

International Investing Pros & Cons

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American Association of Individual Investors

San Antonio Presentation

September 2018



CANDOR ASSET ADVISORS

International Investing Pros and Cons:

Calling the pitches as I see them

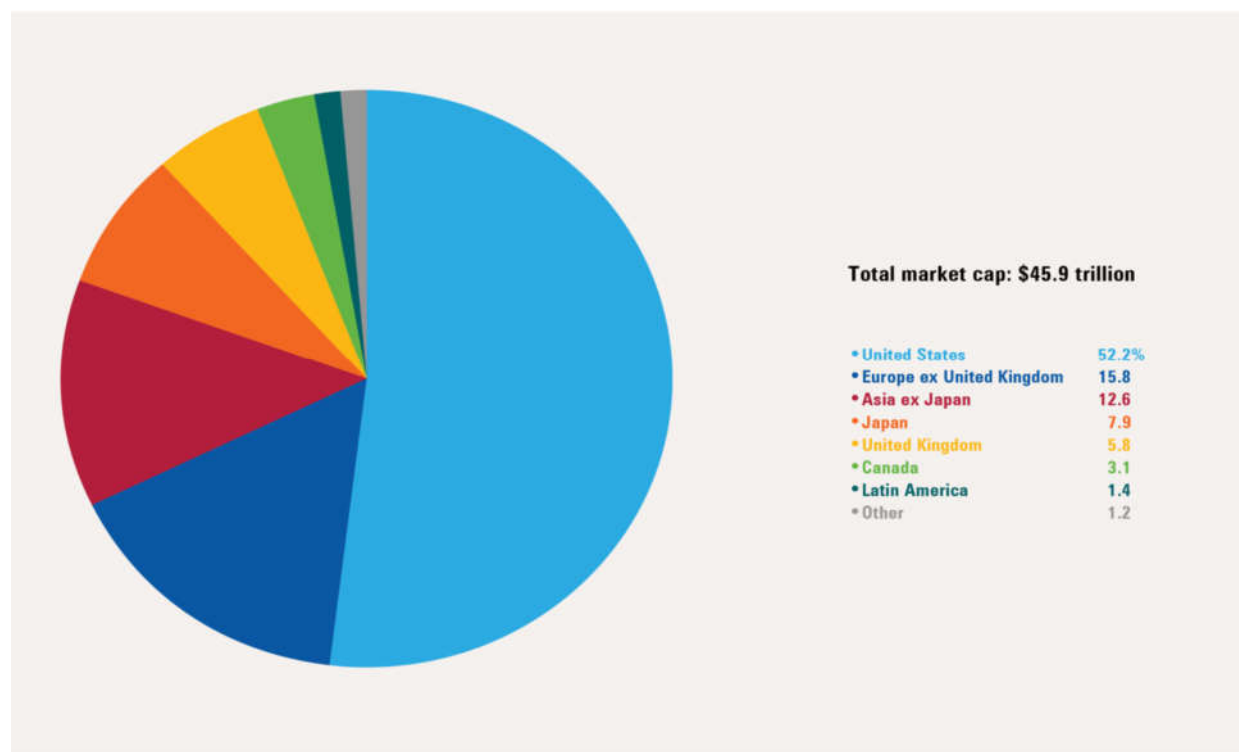


What we will cover today

- Background on international investing
- The arguments against international investing
- The arguments for international investing
- Ways to invest abroad

The US represents only 52% of the global stock market

World Stock Market Capitalization
Year-end 2017



Capitalization calculated at year-end 2017. Total market capitalization is \$45.9 trillion. Estimates are not guaranteed.
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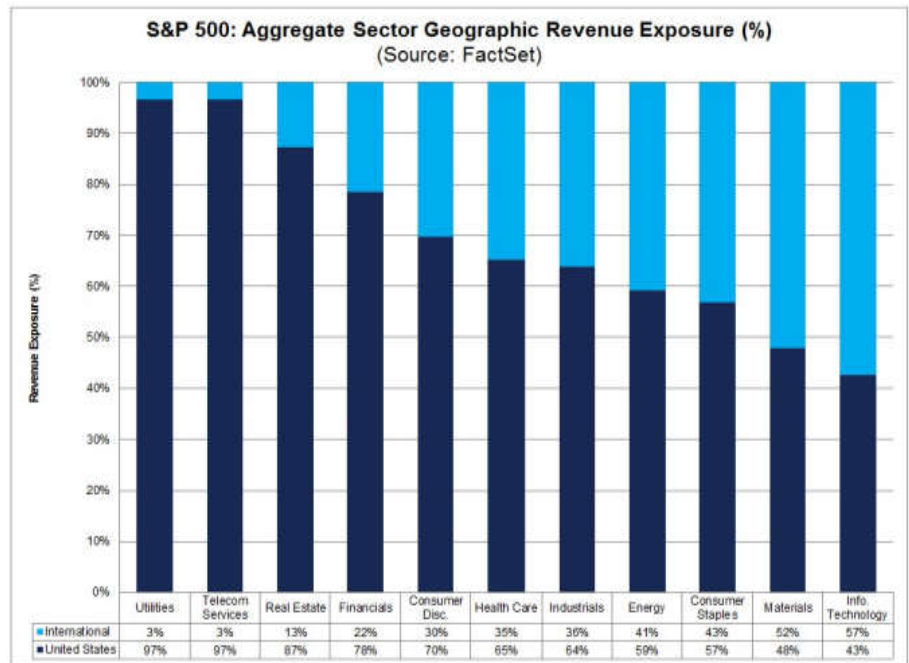
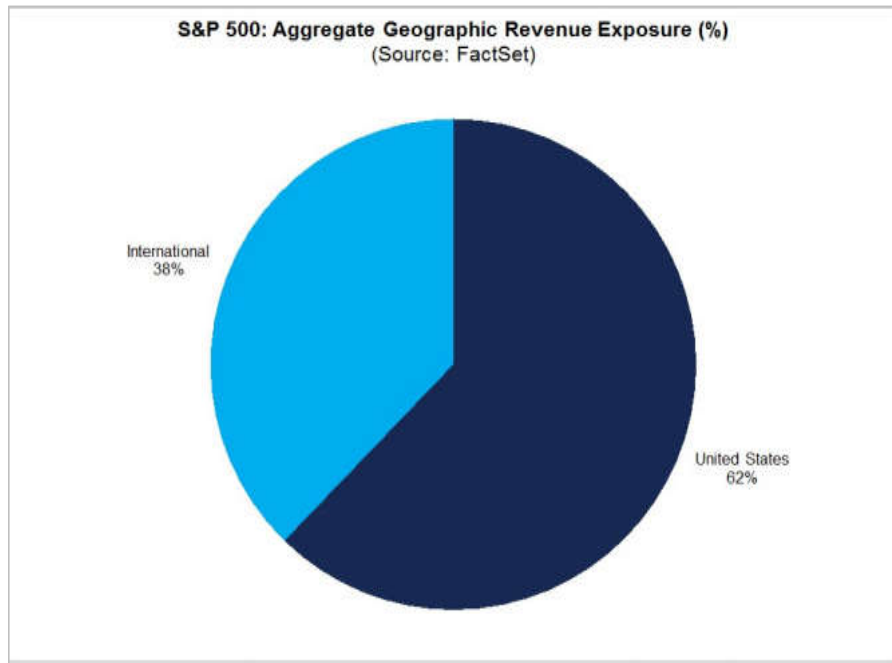
Source: "Global Investing."
Morningstar. 2018

Note: World Market Capitalization by Country is from the Morgan Stanley Capital International developed countries: Canada, United States, Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Australia, Hong Kong, Japan, New Zealand, Singapore. It includes the following emerging countries: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, UAE, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, Thailand

The data is expressed in U.S. dollars. Stock market capitalization is calculated by multiplying the price per share by the number of outstanding shares and then summing all of the equities traded in a country or region. Estimates are not guaranteed.

S&P companies have 62% of their sales inside the United States on average

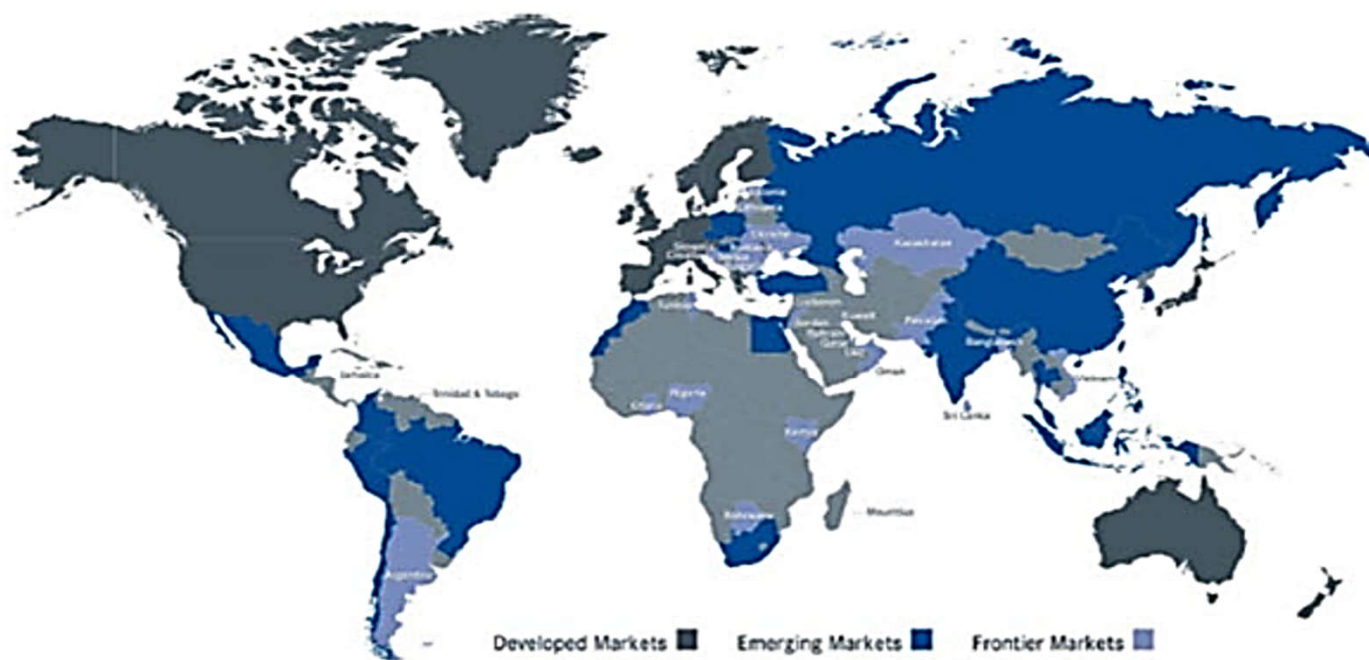
- Technology, Materials and Consumer Staples are the most internationally oriented
- Utilities, Telecom and Real Estate are the most domestically oriented



See appendix for more information on US companies' sales by region

Source: "Earnings Insight." FactSet. 9/14/18

International stock market classifications



*Source: FTSE
2012 & MSCI
2017*

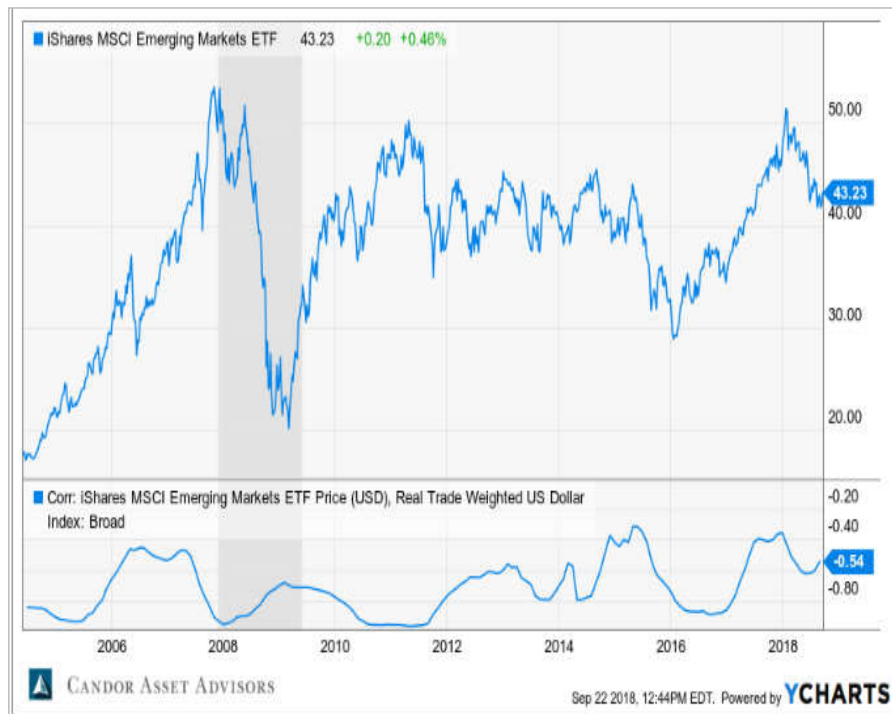
Note: MSCI
considers
South Korea as
emerging
market while
FTSE now
considers it a
developed
market

Weights today: Developed Markets 86% (US 52%, Rest of World 36%); Emerging & Frontier Markets 14%

See appendix for MSCI's list of developed, emerging and frontier markets; MSCI and FTSE Top 10 countries in international developed and emerging markets, index performance and China A shares addition to emerging market indices

The US dollar is often negatively correlated with international stocks

Emerging market stocks and the US dollar are negative correlated



International developed country stocks are not as negatively tied to the US dollar



Source: YCharts

Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more volatile than other asset classes.

Does it pay to hedge your foreign stock currency exposure? Studies are inconclusive

INDEX PERFORMANCE — NET RETURNS (%) (AUG 31, 2018)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Since Jan 31, 2001
MSCI EAFE 100% Hedged to USD	-1.49	1.18	8.37	1.32	8.38	9.17	5.84	3.72
MSCI EAFE (Local)	-1.68	0.59	6.41	-0.06	7.09	8.53	5.18	3.33
MSCI EAFE (USD)	-1.93	-0.74	4.39	-2.28	7.04	5.73	3.66	4.25



INDEX PERFORMANCE — NET RETURNS (%) (AUG 31, 2018)

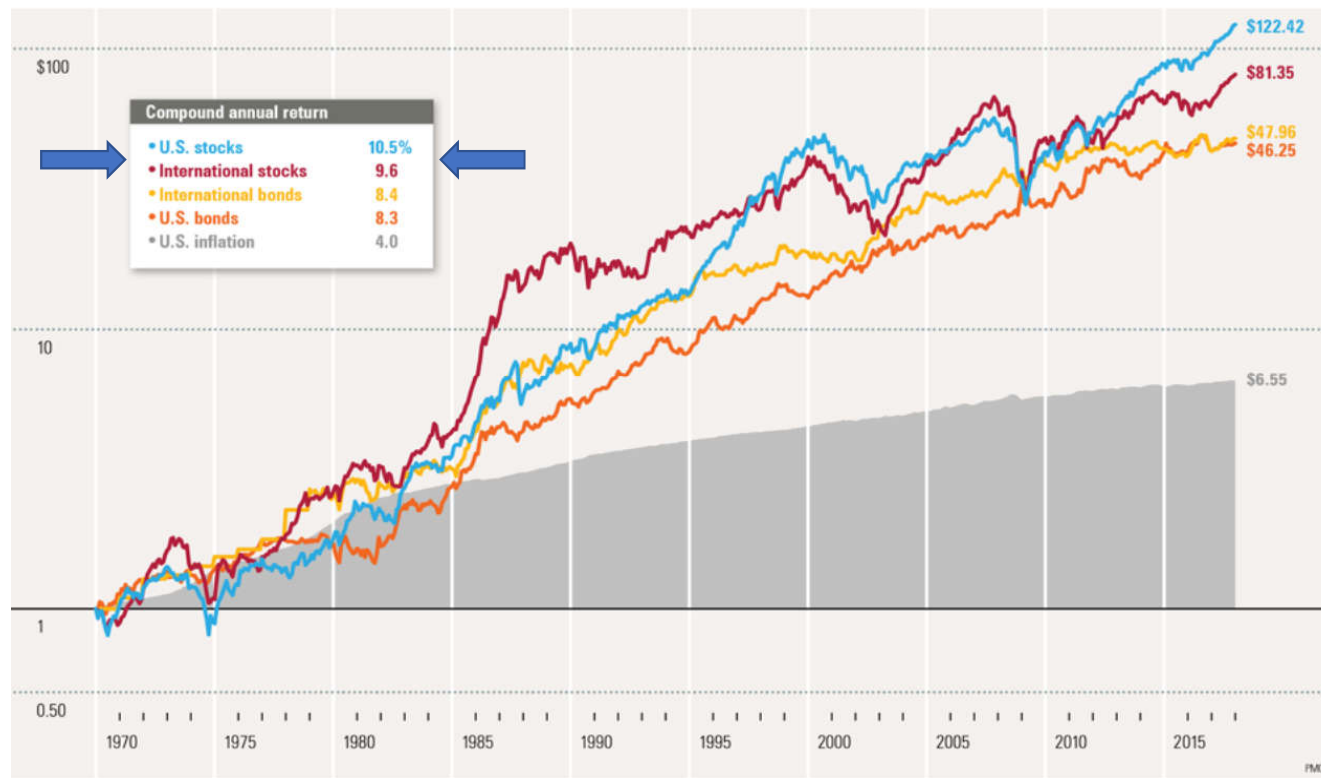
	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Since Dec 29, 2000
MSCI EM 100% Hedged to USD	-0.61	-1.46	3.52	-2.01	10.23	6.16	4.54	8.03
MSCI Emerging Markets (Local)	-0.55	-1.36	4.32	-1.72	11.98	8.40	6.43	10.44
MSCI Emerging Markets (USD)	-2.70	-4.70	-0.68	-7.18	11.42	5.04	3.45	9.33

Source: iShares ETF Factsheets

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US vs. international stock returns are similar over time

Global Investing 1970–2017



Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1970. All values in U.S. dollars. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.

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Source: "Global Investing."
Morningstar. 2018

Note: U.S. stocks are represented by the Ibbotson® Large Company Stock Index. International stocks are represented by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. International bonds are represented by International Monetary Fund (IMF) International Financial Statistics (equally weighted portfolio of long-term government bonds and cash equivalents) from January 1970–December 1978, the Citigroup Non-U.S. 5+ Year Government Bond index from January 1979–December 1984, and the Citigroup Non-U.S. 5+ Year World Government Bond Index thereafter. U.S. government bonds are represented by the 20-year U.S. government bond and U.S. inflation by the Consumer Price Index. An investment cannot be made directly in an index.

Emerging markets perform well over the long run International developed markets haven't stood out

Regional Performance
Growth of \$1,000 from 1988–2017



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.



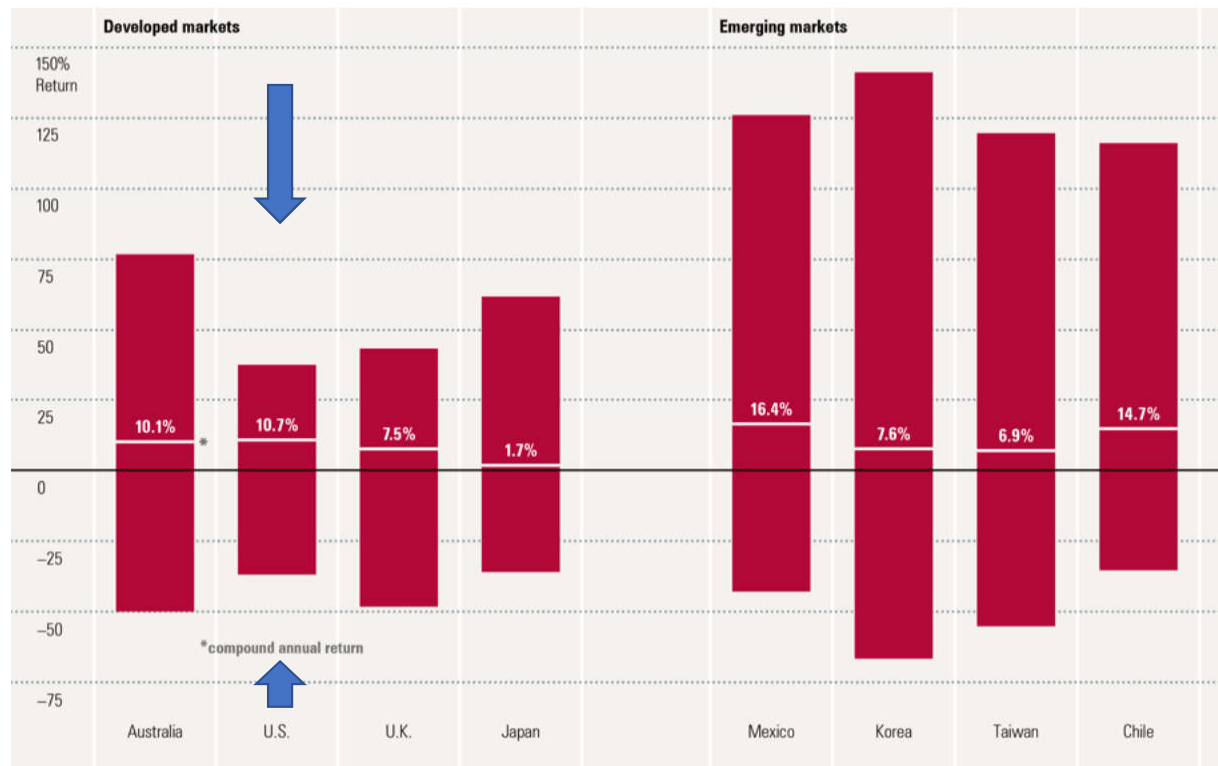
Source: “Global Investing”.
Morningstar. 2018

Note: U.S. stocks are represented by the Ibbotson Large-Stock® index. International developed stocks are represented by Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. Emerging Latin America, Europe, Asia, and Far East stocks are represented by the corresponding Morgan Stanley Capital Emerging Market Regional Indexes. An investment cannot be made directly in an index. All values are expressed in U.S. dollars. The data assumes reinvestment of all income and does not account for taxes or transaction costs

Emerging markets are more volatile

Intl. developed markets are slightly more volatile than the US

Emerging Markets Experience a Wider Range of Returns
1988–2017



*Source: “Global Investing.”
Morningstar. 2018*

Note: United States equities are represented by the Ibbotson Large-Stock® index, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Equities for the other countries are represented by their respective Morgan Stanley Capital International country indexes in USD. An investment cannot be made directly in an index. Keep in mind that the countries illustrated do not represent investment advice. The developed countries illustrated are a common range of investment options. Emerging-market countries were chosen based on availability of historical data; those with the longest stream of data were selected.

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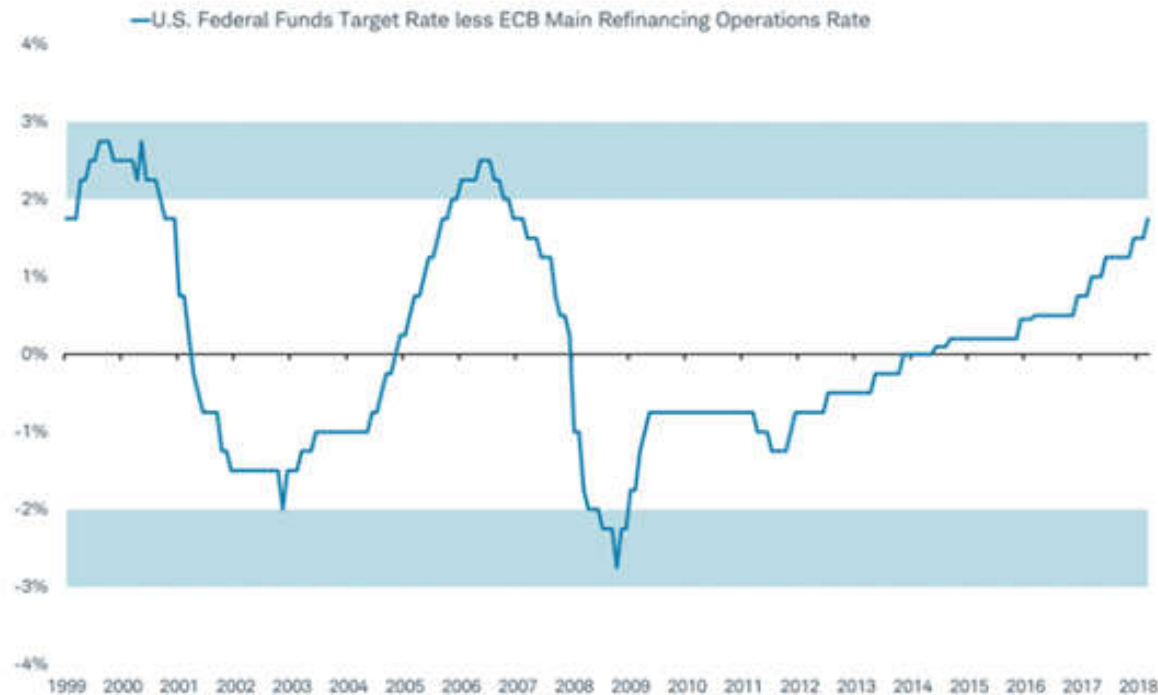
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The arguments against international investing

The Con Case:

A dollar headwind – A widening interest rate gap should persist for a while as the Federal Reserve moves sooner to raise rates

Growing gap



Source: Charles Schwab, Factset data as of 4/27/2018.

Every thing else constant,
Higher US relative interest
rates
leads to
Additional foreign demand
for US debt
leads to
and higher US \$

Source: Kleintop, Jeffrey.
"Investors' Guide to
Diverging Global Economic
Policies." *Charles Schwab*.
4/30/18

The Con Case:

US bear markets usually decline less than emerging markets and similar to international developed markets

Global Markets Downturns and Recoveries 1988-2017						
		# of Downturns	Greatest Decline	Average Decline	Average Decline Duration in Months	Average Recovery in Months
Emerging Markets						
	Asia	4	-73.0%	-49.0%	22	64
	Europe	5	-75.0%	-53.0%	15	27
	Latin America	7	-61.0%	-37.0%	5	19
Developed Markets						
	International	3	-56.0%	-45.0%	21	34
	US	5	-57.0%	-37.0%	23	66

See appendix for US and international developed & emerging stock performance since 1995

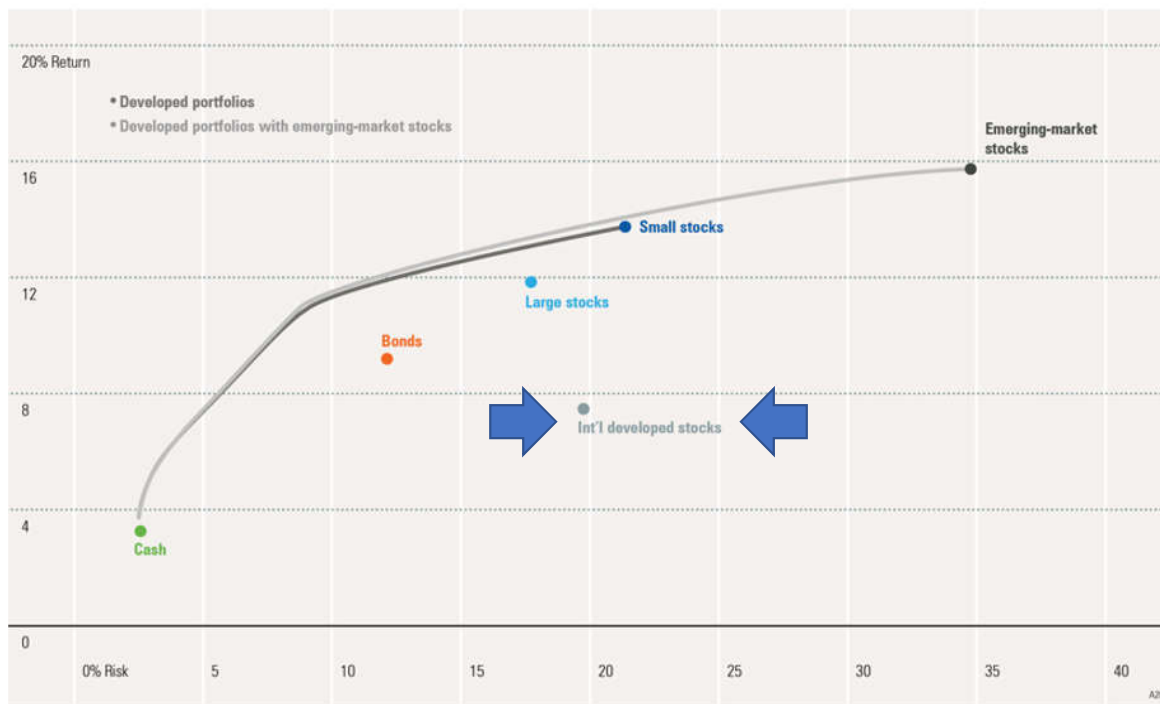
Source: "Global Investing," *Morningstar*. 2018, *YCharts*, *S&P*

Past performance is no guarantee of future results. This is for illustrative purposes and not indicative of any investments. An investment cannot be made directly in an index. Calculations do not include the 2007-2009 downturn for all regions, as the recovery is still unknown in all regions. Diversification does not eliminate the risk of experiencing investment losses

The Con Case:

International developed markets have been an inefficient reward/risk investment for a long time

Efficient market frontier 1988-2015



Source: "Global Investing."
Morningstar. 2016

Large stocks are represented by the Ibbotson® Large Company Stock Index. Small stocks are represented by the Ibbotson® Small Company Stock Index. Bonds are represented by the 20-year U.S. government bond. Cash is represented by the U.S. 30 day T-bill. International developed stocks are represented by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index, while emerging markets are represented by the Morgan Stanley Capital International Emerging Markets Index. All values are expressed in U.S. dollars. An investment cannot be made directly in an index. Risk and return are measured by annual standard deviation and arithmetic average annual return, respectively. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.



The Con Case:

IMF GDP growth forecasts suggest international developed markets will grow slower than the US

	Average	Average	Average									
	1985-1994	1995-2004	2005-2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
United States	3.1	3.4	1.5	2.9	1.5	2.3	2.9	2.7	1.9	1.7	1.5	1.4
International Developed Markets Weighted Average	3.2	2.5	1.2	2.0	1.7	2.3	2.1	1.8	1.5	1.5	1.4	1.4
<u>Prominent International Developed Markets</u>												
Japan	3.5	1.3	0.6	1.4	0.9	1.7	1.2	0.9	0.3	0.7	0.5	0.5
Western Europe	2.6	2.4	0.9	2.2	1.8	2.3	2.3	1.9	1.6	1.5	1.5	1.5
Canada	2.4	3.3	1.9	1.0	1.4	3.0	2.1	2.0	1.8	1.8	1.6	1.6
Australia	3.4	3.8	2.8	2.5	2.6	2.3	3.0	3.1	2.9	2.7	2.6	2.6
South Korea	9.3	5.8	3.7	2.8	2.8	3.1	3.0	2.9	2.8	2.8	2.7	2.6

Source: "World Economic Outlook." IMF. April 2018

The arguments for international investing

The Pro Case:

International stocks are moderately correlated with US stocks before recessions

Correlations of Various Asset Classes with the Market
January 1980–December 2017

	Before recession Jan 1980–Nov 2007	During recession Dec 2007–Jun 2009	Entire period Jan 1980–Dec 2017
Small stocks	0.72	0.95	0.77
International stocks	0.57	0.93	0.67
Commodities	0.08	0.51	0.22
REITs	0.47	0.83	0.56
Gold	0.05	-0.06	0.04
Long-term corp bonds	0.23	0.34	0.19
Long-term govt bonds	0.18	0.03	0.05
Intermediate-term govt bonds	0.12	-0.32	0.04
Treasury bills	0.00	-0.11	0.01

• Low • Medium • High

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*Source: “Global Investing.”
Morningstar. 2018*

Note: The market is represented by the Ibbotson® Large Company Stock Index. Commodities are represented by the Morningstar Long-Only Commodity Index, and international stocks by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. REITs are represented by the FTSE NAREIT All Equity REIT Index®, and small stocks by the Ibbotson® Small Company Stock Index. Treasury bills are represented by the 30-day U.S. Treasury bill, long-term corporate bonds by the Citigroup long-term high-grade corporate bond index, long-term government bonds by the 20-year U.S. government bond, gold by the Federal Reserve (2nd London fix) from 1980–1987 and Wall Street Journal London P.M. closing price thereafter, and intermediate-term government bonds by the five-year U.S. government bond. Recession dates (December 2007 to June 2009) are from the NBER.

The Pro Case:

Having a global equity portfolio can result in similar long-term returns with less risk

International stock exposure has historically lowered stock risk and improved risk-adjusted returns over the long term

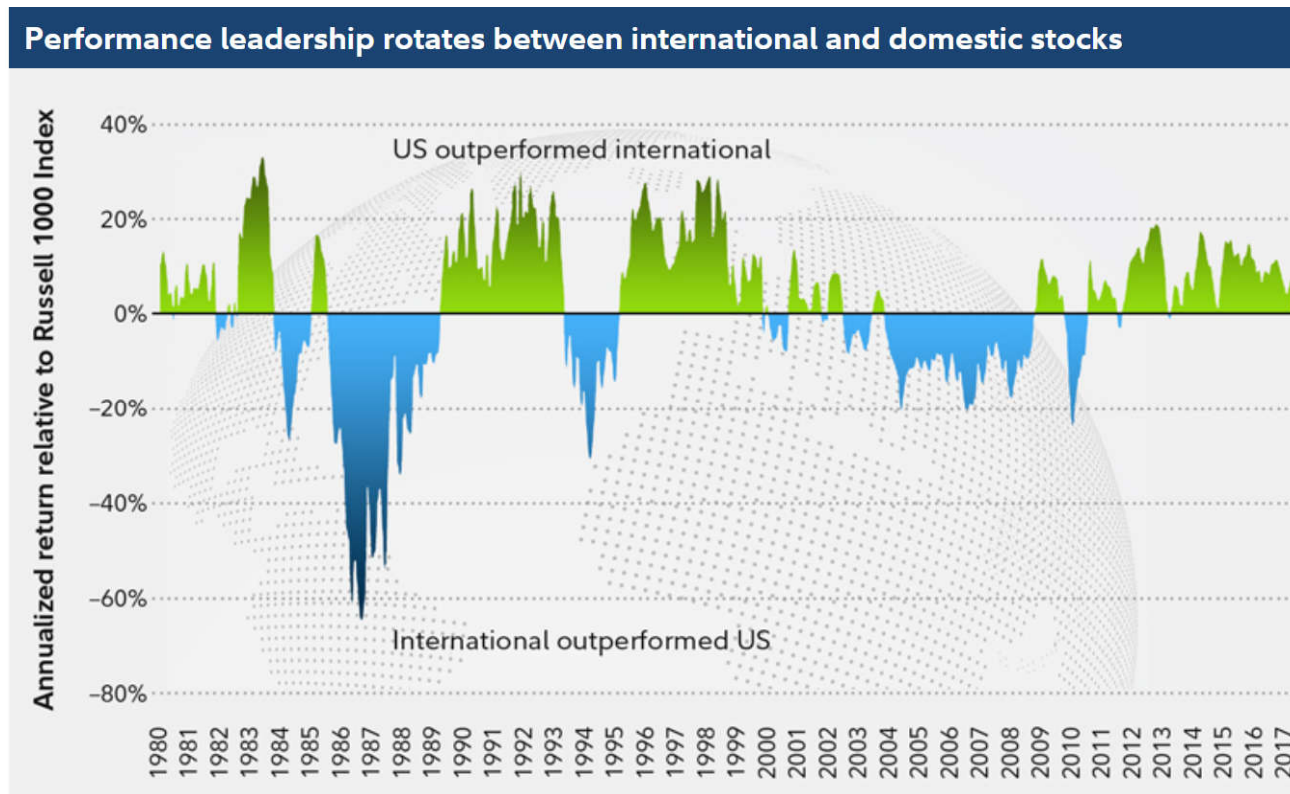
1950 to 2018	S&P 500	International portfolio	Global equity portfolio (70% U.S./30% International)
Annualized returns	11.3%	9.4%	11.3%
Standard deviation	14.2%	15.1%	13.1%
Sharpe ratio*	0.49	0.34	0.53

Source: "3 reasons to invest internationally." Fidelity. 7/5/18

A higher Sharpe ratio indicates better risk-adjusted returns. The Sharpe ratio gauges risk-adjusted returns by subtracting the return of a risk-free investment from the return of an investment or portfolio and dividing by standard deviation, which is a measure of risk. Hypothetical "global equity portfolio" is rebalanced annually in 70% US and 30% foreign stocks. US equities: S&P 500 Total Return Index; International equities: MSCI ACWI ex-USA Index. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of May 31, 2018. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged.

The Pro Case:

Leadership rotates between international developed stocks and US stocks

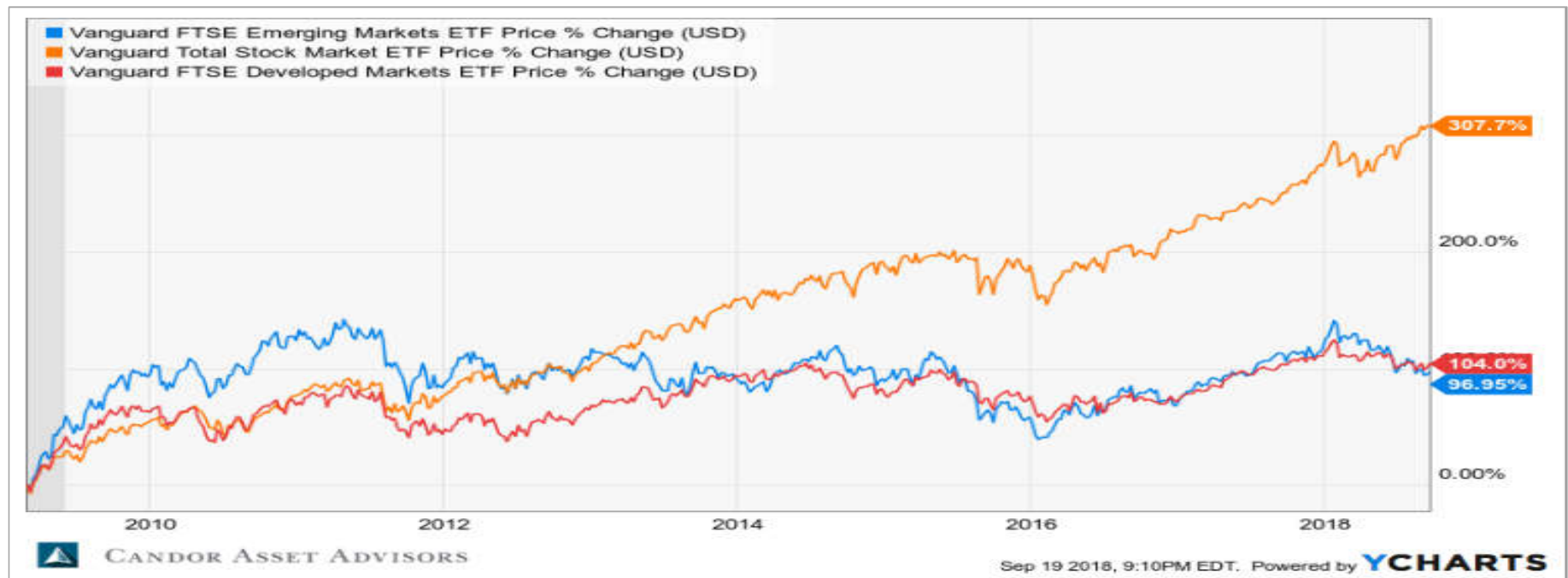


*Source: “3 reasons to invest internationally.”
Fidelity. 7/5/18*

Data from Morningstar Inc. Rolling 12-month return. A value greater than 0 shows domestic stocks outperformed international stocks, while a value less than 0 shows international stocks outperformed domestic stocks. Domestic stocks as measured by the S&P 500 Index from January 1979 to January 1987 and Dow Jones Total Market from February 1987 to December 2017; foreign stocks as measured by the MSCI® EAFE from January 1979 to November 2000 and MSCI ACWI Ex USA from December 2000 to December 2017. All indexes are unmanaged and include reinvestment of interest and/or dividends. Investors cannot invest directly in an index. See footnotes for index definitions.

The Pro Case:

Since March 2009 the US stock market has grown ~3x faster than international markets. It may be time for reversion to the mean.



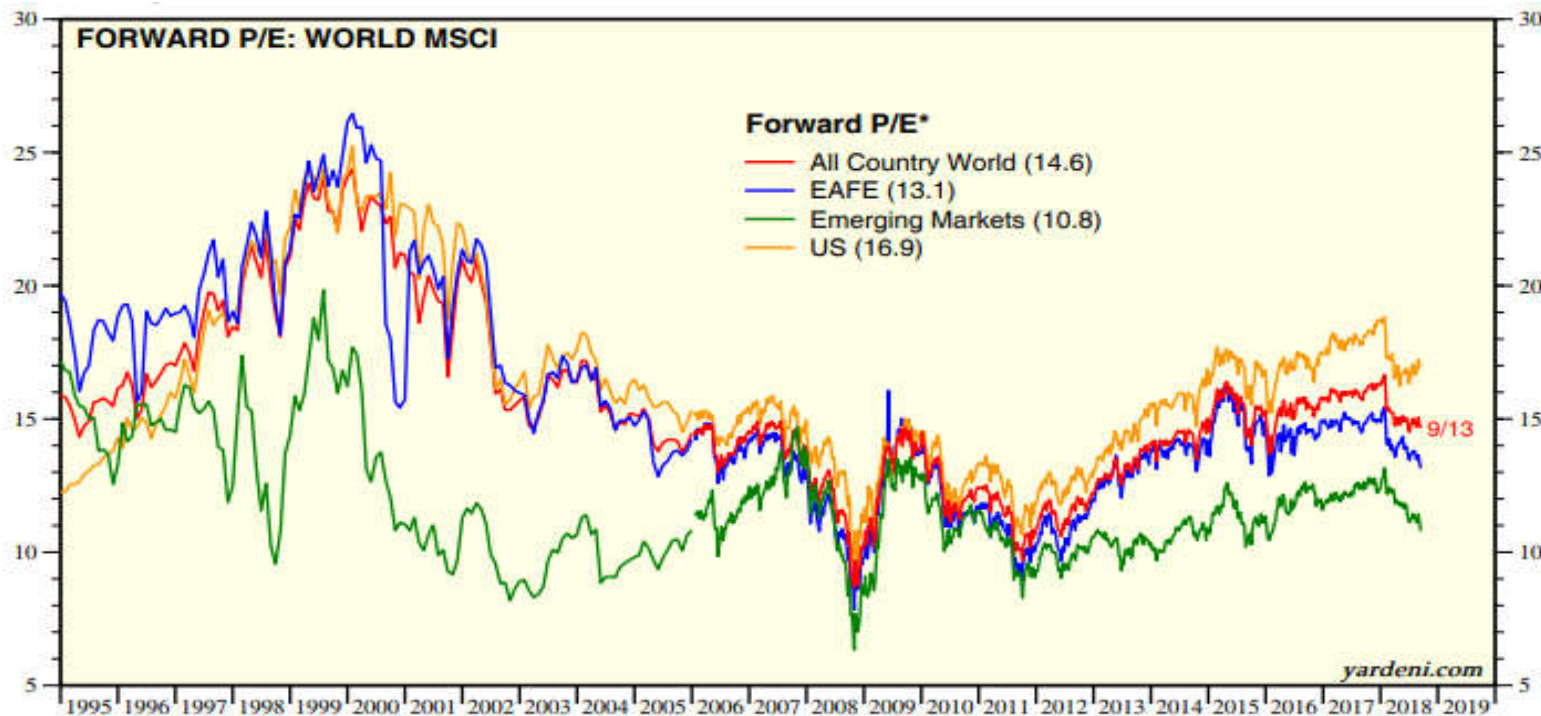
Source: YCharts

Past performance is not a guarantee or predictor of future performance.

The data assumes reinvestment of all income and does not account for taxes or transaction costs.

The Pro Case:

A valuation gap has widened between US and international markets since 2009



* Price divided by 12-month forward consensus expected operating earnings per share. Monthly through December 2005, weekly thereafter.
Source: Thomson Reuters I/B/E/S.

See appendix
for US and EM
P/BV &
dividend yield
ratios over time

Source: "Global
Index Briefing:
MSCI Forward
P/Es." Yardeni
Research.
9/19/18

Past performance is no
guarantee or predictor
of future results.

The Pro Case:

International markets look relatively inexpensive vs. the US

Global Stock Valuations						
	<u>CAPE</u>	<u>P/E</u>	<u>P/CF</u>	<u>P/BV</u>	<u>P/Sales</u>	<u>Div Yield</u>
US	32.1	21.5	13.6	3.4	2.3	1.8%
International Developed Markets	26.2	18.0	11.4	2.2	1.5	2.3%
International Emerging Markets	16.2	14.1	8.5	1.7	1.3	3.1%

Data as of 8/30/18

CAPE stands for cyclically adjusted P/E ratio, P/E = trailing P/E ratio, P/CF = price/cash flow, P/BV = price/book value, P/S = price/sales, Div Yield = dividend yield

Source: StarCapital. <https://www.starcapital.de/en/research/stock-market-valuation/>

The Pro Case:

The US stock market has rallied in 2018 while international markets have lagged



Source: YCharts

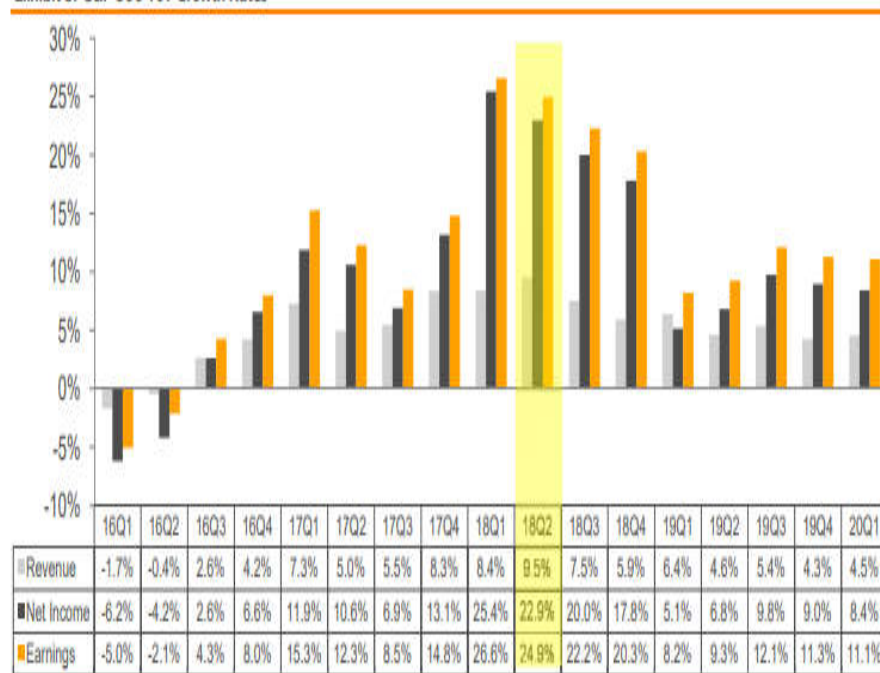
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The Pro Case:

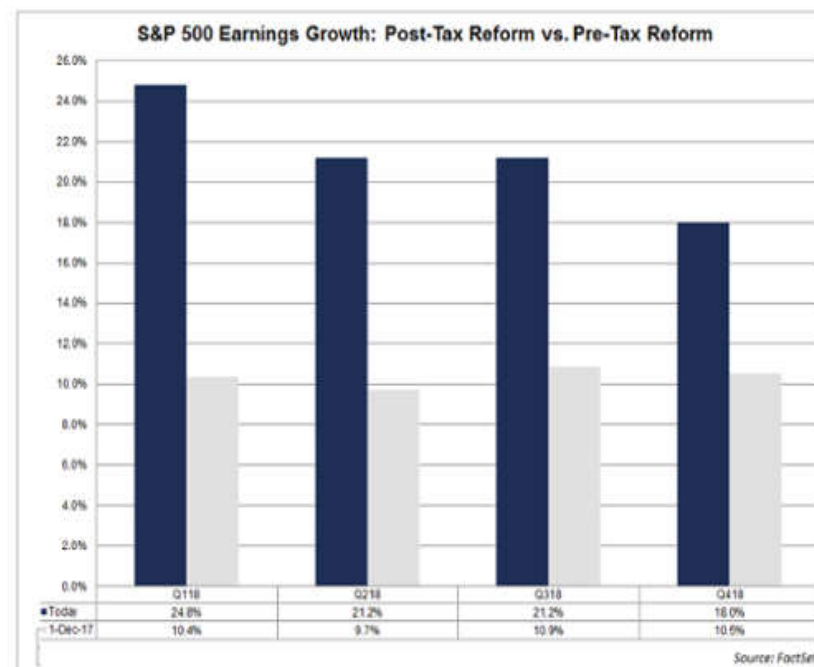
US tax reform has helped drive US stock performance year-to-date

Exhibit 5. S&P 500 YoY Growth Rates



Source: Thomson Reuters I/B/E/S

Source: "S&P Earnings Scorecard." Thomson Reuters. 9/12/18

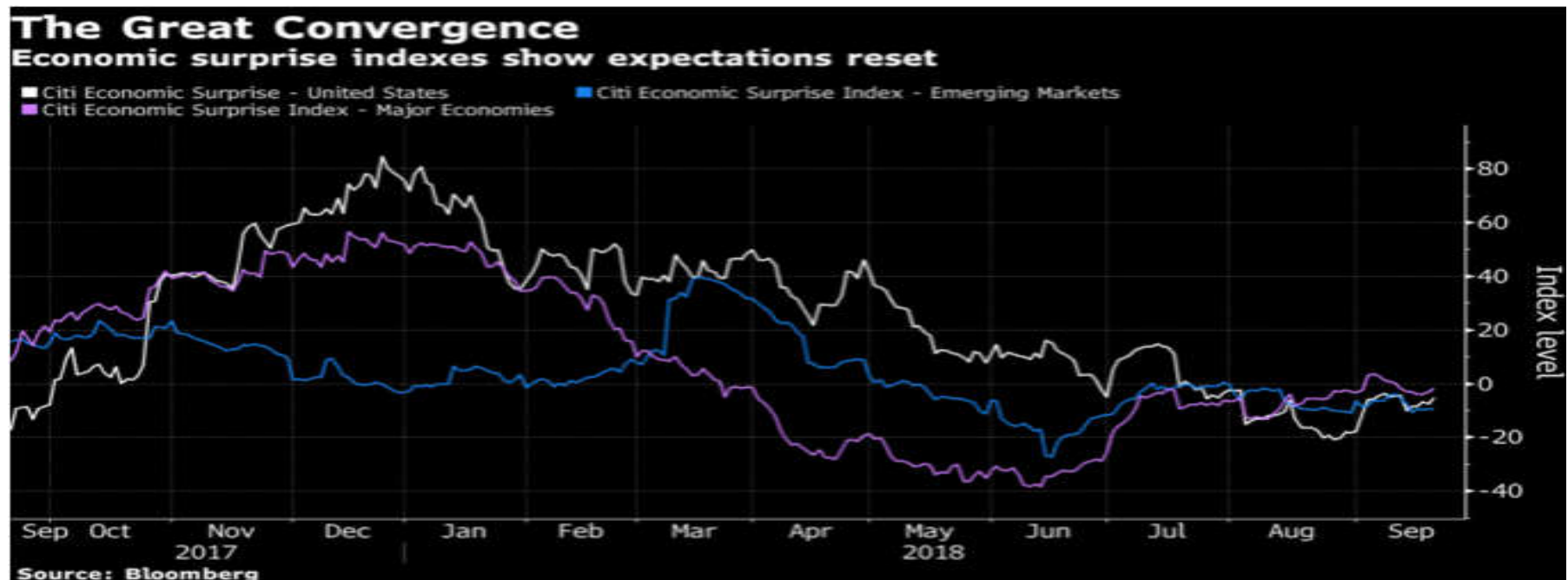


Source: FactSet

Source: FactSet, McCormick, Brian. "The Effect of Tax Reform on Earnings Per Share."

<https://blog.commonwealth.com/.../the-effect-of-tax-reform-on-earnings-per-share>. 8/24/18

The Pro Case: Economic expectations are converging



Source: Kawa, Luke. "World Markets Are Ready for Comeback as 'America First' Seen Fading." *Bloomberg*. 9/20/18

The Pro Case:

Economic growth comparisons should begin to narrow
Comparisons look more promising in emerging markets

	<u>2017</u>	<u>2018E</u>	<u>2019E</u>
<u>Revenues</u>			
US	6.6%	8.7%	5.3%
International Developed	6.9%	4.9%	3.2%
Emerging Markets	12.2%	10.9%	8.2%
Difference vs US (Better +, Worse -)			
International Developed	0.3%	-3.8%	-2.1%
Emerging Markets	5.6%	2.2%	2.9%
<u>Earnings</u>			
US	11.7%	23.5%	10.6%
International Developed	21.1%	7.4%	7.6%
Emerging Markets	22.1%	14.3%	12.1%
Difference vs US (Better +, Worse -)			
International Developed	9.4%	-16.1%	-3.0%
Emerging Markets	10.4%	-9.2%	1.5%

Source: "Performance Derby
MSCI Regions/Countries
Earnings and Revenue Growth
2019E/ 2018E/ 2017A."
Yardeni Research. 9/19/18

The Pro Case:

It is not uncommon for emerging markets to fall around 20% over the last 10 years and then rally



Source: Charles Schwab, Bloomberg data as of 9/14/18. Past performance is no guarantee of future performance.

Rapid rebounds often follow 20% declines

Date -20% bear market began	6 months later	1 year later
8/23/1990	11.1%	26.7%
1/9/1995	5.0%	2.8%
10/27/1997	-2.3%	-36.5%
5/22/2000	-18.1%	-18.6%
8/5/2002	3.2%	23.9%
5/17/2004	28.3%	35.3%
6/8/2006	27.0%	44.4%
1/21/2008	-2.6%	-51.8%
8/5/2008	-46.3%	-14.5%
11/20/2008	62.8%	107.9%
3/2/2009	74.9%	102.0%
9/13/2011	10.6%	1.8%
8/11/2015	-18.8%	3.3%
Average	10.4%	17.4%

Past performance is no guarantee of future performance.

Source: Charles Schwab, Factset data as of 9/11/18.

Source: Kleintop, Jeffrey. "Emerging Market Stocks: What We Are Watching." *Charles Schwab*. 9/17/18

The data assumes reinvestment of all income and does not account for taxes or transaction costs. An investment cannot be made directly in an index.

The Pro Case:

Emerging markets will continue to grow in importance

<u>Emerging Markets % of World</u>	<u>1988</u>	<u>2018</u>
Population	63%	85%
Gross Domestic Product	18%	50%+
Market Capitalization	1%	13%

Source: Swedroe, Larry. "Don't Exclude Emerging Markets." *ETF.Com* 4/16/18, 2005 *UN Population Prospects*

The Pro Case:

Intermediate term forecasts suggest emerging markets will continue to grow faster than the US

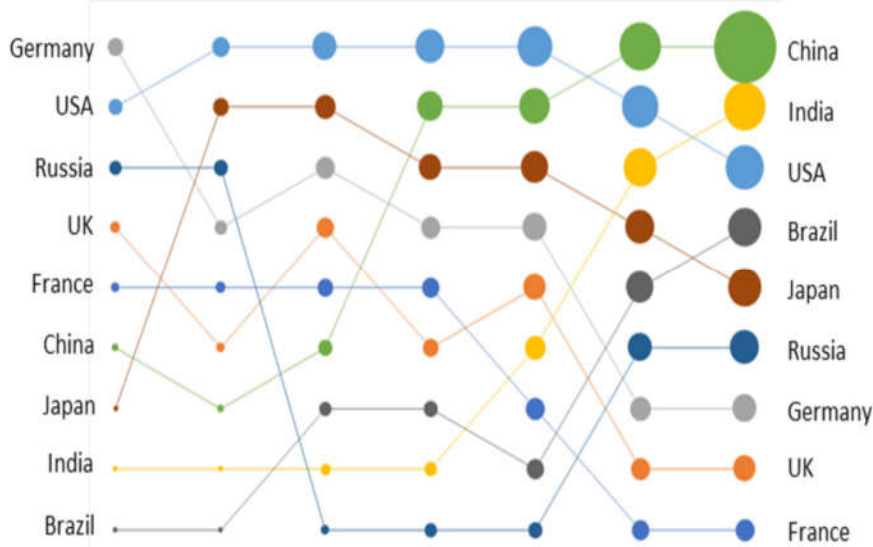
	Average	Average	Average									
	<u>1985-1994</u>	<u>1995-2004</u>	<u>2005-2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018E</u>	<u>2019E</u>	<u>2020E</u>	<u>2021E</u>	<u>2022E</u>	<u>2023E</u>
United States	3.1	3.4	1.5	2.9	1.5	2.3	2.9	2.7	1.9	1.7	1.5	1.4
Emerging market and developing economies	3.7	4.8	6.1	4.3	4.4	4.8	4.9	5.1	5.1	5.1	5.0	5.0
<u>Prominent Emerging Markets</u>												
China	10.4	9.1	10.0	6.9	6.7	6.9	6.6	6.4	6.3	6.0	5.7	5.5
Taiwan	8.2	5.1	3.9	0.8	1.4	2.8	1.9	2.0	2.0	2.0	2.0	2.0
India	5.3	6.2	7.7	8.2	7.1	6.7	7.4	7.8	7.9	8.1	8.1	8.2
South Africa	0.9	3.1	3.1	1.3	0.6	1.3	1.5	1.7	1.8	1.8	1.8	1.8
Brazil	2.9	2.6	3.5	-3.5	-3.5	1.0	2.3	2.5	2.2	2.2	2.2	2.2

Source: "World Economic Outlook." *International Monetary Fund*. April 2018

The Pro Case:

Emerging markets will continue to become more important due to a younger working population

Figure 1 - Developed and emerging market GDPs, 1950 - 2050



Source: Data from the World Bank, *The World 2050* and PriceWaterhouseCoopers

Dots on left represent relative economic size

Ratio of Working-Age to Non-Working Population, 2010 to 2025

	Developed Economies			Emerging Economies		
	U.S.	Germany	Japan	China	Brazil	India
2010	2.0	2.0	1.8	2.6	2.1	1.8
2020	1.8	1.8	1.4	2.5	2.3	2.0
2025	1.7	1.6	1.4	2.4	2.2	2.1

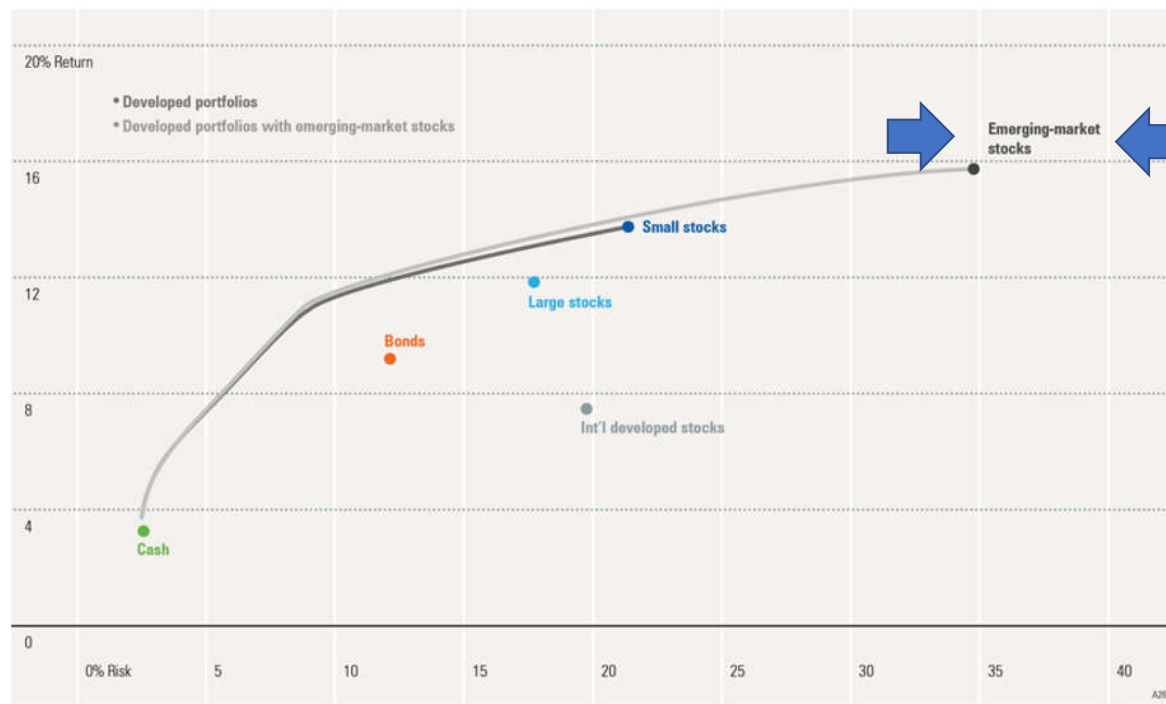
Source: World Bank, *Global Economic Prospects*, January 2015

Source: Burton Malkeil presentation 2016

The Pro Case:

Emerging markets have added to the reward/risk profile

Efficient market frontier 1988-2015



Source: "Global Investing."
Morningstar. 2016

Large stocks are represented by the Ibbotson® Large Company Stock Index. Small stocks are represented by the Ibbotson® Small Company Stock Index. Bonds are represented by the 20-year U.S. government bond. Cash is represented by the U.S. 30 day T-bill. International developed stocks are represented by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index, while emerging markets are represented by the Morgan Stanley Capital International Emerging Markets Index. All values are expressed in U.S. dollars. An investment cannot be made directly in an index. Risk and return are measured by annual standard deviation and arithmetic average annual return, respectively. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

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Ways to invest abroad

International Investing Options:

Studies suggest passive investing is a viable option in a number of foreign markets

Source: S&P.

<https://us.spindices.com/spiva/#/reports>

Past performance is not a guarantee or predictor of future performance.
This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

% of Large Cap Funds That <u>Outperformed</u>				
As of 12/31/17				
	1 Year	3 Year	5 Year	% of Benchmark Weight
United States	36.9%	19.4%	15.8%	100%
<u>Select Developed Markets Excluding US</u>				
Japan	84.7%	66.0%	55.7%	22.3%
Europe	53.4%	40.8%	26.7%	51.9%
Canada	6.8%	9.0%	18.3%	8.4%
Australia	42.4%	32.7%	31.3%	6.1%
Weighted Average	56.1%	43.5%	33.5%	88.7%
<u>Select Emerging Markets</u>				
Mexico	8.0%	4.3%	26.1%	3.6%
Brazil	25.5%	19.4%	18.3%	6.5%
Chile	24.4%	9.3%	6.5%	1.2%
South Africa	4.1%	3.7%	6.8%	6.7%
India	40.6%	47.0%	56.6%	12.0%
Weighted Average	24.6%	24.7%	31.5%	30.0%

International Investing Options:

Studies suggest enhanced indexing has added value abroad

Emerging Markets

Factors that generated outperformance

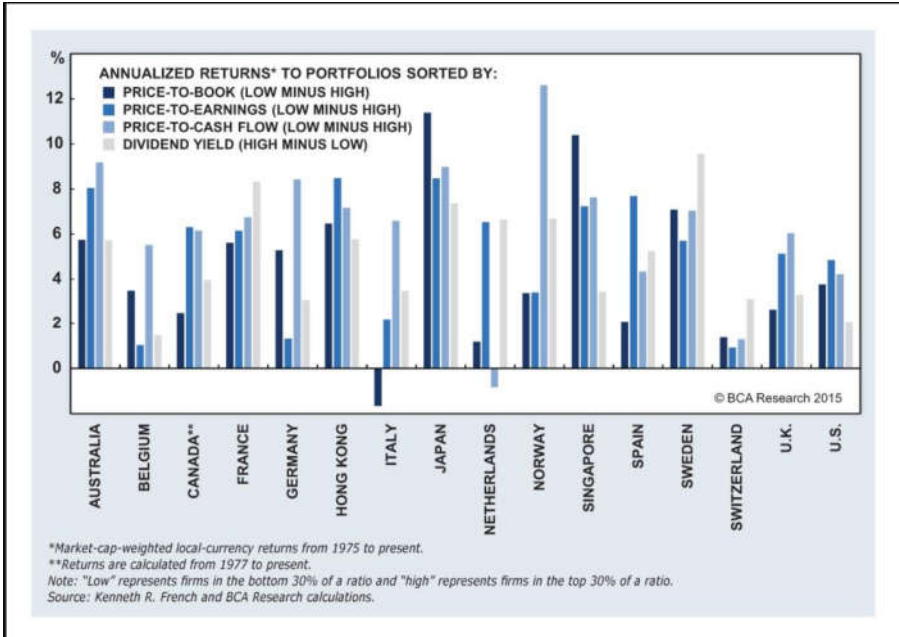
- 1988-2014
 - Small cap .8%-1.2%
 - Value 1.7%
 - Momentum 2.4%

Source: Yigit Atilgan, K. Ozgur Demirtas and A. Doruk Gunaydin, "[The Cross-Section of Equity Returns in Emerging Markets](#)" 1988-2014 Study

Source: Berezin, Peter. "Why Value Beats Growth: A Brief Explanation." *AAll Journal*. September 2016

Past performance is not a guarantee or predictor of future performance.
This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Developed Markets: P/BV, P/E, P/CF, Dividend Yield persisted 1975-2015

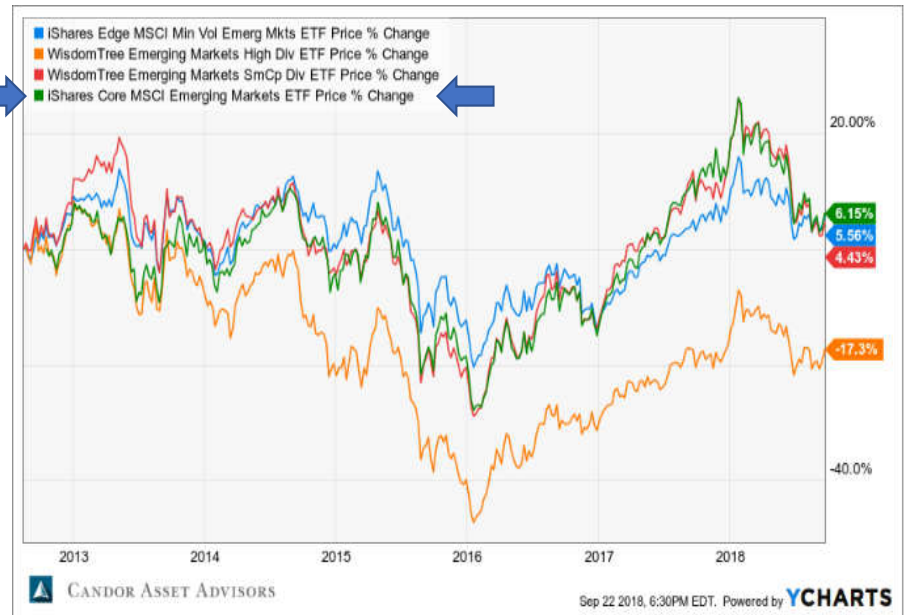


International Investing Options:

Enhanced index investing has had mixed results in recent years

International Developed Markets: Small cap, minimum volatility have outperformed while value has underperformed

Emerging Markets: Small cap, dividend and minimum volatility strategies have not stood out



Arrows denote passive benchmark. See appendix for enhanced index factors data

Source: YCharts

Past performance is not a guarantee of future performance. The data assumes reinvestment of all income and does not account for taxes or transaction costs

International Investing Options:

Things to consider

Passive strategies

Focus on

1. Picking the right index
2. Examining portfolio construction to ensure it makes sense
3. Checking that the tracking error to the index is very low
4. Paying attention to expense ratios

Enhanced index strategies

Focus on

1. Factors that persist over the long-run, make sense and are statistically significant
2. Paying attention to expense ratios
 - The additional quantitative work needs to generate excess returns after fees

Conclusions

Background on international investing

- The US is ~52% of the world's stock market
- The US \$ impacts international returns
- Hedging studies are inconclusive
- Emerging markets returns stand out but are more volatile

The arguments against international investing

- The US dollar could be a headwind for some time
- International and especially emerging markets could decline more in a bear market
- International developed markets have been an ineffective diversifier for some time
- International developed markets should grow less than the US for a while

Conclusions (continued)

The arguments for international investing

- International markets are moderately correlated to US stocks during bull markets and offer diversification
- US relative performance is cyclical
- The US has outperformed for some time
- International stocks have become relatively inexpensive
- Economic comparisons are easing
- Emerging market stocks usually rally following corrections
- Long term trends are bullish for emerging markets

Ways to invest abroad

- Passive investing is a viable option
- Enhanced index has worked over the long-run but not as much recently
- Pay attention to the portfolio construction and expenses

Thank you!

If you enjoyed this presentation ... below are other presentations you may be interested in

Investment Management

- Passive vs active investment management
- Smart beta/enhanced index/factor investing
- Current views on the US stock market
- Why stocks for the long run

Financial Planning

- Disability considerations
- Healthcare and long term care considerations
- Real Estate
- Retirement planning



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- Past performance is not a guarantee or predictor of future performance.
- Financial plans are hypothetical in nature and intended to help you in making decisions on your financial future based on information that you have provided and reviewed. Assumptions need to be reviewed regularly.
- Stocks are not guaranteed and have been more volatile than other asset classes. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest.
- Diversification does not eliminate the risk of experiencing investment losses.
- Candor Asset Advisors does not endorse or support the contents or opinions of third-party providers.
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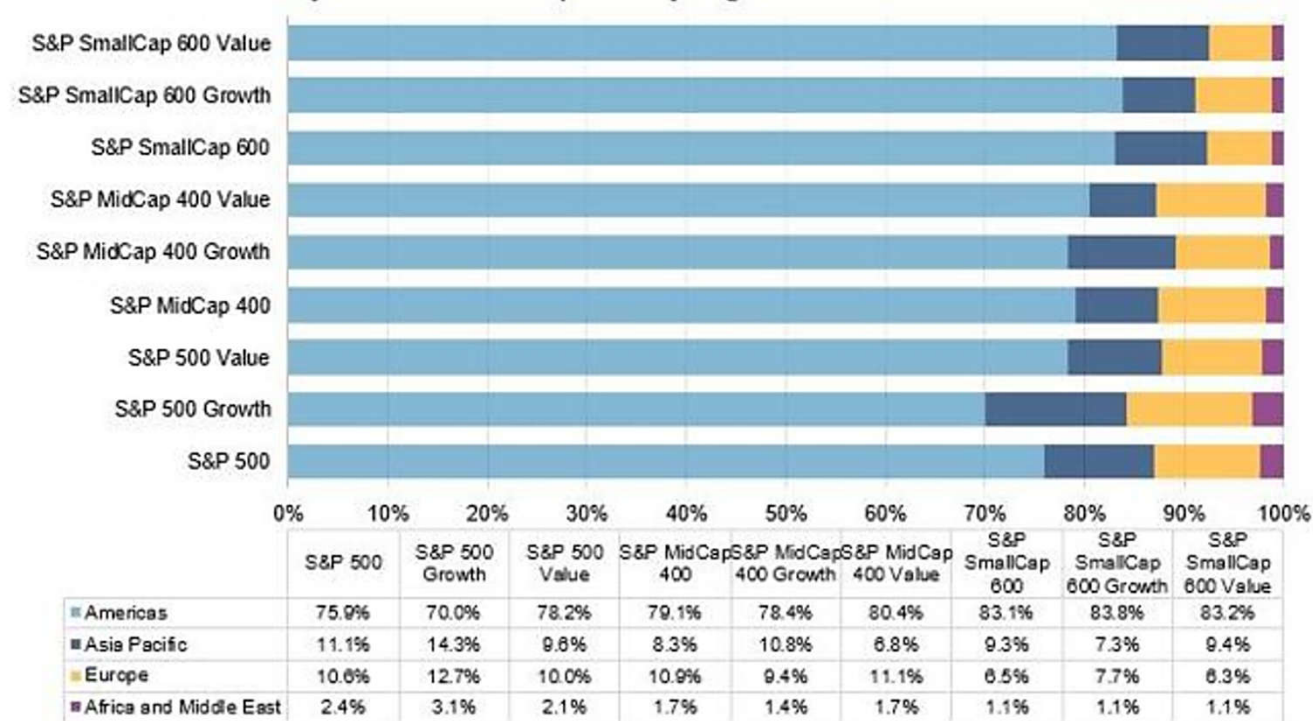
Appendix

- Additional International Data
- Candor Asset Advisors equity strategies & performance
- Bill Hawes biography

Additional International Data

S&P companies derive 70-83% of their revenues from the Americas

Exhibit 1: Investment Style Box Revenue Exposure by Region



Source: Brzenk, Phillip. "How Global Are The S&P 500®, The S&P MidCap 400®, And The S&P SmallCap 600® Style Indices?". Mar. 1, 2018

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Source: S&P Dow Jones Indices LLC, FactSet. Data as of Dec. 29, 2017. Companies without any available geographic data and partial revenues assigned to Unknown/No Operations regions are excluded from the chart. Chart is provided for illustrative purposes.

Top 10 countries in international developed and emerging market indices; South Korea's classification varies and China will grow in importance

Top 10 Countries in Competing International Developed ETFs		
ETF	Vanguard FTSE Developed Markets ETF	iShares MSCI EAFE ETF
ETF Ticker	VEA	EFA
Benchmark	FTSE Developed All Cap ex US Index	MSCI EAFE Index
Japan	22.3%	24.2%
United Kingdom	15.2%	17.2%
France	8.4%	11.1%
Canada	8.4%	0.0%
Germany	7.9%	9.5%
Switzerland	6.8%	8.2%
Australia	6.1%	6.6%
South Korea	4.5%	0.0%
Hong Kong	3.2%	3.4%
Netherlands	3.0%	3.4%
Spain	2.5%	3.0%
Sweden	2.6%	2.7%
Total of Top 10	63.5%	65.2%
Expense Ratio	0.07%	0.32%
As of Date	8/30/2018	9/20/2018

Top 10 Countries in Competing Emerging Market ETFs		
ETF	Vanguard FTSE Emerging Markets ETF	iShares Core MSCI Emerging Markets ETF
ETF Ticker	VWO	IEMG
Benchmark	FTSE Emerging Markets All Cap China A Inclusion Index	MSCI Emerging Markets Investable Market Index
China	34.6%	28.8%
South Korea	0.0%	15.3%
Taiwan	15.1%	13.0%
India	12.0%	9.6%
South Africa	6.7%	5.9%
Brazil	6.5%	5.8%
Thailand	4.0%	2.7%
Russia	3.5%	3.3%
Malaysia	3.3%	2.6%
Mexico	3.6%	3.2%
Indonesia	2.1%	2.0%
Total of Top 10	91.4%	90.3%
Expense Ratio	0.14%	0.14%
As of Date	8/31/2018	8/31/2018

Source: Vanguard and iShares fund websites

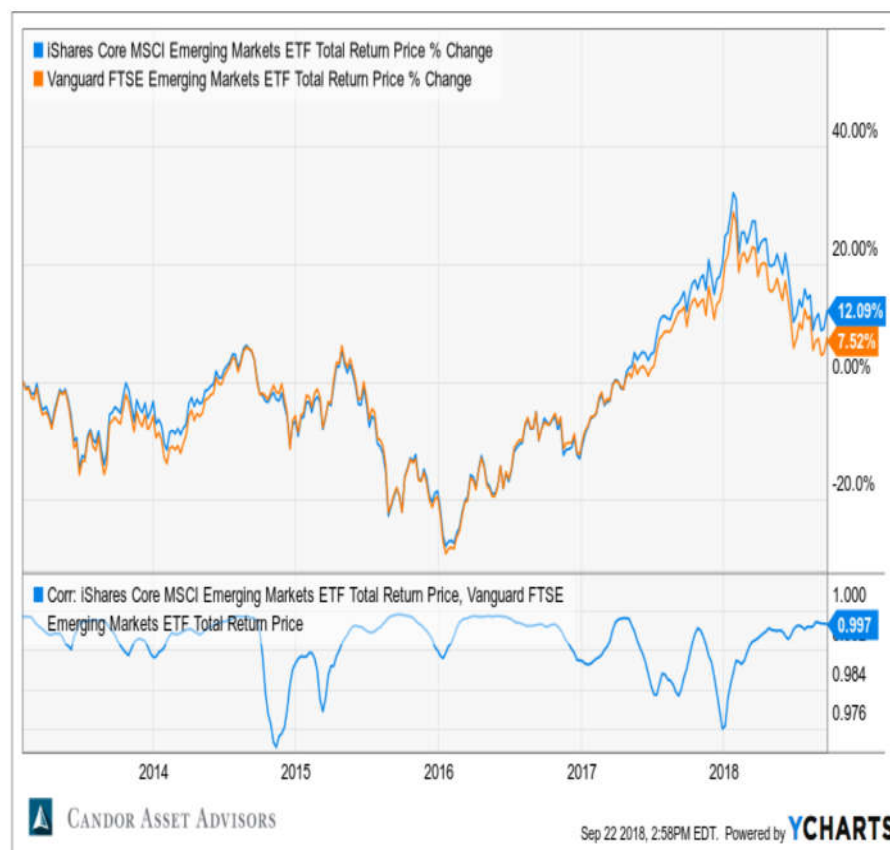
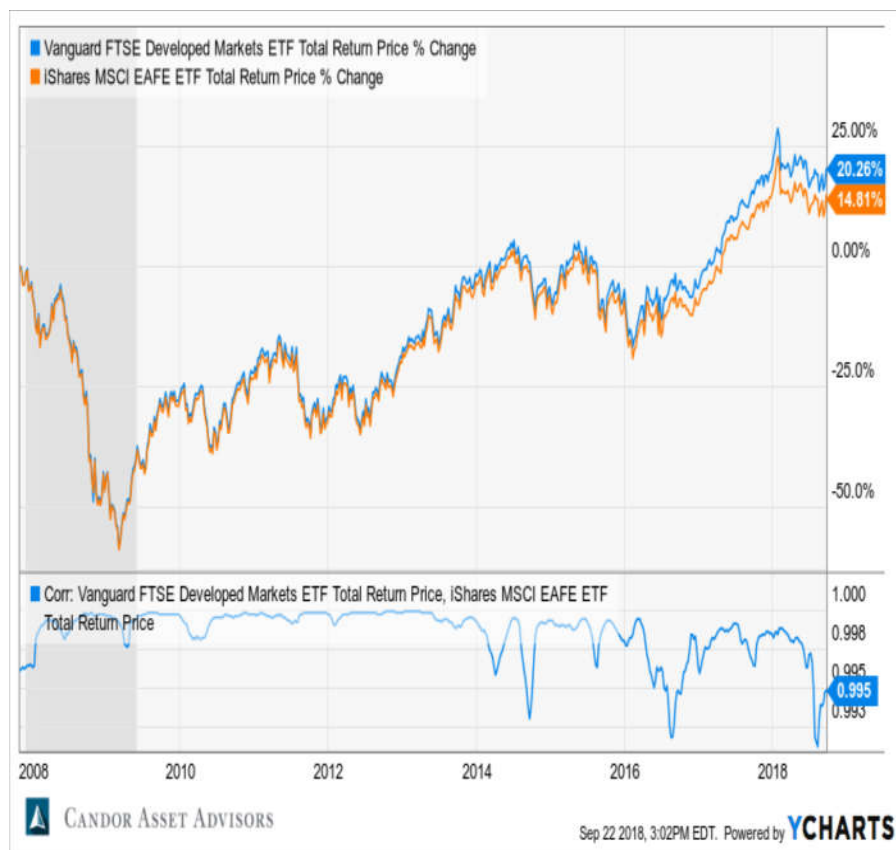
MSCI stock market classifications

MSCI ACWI & FRONTIER MARKETS INDEX										
MSCI ACWI INDEX						MSCI EMERGING & FRONTIER MARKETS INDEX				
MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX			MSCI FRONTIER MARKETS INDEX				
DEVELOPED MARKETS			EMERGING MARKETS			FRONTIER MARKETS				
Americas	Europe & Middle East	Pacific	Americas	Europe, Middle East & Africa	Asia	Americas	Europe & CIS	Africa	Middle East	Asia
Canada United States	Austria Belgium Denmark Finland France Germany Ireland Israel Italy Netherlands Norway Portugal Spain Sweden Switzerland United Kingdom	Australia Hong Kong Japan New Zealand Singapore	Brazil Chile Colombia Mexico Peru	Czech Republic Egypt Greece Hungary Poland Qatar Russia South Africa Turkey United Arab Emirates	China India Indonesia Korea Malaysia Pakistan Philippines Taiwan Thailand	Argentina	Croatia Estonia Lithuania Kazakhstan Romania Serbia Slovenia	Kenya Mauritius Morocco Nigeria Tunisia WAEMU ²	Bahrain Jordan Kuwait Lebanon Oman	Bangladesh Sri Lanka Vietnam
MSCI STANDALONE MARKET INDEXES ¹										
				Saudi Arabia		Jamaica Panama ³ Trinidad & Tobago	Bosnia Herzegovina Bulgaria Ukraine	Botswana Ghana Zimbabwe	Palestine	

Source: <https://www.msci.com/market-classification>

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

The main international MSCI and FTSE indices move together



Source: YCharts

Past performance is not a guarantee or predictor of future performance.

The data assumes reinvestment of all income and does not account for taxes or transaction costs

China A Shares are being added to MSCI emerging market indices over time; FTSE started this in 2015

June 2018

- 226 stocks were added

September 2018

- 10 stocks were added

As of today only 5% of the China A shares weighting has been added

	Now	Eventually	MSCI Index
China*	31.5%	25.8%	Emerging Markets
<u>China A^</u>	<u>0.8%</u>	<u>16.2%</u>	<u>Emerging Markets</u>
Total	32.3%	42.0%	Emerging Markets
Taiwan	11.7%	12.7%	Emerging Markets

China A shares are listed on Shanghai and Shenzhen, trade in renminbi, and only available to China citizens and qualified foreign investors

China H shares are traded in Hong Kong and Shanghai, trade in Hong Kong dollars, and available to all investors

Source: Pisani, Bob. "Here's why you will own more China stocks in the near future." *CNBC*. 8/31/18, *Investopedia*

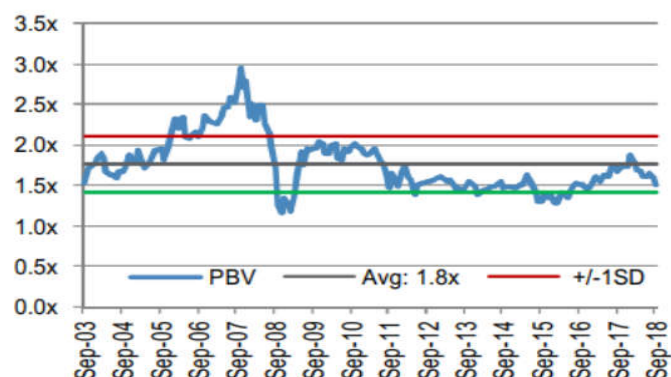
This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index

Emerging markets valuations look average to attractive

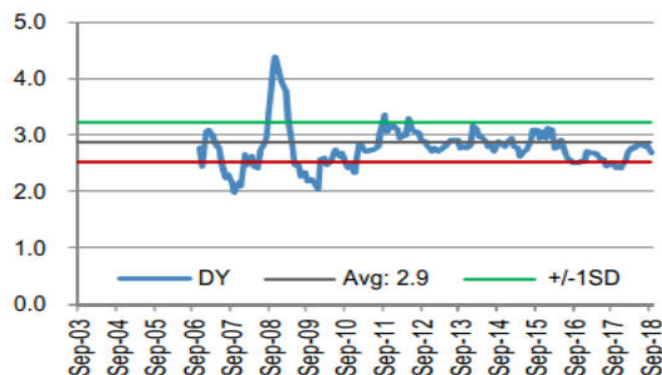
Versus their own history

Versus the US over time

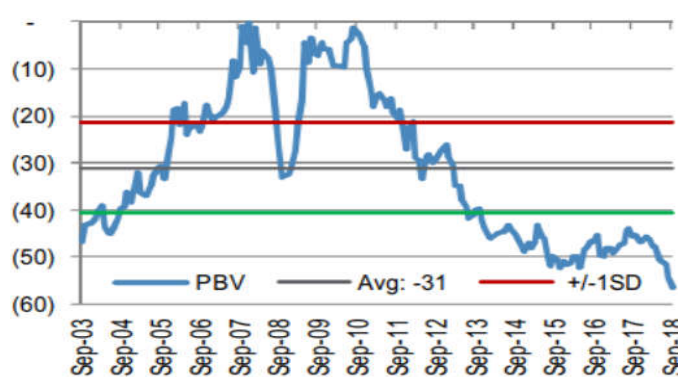
EM - P/BV vs hist. average



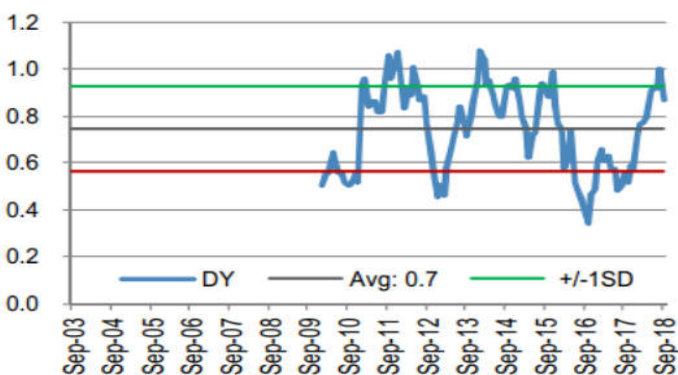
EM - DY vs hist. average %



EM - P/BV vs USA



EM - DY vs. USA %



Source: "Key Trades and Risks." JP Morgan. 9/18/18
P/BV = Price/Book Value, DY = Dividend Yield

Past performance is not a guarantee or predictor of future performance.

A year before yield curve inversions international stocks usually do well

Performance one year before US yield curve (10 year – 3 month) inverted

Date of US Yield Curve Inversion	MSCI World	MSCI USA	MSCI EAFE	MSCI EAFE Small cap	MSCI Emerging Markets
6/1/1973	1.7%	-8.5%	17.2%	-	-
11/1/1978	20.0%	5.2%	39.5%	-	-
10/24/1980	26.8%	25.3%	25.6%	-	-
5/31/1989	11.7%	22.2%	7.1%	-	43.6%
7/13/2000	10.7%	6.0%	14.0%	8.1%	7.7%
7/31/2006	14.3%	5.3%	24.6%	20.0%	28.7%
Average	14.2%	9.3%	21.3%	14.1%	26.7%

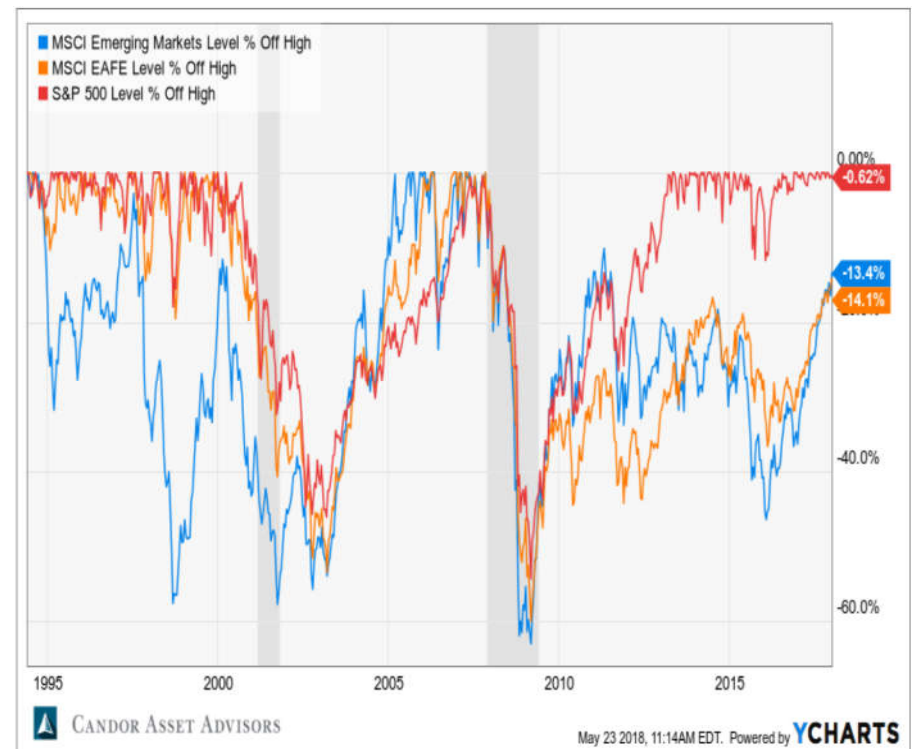
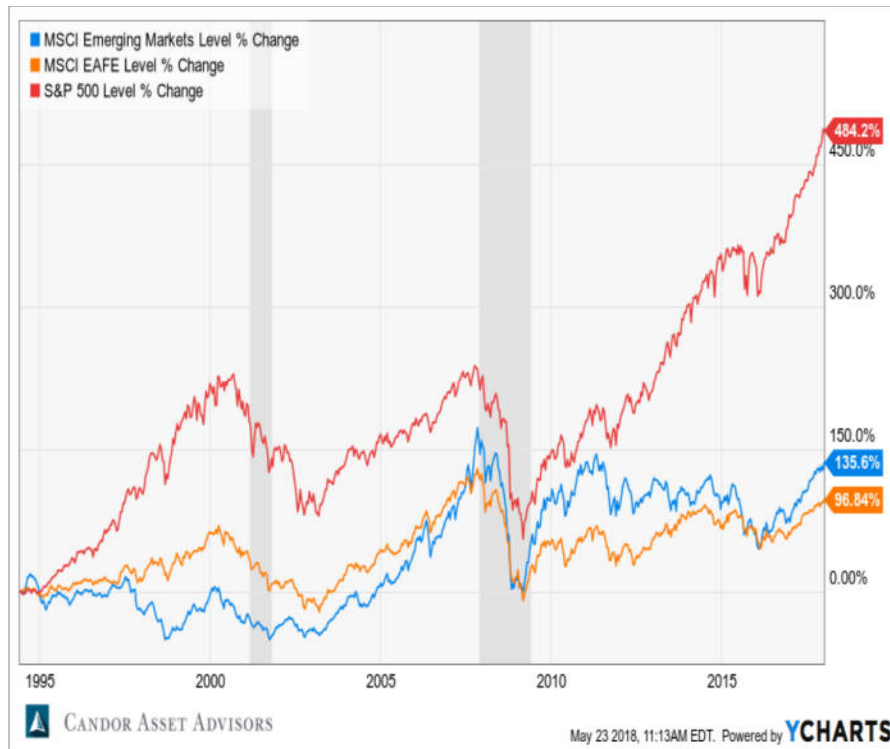
Performance presented from inception of MSCI EAFE Small Cap Index and MSCI Emerging Markets Index. Source: Charles Schwab, Bloomberg data as of 9/16/2018. Past performance is no guarantee of future performance.

The yield curve measures the difference between 10 year US government debt and short term US debt

Source: Kleintop, Jeffrey. "Emerging Market Stocks: What We Are Watching." *Charles Schwab*. 9/17/18

The data assumes reinvestment of all income and does not account for taxes or transaction costs. An investment cannot be made directly in an index.

Bear markets are often more stressful on emerging markets;
A bear market could be around the corner



Source: YCharts

Past performance is not a guarantee or predictor of future performance.

The data assumes reinvestment of all income and does not account for taxes or transaction costs

Diversification does not eliminate the risk of experiencing investment losses.

Enhanced index equity factors explained

Well-known systematic factors from academic research					
Systematic factors	What it is	Commonly captured by	Rationale	Source & Start/End Data	Average Annual Excess Return By Source
Value	Captures excess returns to stocks that have low prices relative to their fundamental value	Book to price, earnings to price, book value, sales, earnings, net profit, dividends and cash flow	Value stocks are under appreciated by investors. Investors want to say they invested in the current era's growth stories.	Fidelity 1986-1Q 16, Fama & French 1926-2016	3.4%, 1.8%
Size/Small cap	Captures excess returns of smaller firms (by market capitalization) relative to their larger counterparts	Market capitalization (full or free float)	Smaller firms are under followed relative to larger firms. Smaller firms have greater bankruptcy risk	Fidelity 1986-1Q 16, Fama & French 1926-2016	.8%, 2.1%
Dividend yield	Captures excess returns to stocks that have higher-than-average dividend yields	Dividend yield	Investors consistently under appreciate how much dividends contribute to total returns	Fidelity 1986-1Q 16, Jeremy Siegel 1957-2012	2.5%, 2.4%
Quality	Captures excess returns to stocks that are characterized by low debt, stable earnings growth and other 'quality' metrics	ROE, earnings stability, dividend growth stability, strength of balance sheet, financial leverage, accounting policies, strength of management, accruals, cash flows	Higher quality firms possess competitive moats/advantages that enable these firms to outperform their peers	Fidelity 1986-1Q 16, Fama & French 1963-2016	1.4%, 2.9%
Momentum	Reflects excess returns to stocks with stronger past performance	Relative returns (3, 6, 12 months), historical alpha	Investors under estimate the persistence of superior performance	Fidelity 1986-1Q 16	1.6%
Low volatility	Captures excess return to stocks with lower than average volatility, beta and/or idiosyncratic risk	Standard deviation (1,2,3 years), downsize standard deviation, standard deviation of idiosyncratic returns, beta	Investors overpay for more volatile stocks in the pursuit of higher investment returns	Fidelity 1986-1Q 16	0.50%

Source: MSCI, Fidelity, Fama & French, Jeremy Siegel

Past performance does not guarantee future results. US average annual excess were achieved cited; Average annual excess return measures smart beta factors vs the broader market or the opposite factor (e.g., value vs growth, small cap vs large cap, high dividend yield vs low dividend yield, high vs low quality, positive vs negative momentum, low vs high volatility. Assumes reinvestment of income and no transaction costs or taxes. This data is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Candor Asset Advisors Equity strategies and performance

As of August 31, 2018

CANDOR ASSET ADVISORS, LLC
PASSIVE EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (USD) (Millions)	Composite Assets (USD) (Thousands)	Number of Accounts	Annual Performance Gross	Annual Performance Net	Benchmark Returns	Composite Dispersion	Composite 3 Yr Std Dev	Benchmark 3 Yr Std Dev	% Non-Fee Paying
2018*	6	429	≤5	0.43%	-0.23%	3.65%	N/A ¹	N/A ²	N/A ²	33.03%
2017	3	140	≤5	25.82%	24.57%	24.50%	N/A ¹	N/A ²	N/A ²	100.00%
2016**	2	112	≤5	0.91%	0.74%	3.03%	N/A ¹	N/A ²	N/A ²	100.00%

*Composite and benchmark performance are through 8/31/2018.

**Composite and benchmark performance are for the period 10/31/2016 through 12/31/2016

N.A.¹ - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

N.A.² - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for 2016, 2017, or 2018 due to less than 36 months of composite and benchmark data.

The Passive Equity Composite utilizes broad market Exchange-Traded Funds (ETFs) and/or mutual funds designed to replicate broad equity market indices with the goal of achieving diversification, low expenses and minimizing the potential for underperformance versus a broad market equity benchmark. This composite was created in August 2018.

The benchmark is the Vanguard Total World Stock ETF ("VT"), which aims to track the FTSE Global All Cap Index. VT includes both emerging and developed markets.

Candor Asset Advisors, LLC ("Candor"), is registered in Texas as a Registered Investment Adviser. The firm's list of composite descriptions is available upon request.

Candor claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Candor has not been independently verified.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using a model management fee of 1.00%, which is the highest investment management fee that may be charged for this composite. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite is 1.0%; however, actual investment advisory fees incurred by clients may vary.

CANDOR ASSET ADVISORS, LLC
ENHANCED EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (USD) (Millions)	Composite Assets (USD) (Thousands)	Number of Accounts	Annual Performance Gross	Annual Performance Net	Benchmark Returns	Composite Dispersion	Composite 3 Yr Std Dev	Benchmark 3 Yr Std Dev	% Non-Fee Paying
2018*	6	956	8	0.88%	0.21%	3.65%	N/A ¹	N/A ²	N/A ²	44.75%
2017**	3	136	≤5	19.83%	18.74%	20.87%	N/A ¹	N/A ²	N/A ²	100.00%

*Composite and benchmark performance are through 8/31/2018.

**Composite and benchmark performance are for the period 1/31/2017 through 12/31/2017

N.A.¹ - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

N.A.² - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for 2017 or 2018 due to less than 36 months of composite and benchmark data.

The Enhanced Equity Composite selects enhanced index ETFs and/or mutual funds in an attempt to achieve superior risk-adjusted returns. Enhanced index ETFs and funds offer the opportunity to accomplish this objective via a diverse portfolio and in a cost-effective way. Investment choices may be made based on investment characteristics (large cap, mid cap, small cap; dividend focus), investment style (growth, core or value), and business sectors. This composite was created in August 2018.

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CANDOR ASSET ADVISORS, LLC
ABSOLUTE VALUE EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (USD) (Millions)	Composite Assets (USD) (Thousands)	Number of Accounts	Annual Performance Gross	Annual Performance Net	Benchmark Returns	Composite Dispersion	Composite 3 Yr Std Dev	Benchmark 3 Yr Std Dev	% Non-Fee Paying
2018*	6	2,078	≤5	3.28%	2.59%	4.61%	N/A ¹	N/A ²	N/A ²	83.63%
2017	3	1,667	≤5	12.22%	11.11%	7.00%	N/A ¹	N/A ²	N/A ²	100.00%
2016**	2	1,594	≤5	6.31%	6.13%	1.13%	N/A ¹	N/A ²	N/A ²	100.00%

*Composite and benchmark performance are through 8/31/2018.

**Composite and benchmark performance are for the period 10/31/2016 through 12/31/2016

N.A.¹ - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

N.A.² - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for 2016, 2017, or 2018 due to less than 36 months of composite and benchmark data.

The Absolute Value Equity Composite's goal is to achieve investment returns consistent with the clients' absolute return objectives. The composite consists of 15-40 investment securities and cash equivalents. Because of the buying discipline to accumulate shares only when each investment security offers compelling investment return prospects, portfolios in the Absolute Value Composite may hold larger cash equivalent positions than portfolios whose target is to be fully-invested. There are no restrictions on the levels of cash this strategy may hold, and there is no time period in which this strategy must be predominately invested in equities. Holdings are expected to possess a strong balance sheet and be trading at an attractive discount to their worth based on cash flow generation prospects or asset value. US based companies are expected to represent a significant percentage of the strategy. This composite was created in August 2018.

The benchmark is an absolute annual return goal of 7%.

Candor Asset Advisors, LLC ("Candor"), is registered in Texas as a Registered Investment Adviser. The firm's list of composite descriptions is available upon request.

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Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using a model management fee of 1.00%, which is the highest investment management fee that may be charged for this composite. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite is 1.0%; however, actual investment advisory fees incurred by clients may vary.

CANDOR ASSET ADVISORS, LLC
RELATIVE VALUE EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (USD) (Millions)	Composite Assets (USD) (Thousands)	Number of Accounts	Annual Performance Gross	Annual Performance Net	Benchmark Returns	Composite Dispersion	Composite 3 Yr Std Dev	Benchmark 3 Yr Std Dev	% Non-Fee Paying
2018*	6	206	≤5	6.13%	5.42%	9.71%	N/A ¹	N/A ²	N/A ²	100.00%

*Composite and benchmark performance are through 8/31/2018.

N.A.¹ - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

N.A.² - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for 2018 due to less than 36 months of composite and benchmark data.

The Relative Value Equity Composite's goal is to achieve investment returns consistent with or greater than the S&P 500 over time. The Relative Value Equity Composite consists of 15-40 investment securities, ETFs and cash equivalents. Because the goal is to perform in line with or greater than the S&P 500 over time, the strategy will be close to fully invested most of the time. Stock holdings are expected to possess a strong balance sheet and be trading at an attractive discount to their worth based on cash flow generation prospects or asset value. US based companies are expected to represent a significant percentage of the composite. The Adviser may invest in exchange traded funds (ETFs) to gain sector, industry, geographic exposure not obtained through individual stocks. This composite was created in August 2018.

The benchmark is the SPDR S&P 500 ETF Index ("SPY"), which aims to produce performance similar to the S&P 500.

Candor Asset Advisors, LLC ("Candor"), is registered in Texas as a Registered Investment Adviser. The firm's list of composite descriptions is available upon request.

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Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using a model management fee of 1.00%, which is the highest investment management fee that may be charged for this composite. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite is 1.0%; however, actual investment advisory fees incurred by clients may vary.

William E. Hawes, CFA
President & Chief Investment Officer

With over 17 years of industry experience, Bill brings a wealth of knowledge in investment management. Prior to earning his MBA, Bill worked in mortgage banking and insurance, and the insights gained provided him with a broader perspective of the financial issues facing clients.

Bill has been a Chartered Financial Analyst since 2000 and is a member of the CFA Society of Austin. Bill also enjoys golf, travel, studying history, watching his favorite sports teams and spending time with family.



Before founding Candor Asset Advisors, LLC, Bill co-created and managed Century Management's Large Cap Absolute Value and Large Cap Value strategies. Bill also analyzed companies in a variety of industries for the firm's all cap value strategy.

Prior to moving back to Texas, Bill served as an equity analyst for Engemann Asset Management in Southern California. He co-managed a mid-cap growth fund and served as an multi-sector analyst for the mid cap and large cap growth team.

After graduate school, Bill served as co-portfolio manager and equity analyst at Franklin Templeton. While there he served as portfolio manager on All Cap, Large Cap Core and Consumer Sector portfolios. Notable institutional clients included CalPers, Mitsui Trust, Norges Bank and Penn Mutual. He also spent considerable time analyzing auto, transportation and consumer stocks.

Bill earned his Master in Business Administration from the University of Southern California. While there he also served on USC's MBA student investment fund.

Between his graduate and undergraduate studies, Bill worked at North American Mortgage Company in California as a management trainee and later as a financial analyst and marketing coordinator. The experience gave him a better understanding of the mortgage and real estate markets which he leverages to this day.

Bill earned his Bachelor of Business Administration from the University of Texas at Austin. While a student, he also served as a special agent for Northwestern Mutual. The experience gave him an understanding of life and disability insurance and the work ethic, tools and temperament needed to grow a financial services practice.



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Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.