Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

October 12, 2020

ORION

Week in Review

Rusty Vanneman, CFA, CMT – Chief Investment Officer: rusty@orion.com; 402-896-7641

Marc Pfeffer: marc.pfeffer@clsinvest.com; 402-896-7225

Case Eichenberger, CIMA: case.eichenberger@clsinvest.com; 402-896-7004

Market Performance

as of 10/12/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Cash Equivalent[1]	0.58	1.12	1.57	0.85	0.46	0.00	0.00
U.S. Investment Grade Bonds[2]	3.55	4.12	5.22	6.31	6.55	-0.22	-0.17
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**THIS WEEK**
Global Equity Market[3]	8.73	9.71	7.99	15.99	4.65	3.49	3.61
Total U.S. Market[4]	13.83	13.64	13.03	22.23	10.03	3.95	4.08
Domestic Large-Cap Equity[5]	14.40	14.86	14.72	25.49	12.58	3.03	3.76
Domestic Small-Cap Equity[6]	10.39	7.69	3.5	8.70	-2.66	8.12	5.86
International Equity[7]	4.34	5.68	2.47	8.52	-2.02	3.32	3.21
Developed International Equity[8]	4.67	4.91	1.99	6.29	-3.48	3.10	3.03
Emerging Market Equity[9]	3.09	8.20	3.79	14.79	1.88	3.88	3.66
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**THIS WEEK**
Diversified Alternatives[10]	1.61	0.33	-0.80	-3.17	-6.28	1.44	1.24
Commodity[11]	-5.99	-3.14	-2.96	-5.30	-9.11	3.39	4.94
Global Real Estate[12]	5.47	3.93	1.32	-8.15	-11.36	3.71	1.58

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 Global ex U.S. Large-Mid Index [8]Morningstar Developed Markets ex U.S. Large-Mid Index [9]Morningstar Emerging Markets 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

CIO Weekly Viewpoint

1

- Last week, global stocks, as measured by the Morningstar Global ex U.S. Large-Mid Index, rose decisively for the second straight week.
    - The primary catalyst for the rally stemmed from optimism that Congress will reach a deal on another coronavirus-relief bill.
- For the week the S&P 500 rose nearly 4%, recording its best weekly gain in three months. The DJIA climbed more than 3% and the Russell 2000 rose a whopping 6%, following a sharp rise the week before. Tech, as measured by the Morningstar U.S Technology Index climbed by 4.5%. Growth stocks, as measured by the Morningstar U.S. Growth Index, slightly outperformed value stocks, as measured by the Morningstar U.S. Value Index.
- Developed international stocks rose 3%, while Emerging Market stocks rose nearly 4%.
- Commodities rebounded sharply, climbing 5% as oil prices rose 9% on the week and are above $40 a barrel again.
- Treasury Yields climbed to a four month high. Treasury inflation-protected securities (TIPS) are pointing to potential rising inflation expectations and are closing in on the Fed's 2% target.
- Rising Treasury yields elicited over $25 billion of inflows into fixed income funds last week, for the second largest increase on record according to Bank of America Global Research. *10/9/2020*
- Important economic data being released this week include inflation on Tuesday and retail sales and consumer sentiment on Friday.

Bloomberg 9/11/20

MARC PFEFFER
Chief Investment Officer

Marc Pfeffer serves as CLS's Chief Investment Officer. In his role, Marc is responsible for leading CLS's Portfolio Management Team and overseeing all investment operations at CLS, including investment philosophy, process, positioning, and performance.

Prior to taking on the role of CIO, Marc was CLS's Chief Investment Strategist. He was also previously a Portfolio Manager on the CLS Flexible Income Fund team, and managed the CLS Active Income X Strategy and CLS's ETF strategies. He also managed individual municipal bond portfolios for the CLS Master Manager Strategy and continues to serve as a senior member of the CLS Investment Committee.

Marc has more than 30 years of investment management experience, including time spent as the Chief Investment Officer at Milestone Treasury Obligations Fund. He also worked previously at Goldman Sachs and Bear Stearns.

Marc graduated from the State University of New York at Buffalo with a Bachelor of Science degree in finance. He received his Master of Business Administration degree, with a focus on finance, from Fordham University. Mr. Pfeffer holds the Series 65 license.

Investor Mailbag Part I: Hedging with Gold

2

"Should I buy gold to hedge my portfolio, considering the political volatility and upcoming election?"

CASE EICHENBERGER
CIMA, CLS Senior Client Portfolio Manager

Great question. By hedging, we use diversification (or insurance) to lower the volatility of our portfolios due to the perceived potential outcome of a 'tail risk' or equity decline scenario. But let's answer the bigger question: Does the market care who the president is or which party controls the White House? No. The market is much bigger than one person or one party. In fact, the table below from our friends at Brinker Capital shows the market performs similarly well under either party.

President	Party	Years in Office	S&P 500 Return (%)	Annualized 4-Year Return
Harry S. Truman	D	1945 - 1953	87%	8%
Dwight D. Eisenhower	R	1953 - 1961	129%	11%
John F. Kennedy	D	1961 - 1963	16%	5%
Lyndon B. Johnson	D	1963 - 1969	46%	8%
Richard M. Nixon	R	1969 - 1974	-20%	-4%
Gerald R. Ford	R	1974 - 1977	26%	10%
Jimmy E. Carter	D	1977 - 1981	28%	6%
Ronald W. Reagan	R	1981 - 1989	117%	10%
George H. W. Bush	R	1989 - 1993	51%	11%
William J. Clinton	D	1993 - 2001	210%	15%
George W. Bush	R	2001 - 2009	-40%	-6%
Barack H. Obama	D	2009 - 2017	182%	14%
Donald J. Trump*	R	2017 -	54%	13%

Democrat Average	9.41%
Republican Average	6.36%

Source: Brinker Investments 9/30/2020

Gold (IAU) has a low correlation, but not inverse (see table below), to stocks (0.22) and bonds (0.53). Low correlation means it typically acts independently of the stock (IVV) or bond (AGG) market, so adding gold to your portfolio may help diversify and lower volatility.

	1	2	3
1 iShares Gold Trust			
2 iShares Core US Aggregate Bond ETF	0.53		
3 SPDR® S&P 500 ETF Trust	0.22	-0.04	

Source: Morningstar Direct 9/30/2020

However, an asset that moves independently is typically also unpredictable, sometimes providing a hedge and other times may not.

To dig further into this question, we reviewed how gold has performed historically around elections (we examined the month prior to and after the election since 1976, which marks the earliest reliable gold index data). We found that gold helped in some years (1976, 1988, 2000, 2004 and 2008) but not others. When stocks did happen to decline, the most reliable "hedge" turned out to be Treasury bonds.

		Election Year										
		1976	1980	1984	1988	1992	1996	2000	2004	2008	2012	2016
1 Month Prior to Election	S&P 500 Index	-1.86%	2.02%	0.39%	2.94%	0.70%	2.55%	-0.59%	2.72%	-17.00%	-1.70%	-3.51%
	Gold Index	8.34%	-4.93%	-0.68%	6.07%	-2.87%	-0.05%	-3.16%	1.43%	-18.03%	-6.05%	-0.69%
	Treasury Index	1.47%	-1.52%	3.83%	1.48%	-1.82%	1.83%	0.79%	0.64%	1.46%	-0.24%	-0.52%
1 Month After Election	S&P 500 Index	-0.41%	10.65%	-1.12%	-0.13%	3.94%	5.57%	-3.40%	2.73%	-12.54%	-0.03%	5.98%
	Gold Index	3.88%	-2.33%	-5.20%	1.66%	-0.19%	-1.81%	2.25%	5.10%	1.08%	0.51%	-8.26%
	Treasury Index	3.21%	0.29%	1.92%	-1.15%	-0.84%	1.49%	1.74%	-1.27%	4.30%	0.48%	-1.89%
October to December	S&P 500 Index	-2.26%	12.89%	-0.74%	1.83%	4.00%	8.73%	-3.98%	7.23%	-24.45%	-1.72%	2.10%
	Gold Index	15.09%	-8.80%	-4.57%	8.12%	-3.45%	-1.70%	-0.97%	8.84%	-15.36%	-5.13%	-10.56%
	Treasury Index	5.01%	0.46%	7.34%	0.22%	-1.22%	2.54%	4.73%	0.03%	7.51%	-0.07%	-2.47%
	Gold V Stocks	17.36%	-21.69%	-3.84%	6.30%	-7.44%	-10.42%	3.01%	1.61%	9.09%	-3.40%	-12.66%
	Gold V Bonds	10.09%	-9.26%	-11.92%	7.90%	-2.22%	-4.24%	-5.70%	8.82%	-22.87%	-5.05%	-8.09%
	Gold Positive	x	0	0	x	0	0	0	x	0	0	0

Source: Bloomberg and Morningstar Direct 9/30/2020

Our conclusion is that gold cannot be relied upon to act as an effective hedge during a mini stock decline. Treasuries have historically shown to be better for that. However, the likely reason that many investors are enamored with gold may be the perceived chance to capture some 'crisis alpha', due to a big move up in gold prices when stocks go down (as we saw in 1976 and 1988). Investors should know that although buying gold may help to lower the volatility of their entire portfolio, this asset may not always deliver the upside when they need it most.

In sum, try to tune out the short-term noise of the election and vote with your ballots, not your portfolio.

1 Brinker Investments 9/30/2020
2 Morningstar Direct 9/30/2020
3 Bloomberg and Morningstar Direct 9/30/2020

Investor Mailbag Part II: September's correction and the 60/40 portfolio going forward

3

CASE EICHENBERGER
CIMA, CLS Senior Client Portfolio Manager

"The market is pretty choppy lately. Is this the second stage of a larger correction (like we saw in March)?"

While no one knows for sure (and beware of those who think they do), we recognize the recent return to all-time highs was one of the fastest on record, and we believe investors should be prepared to see downward movement at some point leading up to the election.

What we have seen recently is that the expensive areas of the market (tech/growth) have led the way down this time, which did not happen in March. If broader history is our guide, then this is somewhat of a normal pattern. In fact, research from renowned investment manager GMO notes that in past bear markets it has not been abnormal to see expensive assets do well at first (phase 1), then tumble faster (phase 2) and not recover as quickly as cheaper assets (phase 3).

Our takeaway? Diversify and do not speculate within asset classes that have already moved up considerably to try and make a quick buck. Volatility is normal, and so is this recent action. Do not abandon your well-thought-out investment philosophy or plan to chase what your neighbor is buying.

"I've done well with your management of my 60/40 portfolio for the last few years, but now money managers are saying that may not get me through retirement. Is that true?"

A 60/40 portfolio of U.S. stocks and Treasuries has compounded at approximately 8.1% for the last decade, according to research from the Financial Times.[3] However, as Orion, CLS Investments, and others have noted, it may be foolish to expect that same return for the next decade. Both assets are extremely expensive right now. Stocks are at nosebleed valuations and bonds have record low yields — both indicating low future returns.

So, what can investors do? The experts at Orion agree with JP Morgan's David Kelly that investors must consider looking elsewhere, such as foreign stocks that trade at more attractive levels, for potentially greater future returns. Investors may also need to add to stocks from bonds, in order to attempt to achieve similar results for the next decade.

This may seem easy enough, but with more stocks often comes more volatility, and more volatility typically increases the chances that investors may get 'spooked' out of the market at the wrong time, thus lowering their odds for a secure retirement.

Consider that it wasn't too long ago (1990s) when investors could get about 8% risk-free yield in U.S. 10-year Treasuries. Now with those same bonds yielding only about 0.70%, investors need stocks. They also need qualified financial advisors to help them through the process and to help keep their emotions in check. In fact, financial advisors have become a necessity to help add 'advisors' alpha' to portfolios and help get investors through retirement.

3

Advisor Behavior	Potential Value Added
Helping investors stay disciplined and providing guidance to do so	1.50%
Placing assets in tax-efficient or tax-managed investments	up to 0.75%
Providing guidance on asset withdrawal order	up to 1.10%
Utilizing low-cost funds	0.40%
Rebalancing the portfolio	0.35%
Allocating assets among broadly diversified investments/ETFs	Potential slight value add, depending on investor's time horizon, risk tolerance, and financial goals
Providing guidance on total return versus income-only investing	Potential slight value add, depending on investor's desired level of spending and portfolio composition

Source: Vanguard - Putting a Value on your Value: Quantifying Vanguard Advisor's Alpha

Thank you for reading, and keep compounding. No interruptions!

1 *It's Always Darkest Before the Dawn* *4/8/2020*
2 *Vanguard - Putting a Value on your Value: Quantifying Vanguard Advisor's Alpha* *6/30/20*
3 *The Financial Times* *12/31/2019*

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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Contact Us Today

17605 Wright Street | Omaha, NE 68130

402.895.1600 | orion.com

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