

Email/letter text to clients owning Innealta Rotation Strategies:

You have incorporated a rotation strategy into your portfolio. During the month of April these rotation strategies made trades to reduce duration risk in your portfolio. During April I sent a discussion of duration, which I have included here for your review. The following is a quote from Dr. Jeff Beutow, the lead strategist for the rotation strategies, Innealta Capital Management, from his May commentary:

“The Investment Committee’s analysis of fixed income investment opportunities takes into account the level of rates, spreads and volatility. In our opinion, in the current market environment, U.S. high yield and credit do not properly reward investors, which is a driver of our recent portfolio changes. This represents a material departure from our assessment and investment decisions over the previous four years during which we have performed exceptionally well.

“Going forward, we are concerned with the price risks associated with increases in the level of rates, spreads and volatility. Years of accommodative monetary policy have artificially placed downward pressure across the entire term structure creating a multi-year period of negative real rates at almost all points along maturity spectrum. As the Federal Reserve begins preparing capital markets for the eventual reduction of its enormous asset purchases, we believe that this can result in upward pressure on all three of our measures all along the maturity spectrum across most fixed income sectors. Add to this concern the likelihood of increases in both the velocity of money and the money multiplier and it is not difficult to appreciate the potential for an interest rate dynamic that produces upward pressure in all three measures that would negatively impact fixed income valuations.

“Having considered all these factors, and having witnessed the steep decline in spreads across the domestic high yield and corporate bond market sectors, the team decided to reduce exposures to these sectors in favor of sectors that currently offer more attractive expected returns to risk. (We have a) process driving our recent decisions and...the process through which we add value for our clients. Finally, realize that it is with considerable deliberation that Innealta makes these non-trivial changes to our portfolios.”

Current portfolio holdings include high yield emerging markets and international debt, mortgage backed securities, floating rate loans, and short-and intermediate term bonds (all positions are Exchange Traded funds, or (ETFs).

As always, please call me with your questions or concerns.

Gary D. Case, CFP®  
Cornerstone Financial Planning  
218 12th Avenue Road  
Nampa, ID 83686  
Office: (208) 466-1971  
Mobile: (208) 371-7368  
Fax: (888) 589-4667  
Home: (208) 461-1412  
email: [gary@idwm.net](mailto:gary@idwm.net)

Registered Representative, Securities offered through Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Cambridge and Cornerstone Financial Planning are not affiliated.