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MARKET REVIEW

› 3rd QUARTER 2020

EXECUTIVE SUMMARY

- Equities and fixed income asset classes are positive for the quarter.
- Emerging Markets was the strongest equity performer QTD, with the US slightly trailing.
- Growth company valuations compared to Value remain at an all-time high.
- Federal Reserve will keep rates near zero until maximum unemployment is reached and inflation goals are consistently met.

Overview

- President's Message
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- World Stock Market Performance
- World Asset Classes

Quarterly Market Review

Third Quarter 2020

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"There is no better teacher than history in determining the future. There are answers worth billions of dollars in a $30 history book." *– Charles T. Munger, Vice Chairman of Berkshire Hathaway*

Will Wang, CFP®
President

As a nation, we have clearly arrived at an extraordinary juncture, both emotionally and economically. With the pressure to pick sides building with each new headline, it's easy to see more division than partnership, more hate than love. History, on the other hand, has shown us that true progress comes not from conflict, but from collaboration.

Internally, our business continues to move forward as we navigate non-existent interest rates and a global pandemic. I strongly believe that when things are uncertain, those who find success do so by implementing a "control what you can control" mentality. Our operations and service teams continue to center our attention on being the best financial partners we can be by focusing on the controllable: providing responsive, world-class service and remaining committed to the financial well-being of our clients.

Our advisors and Investment Committee are working hard to explore alternative ways to generate portfolio returns. We understand the responsibility that comes with being a wealth manager, and what is at stake for those who have worked so hard for so long to one day enjoy a prosperous retirement. We do not take this responsibility lightly, and we encourage investors to remain patient and devote time to their financial road map. Meet with your advisor, ask questions, and review your plan thoroughly. Explore opportunities to maximize tax savings by utilizing different contribution and distribution strategies and take advantage of the new rules implemented under the SECURE Act.

Lastly, this is a perfect time for predatory advisors to promise great returns through gimmicks and gizmos. They can sense the fear and frustration with the returns of a properly diversified portfolio, so there is a great opportunity to sell high commission/expense products that guarantee the upside while minimizing the downside. Do not fall for it without asking the right questions. It is also a tempting time to over-concentrate in sectors that have outperformed in order to chase returns. Do your best to drown out the noise; and if you're feeling conflicted, please see your advisor so they can perform a thorough analysis for you. Our commitment is to your financial peace of mind, and our goal is to empower you to make informed decisions. Too often, clients avoid their primary advisor because they do not want to offend, only to be caught in a high-priced product, limiting their options, or worse – delaying their goals. Have the crucial conversation because a lot is riding on it.

A wise man once said the greatest teacher we have is history, and history has foretold that we will overcome 2020 and all its darkness. After all, we have little choice. History has also shown that markets recover and reward those who exercise patience. Our intention is to put that into practice and be there when you need us most.

Quarterly Market Review

Recovery Continues Amid Volatility

Kevin Floyd
CFA, CFP®, AIF®

Director of Investments

All asset classes continued to recover from their COVID-19-induced March lows while providing positive performance for the quarter. In the third quarter, global equities returned +8.3%, driven by emerging markets' return of +9.7%, with strong returns in India and China; though the broad fixed income market was up a modest 0.5%. US stocks also provided a strong 9.2% return, primarily propelled by continued outperformance by large technology firms. July and August witnessed an impressive rally, while September's return slid due to comments from the Federal Reserve, fears over an increase in COVID-19 cases, and concerns about market valuation – particularly the valuations of large growth/technology companies.

In general, growth companies have navigated, and even thrived, during the pandemic. Growth-type companies better possess the ability to adapt their assets to a work- and play-at-home economy; in addition to consumers deploying and further utilizing Big Tech technology to maintain business activity and consumption of goods and services. In contrast, value companies tend to have more fixed assets that need favorable economic and business conditions to be maximized.

There are signs the economic recovery is taking hold. The labor market is improving, given elevated hourly earnings (4.7% y/y in August) and the drop in the unemployment rate. The unemployment rate has fallen from 14.7% in April to 8.4% in August. At the same time, the ISM manufacturing report showed new orders levels not seen since 2004, hinting at an improvement in future production. Value has the potential to improve if investors become confident in economic growth.

The chart to the right illustrates the continuing discrepancy in valuation investors are willing to pay for large growth companies compared to the overall market, and especially small value companies. From a historical valuation standpoint, overall pricing sans large-cap growth appears to be modest.

PRICE-TO-BOOK

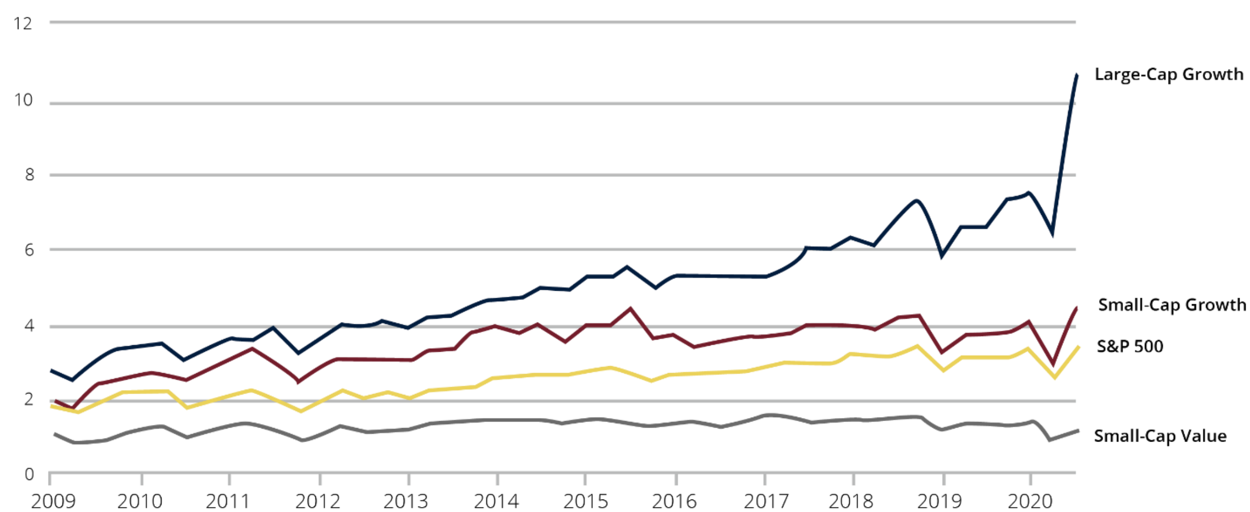

Exhibit 1

Quarterly Market Review

Recovery Continues Amid Volatility

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COVID-19 – The Future Accelerated

Leading up to the pandemic and before businesses sent employees to their home workstations, companies were incrementally taking steps toward allowing employees to work remotely. The pandemic took this decision out of employers' hands. For the most part, employers have successfully enabled a migration off site, redefined team dynamics, and have become reliant on their video conferencing software of choice. Additionally, the pandemic has accelerated the already trending challenges facing restaurants and brick-and-mortar retailers. Food delivery and e-retail were already growing in usage but have tremendously accelerated this year.

Should I invest solely in high-flying technology names? If you did at the beginning of 2020, you would have been rewarded handsomely. However, hindsight is 20/20. For example, when we look at valuations, we tend to look at price-to-earnings – or the earnings multiple produced when the stock price is divided by its earnings per share (the higher the multiple, the higher anticipated earnings) – as a starting point. Netflix currently has a P/E multiple of 84; versus AT&T which sits at a modest P/E of 9, or 1/10th that of Netflix. Do we anticipate AT&T to outperform Netflix? We have no idea, which is why we hold both in a well-diversified portfolio. However, history has rewarded well-disciplined investors in tilting their portfolio towards companies that are undervalued.

We cannot say these large technology companies will not continue to trounce the overall market, but a historical market analysis reveals some interesting case studies. When a company's stock return is 25% higher than the market's return for the three years prior to that company becoming a top 10 US firm, we later see them underperforming the market by -1.5% within ten years of those impressive returns. For comparison, Apple & Amazon have outperformed the US market the last three years by 30%.

AVERAGE ANNUALIZED OUTPERFORMANCE OF COMPANIES BEFORE AND AFTER THE FIRST YEAR THEY BECAME ONE OF 10 LARGEST IN US

Compared to Fama/French Total US Market Research Index ,1927–2019

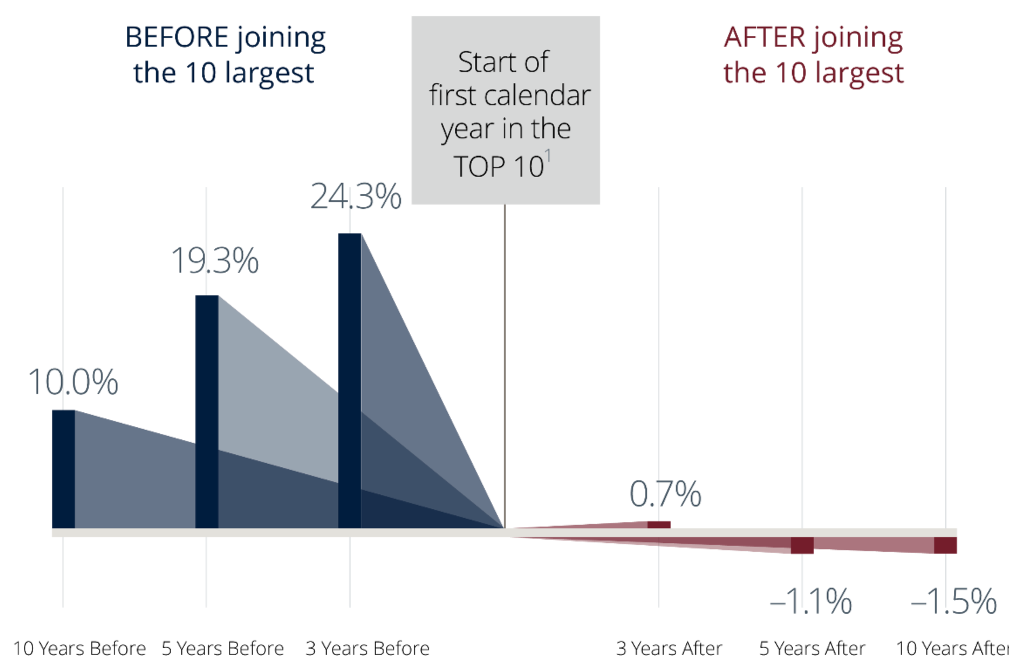


Exhibit 2

Quarterly Market Review

Recovery Continues Amid Volatility

Investing Amidst an Election Year – What Should I Do?

It is only natural for investors to search for a link between the winning political party of an election and the associated stock returns. Markets generally experience increased volatility around presidential elections. This is because markets do not like uncertainty, but the outcome of an election always reduces uncertainty.

Even if we do not have results on election day, neither the interim volatility nor the eventual outcome should disrupt investment plans because markets rely on fundamentals, not politics. And investment time horizons extend far beyond election cycles and presidential administrations.

What do we know and what have we consistently observed in the past? US presidents do have an impact on market returns, but so do many other factors, such as: interest rate changes, falling oil prices, technological advances, pandemics, the list goes on. Overall, the US market has averaged 8-9% per year under both Republican and Democratic presidencies. Businesses over time have been successful in navigating the landscape no matter who is in the White House or occupying the Senate and House of Representatives.

GROWTH OF $100
FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX
March 4, 1929—June 30, 2020

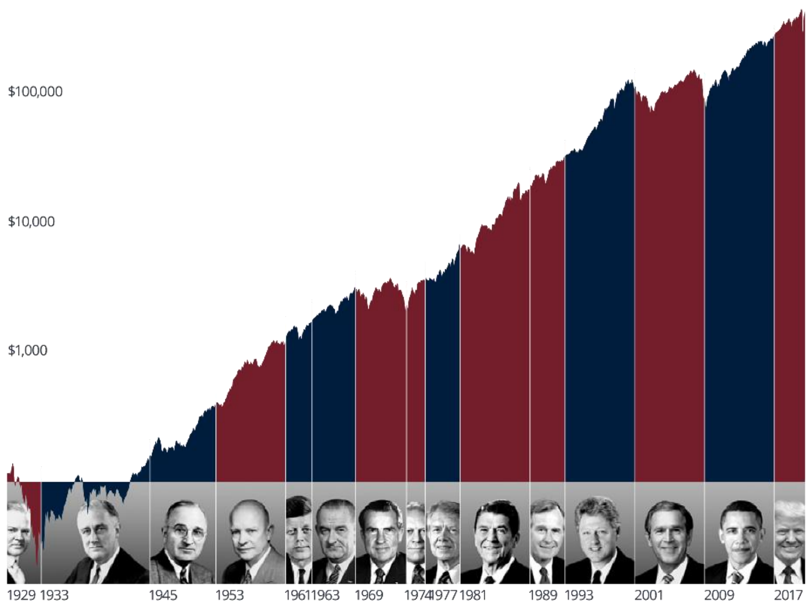
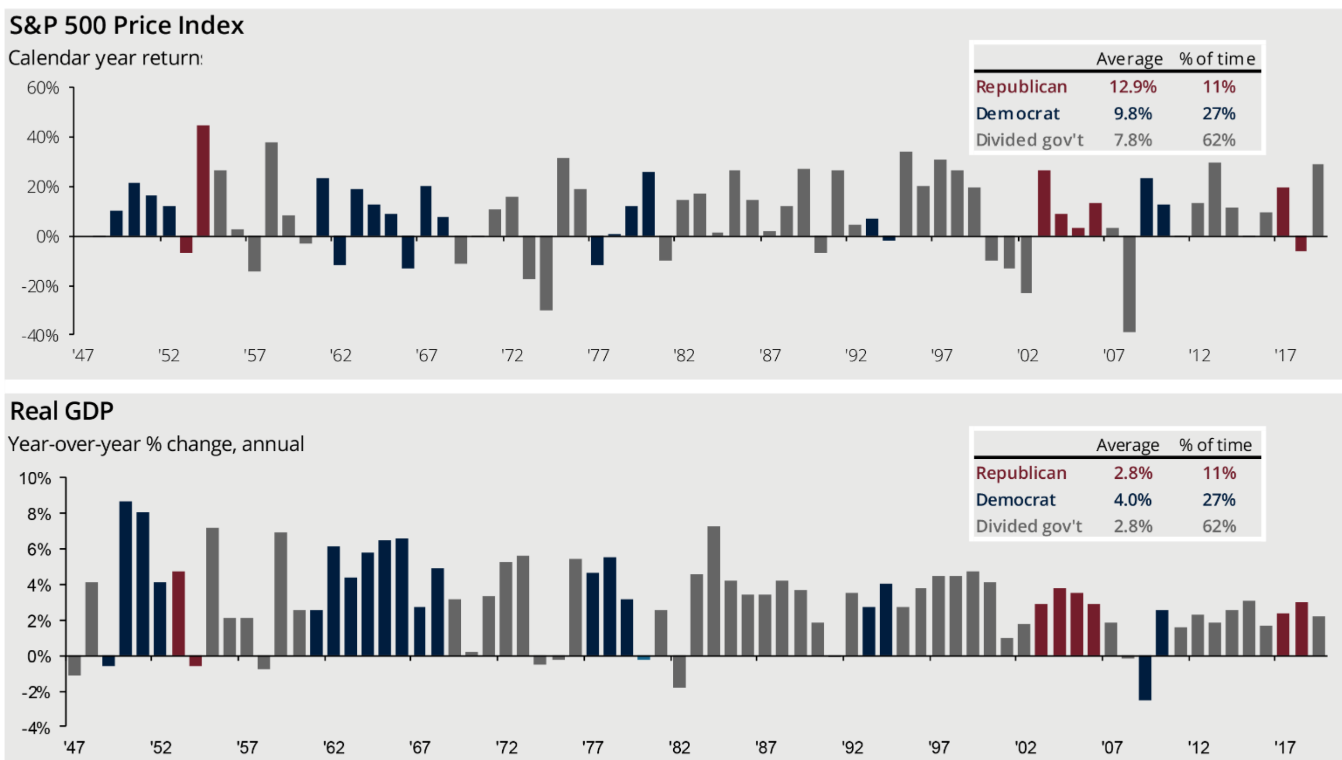


Exhibit 3

Investing Amidst an Election Year – What Should I Do? (cont.)

This is further illustrated in Exhibit 3 on the previous page and Exhibit 4 below, with positive S&P 500 returns and real GDP growth periods experienced during years of Republican, Democrat, and divided government control. For example, Republican control is defined as a Republican president and a Republican majority in the House of Representatives and Senate. Over time, the investment markets and economy has grown under all regimes.

GOVERNMENT CONTROL, THE ECONOMY AND THE STOCK MARKET



Source: FactSet, Office of the President, J.P. Morgan Asset Management; (Top) Standard & Poor's; (Bottom) Bureau of Economic Analysis. Top chart shows S&P 500 price returns.
Guide to the Markets – U.S. Data are as of September 30, 2020.

Exhibit 4

Quarterly Market Review

Recovery Continues Amid Volatility

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Portfolio Update

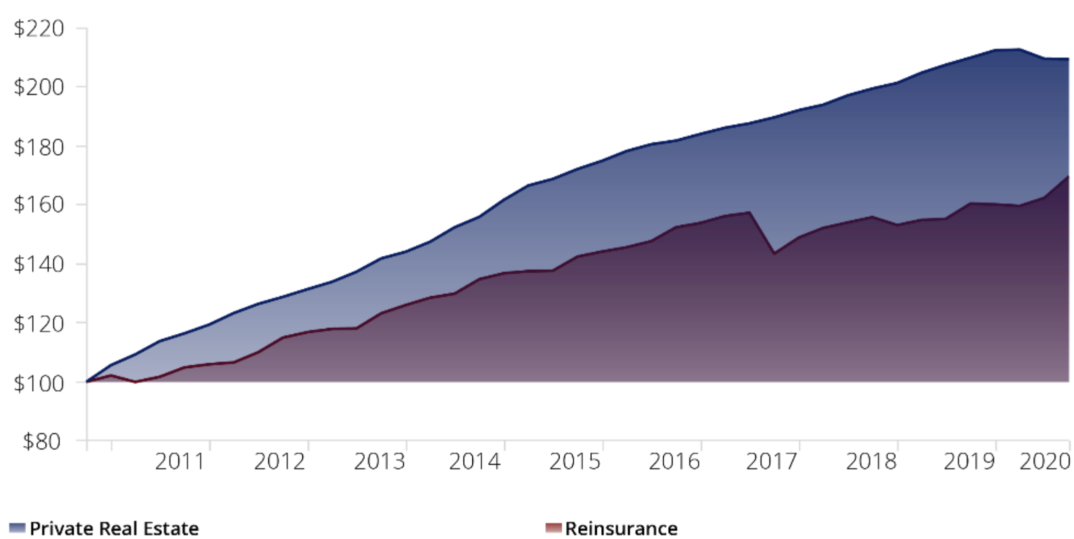
We have made several changes to our portfolios by adding new fixed income funds. The objective is to better manage this unprecedented interest rate environment and enhance your investment experience based on the goals of your portfolio. Meaning, if you have a conservative portfolio and your primary goal is income and cashflow, you will want shorter term debt (three years and below) with some inflation protection. If you have a more aggressive portfolio and your primary purpose is growth, you have the time horizon to extend your term (3-5 years). Our fixed income sleeve remains well diversified, high quality and short duration relative to the market.

Lastly, the investment committee has approved incorporating a 10% alternative investment sleeve. Our mission was to find alternative asset classes that provide diversification benefits to both the stock and fixed income portfolio, a reasonable expected return, and a modest level of risk. The committee has spent the better part of 2020 searching for best-in-class alternative investment options at a reasonable cost. After much research and due diligence, we will be incorporating Direct Private Real Estate and Reinsurance.

Direct Private Real Estate has historically provided stable returns at a fixed income-esque risk level. This investment differs from Real Estate Investment Trusts (REITs) in that it directly owns the underlying property and is not subject to stock market whims. This asset class is expected to provide impressive diversification benefits to both the stock and fixed income portfolio.

Reinsurance was another asset class that stood out. This is a new asset class for most, so additional education will occur in discussions with your advisor. But in a simplified explanation, Reinsurance invests in bonds that provide insurance capital to companies that are insuring against catastrophic events (earthquakes, typhoons, wind, tornados, etc.).

Exhibit 5



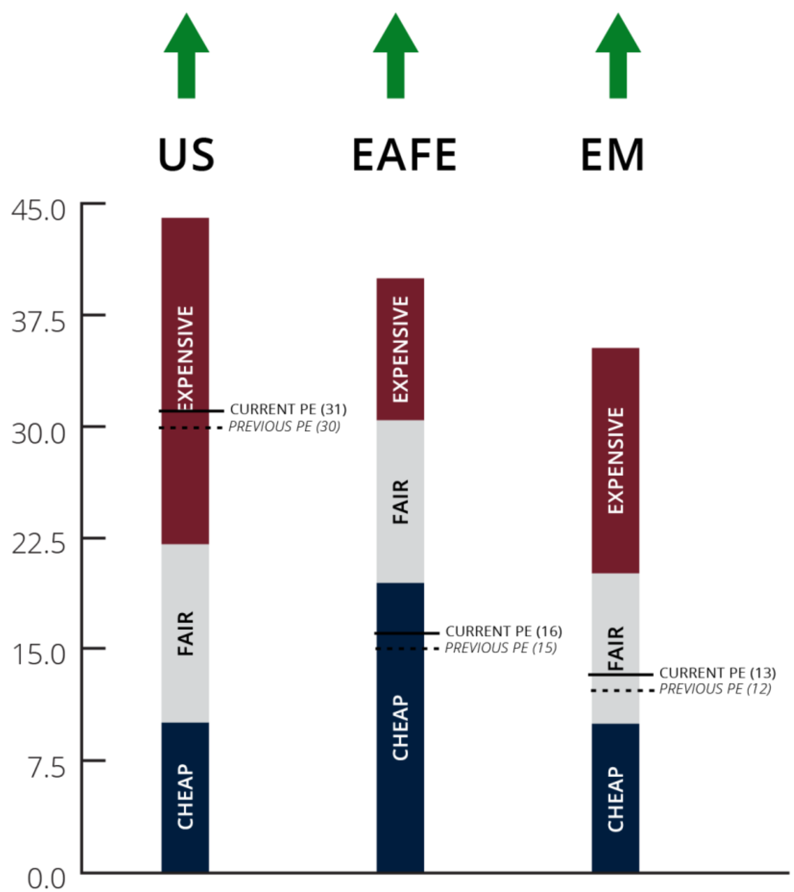
These bonds pay attractive yields, while having little to no correlation with the overall public investment market. For example, a typhoon in Japan has no correlation with the stock market returns in the United States and vice versa.

We are excited for these updates in the portfolio. As always, we will continue to oversee and manage in a prudent manner, and we will continue to search for best-in-class managers to offer to our clients.

Global Valuations

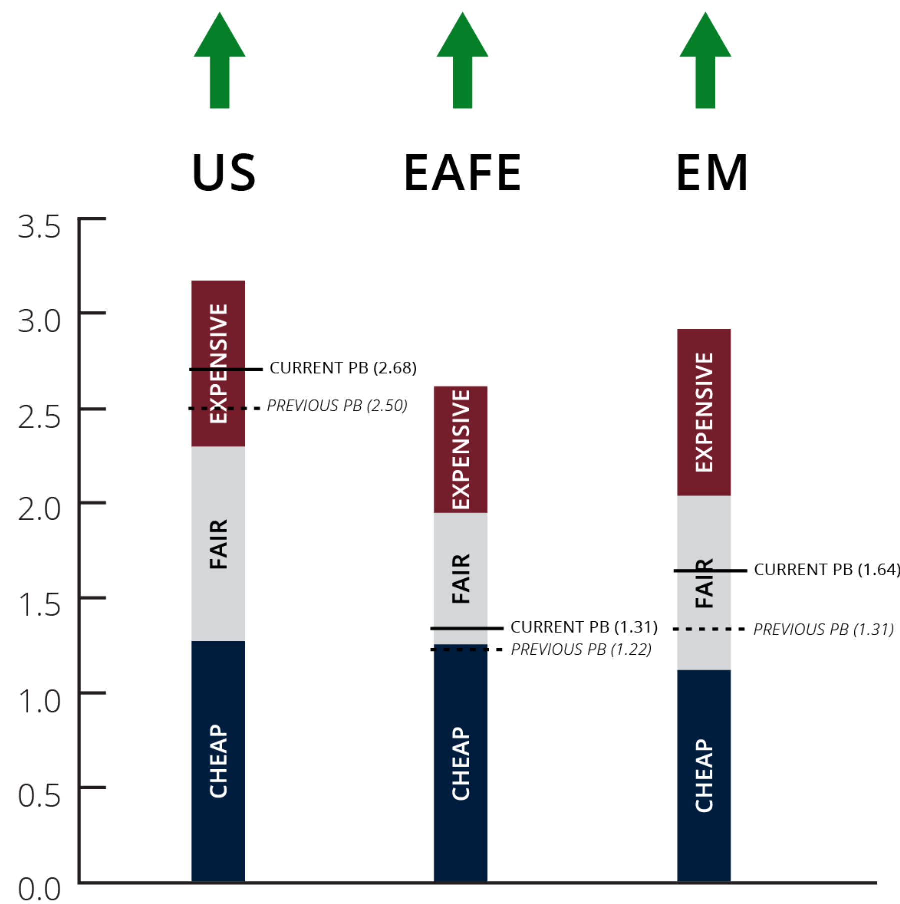
What is the Investment Climate?

Price-to-Earnings (CAPE)



As of 9/30/2020

Price-to-Book Value



As of 9/30/2020

Cyclically Adjusted Price-to-Earnings or “CAPE” is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period (10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

Quarterly Market Summary

Index Returns

3Q 2020	US Stock Market (STOCKS)	International Developed Stocks (STOCKS)	Emerging Markets Stocks (STOCKS)	Global Real Estate (STOCKS)	US Bond Market (BONDS)	Global Bond Market ex US (BONDS)
	9.21%	4.92%	9.56%	2.37%	0.62%	0.68%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2016 Q4**	**2015 Q2**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

Long-Term Market Summary

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Index Returns as of September 30, 2020

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
1 Year	**STOCKS**					**BONDS**	
	15.00%	0.16%	10.54%	-18.58%		6.98%	1.82%
5 Years							
	13.69%	5.32%	8.97%	2.20%		4.18%	4.33%
10 Years							
	13.48%	4.37%	2.50%	5.58%		3.64%	4.06%

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World Stock Market Performance

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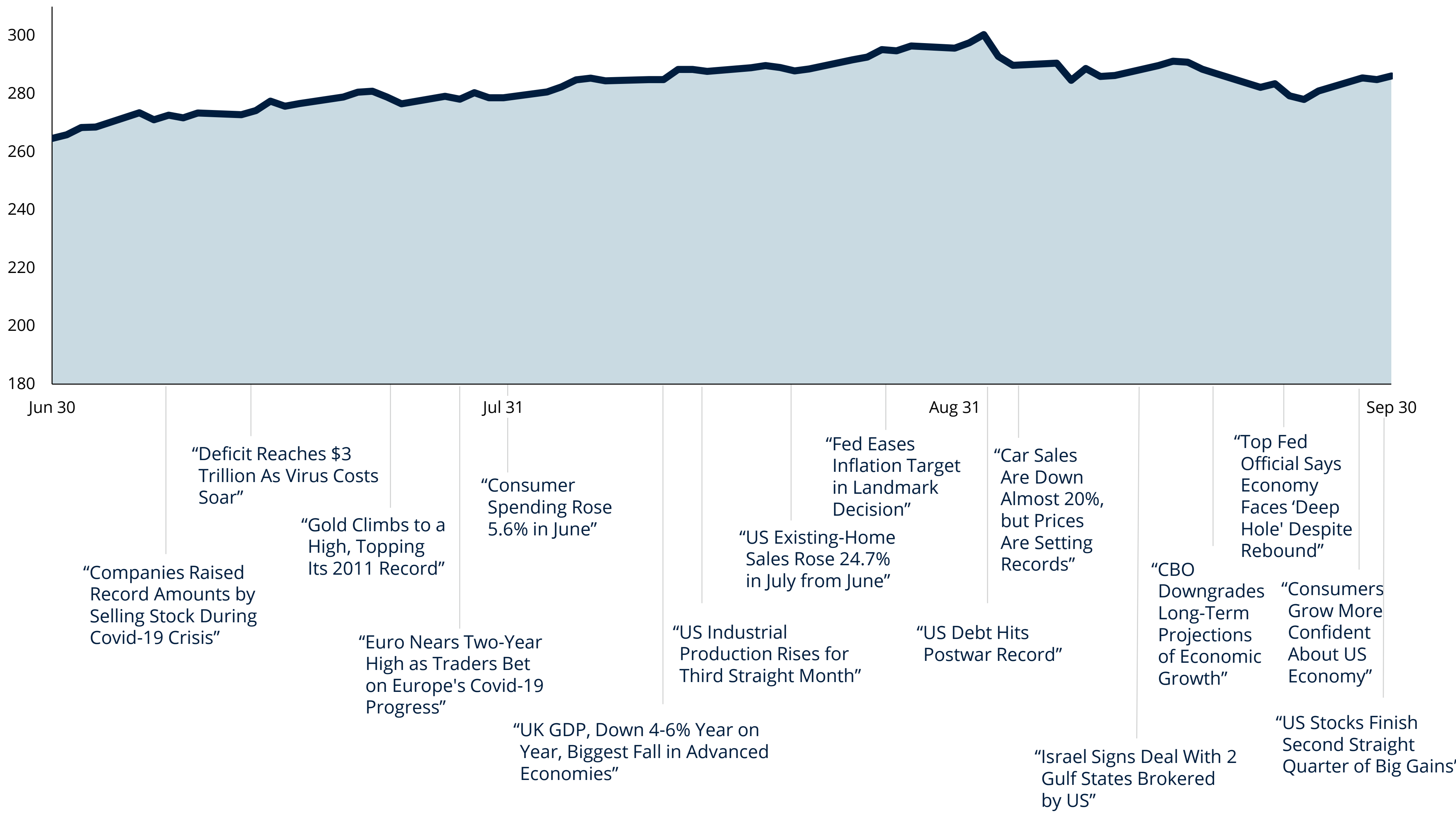
MSCI All Country World Index with selected headlines from Q3 2020



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results**

World Asset Classes

Third Quarter 2020 Index Returns (%)

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Equity markets around the globe posted positive returns in the third quarter. Looking at broad market indices, emerging markets equities outperformed US and non-US developed markets for the quarter.

Value underperformed growth across regions. Small caps outperformed large caps in non-US developed and emerging markets but underperformed in the US.

REIT indices underperformed equity market indices in both the US and non-US developed markets.