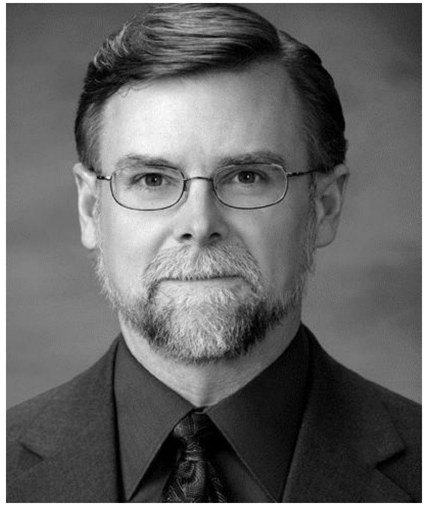
Bonds - an “investment” or “speculation”

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robbrownonline.com



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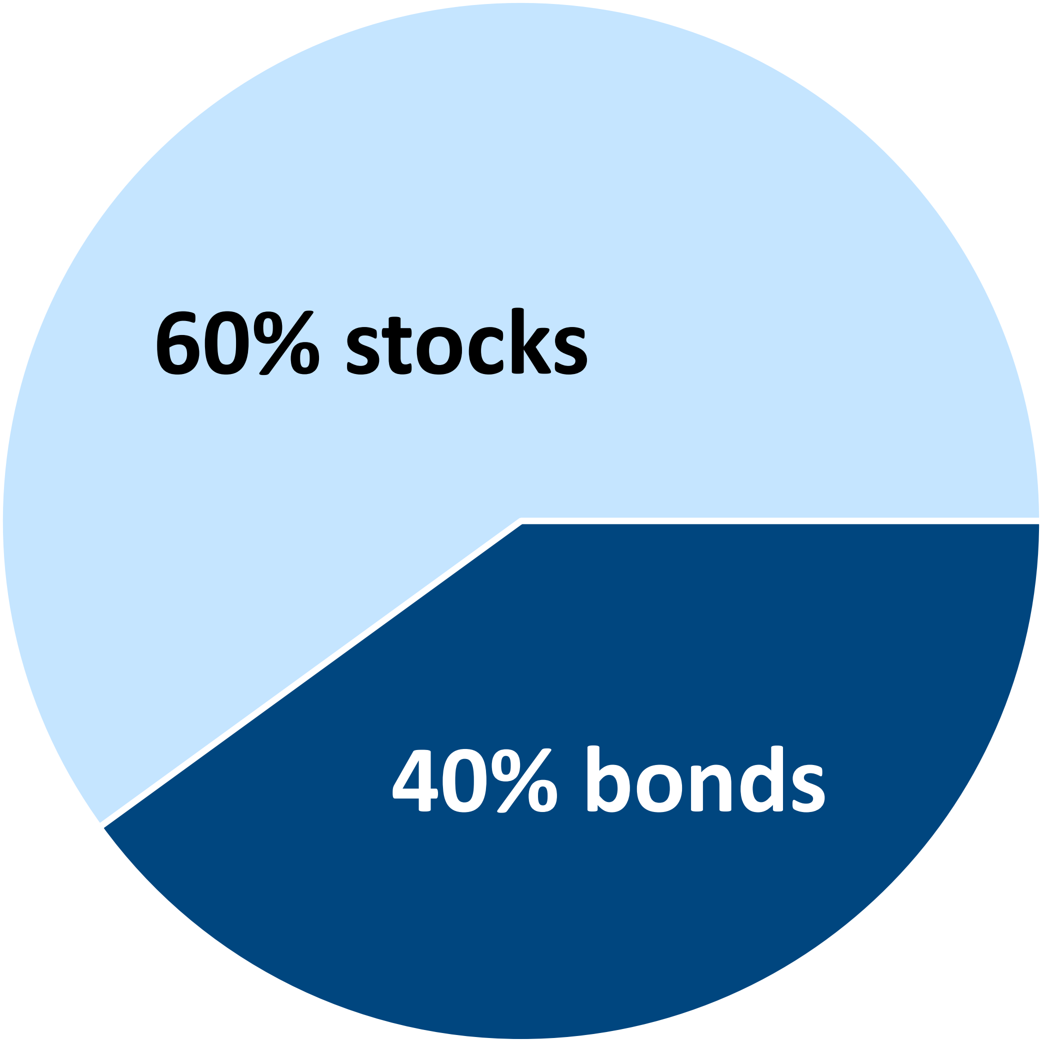
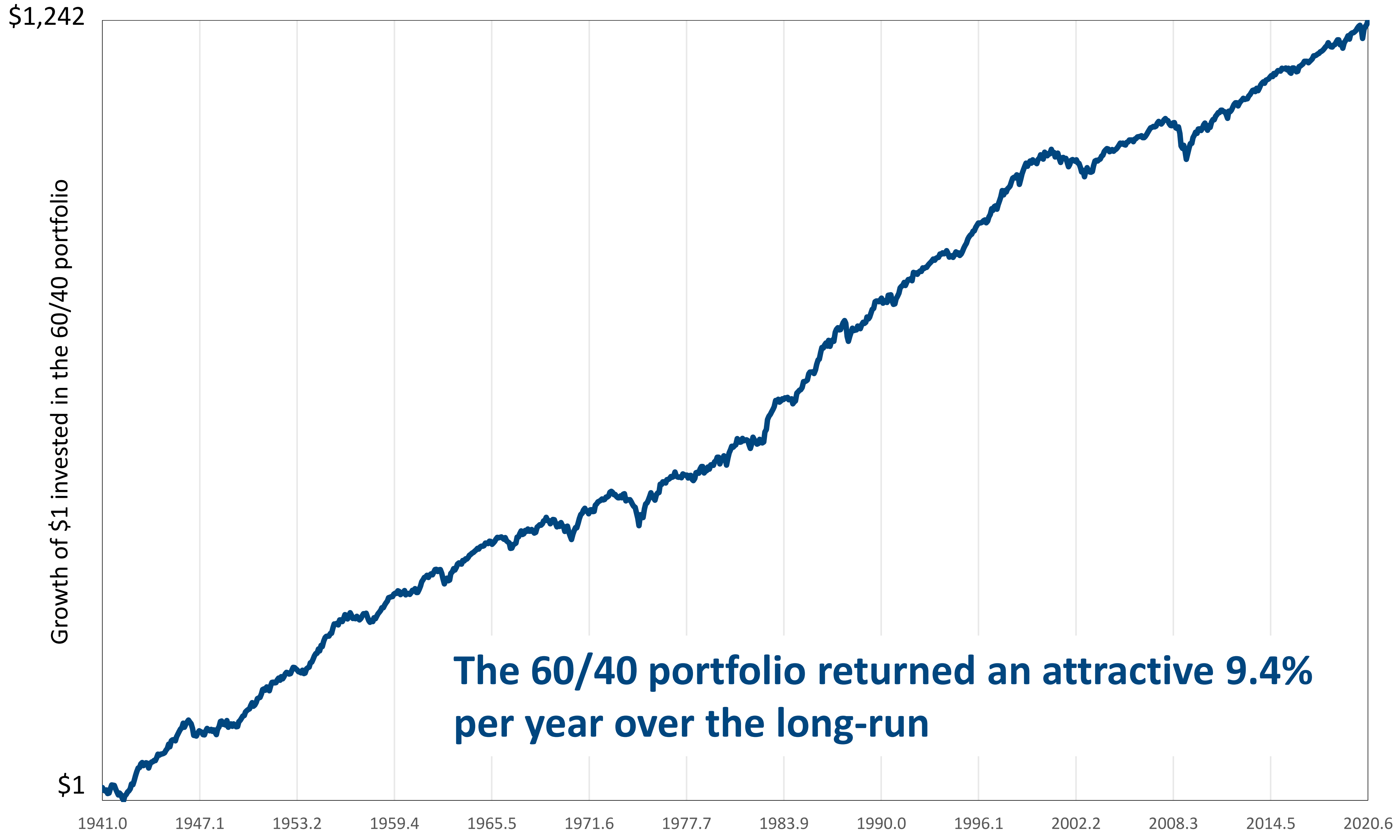
60/40 portfolio defined - sometimes called a “balanced portfolio”



Well diversified across the stocks of 500 prominent U.S. corporations

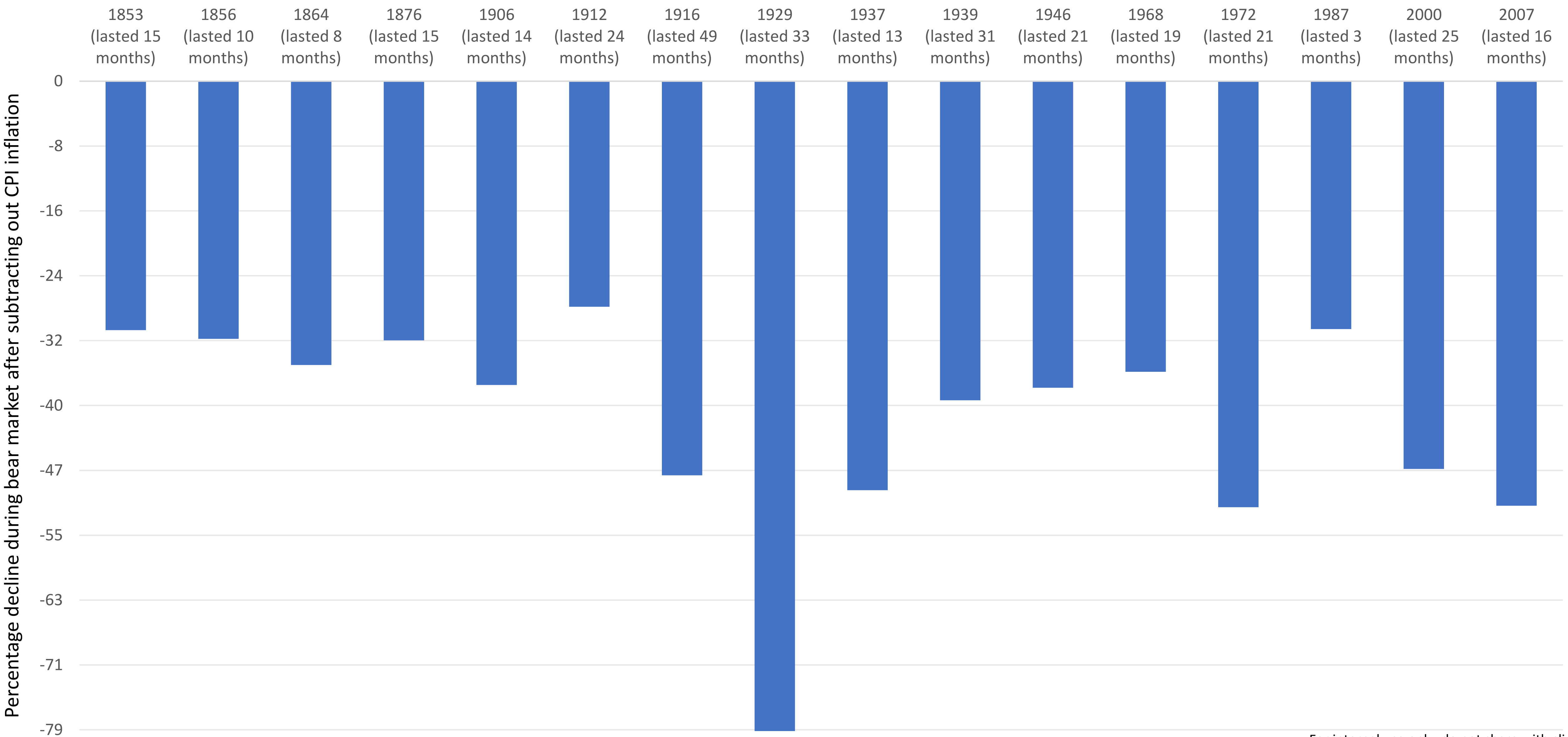
Well diversified across intermediate-term U.S. Treasury bonds and high-quality investment grade U.S. corporate bonds

60/40 portfolio has delivered consistent long-term success



The successful 60/40 portfolio requires genuine bear market mitigation

Bear markets have been both severe and long-lasting



Bonds play a vital role within the 60/40 portfolio

Partially offset stock losses during bear market

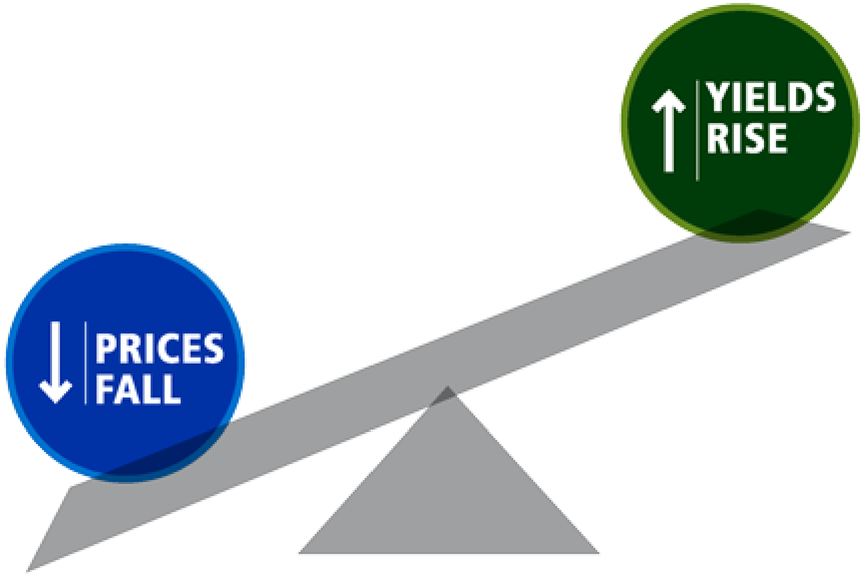
PRIMARY role of bonds in a larger portfolio

Current income

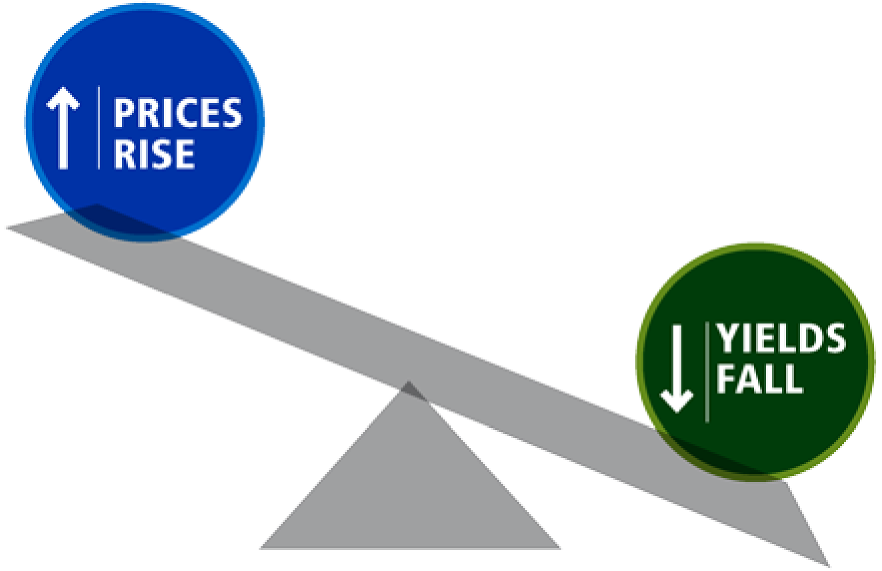
SECONDARY role of bonds in larger portfolio

Relationship between interest rates and bond prices

When interest rates rise



When interest rates fall



Why the 60/40 portfolio works so well

Stocks collapse during periodic bear markets

60% invested in stocks

40% invested in bonds

Interest rates generally decline during bear markets, driving bond prices higher

An example of past success - bonds play a vital role

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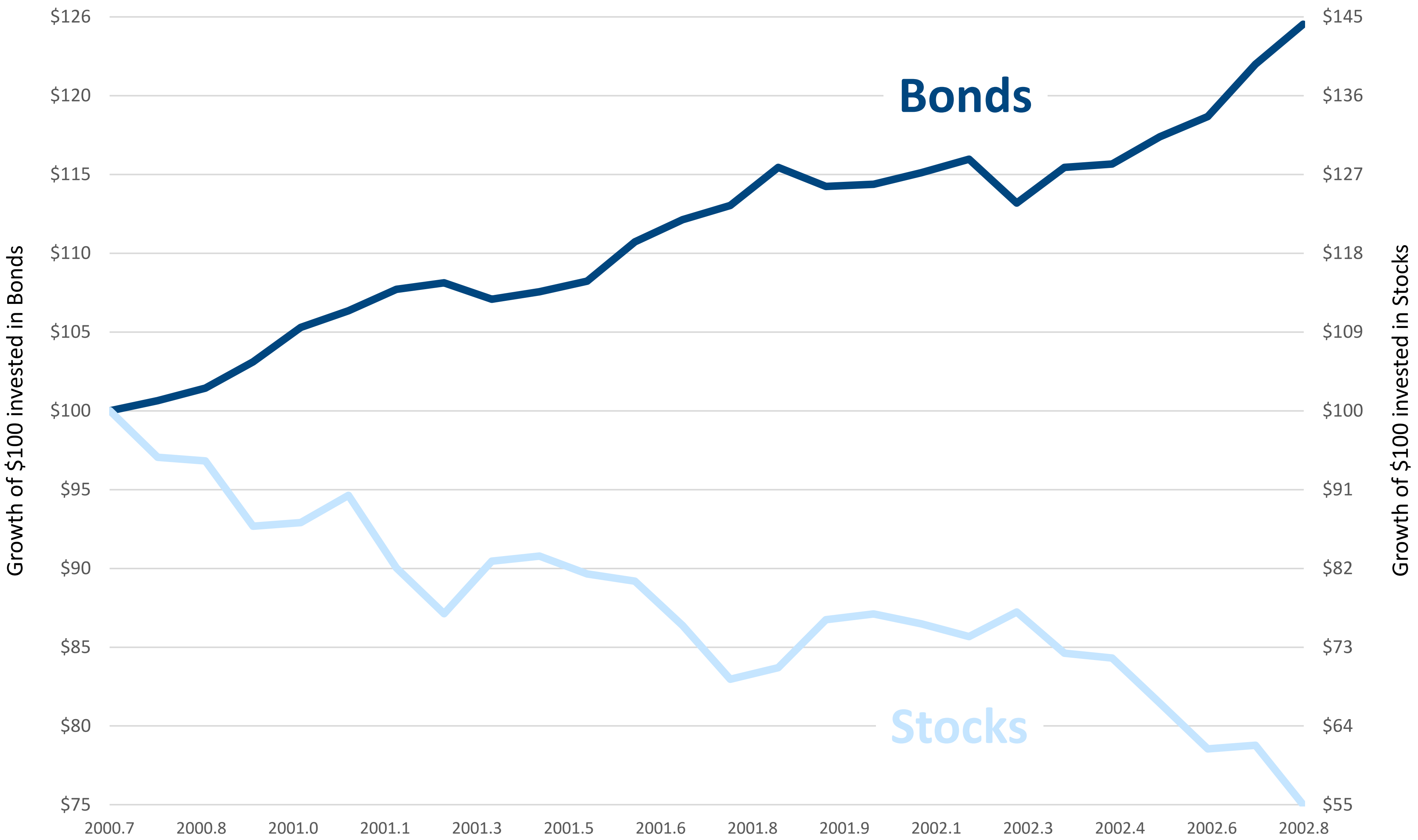
Bear market of 2000 - Aug 2000 to Sept 2002



A second example of past success - bonds play a vital role

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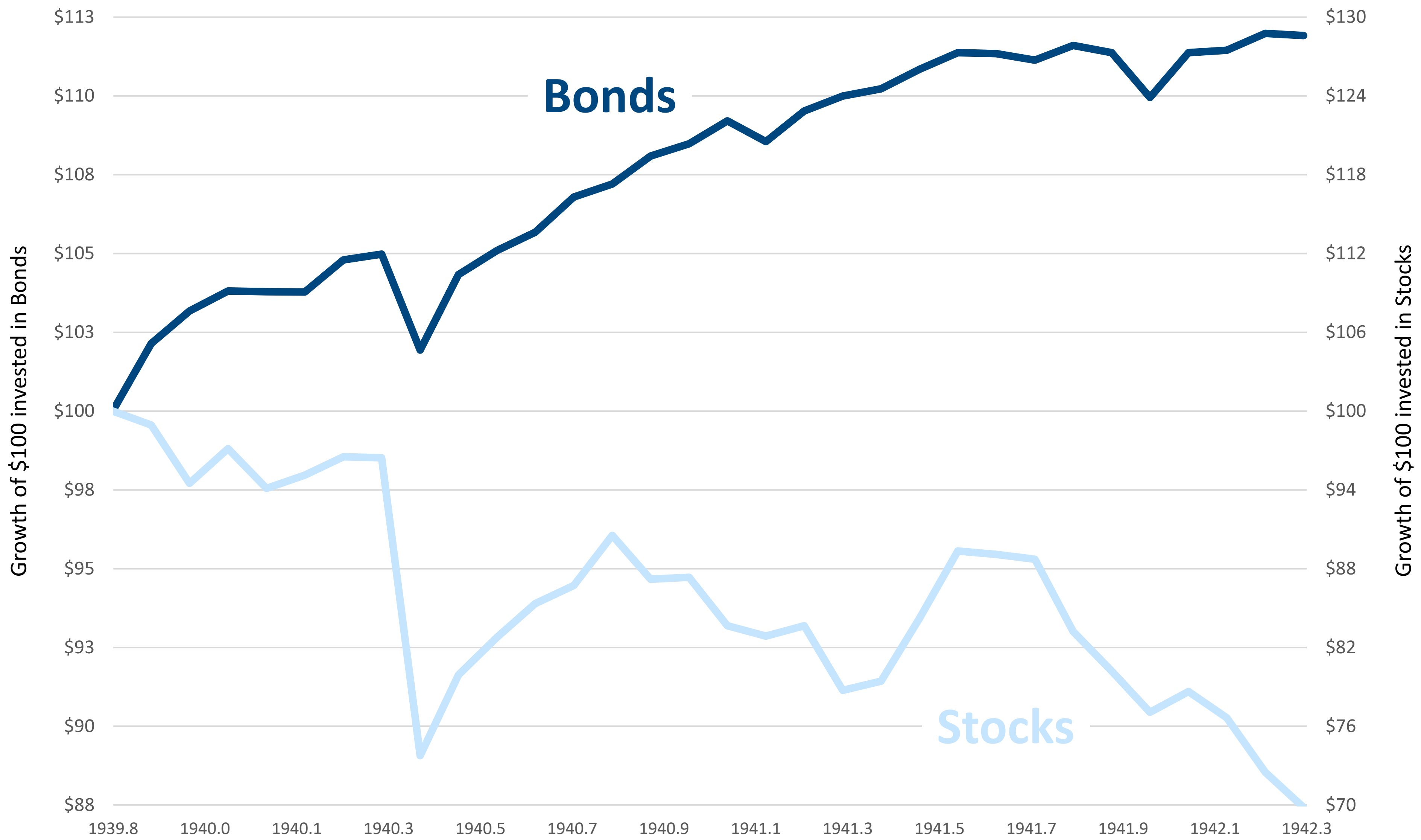
Bear market of 1939 - Sept 1939 to Apr 1942



But the world is different today - and not in a small way

If interest rates rise, bonds can't play their necessary role

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Bond prices will rise or fall by the following amounts depending on the direction interest rates take

Change in interest rates (from current levels)	10-year U.S. Treasury bond	30-year U.S. Treasury bond
-25bps	**+2%**	**+6%**
+25bps	**-2%**	**-6%**
+50bps	**-5%**	**-12%**
+100bps	**-10%**	**-25%**
+200bps	**-19%**	**-49%**
+250bps	**-24%**	**-61%**

Based on where interest rates stood on August 19, 2020
Assumes an instantaneous change in the level of interest rates, i.e., overnight

The next bear market may be very uncomfortable

BEST case scenario - Your 60/40 portfolio losses -20%

Stocks collapse during modest bear market

Stocks fall -35%

Earn +2 ½% on your bonds

Bonds deliver their current yield plus very slight price appreciation

The next bear market . . . could be even worse

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WORST case scenario - Your 60/40 portfolio losses -35%

Stocks collapse during robust bear market

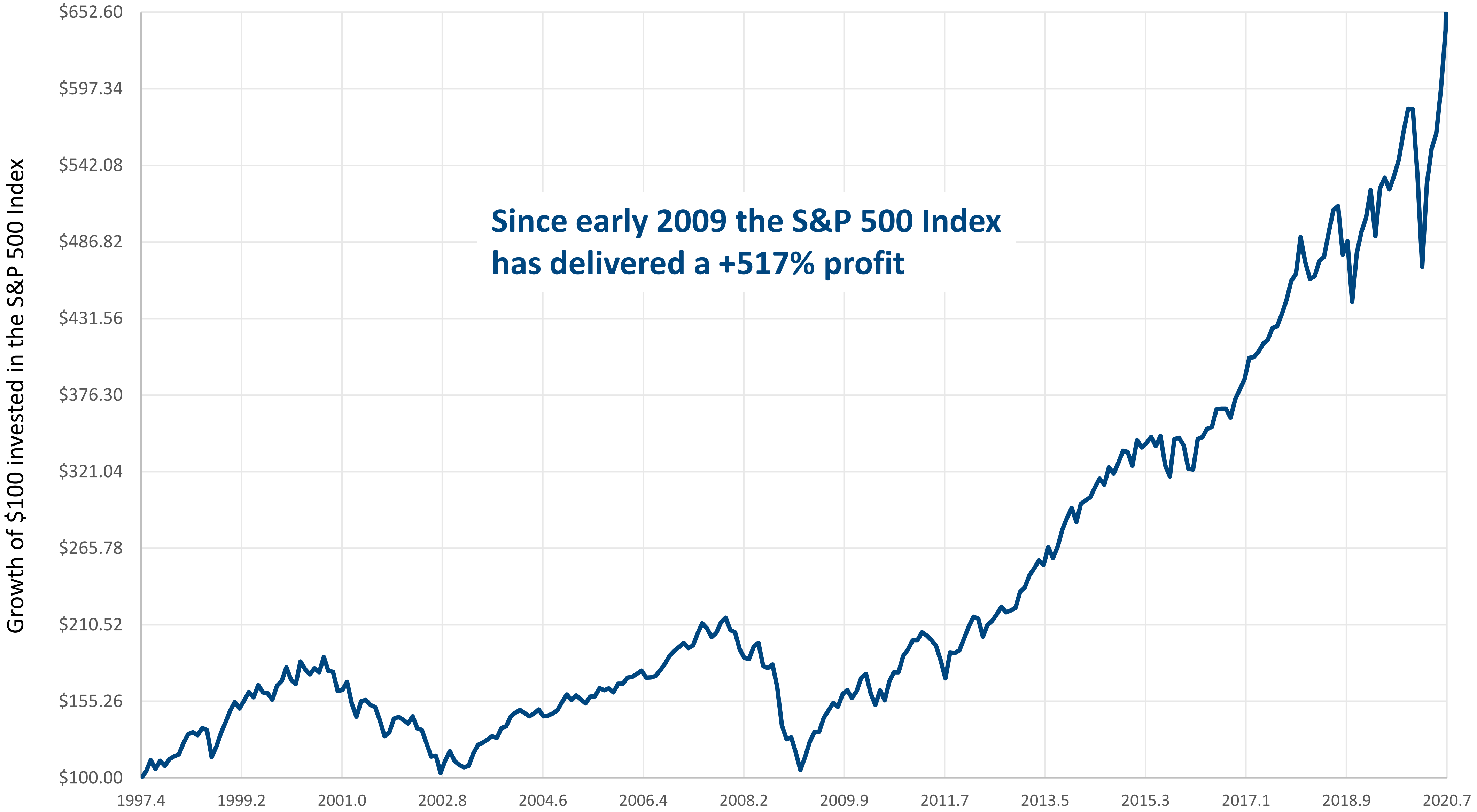
Stocks fall -45%

Bonds lose -20%

Bonds deliver their current yield but suffer significant decline as interest rates rise

The next bear market is closer than one might think

The current bull market is long in the tooth

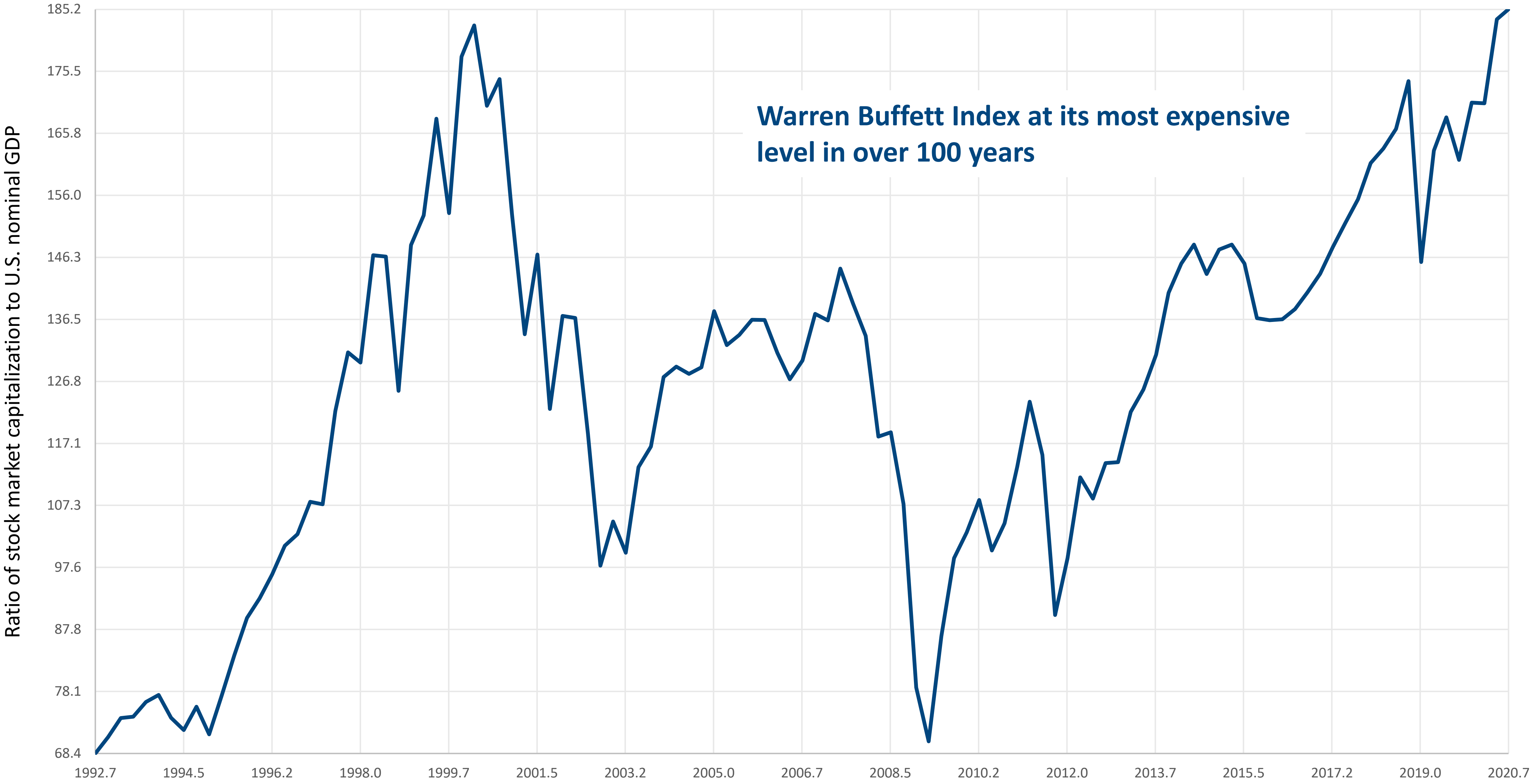


See Disclosure # 7 on the last page

The next bear market is closer than one might think - continued

The next bear market might be more severe than the average

Stocks are richly priced relative to the U.S. economy (GDP)



Great past performance provides NO basis for future success

One of the very best bond funds

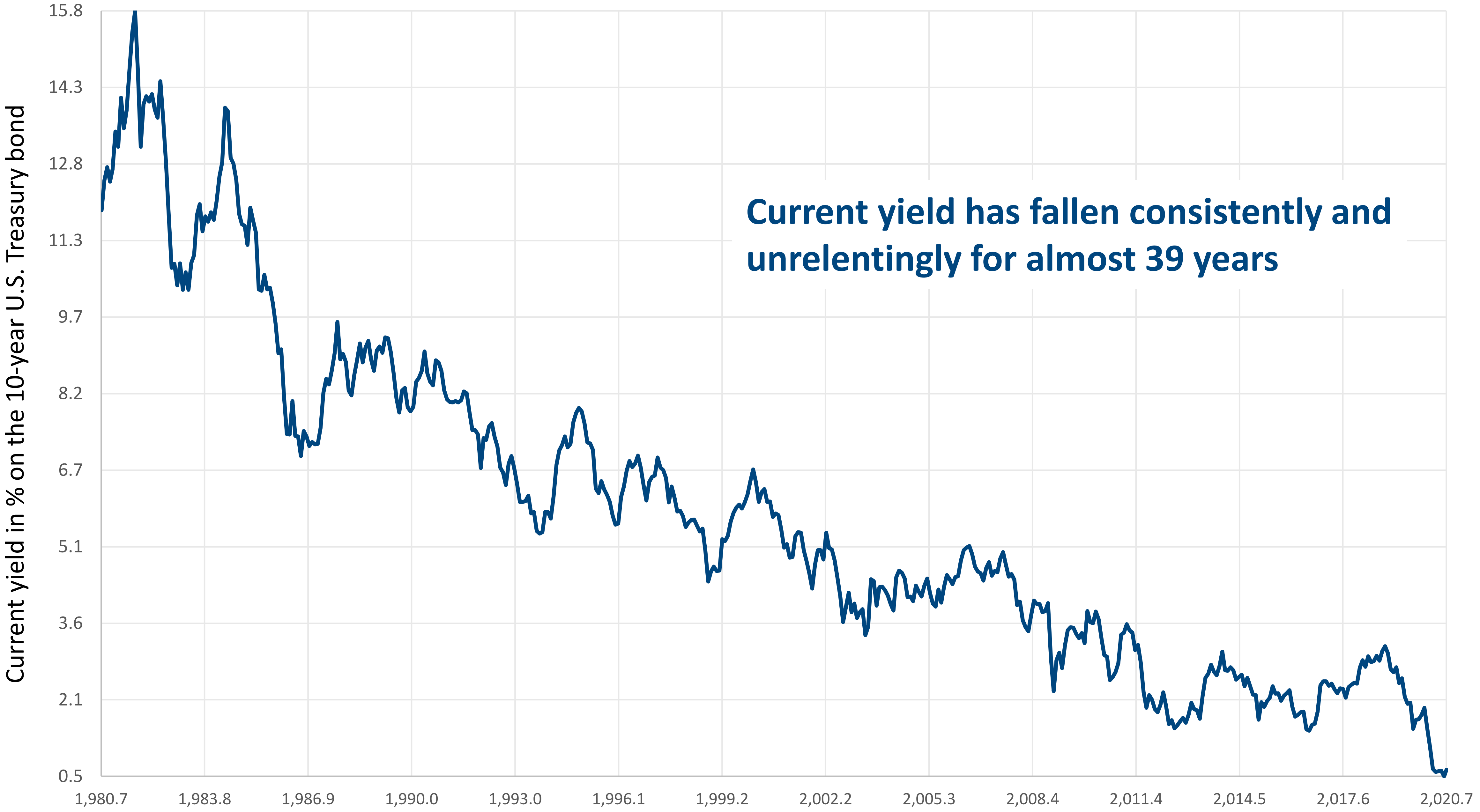
Vanguard Long-Term Investment Grade Bond Fund (VWESX)

14.2%	year to date (through Aug 23rd)
22.5%	over last year
9.9%	per year, last 5 years
8.6%	per year, last 10 years
8.7%	per year, since inception (more than 37 years)

Returns other than year-to-date are as of July 31, 2020

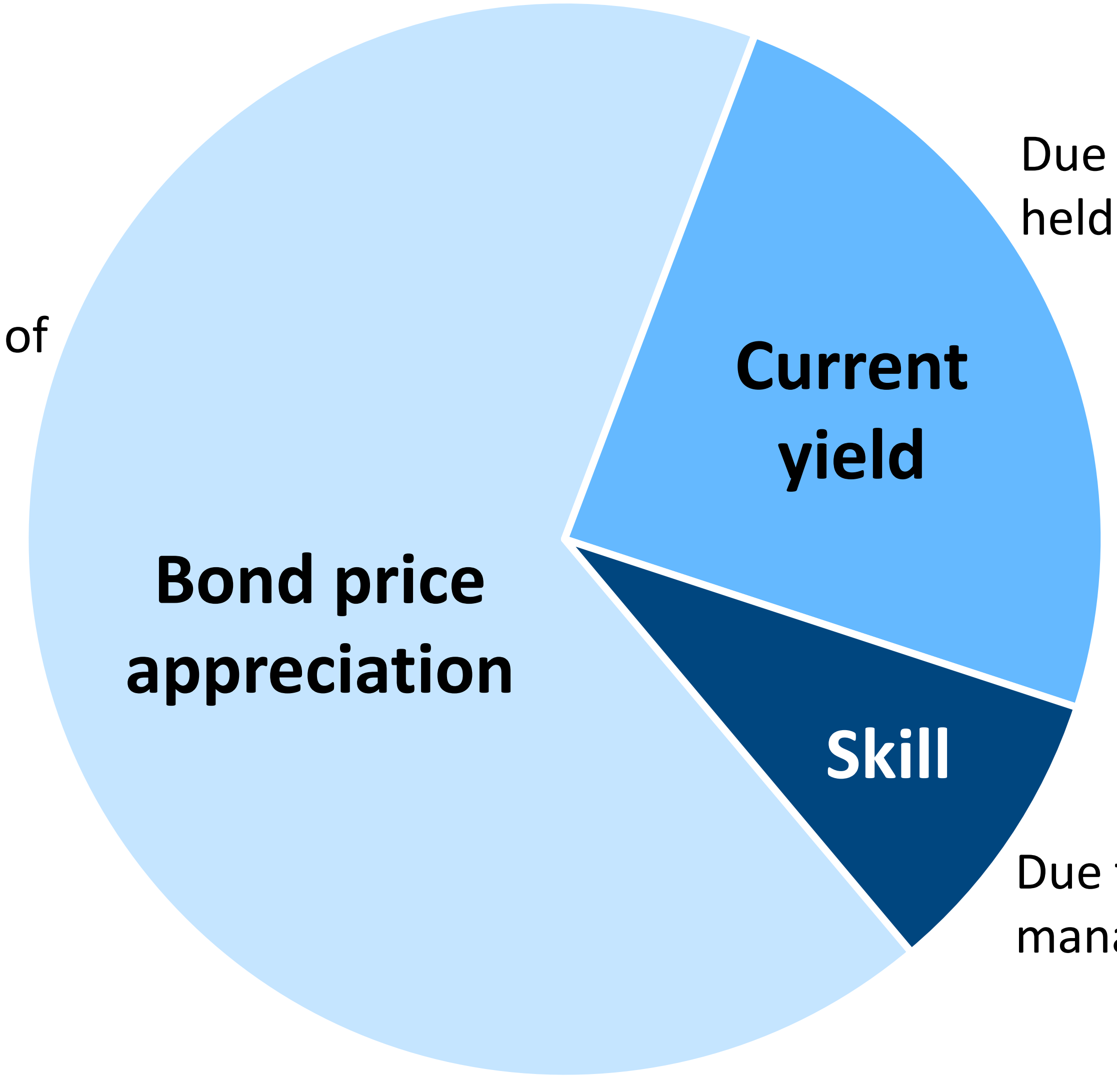
See Disclosure # 9 on the last page

Past performance is explained, primarily by declining interest rates



Where has great performance come from . . . since late-1981

Due to the decline in the level of interest rates since 9/30/1981



Due to the current yield on the bonds held within the portfolio

Due to the bond manager's skill

Great past performance provides NO basis for future success - continued

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One of the very best bond funds

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Returns other than year-to-date are as of July 31, 2020

But terrible downside risk . . . when interest rates rise

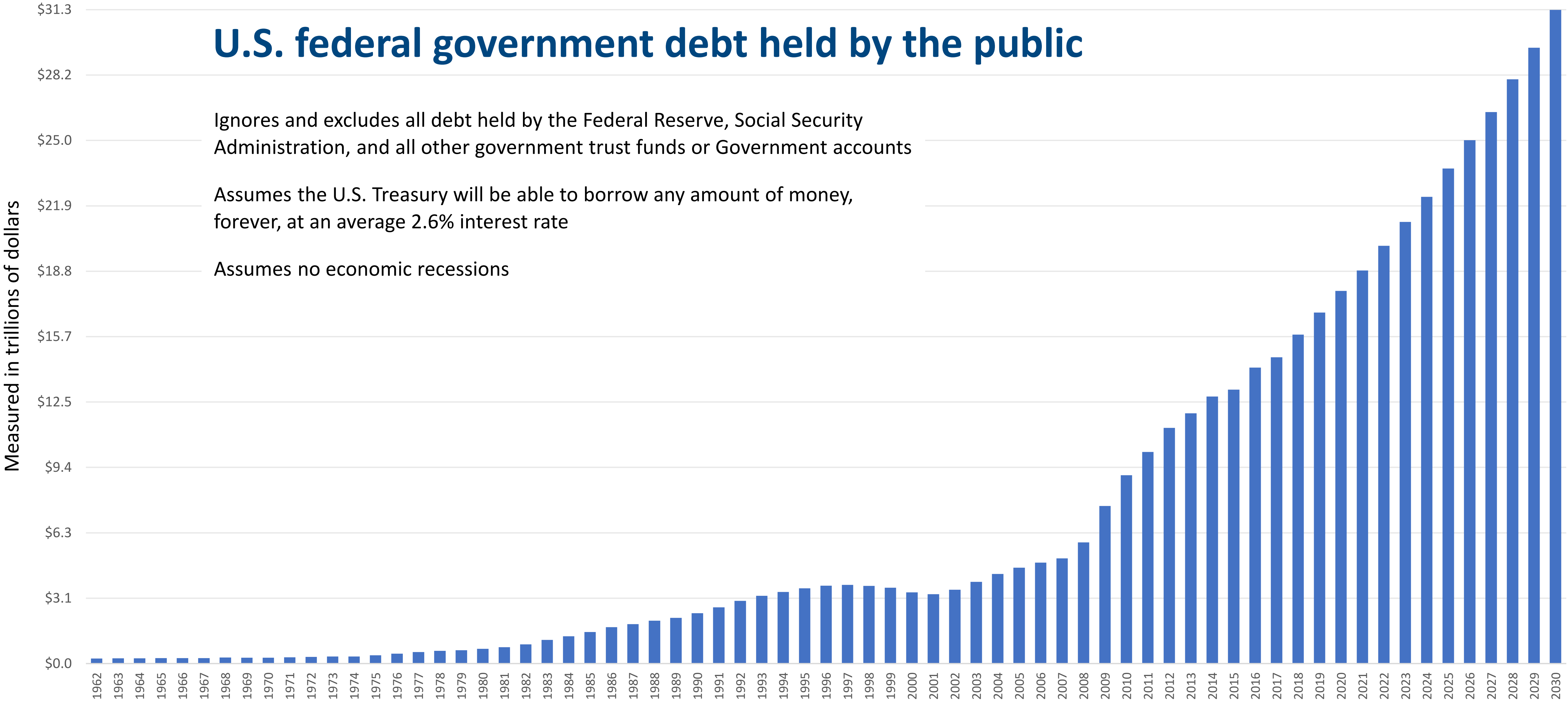
Change in interest rates (from current levels)	Vanguard Bond Fund (VWESX)
-25bps	**+4%**
+25bps	**-4%**
+50bps	**-8%**
+100bps	**-15%**
+200bps	**-31%**
+250bps	**-38%**

Based on where interest rates stood on August 23, 2020
Assumes an instantaneous change in the level of interest rates, i.e., overnight

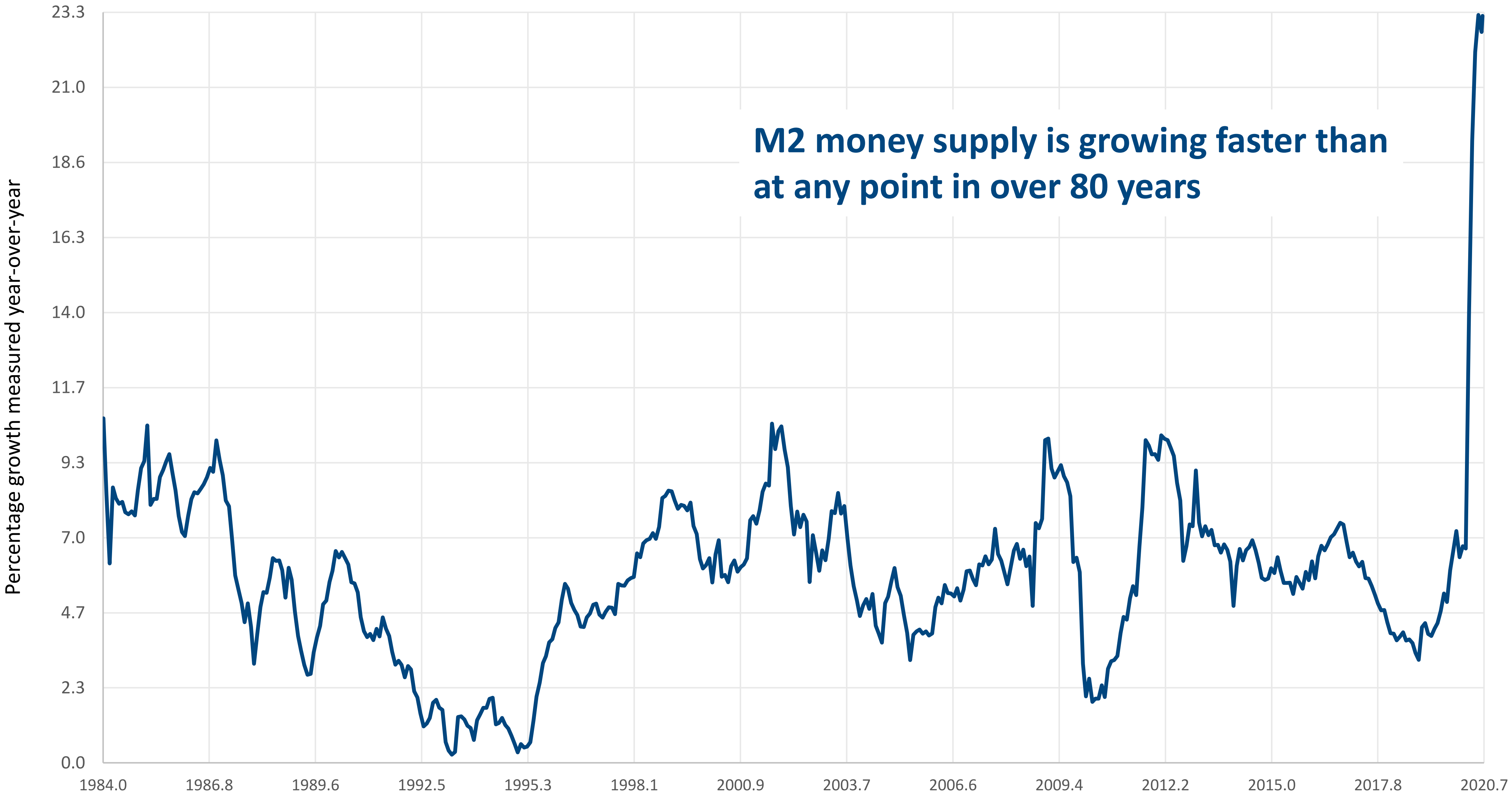
What issues define the environment today and over the next 15 years

Govt Deficit	Inflation	Interest rates	U.S. Dollar	Politics
Large and rapidly growing Abandonment of fiscal discipline or prudence Gigantic future entitlement programs	Rising inflationary expectations Precious metals prices setting new record highs	Large increases Expectations for rising rates many years into the future	Falling U.S. Dollar Growing dependence on other nations funding our deficits	Political turmoil Rise of polarizing factions Tribalism

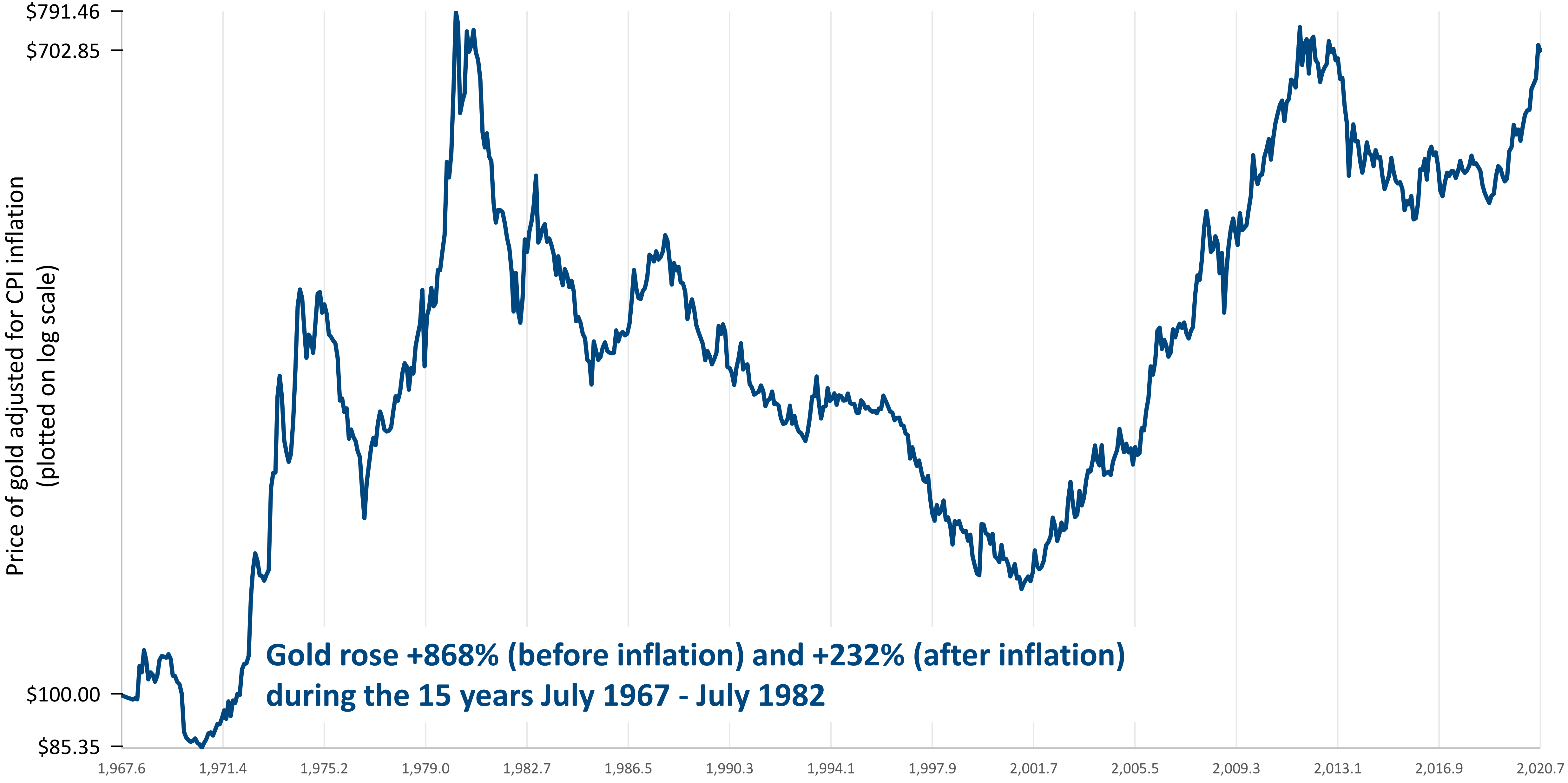
An optimistic forecast for future federal government deficits



The U.S. Federal Reserve is printing money at an accelerating pace



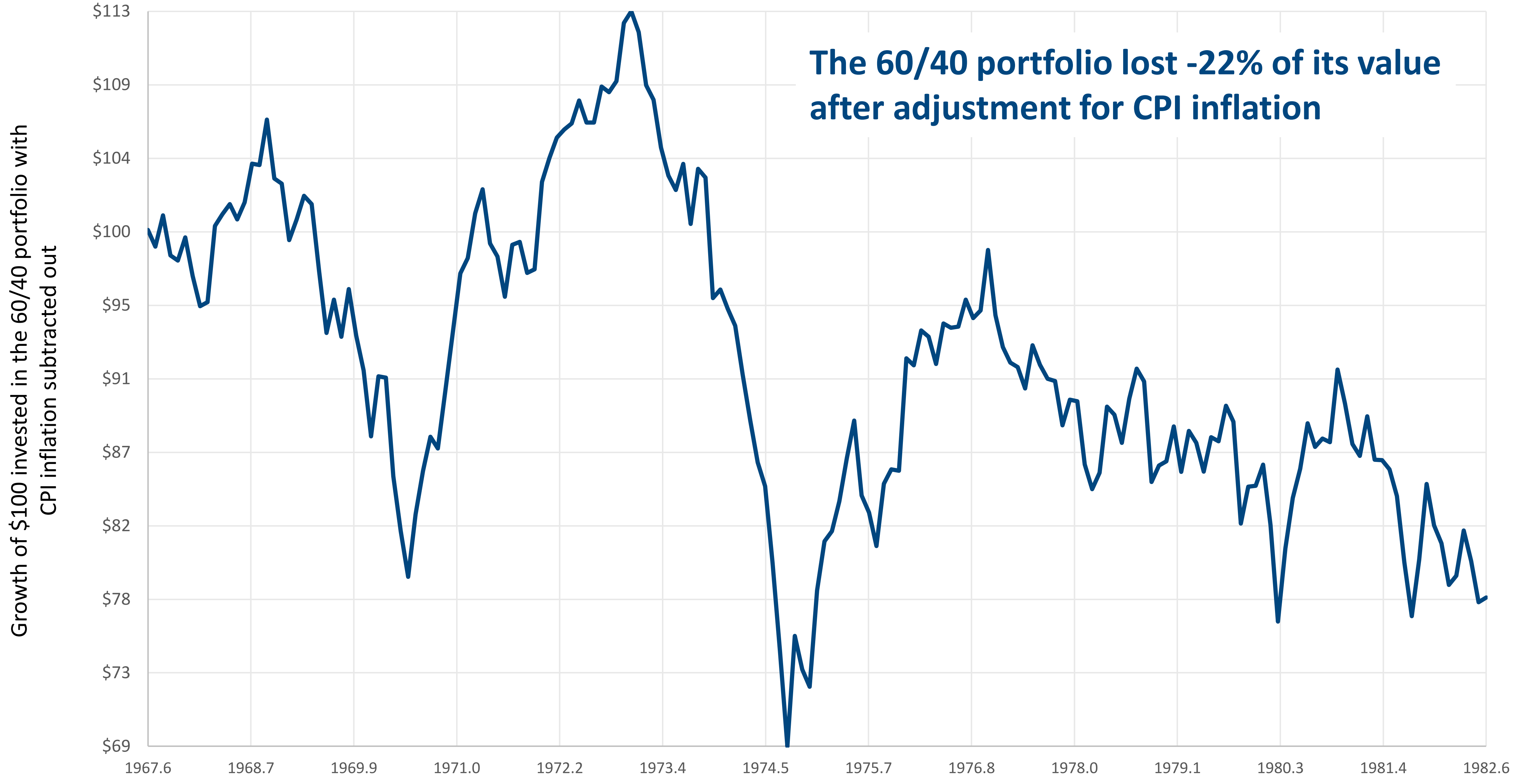
Gold prices have started to rise again, much as they did back in 1967



What issues defined the 15 years from 1967 through 1982

Govt Deficit	Inflation	Interest rates	U.S. Dollar	Politics
Large and rapidly growing Abandonment of fiscal discipline or prudence Gigantic future entitlement programs	Rising inflationary expectations Precious metals prices setting new record highs	Large increases Expectations for rising rates many years into the future	Falling U.S. Dollar Growing dependence on other nations funding our deficits	Political turmoil Rise of polarizing factions Tribalism

How did the 60/40 portfolio perform during the 15 years 1967-1982



Bonds can’t successfully play their necessary role

One last way of understanding the problem

As interest rates fall

- **Near-zero interest rates have eliminated bond's portfolio functionality**
- **Cash flow and equity hedging are virtually eliminated**
- **As rates have approached zero**
  - Duration (interest rate sensitivity) has skyrocketed
  - Income has evaporated
  - Ability of bonds to offset stock losses during bear markets is gone

Just how bad is it

- This graph shows the *"Point of Zero Return"* for a 10-Year Treasury. How much cushion to higher rates a bond has before its 12-month return falls to zero, currently at 6bps

are with clients or prospects

Possible solutions

Each offers a different set of pros and cons

What are the practical alternatives to a failing 60/40 portfolio

Potential remedies for the future failure of 60/40 portfolios

Tactical asset allocation

While strictly avoiding predicting market direction or turning points

Extremely patient, bottom-up stock picking

Maintaining dry-powder in ultra-short Treasuries

Ownership of commercial real estate

Bricks & mortar

Active bond picking

Virtually impossible to offer a commercially viable product

Pros and cons for each possible solutions

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MOST likely to succeed ⟷ **LEAST likely to succeed**

Tactical asset allocation (sector rotation)	Patient bottom-up stock picking (deep value with dry-powder)	Private non-traded real estate (bricks & mortar)	Active bond picker (mutual fund)
• Continuously adapts and aligns with the changing environment • Greatest opportunity to enhance returns and mitigate bear market collapse • Hunts cross the entire range of possible asset categories	• Tremendous outperformance opportunity for the patient investor • Based on the common sense logic of *"Buying $1 worth of assets for 50¢"*	• Potential to earn attractive premiums by accepting the risks associated with illiquidity, manager-skill, and specific property-types	• Opportunity at three distinct levels: asset-class, sector, and individual issuer
• Does not track any performance index • Terribly tax inefficient • Fails miserably in the short-run (e.g., three or four years)	• Requires a full market cycle (one complete bull and bear market) • Does not track any performance index • Greater week-to-week volatility	• Rising cap rates pose a serious threat • High hidden expense ratios • Requires unusually restrictive manager screening and selection processes • Fails to get you out of stocks	• Virtually impossible to offer a commercially viable mutual fund following such a strategy • Successful active bond managers pursuing such an objective quickly turn into tactical asset allocators • Fails to get you out of stocks

Julex - an expert in tactical asset allocation strategies

Dynamic Income Strategy
December 31, 2019

Overview
- An all-in-one income ETF solution that allocates between corporate bonds, government debt, and dividend stocks.

Objectives
- Generate Consistent Returns: Produce strong performance regardless of interest rate environment or market outlook.
- Outperform Benchmark: Strive for higher returns, similar drawdowns, and similar volatility to the Bloomberg U.S. Aggregate Bond Index over a full market cycle.

Facts
Inception Date:
10/01/2012

Benchmark and Category:
Bloomberg U.S. Aggregate Bond Index

Portfolio Manager:
Henry Ma, Ph. D., CFA

Firm AUM (12/31/2019):
$1.0 B

Adaptive Investment Process
Julex pioneers a unique approach which integrates a robust three-step investment process to help generate consistent returns.

Identify Market Regime (Risk-on/Risk-off)
- Fundamental Factors - Momentum
- Volatitlity - Technical Analysis

→ **Invest in the Strongest Performing ETFs**
Momentum Based Decision Process

→ **Smooth Out the Ride - Reduce Return Volatility**
Volatility Weighted Portfolio Constuction

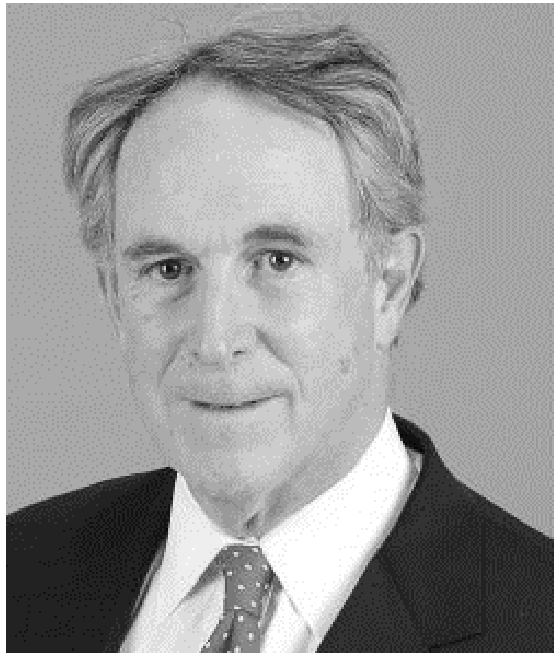
Top Holdings 4th Quarter 2019

Julex Annual Composite Returns (USD)

Friday, Oct 30th at 11am Eastern

Why are advisors sometimes unhappy with or skeptical of TAA?

For more information contact



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The risk of loss in trading securities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. All information posted is believed to come from reliable sources. We do not warrant the accuracy or completeness of information made available and therefore will not be liable for any losses incurred.

Some part of the investment performance shown is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.

Important Disclosures - continued

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Disclosure # 1 “60/40 portfolio has delivered consistent long-term success”. Assumes monthly rebalancing at month-end. Stocks are represented by the S&P 500 Index. Bonds are represented by 16.667% of each of the 3-year US Treasury bond index, 5-year US Treasury bond index, and 10-year US Treasury bond index and 25.000% of each of the Dow Jones Investment Grade Corporate Bond Index and GFD Long-Term AAA-Grade Corporate Bond Index. All data was provided by Global Financial Data, Inc. It is not possible to invest directly in an index.

Disclosure # 2 “A successful 60/40 portfolio requires genuine bear market mitigation”. Bear markets are defined by Rob Brown, PhD, CFA. Details and definitions for these historical computations can be found at www.robbrownonline.com. Data is current as of August 25, 2020.

Disclosure # 3 “An example of past success - bonds play a vital role”. Stocks and Bonds are defined as described above for Slide # 3. All data was provided by Global Financial Data, Inc. It is not possible to invest directly in an index.

Disclosure # 4 “A second example of past success - bonds play a vital role”. Stocks and Bonds are defined as described above for Slide # 3. All data was provided by Global Financial Data, Inc.

Disclosure # 5 “But the world is different today - and not in a small way”. Shows the current yield on the 10-year US Treasury bond. All data was provided by Global Financial Data. Inc.

Disclosure # 6 “If interest rates rise, bonds can’t play their necessary role”. Shows the change in the price of the indicated bonds if interest rates move by the indicated amount. These data assume that interest rates change instantaneously, i.e., overnight, and are based on bond duration.

Disclosure # 7 “The next bear market is closer than one might think”. Stocks are represented by the S&P 500 Index. All data and statistics was provided by Global Financial Data, Inc.

Disclosure # 8 “The next bear market is closer than one might think - continued”. Graph shows what is generally known as the Warren Buffett Index. It is the ratio of the current total market capitalization of the US stock market to the US economy’s current GDP. All data was provided by Global Financial Data, Inc.

Disclosure # 9 “Great past performance provides NO basis for future success”. Data and statistics provided by YCharts.

Disclosure # 10 “Past performance is explained, primarily by declining interest rates”. Current yield is shown for the 10-year US Treasury bond. Data and statistics were provided by Global Financial Data, Inc.

Disclosure # 11 “Great past performance provides NO basis for future success - continued”. Data and statistics provided by YCharts. Change in the value based on possible changes in the level of interest rates is based on portfolio duration as provided by Vanguard and it is assumed that the interest rate changes take place instantaneously, i.e., overnight.

Disclosure # 12 “An optimistic forecast for future federal government deficits”. Data provided by the CBO, Congressional Budget Office of the US Federal Government on August 27, 2020.

Disclosure # 13 “The U.S. Federal Reserve is printing money at an accelerating pace”. Data and statistics provided by Global Financial Data, Inc.

Disclosure # 14 “Gold prices have started to rise again, much as they did back in 1967”. Gold prices are those of the London fix for spot gold bullion. Data and statistics provided by Global Financial Data, Inc.

Disclosure # 15 “How did the 60/40 portfolio perform during the 15 years 1967-1982”. Stocks and Bonds are defined as describe above for Slide # 3. All data and statistics were provided by Global Financial Data, Inc. It is not possible to invest directly in an index.