



A&I FINANCIAL SERVICES LLC
Optimizing Assets and Income

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THIRD QUARTER 2020 INVESTMENT COMMENTARY

Market Recap

Despite some choppiness in September, equity investors were treated to solid gains during the third quarter. The S&P 500 Index rose 8.9% in the quarter and has recovered all its losses for the year. Smaller-cap U.S. stocks posted a return of 5.0% but remain negative year to date (iShares Russell 2000 ETF).

September Benchmark Returns			
	MTD	QTD	YTD
EQUITY BENCHMARKS			
Vanguard 500 Index	-3.8%	8.9%	5.5%
iShares Russell 1000 ETF	-3.7%	9.5%	6.3%
iShares Russell 1000 Value ETF	-2.5%	5.6%	-11.6%
iShares Russell 1000 Growth ETF	-4.6%	13.2%	24.2%
iShares Russell 2000 ETF	-3.2%	5.0%	-8.6%
Vanguard REIT	-2.6%	1.3%	-12.8%
iShares MSCI ACWI ETF	-3.0%	8.4%	1.7%
Vanguard FTSE Developed Markets ETF	-1.8%	6.0%	-5.8%
Vanguard FTSE Europe ETF	-3.1%	4.8%	-8.8%
Vanguard FTSE Emerging Markets ETF	-1.2%	10.2%	-1.2%
FIXED-INCOME BENCHMARKS			
Vanguard Total Bond Market Index	0.1%	0.6%	6.9%
Vanguard Intermediate-Term Tax-Exempt	-0.0%	1.3%	3.4%
iShares TIPS Bond ETF	-0.4%	2.8%	9.1%
ICE BofA U.S. High Yield Cash Pay Index	-1.0%	4.7%	-0.2%
S&P/LSTA Leveraged Loan Index	0.6%	4.1%	-0.7%
ALTERNATIVE BENCHMARKS			
HFRX Global Hedge Fund Index	-0.2%	2.7%	1.6%
Bloomberg Commodity Index	-3.4%	9.1%	-12.1%
SG Trend Index	-2.6%	-1.1%	-1.9%
3-Month LIBOR	0.0%	0.1%	0.6%



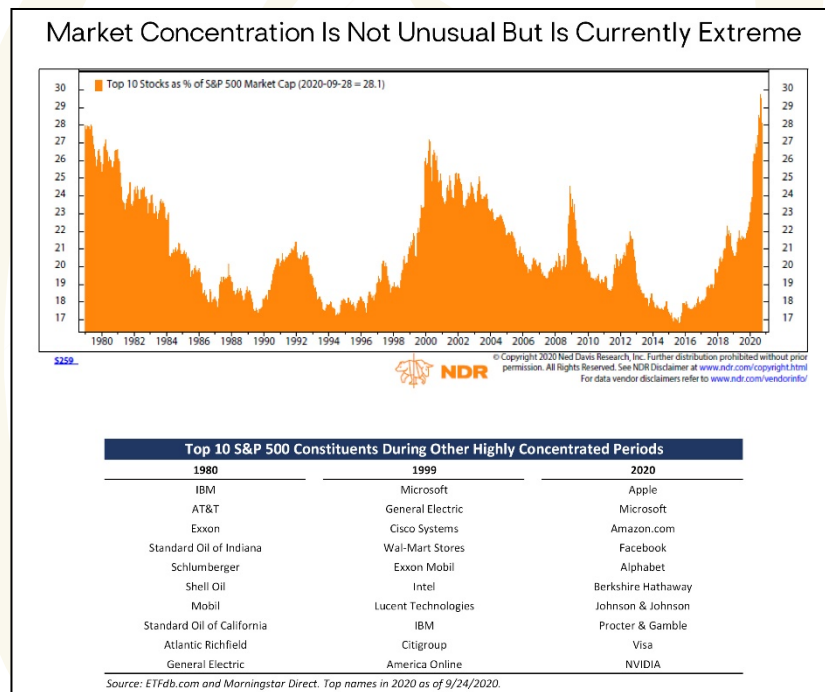
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However, beneath the market surface a major bifurcation remains. The mega-cap growth names continue to lead the market. The often-referenced FANMAG group of stocks (Facebook, Amazon.com, Netflix, Microsoft, Apple, and Google-parent Alphabet) are up an astonishing 42.5% year to date on a price basis. The price return for the S&P 500 is 4.1%. And excluding the FANMAG stocks, the other 494 names have a 3.6% price loss year to date (numbers from NDR—Ned Davis Research).

The outperformance of these top index names means concentration within the index has soared to record highs. The top 10 stocks in the S&P 500 make up a record 28% of the total market cap of the index (see NDR chart on the next page). But the top names in the index have constantly changed throughout history. Back in the 1980s, oil and gas companies dominated the top 10 in the S&P 500. In the late 1990s, it was technology companies that held the top position (but Microsoft is the only one still in the top 10 today). Today, the FANMAG stocks are in the pole position.

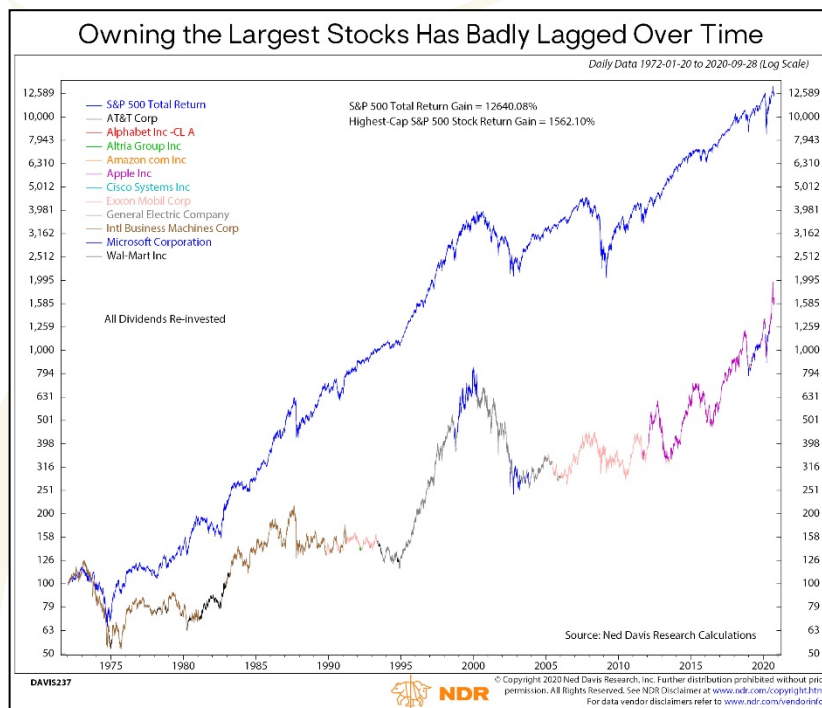




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It's not out of the ordinary for a handful of companies to make up a significant percentage of the index. But keep in mind that these companies' outsized past returns have come from their ascension up the market cap spectrum, not from owning them once they are at the top of the mountain. The NDR chart shows that owning just the largest stock in the S&P 500 would have dramatically underperformed holding the diversified index over time.



The strong outperformance of growth and technology names relative to cheaply valued and economically sensitive stocks continues. The six FANMAG stocks are nearing a 40% weight in the Russell 1000 Growth Index, whereas the Russell 1000 Value Index is much more diversified. For example, 40 names make up 40% of the value index, and it does not benefit from a handful of strong companies driving the index higher. This will (eventually) cut both ways. But in the meantime, the outperformance of growth that started in 2007 has accelerated at a pace not seen since 1999–2000.

This is not to suggest the current group of growth companies is comparable to what happened during the dot-com bubble. The valuations may be nearing similar heights; however, the fundamentals are not the same. The current firms have created economic value, grown revenues

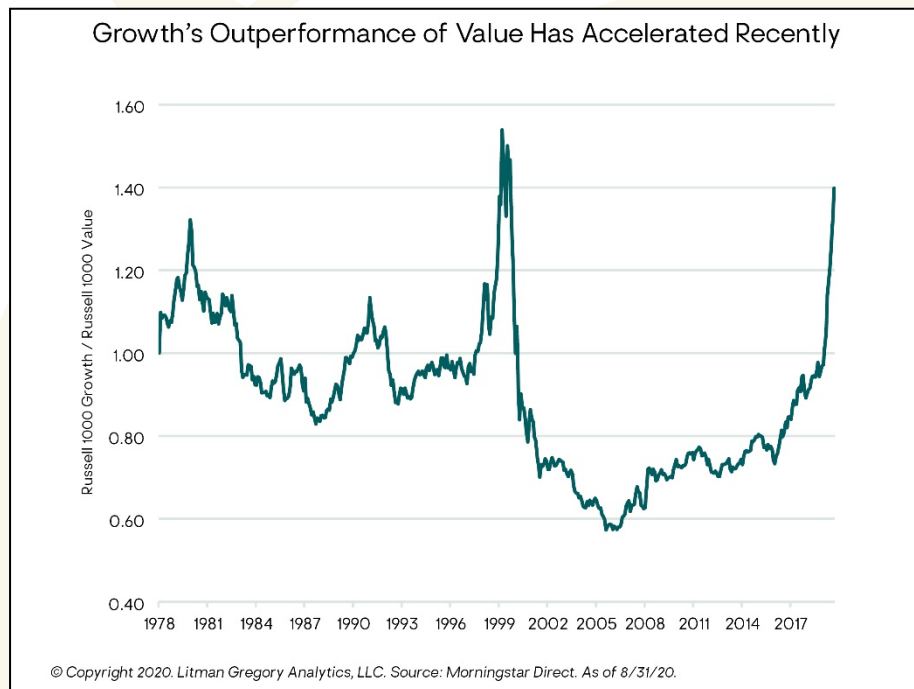


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at astonishing rates, established new markets, and disrupted old players. And in an environment where growth has been scarce with interest rates at all-time lows, investors have been willing to pay up for that growth.

The mega-cap growth effect is not only driving the returns of growth versus value in the United States, but also the relative returns of U.S. stocks versus foreign stocks. For the third quarter, developed international stocks gained 6.0%, almost 300 bps behind U.S. stocks (Vanguard FTSE Developed Markets ETF). However, emerging-market stocks outperformed U.S. stocks with a return of 10.2% (Vanguard FTSE Emerging Markets ETF).



Year to date, the 11% outperformance of larger-cap U.S. stocks relative to foreign stocks (represented by the MSCI ACWI ex USA Index) can be attributed to the mega-cap growth stocks. For the year, the MSCI ACWI ex USA has lost 5.4% while the S&P 500 Equal Weight Index (which assigns the same weight to each stock in the index whereas indexes like the S&P 500 weight companies by their market value) has roughly the same performance with a 4.7% loss. Meanwhile, the market-cap-weighted S&P 500 is up 5.6% this year.

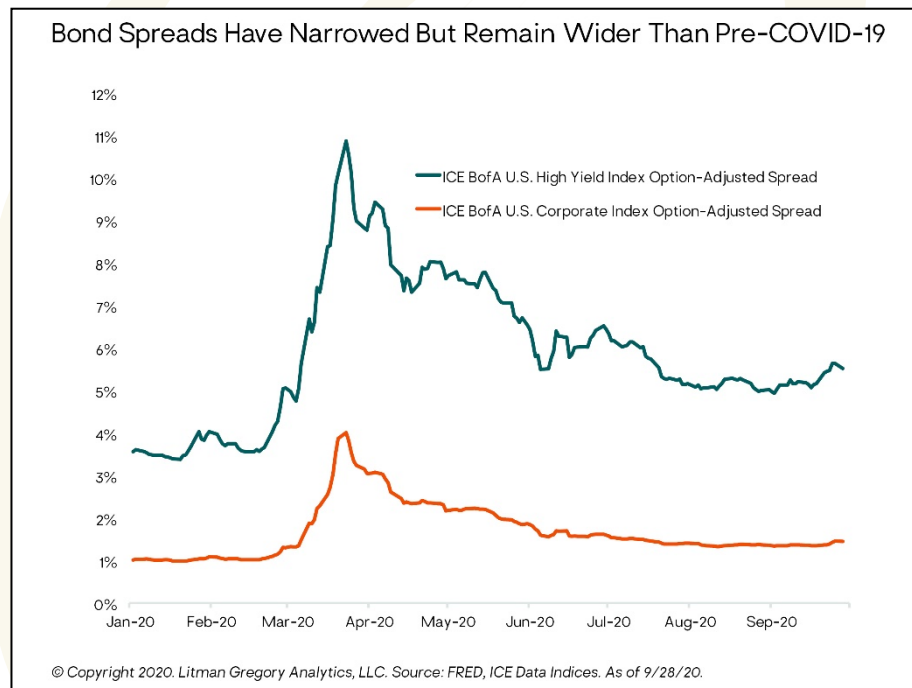


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Within the fixed-income markets, core bonds gained 0.6% for the third quarter (Vanguard Total Bond Market Index). Treasury yields were unchanged over the last three months. Investment-grade corporate bond spreads narrowed slightly over the quarter, as did spreads for high-yield bonds. This led to good gains for high-yield bonds and floating-rate loans, each up over 4% during the quarter. Both remain slightly negative on the year (the ICE BofA U.S. High Yield Cash Pay Index and the S&P/LSTA Leveraged Loan Index, respectively).

Bond markets have been calm throughout the summer, thanks in large part to extremely accommodative monetary policy from the Federal Reserve. Fed officials have signaled that they do not expect to raise rates at least through the end of 2023. With a new policy of “average inflation targeting” around 2%, coupled with inflation that has rarely topped that level over the last decade, many market participants are expecting low rates and supportive monetary policy to continue for a long time to come.





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Our Current Macro & Market Outlook: Reasons for Caution, Reasons for Optimism

As is typically the case, our market crystal ball is foggy, with multiple crosscurrents and uncertainties presenting both investment risks and opportunities, near term and medium to longer term. Below, we highlight some key reasons for caution and other reasons for cautious optimism. We conclude with a discussion of our portfolio positioning and the need for balance given this backdrop.

Reasons for Caution

Looking out over the rest of the year, the potential for market volatility and a stock market decline is elevated, primarily due to two unusual current events: (1) the U.S. election in November, and (2) the ongoing coronavirus pandemic. Two other investment risks to remain wary of are (3) expensive valuations (again) for the U.S. stock market and (4) the ever-present potential for a negative geopolitical shock. We briefly address each of these below:

Election risk

For a variety of reasons, this election, and the circumstances surrounding it, really does seem unique. As one commentator on Bloomberg put it, “There is a high probability that the U.S. elections this November are going to be a mess.” There is a meaningful likelihood that we will not know the final result of the presidential election for several days or weeks after election night as mail-in ballots are counted, creating meaningful uncertainty. (It is worth remembering that the 2000 Bush-Gore election took 34 days for the winner to be declared. The S&P 500 lost about 4% during that time.) Beyond a vote-counting delay, we could ultimately have a disputed or contested election result.

Given the extreme political partisanship, polarization, and divisiveness in the country, we could see social unrest (or worse) disrupt the functioning of government and day-to-day society. Putting aside the potential societal impact, the immediate financial market impact would likely be fear and investor flight from risk assets, pushing down stock prices and likely boosting Treasury bond prices.

Obviously, we hope for a peaceful election resolution. But should markets selloff very sharply, our inclination will be to “look through” the short-term fear, assume our democracy and governing



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institutions will remain intact, and, depending on the magnitude of the selloff, view it as a potential buying opportunity.

Even absent a disputed election result, the weeks leading up to election day are likely to be volatile. The fiscal and economic policy implications between a President Donald Trump or a Vice President Joe Biden victory are meaningful, particularly if the Democrats sweep Congress. For example, a Democratic sweep raises the likelihood of corporate and/or capital gains tax increases—market-unfriendly policies. On the other hand, the economy may get a near-term boost in a Biden administration from increased fiscal stimulus (e.g., extended unemployment benefits and infrastructure spending) as well as the potential for a reduction in trade tensions and tariffs relative to a Trump administration.

Moreover, given the polling results over the past several weeks, the financial markets should already be incorporating some meaningful likelihood (at least 50%) of a Biden victory and a Democratic sweep of Congress. In other words, a Biden victory at this point would not be a market surprise. Nor would a Trump victory, unlike in 2016.

This is certainly a monumental election along many dimensions. But from a long-term, fundamental investment perspective, we approach it as we have all past elections, including 2016. As we wrote then:

It is important not to let your political views infect your investment process. While new facts and circumstances must always be incorporated into one's fundamental investment analysis and decisions, election outcomes in any given year should rarely be the basis for major investment portfolio changes. Even more rarely should portfolio decisions be based on political predictions before the fact.

History shows that the political party in power is not a significant differentiator or driver of investment returns. There are simply too many other factors, variables, and events that impact markets and asset prices over time, beyond election outcomes.

The economic risk due to a resurgence of COVID-19, along with the potential lack of additional fiscal support

The coronavirus pandemic remains a significant risk facing societies and financial markets in the near term. While the U.S. and global infection and death curves have been generally flattening/improving (albeit with large variance across individual countries), the potential remains

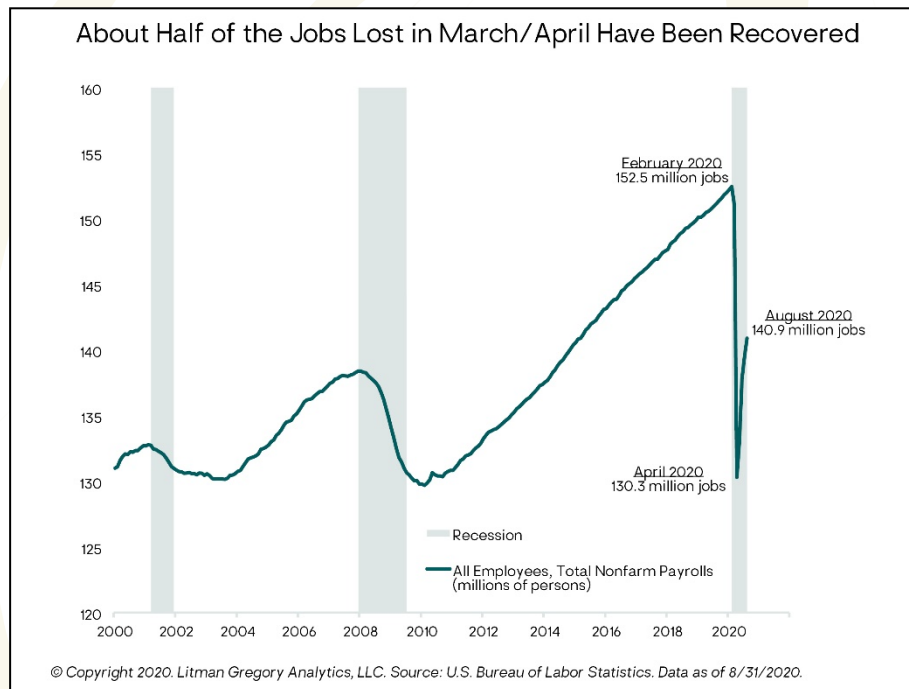


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for a resurgence of the coronavirus in the fall and winter months. One recent news headline read, “‘Pandemic fatigue’ leads to resurgence of coronavirus in Europe.” The same could happen in the United States. This raises the risk of renewed shutdowns and another economic downturn. Fed chair Jerome Powell emphasized this at his September press conference saying, “The outlook for the economy is extraordinarily uncertain and will depend in large part on our success in keeping the virus in check.”

On the positive side, the unemployment rate has dropped sharply from its April high of 14.7% to 8.4% in August. But while about half the 22 million jobs lost in March and April have been recovered, the number of “permanently” unemployed has been increasing in recent months and now accounts for about one-third of the currently unemployed, up from under 20% in the early months of the pandemic. As this number increases, it increases the risk of long-term structural damage to the economy.



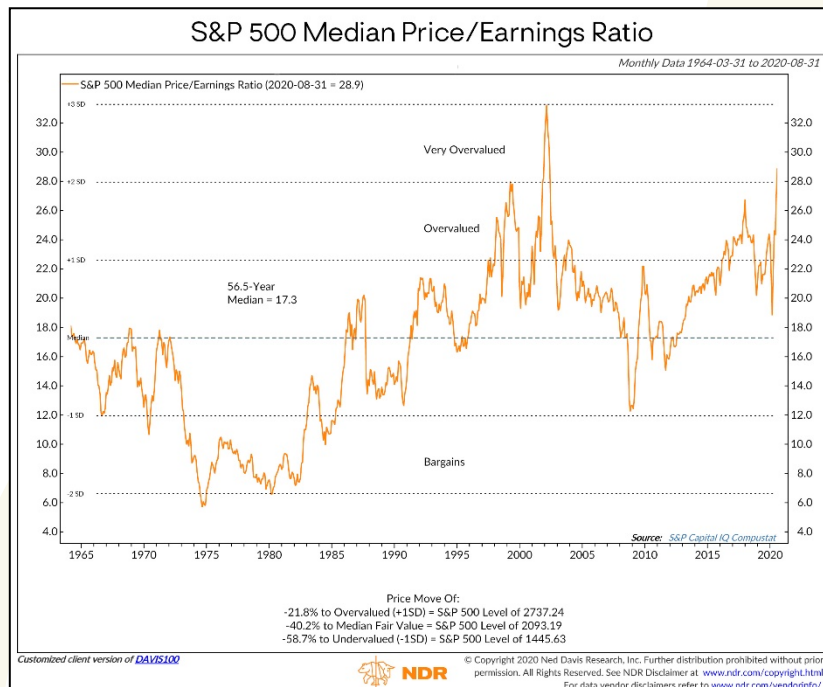
In his recent press conference, Powell also said that while the fiscal stimulus (CARES Act) earlier this year has been critical in supporting the U.S. economy, “my sense is that more fiscal support is likely to be needed” to help the roughly 11 million people still out of work due to the pandemic,



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“struggling small businesses,” and state and local governments facing budget shortfalls. And he noted that “the overwhelming majority of private forecasters who project an ongoing recovery are assuming there will be a substantial additional fiscal support.”

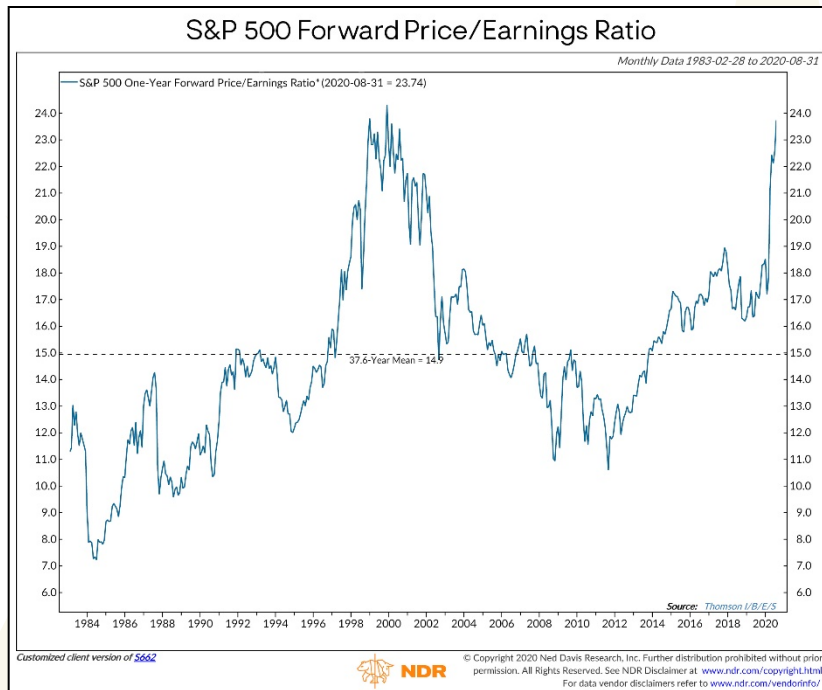


However, as we write this, it remains unclear whether Republicans and Democrats will agree on another fiscal stimulus package—for example, in the range of \$1–\$1.5 trillion—prior to the election. Time is running out and the two sides still appear far apart in their negotiating positions. It would seem to be in most of the key players’ political interests to agree on a new package. But if it doesn’t happen, it will be a hit to fourth quarter economic growth and likely the stock market as well. The extent of the impact will also depend on what is happening with the spread of COVID-19 and related medical developments (vaccines, treatments, rapid testing and tracing, etc.).



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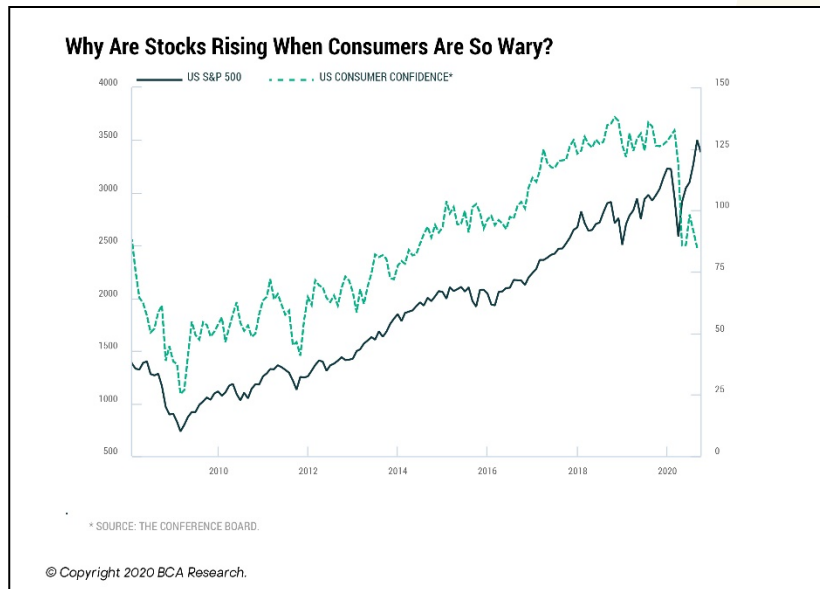
U.S. equity market valuation risk

After soaring more than 50% from its March market low, the S&P 500 Index is again in historically overvalued territory (driven largely by a handful of mega-cap tech/growth stocks). This is clear when evaluated across a wide variety of absolute valuation metrics. By “absolute valuation” we mean the current market price of an asset relative to its underlying economic fundamentals (e.g., its sales, earnings, cash flow, dividends). The previous charts show two common valuation measures for the S&P 500 Index: the 12-month forward price-to-earnings (P/E) ratio and the median P/E ratio. Both are nearing their circa-2000 bubble highs.



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It is also very unusual that the stock market has been rallying so strongly while consumer confidence has been plunging. The two are usually highly correlated—a rising market coinciding with rising consumer confidence. This type of divergence is not sustainable. The only question is which line will catch up (or down) to the other.

While there is no economic law preventing valuations from rising even further over the near term, we do know that over the longer term, there is a very strong inverse relationship between starting valuation and subsequent investment returns: Higher starting point valuations imply lower future returns, all else equal. Our base-case economic scenario analysis implies very-low-single-digit annualized returns for the S&P 500 over the next five years. But in considering other plausible scenarios, there is a wide confidence interval of returns around that point estimate.

Geopolitical risks and other unknowns

There is always the potential for a negative surprise or shock on the geopolitical stage. This is not meant to highlight any particular risk—although increasing U.S.-China conflicts and the ongoing Brexit saga are two obvious ones. It is simply a reminder that stock markets and other “risk assets” are always subject to short-term volatility and drawdowns due to unexpected negative events and shocks. The coronavirus pandemic is only the most recent example, albeit an extreme one. Unfortunately, there will inevitably be other events that shock and scare the markets.



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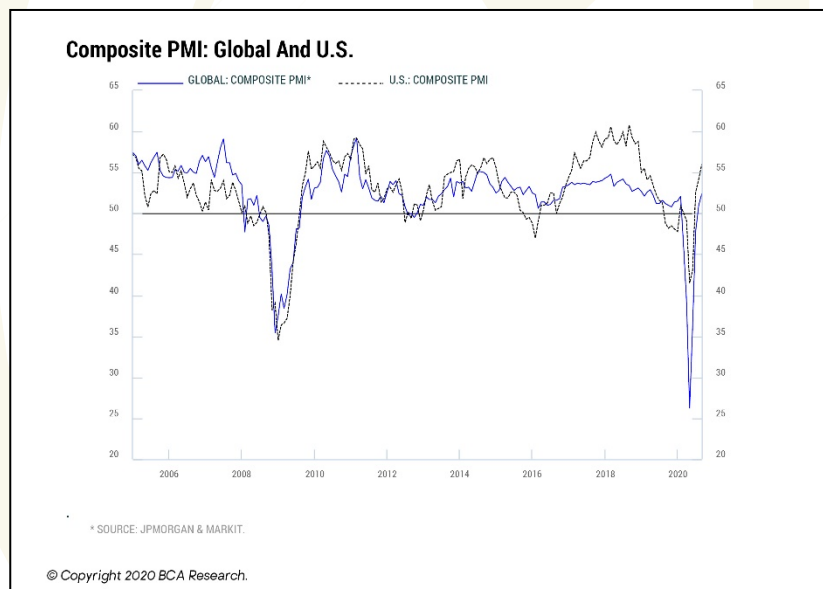
For some historical perspective, since 1950, the U.S. stock market has experienced a 10% or worse decline about once a year on average; 5% market declines have occurred roughly three times a year. But it's impossible to consistently predict when such drops will happen, how deep they will go, or how long they will last. Although it can feel uncomfortable at the time, maintaining a disciplined, long-term investment approach through such periods is the best course of action. As we saw in March, these events often provide an excellent opportunity to invest in marked-down assets at attractive expected future returns.

Reasons for Optimism

Balanced against these market risks and macro uncertainties, we also see several reasons to remain cautiously optimistic about the investment prospects for global equities and other risk assets. We highlight four below:

The economic recovery underway

An economic recovery is underway, and it appears the pandemic-induced recession—both globally and in the United States—is over, barring a severe virus resurgence.



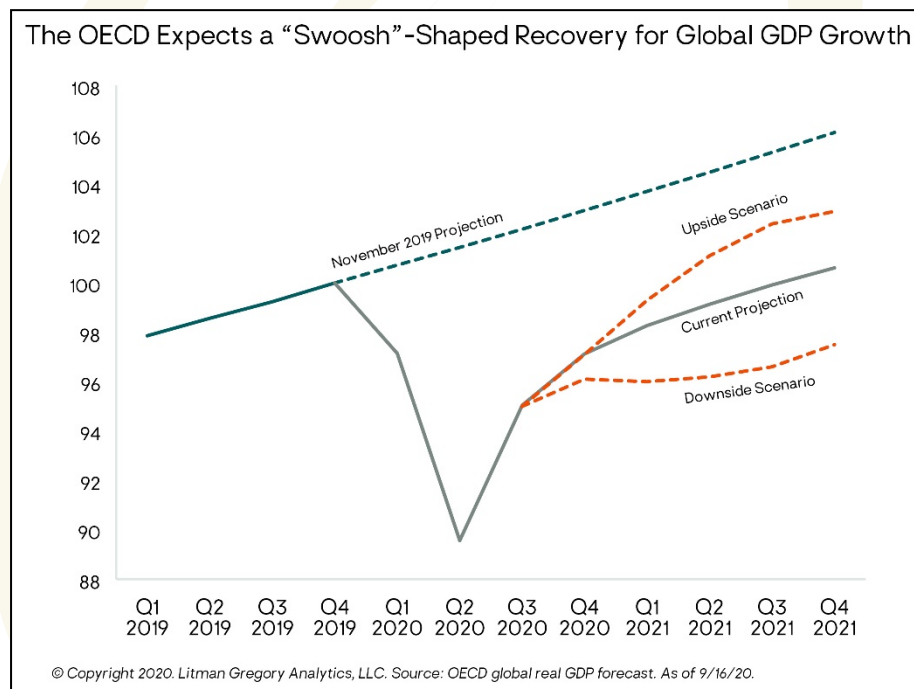


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For example, in August, the Global Composite Purchasing Managers Index (PMI), for manufacturing and services, registered its fourth consecutive monthly increase and its second straight month above 50, indicating economic expansion. The U.S. Composite PMI is also back in expansion territory.

Another data point on the economic recovery: In September, the Organization for Economic Co-operation and Development (OECD) revised upward its outlook for the global economy, forecasting it will shrink 4.5% this year, compared to the 6% annual decline it had forecasted in June. The OECD is forecasting 5% global real GDP growth for 2021, which would bring the world economy to slightly above where it ended 2019. The OECD expects (shown in the chart below) a gradual “swoosh”-shaped recovery from here, which is consistent with the broad consensus forecast for 2021 (rather than a sharper V-shaped rebound or a double-dip W-shaped renewed downturn). But as with most macroeconomic predictions, one should allow for a wide band of uncertainty around the base case.





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As for the U.S. economy, in September, the Fed sharply revised up its forecast for U.S. GDP this year to a 3.7% annual decline, compared with its June forecast of a 6.5% decline. The Fed is forecasting 4% U.S. real GDP growth in 2021, which is in line with the consensus forecast.

All else equal, a backdrop of rebounding U.S. and global economic growth should be supportive of equity and credit markets as increased consumer and business spending flows through to corporate sales and profits. But, as noted above, equity markets—large-cap U.S. stock valuations in particular—are already implicitly assuming a continued recovery from the deep pandemic recession. So it remains to be seen how strong the actual recovery is and how much of it is already discounted in current prices.

The likelihood of an effective and widely distributed coronavirus vaccine next year

Nine coronavirus vaccines are currently in Phase 3 trials, including four in the United States. Although far from a certainty, based on our understanding of consensus medical opinion, it seems a reasonable base case to assume there will be an effective and widely distributed vaccine(s) within the next six to 12 months. This will be necessary for economic activity to return to its full pre-pandemic potential. In the meantime, countries, businesses, and communities are learning to adapt to living with the virus—via mask-wearing, social distancing, digital rather than in-person interactions, better treatments for those infected, etc.—without total shutdowns of economic activity.

We are confident the pandemic will end in the not-too-distant future, although the exact timing is uncertain and significant human and economic damage can still occur in the meantime. The financial markets seem to be pricing in a reasonably optimistic outlook on vaccine developments, so there is potential for short-term volatility and pullbacks if incremental news is disappointing. But there is also room for positive surprises on the medical side, and therefore the economic and stock market sides, as well.

Extremely accommodative monetary policy

In response to the pandemic, the Fed pulled out all the stops, flooding markets with liquidity, purchasing government and corporate bonds (quantitative easing, or “QE”), and cutting the federal funds rate to near-zero. The Fed has made clear it remains committed to maximum



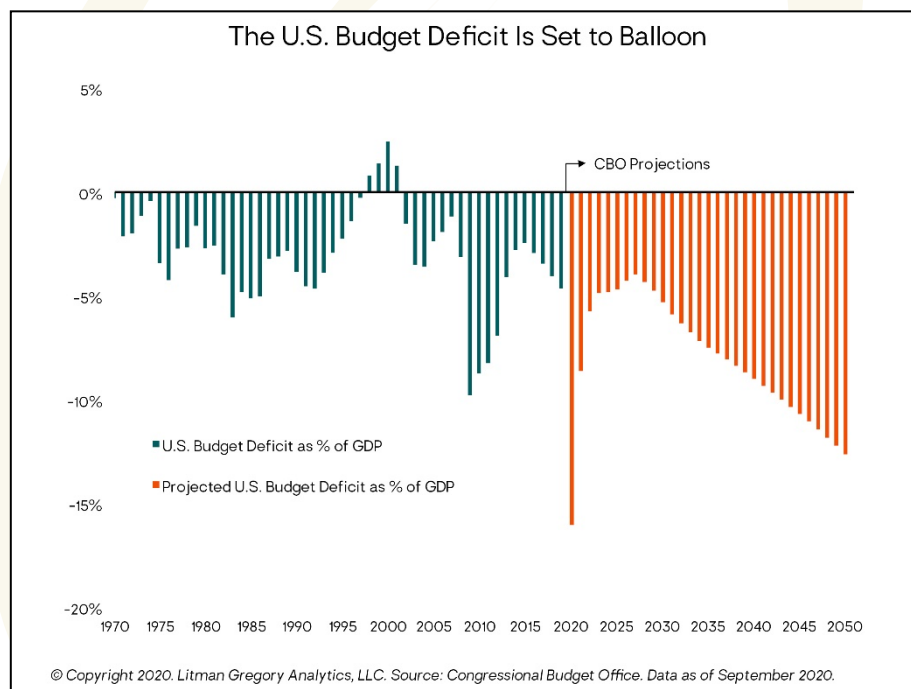
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monetary policy accommodation, given the state of the economy and the uncertainty surrounding the pandemic.

At its September Federal Open Market Committee meeting, the vast majority of Fed officials indicated they do not expect to raise the fed funds interest rate at least through the end of 2023. Importantly, the Fed also introduced new “forward guidance” language, stating it would keep rates at zero until the labor market achieves “maximum employment,” and inflation has risen to 2% and “is on track to moderately exceed 2% for some time.” This is the new policy of “average inflation targeting.”

Given the inability of the Fed to consistently hit its 2% inflation target during the past decade, let alone “moderately” above that, many market watchers interpret this to mean interest rates could remain at rock bottom levels well beyond 2023. That’s certainly possible. But remember that economists (including the Fed itself) and other financial market experts are notoriously poor interest rate forecasters.



The Fed also said it will continue indefinitely to buy at least \$120 billion of Treasury and agency mortgage-backed securities per month (QE). Since March, the Fed has purchased roughly \$3



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trillion of assets for its balance sheet, which has swelled to a record 36% of U.S. GDP. These bond purchases have gone a long way to offsetting (“monetizing”) the debt being issued by the Treasury to fund the massive pandemic fiscal stimulus and deficits. This has kept downward pressure on interest rates. Otherwise, the massive increase in bond supply relative to demand would likely have pushed down bond prices, increasing bond yields/interest rates and increasing the interest expense on the federal government’s huge and growing pile of debt. But as long as rates stay low—below the growth rate of GDP—the government debt service cost should be manageable and the debt-to-GDP ratio sustainable.

Other major central banks have also been highly stimulative. Global central bank assets as a percentage of global GDP has spiked to an all-time high, an increase of nearly \$7 trillion since the pandemic. These central bank actions support financial asset markets and valuations. Additional fiscal stimulus, which seems likely whether before or after the U.S. election, would be further support.

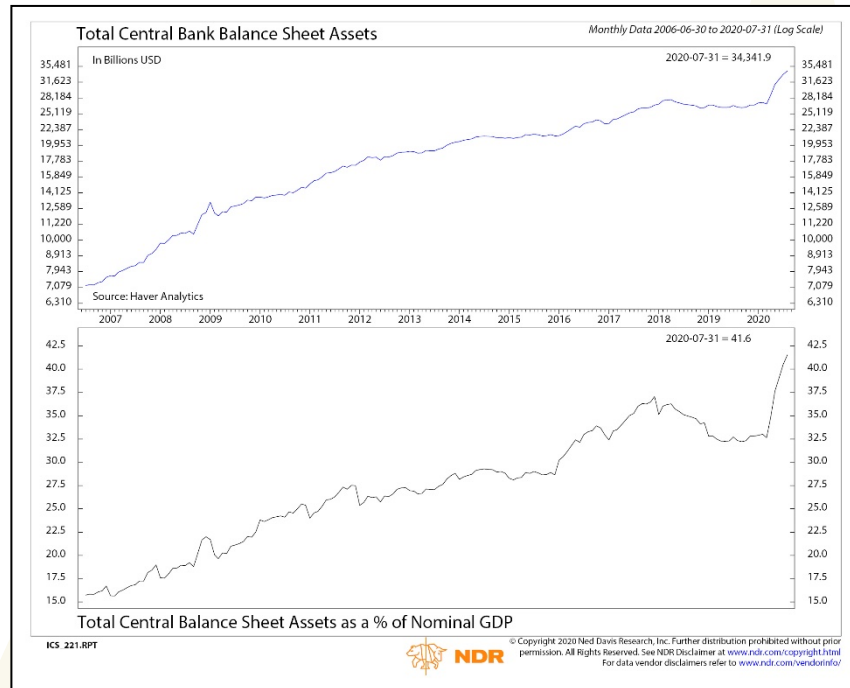
The relative valuation of U.S. stocks (versus bonds) is attractive, and even more so for foreign stocks

In the “Reasons for Concern” section above we highlighted the high absolute valuation risk of the S&P 500. However, a countervailing factor is that U.S. stocks look relatively cheap when compared to current sub-1% Treasury bond yields. Put differently the “risk premium” for owning equities relative to bonds is historically high and attractive, suggesting stocks should outperform bonds over a medium-term horizon.



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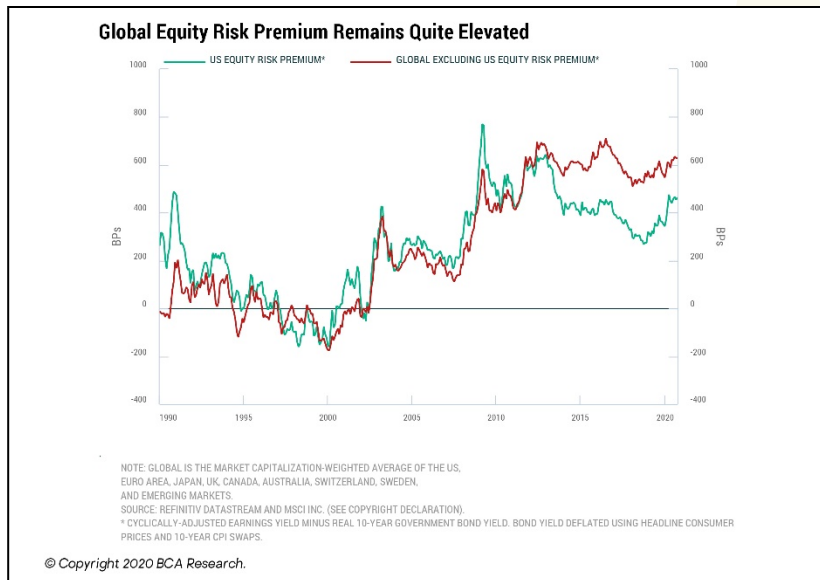
We discussed the equity risk premium in our second quarter commentary, but it is worth reiterating because it has been a key driver and support of the long-running U.S. equity bull market. Extremely low interest rates/bond yields have also driven the very high absolute valuations for “long-duration” growth stocks relative to value stocks.

Investors must put their capital somewhere. With bonds and cash yielding little to nothing, investors seeking higher potential return or yield are pushed further out on the risk spectrum—for example, into equities and lower credit-quality corporate bonds. This pushes stock prices and valuations higher. This has been the Fed’s explicit policy intent going back to the 2008 financial crisis. And as we note above, with the labor market far from full employment and inflation well below the Fed’s new 2% average target, there is no end in sight to the Fed’s accommodative policies.



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Now, the Fed is powerful but not omnipotent. Market downturns can and do happen while Fed policy is accommodative. But, among many other considerations, weight must be given to the old market maxim: “Don’t fight the Fed.”

Our Portfolio Positioning: Maintaining Balance & Resilience Amid the Uncertainty

Given this macro and market backdrop, the risks and unknowns, and the wide range of potential outcomes, our watchwords for portfolio construction and positioning remain “balance and resilience.”

Maintaining broad portfolio balance and diversification across multiple dimensions is particularly important right now. In doing so, we believe our portfolios provide the potential for strong returns in our base case and more optimistic economic scenarios, while still maintaining resilience should a more challenging scenario play out.

A reasonable base case economic scenario involves one in which the global and U.S. economies continue to recover and the pandemic risk recedes without major economic disruption beyond scattered localized flare-ups. With central banks keeping interest rates exceptionally low, this would be supportive for global equity markets and credit markets.

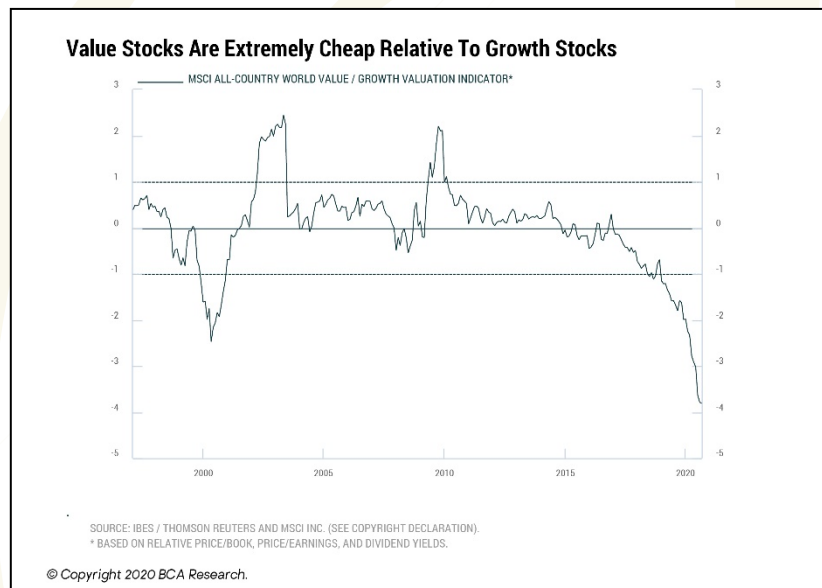


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On the equity side of balanced portfolios, as a reminder, we were underweight to U.S. stocks and stocks in general going into the pandemic. In March after an initial large decline, we added to U.S. stocks at more attractive prices. Since that time, U.S. stocks have appreciated strongly, outperforming most other investments.

We have maintained a moderate tactical underweight to U.S. stocks because the market is overvalued on an absolute basis and currently offers below-average expected returns in our medium-term (five-year) base case. However, the relative valuation of U.S. stocks versus core bonds (the equity risk premium) and the likelihood that the Fed will keep interest rates “lower for longer” provides support for high valuations, at least until rates meaningfully rise. And there are plausible more optimistic scenarios where U.S. stocks generate mid to upper single-digit medium-term annualized returns. So, respecting the wide range of potential outcomes, we don’t want to be too underweight to U.S. stocks despite their absolute valuation headwind.



Related to this, within our U.S. equity exposure we want to remain broadly balanced to growth versus value stocks, whether via broad market index exposure or active managers. Growth has crushed value in recent years and now looks extremely overvalued relative to value. And we do expect this cycle to turn at some point, as it always has. But the tailwinds to the recent growth/tech stock outperformance—superior earnings growth and zero interest rates—may continue for a while. Alternatively, if and when the consensus believes we are in a durable

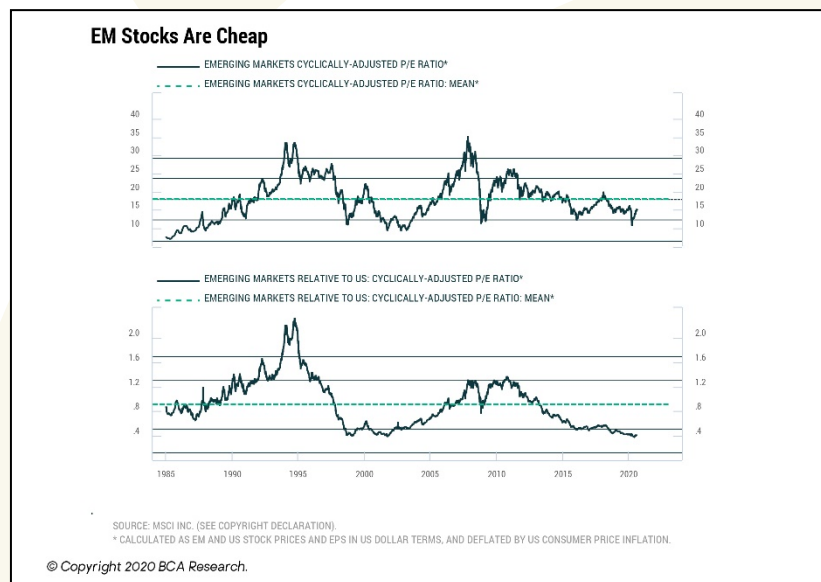


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economic recovery (for example, when vaccines are available), that may be the catalyst for a market rotation out of expensive “defensive” mega-cap growth stocks into undervalued out-of-favor value sectors, such as financials and industrials. As the Bank Credit Analyst recently put it, “The ‘pandemic trade’ will give way to the ‘reopening trade.’”

Our underweight to U.S. stocks is offset to some extent by an overweight to emerging-market stocks, which are cheaply priced (undervalued) with much higher five-year expected returns, based on our analysis. (Many other investors we respect have a similar view.)

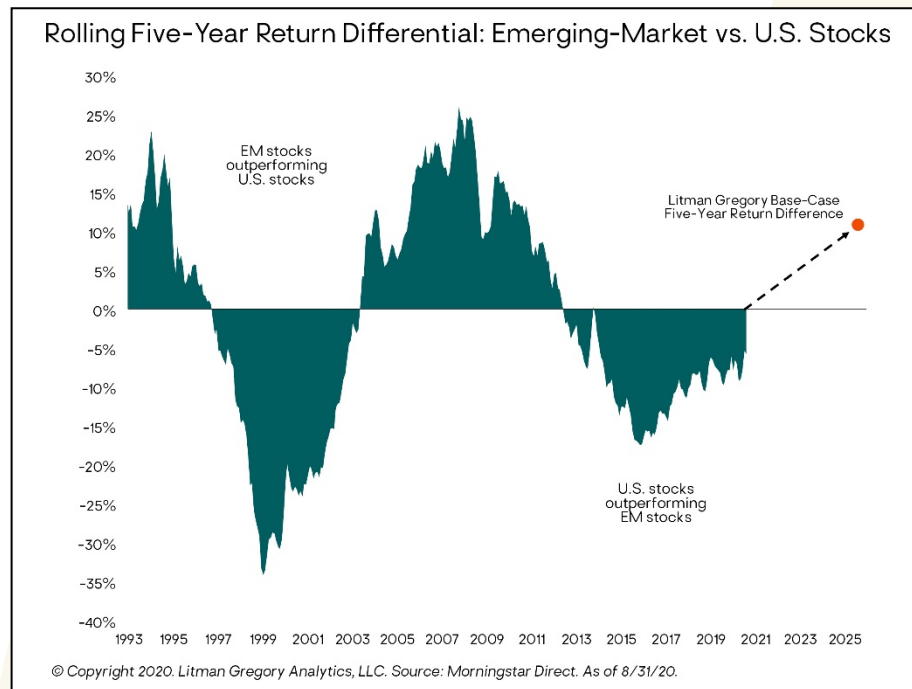




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We also have a full strategic allocation to developed international equities, where we also see superior five-year expected returns compared to the U.S. market. This leaves portfolios slightly underweight to stocks in general.



It's also worth noting that in a scenario of sustained global economic recovery with Fed-repressed U.S. interest rates, odds are the U.S. dollar will depreciate as capital flows to other markets. When the U.S. dollar depreciates against foreign currencies, U.S. investors receive an additional positive currency return from holding international assets. Given the potential higher returns and currency tailwind, we don't want to reduce our global diversification right now.

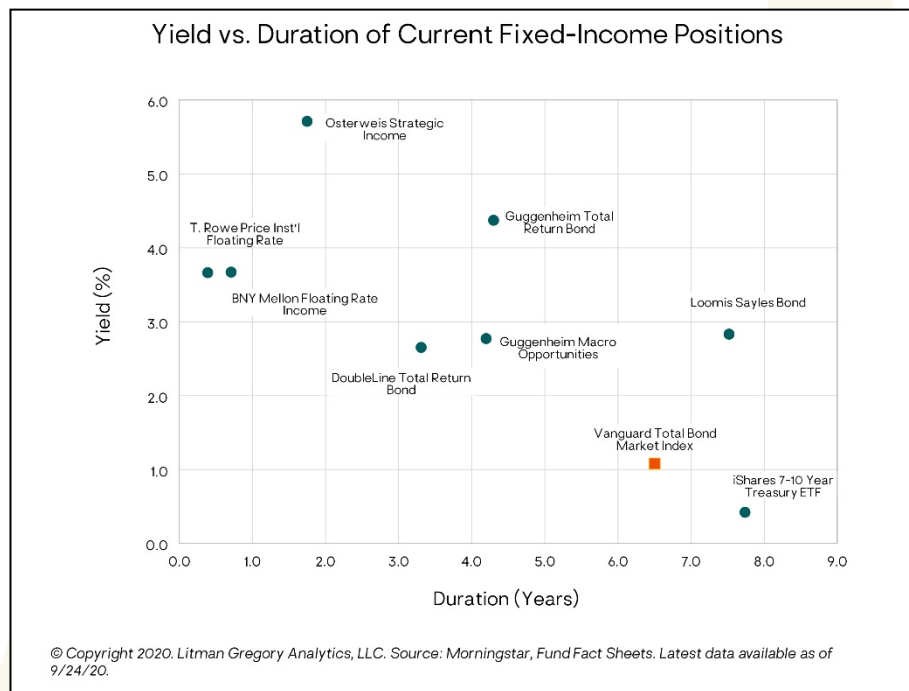
On the fixed-income side of our portfolios, we are balancing the need for core bonds as ballast and protection in the event of a negative economic shock (a widespread resurgence of the virus forcing widespread shutdowns, election-related or geopolitical volatility, etc.) with their lack of yield and very low expected returns over a multiyear horizon. As such, roughly half of our fixed-income exposure is in flexible actively managed bond funds with a broad investment opportunity set beyond traditional core bond sectors. We expect these funds to generate much higher returns than the core bond index over the next several years. The tradeoff is that they will not hold up as



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well as core bonds on the downside in an economic shock. We take this higher credit risk into account as part of our slight underweight to stocks.



The flipside of core bonds providing recession/deflation protection is that they have significant interest rate and inflation risk. Rising inflation implies rising interest rates—absent the Fed stepping in to control the level of interest rates across the entire yield curve (the full range of maturities from short-term T-Bills to 30-year bonds), which many observers expect the Fed will do at some point. Rising rates are negative for core bond prices and returns. If the 10-year Treasury yield were to rise one percentage point over the next 12 months from its current level, we estimate the core bond index would lose 4.5%.

We do not view inflation as a near-term risk, given high unemployment, depressed aggregate demand, and excess productive capacity. But the massive monetary and fiscal stimulus we are seeing (and with more likely on the way) could set the stage for an inflationary regime in this country the likes of which we haven't seen in decades. There is a tug of war between deflationary and inflationary forces, and the ultimate outcome is uncertain. Therefore, it is important to have



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fixed-income exposures that diversify risks and provide return opportunities across a wide spectrum of outcomes.

The third broad component of our balanced portfolios comprises trend-following managed futures strategies. These investments further diversify equity and bond market risk and are intended to generate returns over time that are much better than we expect from core bonds and potentially competitive with equity returns. In a bull market, these alternative strategies will likely trail stocks. But in a sustained bear market, we expect them to provide protection and partially offset losses in risk assets.

In sum, we have built our portfolios to diversify and balance the wide range of risks and return opportunities the financial markets are presenting us near term and longer term. Overall, we are very comfortable with how our portfolios are positioned and nothing in our assessment indicates a shift in positioning would improve the risk/return balance. Yet our actions in March show we won't hesitate to take advantage of compelling opportunities when they arise. We believe we are tilted in the direction markets are headed, not stuck following the trends of the last 10 years that are unlikely to sustain given the cyclical nature of investing.

History shows markets are consistently unpredictable. Adding to the uncertainty are the unprecedented circumstances, challenges, and structural changes the global economy is currently facing.

Having a high degree of conviction in any single outcome strikes us as imprudent. Instead of trying to continuously predict the future, we are focused on building resilient portfolios across multiple plausible scenarios, accounting for a range of shorter-term risks but keeping our primary focus on the medium- to longer-term fundamentals that ultimately drive investment returns.

Investing in this way requires discipline, patience, and a willingness to stand away from the herd at times. It can feel uncomfortable to stay the course, or add to equities, when markets are plunging or to care about valuation and not chase markets higher when they are soaring. But in the end, this is the best approach we found to achieving one's long-term investment goals.

—Litman Gregory Investment Team (October, 2020)