NOTTINGHAM ADVISORS
ASSET MANAGEMENT

IN UNCERTAIN TIMES, DON'T BE AFRAID TO GET A LITTLE STRATEGIC!

"Knowing what you don't know is much more useful in life and business than being brilliant."
-Charlie Munger

A recent snap investor survey conducted by the folks at Strategas Research Partners brought to light the great chasm that exists today within the professional investment community. The table below summarizes the results compiled from 689 respondents.

Investor Survey Results	Next 12 Months		
	High	**Low**	**Avg**
S&P 500	2500	1350	2047
10yr Tsy Yield	4.25%	1.50%	2.95%
Fed Funds Rate	2.0%	0.0%	0.4%
WTI Crude Oil	$150	$75	$99

Source: Strategas Research Partners

While the survey was fairly straightforward, the conclusions reached are anything but. Equally seasoned professionals, it could be argued, see the S&P 500 either rising +25% over the next 12 months, or falling -33%! The average response was a meager gain of +2.3%. This isn't exactly a consensus call to say the least.

Within the commodity arena, crude oil is seen to be priced anywhere from $75 to $150, with a mean price of $99, not too far off today's level. What this means is that the "average" professional investor doesn't see the price of oil changing much over the coming year; however, the return distribution suffers from some fairly fat tails.

And, it's not only in the equity/commodity arena where the differences lay. The range of estimates for the 10-year bond yield a year from now extends from a low of 1.50% to a high of 4.25%. Even the average response of 2.95% shows a large difference from today's level of 2.35%. The bet on Fed Funds a year hence ranges from 0.00% to 2.00%, with an average of 0.4%.

What this survey highlights, and it's likely not a surprise to many, is that forging any kind of consensus opinion in this market is exceedingly difficult. High-conviction trades, at least to us, are few and far between. The list of "uncertainties" extends from tea-leaf reading at the Fed and

ECB, heightened geopolitical tensions around the globe and fears around an overly extended stock market, to memories of the ’08 debacle still fresh in investors’ minds.

So, what’s an individual investor expected to do when the supposed investment cognoscenti can’t quite agree themselves? Sometimes, it makes more sense to stand still, or to take a step back, rather than take an uncertain leap ahead.

What this means in portfolio management practice here at Nottingham, is that absent a high conviction tactical trade idea, retreat to beta and wait patiently for the next opportunity. Despite today’s low volatility, opportunities will arise in some asset class, some place around the globe. And if you have some “dry powder”, you’ll be in a great position to take advantage of a temporary price dislocation.

From our view here at Nottingham, today’s market sure seems like one of those times. Bond yields have surged lower making fixed income even less attractive while equity markets have recovered valiantly from their recent pullback to forge new highs. Devotees of Shiller’s CAPE or Tobin’s Q can be heard decrying the historically high valuation levels of today, lending uncertainty to the sustainability of today’s levels.

Rather than pursue low-conviction ideas with client dollars, why not revisit one’s core allocation, add to the “beta trade” with a low cost, broad index ETF and await an opportunity to pursue a new tactical idea?

What ETF best fits one’s core or strategic allocation depends on the strategy objective as well as the established benchmark against which that strategy will be measured. The idea here is to be as benchmark neutral as possible, without introducing an unintended style drift or sector tilt. While fundamentally weighted ETF’s can add value at times, under these circumstances we’re looking more to traditional cap-weighted indices.

Subsequent, but equally important considerations include ETF trading costs, liquidity, expense ratio and portfolio fit. Given the inherent short-term nature of this position, we at Nottingham tend to favor highly liquid ETF’s that can be bought and sold in size with little market impact. Expense ratios, while important, tend to be a secondary consideration due to the intended time horizon.

For example, a good domestic equity placeholder might be SPY (the SPDR S&P 500 Trust) or VOO (Vanguard S&P 500 ETF). At Nottingham, the best benchmark match for our portfolios tends to be ITOT (iShares Core S&P Total US Stock Market ETF) which gives us direct exposure to the S&P 1500, against which we benchmark our domestic allocation. All three options are highly liquid, usually trading with a 1-2 cent bid/ask spread, available in size and sport very low expense ratios.

Looking internationally, VEU (Vanguard FTSE All-World ex-US ETF) and ACWX (iShares MSCI ACWI Ex-US ETF) provide broad exposure that includes both developed and emerging market countries, while EFA (iShares MSCI EAFE ETF) can provide highly liquid access to strictly developed markets. As with the above mentioned ETF’s, all three of these are very liquid, trade in size and have low expense ratios.

Avoiding low-conviction tactical trades can extend to the fixed income arena as well. With aggressive valuations in both the high yield and bank loan space currently, perhaps it makes sense to de-risk a little bit and hide out in something like AGG (iShares Core US Aggregate Bond ETF) or BND (Vanguard Total Bond Market ETF) for a while. State Street also has a number of duration-specific ETF's that may match up well with the portfolios target duration.

Fund Name	Symbol	Exposure	AUM	Expense Ratio	Number of Holdings	Spread %	3-Month ADV
SPDR S&P 500	SPY	Domestic Equity	$172.21B	0.09%	503	0.01%	83,936,000
Vanguard S&P 500	VOO	Domestic Equity	$21.79B	0.05%	510	0.01%	962,775
iShares Core S&P Total U.S. Stock Market	ITOT	Domestic Equity	$1.37B	0.07%	1,504	0.04%	82,084
Vanguard FTSE All-World ex-US	VEU	International Equity	$13.06B	0.15%	2,396	0.02%	863,319
iShares MSCI ACWI ex U.S.	ACWX	International Equity	$1.79B	0.34%	1,159	0.05%	287,900
iShares MSCI EAFE	EFA	International Equity	$55.01B	0.34%	905	0.01%	13,005,427
iShares Core U.S. Aggregate Bond	AGG	Domestic Fixed Income	$18.24B	0.08%	2,709	0.01%	1,200,783
Vanguard Total Bond Market	BND	Domestic Fixed Income	$21.22B	0.08%	16,027	0.01%	1,767,411

Source: ETF.com, Bloomberg

When it comes to the beta trade, often times "boring is better". Rather than sacrifice liquidity to reach for some incremental yield or a nuanced fundamental index, remember why you're buying the ETF in the first place – as a placeholder. The time will come when fundamentals will change or the market will riot or a country-specific opportunity will arise (take recent developments in Portugal for example). At that point you'll be able to cheaply and easily sell the interim ETF and reinvest proceeds into a new tactical trade.

Profitable tactical trades can be hard to come by under favorable circumstances. In today's fully priced markets, we feel it's especially hard to develop a high-conviction tactical trade idea. Rather than risk negative alpha, oftentimes it's better to add to the core and be patient. Calm markets rarely last long; so enjoy them when they're present, but be in a position to act when opportunity strikes.

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