Below is a snapshot of last week's market performance and what to watch in the week ahead from Chadd Mason, Cabana CEO and co-founder.

I would like to start this week's commentary off by thanking all of our clients for their support and trust in us. I got into this business because of a series of unfortunate events that occurred when my family trusted a professional adviser and bank. I saw my grandfather's estate cut in half during the 2000-2002 bear market. I truly believed that there was a better way, and I was going to find it. We have spent the better part of the past two decades working to do just that. A lot of so-called professional advisers tout their abilities and smarts, whether they work for big famous firms, or have the latest mousetrap, but at the end of the day the proof is in the pudding. Everyone is a genius when markets are going up. The true test of an adviser's worth is when things get tough - like really tough. At Cabana, we built everything we do with this in mind. So first and foremost, I want to say how much I appreciate you being our partner in this greatest of endeavors called investing. Now let's talk numbers and the state of the current market.

According to Deutsche Bank, 2018 officially has been the worst year for investors of all types and across all investments since 1901, when such records started being kept. You read that correctly – this year has been worse than 2008, worse than 2002, and worse the Great Depression. Below is a Bloomberg and Morgan Stanley chart of asset class performance over the past 15 years (Exhibit 1), which provides a good visual depiction of what I am talking about. As you can see, EVERYTHING is in the red. The investments at the bottom did the worst and the ones at the top did the best (relatively speaking). I have commented on this over the past few weeks and things have just gotten worse - a lot worse! As of market close on Christmas Eve, the U.S. stock market was down 21% since October 1. It was down 16% in December and 10% in the past week alone. Huge widely held stocks like Apple, Google and Facebook are down 37%, 24% and 43% from highs made in the second half of this year. This now qualifies as tough - really tough.

Exhibit 1: 2018: A historically bad year

Ranking	2004	2005	2006	2007	2008	2009	2010	2011
1	REITS	MSCI EM	MSCI China	MSCI China	US 10yr	MSCI EM	REITS	US 10yr
2	MSCI EM	Commodities	REITS	MSCI EM	US 2yr	MSCI China	Russell 2000	Inflation Bonds
3	MSCI Europe	MSCI Japan	MSCI Europe	Commodities	US Agg. Bond	Global HY	Commodities	EM$Sov Credit
4	Russell 2000	MSCI China	MSCI EM	MSCI Europe	EM Local Debt	US HY	MSCI EM	US IG
5	MSCI Japan	EM$Sov Credit	Russell 2000	Inflation Bonds	US IG	Commodities	MSCI Japan	US Agg. Bond
6	Inflation Bonds	REITS	S&P 500	US 10yr	Inflation Bonds	MSCI Europe	US HY	REITS
7	Global HY	MSCI Europe	Commodities	US 2yr	EM$Sov Credit	EM$Sov Credit	S&P 500	US HY
8	Commodities	S&P 500	Global HY	US Agg. Bond	US HY	REITS	Global HY	Global HY
9	EM$Sov Credit	Russell 2000	US HY	EM$Sov Credit	Global HY	Russell 2000	EM Local Debt	S&P 500
10	US HY	Global HY	EM$Sov Credit	S&P 500	Commodities	S&P 500	EM$Sov Credit	US 2yr
11	S&P 500	EM Local Debt	Inflation Bonds	US IG	MSCI Japan	US IG	US 10yr	EM Local Debt
12	US IG	US HY	MSCI Japan	EM Local Debt	Russell 2000	EM Local Debt	US IG	Russell 2000
13	US Agg. Bond	US Agg. Bond	US Agg. Bond	Global HY	S&P 500	Inflation Bonds	US Agg. Bond	Commodities
14	US 10yr	US 10yr	US IG	US HY	REITS	MSCI Japan	MSCI China	MSCI Europe
15	EM Local Debt	US IG	US 2yr	Russell 2000	MSCI Europe	US Agg. Bond	MSCI Europe	MSCI Japan
16	MSCI China	US 2yr	US 10yr	MSCI Japan	MSCI China	US 2yr	Inflation Bonds	MSCI EM
17	US 2yr	Inflation Bonds	EM Local Debt	REITS	MSCI EM	US 10yr	US 2yr	MSCI China

Ranking	2012	2013	2014	2015	2016	2017	2018
1	MSCI China	Russell 2000	REITS	MSCI Japan	Commodities	MSCI China	US 2yr
2	MSCI Europe	S&P 500	S&P 500	REITS	Russell 2000	MSCI EM	US HY
3	Global HY	MSCI Japan	US 10yr	US 10yr	US HY	MSCI Europe	US Agg. Bond
4	REITS	MSCI Europe	MSCI China	EM$Sov Credit	Global HY	MSCI Japan	US 10yr
5	MSCI EM	US HY	US IG	S&P 500	S&P 500	S&P 500	REITS
6	EM$Sov Credit	Global HY	EM$Sov Credit	US 2yr	MSCI EM	Russell 2000	US IG
7	Russell 2000	MSCI China	US Agg. Bond	US Agg. Bond	EM$Sov Credit	EM Local Debt	S&P 500
8	S&P 500	REITS	Russell 2000	US IG	REITS	Global HY	Global HY
9	US HY	US 2yr	Inflation Bonds	MSCI Europe	US IG	EM$Sov Credit	Inflation Bonds
10	EM Local Debt	US IG	US HY	Global HY	EM Local Debt	REITS	EM$Sov Credit
11	US IG	US Agg. Bond	US 2yr	Russell 2000	Inflation Bonds	Inflation Bonds	EM Local Debt
12	Inflation Bonds	MSCI EM	Global HY	US HY	MSCI Japan	Commodities	Commodities
13	MSCI Japan	Inflation Bonds	MSCI EM	Inflation Bonds	US Agg. Bond	US HY	Russell 2000
14	US Agg. Bond	EM Local Debt	EM Local Debt	MSCI China	MSCI China	US IG	MSCI Japan
15	US 10yr	US 10yr	MSCI Japan	EM Local Debt	US 2yr	US Agg. Bond	MSCI Europe
16	Commodities	EM$Sov Credit	MSCI Europe	MSCI EM	US 10yr	US 10yr	MSCI EM
17	US 2yr	Commodities	Commodities	Commodities	MSCI Europe	US 2yr	MSCI China

Source: Bloomberg, Morgan Stanley Research; Note: We compute annual returns minus US headline inflation. Green means returns (in USD) beat inflation, and red means returns trailed inflation. 2018 data as of December 17, 2018.

G. Chadd Mason
CEO, Cabana Holdings

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On August 20, I pointed out that the U.S stock market was the only market in the world that was holding up and the divergence between the U.S. equity market and other asset classes was the greatest in fourteen years. I worried that we had "a lot of weight pulling in the opposite direction." Something had to change. Either other asset classes had to catch up or the U.S. market would fall. Unfortunately, it was the latter, but it was no surprise to us and we were prepared. As of this writing we have reallocated all of our portfolios twice since then (once in early October and again last week). We do this so that we are continually working to take risk off the table as investment conditions deteriorate. The more conservative the portfolio, the quicker risk is removed during reallocations. We want to always stay invested, but rotate into those investments that perform relatively well in a bad environment. Even if no asset is making money, we always want to be in the things that are losing the least. Our ultimate objective is to keep our portfolios within their target drawdown number. This number ranges from 5% in our most conservative portfolio to 20% in our most aggressive portfolio. The number represents in percentage terms how much each portfolio can be expected to drop when things get tough, like really tough, like 2018 tough. We compute the change within each portfolio at the end of every month. It is this rather simple idea that makes us who we are and why I think you picked us as a partner. If we can manage risk, our clients stay invested, and over time are able to take advantage of improving market conditions. I believe this is a recipe for investing success. So, while the U.S. stock markets have fallen off a cliff and dropped more than 20% in the past 90 days we have been reallocating and protecting against losses, consistent with the target drawdown of our portfolios. Below is how Cabana's portfolios have performed since October 1 and YTD (through Monday, Dec. 24), net of all estimated fees and commissions, including up to a maximum 2% fee.

- Cabana Core Tactical Income 5 since October 1: -7.6%
- Cabana Core Tactical Income 5 YTD: -5.2%
- Cabana Core Tactical 7 since October 1: -7.5%
- Cabana Core Tactical 7 YTD: -6.9%
- Cabana Core Tactical 10 since October 1: -10.7%
- Cabana Core Tactical 10 YTD: -8.6%
- Cabana Core Tactical 13 since October 1: -14.1%
- Cabana Core Tactical 13 YTD: -12.9%
- Cabana Core Tactical 16 since October 1: -16.7%
- Cabana Core Tactical 16 YTD: -15.3%
- Cabana Core Tactical 20 since October 1: -15.7%
- Cabana Core Tactical 20 YTD: -14.9%

While we are not making money, we are losing a lot less than the broad U.S. and international equity markets. Just as importantly, we are staying within or around our target numbers, even in the worst investment conditions we have seen in a long, long time.

We have a week left of trading in the month and anything can happen, but I am extremely proud of what we have accomplished this year. I hope seeing this will provide some relief and perspective. We are not perfect, but I promise you we care and fight for you and your money every day.

I hope that everyone is taking some time to enjoy family and friends this holiday season. Those are always the things that matter most.

G. Chadd Mason
CEO, Cabana Holdings

Last week's market commentary is available for download here.

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