"Valor Views"
Economy and Market Thoughts

By: Lee R. Johnson, Jr, CFA | Chief Investment Officer | February 25, 2020

Models Overview

Valor Asset Management offers three categories of investment models: "all-stock", "yield" or "fully diversified". The fully diversified models are a combination of stocks, Exchange Traded Funds (ETFs) and mutual funds. The all-stock models invest in stocks in either the large cap space (generally greater than $10B market capitalization) or the midcap space (generally between $4B and $10B market capitalization). The yield models add a twist for conservative investors who are interested in yields paid by high dividend paying stocks, but generally in defensive stocks in sectors like staples, healthcare, utilities and real estate Investment trusts (REITs). Each model is customized to a specific risk objective and is designed to provide advisors with a range of choices to not only fit a particular investment need but set a foundation for future growth.

Asset Allocation – 1Q20

Asset allocation at Valor Asset Management focuses on one key theme: diversifying risk. We seek to accomplish this by assigning weights to various asset classes across the risk spectrum based on the risk/return objective of the client. These customized models are given a unique name to easily identify the risk (see below table). Each quarter, we over or underweight these asset classes based on our holistic view of the economy, the market, and where we see opportunity. We may also add or remove certain asset classes as we see fit based on the underlying economy and market at the time. The model allocations for the first quarter of 2020 are as follows:

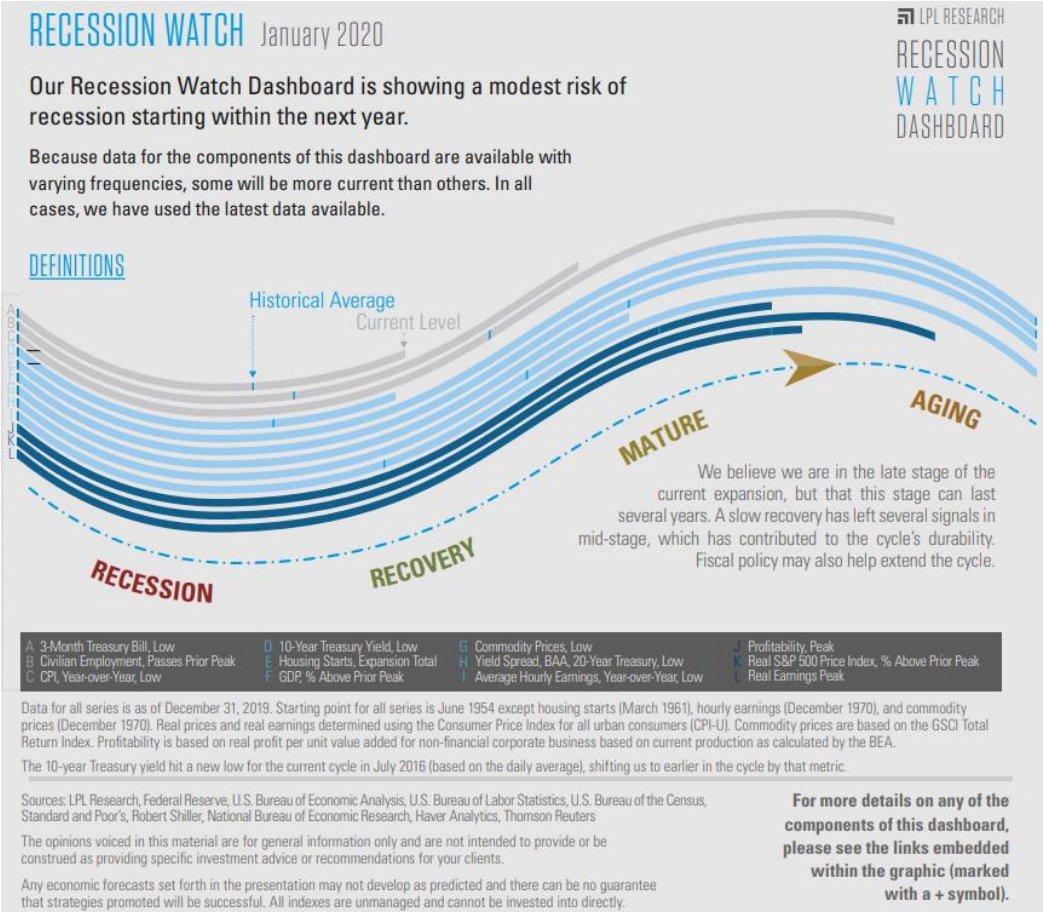
Risk Objective	Very Conservative	Very Conservative	Conservative	Conservative	Balanced	Moderate Growth	Very Aggressive
Model Name	Anchor	Anchor Yield	True North	True North Yield	Oasis	Windward	Titan
Equity	14.50%	18.00%	25.30%	33.00%	46.00%	66.00%	78.50%
Fixed Income	74.30%	81.00%	61.70%	66.00%	40.20%	20.00%	4.00%
Commodities	3.00%	0.00%	3.00%	0.00%	1.80%	1.00%	1.00%
Master Limited Partnership	2.00%	0.00%	4.00%	0.00%	4.00%	4.50%	5.00%
Real Estate	3.20%	0.00%	2.50%	0.00%	4.00%	4.00%	5.50%
Alternatives	2.00%	0.00%	2.50%	0.00%	3.00%	3.50%	5.00%
Cash	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Total*	100%	100%	100%	100%	100%	100%	100%

* Model allocations as of January 1, 2019 in the fully diversified and yield models. The all stock models are all equity and generally 1-5% cash depending on market and economic conditions.

Economy

The economy is arguably the most important factor to gauge the overall health of doing business in any region of the world. It is also a key element to the "perception" of how doing business translates to results and hence strength or weakness in an economy. This is because of the multitude of data points that are periodically distributed to the public. These data points are "backward looking" or historically based on real data from the past. Naturally, with this data, an opinion or perception of the economy is formed as far as which direction it may go. This perception is what the stock market feeds on because the stock market is "forward looking". It sets prices based on expectation of the future. But those expectation are generally grounded in the economic data released to the public. Some of the key economic data points are presented here with their respective trends. We use this information to formulate our own opinion of the future and assign percentages to each asset class in the fully diversified models accordingly.

- **Economic Cycle** – Many experts believe that we are near the peak in the economic cycle and possibly heading into a contraction, as fears of a potential upcoming recession are looming.



- **Gross Domestic Product (GDP)** – As of December 20th, GDP for 3Q19 was 19,121.1 Billion.
    - Real GDP increased by 2.1% in 3Q19 compared to the 2.0% growth we saw in 2Q19. https://www.bea.gov/data/gdp/gross-domestic-product

- **Commodities** – The current spot price of crude oil is $54.85 as of 1/23/19. The price of crude oil futures for January 2021 is $52.35. The futures market for crude oil is currently in backwardation as the futures price is below the spot price. The market is in contango when the futures price is above the spot price. As the contract approaches maturity, the futures price will converge with the spot price, otherwise an arbitrage opportunity would exist.
  https://oilprice.com/oil-price-charts/45
  https://www.cmegroup.com/trading/energy/crude-oil/light-sweet-crude.html

- **Federal Reserve (the Fed)** – In December, the Fed announced that they would be maintaining the target rate for the federal funds rate at 1.50% - 1.75%. The committee states that current policy monetary policy stance supports their view of continued economic expansion, strong labor markets, and inflation around 2%. Year to Date the Fed has slightly increased the amount of total assets on its balance sheet which is commonly referred to as "Quantitative Easing". Prior to September the amount of total assets had decreased, but we have seen a sharp rise in the last several months.
  https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
  https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

- **Inflation** – objective, projection, and actual:
    - Objective: The Fed's objective for inflation is 2% but uncertainties about it remain*.
    - Projection: In its release on December 11, 2019, the Fed projected PCE inflation (personal consumption expenditures) to be 1.5% for 2019 and 1.9% for 2020. https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm
    - Actual: As of November 2019, the annual PCE inflation rate was 1.47%, down from 1.91% one year ago. https://fred.stlouisfed.org/series/PCEPI

  **the Fed uses "PCE" inflation which is defined as the percentage rate of change in the price index PCE. The PCE index measures the price level of a basket of goods determined by surveys of what businesses are selling. In this report, all reference to inflation will be based on PCE.*

- **Neutral Rate (Current Monetary Policy and Effect on Interest Rate)** – The Neutral Rate is an inferred theoretical federal funds rate where the monetary policy position taken by the Fed is neither accommodative nor restrictive. In the short term, it is the real interest rate that maintains full employment and price stability. The neutral rate is important as it can indicate whether the current monetary policy is accommodative, restrictive, or neutral.

- Accommodative - Monetary policy is accommodative when the federal funds rate is below the neutral rate. In this case economic growth will tend to speed up, the unemployment rate should decline, and inflation should rise.
- Restrictive – Monetary Policy is restrictive when the federal funds rate is above the neutral rate. In this case economic growth will tend to slow, the unemployment rate should rise, and inflation should remain level or decline.

Current Neutral Rate Outlook:
Currently the Fed is projecting real GDP growth of 2.0% and PCE inflation of 1.9% in 2020, meaning that the Fed is forecasting nominal GDP growth of 3.9% for 2020. We estimate the neutral rate to be the level of nominal GDP growth minus 50 basis points. Therefore, our estimate of the neutral rate is 3.4% for 2020. With the federal funds rate being below the neutral rate at 1.6%, this tells us that the current monetary policy is too accommodative and rate cuts are not necessary at this point. (https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm)

Percent

Variable	Median[1]				
	2019	2020	2021	2022	Longer run
Change in real GDP	2.2	2.0	1.9	1.8	1.9
September projection	2.2	2.0	1.9	1.8	1.9
Unemployment rate	3.6	3.5	3.6	3.7	4.1
September projection	3.7	3.7	3.8	3.9	4.2
PCE inflation	1.5	1.9	2.0	2.0	2.0
September projection	1.5	1.9	2.0	2.0	2.0
Core PCE inflation[4]	1.6	1.9	2.0	2.0	
September projection	1.8	1.9	2.0	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	1.6	1.6	1.9	2.1	2.5
September projection	1.9	1.9	2.1	2.4	2.5

- **Leading Economic Indicators (LEI)** – The Conference Board Leading Economic Indicator Index is used to gauge where the economy is heading, while the Conference Board Coincident Economic Indicator Index measures current economic activity.
  - The Leading Economic Indicator Index (LEI) was 111.6 in November 2019, decreasing 0% from the previous month and decreasing 0.2% in the last 6 months.
  - The Coincident Economic Index (CEI) was 106.8 in November 2019, increasing 0.4% from the previous month and increasing of 0.9% in the last 6 months. (https://www.conference-board.org/data/bcicountry.cfm?cid=1)
  - The LEI index remains above the CEI index which is a sign the economy is projecting expansion going forward.

- **US dollar** – The US dollar faced a slight sell off in the last several months of 2019, however the trade war, Brexit, and US Election may create greater demand for the dollar going forward. (https://www.dailyfx.com/forex/fundamental/forecast/weekly/usd/2020/01/04/US-Dollar-Outlook-Brighter-in-New-Year-After-Late-2019-Drop.html)

- **Employment**
  - Unemployment & Participation Rate – current and past year unemployment and participation rates are:

Month	Unemployment Rate (%)[1]		Participation Rate (%)[2]		Participation / Unemployment Ratio[3]	
	Last Year (2018)	Current Year (2019)	Last Year (2018)	Current Year (2019)	Last Year (2018)	Current Year (2019)
May	3.8	3.6	62.8	62.8	16.5	17.4
June	4	3.7	62.9	62.9	15.7	17
July	3.9	3.7	62.9	63	16.1	17
August	3.7	3.7	62.7	63.2	16.9	17.1
September	3.7	3.5	62.7	63.2	16.9	18.1
October	3.8	3.6	62.9	63.3	16.6	17.6
November	3.7	3.5	63.1	63.2	17.05	18.06
December	3.9	3.5	63	63.2	16.15	18.06

[1] the unemployment rate is the percentage of unemployed workers in the total labor force. It is calculated as the number of unemployed people divided by the total labor force (those who are employed or unemployed but looking for work).

[2] the participation rate is a measure of the total number of people either already working or available for work as a percentage of the total number of people who are eligible for work. In other words, it's the total share of age 16+ people who are either working or looking for work. It is a measure of the amount of labor in an economy which is essential to production.

[3] the participation / unemployment ratio can be used to measure the relative health of the job market across different periods of time. It accounts for differences in the participation rate, thus eliminating any distortions in the perception of the job market that may result from only looking at the unemployment rate.

Here is how to calculate both figures using December 2019 data:

	Number (in millions)	Percent
Population (P)	260.181	
Not in Labor Force	95.625	
Labor Force (LF)	164.556	63.2% of Population
Employed	158.803	61.0% of Population
Unemployed	5.753	3.5% of Labor Force

* the key difference between the unemployment rate and the participation rate is that the participation rate measures the percentage of Americans who are available to work while the

unemployment rate measures those who are without a job. A high participation rate combined with a low unemployment rate is a sign of a good economy.

There are a few interesting observations here:

1) The December unemployment rate of 3.5% is lower than it was a year ago which was 3.9%. This is a good sign the jobs market is trending in the right direction since last year.
2) The last time the jobless rate was in the 3.5% range was in 1969. That was 50 years ago. Back then, it averaged 3.5% during the year. Aside from it being so low this time, it's good to see the last time it has been in this range was 50 years ago.
3) Looking back to 1969 and comparing participation rate with unemployment rates with where they are today, we can conclude the jobs market is essentially at the same level as it was back then despite recent participation rates trending down since 2008. This is because the participation rate is higher today than it was back in 1969 and it has also begun to level out in recent years which is another good sign of stability in the labor force.
(https://fred.stlouisfed.org/series/CIVPART)
(https://fred.stlouisfed.org/series/UNRATE)
(https://www.bls.gov/web/empsit/cpseea01.htm)

- Job Growth - job growth remains healthy per the latest payroll results through December 2019, which registered a 145,000 rise in total nonfarm payroll employment. For the previous four months inclusive of December, average payroll growth has been 186,500 jobs per month which is nicely ahead of the 100,000 benchmark jobs per month needed to keep the unemployment rate steady.
(https://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth)
- Jobless Claims – There are two categories of jobless claims. Initial claims consist of people filing the first time, while continued claims consist of people who have already been receiving unemployment benefits.
On January 4th, the number of Initial claims were 214,000 and the number of continued claims were 1,767,000. The number of initial claims decreased 3.17% from one year ago, while the number of continued claims increased by 2.97% from one year ago.
Jobless claims are a leading indicator. Generally, when jobless claims are down the market goes up and when jobless claims are up the market moves down.
(https://fred.stlouisfed.org/series/ICSA)
(https://fred.stlouisfed.org/series/CCSA)

- Hourly Earnings - In the last twelve months ending in December 2019, average hourly earnings are up 2.9% versus a 3.3% gain in the twelve months ending in December 2018. The Atlanta Fed's wage growth tracker, which focuses on people who have kept working, shows average hourly earnings of workers up 3.7% on average in the past year versus 3.8% in the year ending in December 2018.
  (https://beta.bls.gov/dataViewer/view/timeseries/CES0500000003)
  (https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx)

- **Small Business Optimism** – The NFIB Small Business Optimism Index looks to capture the trends of small business optimism based on surveys conducted of 10 indicators.
  - The Small Business Optimism was at a level of 102.7 in December 2019, down 1.91% from the previous month and down 1.63% from the previous year.
  - Small Business Optimism improved favorably in only 2 out of the 10 indicators from the previous month.
  - (https://www.nfib.com/surveys/small-business-economic-trends/)

- **Manufacturing** – The Purchasing Managers Index (PMI) analyzes the amount of economic activity occurring in the manufacturing sector of the economy. A PMI greater than 50 signals and expansion in manufacturing, while a PMI less than 50 signals a decline.
  - The PMI index was at a level of 47.2 in December 2019, a decrease of 1.87% from the previous month and a decrease of 13.08% from the previous year.
    (https://ycharts.com/indicators/purchasing_managers_index)

Market

The availability of data to the general public creates a certain perception that translates to a "forward looking" view of the stock market. This takes place in the form of forward-looking expectations because the stock market is forward looking. It is these expectations that ultimately lead to the ups and downs in the market. Some of the forward-looking indicators we review, and their current indications are:

- **Market P/E** – The Rule of 20 states that stocks are fairly valued when the stock market's P/E and the rate of inflation sum to 20 (Over 20 suggests stocks are overvalued, under 20 suggests stocks are undervalued) – The P/E ratio of the S&P 500 was 24.21 at the end of December 2019. Even before adding the current inflation rate, this value is greater than 20 meaning that stocks currently tend to be overvalued. (https://www.quandl.com/data/MULTPL/SP500_PE_RATIO_MONTH-S-P-500-PE-Ratio-by-Month)

- **VIX and VVIX** – Both of these indices have remained at a relatively low and stable level since December 2018. But they saw an slight uptick in August and September 2019.

    - The CBOE's Volatility Index (VIX) measures the market's volatility expectations for the next 30 days.
        - From last year's high of $36.07 on 12/24/18, the VIX is currently at $12.85 as of 1/22/20 indicating less volatility in the market than last year. (http://www.cboe.com/vix)

    - The CBOE's Vix Volatility Index (VVIX) is an indicator of the expected volatility of the 30-day forward price of the VIX (i.e. the rate of change of the VIX).
        - From last year's high of $203.73 on 2/5/18, the VVIX is currently at $90.59 as of 1/22/20 indicating less volatility in the market than last year. (http://www.cboe.com/products/vix-index-volatility/volatility-on-stock-indexes/the-cboe-vvix-index)

See the "1 Year Trail - S&P 500, VIX, VVIX " and "2018 & 2019 – S&P 500, VIX, VVIX" graphs at the end of this document for more information.

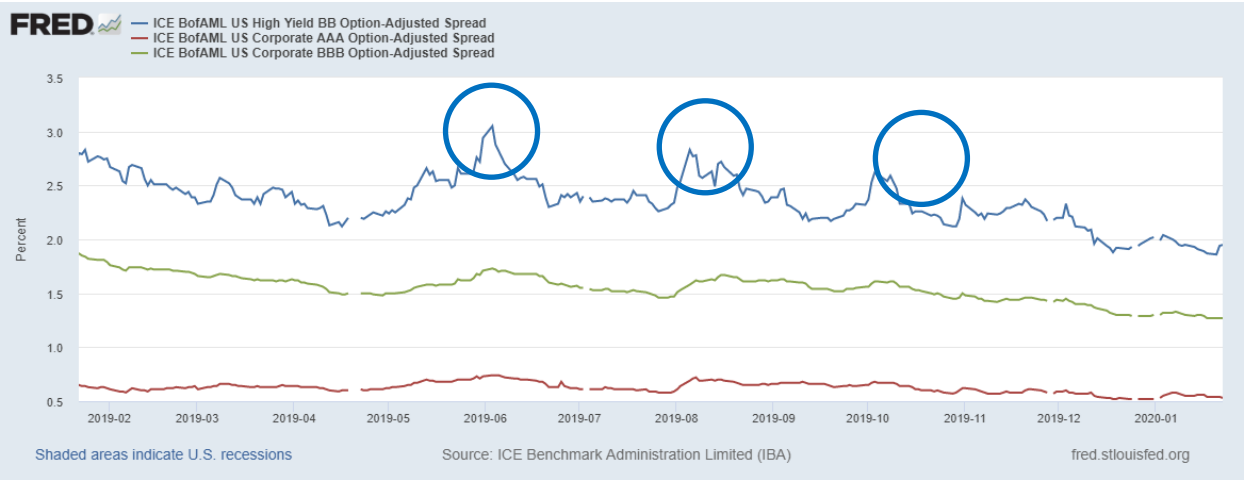
- **Moving Average Indicators**
    - 200 Day Moving Average – The 200 Day Moving Average of the S&P 500 was $2,998.62 on 1/22/20. The current price was above the moving average at $3,321.75, thus indicating an uptrend.

- 50 Day Moving Average - The 50 Day Moving Average of the S&P 500 was $3,186.96 on 1/22/20. The current price was above the moving average at $3,321.75, thus indicating a slight uptrend. (https://www.barchart.com/stocks/quotes/$SPX/technical-analysis)

- **Yield curve** –10 Year treasury yield minus 2 Year treasury yield.
  - The interest rate spread between the 10 year and 2 year was 0.25 on 1/21/20. The spread has risen back to its previous level after having fallen in July and August. (https://fred.stlouisfed.org/series/T10Y2Y)

- **Value vs. Growth** – Both Value and Growth have trended upward in the 2019 calendar year, with Growth generating the greatest returns.
  Growth – Russell 1000 Growth - Return: 34.15%
  (https://finance.yahoo.com/quote/%5ERAG?p=%5ERAG)
  Value – Russell 1000 Value - Return: 23.12%
  (https://finance.yahoo.com/quote/%5ERAV?p=^RAV&.tsrc=fin-srch)

- **Credit Spreads** – a "credit spread" is the difference between the yield on a low-quality bond (such as high yield) and the yield on a high-quality bond (such as the US treasuries). A chart and table of these different spreads is presented below (data sourced from "FRED" or Federal Reserve Economic Data).



Spread	1/22/19	6/3/19	8/5/19	10/3/19	1/22/20	1 yr diff
High Yield	2.80	3.05	2.83	2.62	1.95	- 0.85
IG AAA	0.65	0.74	0.69	0.68	0.53	- 0.12
Diff	2.15	2.31	2.14	1.94	1.42	- 0.73

This provides interesting information about where the market may be heading because spreads in general reflect investor expectations of future risk. For example, when spreads go down or "tighten", this generally means lower risk is perceived in the market because investors do not demand as much yield when they think risk is low. Conversely if an investor perceives risk in the market to be high, they will demand a higher yield for their investment. If we look back over the past months to January 2019 (essentially after the Q418 correction) we can observe various trends to explain what happened and try to understand where risk is currently perceived and in the future. Looking at the data, the high yield spread peaked about three times during the year but each time it was lower than the previous high. This indicates lower perceived risk in the market in general. Likewise, the *difference* between high yield and US treasury spreads peaked a few times during the year but again each time there was a lower high and it has since come down to essentially the same place as it was last year at this time. This indicates investors are not anticipating much of a change in the amount of defaults or risk in the markets at this time as compared to last year. This also indicates a "convergence" effect between the spreads which means the spread between low quality and high quality is decreasing and in turn investors are shifting preference towards "safer risk" meaning they are willing to take on the risk of high yield given there is not as much risk perceived in the marker as before. Therefore, investors are willing to buy a lower quality bond in this environment and hence the price goes up and the rate (yield) goes down.

Convergence: when spreads converge, the yield is relatively high on investment grade (AAA/BBB) and low on high yield (BB). This signals a reduced perception of risk at the current time as investors feel more comfortable investing in high yield bonds and do so for more yield. Because of this, high yield bonds don't need to offer as high of a yield, leading to the convergence. In this case, investors are opting to sacrifice the safety of investment grade bonds for the increased yield of high yield bonds.

Divergence: When these spreads diverge, the yield is relatively low on investment grade (AAA/BBB) and high on high yield (BB). This signals an increased perception of risk at the current time and to compensate for that risk high yield Bonds must pay a higher yield to attract investors. Many investors will opt to sacrifice some of the extra yield they could get with high yield bonds to instead have the added safety of investment grade bonds.

Option Adjusted Spreads (OAS): using OAS provides for additional clarity in the bond market because options (such as prepayment on mortgage backed securities) is considered in the spread calculation to better identify the cash flows and default probabilities of the bond market.

Sourced data for the chart information:

(https://fred.stlouisfed.org/series/BAMLC0A1CAAA)

(https://fred.stlouisfed.org/series/BAMLH0A1HYBB)
(https://fred.stlouisfed.org/series/)

- **Put/call ratio** – The Put/Call Ratio measures market sentiment by looking at the volume of calls and puts. A high Put/Call ratio signals a bearish sentiment, while a low Put/Call Ratio signals a bullish sentiment.
    - The Put/Call ratio was 0.83 on 1/21/20. This signals that the market has a more bullish sentiment as there are more calls than puts. The Put/Call ratio has tended to be more bullish over the last month. (https://markets.cboe.com/us/options/market_statistics/daily/)

- **Small/Mid/Large** – All three categories trended up in the 2019 calendar year with Mid cap and Large cap stocks leading the way in returns.
  Small – Russell 2000 - Return: 25.52%
  Mid – Russell Midcap - Return: 30.54%
  Large – Russell 1000 - Return: 31.43%
  (https://www.ftserussell.com/products/indices/russell-us)

2020 Outlook

2019 saw its fair share of headlines and market dynamics between the trade war, inverted yield curve fears leading to recession fears, political challenges both overseas and at home and the Federal Reserve shifting course to a more accommodative monetary policy as they consistently cut rates throughout the year. But despite these distractions, the US stock market continued its historic rally as the longest running bull market in history. It also celebrated its 10-year anniversary on March 9, 2019 as it marked 10 years since the post crisis low back on March 9, 2009. This speaks volumes as to the strength and stability of the market over the last 10 years. And 2019 was no slouch as US large cap stocks as measured by the S&P 500 produced a generous total return of 31.49%. Of course we can't expect that every year and a great example of that is just last year in 2018 when the S&P 500 returned -4.38%. But what a year we had in 2019 and many things contributed to it. Such as a strong economy, strong employment, corporate buybacks and tax cuts contributing. This is all fine and good and we do expect that strength to continue as the economy continues to grow. But we are also tempering our expectations for 2020 so as not to expect another 30% year. That being said, here are a few thoughts for the coming year as I see it. I am always happy to talk about any of this and how we at Valor are navigating the waters. Wishing you a great year and continued success in 2020!

- The trade war certainly affected markets both domestically and internationally last year. Therefore, this is our biggest concern in the new year as far as how it will work itself out. It's great to see a phase one deal in place but there is plenty of more work to do. Trade wars are not clear to many people and unfortunately, they put a drag on economic growth. The economy and the stock market will both be better off when it is resolved. We expect more back and forth between the US and China and market moving events to continue this year but they should be a little more in check given the recent phase one deal and continued cooperation between the US and China to work out their differences. That said, due to the trade war impact on international and emerging markets, starting in the third quarter of 2018, we began gradually shifting out of International Equity and Emerging Markets Equity in favor of US Domestic Equity. In Q4-19, we were fully exposed to the US market at an 80% to 20% ratio of US to International/ Emerging Markets Equity. We have chosen to remain at the same allocation to start Q1-20 but we are following the US dollar closely and expect that to turn down this year so we will be shifting our allocations to add more international and emerging markets as the year goes on. I would expect our domestic/international ratio to trend towards the 75% range by the end of the year.

- The coronavirus has dominated headlines and we are following that closely. Especially with the effects in China given they are such a huge economy. This will likely put China into a slowdown and quite possibly a recession if no cure is found. If that happens, the Chinese economy will slow and inflation will pick up globally as manufacturing out of China will slow. This might actually be a

good thing for the US as it will be forced to make up supply differences by manufacturing goods in the US. It is certainly something to watch but hopefully a cure will be found.

- Don't overlook the fact we are in an election year. The country remains deeply divided. There are many issues that will drive the election results and only time will tell who will win the presidency. But the market will react accordingly and if President Trump stays in office, it should stay on course. But I would anticipate volatility as we lead up to November as the market tries to predict who will win. It's anyone's guess at this point but I think a big sign of how this market treats politics is the recent impeachment saga. During the entire proceedings the market didn't move very much which was signaling the eventual outcome of President Trump being acquitted. But even during the Congressional session and Senate trial, there wasn't much downside pressure. And we have all seen how the market has performed since President Trump took office. I would expect more of the same if he gets reelected. But if a Democrat takes the election, there may be some volatility as the market tries to understand which direction it will go under the new leadership. We shall see.

- The Federal Reserve cut rates three times in 2019. That is unlikely to happen again in 2020. Reducing interest rates can be considered a factor in the 2019 returns as rate cuts are very consumer and business friendly. But if that doesn't happen in 2020 then something else will have to fuel the market. We believe it's Corporate America's time to shine and if that happens then earnings will prove the key to success this year. As mentioned earlier though, the wildcard in the mix is the US election in November.

- We trimmed and sold some of our "low volatility" positions in Q4-19 with the expectation of a nice start to the new year. So far this has worked out well.

- Overall, we see a year of growth and moderation ahead in 2020. The economy should continue to grow as it has been by strong employment and a vibrant consumer. The market should trade in lockstep with that. But we shouldn't expect another 30% year. Downside risk is certainly still out there with plenty of factors to sway the markets. But if these can remain in check like last year then 2020 should be a good year.

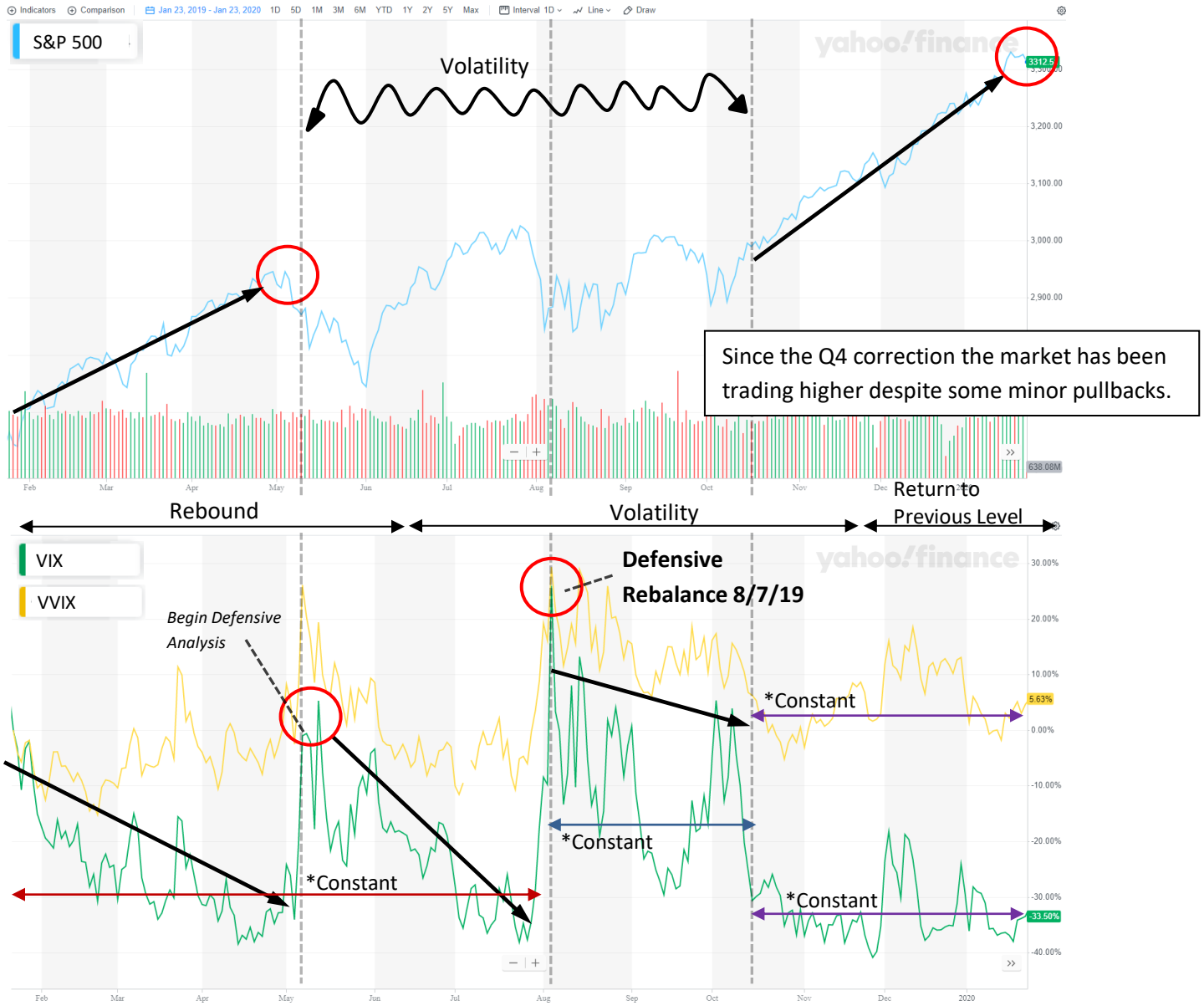
VALOR ASSET MANAGEMENT of GREAT VALLEY ADVISOR GROUP

1 Year Trail - S&P 500, VIX, VVIX

As of 1/23/20

1/23/19 – 1/23/20

(source: Yahoo Finance)



*After the Q4 correction, the rate of change of the VIX remained relatively constant. It shifted slightly higher in August but dropped back down to similar previous levels to finish out 2019 and begin 2020.

2018 & 2019 - S&P 500, VIX, VVIX

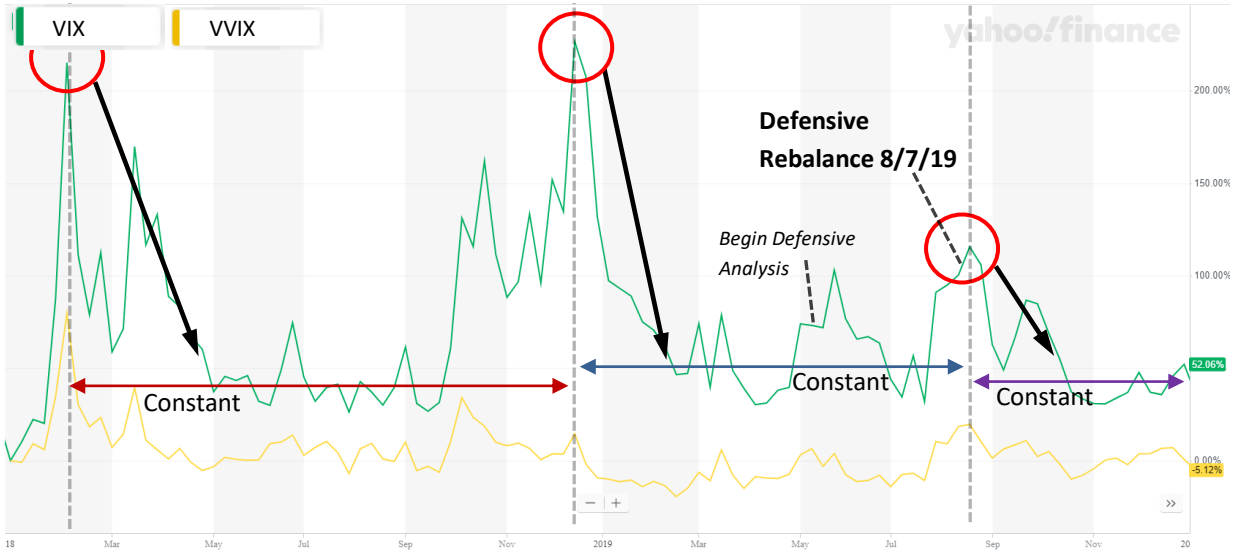
As of 1/23/20

1/2/18 – 12/30/19

(source: Yahoo Finance)

The market performed strong ever since the Q4 2018 pullback, reaching new highs in 2019 despite some minor pullbacks along the way.

2018 saw a correction in the market during Q4, leading to the rise in volatility. Since the correction the markets trended higher with minimum volatility and closed out 2019 at all-time highs.



Disclosures

1. Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.
2. The prices of small and mid-cap stocks are generally more volatile than large cap stocks.
3. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
4. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Investment grade bonds are those graded BBB and above. Preferred stocks are "hybrid" investments, sharing characteristics of both stocks and bonds. Like a stock they are generally paid after a bond, but like a bond they offer a fixed rate of payment and par value upon maturity/redemption. Risks can include interest rate risk, longer duration, lower credit ratings, and sector concentration, etc. Convertible bonds are a type of debt security that can be converted to a fixed number of shares of the issuer's common stock.
5. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Precious metal investing involves greater fluctuation and potential for losses.
6. The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time.
7. Dividend yield refers to a stock's annual dividend payments to shareholders, expressed as a percentage of the stock's current price.
8. An investment in Exchange Traded Funds (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks such as not diversified, price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking errors.
9. ***Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus and, if available, the summary prospectus contain this and other important information about the investment company. You can obtain a prospectus and summary prospectus from your financial representative. Read carefully before investing.***
10. Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. Value will fluctuate with market conditions and investments/portfolios may not achieve its investment objective. No strategy assures success or protects against loss. Investing involves risk including loss of principal.
11. Consult your financial advisor prior to making any investment decision.
12. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
13. Past Performance is no guarantee of future results.

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5. **Russell 1000 TR USD -** The index measures the performance of the large-cap segment of the US equity securities. It is a subset of the Russell 3000 index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

6. **CBOE Volatility Index (VIX) -** Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

7. **CBOE Vix Volatility Index (VVIX) -** The CBOE's VVIX measures the volatility of the price of the VIX. In other words, VVIX is a measure of the volatility of the S&P 500 index and alludes to how quickly market sentiment changes.

8. **S&P 500 TR USD -** A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the U.S. stock market. TR (Total Return) indexes include daily reinvestment of dividends. The constituents displayed for this index are from the following proxy: iShares Core S&P 500 ETF.