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# **The Concord Advisory Group, Ltd.**

## *January 2019 Market Highlights* *“Maximizing the Salary Cap”*

The Concord Advisory Group, Ltd.

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# Concord Advisory Group: January 2019 Market Highlights

## Commentary: “Maximizing the Salary Cap”

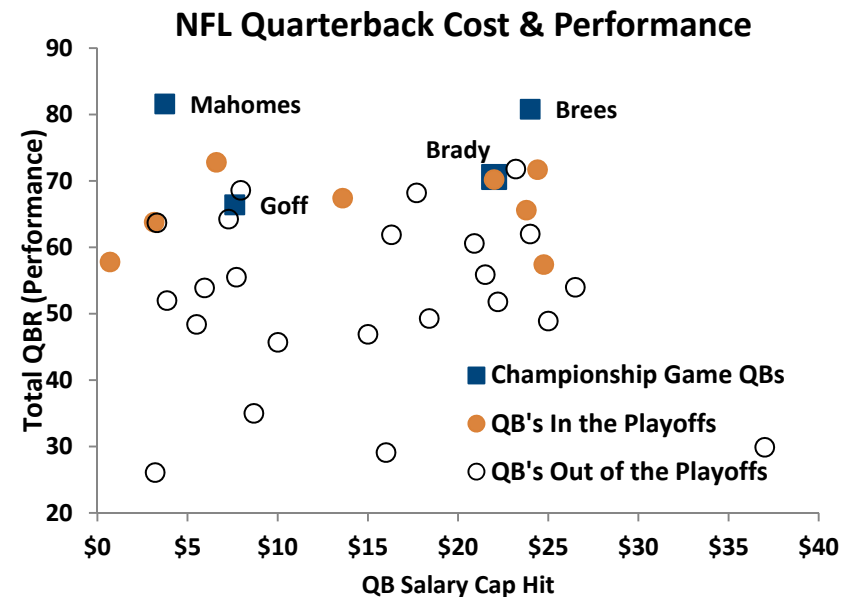


Quarterback is the most important position in football, and not surprisingly, the final four NFL playoff teams all had very strong quarterback play. In the NFL, league rules only allow teams to spend up to a salary cap. This forces teams to budget the amount they allocate to each position. The NFL’s collective bargaining agreement mandates that rookies be paid based on draft position, and they are often underpaid for the first few years of their careers relative to veteran players. One way to maximize a team’s roster strength under the NFL salary cap is to draft players that play in positions where salaries are highest for veteran players (QB, left tackle, and defensive end).

Many recent Super Bowl teams have won with QBs earning below market value. Last year, Philadelphia won by spending only \$8 million on QBs. Seattle made it to back-to-back Super Bowls in 2014 and 2015 with Russell Wilson on a rookie contract costing less than \$1 million per year against the salary cap. This year Jared Goff and Patrick Mahomes were bargains compared to their production. Even Tom Brady is a bargain; *Business Insider* estimates that the perennial Super Bowl great has forgone between \$60 and \$100 million in compensation over his career to allow the Patriots more flexibility to manage their salary cap.

In investing, there are market rules around which investors and investment managers can maximize their portfolio efficiency. Some of the most successful active investors attempt to “game” their benchmarks, especially in fixed income. Benchmark indexes have rules about the circumstances under which securities are added and deleted. Investing with consideration to these rules is a tool active managers use to outperform.

For investors, an important way to optimize a portfolio return is to obtain market exposure cheaply and only pay more for excess performance. Benchmark indices are usually constructed with respect to market capitalization such that the largest companies or the most indebted issuers have the highest weights. For equities, market cap-weighting has been hard to beat in large cap stocks, but easier in international and small caps. In fixed income, active managers can easily create portfolios with yield advantages and better efficiency than the government bond-heavy indexes. Just as NFL teams seek to optimize the salary cap in pursuit of a Super Bowl victory, investors too must decide how to efficiently allocate their fee budget to those managers best suited to deliver an MVP-like performance.

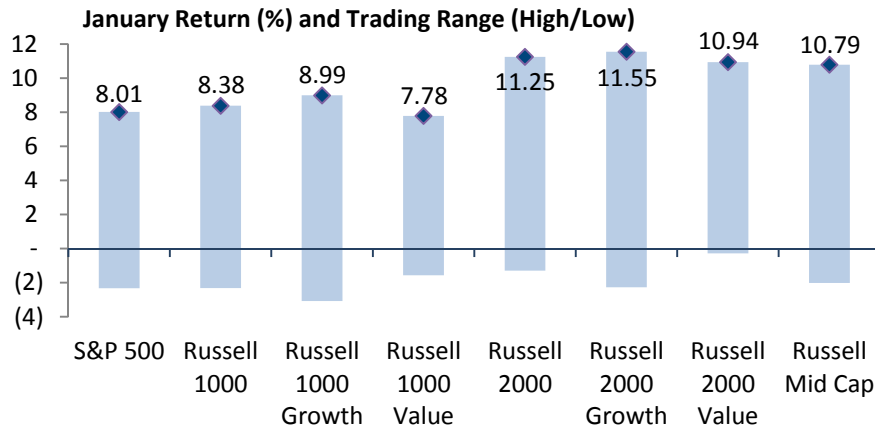


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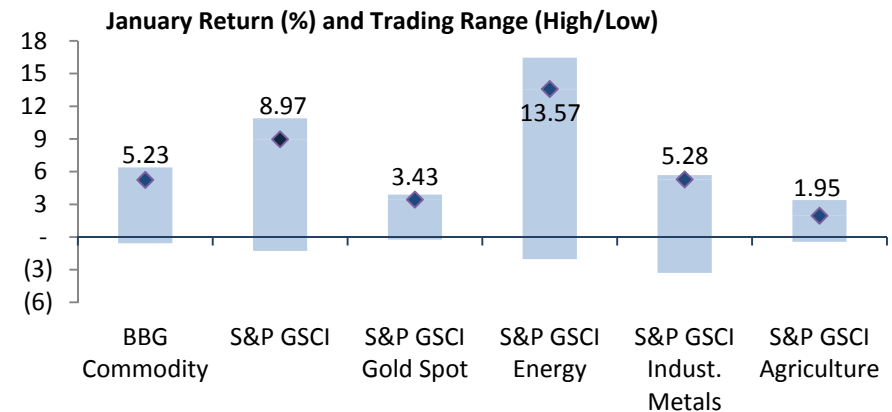
## Monthly Charts



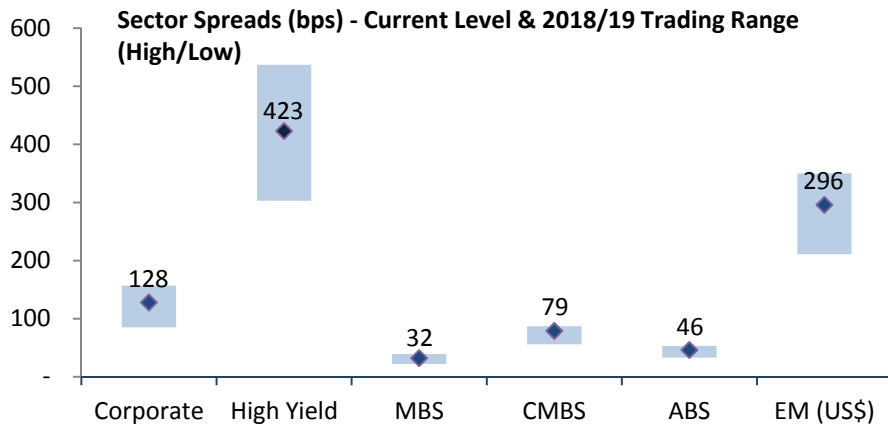
**U.S. Equities:** U.S. equities, led by banks and small caps, marked the strongest January in over 30 years, prompted by cautious commentary from the Federal Reserve and optimism around trade negotiations.



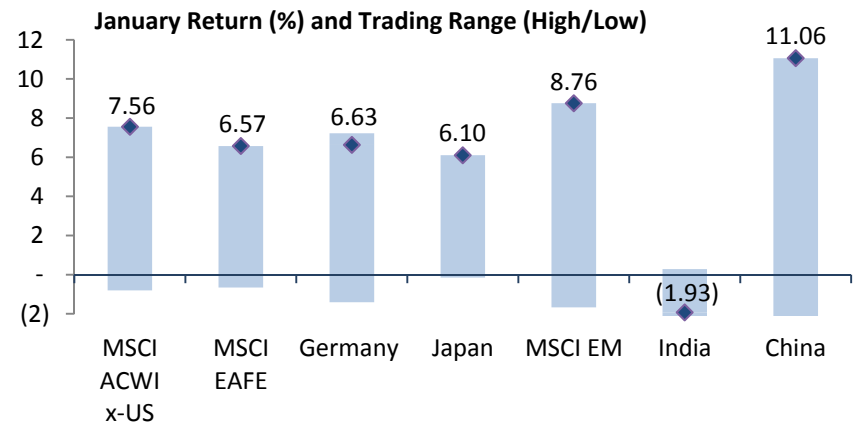
**Commodities:** U.S. oil prices moved higher, notching the best January return on record, providing a boost to broad commodities. Double digit percentage gains in nickel and zinc prices led metals higher.



**Fixed Income:** As risk asset markets calmed, interest rates modestly increased, and narrower credit spreads caused credit sectors to outperform.



**International Equities:** Non-U.S. developed equities were positive but lagged behind both domestic markets and emerging nations, which led on the heels of a weaker U.S. dollar.

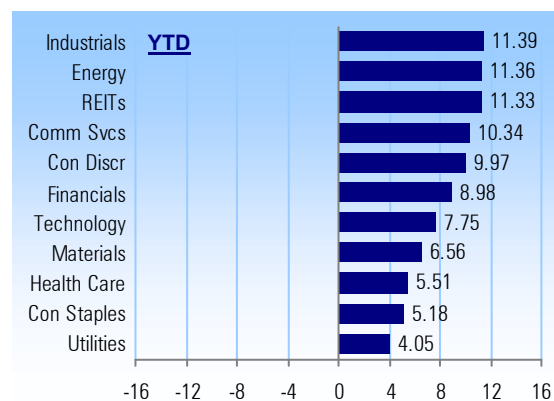
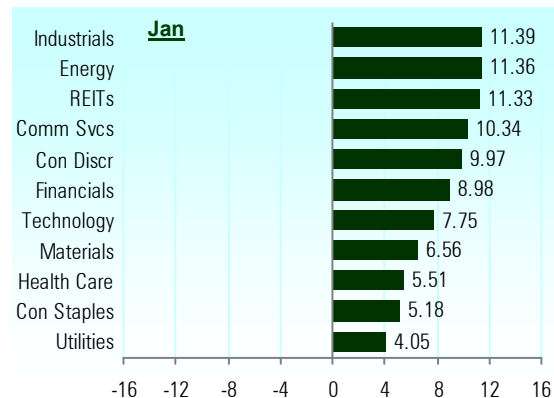


# Concord Advisory Group: January 2019 Market Performance

## Equity Markets

	Past Month	Past 3 Months	YTD	1 Yr	3 Yrs	5 Yrs
S&P 500	8.01%	0.26%	8.01%	-2.32%	14.02%	10.96%
Russell 1000	8.38%	0.51%	8.38%	-2.18%	14.14%	10.68%
Russell 1000 Growth	8.99%	0.67%	8.99%	0.24%	16.60%	12.97%
Russell 1000 Value	7.78%	0.34%	7.78%	-4.81%	11.62%	8.33%
Russell MidCap	10.79%	2.25%	10.79%	-2.90%	13.29%	8.89%
Russell 2000	11.25%	-0.41%	11.25%	-3.53%	14.71%	7.26%
Russell 2000 Growth	11.55%	0.06%	11.55%	-2.62%	15.56%	7.83%
Russell 2000 Value	10.94%	-0.90%	10.94%	-4.51%	13.76%	6.62%
MSCI ACWI	7.90%	1.77%	7.90%	-7.47%	11.63%	6.73%
MSCI World	7.78%	0.72%	7.78%	-6.54%	11.26%	6.94%
MSCI ACWI Ex-US	7.56%	3.66%	7.56%	-12.58%	9.59%	3.11%
MSCI EAFE	6.57%	1.27%	6.57%	-12.51%	7.74%	2.66%
MSCI EM	8.77%	10.24%	8.77%	-14.23%	14.89%	4.77%
Bloomberg Commodity	5.45%	-2.37%	5.45%	-8.23%	2.66%	-7.88%

## Equity Sector Returns (%)



## Equity Style Returns (%)

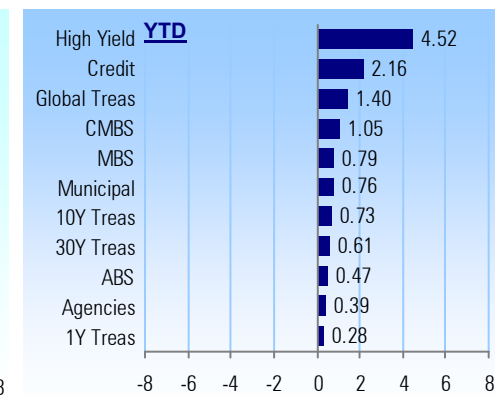
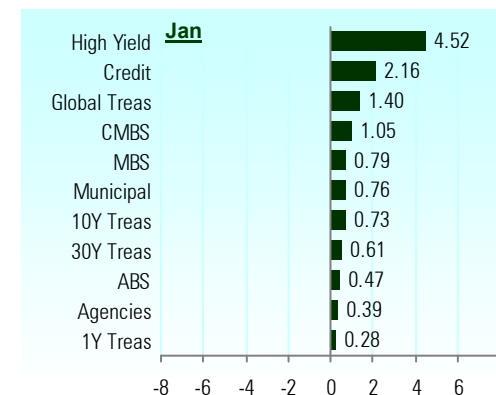
	Value	Core	Growth
Large	7.78	8.38	8.99
Mid	10.29	10.79	11.49
Small	10.94	11.25	11.55

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## Fixed Income Markets

	Past Month	Past 3 Months	YTD	1 Yr	3 Yrs	5 Yrs
Barclays Capital Aggregate	1.06%	3.53%	1.06%	2.25%	1.95%	2.43%
Barclays Capital Global Aggregate	1.52%	3.89%	1.52%	-0.88%	2.92%	1.17%
Barclays Capital Intermediate Aggregate	0.84%	2.97%	0.84%	2.86%	1.32%	1.39%
Barclays Capital Universal	1.38%	3.42%	1.38%	2.10%	2.65%	2.73%
Barclays Capital Government	0.47%	3.51%	0.47%	2.73%	0.88%	1.82%
Barclays Capital Credit	2.16%	3.62%	2.16%	0.94%	3.72%	3.30%
Barclays Capital Municipal	0.76%	3.10%	0.76%	3.27%	2.16%	3.58%
Barclays Capital High Yield	4.52%	1.40%	4.52%	1.73%	9.41%	4.61%
Barclays Capital Mortgage	0.79%	3.54%	0.79%	2.99%	1.54%	2.37%
Barclays Capital 1-3 Yr Gov/Credit	0.39%	1.47%	0.39%	2.27%	1.20%	1.07%
Citigroup 3-Month Treasury Bill	0.20%	0.59%	0.20%	1.95%	1.05%	0.64%
Citigroup World Govt Bond	1.41%	4.33%	1.41%	-1.06%	2.71%	0.79%
Barclays Capital U.S. TIPS	1.35%	2.39%	1.35%	0.94%	2.07%	1.57%
ML Invest Grade Convertible	3.56%	2.49%	3.56%	4.07%	15.44%	11.51%

## Fixed Income Sector Returns (%)



## Treasury Yield Curve

