ProEquities
listen, think, respond

QUARTERLY SPOTLIGHT

Third Quarter, 2018

Economic Response & Strategic Insights

Overview

The ProEquities Investment Committee is comprised of highly specialized market strategists with 69 years of combined financial services experience. This team meets regularly to discuss markets, review portfolios, and optimize investment strategies, ultimately developing the analysis and recommendations presented here.

We look forward to feedback and questions at: PESolutions@proequities.com

About ProEquities

ProEquities is an independent RIA with a broker/dealer helping advisors maximize their effectiveness and optimize business growth. Founded in 1985, this wholly owned subsidiary of Protective Life Corporation supports more than 700 independent financial advisors nationwide with headquarters in Birmingham, Ala.

In Brief

Most domestic equity indexes were extremely positive during the quarter. The S&P 500's performance was the strongest single quarter return in five years at 7.71%, putting it on track to finish its tenth consecutive year of positive returns. Despite this strong performance and the steady stream of positive financial news, investors feel cautious. On one hand the US administration's newest fiscal policies and de-regulations have led to some of the highest GDP and employment growth in many years. On the other hand the Federal Reserve Board Committee continues to move interest rates higher with no definitive stopping point, while bond investors have remained reluctant to accept the inevitability of higher, longer-term yields. S&P 500 companies continue to produce double-digit, year-over-year earnings, as they benefit from share buybacks and growth in top-line revenues. However the US has been in the middle of trade negotiations that have seemed more like pre-fight weigh-in sessions than an organized negotiation. This climate has created uncertainty in global markets.

The S&P 500 Index reached an all-time high on September 20, 2018, closing at 2,930.75. The index is up 10.56% year-to-date with essentially three quarters of that return realized in Q3. While the most recent leaders in the Consumer Discretionary and Technology sectors were higher, these groups finally gave up current leadership to Healthcare and Industrials. The NASDAQ Composite Index moved higher by a healthy 7.41% and closed the third quarter at 8,046.35. Technology stocks continue to be favorites among investors, although this was the first quarter where there was uncertainty about some of the major names driving that group. The Dow Jones Industrial Average outpaced most other equity markets with 9.63%. This is quite the reversal from the second quarter when the Dow lagged by a considerable margin against other domestic benchmarks.

As mentioned in the previous Quarterly Spotlight, the best way to make investors stay away from large, multi-national companies is to jump head first into a global trade war. Canada, Mexico, China, and the EU have held intense discussions with President Trump and his administration to create fairer trade deals for the US, as the US trade deficit runs approximately half a trillion dollars annually. The US administration has been successful this quarter in brokering tentative trade deals with Mexico and Canada. This was a surprise to many investors and ultimately led to the reversal of fortune for both large and small caps stocks. Small caps were prospering from global tension, but quickly turned lower as investors moved back to the large multi-nationals. With the potential for trade resolution, investors quickly snatched Dow-like stocks and the current favorite sectors, Consumer Discretionary and Technology.

EQUITIES: MOMENTUM CAN'T BE STOPPED

The hiccup in the financial markets at the start of the year has been mostly forgotten as the third quarter's blistering pace brought most major equity benchmarks into double-digit return territory. Economic growth appears not only to be stable, but actually accelerating, as the wide variety of qualitative and quantitative indicators blink green on the economic dashboard. In this environment, growth-oriented stocks found in sectors like Consumer Discretionary and Information Technology have been the real leaders of this market rally. Where much of this market has been driven by underlying fundamentals and earnings growth, more recent trends have really taken on the characteristics of a momentum run with investors chasing returns rather than making fundamentally-driven purchase decisions.

	Trailing Returns		
	3Q18	YTD	1 Year
Equities			
S&P 500	7.71%	10.56%	17.91%
Dow Jones Industrials	9.63%	8.83%	20.76%
Nasdaq Composite	7.41%	17.48%	25.17%
Russell 1000	7.42%	10.49%	17.76%
Russell Mid Cap	5.00%	7.46%	13.98%
Russell 2000	3.58%	11.51%	15.24%
MSCI EAFE	1.42%	(0.98%)	3.25%
MSCI EM	(0.95%)	(7.39%)	(0.44%)

Source: Morningstar Direct, as of 9/30/2018

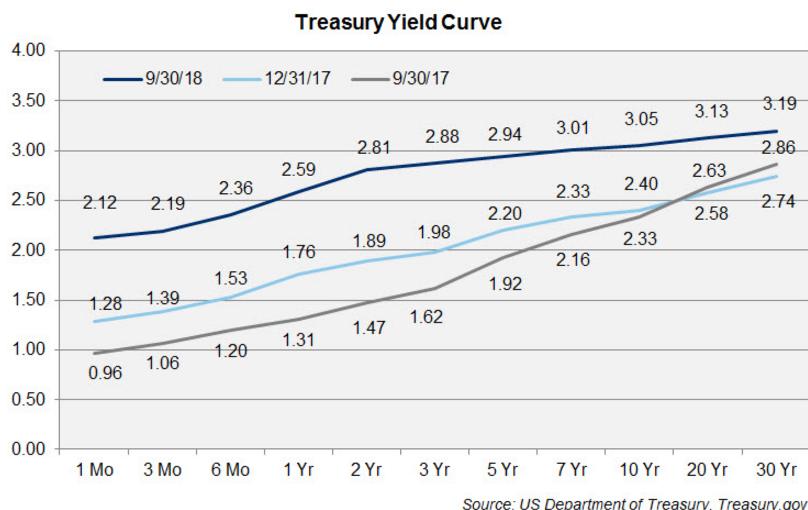
As mentioned, the S&P 500 Index had the strongest quarterly return since late 2013. With the year-to-date return sitting at a healthy 10.56%, it's

poised for 10 consecutive calendar years of positive performance. The Dow Jones Industrial Average struggled earlier in the year relative to its peer indexes, but the strong rally in large, multi-national growth companies allowed it to take the lead. The Dow was actually down until its recent performance pulled it up. The NASDAQ Composite Index put up the biggest return at 17.48% year-to-date, as these stocks have continued to drive higher with little resistance.

International markets have struggled during 2018 due in part to a strengthening dollar and ongoing trade tensions. Fears subsided somewhat during the third quarter, but overall performance has been poor this year. The MSCI EAFE made it back to positive territory, returning 1.42% this quarter and -0.98% year-to-date. The MSCI Emerging Markets Index was one of the few negative returning equity benchmarks during Q3, down -0.95%. Fear will continue to grip these markets until some kind of trade stability can be reached.

BONDS: FED REMAINS CONSISTENT WHILE INVESTORS FACE REALITY

The Federal Reserve Open Market Committee led by Fed Chairman Jerome Powell has been successful in keeping their measured approach to raising the federal funds rate. Bond investors are relenting to the notion that the economy is strengthening and that the Fed is quite serious about moving interest rates back to a "normal" historical level.



Source: US Department of Treasury, Treasury.gov

Someone eventually has to flinch — either (1) the Fed is going to realize they need to stop raising rates; or (2) long-term bond investors are going to finally begin pushing yields higher.

The Treasury yield curve has been flattening since the beginning of 2017, in part because investors believed the rate hikes would eventually lead to an economic slowdown and lower rates. As the economy strengthens and the Fed continues to raise interest rates, bond investors are realizing the inevitability of higher long-term yields. The September rate hike brought the target range for the federal funds rate up to 2.00-2.25%, which is a level last seen in March 2008.

The curve has moved definitively higher across all maturities this year. The shorter end of the curve has moved at a slightly quicker pace, creating some flattening. The average increase among all maturities has been 74 basis points. The largest maturity move was by the 2-year at 92 bps, and the smallest by the 30-year at 45 bps. Most yields moved at about the same pace, up on average by 25 basis points. The largest yield move was by the 1-month at 35 bps, and the smallest was a tie between the 7- and 10- year at 20 bps, both closing the quarter above 3.00%.

There was a steady continuation of modest positive returns, continuing a Q2 trend. These positive returns happened even as the fed funds rate increased by 25 basis points each quarter. Shorter-term bonds benefited, due to their lower interest rate sensitivities, along with corporate and high yield bonds. Government bonds didn't perform as well, based on their interest rate sensitivity. The Bloomberg Barclays Aggregate Bond Index squeaked out a positive 0.02% return, as positive corporate holdings were counterbalanced by longer duration governments. The BBgBarc US Govt/Credit 1-3 Year Index returned 0.33%, because the shorter duration and corporate holdings provided a less volatile investment. High yield bonds had the strongest returns for the quarter again. The BBgBarc US Corporate High Yield Index returned 2.40%, as the strong economy and the sector's lower interest rate sensitivity drove demand. International markets flip flopped this quarter with Developed Market bonds falling slightly and their Emerging Market counterparts managing a 1.61% positive return after two previous quarters of negative returns.

REAL ASSETS: INTEREST RATES HOLD THE KEY

Real Estate has had a volatile ride during 2018. The sector started sharply lower at the beginning of the year, primarily due to interest rates concerns; was up very strong during the second quarter because of relative valuations; and, most recently saw sideways action, as investors tried to discern their next move. The MSCI US REIT Index remained positive this quarter with a 1.09% return, while the Dow Jones Global Select REIT Index was lower slightly at -0.20%. The potential negatives from higher interest rates were balanced somewhat by strong economic news and the potential for Real Estate going forward.

Fixed Income Returns

	Trailing Returns		
	3Q18	YTD	1 Year
Fixed Income[1]			
Short Gov't / Credit	0.33%	0.41%	0.20%
US Aggregate Bond	0.02%	(1.60%)	(1.22%)
High Yield	2.40%	2.57%	3.05%
Global Aggregate Bond	(0.05%)	0.02%	0.82%
Emerging Markets	1.61%	(2.28%)	(1.68%)

Source: Morningstar Direct, as of 9/30/2018

Alternatives Returns

	Trailing Returns		
	3Q18	YTD	1 Year
Real Assets			
MSCI US REIT	1.09%	2.30%	3.74%
DJ Global Select REIT	(0.20%)	1.03%	4.69%
Bloomberg Commodity	(2.02%)	(2.03%)	2.59%
Brent Crude Oil Price	4.13%	23.70%	43.76%
Gold	(5.36%)	(8.72%)	(8.04%)

Source: Morningstar Direct, as of 9/30/2018

Commodities have struggled during 2018, as the Bloomberg Commodity Index registered its worst quarterly performance for the year at -2.02%, driven primarily by a stronger dollar and international trade tensions between the US and China. Higher US interest rates continue to drive the dollar higher against most global currencies which drives the prices of commodities higher. Commodities lost value during the quarter, even as the price of Brent Crude Oil was up again with a more modest 4.13% return. In addition to the dedicated efforts of OPEC nations to put a floor on prices, the US sanctions against Iran and the lack of production in Venezuela are responsible for driving prices higher. Oil closed the quarter at its height this year at $84.94/barrel.

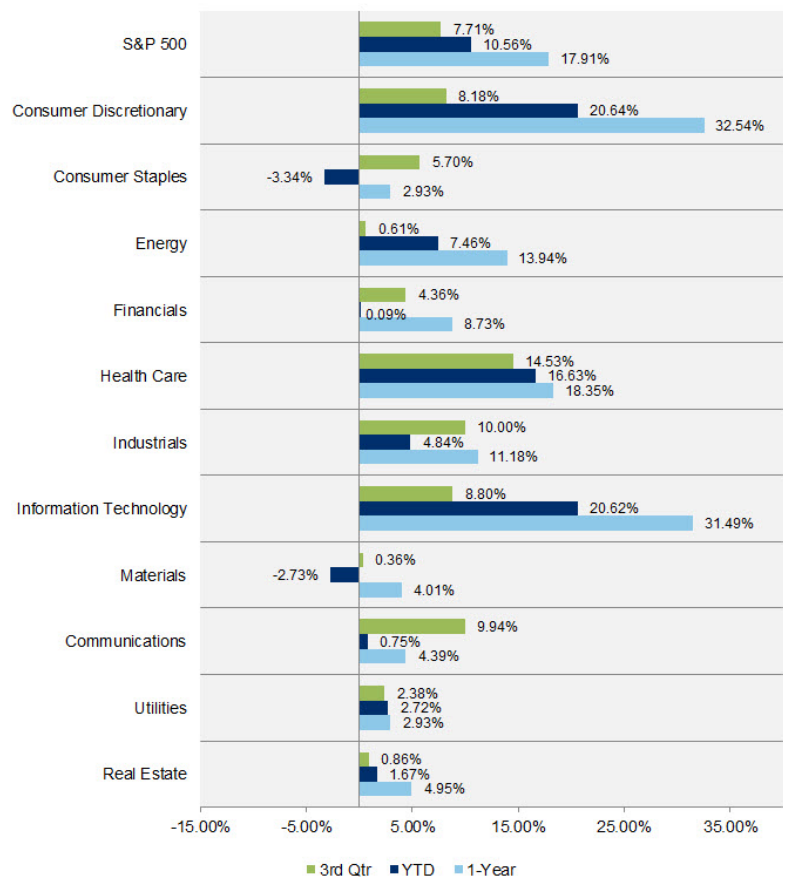
SECTOR PERFORMANCE: NEW LEADERS AND A NEW SECTOR

In a year when **Consumer Discretionary** and **Technology** stocks have led the market, it is interesting to see them relegated to the middle of the pack this quarter. Of course 8.80% and 8.18% returns, respectively, are still positive gains, they haven't given up quarterly leadership since 2017. While real earnings growth has helped drive both sectors, some of the credit can be given to investors' future outlook, as the economy begins to grow past a 2.0% GDP level. This price momentum brings many retail and institutional investors into the rally.

Healthcare was the top performing sector this quarter with a 14.53% return, a leadership position the group has not held since 1Q2015. Until this quarter the sector had only managed about a 2% return for 2018, but investors began to favor more reasonable valuations and underlying fundamentals. **Healthcare** companies are traditionally considered more defensive, providing safety in a market downturn. This group has solid growth potential, based on demographics and new technologies. Additionally, **Healthcare** as a whole is fundamentally very sound with solid balance sheets, an improving cost structure, and a less intense political environment.

The creation of a brand new S&P sector benchmark was created at the end of September called **Communications Services**. This group replaces the existing **Telecommunications** sector. The telecom group made up of traditional phone companies used to be the smallest, but it's gaining a number of additions from the **Consumer Discretionary** and **Technology** sectors. **Communications Services** includes a diversified group of communications and media organizations. Companies like Facebook, Alphabet (Google), Netflix, Disney, and Activision Blizzard have joined AT&T, Verizon, and CenturyLink to create the new 19-company sector. Following its release on September 24, new holdings immediately helped push the group into third place with a 9.94% quarterly return.

When the top performing sector outpaces by 14.17%, the underperformance can be considered significant. The worst performer during the quarter was **Materials**, although it still gained a positive 0.36% return. **Materials** have struggled throughout 2018, wrapped up in trade tension uncertainty and the impact of the strengthening dollar on commodity prices. While global economies are generally getting stronger, a potential slowdown in China, due to both lower economic growth and improving efficiencies, has also been weighing on the sector.



Source[2]: Morningstar Direct, as of 9/30/2018

STYLE PERFORMANCE: LARGE CAPS FIGHT FOR LEADERSHIP

Small cap stocks had taken over as the current market capitalization performance leader in the second quarter, but Large cap stocks made their comeback this quarter. And they did so using the same technique that put them there originally, Large Growth.

Looking at the beginning of 2018, an interesting phenomenon unfolded in the markets. As trade tensions increased, the more investors ran from Large cap towards Small cap stocks. The reasoning was that larger, multinational names have a much greater exposure to potential negative results from tariffs and other trade obstructions from tensions between the US, Canada, China, and other global partners. The moment investors heard there would be some resolution to these tensions, they flipped the switch and sold Small to buy back Large. This is evidenced by movements of the Dow Industrials, essentially a group of giant cap, multi-nationals that garner a large percentage of their earnings from non-US sources.

3Q18	Value	Blend	Growth
Large	5.7%	7.4%	9.2%
Mid	3.3%	5.0%	7.6%
Small	1.6%	3.6%	5.5%

1 Year	Value	Blend	Growth
Large	9.5%	17.8%	26.3%
Mid	8.8%	14.0%	21.1%
Small	9.3%	15.2%	21.1%

Source: Morningstar Direct, as of 9/30/2018

Large Growth has remained the dominant style for at least one more quarter this year, based on its one-year trailing performance. Large capitalization stocks in general continue to outpace their Mid and Smaller cap styles as larger, growth-oriented companies remain investor favorites. Much of this rally has also been sector driven, as both Consumer Discretionary and Technology stocks, have provided the fuel to move the overall market higher. Value stocks have trailed both Blend and Growth since the beginning of the year. This is a sector driven phenomenon, as value-oriented Financials and Energy lagged behind.

FUND FLOWS: THE GAP WIDENS

This year began with a stumble in financial markets, as the prospect of higher interest rates surprised everyone and caused stock sales across most major global indexes. This selloff scared individuals out of stocks primarily, resulting in the first simultaneous net outflows from ETFs and mutual funds since January 2016. Markets recovered during the second quarter, as did ETF fund flows with total net inflows of $57.4 billion. Unfortunately for mutual funds, the trend did not improve during the second quarter with net outflows of $3.7 billion. This trend remained true for the most recent 3-month period ending in August — ETFs received $50.8 billion net new assets and mutual funds had $12.1 billion net outflow in assets.

Asset Flows (in billions)	3 Months		Trailing 12 Months		2017	
	ETF	MF	ETF	MF	ETF	MF
US Equity	$28.8	($45.8)	$137.7	($148.7)	$121.2	($102.9)
Sector Equity	$12.5	($4.1)	$43.0	($17.8)	$35.5	($10.9)
International Equity	($10.1)	$4.9	$65.7	$90.5	$138.1	$91.8
Allocation	$0.5	($6.5)	$1.0	($25.2)	$1.6	($22.6)
Taxable Bond	$22.3	$37.9	$92.5	$203.6	$115.3	$251.0
Municipal Bond	$2.0	$7.0	$5.8	$19.9	$4.7	$29.9
Alternative	$0.1	($4.9)	$1.7	($0.1)	$5.0	$3.5
Commodities	($5.4)	$0.6	($0.9)	$2.2	$2.3	$0.7
Totals	**$50.8**	**($12.1)**	**$346.6**	**$124.4**	**$423.6**	**$240.6**

Source: Morningstar Direct, as of 9/30//2018

For the same three months ending in August, the three largest net new flows for ETFs were US equity at $28.8 billion, taxable bonds at $22.3 billion, and sector equity at $12.5 billion. This quarter signals longer-term flow trends, as US and international equity categories have dominated since 2017. That being said, for most of 2018 and a portion of 2017, there has been a large shift in asset growth for taxable and municipal bond groups. As the domestic stock markets have reached higher highs at the same time interest rates are moving higher and global trade tensions abound, investors have been taking the opportunity to take profits and move to lower volatility bonds. For the trailing 12-months, taxable and municipal bonds have added $98.3 billion in new assets, second only to the US equity category at $137.7 billion.

Mutual funds are struggling more than ever to hang on to assets. The trailing 12-month net new assets of $124.4 billion is almost half the level added last year of $240.6 billion. This also includes a $60.2 billion inflow at year end 2017 which will be rolling off in the upcoming fourth quarter. Equity mutual funds have had steady outflows for almost four years and projections do not point to a slowdown. US equity and sector equity lost $148.7 and $17.8 billion, respectively, in the trailing 12-month period. While international equity inflows have been beneficial, mutual funds would be in a much worse position in terms of outflows without bonds. For the trailing 12-months, taxable and municipal bonds have added $223.5 billion in net new assets. This almost matches total mutual fund flows for all of 2017.

LOOK AHEAD: HIGHER INTEREST RATES POINT TO ACCELERATION

This year has demonstrated a transitioning economy from slower, muted growth to a market with momentum driven by tax cuts, deregulation, and the support of a pro-growth government. The unemployment rate reached 3.7% in September while the labor participation rate stabilized around 62.7%. The US has not seen this level of engagement since April 2000, and unemployment hasn't been lower since December 1969. Annualized wage growth broke below 2.9% at the end of 2017, but has been moving higher at an average annual rate of 3.5%. Companies are hiring and, in many cases, aren't able to find the employees they actually need. Things are looking good, and the stock market appears strong, so investors may ask themselves, what could be wrong?

Well, world stock markets have been selling off at a fairly quick pace. The S&P 500 closed out the quarter at 2,913.98 and has slid 6.37% through mid-October. Technology stocks took a bigger hit, as the NASDAQ Composite Index fell 8.91% for the same time period. This move has been accompanied by a reasonable spike in volatility as the CBOE Volatility Index, or VIX, shot up to a 23.07 level from a trading range of 12-15 for much of the past four months. There was higher volatility earlier this year when the markets sold off in February, with the VIX level at 37.32. This current selloff was partly the result of continuing concern over the trade tensions with China which remains unresolved (unlike the successful negotiations with Canada and Mexico). The more impactful cause for the selloff was the additional rate hike by the Fed and the realization that the Federal Reserve Board hasn't been kidding about their intention to continue raising interest rates.

The Fed is ratcheting the federal funds rate higher until a "normalized" level is reached, although no one is exactly sure what that means. Looking at the past ten years, normal has been essentially 0-0.25%. Looking back to the early 2000s, the average was 3.0%, closer to 1% on the low end and 5% on the high end, just before the implosion of financial markets in 2008. Even reaching back to the 1990s, an average of 5% was sustained for most of the decade. The difference between these three decades and their "normal" interest rate levels lies in growth rates. During most of the roaring '90s before the bubble burst and the tech party ended, the US was churning out almost 4% GDP annually. In the early to mid-2000s before the 2008 crash, GDP growth rates were averaging almost 3%. And the average GDP level from 2009 to 2017 was 1.6%.

All of that to say the US growth rate appears to be accelerating. Inflationary potential energy is growing, and the Fed is attempting to stay out in front of the ongoing battle to balance economic growth with inflation while avoiding another recession. The recent selling of stocks could be thought of as an opportunity to take profits and perhaps clean out some of the names that have run too far too fast, based on current earnings projections.

There are opportunities for sector rotation and picking up names that look much more attractive going forward based on valuations and future growth. Through the end of 2017, GDP didn't average even 2%, but in the past four quarters, the average annualized rate has been 3.2%. 2Q18 had an annualized rate of 4.2%, and it looks like Q3 will be similar. Higher interest rates are not necessarily the best thing for investors, but in the context of an accelerating economy and rising growth rates, they're actually a pretty good thing to see.

HAVE QUESTIONS OR FEEDBACK?

Email the ProEquities Investment Committee at PESolutions@proequities.com.

DISCLOSURES

Benchmark performance statistics for the time periods referenced are pulled from Morningstar Direct, a robust investment research and analysis tool used widely by investment professionals. The tool focuses on providing comprehensive and timely financial, statistical, and operational information on a wide range of investment products and indices.

[1]The fixed income sectors referenced in this table correspond to the following benchmarks: Short Gov't/Credit = Barclays US Government / Credit 1-3 YR Index / US Aggregate Bond = Barclays U.S. Aggregate Bond Index / High Yield = Barclays High Yield Corporate Bond Index/ Global Aggregate Bond = Barclays Capital Global Aggregate Bond Index / Emerging Markets = Barclays Emerging Markets Hard Currency Aggregate Index.

[2]The sector performance numbers pulled from Morningstar Direct are from the **S&P 500 Sector** performance series.

[3]The OECD is an intergovernmental economic organization with 35 member countries, founded in 1961 to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members.

Any opinions, findings and conclusions, or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the view of ProEquities, Inc., or its parent company Protective Life Corporation.

Benchmark Descriptions

The **S&P 500 Index** is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Members are selected based on market size, liquidity, and industry group representation. The **Dow Jones Industrial Average** is calculated by summing the prices of the stocks of 30 companies and then dividing that total by an adjusted value (due to the effect of stock splits throughout the history of the index). The **Nasdaq 100 Index** includes 100 of the largest domestic and international on-financial companies listed on the Nasdaq based on market capitalization. The **Russell 1000 Index** is an index of approximately 1,000 of the largest companies in the U.S. Equity markets. It is market cap weighted meaning that the largest companies constitute the largest percentages in the index. **The Russell Mid-Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe. The index is a subset of the Russell 1000 Index and is reconstituted annually. The **Russell 2500 Index** is a broad index featuring 2,500 stocks that cover the small and mid-cap market capitalization. It is market cap weighted meaning that the largest companies constitute the largest percentages in the index. The **Russell 2000 Index** is an unmanaged index consisting of approximately 2000 US small capitalization common stocks. The **MSCI EAFE Index** is an unmanaged market capitulation-weighted index that monitors the performance of stocks from Europe, Australia, and the Far East. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The **MSCI US REIT Index** is a free float-adjusted market capitalization weighted index that is comprised of equity REITs that are included in the MSCI US Investable Market 2500 Index, with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The index represents approximately 85% of the US REIT universe. The **S&P Developed BMI Property Index** is an index consisting of companies from developed markets whose floats are larger than $100 million and derive more than half of their revenue from property-related activities. The MSCI EAFE Index is an unmanaged market capitalization-weighted equity index comprising 20 of the 48 countries in the MSCI universe and representing the developed world outside of North America. The **S&P North American Natural Resources Index** is a capitalization weighted index considered representative of the natural resource industry. The **Barclays Capital Global Aggregate Bond Index (Unhedged)** provides a broad-based measure of the global investment-grade fixed-rate debt markets. It consists of three major components: the US Aggregate Index, the Pan-European Aggregate Index, and the Asian-Pacific Aggregate Index. The **Barclays US Government / Credit 1-3 YR Index** includes all medium and larger issues of US Government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between 1 and 3 years and are publicly issued. The **Barclays U.S. Government / Credit Intermediate Index** is an unmanaged index based on all publicly issued intermediate government and corporate debt securities with maturities of 1-10 years. This index represents assets types which are subject to risk, including loss of principal. The **Barclays High Yield Corporate Bond Index** includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of $100 million, and at least one year to maturity. The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of securities from the **Barclays Government/Corporate Bond Index**, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation / depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization. The **Barclays Capital Global Aggregate Bond Index (Unhedged)** provides a broad-based measure of the global investment-grade fixed-rate debt markets. It consists of three major components: the U.S. Aggregate Index, the Pan-European Aggregate Index, and the Asian-Pacific Aggregate Index. Bonds are denominated in local currency and subject to exchange rate risk. The **Citi World Government Bond Index** is a market capitalization weighted bond index consisting of the government bond markets of multiple countries. The index includes all fixed-rate bonds with a remaining maturity of one year or longer and with amounts outstanding of at least the equivalent of US$25 million. Government securities typically exclude floating or variable rate bonds, US/Canadian savings bonds and private placements. The listed portfolio allocations are not adjusted to reflect a 3% allocation to cash as represented by the Barclays US Treasury 1-3 month index. The **Barclays Emerging Markets Hard Currency Aggregate Index** is a debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The Barclays Emerging Market Aggregate Index **Barclays US Treasury 1-3 Month Index** is the 1-3 month component of the US Treasury Bill Index and includes US Treasury Bills with a maturity from one up to twelve months.

The historical performance results of the above listed indexes do not reflect the deduction of transaction and custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The aforementioned indexes are not indexes into which an investor can directly invest. An investor cannot invest directly in an index.