ATHENA PURE
VALUATION | PROFITABILITY

SMA COMMENTARY | QUARTER 4, 2018

ATHENAINVEST™

KEY TAKEAWAYS

- With a backdrop of a volatile market, the portfolio declined by 12.0%, but outperformed its Russell 2000 benchmark by 8.2%.
- Quarterly performance was largely driven by utilities, which produced positive returns during the quarter even as the market fell sharply. The portfolio's composition did not change during the quarter.
- Value stocks outperformed growth stocks in the quarter, which is a reversal of the trend of the past 10 years.
- For the full year, the portfolio beat its benchmark with a -4.0% return vs -9.2% for the Russell 2000.

Positive Impacts	Negative Impacts
Eight of the 10 securities held in the portfolio during the quarter beat the benchmark. Of these, utility sector stocks AES and FirstEnergy produced positive absolute returns.	Two stocks in the portfolio underperformed the Russell 2000, HP and Nordstrom by 0.4% and 1.9% respectively.

LONG-TERM PERSPECTIVE

The stock market stumbled in Q4, turning a 10.6% YTD gain on the S&P 500 at the beginning of the quarter into a 4.4% loss by year-end.

The Q4 markets were roiled by the Fed's clumsy December announcement of Fed Funds target increase, which led to an accelerating sell-off. Concerns of slower growth and talk of possible trade wars further unsettled the markets during the quarter.

The quarter witnessed a change from the long-running preference for growth stocks to a preference for value stocks. The so-called FANG stocks came back to earth, dropping 20% to 30% during the quarter. More broadly, the Russell 1000 Value index outperformed the Russell 1000 Growth index by 3%. The S&P 500 median forward P/E ratio returned to the normal range, wringing-out at least some of the more speculative valuations in the market. These events improve the outlook for stocks in general and for value stocks in particular.

The market rebounded going into year-end from the sharp drop in late December, but volatility is likely to continue into Q1 2019 due to the speed and magnitude of the Q4 decline. The economy continues to grow with a robust labor market, rising wages, and rising earnings and dividends, buoyed by low inflation and low interest rates. We believe the conditions supporting a long-term secular expansion remain intact.

The long-term performance profile remains attractive with 14 out of 17 years positive and periodic outsized returns of greater than 20% in 8 of those years.

PERFORMANCE∆

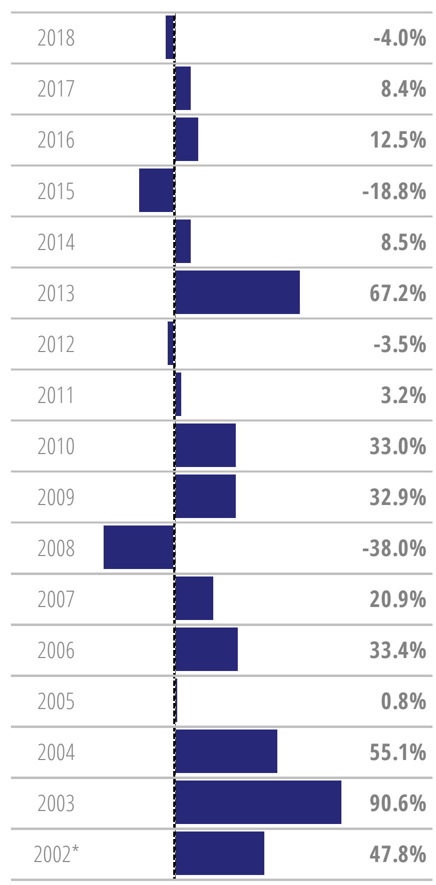
Annualized Since Inception (7/1/2002)

Portfolio	Benchmark†
17.0%	8.3%

∆ 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 12/31/2018

	Q4 2018	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPT
Pure Valuation | Profitability (Net)	**-12.0**	**-4.0**	**-4.0**	**5.5**	**0.7**	**11.8**	**17.0**
Russell 2000 Index	**-20.2**	**-9.2**	**-9.2**	**8.1**	**4.8**	**12.2**	**8.3**

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.

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The opinions expressed in this commentary are as of December 31, 2018.
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