose 7.7%.
- Energy, Financials and Industrials were the best performing sectors. Utilities, falling in tandem with long-term Treasuries prices, was the worst performer followed by real estate and consumer staples.
- As expected, the Federal Open Market Committee (FOMC) left the target federal funds rate unchanged at a range of 1.00%-1.25% at its September meeting.
- The economic positives were-
    - Weakness of the dollar provided a boost to multinational companies.
    - Manufacturing PMI reading of 60.8 was in line with the trend in GDP growth.
    - Economic growth accelerated to an annualized rate of 3.1% in 2Q17, revised up in the final estimate to its quickest pace in over two years.
- While the negative economics were:
    - The core Personal Consumption Expenditures (PCE) index, which is the Federal Reserve's favorite measure of inflation, came in at 1.3 percent, year-over-year. That's its well below its target of 2%.
    - The September employment report showed that the U.S. economy lost -33,000 jobs last month, an unexpectedly weak reading.
- During 2017, the number of days on which the VIX finished below 10, a very low reading, increased significantly. Through September, the VIX had closed below 10 on 32 days since 1990 and 24 of those in 2017. The historic average for the VIX is about 19.
- Credit spreads continue to hover around historically low levels.
- Government bonds trended down over the month with the US Treasury 10-year yields widening from 2.12% to 2.33%.
    - Government bonds are expensive across the globe, however U.S. 10-year Treasuries around 2.2% are closest to our fair **value** estimate of 2.7%. German 10-year Bunds at 0.4% are some way from fair value of 1.5%.
- The U.S. dollar, after falling roughly 12% from its January peak, stabilized by the end of September - gaining 0.86%.

U.S. Domestic Composite
October 2017



AllocateRite Model's Trending Indicators

EQUITIES	
Consumer discretionary stocks	▲
Consumer staples stocks	▼
Energy stocks	■
Financial stocks	▲
Healthcare stocks	■
Industrial stocks	▲
Materials stocks	▲
Technology stocks	■
Utilities stocks	■
Real-Estate stocks	▲
FIXED INCOME	
20+ Year Treasury Bond	■
CASH & CASH EQUIVALENT	
1-3 Month T-Bill	▼

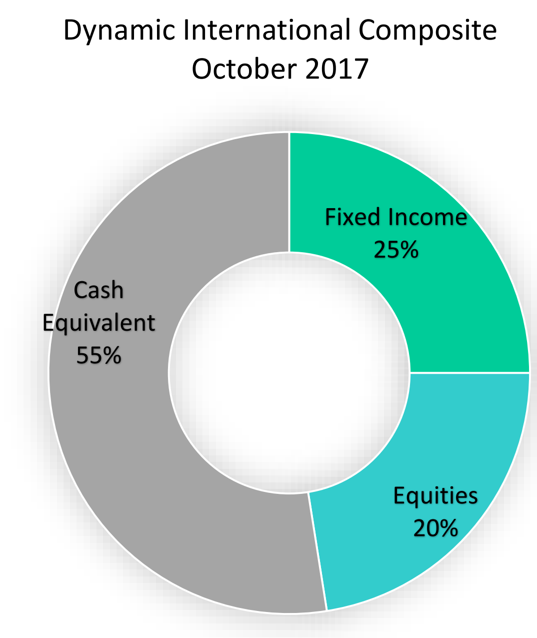
LEGEND
▲ Out-perform
▼ Under-perform
■ Hold signal

International & Dynamic Blend Composites

AllocateRite Diversified International Composite ("ARINTNL") and AllocateRite Global Dynamic Blend Composite ("ARDYBLD") strategies were added to include greater global diversification. ARINTNL strategy is comprised of five country ETFs (Japan, Brazil, China, India and Germany) plus a fixed income and cash component; and the ARDYBLD strategy is a dynamic blend of ARUSDOM and ARINTNL strategies.

The Dynamic International model ("ARINTNL"- Bloomberg ticker) marginally decreased its allocation to risk assets up from 25% to 20% with slight adjustments across country groups for the October rebalancing. Country exposure was reduced equally across the board.

- Developed international equities powered ahead, gaining 2.5%.
- **E**urozone highlights-
  - The big news in Europe was the German elections, held on the last Sunday in September. They were largely seen as an endorsement for another four years as Chancellor for Angela Merkel, however the Christian Democrat vote was down nearly 10% to 32.9%.
  - German DAX index closed September up 6% .
  - Despite an accelerating growth and a steadily declining unemployment, inflation has been persistently slow in moving towards the various developed market's target rates.
  - Euro-area economic confidence rose to the highest level in a decade, acting as tailwind for investment and consumption in the region.
  - Brexit continued to be in focus with both sides remaining very much at odds and disagreement over the UK's 'exit bill' in particular hindering progress.
  - Bund 10-year yields moved from 0.54% to 0.36%.
- In Japan-
  - Boosted by the likely return to power of Shinzo Abe, the Japanese market led the way in the Far East, rising 4%.
  - The TOPIX now trades at a 42% discount to the MSCI World Index, which compares favorably to the 20-year average discount of around 32%.
- Emerging market equities fell 0.4%.
- China newsworthy items for September -
  - BRICS Summit –Chinese leader Xi Jinping told the delegates that an 'open world economy' was needed, with ever-increasing trade liberalization.
  - Bank lending and credit are cooling – the result of a healthy move to crack down on shadow banking and leverage.
  - Further cleaning up bloated state-owned enterprises and delicately cutting down on the country's reliance on debt to boost growth.
  - Standard & Poor's cut China's rating by one point from AA- to A+. This was down to worries about the build-up of debt in the country.
- Brazilian market was up another 5% in September.

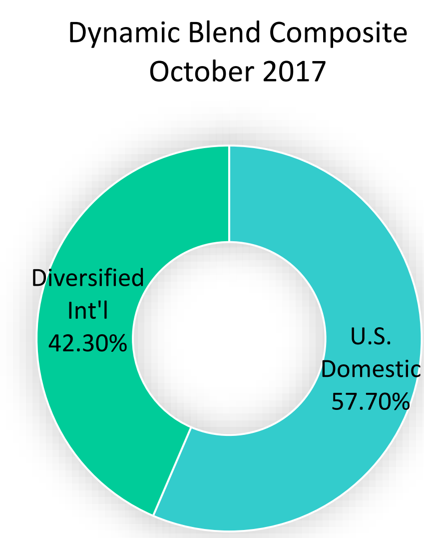


Japan	**EWJ**	**+1.8%**
Brazil	**EWZ**	**+4.2%**
China	**FXI**	**-0.45%**
India	**INDA**	**-3.7%**
Germany	**EWG**	**+5.4%**

International & Dynamic Blend Composites

The optimal ratio for the Global Dynamic Blend Composite (ARDYBLD) was reweighted at 57.70% - U.S. Domestic and 42.30% - International as of the October rebalancing. International exposure decreased slightly in response to the strong stock market performance gains in September across the international group of countries.

Despite October's reweighting, AR still sees the trend moving further towards Diversified International exposure within the Global Dynamic Blend Composite.



- Positives-
  - The global economy is in a synchronized growth phase that we have not witnessed since 2010.
- Negatives-
  - Central banks are considering the withdrawal of the extreme monetary stimulus that has been in place for most of the post-financial crisis era.
  - Recent anti-globalization rhetoric may lead to roadblocks in the way of global trade, and promote barriers to immigration which could then lead to local shortages of labor.

- Justification for adding diversified international exposure -
  - International growth prospects and a weaker dollar should enhance foreign returns.
  - The S&P 500 index's forward price to earnings ratio now stands at more than 18 times, well above its global counterparts.
  - Overall, better technicals and fundamentals.
  - Better macroeconomic underpinning
    (as implied by relative economic growth between Asia, Europe and U.S.)