

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

Lower Risk/Reward Potential

DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. *Trailing returns as of 10/31/2021 and are annualized returns if over 1-Year. See “Model Disclosure” page for important disclosures and information – Total Period Measured 12/31/2016 – 10/31/2021. “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 10/31/2021

By Dustin Latham, CFA, CAIA, CRPC

After a shaky September, domestic equities pressed on to all-time highs in October up [7.01%](#), and up [24.04%](#) year to date. Investment Grade Bonds* finished the month down -0.03%, while down -1.58% on the year. The U.S. Government debt limit standoff in Congress was kicked down the road to early December, helping markets rebound over the month. Positive earnings and revenue surprises to the upside on third quarter earnings also drove the rally in S&P 500. According to [FactSet](#), over 50% of companies have reported their third quarter results in the S&P 500 Index with four out of five beating earnings estimates, and three out of four beating on revenue estimates. This provided the best month over month lift to the index going back to November of 2020. The best performing domestic sector was [Consumer Discretionary](#) up 10.94% while the worst performing was the [Communication Services](#) up 2.83%. Consumer Discretionary was largely driven by Tesla's month over month monster performance off the news of [Hertz car rental company announcing the purchase of 100,000 electronic vehicles from Tesla](#). This helped push the company over a \$1 trillion dollar market capitalization. On October 13, the Federal Reserve Bank released their minutes from the September meeting all but confirming market expectations of a tapering of the asset purchase program starting in November and completion by the middle of 2022: [No decision to proceed with a moderation of asset purchases was made at the meeting, but participants generally assessed that, provided that the economic recovery remained broadly on track, a gradual tapering process that concluded around the middle of next year would likely be appropriate. Participants noted that if a decision to begin tapering purchases occurred at the next meeting, the process of tapering could commence with the monthly purchase calendars beginning in either mid-November or mid-December.](#) The next FOMC meeting is scheduled for November 2nd and 3rd where it is expected to announce the beginning of the tapering process.

All the model strategies underperformed their domestic benchmark while on the contrary outperformed their global benchmarks in August. The over weights in the Healthcare and Consumer Staples sector were relative underperformers, albeit positive on the month for both, with negative performance within the healthcare sector stemming from the biotechnology space. The additional contrarian allocations to Brazil and the Airline industry lagged significantly and were negative detractors on the month. Although a detractor on the year, a lift to our Clean Energy allocation helped offset some of the drags relative to the domestic benchmark while the small allocation to Copper Miners also stood out as a strong performer, an allocation that we trimmed in the backend of the month.

On October 21st we reduced our focus to the Regional Banking industry by more than half after a healthy runup in Bank stocks following a strong earnings season reported in the third quarter and a steepening yield curve. We also slightly reduced our relatively small holding in the Copper miners' space after a strong rally in the industrial metal. Finally, we trimmed our high-quality floating rate bond exposures with the recent runup in shorter term rates. Importantly, we did not entirely exit any of these positions, just a reduction. With cash from the equity and bond sides of the models from prior cash weightings, and the above-mentioned reductions, we fully reinvested at the model level to bring cash to zero. Among our adds on the fixed income side were to fully allocate our weighting back into fixed income as we approach our target levels on the treasury yield curve, which we highlighted in last month's end review here: <https://www.altcapitalis.com/market-update-9-30-21> "We see our next potential allocation increase to fixed income if the yield curve rises to a level of 1.7-1.8% on the 10-year Treasury and 2.3-2.4% on the 30-year Treasury." At the time it was, "close enough," as the 10-year Treasury reached 1.7% intraday. We recognize that with these low levels of interest rates it creates risk of falling bond prices if we continue to grind higher from here. It must sound counterintuitive to believe that if rates are going to continue to rise over the medium term, leading to potential tough performance ahead, why allocate to an area with the belief of negative potential return ahead? The key concern has been the lack of diversification cash provides in a true risk off event. As we've been nearly fully invested on the equity side, the safe haven stabilizers were not attractive given the belief of interest rates moving higher. With the recent move in rates higher, the tradeoff is interest rates potentially continuing higher and underperforming, on balance with bringing back potential stability in the event of a broad market selloff. All of which is to say, we would rather favor relative underperformance on the upside than on the downside. On the equity side we marginally increased additional weighting to China. We also upped our overall large cap growth weighting, in addition to adding to the technology sector. These increased allocations generally provided a tail wind to performance heading into month end. As bad as we had pegged our traditional energy focus, we can say the opposite about the regional banking space. Banks do more than just lend, but the theme we continue to follow is the shape of the interest rate curve and the anticipated effects to the banking industry.

DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. Measured by the Barclays US Aggregate Bond Index* - Morningstar. [S&P 500 Total Return Index](#)** See "Model Disclosure" page for important disclosures and information. Views and opinions are of Alternative Capitalis, LLC and are not intended as investment advice or recommendation(s). Total Period Measured 12/31/2016 – 10/31/2021 for performance presentation. "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.

Shape Matters

KBWB Invesco Exchange-Traded Fund Trust II - Invesco KBW Bank ETF 72.21 USD

T10YFF 10-Year Treasury Constant Maturity Minus Federal Funds Rate 1.48% -1.0bp -0.68%

The shape of the yield curve matters (most of the time).



The chart left shows the shape of the Treasury yield curve (the gold shaded line) and the resulting effect on the banking industry (represented by the KBWB ETF – the black line). Generally, during periods when the yield curve is steepening, the anticipation is that bank profit margins will increase by lending at higher and longer interest rates while borrowing at lower and shorter-term rates. Coming out of the great recession yield curves remained positive with periods of flattening. The larger the flattening (here flat is 0%), or less steepness in the curve would generally coincide with negative returns in banking stocks.

The yield curve is the difference in yields across the maturity spectrum for bonds. Here, when referencing yield curve, it is specifically to the difference in yield between an index that tracks constant maturity 10-year Treasuries and the Federal Funds Rate (target rate which commercial banks borrow and lend their excess reserves to each other overnight).

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Model Disclosure

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Thus, the performance shown does not reflect the impact that material economic and market factors had or might have had on decision making if actual investor money had been managed. Model portfolio performance is shown net of the model advisory fee of 1.25%, the highest fee charged by Alternative Capitalis, LLC. This reflects a change from Alternative Capitalis, LLC highest fee charged to a client(s) account from 1% to 1.25% annually. April 1, 2018 model performance to most recent date presented adjusts for the higher 1.25% annual fee. Model portfolio performance is shown net of the sample trading costs based on our Custodian's, TD Ameritrade Institutional, trading costs. Performance does not reflect the deduction of other fees or expenses, including but not limited to brokerage fees, custodial fees and fees and expenses charged by mutual funds and other investment companies. Performance results shown include the reinvestment of dividends and interest on cash balances where applicable. The data used to calculate the model performance was obtained from sources deemed reliable and then organized and presented by Alternative Capitalis, LLC. The performance calculations have not been audited by any third party. Actual performance of client portfolios may differ materially due to the timing related to additional client deposits or withdrawals and the actual deployment and investment of a client portfolio, the reinvestment of dividends, the length of time various positions are held, the client's objectives and restrictions, and fees and expenses incurred by any specific individual portfolio. 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](#)." 101 Federal Street, Suite 1956A, Boston, MA 02210 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.

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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. The benchmarks are rebalanced over periods that include a calendar year end date, on the calendar year end date, to their original weighting over the period measured. The Benchmarks 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.