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RFA
Reilly Financial Advisors

WEALTH MANAGEMENT

Defensive Strategic Sector Rotation

True to their name, our **Defensive Portfolios** are defensive in nature. They were developed with the intention of providing more stability in volatile markets for those in retirement or unable to withstand excessive draw downs in the value of their portfolios. Like our Core Portfolios, these portfolios adhere to general asset allocation principles and maintain adequate diversification to mitigate the risks coming from individual securities. They are also spread across all sectors of the economy in avoidance of over concentration in any one segment of the economy. Those are common themes among all of our portfolios, but the overall sector allocation of those portfolios and the individual stock selections within those sectors differentiate from the Defensive Portfolios as follows:

Sector Allocation:

The Defensive Portfolios are typically heavily overweight in the defensive sectors of the market as represented by the bottom third of the illustration on the second page, color coded in blue. The stocks in these sectors are generally less sensitive to the up and down cycles of the economy as their products or services are viewed as necessities. Under the same premise, these portfolios are typically underweight in the more volatile sectors of the market as represented by the top third of the illustration on the second page, color coded in yellow. The stocks in these sectors are generally more sensitive to the up and down cycles of the economy and their products or services may be viewed as non-essential or critically tied to economic expansion. However, the illustration shows that all sectors of the economy are still represented in order to maintain essential diversification, but the overall allocation is significantly skewed towards those that are more conservative.

Stock Selection:

The Defensive Portfolios are comprised of stocks that have lower correlations to the movements of the market as measured by their Beta. The lower the Beta of each stock, the better the Beta of the total portfolio. The better the Beta of the portfolio, the less volatile it will be. Additionally, all stocks in these portfolios typically pay a dividend. Therefore the dividend yield of the portfolio is usually higher than that of the stock market overall. The higher the dividend yield, the more of an offset you have to declining markets. There is also an emphasis placed on quality of corporate balance sheets and earnings history. Generally more mature, stable businesses fit these criteria.

Portfolios of this nature tend to have a lower overall return when the markets are up, however in a down market they are designed to decline less. There is a trade-off of upside potential for more stability and ideally reduced downside. The defensive portfolios are intended for those who have finished building their nest egg and know that they have amassed enough to reach their goals and don't need the highest possible return. Consult with a Senior Wealth Advisor to determine if one of the Defensive Portfolios may be appropriate for your individual financial situation.

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Defensive Equity Sector Weights

SECTOR	PORTFOLIO	S&P	OVER/ UNDER
Materials	2.16%	3.00%	-0.84%
Consumer Discretionary	8.38%	11.80%	-3.42%
Financials	5.95%	14.60%	-8.65%
Real Estate	2.43%	3.00%	-0.57%
Telecomm Services	4.32%	2.20%	2.12%
Energy	8.11%	6.10%	2.01%
Industrials	13.78%	10.20%	3.58%
Information Technology	11.35%	23.30%	-11.95%
Consumer Staples	21.08%	8.20%	12.88%
Healthcare	14.05%	14.50%	-0.45%
Utilities	8.38%	3.10%	5.28%

* As of 10/22/2017

More Cyclical

Less Cyclical

Honesty | Truthfulness | Reliability | Caring