

# ATHENA PURE VALUATION | PROFITABILITY

SMA COMMENTARY | QUARTER 3, 2018



## KEY TAKEAWAYS

- ◆ Against a strengthening economy and strong market environment in Q3, the portfolio generated a 4.4% return, underperforming its Russell 2000 benchmark by 1.3%.
- ◆ Quarterly performance was largely driven by Consumer Cyclical, with this sector performing well as the economy accelerated.
- ◆ Investor preference for growth over value stocks continued in Q3, with the Russell 3000 Growth Index besting the Russell 3000 Value Index by 2.7%.

Positive Impacts	Negative Impacts
Eight of the 10 securities held in the portfolio during the quarter contributed positively to performance. Of these, Consumer Cyclical Nordstrom produced the highest return at 18%. Tech stocks also turned in positive results.	Two Consumer Cyclical securities declined by more than 10% in value during the quarter, with Ford Motor retreating the most at -25% followed by International Paper at -15%.

## LONG-TERM PERSPECTIVE

While there is mounting concern about geopolitics, interest rates and the length of the current bull market, fundamentals remain solid with strong manufacturing activity, economic growth and earnings.

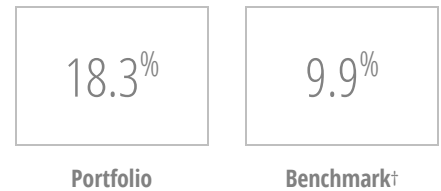
Interest rates and inflation remain well below long-term averages. While there is always potential for slower growth and heightened market volatility, we believe the conditions supporting a long-term secular expansion remain intact.

The stocks in the portfolio remain attractive from a valuation standpoint. The portfolio's dividend yield of 3.5% is an illustration of this. To be included in the portfolio, a company must be paying a reasonable dividend. Paying a dividend signals management confidence regarding future earnings, one of the behavioral factors used for managing the portfolio.

Although it is difficult to predict when investors will begin to favor value over growth, the portfolio is well positioned when that time arrives. Growth continued to outperform Value in Q3. The long-term performance profile remains attractive with 15 out of 17 years positive and periodic outsized returns of greater than 20% in 8 of those years.

## PERFORMANCE<sup>A</sup>

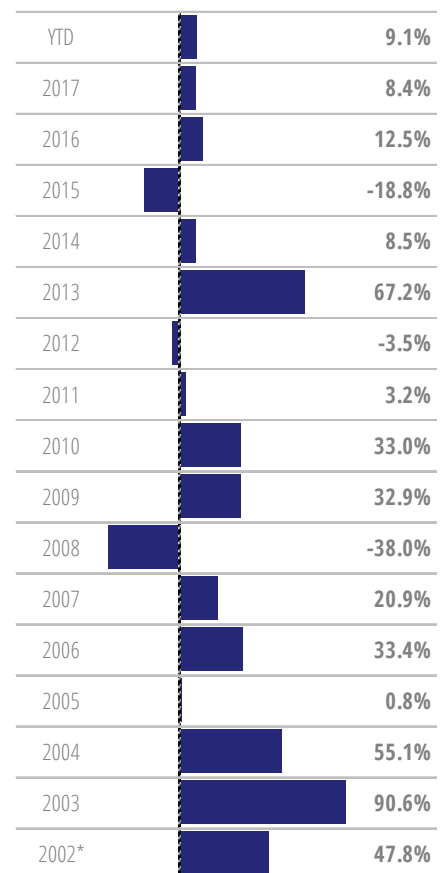
### Annualized Since Inception (7/1/2002)



△ All performance figures are based on composite portfolio performance on a pre-tax basis with reinvestment of dividends and is net of all trading, custodial, and management fees.

† Portfolio benchmark is the Russell 2000 TR Index.

### Calendar Year Performance



\* 2002 return is Jul 1 – Dec 31 and is not annualized.

## % ANNUALIZED TRAILING PERFORMANCE AS OF 9/30/2018

	Q3 2018	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPT
<b>Pure Valuation   Profitability (Net)</b>	<b>4.4</b>	<b>9.1</b>	<b>14.6</b>	<b>11.9</b>	<b>6.0</b>	<b>9.9</b>	<b>18.3</b>
<b>Russell 2000 Index</b>	<b>5.7</b>	<b>13.7</b>	<b>17.5</b>	<b>17.9</b>	<b>11.5</b>	<b>11.3</b>	<b>9.9</b>

*Investment returns presented assume reinvestment of dividends and capital gains and are net of actual management fees. Current performance may be higher or lower than what is shown. Benchmark performance is shown for comparison purposes only and it is not possible to invest directly in an index. Holdings shown and discussed in this analysis should not be deemed as a recommendation to buy or sell securities and the current portfolio holdings may be different than what is presented. There are risks involved in investing in any Athena Portfolio, including loss of principal.*

For complete portfolio performance, disclosures and risks, refer to [athenainvest.com](http://athenainvest.com).

## IMPORTANT DISCLOSURES

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The opinions expressed in this commentary are as of September 30, 2018.

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PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE.