Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

July 20, 2020

ORION

Week in Review

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Market Performance

as of 7/17/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	0.58	1.12	1.65	1.30	0.44	0.01	0.00
U.S. Investment Grade Bonds[2]	3.85	4.44	5.53	9.67	6.96	0.78	0.23
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	9.25	6.94	6.89	5.52	-2.33	4.43	1.21
Total U.S. Market[4]	13.98	10.56	11.30	9.80	0.94	4.18	1.34
Domestic Large-Cap Equity[5]	14.52	11.81	13.19	13.64	3.63	4.35	0.69
Domestic Small-Cap Equity[6]	10.60	4.20	1.74	-6.06	-12.26	2.23	3.22
International Equity[7]	5.19	3.24	2.06	-0.01	-6.86	4.59	1.23
Developed International Equity[8]	5.49	2.70	1.71	-0.91	-7.75	3.99	2.20
Emerging Market Equity[9]	4.05	5.03	3.07	2.38	-4.46	6.15	-1.21
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	2.17	-0.51	-1.20	-4.60	-7.56	0.73	0.97
Commodity[11]	-5.74	-6.31	-5.46	-15.46	-17.51	2.34	-0.21
Global Real Estate[12]	6.64	2.26	0.30	-11.78	-16.32	1.01	0.14

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 [12]Morningstar Global Real Estate.

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

1

- Although stocks were generally higher last week, tech stocks took a break after setting more record highs early in the week.[1]
- Catalysts appeared due to corona-virus vaccine optimism and positive economic data.[1]
- U.S. retail sales jumped 7.5% in June, and industrial production increased the most in over 60 years, both surprising to the upside.[2]
- The DJIA rose by 2.2%. The S&P 500 climbed over 1%.[1]
- Small caps were the star performer rising 3.2%. Value outpaced growth by over 4%![1]
- Emerging Market stocks disappointed and were down slightly as China sold off. European stocks rose by roughly 2%.[1]
- Commodities struggled and fell slightly while REIT's rose slightly.[1]
- In spite of the strong economic data, Treasury yields fell slightly on news of rising COVID-19 cases. Further, comments by both current and former Fed members suggest yield curve control could come down the pike.[1]
- Important economic data being released this week includes existing home sales on Wednesday, the leading economic index on Thursday, and July's preliminary Purchasing Managers' Index on Friday. About 20% of the S&P 500 will report earnings.[1]

MARC PFEFFER
CLS Chief Investment Officer

1: Morningstar, as of 7/17/20

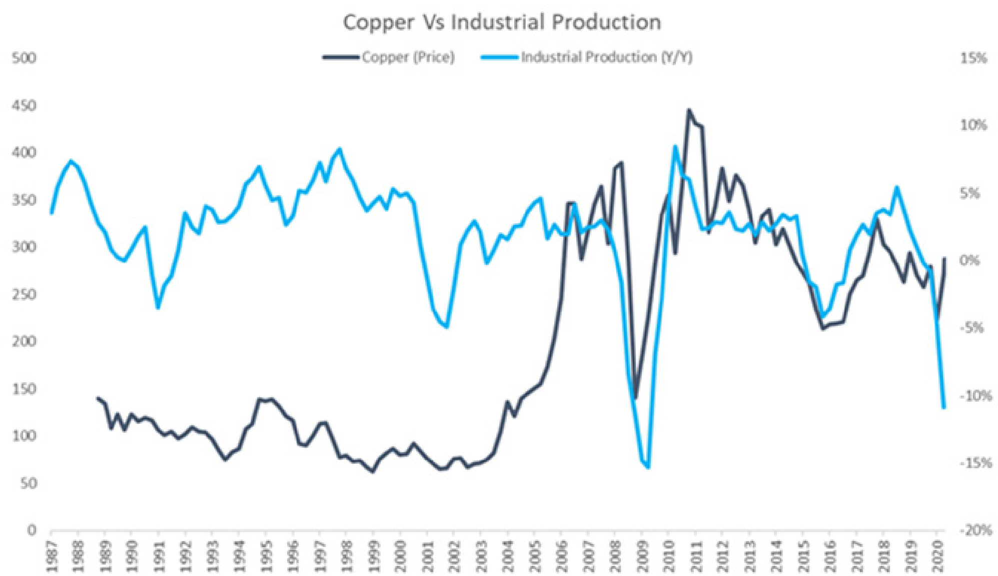
2: Bloomberg, 7/20/2020

The Return of Dr. Copper!

2

Copper has long been a leading economic indicator. Its usefulness in a variety of industrial and electrical capacities provides insight into demand for those services and products. It has historically even been referred to as "Doctor Copper," as if it has a "Ph.D. in economics" based on its predictive powers (seriously).

The chart below shows copper's alignment with economic activity — industrial production in this case, since it is monthly (versus quarterly GDP.)



Source: Bloomberg 7/17/2020

GRANT ENGELBART
CFA, CAIA, CLS Director of Research and Senior Portfolio Manager

After falling 24% to start the year, copper has recently come alive. The metal is currently up by more than 35% from its lows, signaling an increase in economic activity that is echoed by many indicators (and the stock market).

Historically, there have typically been several positives for global markets, following similar quarterly returns for copper. Copper itself, the S&P 500, and emerging markets have typically generated above-average returns and have typically demonstrated higher-than-normal chances of positive returns over the following month, quarter, six months, and one-year timeframes, when copper returns were as strong as they were during the second quarter. In fact, Dr. Copper having a great quarter is a particularly bullish sign for emerging markets, as their average expected return over the next year is 20%, with a whopping 86% chance of being positive. During these times, the U.S. dollar tends to average negative returns and has demonstrated below-average chances of positive returns. This typically bodes well for commodities (such as copper!) as well as international stocks.[1]

It may be easy to get skittish after a strong quarter, but positive returns often beget more positive returns. There are also some signs of a market leadership shift, such as what we are seeing with copper, that could have broad implications for portfolios. Dare I say, bring on the second half of 2020?

1 *Source: CLS Investments, Bloomberg, Strategas 7/17/2020*

Investor Mailbag: Questions from Main Street

3

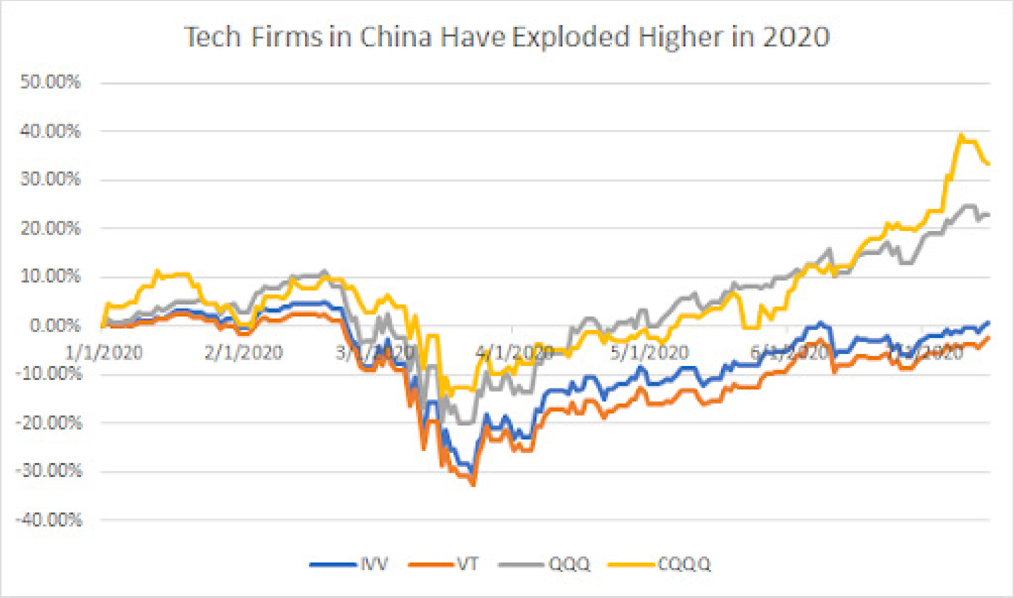
CASE EICHENBERGER
CIMA, CLS Senior Client Portfolio Manager

As a client portfolio manager, I get to talk to our investors and hear their questions and concerns. My goal is to help keep them invested in their long-term strategies by addressing those concerns. I hope I can do the same for our readers. Here are a few questions I've responded to lately.

The Nasdaq composite index is up more than 20% in 2020 (even with all the pandemic volatility). What else will even come close to delivering those returns?

Well-known companies, such as Amazon, Microsoft, Apple, Netflix, and Tesla, make up a sizeable portion of the Nasdaq, and they are all up more than 30% on the year. However, U.S.-based tech companies are not the only ones seeing outsized returns. Some tech-heavy companies in China are performing even better. The Invesco China Technology ETF (CQQQ) is more than 10% higher than the Nasdaq 100 ETF (QQQ), at about 34% year-to-date! Led by Meituan Dianping (food delivery, retail, etc.) and Tencent Holdings (internet, entertainment, artificial intelligence), this index is quietly having a better year than U.S. tech firms. For comparison we also show S&P 500 stocks (IVV) and Global stocks (VT) in the below chart.

In sum, don't let your bias for homegrown companies run your portfolio. Up-and-coming companies may help to balance risk and potentially increase returns.



Source: Morningstar 7/15/2020

Why isn't Tesla included in the beloved S&P 500 index?

Tesla is up more than 270% this year alone. By some calculations, it is one of the 10 largest U.S. companies (by market-cap). Considering its meteoric rise, one may figure Tesla would be lifting the returns of the S&P 500, too. But it isn't. That's due to one simple rule that governs the index: profitability.

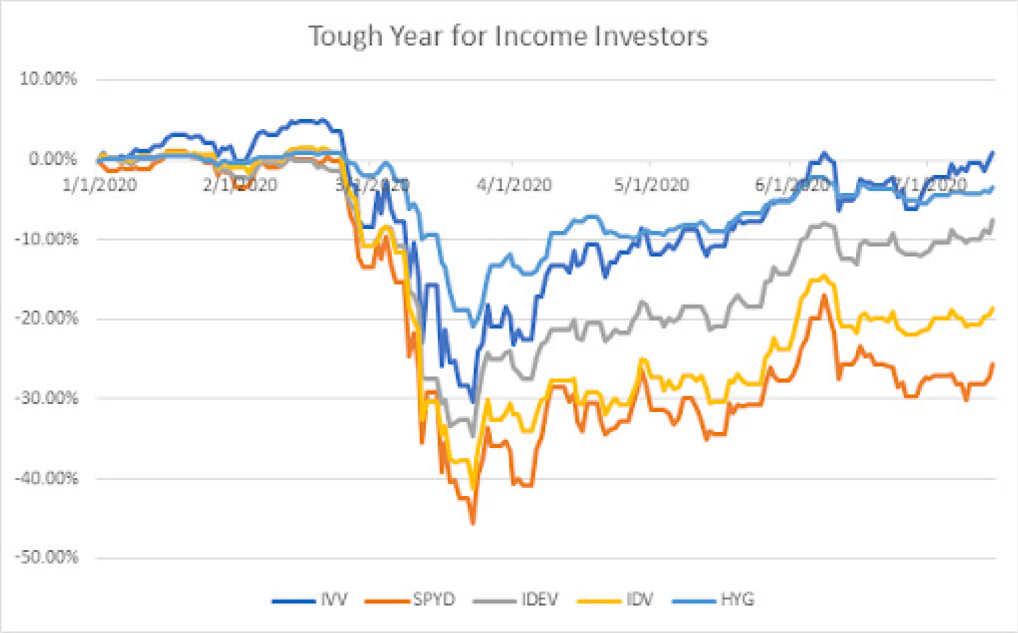
The S&P 500 index committee notes that for a company to be included it should have positive earnings for four consecutive quarters. Tesla famously did not turn a profit until 2019, and in more recent quarters, the results have been mixed to negative.

However, some indexes for large- and mid-cap companies, such as the Russell 1000, do include Tesla, and that has helped them generate returns similar to the S&P 500 this year.

3

I like dividend-paying companies to supplement my 'paycheck' in retirement. Why haven't they delivered for me in 2020, and should I keep them?

2020 has been one of the most difficult years in recent memory for income-focused investors. Traditionally, income investors prefer companies that pay higher dividends and bonds that pay higher interest. This approach serves them just fine in the long run. However, 2020 has been a different story. Just look at the chart below: S&P 500 dividend-payers (SPYD) have lost about 26% this year, while the S&P 500 index (IVV) is up 1%. It's been a similar story for international dividend-payers (IDV), while high-yield bonds (HYG) have been negative. For comparison purposes, we also show International Developed stocks (IDEV).



Source: Morningstar 7/15/2020

At CLS Investments, we recommend holding to a strategy and not chasing returns. However, some diversification away from dividend-payers may help investors smooth out returns in the long run. The same can be said for income investors who prefer to use leveraged funds to get higher yields, which is typically achieved through closed-end funds. The volatility in March hurt funds that use leverage and have a fixed number of shares. They have bounced back nicely off the lows on March 23, but have not yet returned to their levels at the start of the year.

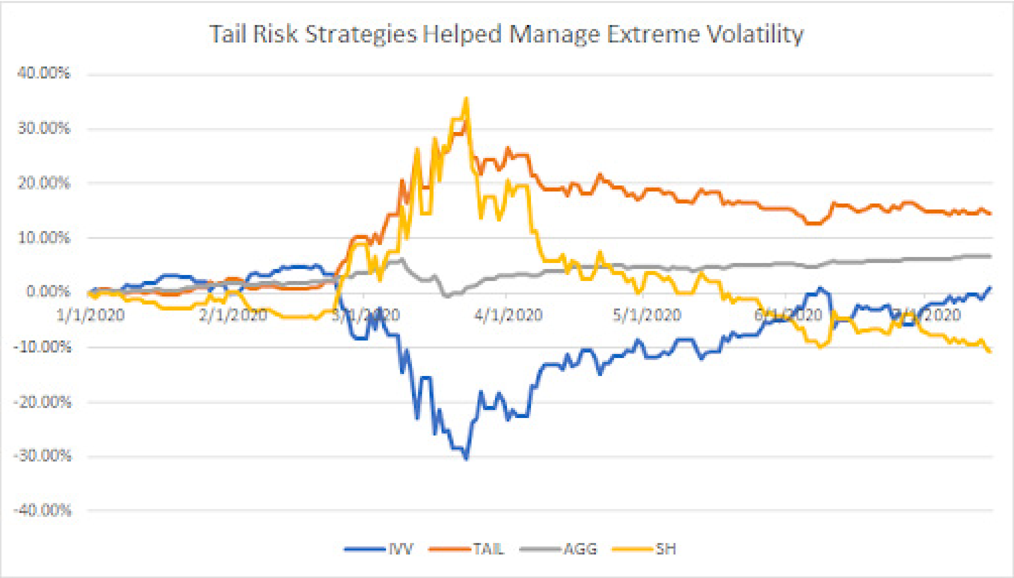
It's been a tough six months for income investors. But it's important to remember why you needed this strategy in the first place: higher yield. Your income strategy will no doubt continue to deliver that promise — if you can wait it out.

3

I keep hearing about 'tail-risk strategies' and how well they did during the volatility. What are they? And should I allocate to them?

This is a complicated answer, and investors would do well to avoid chasing the great returns (see below chart) so far in 2020. Think of tail-risk strategies as paying an insurance premium. Most of the time, you will pay the premium and get negative returns, but when markets dip lower, they can pay off.

Tail-risk strategies could have a small place in a diversified portfolio, but they are no substitute for stocks or bonds. Over time, stocks and bonds typically move higher, making tail-risk strategies tough to keep for the long run, as the market trends higher and tail risk strategies turn negative (2019 as an example). The below chart shows S&P 500 stocks (IVV), Tail risk strategy (TAIL), U.S. Bonds (AGG) and Inverse S&P 500 stocks (SH).



Source: Morningstar 7/15/2020

Thank you for reading, and please keep the questions coming! Stay balanced 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. Morningstar Gbl Real Estate NR USA Index: measures the performance of mortgage companies, property management companies and REITs. The Russell 2000 is an index comprised of the 2,000 smallest companies on the Russell 3000 Index and offers investors a benchmark for small￾cap stocks. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. 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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