ALLOCATE RITE | Cloud-Based AI-Powered Digital Asset Management Technology™

Monthly Rebalancing Bulletin and Commentary

February 6, 2019

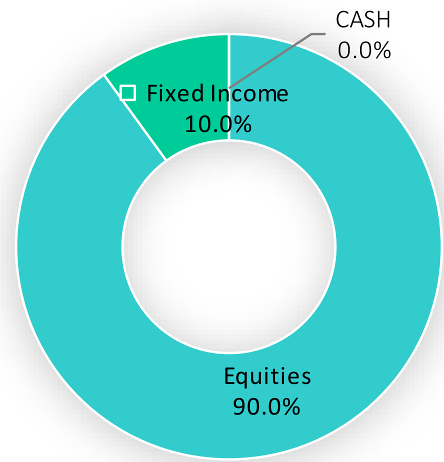
U.S. Domestic Composite

On January 18, 2019, the U.S. Domestic Composite's ("ARUSDOM"- Bloomberg ticker) strategy called for a rare intramonth rebalancing dramatically increasing its risk exposure to a significant "risk on" posture. Equities exposure increased to 90% from 22.5%, while the Cash position moved to 0%.

- The S&P 500 closed January at 2,704.10, up 7.87% (8.01% with dividends), off 7.73% from its closing high.
- All sectors were positive in January rebounding from December's sharp decline. The best performing sector- Industrials was up 11.36%, followed by Energy 11.02%. Utilities was the **worst sector** (+3.37%) after being the best in December.
- The U.S. markets rebound was on the back of dovish remarks from the Fed, strong employment numbers, relative value to bonds and decent Q4 earnings.
- Forward P/Es on the S&P 500 ended January at 16.1x further recovering from the low of 13.5x in December.
- Fourth quarter earnings results to date signal 15.8% increase from Q4 2017. Q4 slightly beating estimates (71.5%), helped by lowered estimates.
- As expected, FOMC left interest rates unchanged. More importantly, noting a greater degree of flexibility in future rate decisions as signs of weaker momentum and "muted inflation pressures. It reduced its view of the economy to "solid" from "strong."
- Powell's statements also projected a view to slowing the balance sheet reduction much earlier than they expected.
- The US dollar index (DXY) declined a modest 0.6% to 95.58 for a second consecutive month.
- VIX® closed January at 16.57, down from 25.42 last month.
- The 10-year U.S. Treasury Bond closed the month at 2.64%, down from last month's 2.69% (2.41% for year-end 2017 and 2.45% for year-end 2016).
- 2yr-10yr spread fell to 0.34 points versus 0.45 last month.
- Credit spreads broadly decreased after jumping in December; the Barclays US Corporate High Yield OAS declined 103 basis points to 4.23%
- The economic data showed some better results –
    - Nonfarm payrolls rose a seasonally adjusted 304,000 in January.
    - The Consumer Price Index retreated 0.1% during December.
    - The January PMI® rebounded to 56.6%, an increase of 2.3% from the December reading of 54.3 percent.
    - The New Orders Index registered 58.2%, an increase of 6.9%.
    - Wages rose at about 3% rate from a year earlier, extending the best pay improvements since the recession ended in 2009.

  On the negative side -
    - ISM Services PMI was down 1.3 to 56.7% from December's revised 58.0.
    - Existing Home Sales fell 6.4%, down 10.3% in the last 12 months.
    - Consumer confidence gauge fell sharply in January to 120.2.

U.S. Domestic Composite
February 2019



AllocateRite Model's Trending Indicators

EQUITIES	
Consumer discretionary	▲
Consumer staples	▲
Energy	▲
Financial	▲
Healthcare	▲
Industrial	▲
Materials	▲
Technology	▲
Utilities	▲
Real-Estate	▲
Communications Services	▲
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 Diversified International model ("ARINTNL"- Bloomberg ticker) reduced its overall Equities risk allocation from 20% to 70.8%.

- The MSCI World ex USA Index of developed markets was up 7.56% net for the month, while the MSCI Emerging Markets Index (MSCI EM) increased 8.76% aided by currency appreciation.

Eurozone:
- The European Central Bank (ECB) said the risks surrounding the eurozone growth outlook have moved to the downside, while keeping with its guidance for interest rates to remain unchanged "at least through the summer of 2019".
- The IHS Markit Eurozone Composite PMI® Output Index fell to 51.0 in January from 51.1 in December, its lowest since mid-2013.
- Eurozone GDP is barely rising, showing a quarterly rate of just 0.1%; estimates for Italy's economy showed a contraction of 0.2% versus prior quarter.
- Rising political uncertainty across Europe, Brexit and trade wars combined with slowing economics are increasingly impacting risk appetite and demand.
- Yield of the bellwether 10-year German Bund declined 0.09% to 0.15%. Italian 10-year yields fell from 2.74% to 2.63% leaving the spread about flat for the month.

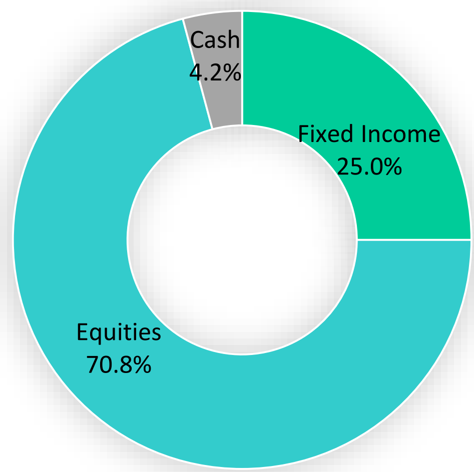
Japan:
- Japanese equities rose 3.8%, weighed down by mixed economic data and the Bank of Japan's downgrade to its inflation outlook.
- The yen ended January just 0.7% stronger against the US dollar after sharply appreciating early in the month.
- Japan Manufacturing PMI hit a 29-month low falling to 50.3, from 52.6 in December.

China:
- Fourth quarter GDP growth fell to 6.4% year-on-year, dragging 2018 growth to 6.6%, the lowest since 1990.
- Equities increased 3.6% on positive developments in trade talks and domestic stimulus measures beating out negative economic data.
- China's manufacturing sector contracted for the second straight month in January.
- The People's Bank of China (PBoC) announced that it would cut its Reserve Requirement Ratio by 100 basis points throughout January.

Brazil:
- Bovespa surged 10.8% on positive progress reports for pension reform and the inauguration of President Jair Bolsonaro.

India:
- Indian stocks underperformed with the Sensex rising only 0.5%, as the recovery in energy prices weighed on local markets.
- Manufacturing PMI index rose to a 13-month high of 53.9 in Jan (53.2 in Dec) led by acceleration in production, order books and job creation amid lower inflation levels.

Diversified International Composite
February 2019



Change in Country Allocations:

Japan	**EWJ**	**12.4%**
Brazil	**EWZ**	**8.2%**
China	**FXI**	**13.6%**
India	**INDA**	**12.5%**
Germany	**EWG**	**15.7%**

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International & Dynamic Blend Composites

As of the January 2019 rebalancing, the optimal ratio for the Global Dynamic Blend Composite (ARDYBLD) moved marginally more in favor of Diversified International (increasing to 56.9% from 56.0%) and bringing the U.S. Domestic allocation down to 43.1%.

AR allocation maintained a greater exposure to the Diversified International Composite supporting a longer-term view that the emerging economies continue to present better fundamentals.

- U.S. Domestic's lower allocation level was supported by the following-
    - Slope of the US yield curve is moving closer to inversion.
    - Higher S&P P/E ratio estimates - about 21% and forward P/Es over 16%.
    - Inflation risks from extensive fiscal stimulus and full employment remain muted. Growth momentum expected to moderate.
    - Continuing trade war poses potential risks to economy and delaying business investment.
    - The deficit to GDP ratio continues to rise materially from 1.5%.
    - US credit markets still fragile, improved in January driven by optimism toward the U.S./ China trade front, recent dovish Fed statements and solid earnings.
    - Positives include:
        - U.S. economy continues to expand, buoyed by tax reform and deficit spending adding further momentum to the US business cycle.
        - Strong jobs market and low unemployment is driving consumer and business spending.
- Diversified International exposure maintained by-
    - Strong fundamentals buoyed by central banks for at least the near-term.
    - EM and World Indexes lower P/Es on a relative basis and at the lower range historically.
    - Cautionary notes:
        - Political uncertainty, and concerns over global trade protectionism.
        - Policy uncertainty has increased within the European Union. Issues surrounding Brexit still remain.
        - Emerging market countries commodity exports have begun to improve.
- Risk-on is back; longer term cautionary signs persist:
    - Global growth trend is moderating and the uncertainty from US China trade talks is expected to keep the markets skittish in the near term.
    - Higher U.S. short-term rates creating competition for capital as investors access above-inflation returns in short-term "risk-free" debt with lower risk.
    - Bond yields broadly reflecting continued macro uncertainty.
    - Downtrend in consumer confidence, housing market softening and weakening vehicle sales.
    - On-going weakness of world trade reflective of continued under-investment and excess saving, putting downward pressure real interest rates.
    - Vulnerabilities increasing amid pockets of high valuations and compressed global risk premia.
    - Debt sustainability concerns.
    - Increasing liquidity strains on investment funds.
    - China's economy facing growing headwinds— from weakening household spending to declining industrial output.