ACADEMY FINANCIAL, INC.
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Rebalance and Reallocation

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Chief Investment Officer

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

Fund Changes

Delaware Large Cap Value Fund – Sell
JP Morgan Equity Income Fund - Buy

Delaware Large Cap Value has had a strong track record over the long term. The short term under performance was higher than expected over the past 4 quarters. Combined with two of three managers departing in the past 4 years, we decided a change was due in what had been a core holding. JP Morgan Equity Income is a 5-star fund that has been managed by Clare Hart for the past 11 years. She uses a company specific fundamental analysis approach that has resulted in outperformance in both up and down markets. The expense ratio is similar, and the volatility of the fund is lower. Their steady approach to analysis and investing, should provide more consistent relative returns and be a core holding going forward.

Glenmede Secured Options – Sell
JP Morgan Hedged Equity – Buy

Glenmede Secured Options is a great fund, but two flags caused us to sell. First, the fee is above average, which can only be justified if performance outweighs the expense. As a hedged equity position, we understand and expect the fund to reduce risk in down markets with reduced return in up markets. However, the lack of transparency of weighted positions and size of underperformance relative to pure equity markets were the second and ultimate trigger for the sale. JP Morgan Hedged Equity has a clear return structure with downside risk protection. The fund protects market losses from -5% to -20% and limits the upside with an options strategy for returns over +5%. This is more inline with how we expect a hedged strategy to work in our portfolios. The fund expenses were also sharply lower, 60 bps vs 84 bps.

Lord Abbett Floating Rate – Reduce
Intermediate Core Fixed – Increase

Compressed credit spreads have led to our reduction in higher risk floating rate fixed income versus core intermediate fixed income that has better credit quality. Our move to reduce risk is not a commentary on market risk, but more a view on risk/reward analysis. The yield spread between the lower credit quality floating rate and the core fixed income has lost some of its appeal. Our preference for clients who want to increase risk overall in their portfolios, would be to increase equity instead of increasing credit risk within fixed income. Staying diversified even within fixed income, we reduced our position in floating rate by half and maintained our position in high yield.

Allocation Changes

We have maintained our proportion of equity to fixed income as well as our positions in international and small cap equity. Due to the dramatic move in large cap equity in 2019, as we rebalance portfolios, there may be sales within the equity space and purchases in fixed income.

Allocation in Real Estate, Emerging Markets, Alternatives, and High Yield Bonds have remained the same. Our equity tilt towards value over growth has remained the same.

Fund and information provided by Ycharts and Morningstar