

Connecticut Society of Civil Engineers Section of the American Society of Civil Engineers
Scholarship Committee Report for June 2018

CSCE-ASCE		goal %		6/26/18		actual %		
Policy Portfolio recommended by David Swensen/Yale	Symbol	Goal/Policy Fund Allocation	Goal Amounts	Actual Amounts	Actual Fund Allocation	Buy (Sell) this # Shares	Buy (Sell) this \$ amount	
Domestic Equity Index ETF, Large Cap	SCHB	20.0%	\$ 44,381.08	\$ 44,292.30	20.0%	1	\$89	
Domestic Equity Index ETF, Small Cap	SCHA	5.0%	\$ 11,095.27	\$ 11,059.29	5.0%	0	\$36	
Vanguard Energy ETF	VDE	5.0%	\$ 11,095.27	\$ 11,085.44	5.0%	0	\$10	
Guggenheim S&P 500® Equal Wt Energy ETF	RYE	5.0%	\$ 11,095.27	\$ 11,079.00	5.0%	0	\$16	
Foreign developed equity Index ETF	SCHF	15.0%	\$ 33,285.81	\$ 33,297.57	15.0%	{0}	(\$12)	
Emerging market equity Index ETF	SCHE	10.0%	\$ 22,190.54	\$ 22,194.23	10.0%	{0}	(\$4)	
Real Estate Index ETF	SCHH	5.0%	\$ 11,095.27	\$ 11,110.11	5.0%	{0}	(\$15)	
U.S. Treasury bonds or FDIC-insured Bank CDs	CDs	25.0%	\$ 55,476.35	\$ 54,869.83	24.7%		\$607	
Fixed Income Mutual Fund #1 (uncorrelated asset)	SWVXX	5.0%	\$ 11,095.27	\$ 11,395.04	5.1%	{30}	(\$300)	
Fixed Income Mutual Fund #2 (uncorrelated asset)	PTRNX	5.0%	\$ 11,095.27	\$ 11,521.31	5.2%	{43}	(\$426)	
U.S. Treasury Inflation-protected Securities	SCHP	0.0%	\$ -	\$ -			\$0	
Cash	cash	0.0%	\$ -	\$ 1.27	0.0%		(\$1)	
Totals, above		100.0%	\$ 221,905.39	\$ 221,905.39	100.0%			
		goal %	goal \$	actual \$	actual %	actual %		
	Equities (USA)	35.0%	\$ 77,666.89	\$ 77,516.03	34.9%			
	Foreign Equities	25.0%	\$ 55,476.35	\$ 55,491.80	25.0%		64.9%	
	Real Estate	5.0%	\$ 11,095.27	\$ 11,110.11	5.0%			
	Fixed Income	35.0%	\$ 77,666.89	\$ 77,786.18	35.1%		35.1%	
	Cash	0.0%	\$ -	\$ 1.27	0.0%			
		100.0%	\$ 221,905.39	\$ 221,905.39				

Table 1 Asset allocation on June 26, 2018

Period Ending, April of	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	June 2019
April to April Returns	0.8%	-13.6%	27.5%	11.3%	1.0%	13.0%	8.8%	7.8%	0.3%	13.0%	7.1%	0.7%

Table 2 Annual Returns, April to April, from 2007 to June 2018 (ignores deposits and withdrawals)

CURRENT SITUATION:

On the day following the Board's January 18, 2018 meeting, the new Policy Portfolio percentages were implemented for 65% Equities and 35% Fixed Income. Within Fixed Income, 10% of that allocation is kept as readily available cash through 5% allocated to SWVXX and 5% allocated to PTRNX. See discussion below under **PARKING CASH**.

In Brinker's newsletters, there are six (6) key takeaways:

- 1) A mid-term off-presidential year correction event began on January 27 and is on-going. Brinker's technical analysis is looking for a buying opportunity that is likely to present itself this summer or in the fall. Brinker reviewed historical information on previous corrections that lasted 19 and 24 weeks, where the underlying message to investors is to be patient as market correction events typically experience a volatile phase before the correction concludes.

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- 2) Marketimer indicators associated with a bear market suggest that the risk of a bear market in 2018 remains low, where bear market declines would typically be 20% or more. Brinker continues to anticipate the current mid-term off-presidential election year market decline will likely be contained with the correction range of less than 20%. To date, the maximum decline from the previous market peak (January 26 @ S&P500 of 2,872.87) was -10.14% on February 8 @ S&P500 of 2,581.66. On June 26, 5 months after the mid-term off-presidential year correction event began, the market now sits at 4.97% below its January 26th all-time high.
- 3) As reported in the September 2017 issue of Marketimer, Bob Brinker presented historical information on fourteen (14) mid-term off-presidential election year market declines from 1962 to 2014, where each was a decline of -7.4% to -48.2%.
- 4) Each correction's decline was followed by a rebound rally lasting 16 to 93 months.
- 5) In all 14 previous mid-term election years, the advance following the mid-term election year correction has exceeded 27% as measured by the S&P 500 Index.
- 6) The Federal Reserve continues to anticipate a slightly higher real GDP growth in 2018 with a central tendency value of 2.7%, an increase of 0.55% versus the value reported in the November 2017 report. Brinker's estimate of real GDP growth in 2018 remains as a range of 2.2 to 2.8% with a midpoint of 2.5%.

MARKET OUTLOOK:

The 2018 tax reform legislation has improved the business climate and Brinker previously increased his estimate for S&P500 operating earnings for 2018 to \$152. His earnings estimate for 2019 is \$163. Brinker's valuation range for the P/E ratio of the S&P500 is slightly changed to a range of 17 to 18 times operating earnings, therefore market valuation is predicted at between 2,584 and 2,736 by the end of 2018. For 2019, market valuation is predicted at between 2,771 and 2,934 by the end of the year. Presently, the market is trading 5.65% above the predicted low-range value and 0.2% below the predicted high-range market valuation of the S&P500 companies by the end of 2018.

Brinker's investment guidance can be summarized as to stay fully invested, rebalance to maintain the Board's chosen asset allocation, dollar-cost-average any investment of new money, and don't be surprised by market volatility in the coming months leading up to the November election. Brinker "remains attuned to the possibility that an identifiable buying opportunity may develop" If this occurs, Brinker will post a Special Subscriber Message and we will implement a change in asset allocation, from 65% Equities to 75% Equities, utilizing the

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10% allocation to parked cash.

LONG-TERM MEGATRENDS:

The present market level is 304% higher than the S&P500 as it stood at the beginning of the current bull market on March 9, 2009 (676.53).

Cyclical Type	Time Period	Time (years)	Perc. Change	Note
Bear	March 2000 to Oct 2002	2.54	-49%	03/27/00: S&P500 = 1,527.46 10/09/02: S&P500 = 776.76
Bull	Oct 2002 to Oct 2007	5.00	101%	10/09/07: S&P500 = 1,565.15
Bear	Oct 2007 to March 2009	1.42	-57%	03/09/09: S&P500 = 676.53
Bull	March 2009 to June 2018	9.25	304%	6/26/2018: S&P500 = 2731.46

Table 3 Summary of Bull and Bear Cycles in U.S. Stock Market

ASSET ALLOCATION: The present Policy Allocation (Goal) in this portfolio is 60% to Equities, 5% to Real Estate, and 35% to Fixed Income investments.

EQUITIES: Specific allocations by asset class are: 25% to U.S. Domestic Markets, 10% to Energy Sector, 15% to Foreign-developed Country Markets, 10% to Foreign-emerging Markets, and 5% to Real Estate. Presently, equity investments are essentially in balance.

In the equity and real estate components of the portfolio (combined 65% goal), the Board-approved investment strategy is based on a Swensen-style (Yale) diversified portfolio of ultra-low-cost, no-transaction-fee Exchange Traded Funds (ETFs) that track major indices. Portfolio rebalancing continues throughout the year (April to April), which at a minimum is done prior to periodic (usually monthly) reports to the Board.

FIXED INCOME: In the fixed income component of the portfolio (35% goal), the Scholarship fund is 25% invested in a ladder of FDIC-insured Certificates of Deposit (CDs) with various maturity dates. CDs keep fixed-income funds intact and are intended to be held to maturity. Interest rates are projected to increase gradually from record lows back to historically normal levels likely in the 4 to 6% range for a 10-year U.S. Treasury Note. The next CD to mature in our current ladder will be on April 8, 2019.

As noted in Table 4, below, the weighted average yield of the CD ladder is 3.04%. This calculation is based on the face value of the CDs.

STRATEGY ADOPTED at April 2018 Board Meeting: Subject to a Buying Opportunity Alert by Brinker, implement a change in asset allocation, from 65% Equities to 75% Equities. Funds will be shifted from

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parked cash [SWVXX and PTRNX] to equities. The New allocation would increase SCHB from 20% to 25% and SCHA from 5% to 10%.

PARKED CASH:

Following Board approval at the April 2018 meeting, the 5% allocation to Doubleline Low Duration Bond Fund, DLSNX was sold. There was no transaction fee. The proceeds were used to purchase shares of the Schwab Money Market Fund, SWVXX, which has a constant share value of \$1.00. The interest rate of the SWVXX money market fund will increase each time the Fed raises short term rates, while the share price shall remain unchanged at \$1.00 per share.

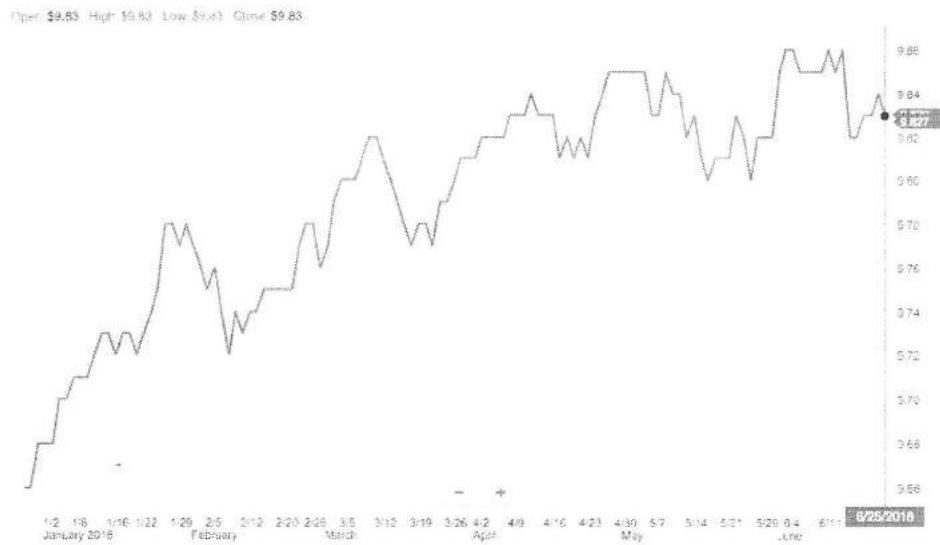


Figure 2 PTRNX Share price history since our purchase on January 18, 2018.

A 5% allocation to Putnam Absolute Return Bond Fund, PTRNX has the stated goal of delivering 3% return above US Treasury bills. Current distribution yield is 4.40% and weighted average duration is now 1.63 years, which is less favorable than the previous duration of -0.73 years. The Fund value is approximately 1.2% higher than when purchased about 5 months ago, which is good. However, with the duration of PTRNX now at 1.63 years, the value of PTRNX's bond portfolio can be expected to decline by 1.63% in share-price value for every future 1% increase in short-term interests. All shares of PTRNX were purchased on January 18, so shares could be sold without penalty or transaction fees anytime on or after April 18, 2018.

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Bank	Due Date	Face Amount	Coupon Rate	Frequency
Goldman Sachs Bank	04/08/2019	\$ 1,000.00	3.75%	Semi-annual
Discover Bk US	10/21/2020	\$ 5,000.00	2.20%	Semi-annual
GE Capital Bank	09/16/2021	\$ 4,000.00	2.85%	Semi-annual
Goldman Sachs Bank	01/05/2022	\$ 4,000.00	3.00%	Semi-annual
Goldman Sachs Bank	09/06/2022	\$ 1,000.00	2.40%	Semi-annual
Synchrony Bank	10/11/2023	\$ 6,000.00	3.30%	Semi-annual
Goldman Sachs Bank	02/26/2024	\$ 4,000.00	3.25%	Semi-annual
Synchrony Bank	08/29/2024	\$ 7,000.00	3.30%	Semi-annual
Goldman Sachs Bank	02/11/2025	\$ 2,000.00	2.75%	Semi-annual
Goldman Sachs Bank	06/17/2025	\$ 5,000.00	3.15%	Semi-annual
Celtic Bank, Salt Lake	06/27/2025	\$ 2,000.00	3.50%	Semi-annual
JPMorgan Chase Bank	04/17/2026	\$ 4,000.00	3.20%	Semi-annual
JPMorgan Chase Bank	08/16/2027	\$ 3,000.00	2.80%	Quarterly
Signature Bank	11/08/2027	\$ 1,000.00	2.85%	Semi-annual
HSBC Bank USA	11/24/2027	\$ 3,000.00	3.00%	Monthly
HSBC Bank USA	02/08/2029	\$ 3,000.00	3.10%	Monthly
HSBC Bank USA	09/28/2029	\$ 1,000.00	3.00%	Monthly
Total Face Value		\$ 56,000.00		

Weighted Average Return 3.04%

Table 4 CD Ladder as of June 26, 2018

REBALANCING: We continue to follow Yale Professor David Swensen’s advice, as explained in his book, “Unconventional Success: A Fundamental Approach to Personal Investment” to frequently rebalance the portfolio, which studies have shown can add as much as 1.1% to the annual return of a portfolio as compared to an unbalanced portfolio with the same securities and starting point.

RECOMMENDATION:

1. It is recommended that the Board approve a **MOTION** to sell Putnam Absolute Return Bond Fund, PTRNX because of its 1.63-years average duration, and purchase instead the Schwab Value Advantage Money Market Fund, SWVXX. This change would have no transaction fees. If approved, the 10% allocation to Parked Cash would be held entirely in the Schwab Money Market Fund.
2. Maintain the Policy Portfolio percentages through periodic re-balancing.
3. CSCE Scholarship Fund is positioned and waiting to implement the **STRATEGY ADOPTED at April 2018 Board Meeting**. It is recommended that we continue to follow Brinker’s market analyses as they may lead to identification of a buying opportunity during this year’s mid-term off-presidential year stock-market correction.