

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."ⁱ

Do we know 'for sure' the past years market returns were because of a robust economic backdrop? Do investors know 'for sure' that more good times are ahead? Markets all know this 'for sure', right? Or is what the market knows 'for sure' just ain't so? This folksy quote¹ sums up our outlook for 2018. We aren't running a fool's errand to specify the 'next' black swan event.² This would make for a terrible strategist. Instead, we are focusing on what the market knows for sure, and detailing why it ain't so.

The S&P 500 returned double digits in 2017 without having a drawdown of more than 3%, a rare combination that has only happened once in 35 years.ⁱⁱ Our Japanese counterparts did better than that, Europe did better than both, and emerging markets performed the best out of them all.³ What was behind this broad price appreciation in 2017, and will it continue into 2018?

Our take: 2017 saw acceleration across nearly all global economies and this trend has been extrapolated forward by the markets. We see most of these trends normalizing or reversing course, neither of which seem to be properly discounted by market prices. **In other words, everything went right under 2017 factors – why will everything continue to go just right under different 2018 ones?**⁴

Executive Summary

Last year brought low volatility and double digit returns. We expect higher volatility and flat to low single digit returns in 2018.

- Global central banks are beginning to retract the liquidity underpinning markets.
- China & a weaker US dollar boosted global industrial production in 2017.
- Wage inflation seems primed to impact corporate margins.
- Market positioning is very one-sided with risk premia at record lows & consensus pointing to 2019 as a trouble year. Downturns are never consensus.
- Valuations do not predict downturns, but they are good predictors of longer term returns. Current valuations do not paint an optimistic picture.

What we like: *inflation, certain emerging markets, fundamentally-strong energy, & big biotech.*

What we don't: *short volatility, high yield debt, peak margins, big tech, & pricey industrials.*

¹ It was attributed to Mark Twain in the movie "The Big Short", but is more likely a folksy take on a quote from Leo Tolstoy in 1897.

² Isn't there always a next?

³ All in USD terms, citing the MSCI indices for that region.

⁴ Summary box: risk premia is defined by cost of insurance on any investment product.

Scenario	Probability	2017 EPS	2018e EPS	2019e EPS	Fwd. P/E	Y.E. 2018 Target
Bull	10%	\$131	\$144	\$165	19.0x	3,100
Growth		9.1%	10.0%	14.5%		
Base	60%	\$131	\$140	\$151	17.0x	2,550
Growth		9.1%	6.5%	8.0%		
Bear	30%	\$131	\$137	\$134	15.0x	2,050
Growth		9.1%	4.5%	-2.0%		
Consensus		\$131	\$143	\$159	18.0x	2,850
Growth		9.8%	9.5%	11.0%		

All numbers adjusted for comparison to consensus

Source: Doxa Research, S&P Capital IQ

The price target chart above contains two 'firsts' for Doxa Capital – a base target below the current index price and more than a 20% probability for our bear scenario. **We believe asset prices are inflated, central bank risk is being miscalculated, and uncertainty is being replaced with complacency.**⁵ We are simply saying 'the time for caution and discipline is now'. Fighting for the last leg up or the perfect market timing call is not a risk/reward scenario we find advantageous. **The biggest risk to our outlook is being early, not wrong.**⁶ We have tried to incorporate this into our scenarios, which explains the 1,000 point spread between the bull and bear cases.

Quickly pulling back the cover on our earnings and multiple estimates, the base case assumes a ~5% benefit from corporate tax changes in 2019,⁷ moderating underlying earnings growth from 9% today, 6% for 2018, to 3% in 2019. The multiple will fluctuate based on profitability and the *expected* return. In other words, if the narrative is good the multiple is high, and vice versa.⁸

On multiples, nearly all market gains since mid-2014 have come by way of multiple expansion. S&P 500 operating earnings and NIPA⁹ profits are both just barely ahead of mid-2014 levels. Yet the S&P 500 index is 20%+ higher. **This tells us that continued high growth & profitability are priced in, leaving ample room for disappointment.**

Going forward, we believe that 2017 was an earnings rebound year, not the start of a trend – so we have moderated earnings growth, added a 2019 tax tailwind, then applied a multiple at the high end of average.¹⁰



⁵ We detailed this viewpoint in our October note [here](#).

⁶ Timing is often the hardest thing to conquer; sentiment can carry markets much longer than believed.

⁷ 5% amounts to roughly \$7 per share of tax benefit, starting in 2019, all assumed.

⁸ It is common practice to use a forward EPS (next twelve months) multiple for S&P 500 targets.

⁹ National Income & Product Accounts (NIPA) encompasses all businesses.

¹⁰ Factset defines the 5yr avg. to be 15.8x & the 10yr avg. to be 14.2x.

Ultimately, we see good value somewhere in between our bear and base cases and believe consensus is pricing closer to a bull case scenario.

S&P 500 Index Earnings Matrix										
		P/E Multiples								
		14x	15x	16x	16.5x	17x	17.5x	18x	19x	20x
FY2019 Index Earnings Estimates	\$ 134.00	1876	2010	2144	2211	2278	2345	2412	2546	2680
	\$ 138.00	1932	2070	2208	2277	2346	2415	2484	2622	2760
	\$ 142.00	1988	2130	2272	2343	2414	2485	2556	2698	2840
	\$ 146.00	2044	2190	2336	2409	2482	2555	2628	2774	2920
	\$ 150.00	2100	2250	2400	2475	\$ 2,550.0	2625	2700	2850	3000
	\$ 154.00	2156	2310	2464	2541	2618	2695	2772	2926	3080
	\$ 158.00	2212	2370	2528	2607	2686	2765	2844	3002	3160
	\$ 161.00	2254	2415	2576	2657	2737	2818	2898	3059	3220
	\$ 164.00	2296	2460	2624	2706	2788	2870	2952	3116	3280
	\$ 167.00	2338	2505	2672	2756	2839	2923	3006	3173	3340
	\$ 170.00	2380	2550	2720	2805	2890	2975	3060	3230	3400
						Mid-point	Likely Dispersion		Less Likely	Not Likely

Source: Doxa Research, Dow Jones

2017 Lookback

Normally our outlooks consist of a quick lookback on the year past, “what we got right/wrong” segment, and then a few themes we see going forward. This year we are going to do it a little differently for two reasons. **First, our primary theme for 2018 was laid out in detail in October, here: [The 10 Trillion Dollar Question](#).** Secondly, we see many of the 2017 narratives reversing course, so it seems more logical to lay out the 2017 themes and then outline the direction we see those continuing.

So, what was behind the rally in 2017?

As we sit today, every major stock market¹¹ in the world is higher on the year except for two, Israel & Russia, both down 1%. That is near unparalleled synchronization and we challenge anyone who thinks it is a mere coincidence. A common thread that runs through all 43 different markets is accommodative monetary policy and a strong recovery of industrial/energy production. Furthermore, the low inflation narrative continues to run through all developed countries – keeping corporate margins high.

If 2017's equation amounted to increased monetary stimulus + international recovery + great stock narratives, then think back to 8th grade algebra and apply the inverse function. **Monetary tightening + production normalization + realistic corporate margins = more volatility, bigger drawdowns, and lower multiples.**

Monetary Policy

Asset prices are largely a function of liquidity, and not much else. Central banks can increase that liquidity through two channels:

- 1) Lower interest rates. This forces money to move out of less risky assets and into more risky ones in pursuit of yield, i.e. liquidity is *shifted*.¹²
- 2) Directly inject money into the system through open market operations, i.e. liquidity is *added*.¹³

Both of these levers have been full throttle in the past years from the Federal Reserve, the ECB, BoJ, BoE, and SNB.¹⁴ **In fact, more liquidity was injected into the system in the past two years than during**

¹¹ As defined by the WSJ's International Stock Index, roughly 43 different countries.

¹² Central banks only set overnight rates however. Other methods must be used to influence the entire curve.

¹³ This is called quantitative easing. Central banks have bought gov't securities, corp. bonds, ETF's, and even stocks under these programs.

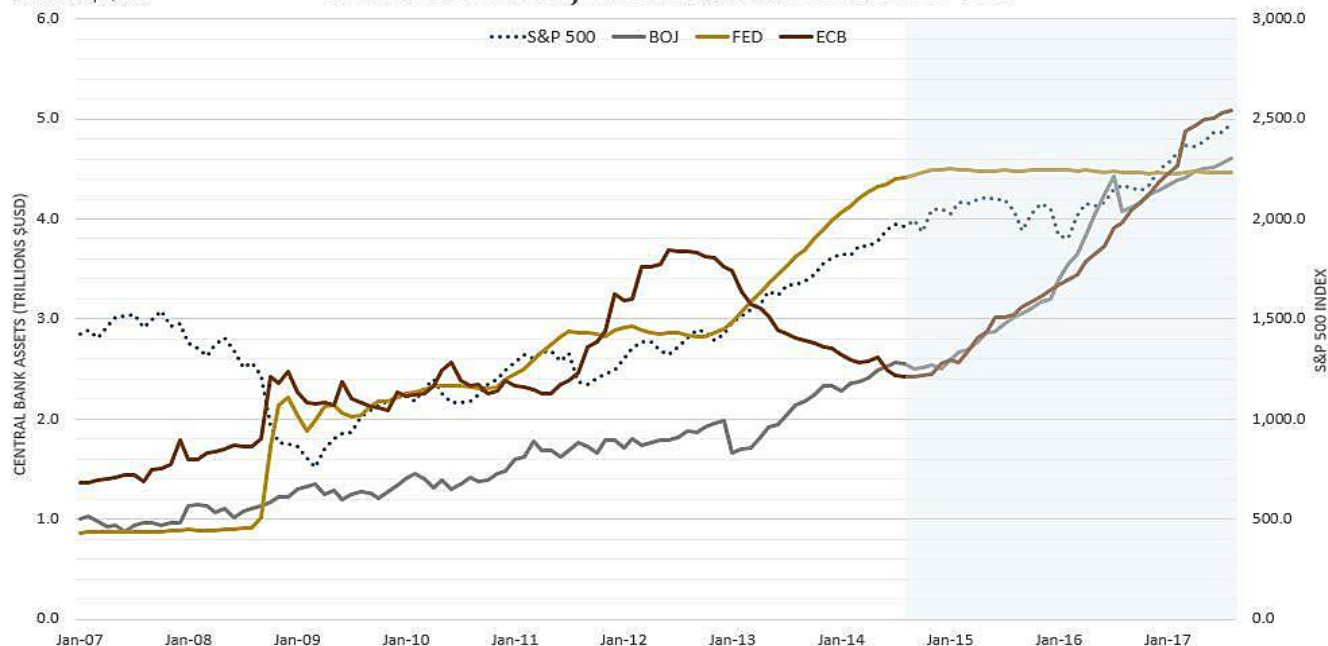
¹⁴ European Central Bank, Bank of Japan, Bank of England, Swiss National Bank.

2008-2010. Since Lehman Brothers collapsed, **there have been a collective 705 rate cuts in the world.** All of this harmonious liquidity adding and shifting has a profound effect on risk assets. So why are we concerned now? Simple: they have all said they will begin retracting. A \$500bn net injection to purchases this year will turn into \$1tr draw next. However, our real concern is that market participants don't seem to believe this. **It's very easy to take for granted the underlying liquidity that has been a backstop for nearly 10 years.** This support has been tested through several occasions ('11, '12, '15), but each time the paradigm is reinforced as the central banks answered to the despair. It cannot be overlooked that the lack of volatility, muted responsiveness to tail risk, and an unwavering 'buy the dip' mentality are fueled by a liquidity backstop the central banks have in place.ⁱⁱⁱ However, now they are saying the backstop is going to slowly be removed. The Federal Reserve has just begun rolling off a small number of assets, which they will be increasing throughout 2018. The ECB will begin tapering in the summer. The BoJ continues to slow their purchases of JGB's but swaps them for ETF's.¹⁵

The excess liquidity provided by central banks has undoubtedly been the key driver to markets, because positioning and strategies¹⁶ have been built around the 'backstop' status quo existing. **With admitted low conviction on 'when', we fear the realization of a 'backstop-less' market will be an inflection point that is unexpected, sharp, and volatile. This is enough for us to take a cautious stance going forward.** Again, we encourage you to go back to [our note](#) from October for further insight.

Source: Doxa Research, US Bureau of Economic Analysis/FRED

Total Assets of Major Central Banks & the S&P 500



Global Industrial Production

In one sentence, consensus would tell you that good market performance in 2017 was because of synchronized global growth – all markets performed much better than expected. This is not false of course, as narratives are usually crafted on top of truth, but we see big cracks beneath the surface of this rosy global picture. China makes up roughly 20-30% of direct global GDP growth, so let's start there.¹⁷

¹⁵ Japan Gov't Bonds (JGB) swapped for Japan ETF's - literally no telling how this experiment ends.

¹⁶ One of the most successful strategies has been to 'short vol', or bet that volatility will continue to dissipate. This trade is now so crowded, any break and margin calls/liquidity will cause much pain.

¹⁷ As recognized by the World Bank, 2016.

A good leading indicator of global growth is found in the base metals (steel, copper, iron ore, aluminum, etc.), all of which have been on a tear this year. However, the fundamentals look shaky when you peel back the layers.

- **China has been supporting the base metals markets.** As President Xi Jinping led his communist party into the 19th National Congress this past October, China's clear strategy was to build economic momentum as a show of strength and maintain the key 6.5% level of GDP growth.¹⁸

China Consumption	
	% of Market
Steel	45%
Aluminium	48%
Copper	44%
Iron Ore	48%

Source: USGS, IMF, S&P CapitalIQ

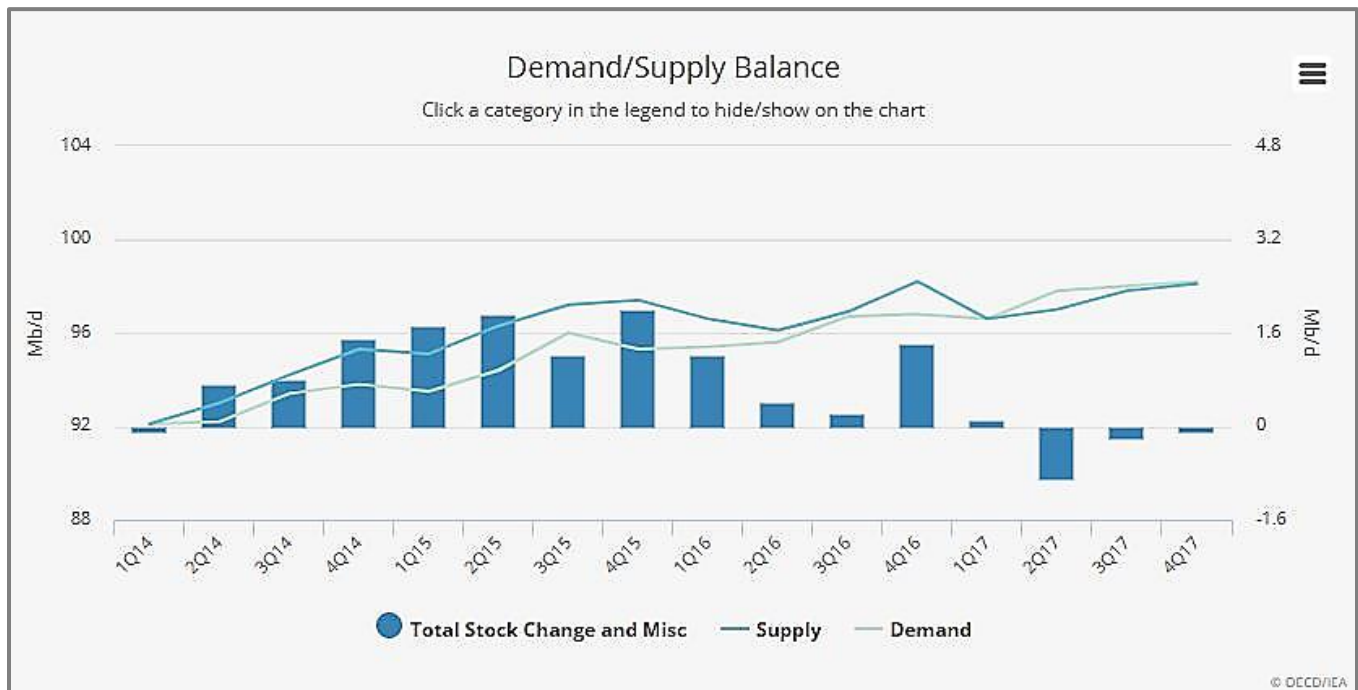
▪ China accelerated their economy by injecting \$4 trillion USD this year, enacting tight capital controls, and implementing supply side reforms (import restrictions, etc.), ex: China steel producers made 1,000RMB more per ton this year versus last.^{iv}

▪ But can China influence the whole market? Absolutely. Not only are they the largest consumer of base metals, but these markets are very small. A \$150mn swing can influence prices by 10% or more. This can be seen extensively in the nickel and copper markets. **Supply plus expected supply is roughly 3% above demand, but prices are at levels showing shortages.**^v

- Is it reverting? Yes. China likely overachieved their 2017 targets and have now shifted focus to removing excess leverage and stemming credit growth.¹⁹ New construction in China was said to be higher by 10% from January to June, but slowed dramatically from July to October. Recent PMI data & retail sales also show a drastic slowdown post-plenum.^{vi}

Another huge factor behind strong global growth? The energy markets.

Oil and natural gas exploration & production alone account for about 5% of global GDP, excluding refining, storage, & transportation.^{vii} The global supply & demand imbalance in '15/'16 accounted for massive write-offs and investment drawdowns, making 2017 "growth" come off the back of big declines the past two years.²⁰ The ripple effects here are wide: transport companies, drill bit producers, maritime, etc.



¹⁸ The Communist Party Congress occurs every 5 years and is where China officials lay out their view for the next five.

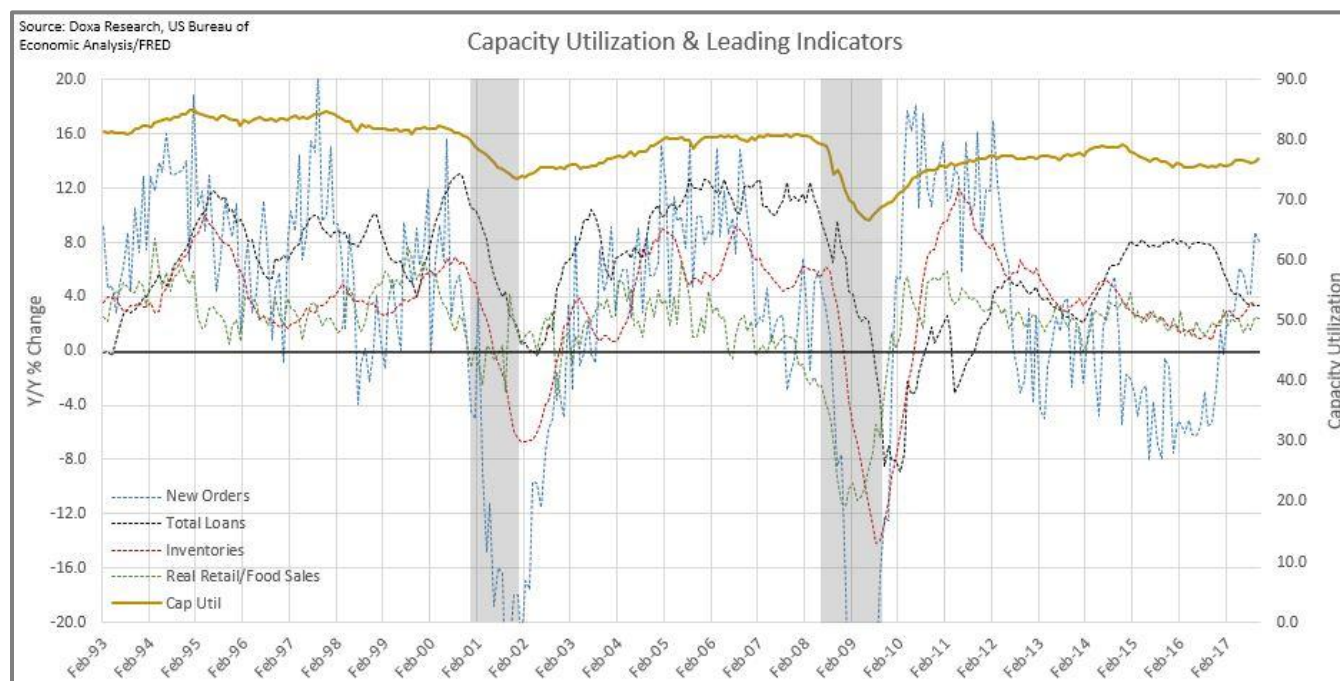
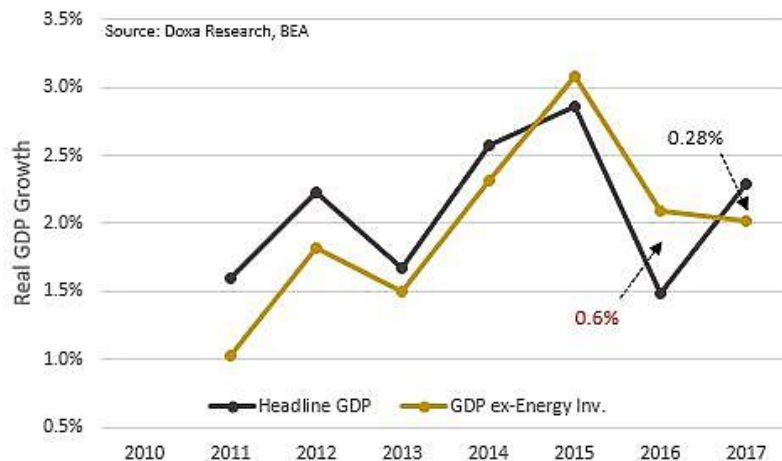
¹⁹ Chinese GDP was likely closer to 6.8% this year, while credit growth was near 200%.

²⁰ All recorded by the IEA and the EIA.

As supply and demand continues to tighten, we expect the energy markets to be less volatile going forward, allowing “growth” to revert back to a normalized level – not continue its same pace from the bottom.²¹

This can be seen on a granular level in US data. At large, production in the United States amounts to three things: energy, cars, and planes. Two primary points to be made here:

- At peak, energy investment (capital expenditures) made up roughly 23% of total private investment.^{viii} We removed energy investment altogether to see real GDP ex-energy, the result being in the chart to the right. Admittedly this is a messy calculation, but it is clear the rebound in energy investment this year is a primary driver of GDP growth. **This underlines our claim that 2017 trends will struggle to continue, but instead revert back to trend.**
- Importantly, the USD is used in roughly 52% of all global trade.²² The massive USD rally in 2013-2014 made US goods very expensive and combined with the volatile energy markets – businesses became cautious. However, 2017 brought stable energy markets and a declining USD. This environment was very conducive for businesses to make those purchases they had been delaying for two years. This ‘pent-up demand’ theory is supported by the chart below. We see the strength in ‘new orders (blue dotted line)’ attributed to its weakness in the years’ prior, while inventories, retail sales, and loans outstanding remain muted. **2017 strength, or 2017 catch-up?**



²¹ The energy sector EPS in the S&P 500 was higher by 36% in 2017, off of big declines the past two years.

²² Estimated by value. The USD accounts for 49.5% by volume.

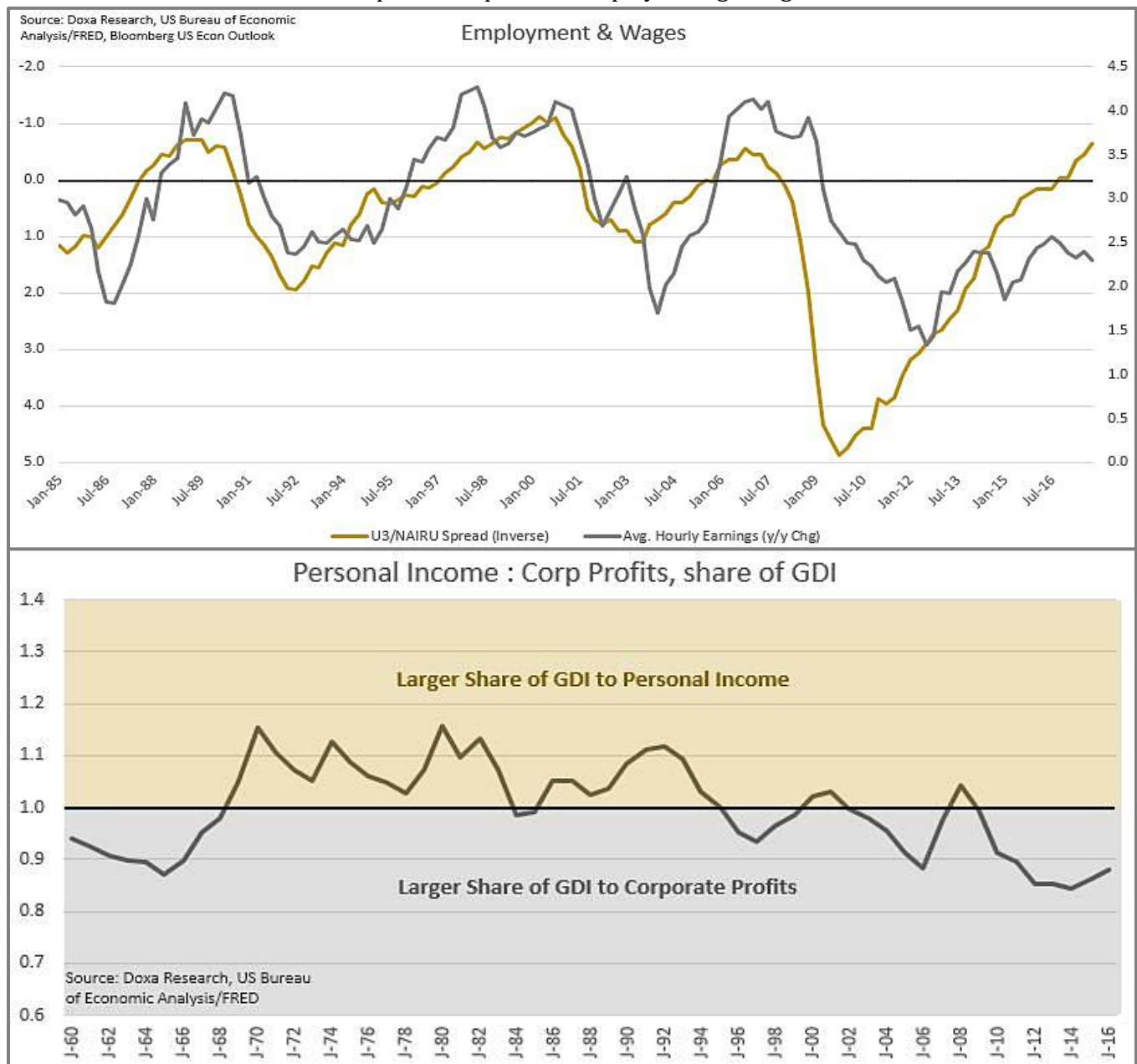
Unemployment, Wages, & Inflation

Our biggest call for 2017 in [last year's note](#) was for unemployment to continue lower, wages head higher, and margins (corporate profits) feel the pinch from paying workers more. Unemployment did continue lower, but outside of restaurants and construction, this didn't really play out. **Nevertheless, we are doubling down on this call. We are also prepared to add a new idea to this existing theme: inflation.**

Why didn't it work last year?

We believe two main reasons are behind the low wage growth environment:

- It takes a long time to turn around a big ship full of money. High margins equal high profits. Businesses are going to have to be pressed to sacrifice margins, but we are seeing this happen notably in leisure and hospitality. A shortage of service workers leaves unfilled shifts leaves revenue on the table. We expect it to spread as employment gets tighter.



- The cost of capital²³ is still very cheap. Access to capital is abundant. When a business can easily access capital at a good price (a lender willing to lend at a good rate), this can make labor alternatives cheaper than labor itself. A new machine or new software is much cheaper when a business can borrow money for 10 years at a sub-4% interest rate. In turn, the cost of labor remains low to compete with the cost of capital.

To visualize this, note the bottom chart on the previous page, titled 'Personal Income'. When the cost of capital is generally lower than the cost of labor, corporate profits benefit more. When the cost of capital is high, workers benefit more. **We think the trend towards corporate profits since 1990 may begin to revert.**

On a shorter term scale, the top chart shows labor market slack²⁴ (left axis) compared to y/y wage gains (right axis). Here, labor market slack is defined as U3 (the commonly quoted unemployment rate) minus NAIRU²⁵ (natural rate of unemployment). Put simply – the number of workers displaced in the prior recession that want to go back to work. When this number goes below 0 [note: the axis is inverted], bargaining power shifts from the employer to the employee. This occurs because workers are no longer abundant in the economy, making positions harder to fill. **As shown, employment is the tightest it has been since the late 90's.** As employment continues to overshoot, a wage shock could be around any corner.

So why will wage inflation come back this year?

Labor is an input to business and managers will not pay workers more than they have to, i.e. whatever the market price is for an hour of work. Managers can also replace workers with capital (technology). The cheaper the capital (interest rates), the cheaper the worker must work to remain competitive against the capital. Since 2008, very low interest rates have made capital almost free, a prime reason behind tepid wage gains, despite employment getting tighter. However, we believe that jobs that can be replaced by cheap capital have been and jobs that need manual labor are filled – 2017 was the first full year this scenario has existed. *A prime example: homebuilders and other construction companies have said they cannot fulfill demand because of the lack of workers. Computers can't shingle a roof.* **This means the economy doesn't need more jobs, it needs businesses to raise prices to fill the jobs it already has.** As of November, the economy had about 6 million job openings against about 6 million unemployed people. The economy can't run much tighter than that.²⁶

Tax Cuts: Will they help?

We have been asked about tax cuts almost as much as bitcoin. Our answer remains the same, albeit more watered down, as we noted in the [2017 Macro Outlook](#) from last year. On aggregate, we do not see how tax reform could materially hurt; however, history nor data point to a significant benefit.

Corporations pay roughly 18% in tax currently; the 500 largest companies pay ~22%. By lowering rate to 20% **and** limiting deductions, the *aggregate* benefit here is marginal. Additionally, it is argued that with a lower tax rate, companies will hire or pay workers more. Three issues here: 1) no manager will pay more than they have to for labor, 2) hiring more workers with unemployment under 4% doesn't materially help, and 3) a business allocates capital to whatever provides the highest return on that capital. Getting a tax break doesn't change a business's allocation plan, just adds more money to the existing one.

NOTE: the proposed individual tax cuts will be smaller than the 2001 Bush cuts, which had little effect on aggregate demand.

And for repatriation? We believe this could send large wrinkles across the fixed income market and would shrink total global assets. There is roughly \$2.5 trillion in deferred tax assets parked overseas, much of which will stay overseas. The remainder will be used to pay off debt companies issued to efficiently move money around the world. This increased the global asset base without creating excess leverage. The unwinding of these liabilities is sure to create volatility.

²³ The Cost of Capital can be defined as a discount rate, interest rate, or general blended cost of receiving capital.

²⁴ Labor slack is the difference between current unemployment and the natural rate of unemployment

²⁵ Non-accelerating inflation rate of unemployment (NAIRU) is commonly viewed as the 'natural' rate of unemployment. In other words, the lowest unemployment can go without creating an excess amount of inflation.

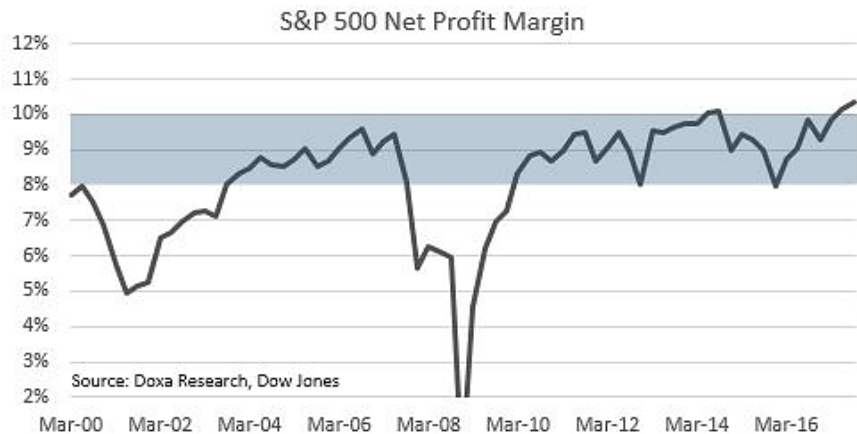
²⁶ All jobs data comes from company reports and the BLS.

We see 2018 as the turning point in this dynamic as ‘must-have’ labor businesses push through the increased costs. The ‘cost-push inflation’ will keep the Federal Reserve and other central banks on the current path of raising the cost of capital, creating a sort of self-fulfilling prophecy as capital gets more expensive against labor.

Relating this back to markets, we cannot help but be concerned about record high profit margins going into this environment.

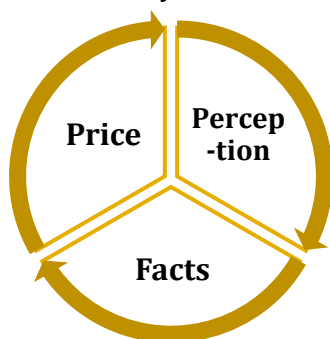
Undoubtedly margins will be sustained at higher levels than history indicates because of technological advancements, but at the same time we believe investors have gotten carried away in assuming current margin trends exist in perpetuity. It seems simple to point to labor-intensive industries as the clear losers going forward, but this also seems shortsighted in our view. As inflation drives the cost of capital higher, industries that rely on a large amount of capital will also see margin compression. Only those who have pricing power²⁷ and hold margins will be insulated in the coming years.

We recognize that we wrote about this same relationship one year ago. However, the case will keep getting stronger until something breaks. Additionally, energy & raw material inflation are both much more of a factor this year than last, providing some extra firepower behind the general inflation case. **It would not at all surprise us to see a slowdown in inflation readings through the first half of 2018, followed by a strong second half pick up.**²⁸



How does it all add up?

At the beginning of this note, we said the equation for 2018 would be *monetary tightening + production normalization + realistic corporate margins = more volatility, bigger drawdowns, and lower multiples*. We have detailed the inputs – but how do we reconcile them to get our 2018 targets? We are going to lean on legend George Soros and his “Theory of Reflexivity”: Our collective thinking is what moves markets and produces winners and losers. This means that what we think about reality affects reality itself. And that reality in turn affects our thinking once again.^{ix}



Let’s use *Tesla Motors, Inc.* to unpack this statement. Tesla has been a cash drain for all of its existence and makes little profit, yet it is worth more than Ford Motor Co.²⁹ Over years investors have crafted a positive story around Tesla, whether about electric power, batteries, or just momentum – doesn’t matter – because all the narratives collectively continue to push the stock higher. What matters however, is that Tesla’s stock performance alters reality – its high stock price can allow them cheaper financing, can attract top talent by issuing shares, and upends traditional capital allocation decisions since investors aren’t concerned with profit. Imagine if investors wanted to see a profitable electric vehicle company after the

²⁷ Pricing power refers to demand elasticity of a certain good or service.

²⁸ As mentioned in the section prior, it seems logical for energy and base metals to take a breather against strong gains one year ago during the spring season.

²⁹ Defined by market capitalization.

first model. Tesla wouldn't be Tesla and the positive narrative, true or false, has altered reality. But as we know, at some point narratives have to reconcile with reality, for better or worse.

Across broader markets, the persistent narrative since 2010 has been *'buy the dip'* because central banks will step in every time with an injection of liquidity. Through the US debt downgrade, Euro debt crises, China devaluations, and an energy collapse, global central banks have overcome the challenge and continually reinforce the narrative. The current lack of volatility, unresponsiveness to systematic spillovers, and reluctance to sell, etc. indicate to us that this narrative is now more powerful than ever – right at a time when central banks have deliberately said they are removing the liquidity markets have been obsessed over for 8 years. **This shift, along with the other two variables mentioned, define reality catching the narrative. When narratives are forced to reset – more volatility, bigger drawdowns, and lower multiples come with it.**

Market Timing

As we said at the beginning of the note, **the biggest risk to our outlook is being early, not wrong. So we asked ourselves, why write this now?** Market positioning shows a large majority of investors are prepared for another low volatility, high return 2018. We find many of our colleagues assured that trouble will come in 2019, but 2018 will be yet another year unscathed. **To us, this says “we see trouble on the horizon but are too worried about missing one good year.”** After nine years of exceptional index returns, we should be more concerned about missing out on one more than the trouble in front of us? This is not a gamble we believe investors should make. Market downturns are never a consensus call, why will this time be different?

As market strategists, our job is to not only call out trouble on the horizon, but manage portfolio risk & reward. Simply put, we decided to write this note because the risk now seems to outweigh the reward going forward (over a long-term outlook).³⁰ We are very aware that a hot market can go on for a good while without fundamentals supporting it, and good returns can be had chasing it. **No investor should take an ‘all-in’ or ‘all-out’ approach because of this, but instead methodically de-risk along the way and never lose sight of the horizon.**

What you don't know will get you into less trouble, and what's not for sure will make for a good opportunity.

Chase Lee

Director of Research

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³⁰ Both the CAPE ratio and Buffet Ratio show negative equity returns over the next ten years based on current valuation.

A QUICK ASIDE ON US PRODUCTIVITY*

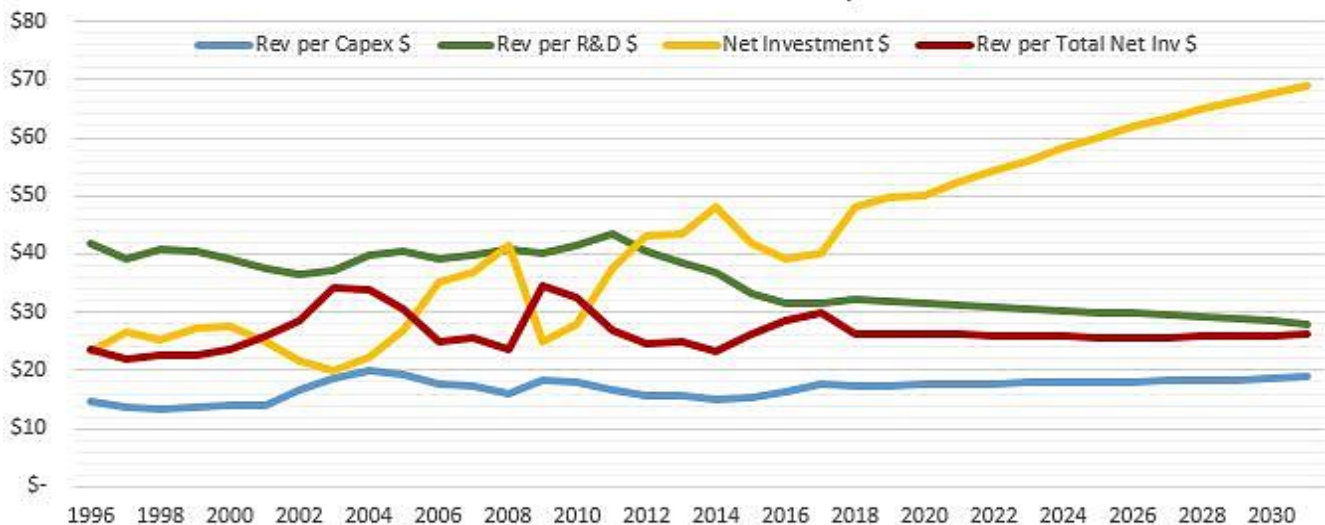
Since you made it this far, we wanted to quickly address the oft debated 'lack of productivity' the US has seen in recent years. After all, GDP is really a function of *[population * productivity]*, so it's very important to follow. Productivity is measured by calculating how much output (GDP) one person creates per hour of work, e.g. how much of a car you would make by hand versus a machine in one hour? To be more productive as a society, we need to invest in research & development and capital expenditures (new machines, fiber networks, etc.).

Often overlooked, 1995-2005 saw a huge uptake in productivity per \$ spent (red line below) – equivalent to the 2nd industrial revolution. Every dollar spent on R&D equated to over \$40 in revenue per S&P 500 share during that time. This was the low hanging fruit that technology solved fast – think email, Word, Excel, browsing, etc. However, the commonly misplaced assumption is that we would continue that rapid pace of productivity expansion. Yet, the low hanging fruit has been picked, every dollar spent on R&D now shows a diminishing return (green line). **Simply put, if we want to maintain the same level of productivity per \$ spent, a lot more spending is required (yellow line).**

Going forward, to accelerate productivity and therefore growth, it is going to cost a lot more than it used to.

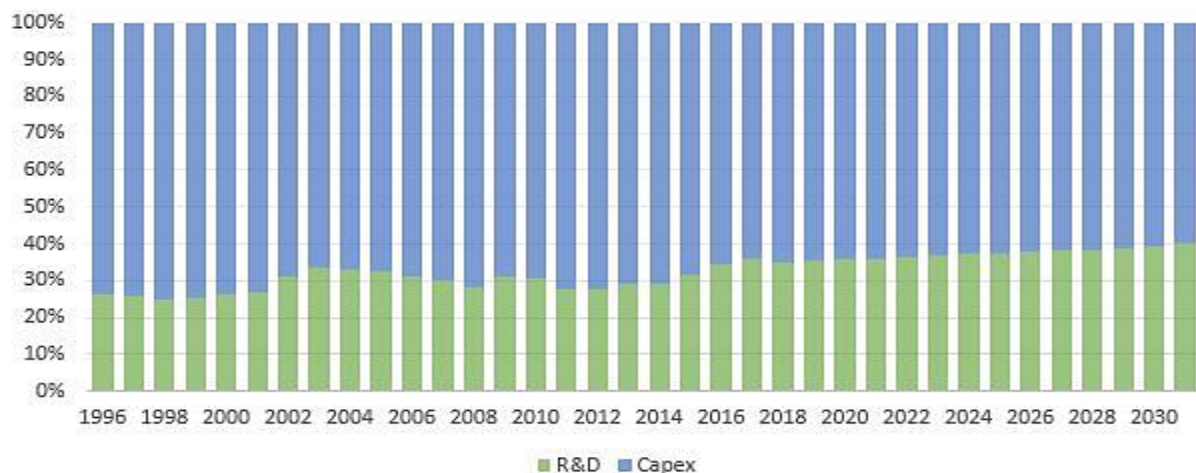
Source: Doxa Research, S&P Capital IQ

REVENUE PER INVESTMENT \$ SPENT



Source: Doxa Research, S&P Capital IQ

NET CAPITAL INVESTMENT



ⁱ Shephard, Alex, <https://newrepublic.com/minutes/126677/it-aint-dont-know-gets-trouble-must-big-short-opens-fake-mark-twain-quote>, 2015

ⁱⁱ Wilson, Michael, 2018 US Equity Outlook: Attention! Road Narrows Ahead, December 2017

ⁱⁱⁱ Citi Research 2018 Outlook, December 2017

^{iv} Bass, Kyle, RealVision Interview, October 2017

^v Bengali, Maleeha, Adventures in Finance Podcast & RealVision, November 2017

^{vi} China Caixin PMI, <https://tradingeconomics.com/china/manufacturing-pmi>, November 2017

^{vii} <https://www.instituteforenergyresearch.org>, 2016

^{viii} FRED & BEA data, Federal Reserve Bank of St. Louis

^{ix} <https://macro-ops.com/understanding-george-soross-theory-of-reflexivity-in-markets/>

^x All data compiled using S&P Capital IQ

Special mention to Factset Earnings Insight for data as well.

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No model or group of models can offer a precise estimate of future returns available from capital markets. We remain cautious that rational analytical techniques cannot predict extremes in financial behavior, such as periods of financial euphoria or investor panic. Our models rest on the assumptions of normal and rational financial behavior. Forecasting models are inherently uncertain, subject to change at any time based on a variety of factors and can be inaccurate. Doxa Capital, LLC believes that the utility of this information is highest in evaluating the relative relationships of various components of a globally diversified portfolio. As such, the models may offer insights into the prudence of over or underweighting those components from time to time or under periods of extreme dislocation. The models are explicitly not intended as market timing signals. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

Investment in Global, International or Emerging markets, directly or indirectly, may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets, directly or indirectly, can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile.

Bond investors should carefully consider risks such as interest rate, credit, default and duration risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to subprime mortgages. Generally, when interest rates rise, prices of fixed income securities fall. Interest rates in the United States are at, or near, historic lows, which may increase a Fund's exposure to risks associated with rising rates. Investment in non-U.S. and emerging market securities, directly or indirectly, is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

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