Market Summary

The US Equity markets wrapped up another positive if unspectacular quarter. The major US Indexes have now all posted relatively mundane, but positive returns year to date. With markets looking relatively fairly valued by our calculations, it will be interesting to see how stocks react to geopolitical uncertainty coupled with a Federal Reserve rate hiking cycle in the back-half of the year.

With all of those factors at play, the Regal Total Return Fund posted a positive quarter helping investors to participate in the stock market's tepid rebound.

A Look at Growth vs. Value

Investing has been all about *growth* over the past year. Investors are obsessed with the 'G' word.

In contrast, the art of uncovering value has been largely forgotten. Value stocks are massively out of favor. Concepts such as "margin of safety" and "book value" are being completely ignored.

Investors that have shunned financials, utilities, and energy stocks to load up on fast-growing tech stocks have been rewarded up to now. The gains have been impressive.

However, if you're considering adding more growth to your portfolio, I'd urge you to stop and look at the bigger picture.

The divergence in the performance between growth stocks and value stocks has reached a *dangerous level*.

Eventually, we are going to see a reversion and I think that could happen sooner, rather than later.

Here's why it may be time to consider to cash out of growth and start buying value.

A Decade of Growth

In 2017, growth stocks outperformed value stocks by a huge margin.

For the year 2017, the S&P 500 Value index returned 12.6%, while the S&P 500 Growth index returned 25.4%.

Growth gains were driven by investors' insatiable demand for the FAANGs (Facebook, Apple, Amazon, Netflix & Alphabet's Google) which powered higher. I don't need to remind you how overpriced some of these stocks are. Investors have forgotten about risk.

Yet it's not just the last year in which growth has crushed value.

It's been happening for a decade now.

Over the last decade (as of 12/31/17), the S&P 500 Value index has returned an annualized 6.8% per year. In contrast, the S&P 500 Growth index has returned 10%. That's a significant difference.

The result is that growth stocks now look *massively overvalued* relative to value stocks. The last time growth outperformed value like this was the dot-com boom. And we all know how that ended.

"Is Value Dead?"

Value investing is so out of favor right now that a recent Goldman Sachs report actually asked whether it was dead. Can you believe it?

The report stated that value investors are seeing the longest dry spell since the Great Depression. It also said that future returns from value stocks will likely be lower than the historical average.

Call me a contrarian, but that kind of sentiment piques my interest.

I remember similar sentiment toward stocks in general at the height of the Global Financial Crisis. By early 2009, stocks had been trending down for over a year. The S&P 500 was hovering around the 700-point mark.

It was at this stage that investors began questioning whether stock market investing was dead. The "buy and hold" strategy was over they said. I wonder what those pundits would say about the near 300% rebound since.

History Shows That Value Trumps Growth

Value investing is not dead.

And the lack of interest in value stocks will not last forever.

While growth has dominated over the last decade, a look back further reveals that value has been the clear winner over the long term.

For the 90-year period between 1926 and 2016, value stocks returned 17% per year vs. 12.6% for growth stocks, according to Bank of America. Value stocks outperformed growth stocks 60% of the time during that period.[1]

This leads me to believe that at some stage there will be a reversion, because the gap between growth and value is now extreme.

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[1] Source: 2016 BofA Merrill Lynch Global Investment Strategy

Now is the time to think about preparing your portfolio.

Don't be that investor who gets crushed when the market suddenly realizes just how insanely overvalued growth stocks have become.

Please note: The views in this material are intended to assist readers in understanding certain investment methodology and do not constitute investment. Please consult your advisor. The views in this material were those of the author as of the date of publication and may not reflect their view on the date this material is first published or any time thereafter.

DISCLOSURES:

The S&P 500 Index is used to gauge large-cap U.S. equities. It includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The S&P 500 Value Index measures value stocks using three factors: the ratios of book value, earnings and sales to price. Constituents are drawn from the S&P 500.

The S&P 500 Growth Index measures growth stocks using three factors; sales growth, the ratio of earnings change to price, and momentum. Constituents are drawn from the S&P 500.

Securities in the Funds do not match those in the indexes; performance of the Fund will differ. You cannot invest directly into an index. For current Fund performance, please visit http://www.regaltrx.com for our current factsheet. *Past Performance Does Not Guarantee Future Results.*

RISKS:

There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

Emerging Markets securities tend to be more volatile and less liquid than securities in developed countries. Foreign Securities involve risks related to adverse political and economic developments unique to a country or region, currency fluctuations or controls. The Fund invests in exchange traded funds (ETFs) which are securities of other investment companies. An ETF seeks to track the performance of an index by holding all, or a sampling, of the securities of that index, and may not be able to exactly replicate the performance it seeks to track. Shareholders of the Fund bear their proportionate share of the other investment company fees and expenses as well as their share of the Fund fees and expenses. **Small-cap and Mid-cap** company stocks are considered riskier than large-cap stocks due to greater potential volatility and less liquidity.

An investor should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, please contact your financial advisor or please call 844.66.REGAL(73425). Please read the prospectus carefully before investing.

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