THIRD QUARTER | 2020

Straight Talk

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The long, slow grind

The global pandemic of 2020 continued its ugly, inexorable march through the third quarter, exposing various countries' relative strengths and weaknesses in delivering coordinated responses to COVID-19. Here in the U.S., a palpable sense of resignation has set in, as folks have broadly come to accept that we're going to be dealing with the virus for many months to come.

Despite the clear and unanimous chorus of exhortations from the medical and scientific community, many individuals have chosen to view the epidemiological threat through politically tinted lenses. Given the extreme polarization of the U.S. electorate, it is sadly unsurprising that consistent implementation of precautionary recommendations has been impossible to achieve. And so, the virus crawls insidiously across the very fabric of American society.

The Markets

Despite the economic wreckage that C-19 has wrought, investors have ignored much of the data and have focused their sights on a post-pandemic world. The Federal Reserve has thrown its proverbial kitchen sink at the problem, and early in the quarter market participants gleefully embraced the Fed's paradigm and pushed stocks to dizzying heights. More recently, however, a jolt of sobering reality has again been felt. For four weeks, the U.S. stock market has sparked and sputtered like a campfire in light rain.

Today, pandemic-driven demand is providing fuel for investors. The need for certain types of products and services has accelerated and innovation is creating new opportunities. Consider:

- **Technology**. Today, digital technologies support nearly all group interactions, which has accelerated innovation. Traditional video communications platforms are in high demand, and multi-person virtual platforms are emerging. Robotics innovations are racing ahead, too. Robotic dogs enforce social distancing in Singaporean parks, reported *Accenture*. Other types of robots sanitize streets and facilitate contactless delivery around the globe.

Quarterly Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
3Q 2020	**STOCKS**				**BONDS**	
	9.21%	**4.92%**	**9.56%**	**2.37%**	**0.62%**	**0.68%**
Since Jan. 2001						
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2016 Q4**	**2015 Q2**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

- **Consumer products and services**. COVID-19 has increased demand for staples, cleaning, and personal hygiene products. The virus may have inspired deeper and longer-lasting changes in consumer behavior, too. *Accenture* reported people are favoring healthier lifestyles, consuming goods more conscientiously, and showing a preference for locally sourced goods.
- **Healthcare, drug development/delivery, and medical equipment**. On Friday, October 2, the *Milliken Institute* reported that 316 COVID-19 treatments and 212 vaccines were in development around the world. In some places, humans are collaborating with artificial intelligence to streamline drug discovery processes. Demand for telehealth services has increased

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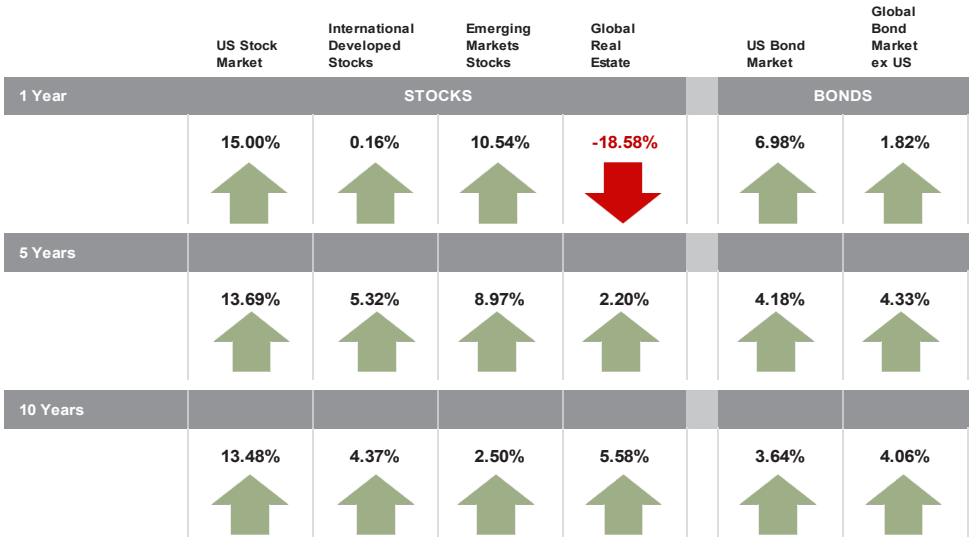
dramatically. So has demand for personal protective equipment, reported Pankaj Singh of *Plastics Today*.

Throughout 2020, investors' enthusiasm has pushed markets higher. However, concerns about a variety of issues have dampened enthusiasm in recent weeks. Last Friday, Ben Levisohn of *Barron's* reported:

> "In a week filled with headlines about government stimulus (or the lack thereof), Supreme Court nominations, the election, the gain in the Nasdaq…suggests that it was the fear of another COVID-19 wave that really got the market down. And for good reason. The week began with the U.K. talking about a second shutdown and ended with all of Europe facing down a second wave of infection…In the U.S., the number of cases is rising, and the death toll passed 200,000 midweek…"

Long-Term Market Summary

Index Returns as of September 30, 2020



Many of these concerns are not likely to dissipate soon, and volatility is likely to continue.

Data as of 9/30/20	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	4.09%	15%	9.7%	11.8%	11.2%
10-year Treasury Note (Yield Only)	.67	1.55	2.2	2.2	2.5

S&P 500 Index returns exclude reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, MarketWatch,

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The "Iceberg" Effect on the S&P 500 for 2020

Nobody will question that 2020 is shaping up to be one of the most bizarre years in recent memory. We have been dealing with a pandemic for more than six months and the economic toll has been dire to say the least. Through all the economic disruption, it is remarkable that the S&P 500 has been able to remain in positive territory for the year. So far, the S&P 500 has been up 4.09% year-to-date (YTD) through the end of September. However, digging below the surface (or in the case of an iceberg, below the waterline) tells a different story.

The S&P 500 index is comprised of the 505 largest publicly traded companies in the U.S based on market capitalization (size of the company as measured by the value of its outstanding common stock). As we delve a little deeper and analyze the performance, we note that the headline performance of the S&P 500 is not shared broadly across the base of constituent companies. In fact, more than 30% of the index is still negative by 20% or more. In other words, 165 companies are not only negative YTD, but are down 20% or more through the end of the 3Q 2020.

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Above the market "waterline," we observe the effect of Apple and Amazon so far this year. Apple's individual weight has grown to more than 6% of the S&P 500 as the stock price has increased more than 50% during the first three quarters. Amazon's weight is just shy of 5% of the S&P 500, but the price of its stock is up 70% for the same period. When one examines the attribution that these two companies provide to the overall return of the S&P 500, it becomes very clear that without these two stocks the S&P 500 would be in negative territory through the end of September. In fact, the equal-weighted S&P 500 index (every company is weighted equally at .00198%) is negative for the year.

As we "cap" this section of the newsletter (pun intended), it is worthy to note that like the iceberg pictured below, most of the S&P 500's performance by individual companies lies below the surface. Only a handful of names have contributed to the positive returns we have witnessed YTD.

Fun Fact: 90% of an iceberg is below the surface of the water. This is due to the relative density of ice to sea water.

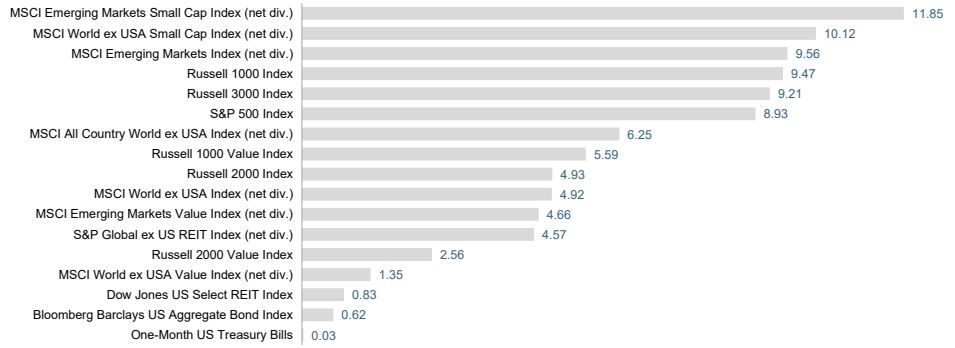
World Asset Classes

Third Quarter 2020 Index Returns (%)

Equity markets around the globe posted positive returns in the third quarter. Looking at broad market indices, emerging markets equities outperformed US and non-US developed markets for the quarter.

Value underperformed growth across regions. Small caps outperformed large caps in non-US developed and emerging markets but underperformed in the US.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



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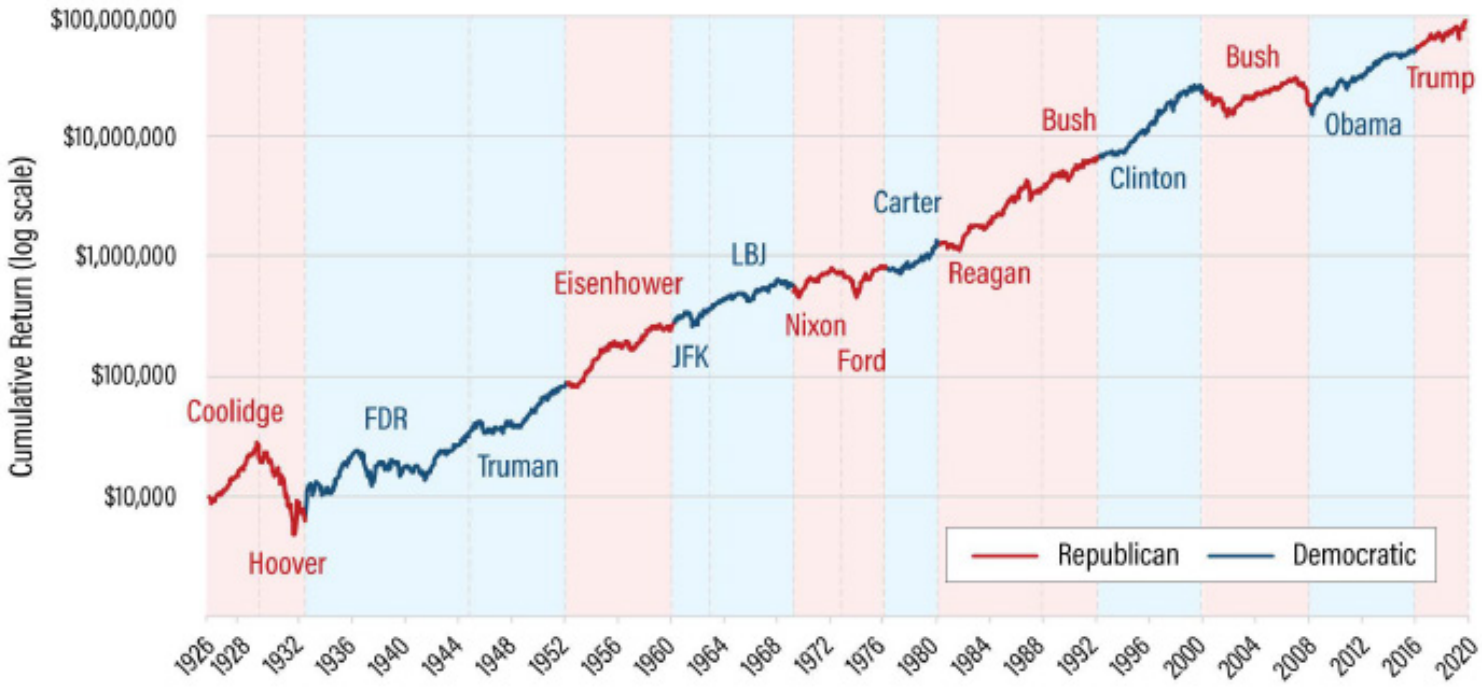
S&P 500 Index returns exclude reinvested. Sources: Yahoo! Finance

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

Many factors can impact the returns of the S&P 500 Index, but the party of the Executive Branch of the U.S. Government may not be a major factor.

With the election right around the corner, we thought it would be timely to provide a chart of historical S&P 500 performance during each presidency dating back to Coolidge.



Source: FactSet. S&P Dow Jones Indices. Date range: January 29, 1926-August 31, 2020. Monthly total returns used. This is not intended to constitute a forecast of future events, a guarantee of future results, investment advice or an investment recommendation to purchase or sell. Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal.

US Stocks

Third Quarter 2020 Index Returns

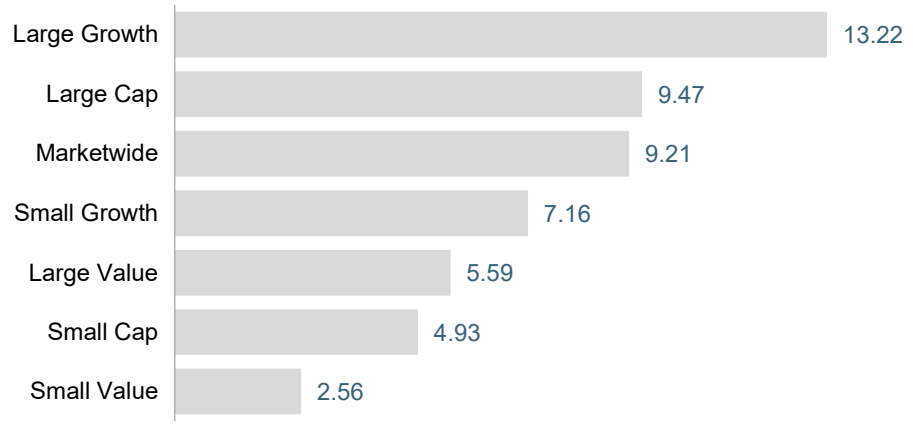
The US equity market posted positive returns for the quarter, outperforming non-US developed markets but underperforming emerging markets.

Value underperformed growth across large and small cap stocks.

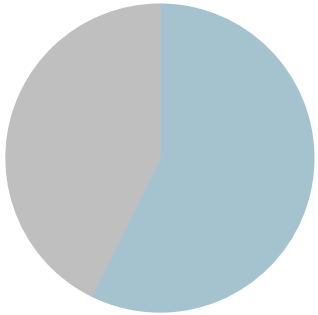
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



57%

US Market
$33.2 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	24.33	37.53	21.67	20.10	17.25
Large Cap	6.40	16.01	12.38	14.09	13.76
Marketwide	5.41	15.00	11.65	13.69	13.48
Small Growth	3.88	15.71	8.18	11.42	12.34
Small Cap	-8.69	0.39	1.77	8.00	9.85
Large Value	-11.58	-5.03	2.63	7.66	9.95
Small Value	-21.54	-14.88	-5.13	4.11	7.09

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International Developed Stocks

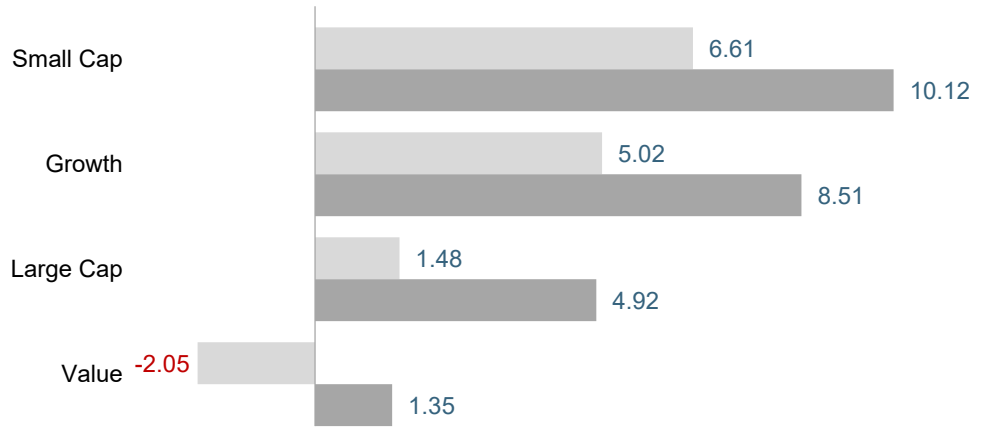
Third Quarter 2020 Index Returns

Developed markets outside the US posted positive returns for the quarter but underperformed US and emerging markets equities.

Value underperformed growth.

Small caps outperformed large caps.

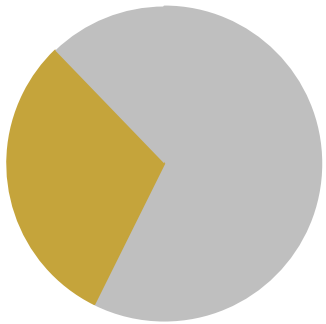
Ranked Returns (%)



World Market Capitalization—International Developed

30%

International Developed Market
$17.6 trillion



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	5.13	13.64	7.06	9.09	6.61
Small Cap	-4.05	6.88	1.42	7.35	6.55
Large Cap	-7.13	0.16	0.62	5.32	4.37
Value	-18.88	-12.74	-5.88	1.38	1.99

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Emerging Markets Stocks

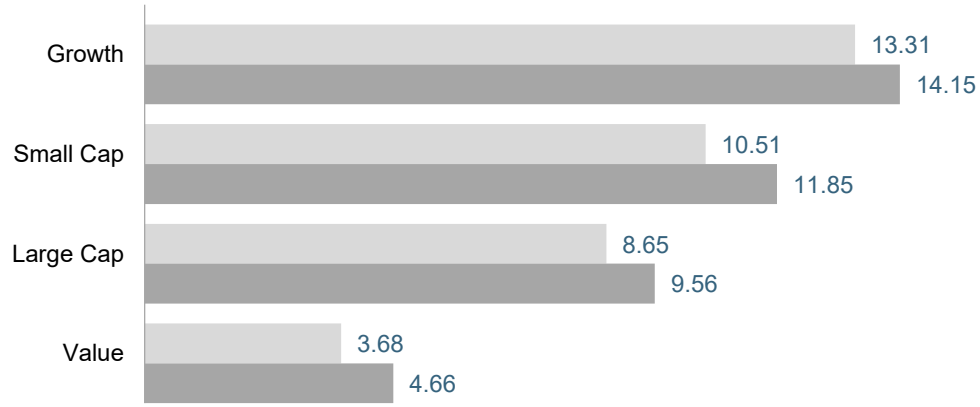
Third Quarter 2020 Index Returns

Emerging markets posted positive returns for the quarter, outperforming the US and developed ex US equity markets.

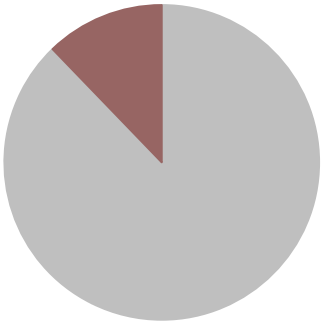
Value underperformed growth.

Small caps outperformed large caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



12%

Emerging Markets
$7.1 trillion

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	12.41	27.80	7.45	13.26	5.29
Large Cap	-1.16	10.54	2.42	8.97	2.50
Small Cap	-2.40	6.89	-1.09	4.60	1.03
Value	-14.23	-5.70	-2.89	4.45	-0.44

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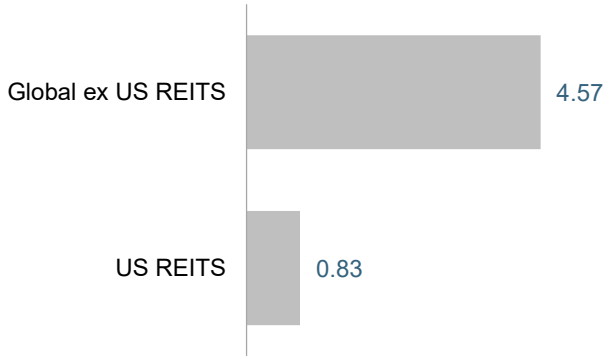
Real Estate Investment Trusts (REITs)

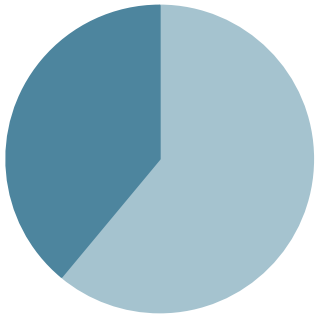
Third Quarter 2020 Index Returns

US real estate investment trusts underperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



39%
World ex US
$435 billion
268 REITs
(23 other countries)

61%
US
$681 billion
115 REITs

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	-21.36	-22.33	-1.85	1.99	7.03
Global ex US REITS	-21.84	-18.37	-1.62	1.67	4.13

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market.

Fixed Income

Third Quarter 2020 Index Returns

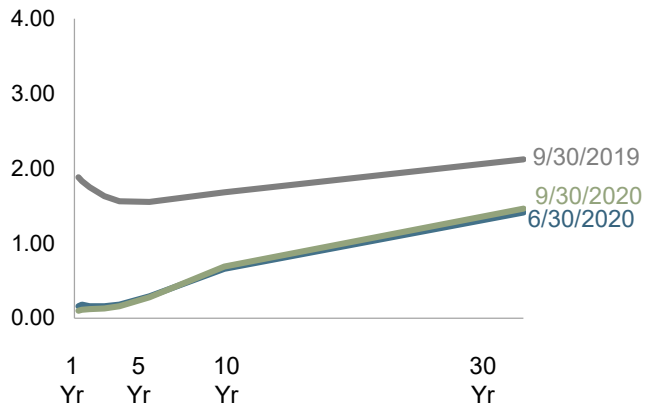
Interest rate changes were mixed in the US Treasury fixed income market during the third quarter. The yield on the 5-year US Treasury note decreased by 3 basis points (bps), ending at 0.31%. The yield on the 10-year US T-note rose by 3 bps to 0.64%. The 30-year US T-bond yield increased by 5 bps to 1.46%.

On the short end of the yield curve, the 1-month US Treasury bill yield decreased to 0.08%, while the 1-year T-bill yield decreased by 5 bps to 0.14%. The 2-year US T-note yield finished at 0.09% after a decrease of 2 basis points.

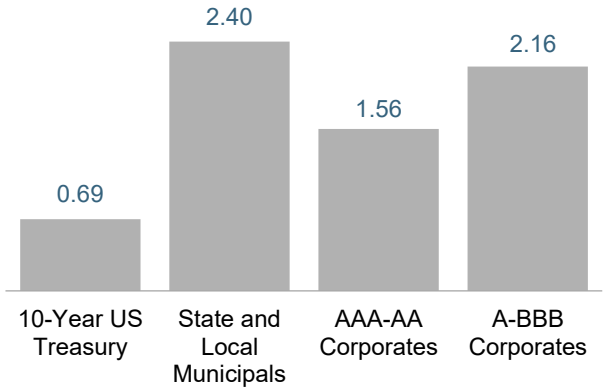
In terms of total returns, short-term corporate bonds returned 0.92% for the quarter. Intermediate-term corporates returned 1.33%.

The total return for short-term municipal bonds was 0.83%, while intermediate munis returned 1.40%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

*Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	4.60	0.62	3.25	4.21	6.79	6.47
Bloomberg Barclays US TIPS Index	3.03	9.22	10.08	5.79	4.61	3.57
FTSE World Government Bond Index 1-5 Years	2.01	4.16	5.21	2.03	2.01	0.21
Bloomberg Barclays Municipal Bond Index	1.23	3.33	4.09	4.28	3.84	3.99
Bloomberg Barclays US Aggregate Bond Index	0.62	6.79	6.98	5.24	4.18	3.64
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.24	3.04	3.22	3.02	2.31	1.90
Bloomberg Barclays US Government Bond Index Long	0.13	21.13	16.21	11.79	8.18	7.18
ICE BofA 1-Year US Treasury Note Index	0.08	1.77	2.37	2.19	1.54	0.93
ICE BofA US 3-Month Treasury Bill Index	0.04	0.64	1.10	1.69	1.20	0.64

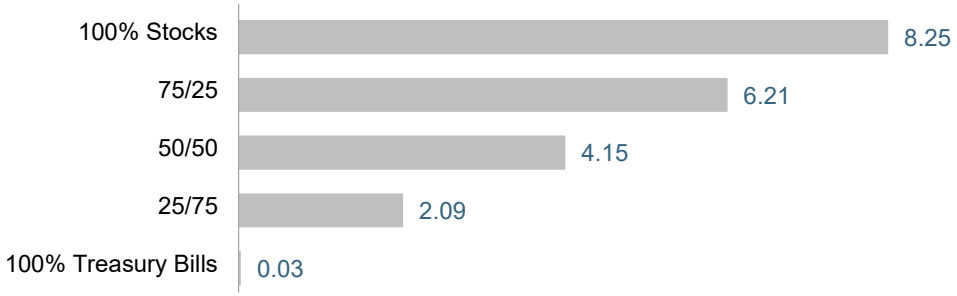
One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Impact of Diversification

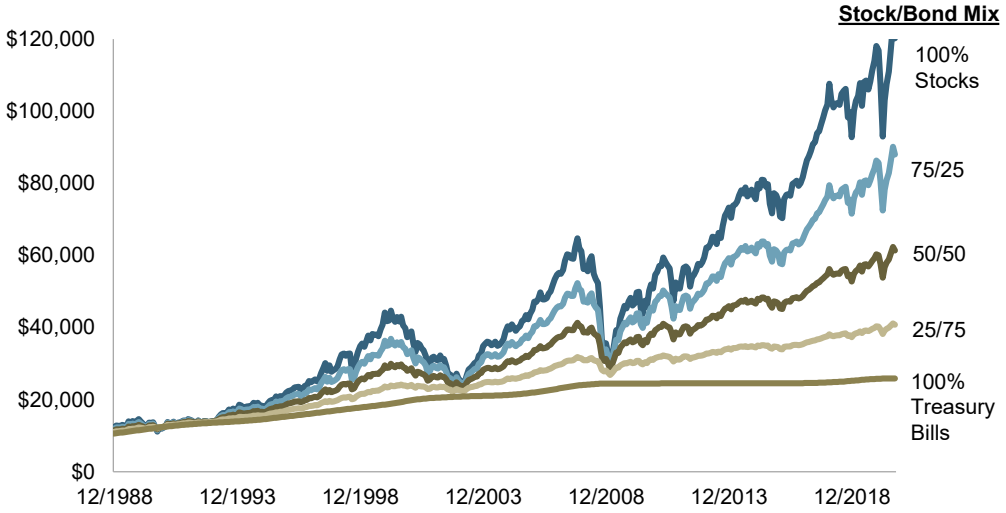
Third Quarter 2020

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
75/25	1.90	8.89	6.40	8.58	7.12	10.28
100% Stocks	1.77	11.00	7.68	10.90	9.13	13.71
50/50	1.71	6.48	4.95	6.16	5.01	6.85
25/75	1.22	3.78	3.32	3.65	2.82	3.42
100% Treasury Bills	0.42	0.83	1.54	1.07	0.55	0.23

1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals.

When It's Value vs. Growth, History Is on Value's Side

Third Quarter 2020

Logic and data provide the basis for a positive expected value premium, offering a guide for investors targeting higher potential returns. There is pervasive historical evidence of value stocks outperforming growth stocks. Data covering nearly a century in the US, and nearly five decades of market data outside the US, support the notion that value stocks— those with lower relative prices—have higher expected returns.

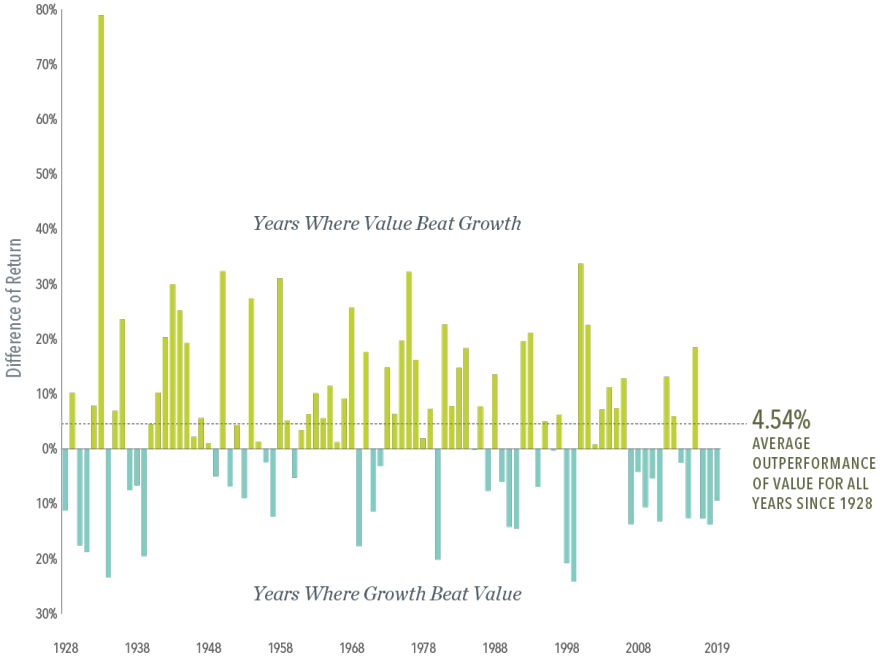
Recently, growth stocks have enjoyed a run of outperformance vs. their value counterparts. But while disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same. On average, value stocks have outperformed growth stocks by 4.54% annually in the US since 1928, as **Exhibit 1** shows.

Some historical context is helpful in providing perspective for growth stocks' recent outperformance. As **Exhibit 1** demonstrates, realized premiums are highly volatile. While periods of underperformance are disappointing, they are also within the range of possible outcomes.

We believe investors are best served by making decisions based on sound economic principles supported by a preponderance of evidence. Value investing is based on the premise that paying less for a set of future cash flows is associated with a higher expected return. That's one of the most fundamental tenets of investing. Combined with the long series of empirical data on the value premium, our research shows that value investing continues to be a reliable way for investors to increase expected returns going forward.

Exhibit 1. Value Add

Yearly observations of premiums: value minus growth in US markets, 1928–2019



Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

In US dollars. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Value minus growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.

Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Please see the end of this document for important disclosures.

When It's Value vs. Growth, History Is on Value's Side

(continued from previous page)

GLOSSARY

Value Stock: A stock trading at a low price relative to a measure of fundamental value such as book equity.

Growth Stock: A stock trading at a high price relative to a measure of fundamental value such as book equity.

Value Premium: The return difference between stocks with low relative prices (value) and stocks with high relative prices (growth).

DISCLOSURES

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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RISKS

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

Bringing it home

The end of the election cycle is finally starting to come into view, which should drain some of the toxicity out of the national conversation. The markets have responded to rumors of fiscal relief plans, which we believe will be necessary as the term of the virus is not yet discernable. Until there is a vaccine and viable treatment protocol, the economy cannot fully recover.

In the meantime, we appreciate your continued confidence. Being a trusted advisor to you is what gives our job purpose. Please don't hesitate to reach out to us, as we would welcome the opportunity to meet with you and refresh both our understanding of your current situation and your financial plan.

Best regards,
Your team at FMA Advisory, Inc.

Our Client Portal Offers Secure Account Access to Your Billing Statement

We remain committed to providing an exceptional level of service to our clients. Our secure online portal enables clients to quickly access their account information. Eliminating mailed account statements allows you to get your account information more quickly, reduces the need for filing paper copies and also helps the environment by eliminating waste.

As always, please feel free to contact us to set up an appointment to review your investment and financial plans.

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