Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

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ORION

Week in Review

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Market Performance

as of 05/22/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	0.58	1.12	1.68	1.63	0.42	0.01	0
U.S. Investment Grade Bonds[2]	3.85	4.02	5.1	10.49	5.23	2.02	0.35
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	8.33	4.21	4	-1.19	-12.54	11.62	3.01
Total U.S. Market[4]	12.68	8.53	8.96	4.64	-8.12	15.68	3.71
Domestic Large-Cap Equity[5]	13.26	9.93	10.89	8.69	-5.48	15.08	2.96
Domestic Small-Cap Equity[6]	9.24	2.42	0.15	-11.12	-19.05	18.36	7.76
International Equity[7]	4.44	-0.23	-1.42	-8.5	-18.31	7.03	2.45
Developed International Equity[8]	4.81	-0.3	-1.63	-8.98	-18.19	6.78	3.04
Emerging Market Equity[9]	3.18	-0.02	-0.63	-7.01	-18.66	7.77	0.79
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	2.06	-1.18	-1.88	-6.23	-9.9	4.55	1.12
Commodity[11]	-5.97	-8.3	-8.17	-19.34	-22.19	1.45	1.76

Source: Morningstar

[1]Morningstar Cash Index [2]Bloomberg Barclay's Capital U.S. Aggregate Bond Index [3]Morningstar Global Market Large-Mid Index [4]Morningstar U.S. Market Index [5]Morningstar U.S. Large Cap Index [6]Morningstar U.S. Small Cap Index [7]Morningstar Gbl ex U.S. Large-Mid Index [8]Morningstar DM ex U.S. Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversified Alternatives Index [11]Bloomberg Commodity Index.

The Weighing Machine podcast is on Google Play and iTunes.

On Orion Portfolio Solutions' The Weighing Machine podcast, Rusty Vanneman and Robyn Murray cut through the market clamor and focus on time-tested, proven principles that help financial advisors and investors reach their long-term financial goals.

Market Update Video

CIO Weekly Viewpoint

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- Global stocks finished decisively in the green last week.
  - More optimism over the reopening of the economy and some positive news about progress on vaccine trials were the main catalysts.
  - Escalating geopolitical tensions came to the forefront again last week, as China planned to impose a new security law on Hong Kong.
  - A U.S. Senate bill was introduced that could force Chinese firms to delist from U.S. exchanges.
- The S&P 500 rose by more than 3% on the week.
  - Small caps rose nearly 8%, marking the 4th week out of 5 that they led the way.
- Value outperformed growth.
- Commodities were up nearly 2%.
  - Oil prices rose over 13% to hit its highest level in months.
- REITs recouped most of the prior week's losses, rising over 7%.
- Emerging Market (EM) stocks lagged, rising 0.5%.
- Europe fared better, rising 3%.
- Market Volatility. After falling nearly 40% from peak to trough, the S&P 500 is up nearly 30%.
  - Stocks, which are forward looking, have rallied at expectations and have leaped forward to the reopening of the economy and a rebound in GDP and corporate profits.
  - Let's hope it continues!
- U.S. Treasury yields decreased slightly on the mostly worse-than-expected economic data.
  - Fed funds futures continued to trade at levels implying that market participants were pricing in expectations for negative yields next year despite the Federal Reserve's apparent unwillingness to take official short-term rates below 0%.
- Important economic data being released during the holiday-shortened week include durable goods orders on Thursday, and consumer sentiment on Friday.
- Turner Sports live coverage of The Match: Champions for Charity golf match delivered an average of 5.8 million viewers, making it the most watched golf telecast in the history of cable TV. Can't wait for the next one.

Source: Bloomberg 5/25/2020

Don't Rely on Headlines for Guidance on When to Invest

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Falling markets and drastic headlines can tempt individuals to abandon their long-term investing plans. Their thinking might go something like, let's wait until it's over, hoping to catch the market at its lowest point before buying in. Or in rising markets, maybe they seek to sell most of their holdings near the peak. However, timing the market is essentially an impossible task, as the chart on this page illustrates. It's good to remember:

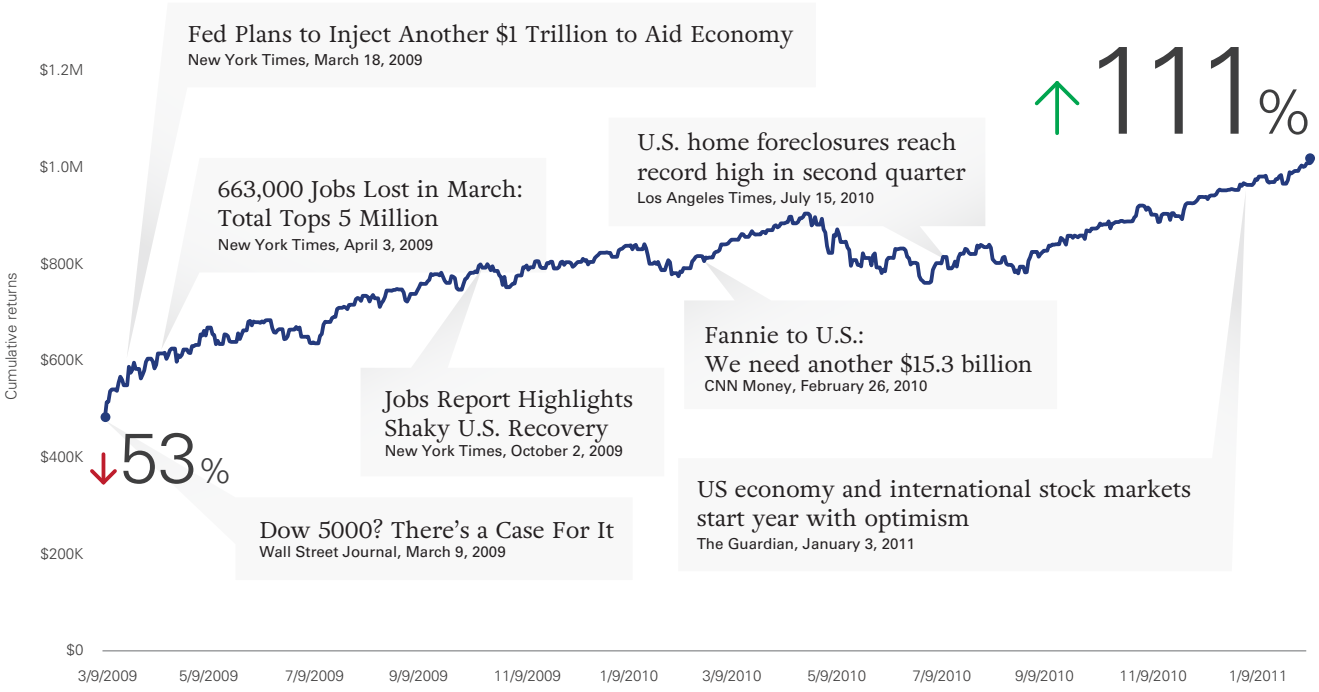
Headlines shouldn't dictate when you invest; they may not reflect what's actually happening in the market.

A recovery typically involves many episodes of gains and losses that can obscure an overall upward trend.

Just a few trading days can be responsible for the largest gains during a recovery; being out of the market can mean missing out on the most profitable periods.

Don't Rely on Headlines for an All Clear to Invest

Hypothetical $1 million investment in Standard & Poor's 500 Index at pre-crisis peak, from market bottom in 2009 to breakeven in 2011



Source: Vanguard.

Note: See the following page for a list of complete citations to the articles cited.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

It's understandable to have concerns about market volatility and its effect on your portfolio. The situation in the markets is certainly different this time. However, so far, it follows a pattern we've seen many times before and have navigated over the years. Bottom line: The "right time" to invest is usually now, whatever the markets' performance or news headlines might be. By all means, if you have questions or concerns about the plan we created to help you reach your financial goals, please get in touch.

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3 Questions on Investors' Minds

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As we enter the unofficial start of summer, some common questions are arising among investors while certain behaviors are becoming more prevalent. Included below are a few of the top questions we have received from investors recently:

"1. Is the stock market, even with the big pullback and quick rise, actually overvalued?"

The answer is yes and no. As with everything in investing, the answer is never black and white. Large-cap U.S. stocks are trading pretty rich compared to other markets and relative to their long-term averages. This could mean the market is expensive; however, many areas of the market have been unloved and are presenting great discounts for globally diversified investors. These include value stocks, foreign stocks, and small-cap stocks.

One of our favorite bloggers, Ben Carlson, has a great read on this topic.

2. "What unknown biases should I be on the lookout for since the market has bounced about 30% off its lows?"

Behavioral biases are always interesting to me. Some significant biases I've seen lately are:

- Narrow framing
- Hindsight bias
- Idle hands bias

Narrow framing simply means the investor may fixate on one small piece of the portfolio without understanding its role. A great example of this is the role of alternatives in a diversified portfolio. Alternatives may provide low correlation to stocks and bonds, which typically means they move independently from those asset classes. Focusing too much on one part of the portfolio, without understanding its broader role, is a mistake investors commonly make with diversification.

Hindsight bias occurs when investors believe that past events were entirely predictable. If this were true, we would not need to build diversified portfolios. This bias is very common now due to the extreme volatility we have seen in the markets on their way down and back up. Investors should beware of this bias, as it may lead to abandoning a well-diversified portfolio.

Idle hands bias is one we are seeing now more than ever. With social distancing still in place in most cities, many people are finding themselves with extra time on their hands. This means we may be paying too much attention to our long-term investing accounts and missing outlets to take our minds off them. Consider that with no sports and no casinos open, investors have taken to betting more on the stock market.

3. "Should I abandon my income-focused portfolio strategy (or my value discipline strategy) because it has not worked lately?"

No. Markets move in cycles, and we should work hard not to chase performance. Consider that, just in 2020, U.S. growth stocks have outpaced U.S. value stocks by more than 20%![1]

Source: Moringstar 5/23/2020

Yes, this has been a very bad stretch for value and dividend approaches to investing, but we know these wide spreads are likely to revert back and swing the other way at some point. Don't get whipsawed by switching your well-thought-out investing strategy.

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For more reading on value investing, please see some great additional sources below:

- Value's Defining Moment
- What to Expect When You're Expecting (Outperformance)
- Does Valuation Matter for Future Returns?

Thanks for reading and stay well.

The Morningstar Global Market Large-Mid Index is an index that measures the performance of the global market's equity markets targeting the top 90% of stocks by market capitalization. The Morningstar U.S. Market Index is an index that measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index. The Morningstar U.S. Large Cap Index is an index that measures the performance of U.S. large-cap stocks. These stocks represent the largest 70% capitalization of the investable universe. The Morningstar U.S. Small Cap Index is an index that measures the performance of U.S. small-cap stocks. These stocks fall between the 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small Cap Index represents 7% of the investable universe. Morningstar Global ex U.S. Large-Mid Index is an index that measures the performance of Global Markets (ex-U.S.) equity markets targeting the top 90% of stocks by market capitalization. The Morningstar DM ex U.S. Large-Mid Index is an index that measures the performance of developed markets ex-U.S. equity markets targeting the top 90% of stocks by market capitalization. The Morningstar EM Large-Mid Index is an index that measures the performance of emerging markets targeting the top 90% of stocks by market capitalization. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Morningstar Cash Index is an index that measures the performance of a Treasury Bill with six to eight weeks until maturity in the U.S. market. The Morningstar Diversified Alternatives Index allocates among a comprehensive set of alternative underlying ETFs that employ alternative and non-traditional strategies such as long/short, market neutral, managed futures, hedge fund replication, private equity, infrastructure or inflation-related investments. The Bloomberg Commodity Index is made up of exchange-traded futures on physical commodities and represents commodities that are weighted to account for economic significant and market liquidity. This index provides investors with a means of understanding the performance of commodity futures markets and serves as a benchmark for investment performance of commodities as an asset class. The S&P 500 Index is an unmanaged index of 500 large-capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The volatility of the indexes may be materially different from the individual performance attained by a specific investor. In addition, portfolio holdings of investors may differ significantly from the securities that comprise the indexes. You cannot invest directly in an index.

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