EquityCompass

Q4 2020

Commentary, Review, & Outlook

Probabilites, Process, and Outcomes



Robert G. Hagstrom, CFA
Chief Investment Officer
Senior Portfolio Manager



Robert G. Hagstrom, CFA
Chief Investment Officer
Senior Portfolio Manager
January 5, 2021

Probabilities, Process, and Outcomes

2020 4th Quarter Commentary, Review, and Outlook

> *"Your focus has to be on process, because that is the only thing that you can control. So your process has to be as good as it can possibly be. But you have to constantly revisit your process because…the world is always changing."* (1)
>
> —**Maria Konnikova**, *Author, Psychologist, Poker Champion*

Commentary

The intellectual distance between playing cards and investing in the stock market is not wide. Both require decision-making based on incomplete information. Even so, card games and the stock market have just enough information for one to estimate the probability of being right or wrong and to act accordingly. Indeed, probabilistic thinking is the concentric circle that links card playing and investing.

Many professional investors are likely to have a copy of David Sklansky's classic book, *The Theory of Poker*, next to Graham and Dodd's seminal book on investing, *Security Analysis*. Now investors are adding to their library Maria Konnikova's new book, *The Biggest Bluff: How I Learned to Pay Attention, Master Myself, and Win*. What makes Konnikova's book popular is that she succeeds in the world of high-stakes poker—specifically, No-Limit Texas Hold'em—not as a seasoned poker player who spent a decade plus playing in poker tournaments, but as a novice who happens to be have a Ph.D. in psychology.

Konnikova discovered the most successful tournament poker players focus on the process of making good decisions rather than obsessing over busted hands and missed opportunities. Having studied some of the most successful investors in history, I have observed the best portfolio managers also focus on process while spending little time, if any, dwelling on short-term losses. Konnikova is exactly right—the only thing you can control is your process knowing full well outcomes are variant.

Periodic bad outcomes in poker tournaments, and in the stock market alike, do not necessarily indicate a broken process. In poker they call it a *"bad run of the cards."* It also happens in the stock market. Every investor has experienced a period when the ticker-tape moves against one's portfolio.

A good process sometimes endures a bad outcome. Robert Rubin, former U.S. Treasury Secretary said it best. *"Any individual decision can be badly thought through, and yet be successful (called dumb luck), or exceedingly well thought through, but be unsuccessful (referred to as a bad break). But over time, more thoughtful decision-making will lead to better overall results, and more thoughtful decision-making can be encouraged by evaluating decisions on how well they were made rather than on outcome."* (2)

Konnikova correctly states, *"your process has to be as good as it can possibly be."* But perhaps the *most* important advice is what she said next. *"You have to revisit your process because the world is constantly changing."*

Beginning with online poker tournaments in a coffee shop in Hoboken, New Jersey in 2016 to becoming the PCA National Champion in 2018 could not have occurred unless Konnikova was willing to work on her process. As she moved up the poker rankings, it became clear the games were changing because the players had changed. In a word, the players were getting smarter. Poker, like the stock market, is a dynamical system that is constantly learning, evolving, and adapting. For this reason, Konnikova knew that in order to become successful she would have to improve her game—and it eventually paid off. Had she not continually refined her process, Konnikova may never have become a poker tournament champion.

(1) Max, Sarah. "Here's Some Investment Advice from Psychologist and Poker Star Maria Konnikova: Focus on your Decision-Making Process." Barron's, 11 Dec. 2020.

(2) Rubin, Robert. Harvard University Commencement Address, 2001.

How does this relate to investing? Most investors who attain a level of success adopt what is called a *"correspondence theory of truth."* Having achieved market-beating returns, these investors believe their approach—their investment process—corresponds to some deep, well-founded structure of how markets operate. As such, the tendency among these investors is to repeat, over and over, the same investment process that led to their success. This is all well and good as long as the market does not change.

But what happens when the economy and markets change?

Over the last 100 years, since the first Model-T rolled out of the Ford plant in Detroit in 1908, our economy has evolved from an industrial-based, brick and mortar world to a consumer-based, service-driven economy, to now having entered the fifth technological revolution called the Age of Information and Telecommunications. [3] The principles of the fifth technology revolution include information intensity and globalization. Information intensity means knowledge as capital is the value added.

Now think back to the investment process used during the Industrial Revolution. For the first 70 years of the twentieth century, picking stocks was largely an exercise of buying companies that were trading at prices below book value while avoiding stocks that were selling at prices above book value. It was an investment process that worked exceedingly well for a long period of time. However, when our economy evolved to a consumer-based, less capital-intensive economy, book value was less useful in determining intrinsic value. Successful investors turned to calculating the growth of cash earnings as they discovered this was a better method for selecting stocks. These investors improved their process and hence, improved their investment returns.

We have now entered the second half of the fifth technological revolution called the *"deployment period."* It is a time when new technology companies have finally achieved coherent growth based on new customers. Increasing real economic returns in the form of sales and cash earnings have become evident. What we have discovered is the leading companies in the fifth technological revolution have been able to achieve hundreds of billions of dollars in market value with but a fraction of the capital needed to grow compared to the brick and mortar industrial companies of yesteryear.

Today, the most optimal business strategies are asset-light models. As such, book value as a signal for selecting stocks has become less important. Although cash earnings remain the bedrock signal for value creation, investors have also learned sales growth, combined with high returns-on-invested-capital (ROIC), have become the turbo charger for increasing a company's intrinsic value. What is unmistakable are the methods used to select stocks during the industrial age are no longer as useful for picking stocks here in the fifth technological revolution.

Successful, long-term investors are dynamic thinkers. And that is a good thing because the stock market is dynamic. Long-term investors understand the world is changing and the *"challenge of change"* requires adaptation. Knowing this, investors who want to be successful, like Maria Konnikova, must become learning machines. The most accomplished investors reject hiding behind outdated models and instead embrace pragmatism as a way to *"widen the field of search"* for ideas that can help them become better investors.

At EquityCompass, we have learned the highest achieving investors are those who continually work to improve their process. This lesson is not lost on us. Although EquityCompass and our clients are the beneficiaries of what we have learned thus far, we remain open minded and receptive knowing full well that there will be more to learn about investing in the years ahead.

Review

Many agree, 2020 was a year that will not soon be forgotten. Although countless are still reeling from the acrimonious Presidential election, politics do come and go, but the scars left by the COVID-19 global pandemic will be more long lasting.

Millions of people around the world have lost loved ones to the coronavirus. Many millions more have suffered debilitating economic hardships that seemed unimaginable 12 months ago. Here in the U.S., 10 million who have lost

(3) Perez, Carlota. *Technological Revolutions and Financial Capital: the Dynamics of Bubbles and Golden Ages.* Edward Elgar, 2014.

their jobs because of the pandemic have not yet been rehired. Everywhere one looks, both large and small businesses have been shuttered, unable to survive in a social distancing economy that has rewritten consumer behavior. When it is all said and done, 2020 will go into the history books as the worst U.S. economic year since The Great Depression.

Even so, all major stock indices have reached historic highs this year despite an economy that is still 5% below its 2019 level. What best explains this financial conundrum? Looking back, we believe the buoyancy of stock prices in 2020 can be attributed to three separate forces.

First was the quick action of the Federal Reserve (Fed) to cut interest rates to the zero bound and then inject trillions of dollars into the capital markets. Following the same playbook used by Chairman Ben Bernanke during the 2008 Financial Crisis, Chairman Jerome Powell perfectly executed the massive purchases of commercial paper, commercial mortgage-backed securities, as well as corporate and U.S. government fixed income securities. The Fed's announcement, on March 23, that it was willing to act decisively and immediately, marked the bottom of the stock market selloff. The Dow Jones Industrial Average (Dow) closed that day at 18,951, down 37% from its record high on February 12. The next day, March 24, the Dow closed up 11%, its best showing since 1933. Stocks never looked back. On November 17, eight months later, the Dow surpassed its previous high closing at 29,783.

Four days after the Federal Reserve took action, Congress passed the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, providing direct cash payments to individuals and families. In addition, the CARES Act provided forgivable loans to small businesses as well as low interest loans to corporations, state, and local governments. Although the U.S. economy was essentially locked down with little economic pulse, the CARES Act worked to stabilize the economy. Without question, the quick response by both the Federal Reserve and Congress worked to cap the stock market selloff and helped rebuild investor confidence.

The third force that worked to resuscitate the stock market was the above-average growth of a select group of companies that had become the unexpected beneficiaries of the economic lockdown. Although many companies in the travel, leisure, and entertainment industries were penalized by the pandemic, there were a great number of companies that have thrived throughout the lockdown. Companies in the technology and telecommunications industries achieved high growth rates because employees had to conform to new work-at-home rules. Additionally, the amount of time individuals and their families previously spent shopping at malls, going to movie theatres, and dining out was replaced by online shopping, home deliveries, and Internet streaming of television shows and movies. For many who had not already signed up, social distancing required the rapid adoption of new technologies.

The technology and telecommunication services industries have been the fastest growing parts of our economy over the last 10 years. Even so, the consequences of the pandemic simply accelerated the adoption of online services that were already secularly in place. The stocks that appreciated the most in price in 2020 were stocks that should have gone up the most because they generated double digit growth in sales and earnings even in an economy that, in aggregate, was posting year-over-year negative returns.

At the end of the fourth quarter of 2020, the Dow Jones Industrial Average gained 10.73% and finished the year plus 9.72%, including dividends. The S&P 500 Total Return Index was up 12.15% in the fourth quarter and finished the year up 18.40%. The standout performer, once again, was the NASDAQ Composite Total Return Index, posting a fourth quarter gain of 15.63% and an impressive 44.92% return for the year.

Small and mid cap stocks posted strong bounce-back returns in the fourth quarter. On a total return basis, the S&P SmallCap 600 Index gained 31.31%, while the S&P MidCap 400 Index posted a 24.37% return as both outperformed large cap stocks. However, for the year, small cap stocks returned 11.29% with midcap stocks posting a

13.66% return, both trailing their larger cap brethren.

The Russell 1000 Growth Index ended the quarter up 11.39%, while stocks defined by the Russell 1000 Value Index charged ahead up 16.25%, including dividends. However, for the year, the Russell 1000 Value Index finished up only 2.80% as it continued to lag the Growth Index, which posted a 38.49% return.

Parsing the internals of the stock market, the best performing sectors in the S&P 500 Index for the fourth quarter include Energy (+27.16%), Financials (+23.01%), Industrials (+15.53%), Materials (+14.30%), and Telecommunication Services (+13.74%). The laggards include Information Technology (+11.72%), Consumer Discretionary (+7.99%), Health Care (+7.89%), Utilities (+6.28%), Consumer Staples (+6.14%), and Real Estate (+4.69%).

For the year, the sectors that outperformed the broader S&P 500 Index include Information Technology (+43.39%), Consumer Discretionary (+32.93%), Telecommunication Services (+23.18%), and Materials (+19.93%). Laggards include Health Care (+12.84%), Industrials (+10.44%), Consumer Staples (+9.80%), Utilities (-0.52%), Financials (-2.42%), Real Estate (-3.08%), and Energy (-34.79%).

Overseas, the MSCI All Country World ex-USA Index posted a 15.85% return in the fourth quarter but finished the year up 7.59%. In the fourth quarter, the best performing large developed foreign markets were the Kospi Index (Korea) +23.44%, IBEX 35 Index (Spain) +20.21%, Nikkei 225 Index (Japan) +18.37%, Hang Seng Index (Hong Kong) +16.08%, CAC 40 Index (France) +15.57%, FTSE 100 Index (United Kingdom) +10.13%, Shanghai A Share Index (China) +7.94%, and the DAX Index (Germany) +7.51%.

Year-to-date, the best performing large developed foreign markets were the Kospi Index (Korea) +30.75%, Nikkei 225 Index (Japan) +16.01%, Shanghai A Share Index (China) +13.91%, and the DAX Index (Germany) 3.55%. Indices that declined were the Hang Seng Index (Hong Kong) -3.40%, CAC 40 Index (France) -7.14%, FTSE 100 Index (United Kingdom) -14.34%, and IBEX 35 Index (Spain) -15.45%.

The Bloomberg Barclays U.S. Aggregate Bond Index posted a positive 0.67% for the fourth quarter and finished the year up 7.51%. The Bloomberg Barclays Municipal Bond Index ended the quarter up 1.82% and was positive 5.21% for the year.

Jim DeMasi, Senior Portfolio Manager and head of fixed income strategy at EquityCompass, notes the Federal Reserve has been transparent about its intention to maintain a highly accommodative monetary policy. Jim points out the FOMC's December policy statement reinforced its *"lower for longer"* message. In turn, the bond market has embraced the Fed's forward guidance. Both Treasury yields and interest rate futures assume that the Fed's zero interest rate policy will remain in force for at least three years.

Jim explains the shape of the Treasury yield curve (the difference between short-term and long-term interest rates) has proven to be a useful leading economic indicator for many decades. Generally speaking, the yield curve will flatten prior to an economic slowdown and recession and steepen in anticipation of an economic recovery. Over the past five months, Jim has observed the yield curve modestly steepening with long-term rates rising while short-term rates have remained anchored by the Federal Reserve. Jim points out the steepening of the yield curve is now at the highest level in over two years, suggesting a growing expectation the economic recovery in 2021 will gain further traction as the pandemic subsides.

Outlook

On November 9, Pfizer and BioNTech announced their vaccine candidate was 95% effective in protecting individuals against COVID-19. Finally, the world had reason to believe the end of the global pandemic may be close at hand. Five weeks later, the U.S. Food and Drug Administration (FDA) approved Moderna's coronavirus vaccine. Two days before the end of the year, December 30, the United Kingdom approved the Oxford-AstraZeneca COVID-19 vaccine for distribution. In addition, several other pharmaceutical companies, including Johnson &

Johnson, may soon receive approval and deliver additional vaccines around the world. All in all, it does appear the global pandemic nightmare may soon abate and perhaps by summertime we will likely reach vaccination levels whereby social and economic normalcy can safely return.

Less clear is what our new normal will look like. Opinions vary. Without doubt, some consumer behavior will have permanently changed. Online shopping and home deliveries will continue to grow—the Internet is ubiquitous. Companies have learned some of their employees can effectively work from home, which, as a consequence, may lead many CEOs to consider reducing corporate expenses by downsizing their real estate footprint. Video conferences that were once thought to be a poor alternative to in-person meetings are now increasingly accepted for convenience, increased productivity, and cost savings.

With all this being said, we strongly believe there is significant pent up demand among individuals and employees who are anxious to return to a pre-pandemic world. As such, we expect many companies that were penalized by social distancing rules may soon experience a resurgence in sales and earnings. The market's rotation in favor of value and small capitalization stocks—the primary beneficiaries of an expanding economy—is evidence the stock market expects better economic returns for these companies.

We offer three reasons why we believe 2021 will be a positive year for both the economy and the stock market. First, recessions and bear markets are historically caused by rising inflation and increasing interest rates which work to undercut demand for goods and services, further causing rising unemployment. However, the causes of the 2020 recession were more akin to a natural disaster. The repercussions of the COVID-19 pandemic are not dissimilar to earthquakes or hurricanes that temporarily disrupt supply and demand relationships. But unlike typical recessions, when an economy recovers from a natural disaster generally a strong economic recovery ensues. [4]

Second, as the U.S. economy continues to heal, we believe government fiscal policies will be maintained in an effort to avoid a double dip recession. We expect additional direct payments to families in need, lengthening unemployment benefits for those still unemployed, and the extension of low cost loans to businesses still impacted by the pandemic. And to this, we strongly believe there will be non-partisan support for significant infrastructure spending in 2021. Taken together, all this suggests the economic forces in 2021 should continue to be positive.

Lastly, as Jim DeMasi notes, Chairman Powell and the Federal Reserve have let it be known they have no intention to raise interest rates anytime soon. It may be 2022–2023 before we see the Federal Reserve increase the Federal Funds Rate from the zero-bound levels. Lower interest rates are not only fuel for an expanding economy; they also work to support higher stock prices.

Consensus estimates for U.S. real GDP growth in 2021 are between 4% and 5%. The 6.8% unemployment rate at year-end 2020 should fall, albeit slowly, to 5.7% in the next year. S&P 500 earnings estimates for 2021 are expected to reach $168.00—only slightly higher than year-end 2019 earnings of $164.00. However by 2022, consensus estimates for S&P 500 earnings are forecast near $190.00—a 13% increase year over year from 2021. The landscape of positive U.S. economic growth, improving unemployment, growing corporate earnings, and low interest rates is a favorable environment for stock investors.

Against this economic backdrop, how should an investor best position their portfolios?

In our opinion, we recommend investors adopt a barbell strategy emphasizing high quality dividend stocks coupled with secularly advantaged growth stocks.

Today, investing $100,000 in a 10-year Treasury note will generate an annual income of $920 for a total return of $9,200 over a ten-year period. This rate of return is below the annual inflation rate, meaning investors will earn a negative real rate of return on their bond investment for the next ten

(4) Ip, Greg. "Three Reasons 2021 Could Be (a Lot) Better Than You Think," *The Wall Street Journal*, 23 December 2020.

years. By comparison, a $100,000 investment in a portfolio of dividend paying stocks yielding 4% can generate an annual income of $4,000, for a ten year total return of $40,000 well ahead of the inflation rate. (5)

In addition, investors who own dividend-paying stocks, unlike bondholders, can potentially achieve higher annual income via dividend increases along with the potential for long-term capital appreciation due to the increased intrinsic value of equity income stocks. None of these returns are available for bond investors. Given a choice of investing in a 10-year Treasury note yielding 0.92% or a diversified portfolio of high quality dividend stocks paying a 4% current yield, there should be no argument.

Although growth stocks have generated above average returns in 2020, we believe there is still opportunity to profit from owning selected, secularly advantaged growth companies. Many of these growth companies are the net beneficiaries of the fifth technological revolution—the Age of Information and Telecommunications. Synergies between capital infrastructure, labor, and customers are now reaching comprehensible levels. It is quite possible the golden period of investing in these new technologies could last for many years to come. How long before the *"maturity"* phase begins is unknown, but for many industries and companies the total addressable market (TAM) is a global market—a very large market with a long runway for future customers and financial opportunity. (6)

Our barbell approach to investing in the stock market seeks to avoid what we call the *"muddle-middle."* This is an area of the stock market that includes *value* stocks that don't pay high current and increasing dividends coupled with *growth* stocks that are yesterday's growers but not aligned with the forces of the fifth technological revolution. Although the *"muddle-middle"* might appear attractive because of depressed stock prices, these stocks, at best, while they may be appear favorable for a short-term trade should not represent a core holding for long-term investors, in our opinion.

One last word about the bond market. For the last 40 years, bonds have played an important role for investors. They have traditionally generated high current income to help meet a retiree's financial needs and, importantly, sought to provide portfolio stability. While the price volatility of bonds is less than stocks, we believe the best days for bond investors are now behind them.

As noted, bond coupons are not only insufficient to help meet many investors' long-term financial goals but are negative serving—unable to keep up with the rate of inflation. Additionally, for the first time in years, bond investors are faced with a new, unexpected risk. It is rarely thought that bonds can generate negative returns, as it has only happened four times in the last 47 years. However, 2021 could very well be the fifth negative returning year for bonds in the last half century. (7)

At the beginning of 2020, the 10-year U.S. Treasury note was yielding 1.92%. At year-end, the same 10-year note yielded 0.92%. Although we do not expect the Federal Reserve to raise the short-term Federal Funds Rate in 2021, there is an expectation that with an improving economy the yield curve will steepen. What does this mean for bond investors? Although short-term interest rates should remain anchored by the Federal Reserve, bond investors in the midst of a recovering economy may likely demand higher interest rates for longer dated maturities to help offset the risk of higher long-term inflation.

There is growing consensus among fixed income strategists that the yield on the 10-year Treasury note in 2021 could rise to 1.50% along with a rise in the 30-year bond from 1.65% to 2.50%. This potential increase in bond yields at first may appear insignificant, but the actual change in bond prices is very significant for bond holders. For example, an increase in the 10-year Treasury yield from 0.92% to 1.50% would result in a negative price return of -4.8% for the bond. The price decline would grow to -8.7% if the 10-year yield rose to 2.0%. For longer dated bonds the news is even worse. A yield increase from 1.65% to 2.50% on a 30-year Treasury bond would

(5) This is a hypothetical illustration only and does not represent actual performance of any investment.

(6) Perez, Carlota, Ibid.

(7) "2021 Could be a Poor Year for Treasury Returns." *Bloomberg News*, 7 December 2020.

produce a negative price return of -17.4%, almost the equivalent to a bear market in stocks.

No one can be certain when interest rates will rise, but the look-forward skew probability for interest rates is higher not lower. The anticipated vaccine-led economic recovery suggests interest rates will rise, not fall. Even a moderate rise in long-dated Treasury yields could cause the Bloomberg Barclays U.S. Treasury Index to post its worst annual return on record. Although bond index returns rarely turn negative, with current yields so low even a modest selloff in bonds that causes interest rates to rise would likely push bond returns below zero. (8)

How should bond investors adjust? It is clear that low-yielding bonds can no longer play a dominant role in an investor's portfolio. Even so, bonds still have a place, albeit a lesser role, in a diversified portfolio largely to help stabilize portfolio returns along with the additional benefit of modest income. For this reason, we believe the dedicated fixed income portion within a diversified portfolio should be reduced. In place of bonds, we recommend investors increase their portfolio weighting in quality, higher dividend paying stocks that seek to achieve growth of income and underlying capital appreciation.

We remain confident heading into 2021, optimistic the worst of 2020 is behind us. In our opinion, the opportunity within the market remains positive despite all that has befallen us this past year and investors are in remarkably good shape as we begin the next decade.

At EquityCompass, our mantra remains the same—***know what you own*** and ***why you own it***. If you can answer these questions both logically and rationally, we believe the path forward should make perfect sense.

(8) "Next Year Could Be Worst Ever for Treasury Index Performance," *Bloomberg News*, 28 December 2020.



Robert G. Hagstrom, CFA, joined EquityCompass as a Senior Portfolio Manager in April 2014 and launched the Global Leaders Portfolio in July 2014. In 2019, Robert was named Chief Investment Officer of EquityCompass. Prior to joining EquityCompass, he was the Chief Investment Strategist of Legg Mason Investment Counsel, and before that, the Portfolio Manager of the Growth Equity Strategy at Legg Mason Capital Management for 14 years. He has also served as President and Chief Investment Officer of Legg Mason Focus Capital and General Partner of Focus Capital Advisory.

Robert is the author of nine investment books, including *The New York Times Best Seller, The Warren Buffett Way, The Warren Buffett Portfolio: Mastering the Power of the Focus Investment Strategy, and Investing: The Last Liberal Art.* He earned his Bachelor and Masters of Arts degrees from Villanova University and is a member of the CFA Institute and the CFA Society of Philadelphia.

Disclosures

About EquityCompass

EquityCompass Investment Management, LLC ("EquityCompass") is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. and Europe. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets over $4.0 billion as of December 31, 2020.* EquityCompass is a wholly owned subsidiary of Stifel Financial Corp.

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

Important Disclosures

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed and is not a complete summary or statement of all available data nor is it considered an offer to buy or sell any securities referred to herein. Keefe, Bruyette & Woods (KBW) is a Stifel affiliate. Affiliates of EquityCompass may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

The Dow Jones Industrial Average (DJIA) is an unmanaged, price-weighted index that consists of 30 blue chip U.S. stocks selected for their history of successful growth and interest among investors. The price-weighted arithmetic average is calculated with the divisor adjusted to reflect stock splits and occasional stock switches in the index. The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization. The S&P 500 Total Return Index tracks both the capital gains of the stocks in the S&P 500 Index over time, and assumes that any cash distributions, such as dividends, are reinvested back into the index. Looking at an index's total return displays a more accurate representation of the index's performance. By assuming dividends are reinvested, you effectively have accounted for stocks in an index that do not issue dividends and instead, reinvest their earnings within the underlying company. The NASDAQ Composite Index, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis. The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values. The MSCI All Country World ex-USA Net Total Return Index is a free-float weighted equity index. The Korean Composite Stock Price Index (KOSPI) is a market capitalization weighted index comprised of 200 of the largest and most liquid issues traded on the Korean Stock Exchange. The IBEX 35 is the official index of the Spanish Continuous Exchange. The index is comprised of the 35 most liquid stocks traded on the Continuous market. It is calculated, supervised and published by the Sociedad de Bolsas. The equities use free float shares in the index calculation. The Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The Hang Seng Index is a market capitalization-weighted index of the largest companies that trade on the Hong Kong Exchange. The index aims to capture the leadership of the Hong Kong exchange and covers approximately 65% of its total market capitalization. The CAC 40 Index is a market-capitalization weighted index of the 40 largest and most liquid companies traded on the Paris Bourse stock exchange. The FTSE 100 is a market-capitalization weighted index of UK-listed blue chip companies designed to measure the performance of the 100 largest companies traded on the London Stock Exchange that pass screening for size and liquidity. The Shanghai A-Share Stock Price Index is a capitalization-weighted index tracking the daily price performance of all A-shares listed on the Shanghai Stock Exchange that are restricted to local investors and qualified institutional foreign investors. The DAX (Deutscher Aktienindex) Index is a blue chip index in Germany tracking the performance (including dividends) of the 30 most actively traded stocks on the Frankfurt Stock Exchange. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). The Bloomberg Barclays Municipal Bond Index measures the performance of the U.S. municipal bond market. It is composed of approximately 1,100 bonds; 60% of which are revenue bonds and 40% of which are state government obligations. The Bloomberg Barclays U.S. Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. Indices are unmanaged, do not include fees and expenses, and it is not possible to invest directly in an index.

Changes in market conditions or a company's financial condition may impact a company's ability to continue to pay dividends, and companies may also choose to discontinue dividend payments. Diversification and/or asset allocation does not ensure a profit or protect against loss. Rebalancing may have tax consequences, which should be discussed with your tax advisor. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall.

*Total assets combines both Assets Under Management and Assets Under Advisement as of December 31, 2020. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

PAST PERFORMANCE CANNOT AND SHOULD NOT BE VIEWED AS AN INDICATOR OF FUTURE PERFORMANCE.

Additional Information Available Upon Request

© 2021 EquityCompass Investment Management, LLC, One South Street, 16th Floor, Baltimore, Maryland 21202. All rights reserved.

EquityCompass Investment Management, LLC
One South Street, 16th Floor
Baltimore, Maryland 21202
(443) 224-1231
email: info@equitycompass.com
www.equitycompass.com