# Market Update and Model Portfolio Reviews 9/30/2020

## Model Strategies Trailing Returns* Compared to Respective Global and Domestic Benchmarks

Higher Risk/Reward Potential → Lower Risk/Reward Potential

| Ultra Aggressive | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -3.21% | 9.77% | 33.49% | 18.91% | 21.14% | 14.53% | 12.20% |
| 90% Equity | Global Benchmark | -2.73% | 7.23% | 26.38% | 0.62% | 8.45% | 4.62% | 8.47% |
| 10% Bond | Domestic Benchmark | -3.48% | 7.84% | 27.51% | 4.80% | 12.93% | 8.24% | 11.37% |

| Aggressive | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -2.89% | 8.75% | 30.37% | 19.18% | 21.12% | 14.51% | 11.29% |
| 80% Equity | Global Benchmark | -2.43% | 6.45% | 23.87% | 1.14% | 8.06% | 4.90% | 7.97% |
| 20% Bond | Domestic Benchmark | -3.11% | 6.98% | 24.77% | 4.90% | 12.11% | 8.27% | 10.56% |

| Growth | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -2.54% | 7.80% | 27.26% | 18.73% | 20.35% | 14.10% | 10.80% |
| 70% Equity | Global Benchmark | -2.13% | 5.67% | 21.36% | 1.66% | 7.67% | 5.17% | 7.47% |
| 30% Bond | Domestic Benchmark | -2.75% | 6.12% | 22.03% | 5.00% | 11.30% | 8.25% | 9.74% |

| Growth and Income | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -2.20% | 6.89% | 24.26% | 17.79% | 19.15% | 13.60% | 9.82% |
| 60% Equity | Global Benchmark | -1.83% | 4.89% | 18.86% | 2.18% | 7.28% | 5.44% | 6.96% |
| 40% Bond | Domestic Benchmark | -2.38% | 5.26% | 19.29% | 5.10% | 10.47% | 7.87% | 9.15% |

| Balanced | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -1.81% | 6.02% | 21.14% | 16.10% | 17.31% | 12.57% | 8.96% |
| 50% Equity | Global Benchmark | -1.53% | 4.11% | 16.35% | 2.70% | 6.88% | 5.72% | 6.44% |
| 50% Bond | Domestic Benchmark | -2.02% | 4.39% | 16.55% | 5.21% | 9.65% | 8.13% | 8.07% |

| Moderate | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -1.44% | 5.07% | 17.89% | 13.60% | 14.64% | 11.19% | 8.24% |
| 40% Equity | Global Benchmark | -1.23% | 3.32% | 13.84% | 3.22% | 6.49% | 5.99% | 5.91% |
| 60% Bond | Domestic Benchmark | -1.66% | 3.53% | 13.81% | 5.31% | 8.83% | 8.02% | 7.22% |

| Conservative | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -1.06% | 4.09% | 14.66% | 11.42% | 12.27% | 9.94% | 7.12% |
| 30% Equity | Global Benchmark | -0.93% | 2.54% | 11.33% | 3.73% | 5.71% | 6.26% | 5.38% |
| 70% Bond | Domestic Benchmark | -1.29% | 2.67% | 11.07% | 5.41% | 8.01% | 7.87% | 6.35% |

| Ultra Conservative | | 1-Month | 3-Month | 6-Month | YTD | 1-Year | 2-Year | Inception |
|---|---|---|---|---|---|---|---|---|
| Target Risk/Reward Profile | Model Strategy | -0.77% | 2.99% | 11.54% | 9.28% | 9.98% | 8.71% | 6.15% |
| 20% Equity | Global Benchmark | -0.63% | 1.76% | 8.82% | 4.25% | 5.71% | 6.53% | 4.84% |
| 80% Bond | Domestic Benchmark | -0.93% | 1.81% | 8.33% | 5.51% | 7.18% | 7.48% | 5.65% |

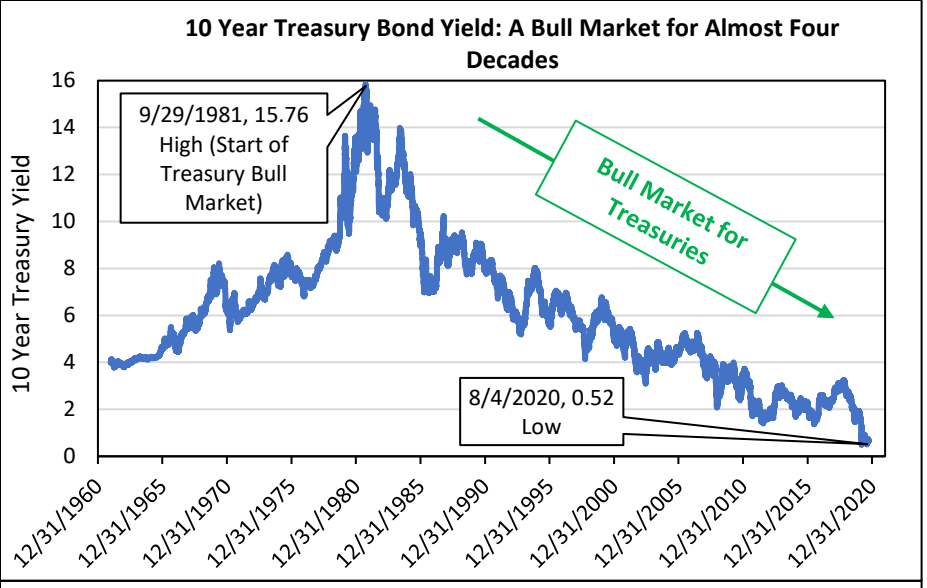
*DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. *Trailing returns as of 9/30/2020 and are annualized returns if over 1-Year. See "Model Disclosure" page for important disclosures and information – Total Period Measured 12/31/2016 – 9/30/2020. "Inception" refers to Inception to Date. Inception calculation assumes end of day market prices on 12/30/2016 for starting period values to calculate Inception to Date figures. Performance presented net of highest advisory fee. Views and opinions are of Alternative Capitalis, LLC and are not intended as investment advice or recommendation(s). The results do not represent actual trading and actual results may significantly differ from the theoretical results presented. Past performance is no guarantee of future results.*

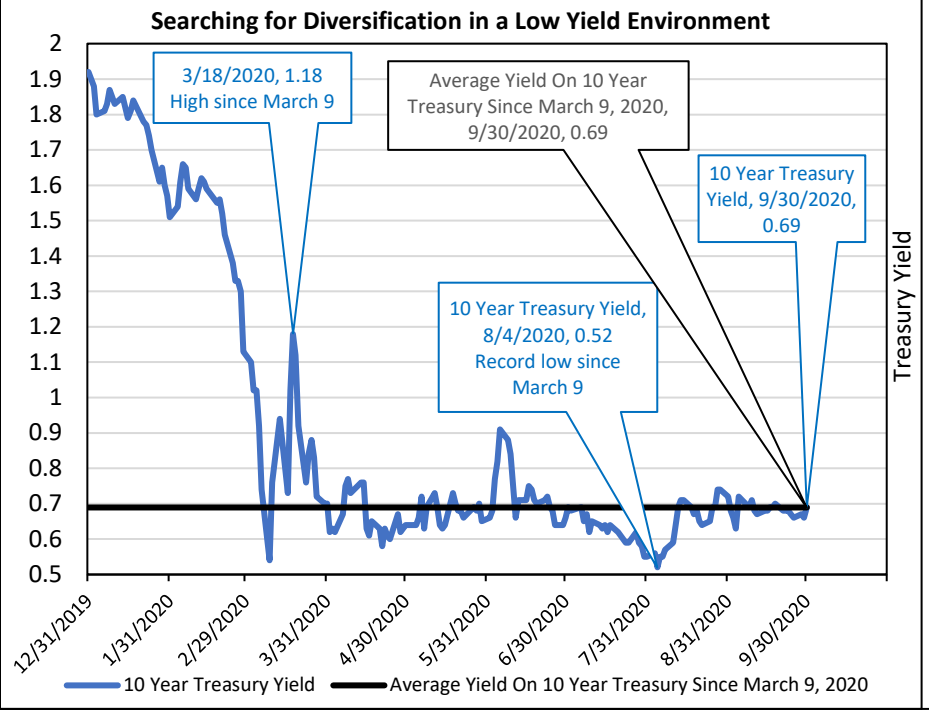
# Market Update and Model Portfolio Reviews 9/30/2020

For the month of September, domestic large cap equities finished down -3.80% and up 5.57% year to date. Investment Grade Bonds* finished the month down -0.05% and are up 6.79% year to date. After a record high closing of the S&P 500 on September 2, equities traded negatively going into the labor day weekend and stayed off of their highs through month end. As the election draws closer it is important to stay focused on what is important to the market and avoiding the distractors in the investment decision-making process. It is easy to lose sight with so much political noise, so we highlight areas to stay focused on:

- Vaccine, vaccine, vaccine…and our societies acceptance of a vaccine.
- Until broad acceptance of a vaccine, it is stimulus, stimulus, stimulus. The senate and house have many distractions for what markets are hungry for, more fiscal stimulus, as another wave of rising coronavirus cases threatens to bring more closure and restrictions on businesses and entities. The government fiscal year end is September 30, and a fiscal budget will need to be passed with a House and Senate still at odds over another pandemic relief package to avoid a government shutdown.
- The Senate is tasked with the successor nomination of the late Ruth Bader Ginsburg. Why is this distraction important to stay focused on...because it will take away focus on the more immediate need for fiscal stimulus in many hard-hit areas of the economy. This distraction also has the potential to impact on the composition of the Senate during an important Senate race in swing states for incumbent republicans. Markets are less concerned with who wins the Presidential election than they are over the makeup of the Senate as a Biden win plus a large shift from Republican to Democratic Senators means a likely change in tax law on the horizon (which will be both a surprise and a shock to markets).
- The uncertainty over the elections are blamed for much of the market volatility we saw in September. The important take away from September's market volatility were the elevated valuations, especially in the mega large cap names compared to historical relative valuation measures. Absent an election coming up, **markets were expensive…period**. Equities and fixed income were largely overbought leading into September, so it is easy to confuse this volatility over election concerns.
- The makeup and composition of the labor force regaining employment is important. Someone with a Bachelors Degree or higher has an unemployment rate of 5.3% (as of August 2020), which is high in historical measures for this labor force classification but is falling back towards levels seen during the post financial crisis (a good thing for this labor force classification). Although the makeup for those without a high school diploma sits at 12.6% during this same period measures. These tend to represent the some of the lowest paying jobs and the hardest hit demographic of the pandemic. From most traditional economic playbooks, we should infer that this is the area that could benefit the most from additional pandemic relief but also will have the highest propensity to consume (spend) rather than saving pandemic relief. Consumption is the primary driver of our economy. It is important this demographic gets help and help soon as this will flow through positively in economic data focused on consumption.
- Where do we get diversification from now when the traditional bond portion of the asset allocation mix has lost the anchor status and the pep in its step? We spend some time below highlighting and illustrating the difficulty this creates and consider the risks involved for portfolio diversification through hedging.

We raised cash in the models on September 1st and quickly redeployed cash on September 8th. Bond and equites broadly fell over this period with equities continuing to fall more broadly after September 8th. We were able to create a small amount of active management alpha instead of sitting on our hands. This marked the first model allocation shift since our June 5th rebalance. Our relative performance has remained strong so we will highlight exposures that have not done as well relative to the overall model allocations. The energy sector nearly doubled off the March 23rd market bottom easily out pacing all other equity exposures through June 8th. Since June 8th the energy sector has been a pain trade. There's an urge to cut our losses or double down but right now seems appropriate to stay the course as valuations are still high on 2021 earnings estimates, a reasonable return to normalcy in 2022 along with lower oil inventories may provide a lift as investors look for return to work themes. Political risk and low adoption of a vaccine candidate could turn the Energy Sector into a zombie. Our regional banking equity exposure follows a similar path and timeline and also appears attractively valued relative to the rest of our equity allocations. Our Healthcare Sector exposure also looks attractive when using historical relative valuation measures.



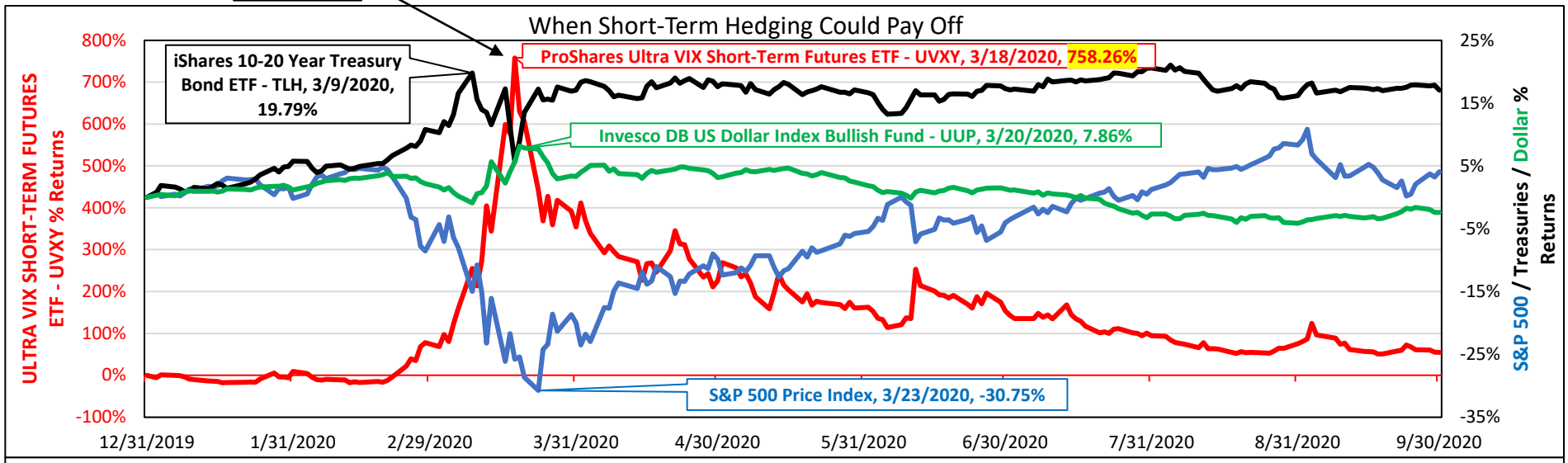

## A Tailwind Turned Headwind?

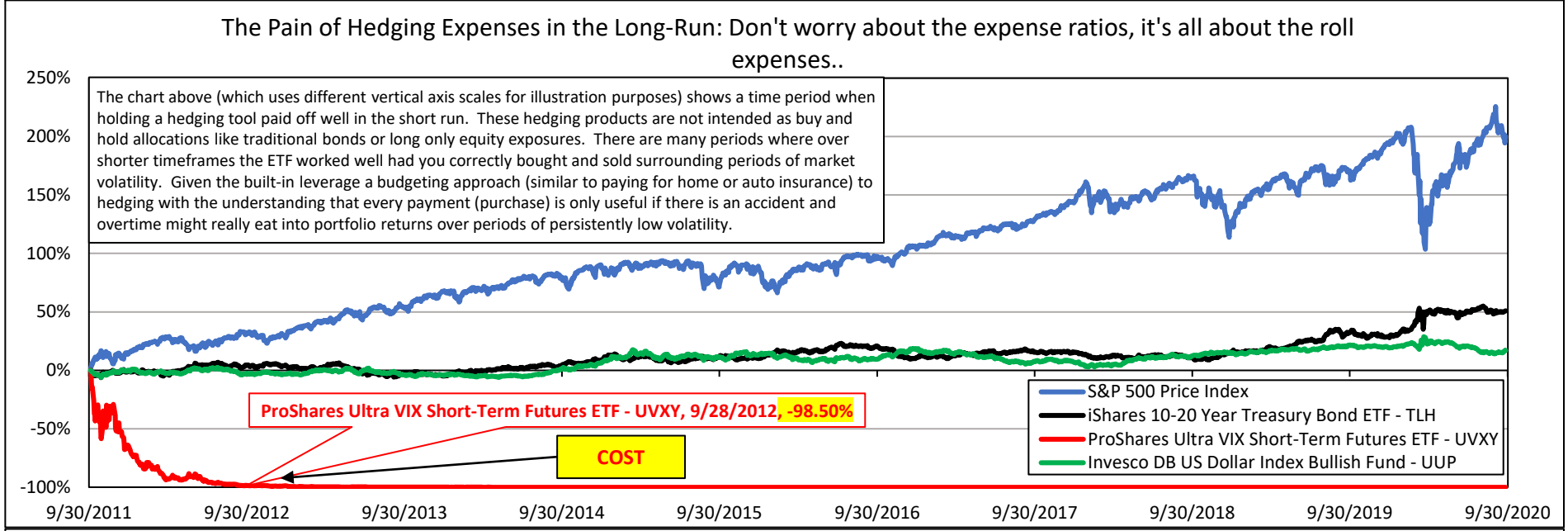
Bond prices move **inversely** to interest rates. With the yield on the 10-year Treasury bond averaging approximately 6.00% over the past 58 years, the 10-year Treasury yield has not been above 6% since July 31, 2000 (over 20 years ago). Since then, the average yield is approximately 3.25%. Since March 9th of this year, the yield has averaged under 0.70% (see the second chart below, "Searching for Diversification in a Low Yield Environment." When coupons (or yields) on bonds are lower, their sensitivity to interest rates are much higher as is the case now with very low yields. Although a tailwind for the bond market since the yields on the 10-year treasury yield peaked on September 29, 1981, the concern is how much safety lower yields can provide as we saw no diversification benefit in the first week of September when equities sold off. The safest place was cash…

## Where Has the Diversification Gone?

On September 16 the Federal Reserve Board members released their summary of economic projections which included an expectation for policy rates to stay near 0% through 2023. Diversification is tough to come by in this low interest rate environment. Exploration of other asset class exposures including derivatives and currency related products require much scrutiny although may serve as a substitute for risk mitigation with interest rates so low. The trouble, especially with many of the derivative products such as inverse or bear market favorable products, is that they have an inherent decaying factor as the underlying futures contracts that make up these products have expiration dates that need to be rolled over (sell expiring contracts and buy new contracts). The timing of volatility and the need to rollover contracts is very important as it helps dictate the realistic usefulness of a hedging product as different periods in the future surrounding event risk (think elections for example) drive hedgers and speculators to reprice event risk. Currency products for U.S. investors packaged into an open-end fund product tend to focus on being short the dollar (paired with a long non-dollar currency) with a few acceptations in broad long dollar indexes. The dollar maintains a safe haven status in true risk-off market environments whereby investors flock to the currency for its safety. The issue is, the dollar does not always move in a materially favorable enough way that high quality bonds have done so historically. In order to get enough juice from the squeeze an allocator would need to nearly replace all of their traditional risk mitigation exposures and pile into a long dollar exposure.

# A Cost/Benefit Illustration of Portfolio Insurance




*DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. See "Model Disclosure" page for important disclosures and information. S&P 500 Price Index. Symbol TLH stands for the iShares 10-20 Year Treasury Bond ETF, UVXY stands for the ProShares Ultra VIX Short-Term Futures ETF, & UUP stands for the Invesco DB US Dollar Index Bullish Fund. Alternative Capitalis, LLC has not been endorsed and is not affiliated with BlackRock, ProShares, or Invesco. BlackRock, ProShares, nor Invesco does not endorse the use of this information presented herein nor endorse Alternative Capitalis, LLC. Actual Data presented from 12/31/2019 through 9/30/2020 for the first chart and from 10/3/2011 through 9/30/2020 for the second chart. Views and opinions are of Alternative Capitalis, LLC and are not intended as investment advice or recommendation(s). Past performance is no guarantee of future results. "Inception" refers to Inception to Date. Inception calculation assumes end of day market prices on 12/30/2016 for starting period values to calculate Inception to Date figures. Performance presented net of highest advisory fee. The results do not represent actual trading and actual results may significantly differ from the theoretical results presented. Past performance is no guarantee of future results.*

Alternative Capitalis, LLC
233 Harvard St, #307,
Brookline, MA 02446*

P. 551-ALT-FIRM (258-3476)
WWW.ALTCAPITALIS.COM
Facebook.com/ALTCAPITALIS
Info@AltCapitalis.com

Alternative Capitalis, LLC

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The performance calculations are based on a hypothetical investment of $100,000 for both the model and benchmarks presented. **Benchmarks:** The performance results shown are compared to the performance of the performance of a blended ETF (exchange-traded-fund) portfolio comprised of the following two ETF's symbols, SPY & AGG, are described below. The benchmarks used are investable ETFs and their performance calculation is inclusive of the highest fee charged to a client(s) account, 1.25% annually. This will reduce the total return of the investable benchmark by the annualized rate of 1.25%. The ETF symbol SPY (SPDR® S&P 500® ETF Trust) which seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index (the "Index"). Visit https://us.spdrs.com/en/etf/spdr-sp-500-etf-SPY for more information about the ETF. The S&P 500® Index results do not reflect fees and expenses and you typically cannot invest in an index. The ETF symbol AGG (iShares Core U.S. Aggregate Bond ETF). The iShares Core U.S. Aggregate Bond ETF seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. (the "Index"). Visit https://www.ishares.com/us/products/239458/ishares-core-total-us-bond-market-etf for more information about the ETF. The index composed of the total U.S. investment-grade bond market results do not reflect fees and expenses and you typically cannot invest in an index. The benchmark is blended representing a weighting of a percentage (%) to SPY and percentage (%) to AGG based on the respective model weights below. Unless otherwise indicated, the benchmarks are not rebalanced to maintain their original weighting over the period measured. Instead, they are comprised of the starting allocation and will shift given the prevailing market environment over the period measured. **Return Comparison:** To benchmark the results, the ETF (exchange-traded-fund) symbol SPY (SPDR® S&P 500® ETF Trust) which seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index (the "Index"). The S&P 500 was chosen as it is generally well recognized as an indicator or representation of the stock market in general and includes a cross section of equity holdings. In addition, the ETF symbol AGG was chosen as a benchmark. The iShares Core U.S. Aggregate Bond ETF seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. The total U.S. investment-grade bond market was chosen as it is generally well recognized as an indicator or representation of the bond market in general and includes a cross section of debt holdings. For each respective model benchmark the performance measurement weightings are as follows to SPY / AGG %: 20/80, 30/70, 40/60, 50/50, 60/40, 70/30, 80/20, 90/10 % respectively for Ultra Conservative, Conservative, Moderate, Balanced, Growth & Income, Growth, Aggressive, Ultra Aggressive. **OPTIONS TRADING RISK DISCLOSURE**: Options Trading – Both the purchase and writing (selling) of options contracts –involves a significant degree of risk not suitable for all investors. Investors should carefully consider the inherent risks and financial obligations associated with options trading as further detailed in the Options Clearing Corporate booklet "Characteristics and Risks of Standardized Options." 233 Harvard St, #307, Brookline, MA 02446 is Alternative Capitalis, LLC's client facing address. All books, records, receipts, correspondence (mailing address) and day to day operations are located at 1565 West St, Wrentham, MA 02093.

**The results do not represent actual trading and actual results may significantly differ from the theoretical results presented.**

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Alternative Capitalis, LLC
233 Harvard St, #307,
Brookline, MA 02446*

P. 551-ALT-FIRM (258-3476)
WWW.ALTCAPITALIS.COM
Facebook.com/ALTCAPITALIS
Info@AltCapitalis.com


**Model Disclosure Continued**

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| ETF | Earliest Available Price Data for ETF | Backfill Index 1 | Earliest Available Data for Index Backfill 1 | Backfill Index 2 | Earliest Available Data for Index Backfill 2 |
|---|---|---|---|---|---|
| BNDX | 5/31/2013 | *ICE BofAML Global Broad Market Index* | 9/22/1998 | N/A | N/A |
| VT | 6/24/2008 | MSCI All Country World Index TR | 12/29/2000 | *S&P 500 (TR) Index* | 9/22/1998 |
| BND | 4/3/2007 | Barclays US Aggregate Bond Index | 9/22/1998 | N/A | N/A |

The ETF symbol BNDX (Vanguard Total International Bond ETF). The Vanguard Total International Bond ETF attempts to track the performance of the Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged). Visit https://investor.vanguard.com/etf/profile/BNDX for more information about the ETF. The ETF symbol VT (Vanguard Total World Stock ETF) seeks to track the performance of the FTSE Global All Cap Index, which covers both well-established and still-developing markets. Visit https://investor.vanguard.com/etf/profile/VT for more information about the ETF. The ETF symbol BND (Vanguard Total Bond Market ETF). The Vanguard Total Bond Market ETF attempts to track the performance of the Bloomberg Barclays U.S. Aggregate Float Adjusted Index and attempted to track the Bloomberg Barclays U.S. Aggregate Bond Index through December 31, 2009. Visit https://investor.vanguard.com/etf/profile/BND for more information about the ETF. The benchmark is blended representing a weighting of a percentage (%) to BND, percentage (%) to VT and percentage (%) to BNDX based on the respective model weights below. Unless otherwise indicated, the benchmarks are not rebalanced to maintain their original weighting over the period measured. Instead, they are comprised of the starting allocation and will shift given the prevailing market environment over the period measured. **Return Comparison:** To benchmark the results, the ETF symbol BNDX (Vanguard Total International Bond ETF) attempts to track the performance of the Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged). The Vanguard Total International Bond ETF was chosen as it is generally well recognized as an indicator or representation of the global bond market, ex-U.S. bonds, and tracks an investment-grade, non-USD denominated bond index, hedged against currency fluctuations for U.S. investors. The ETF symbol VT (Vanguard Total World Stock ETF) seeks to track the performance of the FTSE Global All Cap Index, which covers both well-established and still-developing markets. The Vanguard Total World Stock ETF was chosen as it is generally well recognized as an indicator or representation of the global stock market and tracks a market-cap-weighted index of global stocks covering approximately 98% of the domestic and emerging market capitalization. The ETF symbol BND (Vanguard Total Bond Market ETF) attempts to track the performance of the Bloomberg Barclays U.S. Aggregate Float Adjusted Index and attempted to track the Bloomberg Barclays U.S. Aggregate Bond Index through December 31, 2009. The Vanguard Total Bond Market ETF was chosen as it is generally well recognized as an indicator or representation of the U.S. Domestic bond market, and tracks a broad, market-value-weighted index of U.S. dollar-denominated, investment-grade, taxable, fixed-income securities with maturities of at least one year. For each respective model benchmark the performance measurement weightings are as follows to BND/VT/BNDX %: 66/20/14, 57.8/30/12.3, 49.5/40/10.5, 41.2/50/8.8, 33/60/7, 24.7/70/5.3, 16.5/80/3.5 and 8.2/90/1.8 % respectively for the Ultra Conservative, Conservative, Moderate, Balanced, Growth & Income, Growth, Aggressive and Ultra Aggressive Global Benchmarks.