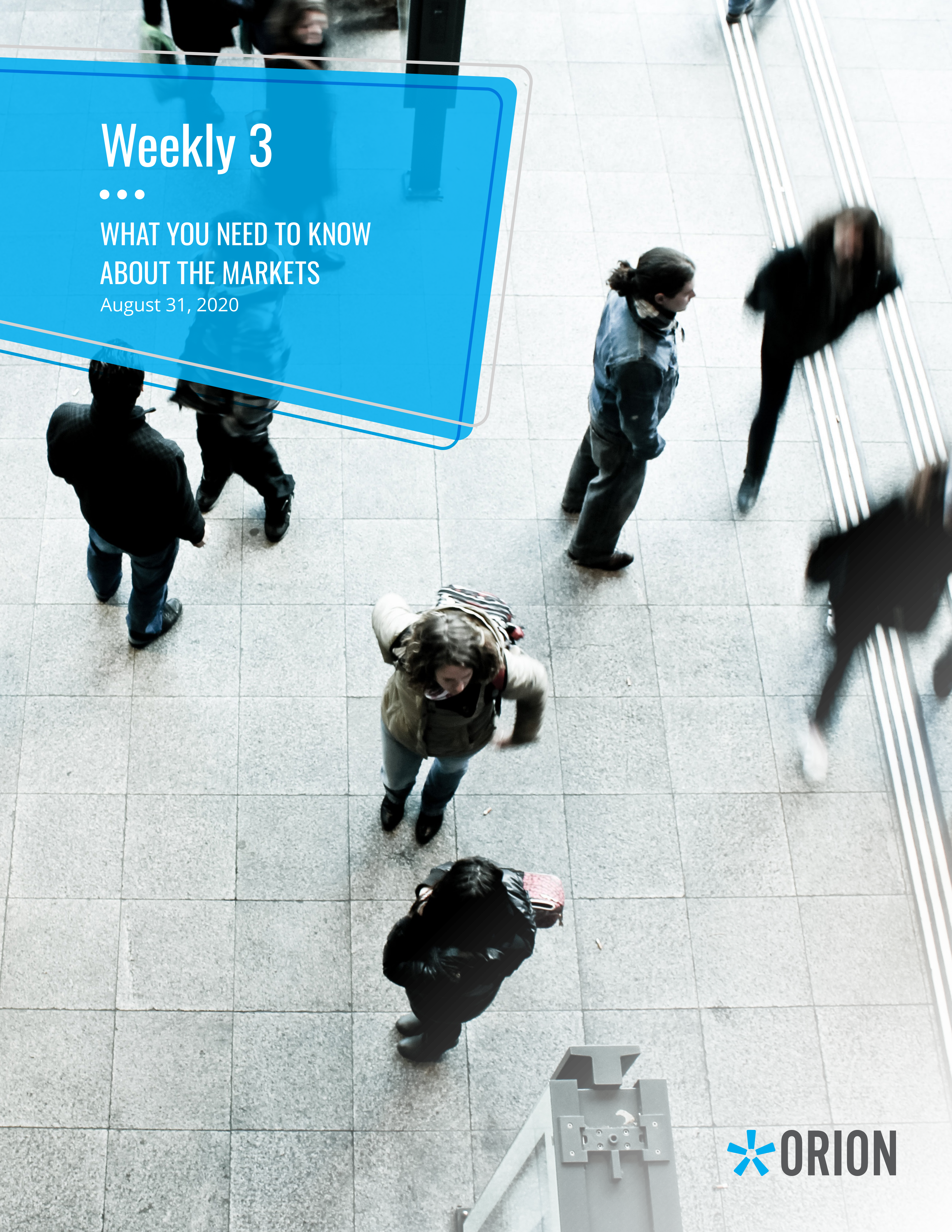
Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

August 31, 2020



Investment Legend Interview | Apple of Investors’ Eyes | I Was Wrong

By Rusty Vanneman, CFA, CMT
September 2020

- This past month was the best August for the stock market since the 1980s.
  - We believe the outlook remains bullish for stocks and likely for inflation, too.
- Investment legend, Rob Arnott, was a recent guest on The Weighing Machine.
  - There were many highlights, including important insights on the future of balanced portfolios and Warren Buffett’s latest moves.
- Investment philosophies work over time, not all the time.
  - Staying invested in a diversified portfolio should allow investors to participate in what we believe could be a golden age for the stock market.

Market Performance

as of 09/01/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	AUGUST
Cash Equivalent[1]	0.58	1.12	1.61	1.06	0.45	0.03	0.01
U.S. Investment Grade Bonds[2]	3.65	4.33	5.09	6.47	6.85	1.31	-0.81
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**AUGUST**
Global Equity Market[3]	10.00	10.14	8.88	16.14	4.39	15.07	6.12
Total U.S. Market[4]	15.08	14.08	14.24	21.82	9.88	15.96	7.23
Domestic Large-Cap Equity[5]	15.78	15.72	16.40	27.16	14.13	17.53	8.51
Domestic Small-Cap Equity[6]	11.37	6.90	4.16	2.41	-7.29	10.56	4.48
International Equity[7]	5.56	5.99	2.96	8.68	-2.89	13.70	4.54
Developed International Equity[8]	5.91	5.15	2.73	6.75	-3.96	11.75	5.42
Emerging Market Equity[9]	4.24	8.89	3.51	14.22	0.00	19.22	2.36
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**AUGUST**
Diversified Alternatives[10]	2.11	0.03	-0.83	-4.05	-6.99	2.15	0.74
Commodity[11]	-5.05	-3.10	-3.13	-3.90	-9.04	15.43	6.76
Global Real Estate[12]	6.63	4.81	1.24	-7.08	-12.19	8.51	2.36

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 available on 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

August Market Review and Outlook

August Review

In an already incredible year, last month was the best August for the stock market since the 1980s. We just finished the best 5 month stretch since the 1930s. The U.S. stock market is now up more than 60% since the March lows and approximately 15% since the beginning of the quarter[1]. And, to think, this time of year is typically when the market either treads water or moves backward.

In August, the global stock market was up over 6%. The U.S stock market was up over 7%, and non-U.S. stocks were up nearly 5%. Growth stocks reasserted their leadership and outperformed value stocks.[1]

Commodities were also up strongly, with gains of nearly 7%.[1]

The overall bond market lost nearly 1% as the 10-year U.S. Treasury ended the month at 0.72%.[2] The dollar also lost ground last month.

Cash, meanwhile, earned basically 0% in August and has earned 1% over the last year.[1]

Stock Market Outlook

We believe the outlook for the rest of the year remains positive. The odds appear to suggest price volatility, but also further price gains.

A handful of reasons for optimism persist. COVID-19 data, while still terrible, is improving. Economic data, which will likely remain below peak for a few years, is also improving. On both counts, things are getting better. This is what investors want to see when investing for future returns.

Additionally, monetary and fiscal policies remain extremely supportive of the economy and markets. The monetary response has been truly unprecedented, even compared to the Global Financial Crisis.[3] Fiscal stimulus, meanwhile, currently remains below the all-time peaks from WWII levels, but that may be surpassed yet this year. We believe the adage, "Don't fight the Fed" remains true, and this incredible wave of liquidity likely suggests a bullish stance, which quite frankly may be the case even if the economic and health data wasn't improving.

Market trends also remain positive: "Don't fight the tape."[4] It could be argued that the market is overbought or that leadership is narrow; but, statistically speaking, the odds appear to suggest further gains given the market's current momentum.

Lastly, another positive is that investor sentiment (as measured by AAII)[5] remains bearish. In fact, the last time investor sentiment was bullish, according to the AAII study, was the week ending Feb. 20 — right at the market peak and before some of the fastest losses in market history. This contrarian indicator has had a strong historical record, which has only become more impressive this year. At present, it remains a bullish signal for more above-average gains in the stock market. The "Wall of Worry" is still standing tall.

RUSTY VANNEMAN, CFA, CMT
Chief Investment Officer

Rusty Vanneman serves as Chief Investment Officer (CIO) for Orion Advisor Solutions, where he is responsible for overseeing the investment processes across Orion and its subsidiaries, including CLS Investments.

*Mr. Vanneman joined CLS in September 2012 as CIO. Previously, he served as CIO and Portfolio Manager at Kobren Insight Management (KIM) in the greater Boston area. His 11-year tenure at KIM included a 5-year span during which the firm was owned by E*TRADE Financial and he served as the Senior Market Strategist for E*TRADE Capital. Prior to working at KIM, he was a Senior Analyst at Fidelity Management and Research (FMR Co) in Boston. He was also a Managing Analyst at Thomson Financial. In 2018, Mr. Vanneman took on the role of President of CLS, in addition to his position as CIO. He became CIO of Orion in 2019.*

*Mr. Vanneman received a Bachelor of Science degree in Management from Babson College where he graduated with high distinction. He has held the Chartered Financial Analyst® designation since 1994, and is a member of the CFA Institute. He has also been a Chartered Market Technician® since 1999, and is a member of the Market Technician's Association (MTA). In addition, Mr. Vanneman authored the book "Higher Calling: A Guide to Helping Investors Achieve Their Goals." He was named one of the Top 10 Portfolio Managers to Watch by Money Management Executive in 2017.**

**Rusty Vanneman, CFA, CMT, was selected as a "Top 10 Fund Managers to Watch" in 2017 by Money Management Executive. Money Management Executive is an unbiased, third-party publication covering the asset management industry. Money Management Executive chose the list of managers to watch by screening Morningstar data from funds with a single manager, ranked as having the best three-year annualized returns in their respective categories. The list of managers was published March 27, 2017. Money Management Executive is not affiliated with CLS. Ratings and awards may not be representative of any one client's experience and are not indicative of CLS's future performance.*

1 *Morningstar (Performance Data except for Treasury), 9/1/20*
2 *U.S. Department of the Treasury, 9/1/20*
3 *Forbes, 8/31/20*
4 *Financial Dictionary, 8/31/20*
5 *American Association of Individual Investors (AAII), 8/31/20*

The overwhelming investor caution reminds me of a quote from Fidelity's legendary portfolio manager, Peter Lynch:

> ***"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."***

Inflation Outlook

Late in August, the Federal Reserve announced a major policy shift. In a speech delivered to a virtual gathering for the Fed's annual symposium, Fed Chair Jerome Powell announced a "robust updating" of policy.

In short, the central bank formally agreed to a policy of "average inflation targeting." This means the Fed will allow inflation to run "moderately" above its 2% goal "for some time" following periods when it has been below that target.[6]

To say it another way, the central bank will likely leave interest rates lower than expected.

Using "inflation-averaging" instead of an inflation target is a significant shift, and it comes shortly after the Consumer Price Index just experienced its biggest monthly increase in 30 years. That data didn't appear to be a fluke either. As "Inflation Guy" Michael Ashton recently wrote:

> ***"I saw someone call this a "noisy" report. Well, only in the sense of clanging cymbals. The data here all swung in one direction – but there really weren't a lot of surprises, per se. The only surprise was the synchrony of the surprises to one side."***

As investors, we've been lucky to have not had to worry about inflation for a while. That might change in the years ahead, which could suggest a variety of market movements, including a weaker U.S. dollar, strong real asset (real estate and commodities) prices, and outperformance by more cyclical fare that could benefit from higher nominal growth (value and small-cap stocks; high-yield bonds). The prospect of higher inflation suggests investors could be well-served by globally diversified portfolios.

6 U.S. Federal Reserve, 8/31/20

Weighing Machine Interview: Legend Rob Arnott

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Robyn Murray and I recently had the pleasure of interviewing industry legend Rob Arnott from Research Affiliates on the latest episode of Orion's "The Weighing Machine" podcast.

Having followed Rob and invested in various disciplined strategies from him and his firm, I would definitely put him on the short list of the more instrumental and important thought leaders and investors over the past several decades. Robyn and I asked Rob several questions, including why buying bubble assets is "insanely stupid" and why conventional balanced portfolios might have a lost decade ahead. We also discussed the recent portfolio moves by another investing legend Warren Buffett.

(Of course, we started the conversation by asking the all-important question to start off: What would be your walk-up song? Rob went with the classic "My Generation" by The Who.)

First, we asked Rob about a recent article in which he said we are currently in a growth stock bubble and buying bubble assets is "insanely stupid."

Rob explained that bubbles need a few requirements. First, they need implausible assumptions. Tesla, for instance, is currently worth more than the rest of the entire U.S. auto industry, even though it only produces 3-4% of U.S. cars[1]. The growth assumption baked into Tesla's current valuation would qualify as implausible. Second, marginal buyers have no interest in valuation. It's just about investing (speculating) in the narrative. The company might be great fundamentally, but not a great investment.

We also asked Rob about his statements regarding the potential for a lost decade for balanced portfolios. Specifically, we asked him what investors should expect from balanced portfolios moving forward and whether they should change the way they're constructing them.

Rob responded by walking through the math, taking into consideration current yields and valuations. Looking at a classic U.S.-based balanced portfolio, which would basically be 50/50 stocks/bonds, the expected return above inflation over the next 10 years would be 2% per year, at best! Here's the math. Bonds are currently yielding between 0.5% and 1%. Inflation is expected to be 2%+. That's an inflation-adjusted bond return of -1%. U.S. stocks currently yield just above 2%. Yields, however, do grow. During our conversation, Rob referred to data over the last 100 years, showing stocks' earnings and dividends have grown about 1% above inflation. So that's only 3% real return for equities, assuming no change in valuations! However, if valuations drop 30% over 10 years, that wipes out the whole return[1].

But Rob said he believes investors can do better. International stocks are expected to generate a 5% real return. Emerging markets, specifically, are expected to generate 8% real returns[1], and they are not as vulnerable to falling valuations. In fixed income, investors can likely do better by increasing exposure to emerging market debt and high-yield bonds.[1]

We also talked about how value stocks are currently especially undervalued versus growth stocks. While value stocks have historically always bounced back, they often do so quickly and violently. In other words, the reversal typically happens too fast for most investors to truly take advantage of it. Rob recommends "leaning into" value now.

1 Research Affiliates, 8/31/20

Nonetheless, we still asked if value investing was broken. Rob cited his paper "Rumors of Value's Death Are Greatly Exaggerated," which explores the various arguments regarding the death of value investing. He said the primary reason value appears to be failing is that growth stocks have become so much more expensive. It's not that value investing hasn't produced attractive returns over the last decade, it's just that investors are paying much higher valuation multiples than they used to for growth stocks.

We also asked a question which is dear to our hearts given our home office in Omaha is also home to another investing legend, Warren Buffett. We asked what Rob made of the fact that Buffett recently trimmed financials and bought gold mining stocks.

Rob felt that while low interest rates do create a difficult environment for financial companies, they are also typically helped by fiscal stimulus. Their rebound out of the global financial crisis was a good example. As for buying gold miners, Rob felt it made sense since the dollar is getting weaker. He also emphasized how real assets also tend to perform well when inflation is likely to rise. He cited not only precious metals, but commodities in general and real estate.

The episode was loaded with interesting thoughts and comments. We were honored to have Rob on The Weighing Machine.

Quick Thoughts on Another Investing Legend

Since we talked to Rob Arnott about Warren Buffett, I figured I should also ask our resident Buffetthead, CLS Investments' Director of Research Grant Engelbart, what he thought of Buffett's recent moves. On the last day of August, it was also announced that Buffett had accumulated a position in Japanese trading companies. Quite frankly, Grant's views are excellent. Below are some excerpts from his recent blog post here.

What should we make of Buffett's move into gold-mining stocks?

> ***"This is interesting given his past comments on gold, but it's likely an overreaction by gold bugs. The holding represents less than 0.3% of Berkshire's total portfolio[2]. The key to remember here is Buffett bought a company (Barrick Gold Corp), not the commodity. Buying a company fits into Buffett's long-term thought process. Barrick, for instance, trades at attractive valuations relative to peers and has one of the highest (expected) returns on equity, as well as a stronger balance sheet than most miners."***

Why does Buffett own so much Apple?

> ***"Apple represents more than 40% of Berkshire Hathaway's equity holdings[2]. The Apple holding is interesting given it's so synonymous with "tech company;" but, really, it's more of a consumer goods company, which Buffett is more familiar with. Buffett has always stated that he loves when companies he owns buy back their own shares. Basically, he can sit back and relax and benefit from his position increasing. It's also key to point out that Berkshire hasn't actually added meaningfully to Apple since the first quarter of 2018. In fact, he's been selling more than anything (over 4 million shares sold in 2019)[2]."***

2 WhaleWisdom, 8/31/2020

What should we make of Buffett trimming financials and eliminating some names?

> ***"This is interesting and nuanced. Financials definitely face profitability issues. Wells Fargo continues to be a black eye. But selling some of the best-of-breed banks and regionals, such as JP Morgan, Goldman, and US Bancorp are interesting. What has been underreported is that since the second quarter 13F filing, Berkshire has added 107,843,406 shares to BAC![3] That is $2.7 billion. It doesn't offset the total sells, but it's an interesting factor to keep an eye on."***

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What to make of the recent moves into the Japanese trading stocks?

> ***"While details are still developing on why Buffett bought Mitsubishi Corp., Mitsui & Co., Itochu Corp., and Sumitomo Corp., there are a couple commonalities between these names. First, they tend to generate most of their revenue from energy and commodities.[4] This is in sync with recent moves into Dominion Energy's natural-gas pipeline and storage assets and the recent purchase in Barrick Gold Corp.***
>
> ***"I've always said about the energy business: It's not a way to get real rich, but it's a way to stay real rich," Buffett said at Berkshire Hathaway's annual general meeting in May. These companies are also financially strong and trading at current attractive valuations. Bottom line, as I see it, this is another endorsement for real asset exposures."***

Again, Grant's article had many more interesting insights about Buffett, who turned 90 years young on August 30. One last tidbit: Did you know that Buffett attained nearly 90% of his net worth after the age of 65? There is still hope for most of us!

(Speaking of good reading material, here's a great recent article in the Omaha World-Herald on Omaha's investing legend.)

3 SEC EDGAR, 8/31/2020
4 Bloomberg, 8/31/2020

Apple of Investors' Eyes

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As Grant Engelbart noted in the article above, Apple makes up more than 40% of Berkshire Hathaway. It recently became the second stock with a $2 trillion market capitalization, and it made all of its second trillion in just the last 21 weeks! Apple's value is now greater than the economies of all but eight countries, as noted by CNET, which cited World Bank data.[1]

It's not just Apple that has caught the imagination of investors. In fact, the market capitalization of the U.S. technology sector is now greater than the value of the entire European stock market, according to Bank of America.[2]

Stats like that remind me of when the Japanese stock market was so dominant and appeared to be invincible, or the dot.com era. In both cases, of course, the invincibility broke. Someone who invested in the Nasdaq at the peak 20 years ago, for instance, had to wait 15 years to see a new peak. They were under water for a long time.

It's also important to remember how hard it is for companies to remain on top. For instance, in 2010, the most valuable company in the world was oil giant Exxon Mobil. Since then, the return for Exxon has been zero. Exxon was recently dropped from the Dow Jones Industrials.[3]

In 2001, for a brief time, Citigroup was the world's largest company. But if you bought the stock in 2001, you'd have lost 85% of your money.[4]

Buying "top dogs" is generally a suboptimal way to invest. There is research (from none other than our friend, Rob Arnott!)[5] that shows the world's most valuable companies have tended to be poor long-term investments as have the most valuable companies in each sector.

From Rob's paper:

> **From around 1950 to 2010, *"the leader in any sector underperforms the average stock (equally weighted) in its own sector by nearly 4% in the next year."***

1 CNET, 8/31/20
2 Business Insider, 8/31/20
3 CNBC, 8/31/20
4 Bloomberg, 8/31/20
5 Research Affiliates, 8/31/20

Why I Was Wrong

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When I write this monthly commentary, I try to follow the template my team and I have used for years and cover three primary areas that are topical, given current market conditions and questions we're receiving from advisors and investors.

Sometimes, however, I want to write more. This month, I want to restate my basic investment philosophy for both managing money and providing investment counsel, address why some may think this approach hasn't worked in recent years, and highlight a fascinating, thought-provoking and optimistic article that riffed on this section's title.

My Investment Philosophy

After 30 years in the investment profession (I'm only about mid-career!), my investment management philosophy and how it impacts my investment counseling can be boiled down to a few key principles:

- To build and maintain wealth, you have to invest and stay invested.
- To help stay invested, portfolios need to be resilient and humble. Thus, they need to be diversified.
- Don't buy expensive stuff.

I believe these basic principles make intuitive sense, have academic support, and have worked over time. However, they don't seem to work all the time. Sometimes, such as currently, when a handful of stocks dominate the market, diversification doesn't seem to work.

Technically, diversification has historically always worked at reducing portfolio risk. The math proves that mixing asset classes creates a "free lunch" in terms of genuine portfolio risk reduction. The only condition is that correlations need to be less than 1.0. The return side of the risk-adjusted performance equation (return/risk), however, is variable over time and the reason risk-adjusted performance is not always superior over shorter time frames.

I believe this approach remains solid for investment management and counseling. Arguably the biggest reason investors' returns are suboptimal is the "behavior gap,"[2] in which investors tend to buy investments after they have gone up in price and sell them after they have gone down. Every investor is different, of course, but over time investors in the aggregate tend to get whipsawed. Being diversified and having a value orientation (making sure investment valuations make sense for an investment), may help to diminish the behavior gap.

Various studies also show the biggest value-add of advisor counsel is to provide the education and advice needed to help investors remain committed to their investment plans.[3] Utilizing diversification, and buying what's on sale instead of what's expensive or glamorous, tends to help investor returns over time.

Even the value-oriented act of rebalancing a portfolio, buying investments that have underperformed and selling investments that have outperformed to bring the portfolio back to the desired long-term weighting, is an example of investment management that has been shown to add value over time. Not only does it typically help keep risk aligned with objectives, but it has also been shown to help returns over time.

1 Bloomberg, NY Federal Reserve, 8/14/2020
2 Behavior Gap, 8/31/20
3 Vanguard, 8/31/20

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A common question we have heard from investors lately is: "I have scored big this year (and the past five or so) with two or three stocks. Why should I diversify?" Senior Client Portfolio Manager Case Eichenberger often has to rebut this view and effectively does so by citing the recent study: "Do Stocks Outperform Treasury Bills?"[4] and some of its key stats, including:

- More than half of the stocks in U.S. stock market history delivered negative lifetime returns. Wow.
- Only 27% of stocks outpaced risk-free Treasuries.
- Only about 4% of stocks delivered almost all the returns.[4]

This is an argument for staying invested, diversified, and on an investment plan, which includes not selling out of winning positions (rebalancing is recommended though!).

Will This Coming Decade be the Best Ever for Stocks?

In a recent article from GaveKal, "Why I Was Wrong to Turn Bearish,"[5] the author said he failed to imagine the scale and speed of fiscal stimulus and monetary expansion after the market's plummet in March. He didn't think it was politically possible. Even Keynes didn't think it was possible except during times of war.[6]

The author's key point is that we could be entering a golden era for the stock market. The COVID-19 crisis, which has had an impact similar to a global war, could ultimately help produce a stronger world economy and stock market.

"Almost all economists and politicians at the end of World War II expected a global depression at least as bad as the 1930s, because millions of men in uniform were being demobilized and would find themselves unemployed. What happened instead, admittedly after several years of wrenching upheavals in the defeated countries, was an economic boom of unprecedented proportions and labor shortages on a scale never seen before.

"The COVID crisis looks like it may mark the start of a new "golden age" of Keynesian macroeconomic management."[5]

GaveKal also wrote about the apparent acceptance by investors of Keynesian economics. The government's fiscal response to the pandemic seems to now be an unequivocal positive for the markets and economy. As GaveKal notes, another wave of COVID-19 will likely only create another strong Keynesian response (fiscal stimulus), which would most likely be treated by equity investors as more bullish news.

In short, we believe Keynesian capitalism will arise even stronger from the pandemic. There is already much talk about Modern Monetary Theory.7 The theory appears to be accepted by both political parties, and it doesn't seem to just be election rhetoric. Its followers appear to be genuine believers. For those who listen to the aforementioned Rob Arnott podcast, Rob indirectly talked about how Keynesian economics has historically been a significant positive for the stock markets.

Could the coming years of Keynesian economics produce the type of returns witnessed after WWII? If so, it might be instructive to look at return experience from that time. Using this useful online tool, it might surprise some investors that during the war years of 1942 to 1945, the average return for the U.S. stock market was ~+26%/year. To close out the decade, however, from 1946 to 1949, the average annualized return was +4%. Then, however, came the 1950s, which was the best decade for the U.S stock market with an average return of ~+20%/year. Yes, this was better than the 1990s or even the last decade, which was the only decade without a bear market.

So, despite the pandemic and massive federal deficits, an argument could be made that the stock market has some amazing returns ahead.

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4 Universal Investments, 8/31/20
5 Gavekal, 8/31/20
6 Wikipedia, 8/31/20
7 Wikipedia, 8/31/20
8 MoneyChimp, 8/31/20

Thank You

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Thank you for your time and trust. If you have any questions or feedback, please let me know. Stay balanced, and be well.

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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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