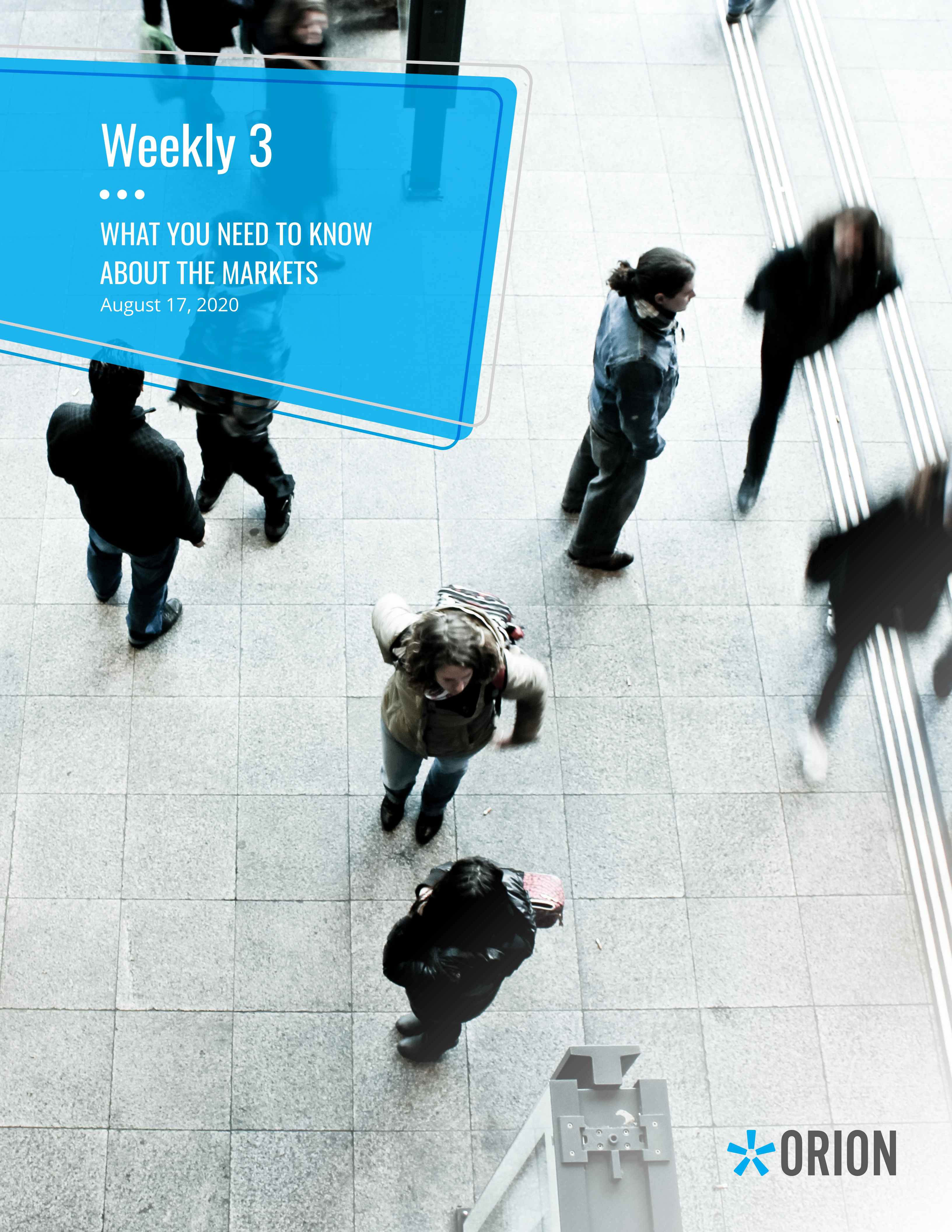

Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

August 17, 2020

ORION

Week in Review

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Market Performance

as of 08/14/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	0.58	1.12	1.62	1.14	0.45	0.02	0.00
U.S. Investment Grade Bonds[2]	3.73	4.32	5.29	7.08	6.85	0.68	-0.91
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	9.51	8.32	8.20	15.92	1.64	8.66	1.14
Total U.S. Market[4]	14.36	11.94	12.99	20.80	5.78	9.17	0.66
Domestic Large-Cap Equity[5]	14.88	13.25	14.66	24.81	8.58	9.33	0.69
Domestic Small-Cap Equity[6]	11.27	6.05	4.62	5.60	-6.69	8.72	0.55
International Equity[7]	5.34	4.64	3.07	9.81	-3.74	8.09	1.75
Developed International Equity[8]	5.69	3.81	2.64	7.79	-4.79	7.33	2.32
Emerging Market Equity[9]	4.06	7.54	4.33	15.62	-0.91	10.10	0.30
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	2.11	-0.09	-0.73	-2.62	-6.83	1.53	0.46
Commodity[11]	-5.52	-3.65	-3.64	-6.93	-12.15	8.99	0.51
Global Real Estate[12]	6.57	3.07	1.17	-5.74	-13.31	4.64	0.00

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

MARC PFEFFER
CLS Chief Investment Officer

- Global stocks were modestly higher last week on decent economic data and improved trends in U.S. coronavirus cases.
- Leading the way was developed international stocks, up close to 2.5% on the week.
- Retail sales increased modestly and jobless claims fell below one million for the first time since March.
- The Dow Jones Industrial Average climbed nearly 2%. The S&P 500 rose .6% and is a whisper away from an all-time time. The Nasdaq eked out a small positive gain. Value outperformed growth for the second straight week.
- Some cool stats:
- The 50%+ rebound since the 3/23 low marks the best 100 day gain for the S&P 500.
- According to Dow Jones Market Data, a typical peak-to-peak recovery takes 1542 days.
- The previous all-time low to recover was 310 days.
- The yield on the benchmark 10-year Treasury note touched a two-month high as a result of an uptick in inflation.
- Commodities continue to move higher, up about 50 basis points last week. Have you seen the price of lumber recently?
- Economic data being released in the U.S. this week include building permits on Tuesday, the Federal Reserve's July meeting minutes on Wednesday, and the leading index on Thursday.
- Let's see if the price movements on AAPL and TSLA due to stock split announcements motivates others to follow. I believe AMZN may be at the top of that list.

Source: Bloomberg, 8/17/2020

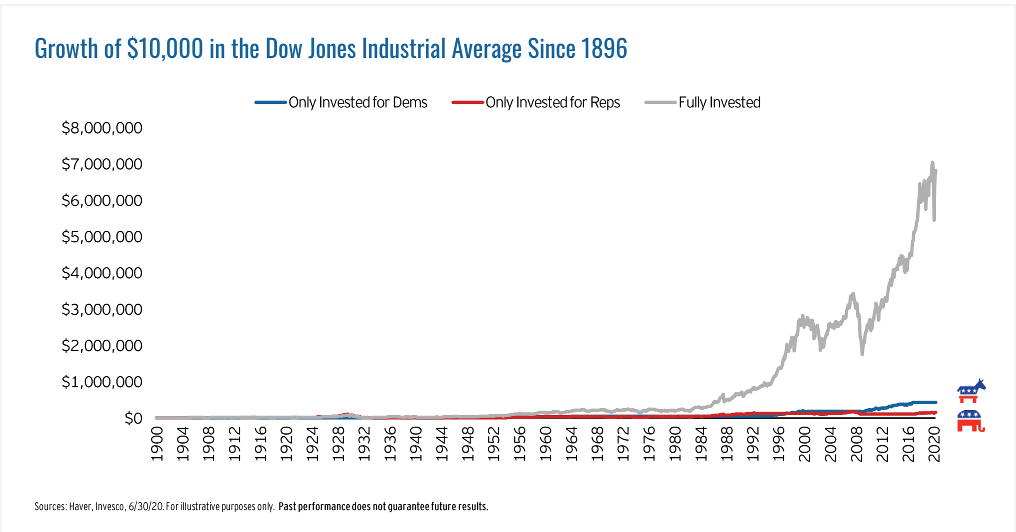
Investor Mailbag Part I: Questions from Main Street

2

CASE EICHENBERGER
CIMA, CLS Senior Client Portfolio Manager

"I'm worried about the outcome of the election and what it may mean for the markets. Should I be reducing risk?"

This is a great question and one we get (not surprisingly) every three or four years. The answer is simple. As the chart below from Invesco clearly shows, markets do not typically react to which political party is in the White House. Stocks create wealth by participating in the long-term growth of corporate profits.



Source: Haver, Invesco 6/30/2020

Consider that various firms on Wall Street have tried several times to appeal to the political biases of investors, and these attempts have failed. ETFs such as GOP and DEMS and PLCY have all closed due to little demand, lack of returns, and no academic basis. I know it's hard, but we must strive to keep politics and investing separate.

"My active manager is underperforming lately. Why should I keep them?"

The qualities of a good and successful active manager go beyond beating a benchmark, whether it is the one they use or the one you assign them. We believe that a manager should be writing, communicating, teaching, consulting, managing risk, manufacturing a rate of return, staying disciplined, 'eating their own cooking,' and more. Above all, they should be doing what they said they would. To gauge whether your active manager is doing their job well, ask yourself this question: Do they have a clearly defined (and repeatable) investment philosophy, or are they changing their approach frequently and delivering the same portfolio as the one they are trying to beat (before fees)?

That brings us to the topic of tracking error. “Good” tracking error depends on what you hired your manager to do. If you are using ETFs or a direct index, then low (as close to zero as you can get) is the best. However, if you are working with an active manager, we believe you should be seeing at least 2-4%. The tracking error for a high-conviction active manager may likely be above 4%. The area of 1-2% is called an enhanced index. Some managers fall in this camp and charge higher fees for delivering results that are very similar to the index (before fees are taken out).

In a nutshell, tracking error provides an expected performance difference between your manager and a benchmark. If your manager has an expected tracking error of 1-2% and performance differences of 3-4%, then a serious problem may be imbedded. However, if your manager has a tracking error of 4-5% and that aligns to the differential in performance (up or down), then your results are in the realm of expectations. So, when you conduct your review call with your manager, ask what their tracking error is to their benchmark. If it is close to 4% or above, you can begin to understand the performance differential and go from there to understanding the investment philosophy.

“I keep hearing about gold, Bitcoin, Tesla, and other areas of the market to invest in. Should I invest in these stocks?”

Maybe. We recommend you ask yourself: “How do these investments fit in my overall portfolio?” A lot of information in market media may come from people trying to be sensational and who don’t know your whole financial situation and most likely are not financial planners or advisors. Deciding whether to invest in these flashier stocks will likely highly depend on what else you own. Gold is typically a great diversifier due to low correlations with stocks and bonds, and it may help to reduce volatility in your overall portfolio. However, it does not produce a cash flow (dividend or interest payment) and does not have earnings, so investing in gold by itself may be highly unpredictable.

Currently, growth stocks are arguably incredibly expensive, and as a value-oriented firm we believe their future returns are likely limited. But if your portfolio is already heavily invested in U.S. value stocks (either single companies or sectors) then some growth exposure may help your portfolio look more like the market and reduce your anxiety about missing out. Only in moderation.

Investing in a vacuum is impossible. Always know what you own, why you own it, and what you can expect from it going forward.

Investor Mailbag Part II: Questions from Main Street

3

CASE EICHENBERGER
CIMA, CLS Senior Client Portfolio Manager

"I'm hearing now about a falling U.S. dollar. Should I be concerned?"

The ETFs that track the dollar versus other currencies are down about 9-10% since the market found a bottom on March 24. A big move. If you live in the U.S., you may not notice the effects of a weakening dollar when using currency to buy goods. But it may affect purchasing power in other countries, and some asset classes may benefit from a falling dollar. So, while it might not sound appealing to Americans to have a 'weak dollar', it actually may benefit U.S. large-cap firms which generate large revenues from overseas customers, emerging market stocks, foreign stocks, and gold. We believe that emerging market and foreign stocks are very interesting at this point. After all, they are relatively cheap compared to U.S. stocks, and their future returns may benefit from a falling dollar.

"I know what diversification means, but my neighbors keep talking about some hot stocks with huge returns. Should I switch strategies?"

To this we say: "Don't forget your training. We've seen this before." Don't abandon your well-thought-out plan to chase GAAP (Growth At Any Price) stocks . Do you recall the early 2000s? The dot-com boom and then bust? Though these mega-cap stocks do have earnings, most of the stock gains may not come from earnings, but rather from speculation (multiple expansion). This has the potential to turn the other way quickly. Many may find that answer unfulfilling and boring, and to that I say – dang right! Investing is meant to be boring. But if you don't think you'll be able to resist the temptation, perhaps consider a "mad money" account. Devoting a small (very small) piece of your account to investing in hot stocks could help scratch the itch. It will allow you to be in the conversation, but it won't ruin you if (when?) those stocks go bust.

"I just sold my stake in a business and have a large lump sum to invest. Should I 'leg into' the markets?"

Do you want the mathematical answer or the behavioral finance answer? First, my own experience: This year was the first time I ever funded my entire ROTH IRA with the max contribution upfront in January. Then the market plummeted. It felt like I'd made a huge mistake, but I know it was still the right decision. We cannot control the market. Mathematically, a lump sum investment is best, considering the market typically goes up in the long run and has a higher probability of doing so (see below).

S&P 500 Percent of Positive Return (Since 1927)

Frequency Return	Daily	Weekly	Monthly	Quarterly	Yearly	3-Year	5-Year	10-Year	20-Year	30-Year
% Positive	52%	56%	60%	63%	68%	78%	79%	88%	96%	100%

Source: Bloomberg data from 12/30/1927 - 0/30/2020

However, a lump sum investment can be emotionally exhausting to manage, and a dollar-cost average (DCA) may be a good idea to avoid the emotional heartache of seeing a big drop in the markets after investing on day one. Like most aspects of investing, the answer is probably in the middle. Perhaps consider the best of both: a DCA, but a short one. Six months is typical.

Thanks for reading, and *keep compounding. No interruptions!*

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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