Slide 1

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GET TO KNOW OUR TEAM

David Bauer is the Director of Investment Management at Shepherd Financial. He's been with our team since 2015 and has over 20 years of experience in the financial services industry.

David loves to drink sweet tea with lemon and mint.

Holly Willman is the Director of Creative and Strategic Operations at Shepherd Financial. She's been with our team since 2013, utilizing a variety of skills in different roles.

Holly is delighted to be watching her former Badgers favorite, Jonathan Taylor, in a Colts uniform this year.

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QUARTERLY MARKET REVIEW

October 22, 2020

Shepherd FINANCIAL

Slide 3

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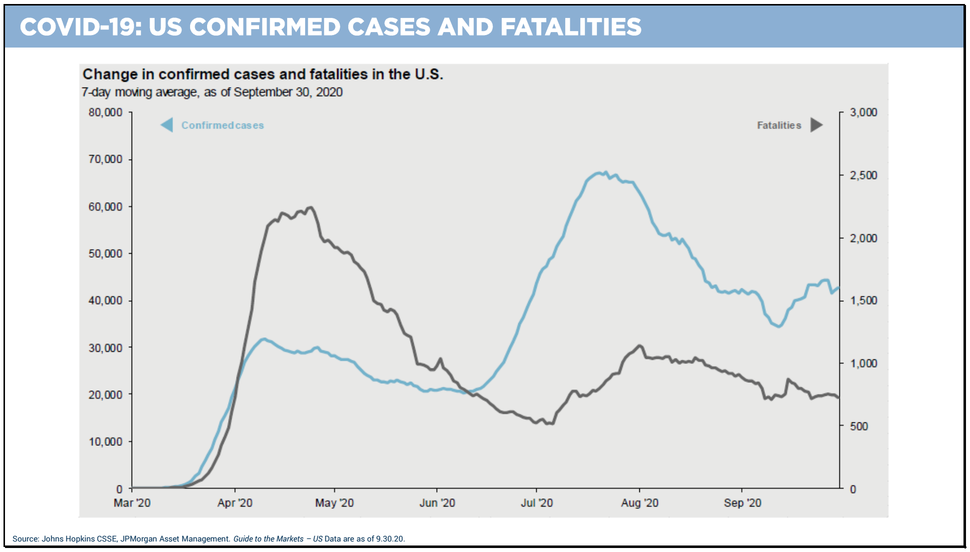

COVID-19 has swept the globe and killed more than a million people worldwide and over 200,000 here in the United States. A direct result of the pandemic was social distancing, which triggered a recession. While the summer months saw a sharp bounce in output following the plunge in the spring, both real GDP and employment remain far below their levels at the start of the year, with further progress being impeded by the continuing pandemic. We've seen a couple things soften the impact of the recession, like massive fiscal and monetary stimulus measures, but those then raised questions about long-term financial stability. Political tensions and uncertainty remain very high in the US as we approach the November elections. Despite a very sharp correction in equities in the first quarter, markets have staged a remarkable recovery, leaving many to wonder whether their portfolios can continue to be resilient in the face of such turmoil and uncertainty. The fourth quarter of 2020 could provide some answers, because we'll have a clearer picture of the trajectory of the pandemic, as well as the pace of the economic recovery. In theory, we'll also have more clarity about the direction of politics and policy. All these issues, along with the behavior of the markets themselves, should shape investment strategy in the months ahead.

The blue line shows a seven-day moving average of new confirmed cases. You can see some surges in April and July, and then a drop to under 50,000 per day. But with schools and colleges reopening, winter weather driving activities indoors, and the continued reluctance of some Americans to wear masks or engage in social distancing, I think it's unlikely we'll see further significant declines in the months ahead. It's notable, too, that fatalities continue to run at roughly 750 per day. Better drugs and treatment protocols in hospitals have reduced the true fatality rate, perhaps down to .5%. But if that's the case and the fatality rate remains at

750, it suggest the true running rate for new infections is around 150,000 per day, which provides further evidence that most of the spread of the disease is going undetected. I hope a vaccine in 2021 will reduce new infections to levels where testing, tracing, and isolation can keep the general population safe and finally permit a return to some sense of normality. But it's likely the process will take most of 2021 to be achieved, so the pandemic will likely still have a dragging effect on economic activity throughout the year.

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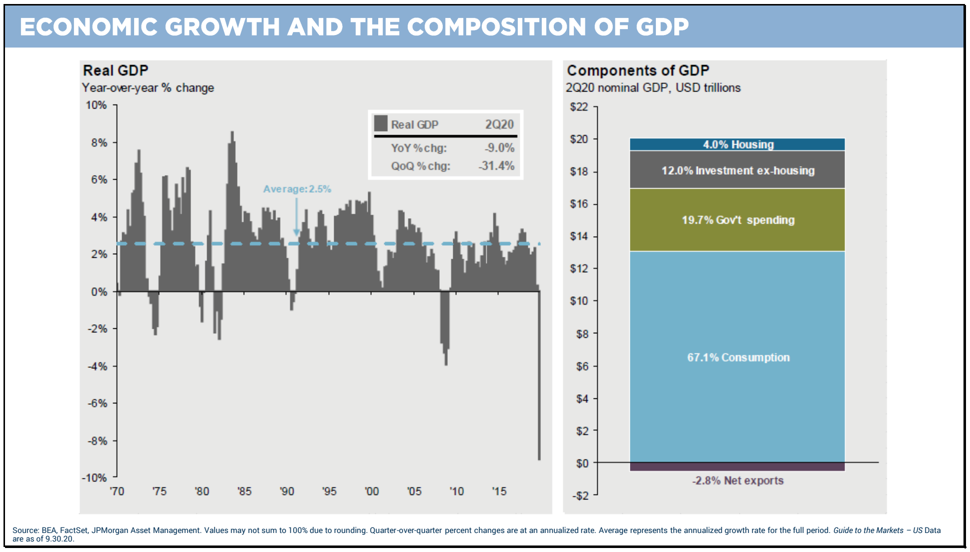

Often we discuss Vs, Us, and Ls when examining the shape of the recession and recovery, but as I mentioned last quarter, it's none of these. It's more like plunging, bouncing, surging? But let's get a little more precise. Following a collapse in the first half of 2020, I expect a strong rebound in activity in the third quarter, followed by much slower growth until the widespread distribution of a vaccine triggers a surge in economic growth, hopefully in the second half of 2021. As we discussed in July, part of the reason for the unusual shape stems from the way industries are grouped. When we went into lockdown, some industries could operate easily in the pandemic environment. Some couldn't. And some could, assuming they put careful social distancing protocols in place. And in this last category, we saw many people return to work over the summer, with revivals in home-building and home-buying, as well as manufacturing and auto sales. This accounted for much of the rebound in activity. But as we know, there are many industries that cannot really reopen in an economically efficient manner in this environment: fully-occupied airlines, hotels, restaurants, and sporting events. And aside from grocery stores, physical retail stores also fall in this group. These – and many other service sector jobs – will likely have to await a vaccine to see a strong revival, leaving the economy well short of a full recovery until late 2021 or 2022 at the earliest.

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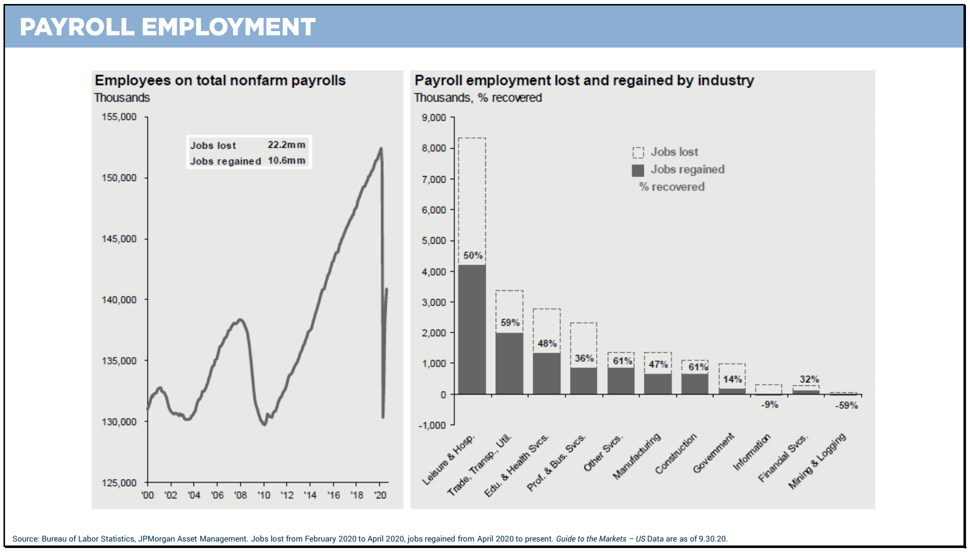

Let’s look at the employment statistics here. The slump in GDP has been mirrored in the employment statistics with the economy shedding 22.1 million jobs between February and April before recovering 10.6 million jobs, which is 48% of the total loss between April and August. Similarly, the unemployment rate vaulted to an 80-year high of 14.7% in April before falling back to 8.4% by August. And while this partial recovery in the labor market is obviously very welcome, I think the pace is going to slow in the months ahead. Much of the remaining employment decline from the pandemic is in those industries we just talked about – those that can only partially reopen during the pandemic or not at all, like the leisure, hospitality, travel, retail, and food services industries. In addition, state and local government cutbacks, the layoff of over 250,000 temporary census workers, and continued job losses in the energy sector should weigh on payroll employment. The unemployment rate could rise between now and the end of the year, because many people who dropped out of the labor market in the pandemic are forced by economic necessity to start looking for a job. The Fed Chairman has even noted that it will likely be many years before the US labor market is again as healthy as it was at the beginning of 2020.

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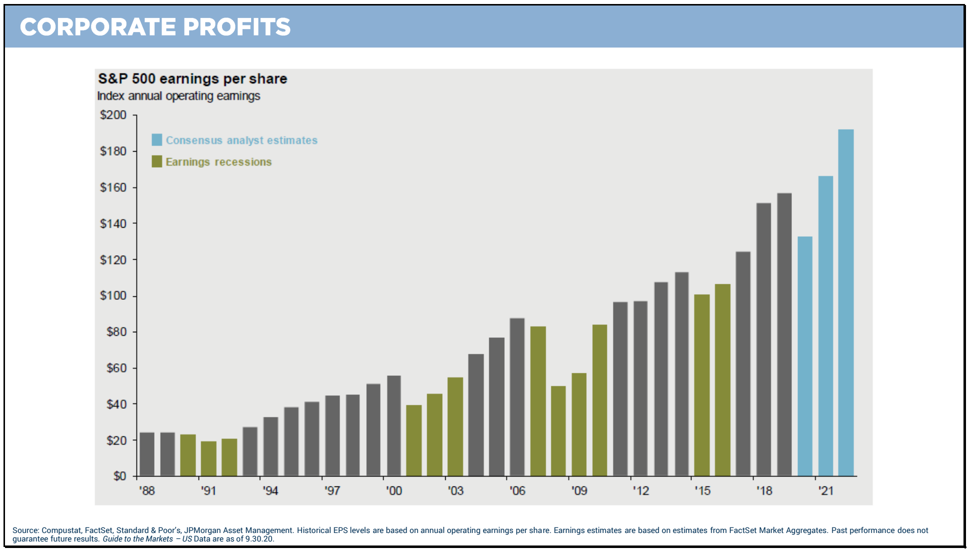

We saw that the recession in the economy was mirrored in big declines in S&P 500 operating earnings in the first half of the year. Analysts are forecasting a fall in earnings in 2020 followed by a rebound to an all-time high in 2021, but I personally think that's too optimistic. As companies release further information in the coming weeks as to how they've weathered the pandemic and recession, analysts may mark down their forecasts. I'd expect earnings to rebound sharply by 2022, perhaps to a new high. That line of thinking supports the idea that the sharp stock market selloff in late February and early March, which saw the S&P 500 fall by 34% from peach to trough, was overdone. The value of stocks depends on a very long stream of growing future cash flows stretching decades into the future. If earnings fully recover following two very bad years in 2020 and 2021, the ultimate impact on stock prices in the long run should be modest. Not that they are unimportant, but I would say the biggest earnings declines are in the least important sectors of the stock market as measured by their contribution to earnings and overall market cap. And the ability of some of the key sectors like health care, technology, consumer staples, and utilities to ride out the pandemic relatively unscathed may be a second reason for the resilience of the stock market.

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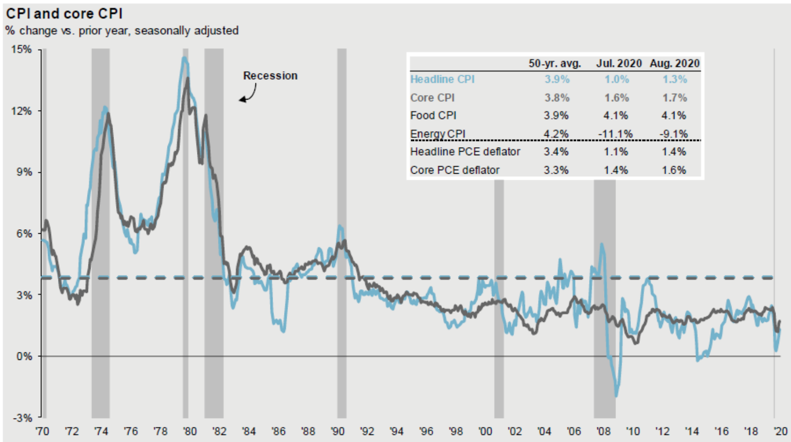

	50-yr. avg.	Jul. 2020	Aug. 2020
Headline CPI	3.9%	1.0%	1.3%
Core CPI	3.8%	1.6%	1.7%
Food CPI	3.9%	4.1%	4.1%
Energy CPI	4.2%	-11.1%	-9.1%
Headline PCE deflator	3.4%	1.1%	1.4%
Core PCE deflator	3.3%	1.4%	1.6%

Source: BLS, FactSet, JPMorgan Asset Management. CPI used is CPI-U and values shown are % change vs one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. Past performance does not guarantee future results. *Guide to the Markets – US* Data are as of 9.30.20.

The decline in already-low inflation came from the recession, combined with a collapse in oil prices, triggered the decline. The year-over-year change in the consumer price index fell in May to just 0.2% overall and 1.2% excluding food and energy. Since then, inflation has stabilized, with the year-over-year gain in CPI rising to 1.3% overall and 1.7% excluding food and energy. Inflation normally troughs after the end of a recession, but things may be a little different this time around, particularly given the potential for further economic stimulus after the election, the continuing extra costs of operating during a pandemic, and the likelihood of an economic surge following the distribution of a vaccine.

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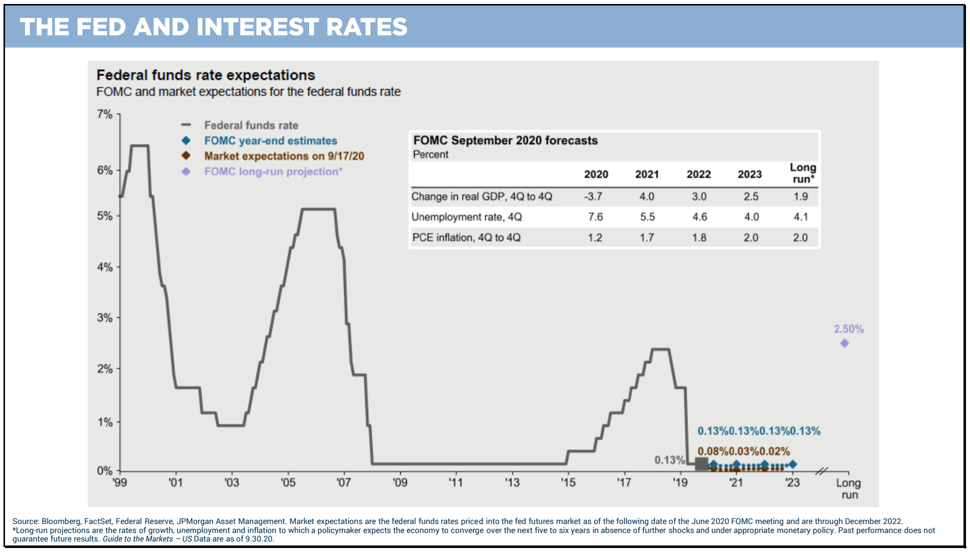

We saw the Federal Reserve take very strong action in the first half of the year. That included cutting the federal funds rate to a range of 0 to 0.25%, opening or expanding a very wide range of facilities designed to support different parts of the bond market, and adding dramatically to its balance sheet. Indeed, since the start of the year, the Fed's assets have grown by roughly $3 trillion, including a roughly $2 trillion increase in holdings of Treasury bonds. In addition, in August, the Fed adopted an Average Inflation Targeting operating strategy. This is how they are aiming to achieve inflation of above 2% for some time to make up for years of undershooting this target. They have pledged to hold the federal funds rate at it current 0 – 0.25% target range until inflation is at 2% and on track to moderately exceed 2% for some time. Investors might be reasonably skeptical of the Fed's ability to achieve this inflation goal, given their track record and that of other central banks in the aftermath of the great financial crisis when they consistently undershot inflation targets. But it's important to recognize that the Fed's willingness to buy almost unlimited quantities of Treasuries is enabling the Federal Government to deploy the most aggressive fiscal stimulus since World War II. Assuming this continues, the Fed may well achieve its above 2% inflation goal within the next few years.

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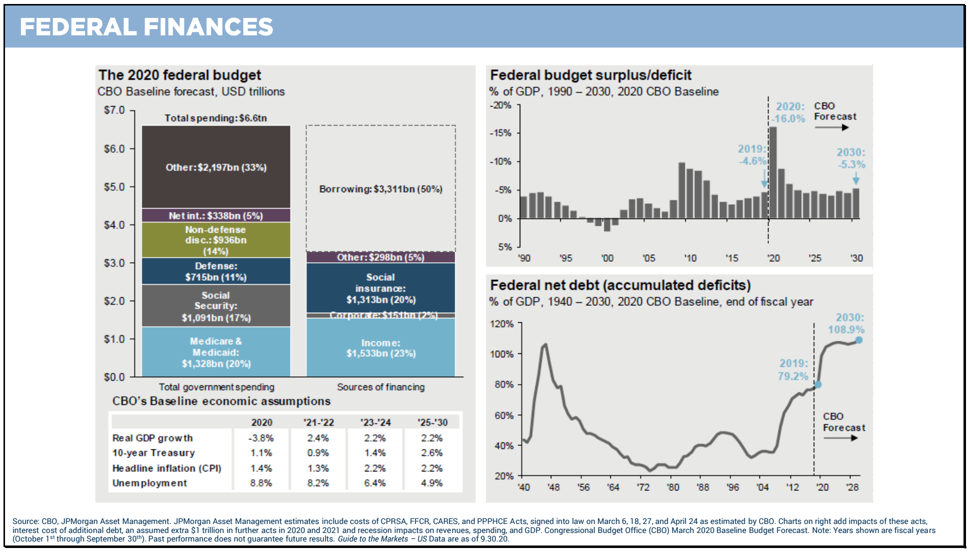

Moving on to federal finances, we're looking here at projections shown for the deficit and debt as a share of GDP based on the Congressional Budget Office's September projections of the budget and the economy. These projections are likely an underestimate of the pace of growth in federal debt for a few reasons. First, because CBO forecasts only incorporate the impact of current law. As such, these projections omit any further coronavirus relief packages or any fiscal plans of either presidential candidate. They also assume the individual tax cuts contained in the 2017 Tax Act expire on schedule in the middle of the decade. The table on the left shows the CBO is assuming a continuation of very low long-term interest rates even in the midst of an economic recovery and huge deficit spending.

I'd say a more realistic view of the federal budget over the next year suggests the federal government will record a new high debt to GDP ratio by the end of fiscal 2021, even higher than in the aftermath of World War II. I don't think that means it will result in a fiscal crisis in the next couple of years, but a failure to rein in deficits and debt monetization, once the economy accelerates in the wake of a vaccine, could lead to significant problems: a sharp rise in inflation could result in higher interest rates and higher taxes – and ultimately, it could ultimately set the stage for an economic relapse. The outcome of the November election could have a significant bearing on the magnitude of this risk.

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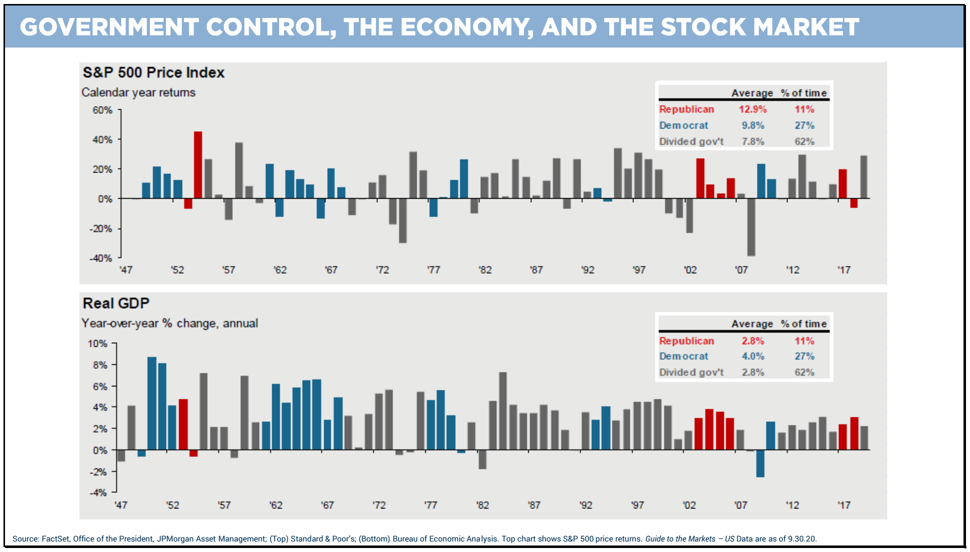

As the November election approaches, many investors have questions about how to position their portfolios. Here are some thoughts for you: first, it's a good principle not to let how you feel about politics overrule how you think about investing. Yes, markets can be choppy during election years, but be wary of placing too much importance on election results. Second, given the closeness of the polls, extra uncertainty caused by the US electoral college, and the problems of voting in a pandemic, the election itself is too close and too early to call. Volatility caused by political uncertainty is often short-lived. Investors trying to time the markets around politics, like moving to more conservative investments during an election year and riskier investment the year after, can run into major problems for portfolio returns.

Finally, as you can see by the charts on the slide, on average since World War II, the economy has achieved both economic growth and good stock market gains under a variety of political scenarios – included divided government and one-party rule on both sides. So, historically speaking, US elections have made essentially no difference when it comes to long-term investment returns. The bottom line is that while it's very important to vote, it's probably not a good idea to make investment bets based on your view of the election. Stick with a sound long-term investment plan based on your investment objectives. Set aside the short-term noise and focus on long-term goals.

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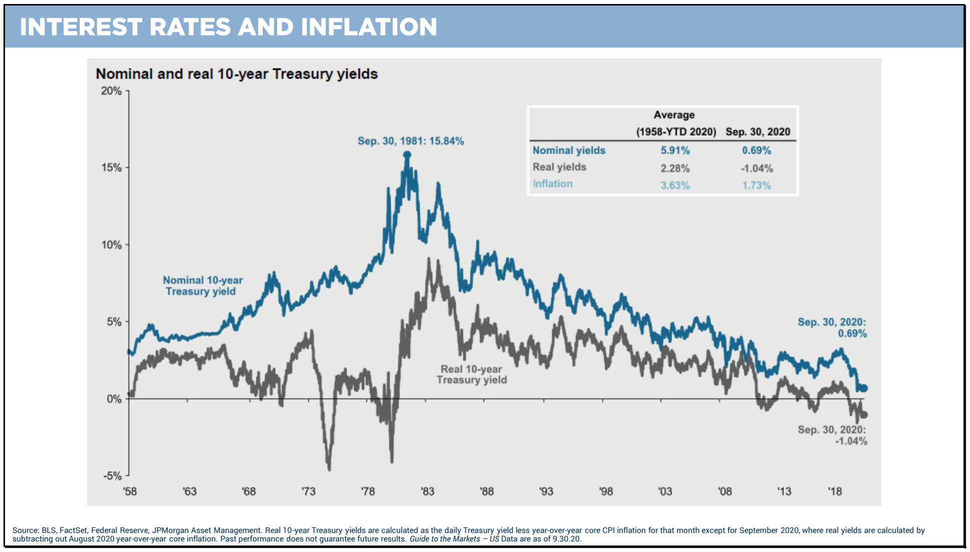

For fixed income investors, the challenge is that the combination of very easy monetary policy and a recession has pushed the 10-year Treasury yields below 1%, which you can see on the slide here. The liquidity facilities established by the Fed to protect other parts of the bond market have tended to compress credit spreads. In the short run, this has provided investors with surprisingly strong returns from bonds so far this year. However, it severely limits the income stream provided by bonds going forward and heightens the risk of capital losses if and when the Federal Reserve becomes less dovish.

There continues to be a place in portfolios for fixed income to provide diversification and protection in the case of an equity market or economic relapse. But investors should be very careful not to take on too much risk in either high-yield or long-duration bonds as the Fed has essentially insured they won't be compensated for that risk.

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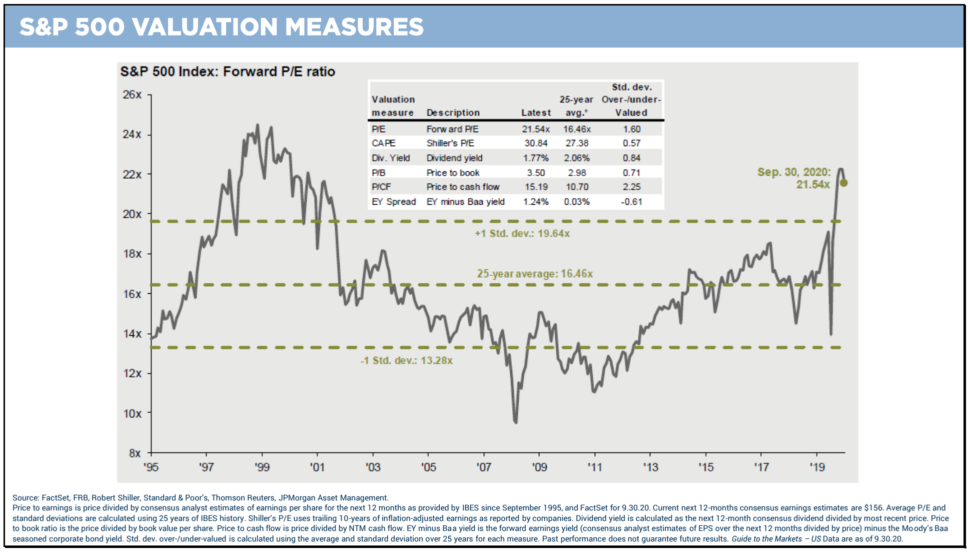

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	21.54x	16.46x	1.60
CAPE	Shiller's P/E	30.84	27.38	0.57
Div. Yield	Dividend yield	1.77%	2.06%	0.84
P/B	Price to book	3.50	2.98	0.71
P/CF	Price to cash flow	15.19	10.70	2.25
EY Spread	EY minus Baa yield	1.24%	0.03%	-0.61

Stock prices based on current forward PE ratios look elevated. However, investors should recognize that any valuation based on earnings over the upcoming year will look somewhat high given the unusually deep recession. Valuations look closer to normal levels, although still somewhat high, based on lagged earnings. In addition, very low interest rates and the fact that the most important sectors of the equity market are relatively unaffected by the social distancing recession, justify much of the rebound seen in stocks in the second quarter. Having said that, the economic and investment outlook is unusually uncertain right now, and some correction in stock prices is quite possible if the next few months see disappointments either on the medical or economic front.

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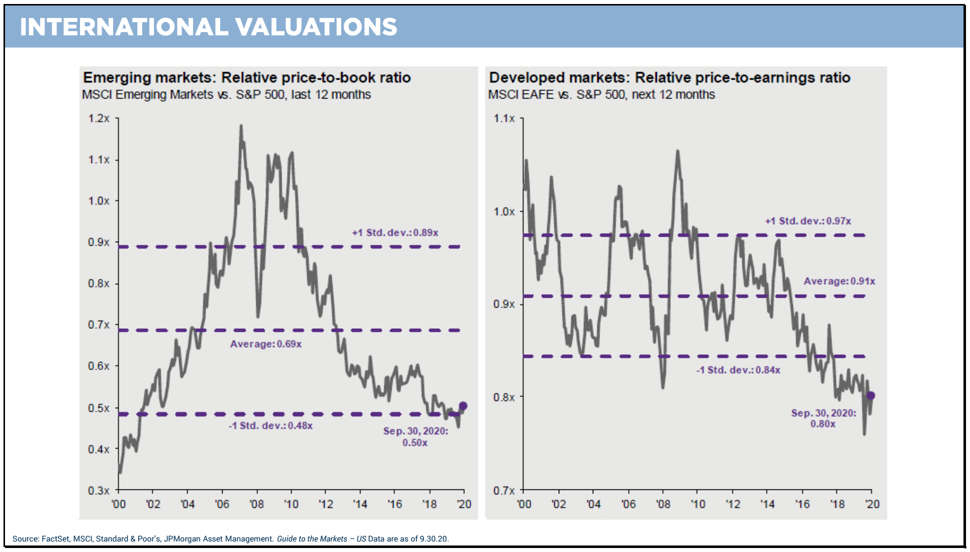

Regional variation in performance further enhances the case for international equities. Both emerging market and developed country stocks outside the US are selling at some of their cheapest levels relative to their US counterparts in the last 20 years. This, along with the potential for a quicker exit from the pandemic and the prospect of a lower dollar in the long run, all argue for a greater allocation to international equities, with a particular focus on East Asia and Europe.

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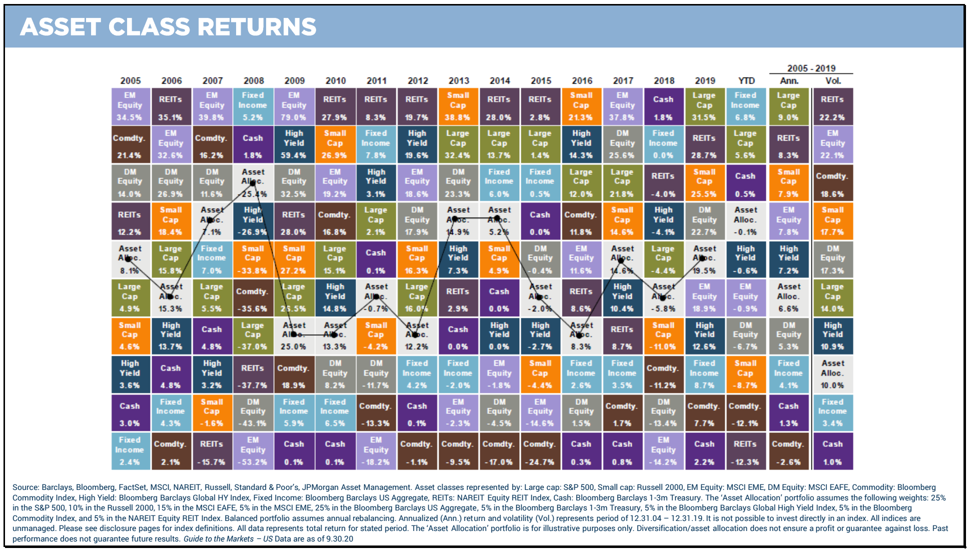

We're looking at performance across a wide range of asset classes in recent years and in the first half of 2020. Given the extraordinary disruption to the US and global economies so far this year, it's remarkable how resilient financial markets have proven to be. Investors should not take this for granted. The next few months should answer many questions with regard to the race to produce a vaccine for COVID-19 as well as the pace and shape of the US and global recoveries from the social distancing recession. I'd say that given all the uncertainties surrounding these and other questions, investors would be wise to maintain a somewhat defensive and very diversified stance in one of the most difficult and unusual years in modern history.

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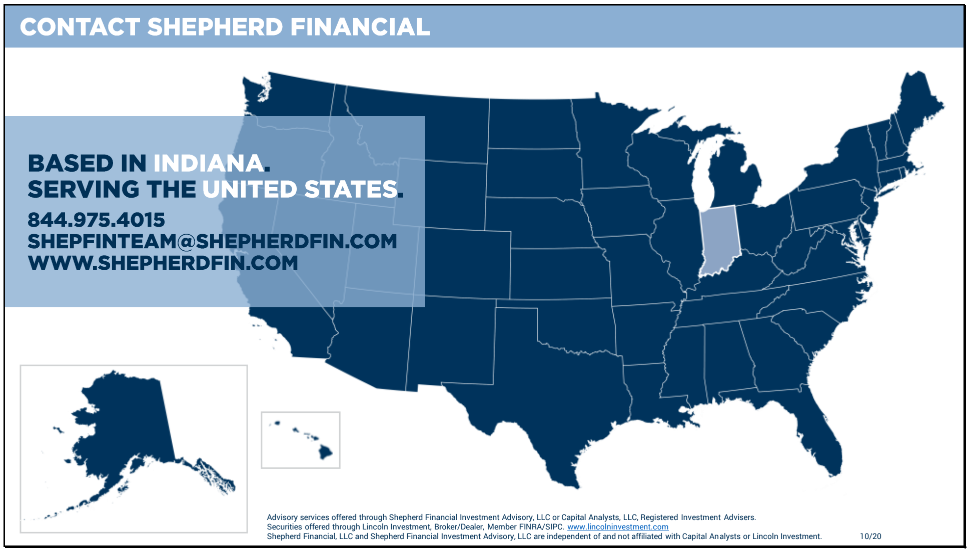

Don't forget our next Open Phone Day is Tuesday, November 3rd, and you can sign up for that by emailing shepfinteam@shepherdfin.com.

If you'd like to chat with one of our team members at any other time, you can always call us at 844.975.4015 or 317.975.5033. We are here for you in these strange and uncertain times, so please don't hesitate to reach out for help!

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DEFINITIONS AND DISCLOSURES

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. There are some risks associated with investing in the stock markets: 1) Systematic risk - also known as market risk, this is the potential for the entire market to decline; 2) Unsystematic risk - the risk that any one stock may go down in value, dependent of the stock market as a whole. This also incorporates business risk and event risk; and 3) Opportunity risk and liquidity risk. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. Small and mid-cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small and mid-cap markets may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities).

Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate. Treasury bills (T-bills) are short-term securities with maturities of one year or less issued at a discount from face value. Treasury bills are the primary instrument used by the Federal Reserve in its regulation of money supply through open market operations. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. Treasury bonds (T-bonds) are long-term debt instruments with maturities of ten years or longer issued in minimum denominations of $1,000. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Prior to rolling over assets from an employer-sponsored retirement plan into an IRA, it's important that you understand your options and do a full comparison on the differences in the guarantees and protections offered by each respective type of account as well as the differences in liquidity loans, types of investments, fees, and any potential penalties. A variable annuity is an insurance contract which offers three basic features not commonly found in mutual funds: (1) annuity payout options that can provide guaranteed income for life; (2) a death benefits; and (3) tax-deferred treatment of earnings. When applicable, the tax deferred accrual feature is already provided by the tax-qualified retirement plan (e.g. 403(b), IRA, etc.) The U.S. Securities and Exchange Commission (Investor Tips: Variable Annuities) has suggested that for most investors, it would be advantageous to make the maximum allowable contribution to a tax-qualified retirement plan before investing in a variable annuity. The separate account of a variable annuity is not a mutual fund. While separate accounts may have a name similar to a mutual fund, it is not the same pool of funds and will experience difference performance than the mutual fund of the same or similar name. In addition, the financial ratings of the issuing insurance company do not apply to any non-guaranteed separate accounts. The value of the separate accounts that are not guaranteed will fluctuate in response to market changes and other factors. Variable annuities are designed to be long-term investments and early withdrawals may be subject to tax penalties and charges. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation.

Treasury inflation protected securities (TIPS) refer to a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since they are backed by the U.S. government and because the par value rises with inflation, as measured by the consumer price index (see below), while the interest rate remains fixed.

Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short-term or have grown consistently over the long-term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments. Value investments focus on stocks on income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or such stock may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

The consumer price index (CPI) measures price of a fixed basket of goods bought by a typical consumer, widely used as a cost-of-living benchmark, and uses January 1982 as the base year. Core CPI is the consumer price index (CPI) excluding energy and food prices.

The purchasing managers' index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

Consult your financial professional before making any investment decision.

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DEFINITIONS AND DISCLOSURES

A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

A mortgage-backed security (MBS is a type of asset-backed security that is secured by a mortgage, or more commonly, a collection("pool") of sometimes hundreds of mortgages.

The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes, and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only.

Specific Risk Considerations

Fixed income investing involves interest rate risk. When interest rates rise, bond prices generally fall. Stock investments are subject to market risk, which means that the value of the securities may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions. Investments in real estate companies, including REITs or similar structures are subject to volatility and additional risk, including loss in value due to poor management, lowered credit ratings and other factors. Below investment grade (high yield) bonds are more at risk of default and are subject to liquidity risk.

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Benchmark Definitions

All indexes are unmanaged; it is not possible to invest directly in an index.

30-Day U.S. Treasury Bill Index: is an index based upon the average monthly yield of 30-Day Treasury Bills. Treasury Bills are secured by the full faith and credit of the U.S. Government and offer a fixed rate of return.

Barclays Aggregate Bond Index: is an index compromised of approximately 6,000 publicly traded bonds including U.S. government, mortgage-backed, corporate and Yankee bonds with an average maturity of approximately 10 years. This index is weighed by the market value of the bonds included in the index. This index represents asset types which are subject to risk, including the loss of principal.

Barclays Capital US Government Inflation-Linked Bond Index (US TIPS): measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index.

Barclays Global High Yield Index: is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US HIGH Yield, the Pan-European High Yield, and Emerging Markets Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

Barclays Inflation Linked US TIPS: measures the performance of the US Treasury Inflation Protected Securities ("TIPS") market. The index includes TIPS with one or more years remaining maturity with total outstanding issue size of $500m or more.

Barclays Long High Yield Corporate Bond Index: measures the longer duration component of the USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds.

Barclays US Govt/Credit 1-3 Yr: measures the performance of short-term government bonds issued by the US Treasury. Bonds must be fixed rate coupon and bullet maturity. They should be denominated in USD and pay coupon and principal in USD. Zero coupon bonds, inflation-Linked bonds and callable bonds are excluded.

Barclays US Govt Interm Index: measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

Barclays US Interm Credit Index: measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years.

BofA ML US HY Master II: BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million.

BofA ML US Treasury Bill 3 Month: Is a subset of The Bank of America Merrill Lynch 0-1 Year US Treasury Index including all securities with a remaining term to final maturity less than 3 months.

Bloomberg Barclays 1-3 Month US Treasury Bill Index: includes all publicly issues zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in US dollars and must be fixed rate and non convertible.

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Bloomberg Barclays Global Aggregate Corporate Bond Index: tracks the performance of investment-grade corporate bonds publicly issued in the global market and found in the Global Aggregate.

Bloomberg Barclays Global Treasury: Euro Bond Index: includes fixed-rate, local-currency sovereign debt that makes up the Euro Area Treasury sector of the Global Aggregate Index.

Bloomberg Barclays Global Treasury: Japan Bond Index: includes fixed-rate, local-currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Index.

Bloomberg Barclays Municipal Bond Index: a rules-based, market value-weighted index engineered for the long-term tax-exempt bond market.

Bloomberg Barclays US Corporate High-Yield Bond Index: represents the corporate component of the Bloomberg Barclays US High Yield Index.

Bloomberg Barclays US Treasury Index: includes fixed-rate, local-currency sovereign debt that makes up the US Treasury sector of the Global Aggregate Index.

Bloomberg Commodity Index: measures the performance of the commodities market. It consists of exchange-traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX): shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk.

Citi 1-3 Year Treasury Index: computes returns for the current or most recently issued 1-year, 2-year, and 3-year U.S. Treasury bills that have been in existence for the entire month.

Citi Non-US World Government Bond Index: is a benchmark index that includes institutionally traded bonds other than U.S. issues that have a fixed rate and a remaining maturity of one year or longer.

Goldman Sachs Commodity Index: is a world-production weighted total return index, including reinvested dividends, measuring investor returns from a fully-collateralized commodity futures investment. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk.

JPMorgan Emerging Market Bond Index Global: a benchmark index for measuring the total return performance of government bonds issued by emerging-market countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements. In order to qualify for index membership, the debt must be more than one year to maturity, have more than $500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies do not affect the index.

Merrill Lynch High Yield Bond Index: is an index consisting of all domestic and Yankee high-yield bonds with a minimum outstanding amount of $100 million and maturing over 1 year. The quality range is less than BBB-/Baa3 but not in default (DDD1 or less). Split rated issues (investment grade by one rating agency and high-yield by another) are included in this index based on the bond's corresponding composite rating. This index represents asset types which are subject to risk, including the loss of principal.

MSCI ACWI (All Country World Index): is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

MSCI EAFE Index: is the Morgan Stanley Capital International Europe, Australia, Far East index, a total return index, reported in U.S. dollars, based on share prices and reinvested gross dividends of approximately 1,100 companies (only those securities deemed sufficiently liquid for trading by investors) from twenty countries. The securities represented in this index may experience loss of invested principal and are subject to investment risk. In exchange for greater growth potential, investments in foreign securities can have added risks. These include changes in currency rates, economic and monetary policy, differences in auditing standards and risks related to political and economic developments.

MSCI Emerging Markets Index: is a U.S. dollar denominated index comprised of stocks of countries with below average per capita GDP as defined by the World Bank, foreign ownership restrictions, a lax regulatory environment, and greater perceived market risk than in the developed countries. Within this index, MSCI aims to capture an aggregate of 60% of local market capitalization. Prior to 1988, the data represents the IFC Global Emerging Markets index. The securities represented by this index involve investment risks which may include the loss of principal invested.

MSCI World Index ex US: is a free float-adjusted market capitalization weight index that is designed to measure the equity market performance of 22 of 23 Developed Markets countries (excluding the United States). The Index consists of the fo9llowing 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

NAREIT Equity REIT Index: is comprised of real estate investment trusts which own or have an equity interest in rental real estate (rather than making loans secured by real estate collateral). REITs involve risk, including the loss of principal and the possible lack of liquidity.

Russell 1000 Index: measures the performance of the 1000 largest companies in the Russell 3000 index, which represent 92% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risk which may include the loss of principal invested.

Russell 1000 Growth Index: measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. These stocks are selected from the 1,000 largest companies in the Russell 3000 index, which represent 92% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

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Russell 1000 Value Index: measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 1,000 largest companies in the Russell 3000 index, which represent 92% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

Russell 2000 Index: measures the performance of the 2000 smallest companies in the Russell 3000 index, which represent 8% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risk which may include the loss of principal invested.

Russell 2000 Growth Index: measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. These stocks are selected from the 2,000 smallest companies in the Russell 3000 index, which represent about 8% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

Russell 2000 Value Index: measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 2,000 smallest companies in the Russell 3000 index, which represent about 8% of the total market capitalization of the Russell 3000 index. The stocks represented by this index involve investment risks which may include the loss of principal invested.

Russell 3000 Growth Index: measures the performance of the broad growth segment of the US equity market. It includes those Russell 3000 Index companies with high price-to-book ratios and higher forecasted growth rates.

Russell 3000 Value Index: measures the performance of the small to mid-cap value segment of the US equity market. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth rates.

S&P 500 Index: is an index of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Investors cannot invest directly in an index.

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The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.

Deflation is the decline in the prices of goods and services. Generally, the economic effects of deflation are the opposite of those produced by inflation, with two notable exceptions: 1) prices that increase with inflation do not necessarily decrease with deflation; 2) while inflation may or may not stimulate output and employment, marked deflation has always affected both negatively. A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income, and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP), although the National Bureau of Economic Research (NBER) does necessarily need to see this occur to call a recession.

The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities).

S&P 500 Dividend Aristocrats measure the performance S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides an unbiased, comprehensive benchmark for this asset class.

The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes, and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

A yield curve is a curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to run to maturity. An inverted yield curve is an interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Price/Earnings (P/E) ratio is the price of a stock divided by its earnings per share that gives investors an idea of how much they are paying for a company's earning power. High P/E stocks are typically young, fast-growing companies and are far riskier to trade than low P/E stocks.

Price to forward earnings is a measure for the price-to-earning ratio (P/E) using forecasted earnings. Price to book value compares a stock's market value to its book value. Price to cash flow is a measure of the market's expectations of a firm's future financial health. Price to dividends is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

Small cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small-cap market may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost.

Large Cap refers to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Emerging markets are sought by investors for the prospect of high returns, as they often experience faster economic growth as measured by GDP. Investments in emerging markets come with much greater risk due to political instability, domestic infrastructure problems, currency volatility and limited equity opportunities (many large companies may still be "state-run" or private). Also, local stock exchanges may not offer liquid markets for outside investors.

The unemployment rate percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of a weakening economy that may call for cut in interest rates. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates.