iSectors® Enhanced Allocations

Just Like Professional Football, Investing Requires a Strong Offense and a Strong Defense to Win

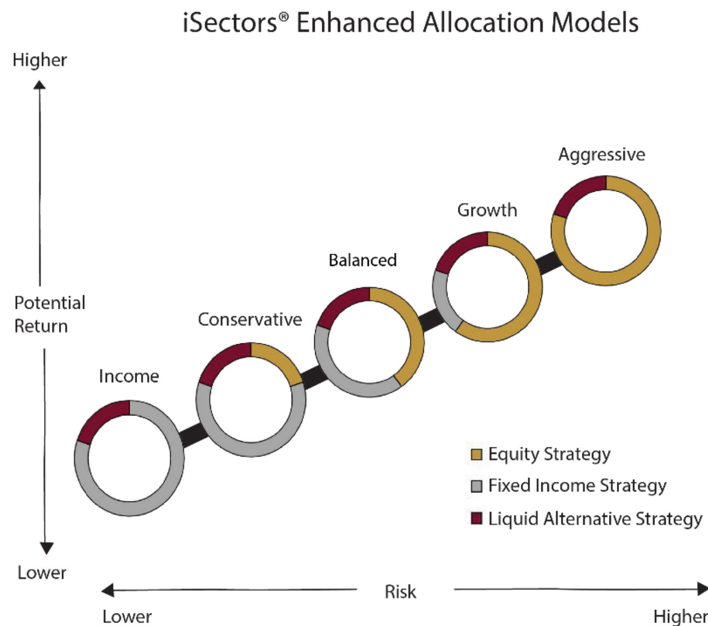
The world of professional football these days is so competitive that a team of talented players and coaches can't win with a strong passing and running game. To win the Super Bowl, you need a "killer" offense and an outstanding defense.

In a similar way, as debt increases and fear of the next recession looms, investors are looking for investment strategies that provide a strong offense should the stock market continue higher and a strong defense should the stock market correct.

To help investors "win" in this competitive and perilous environment, iSectors® aims to enhance the game plan and help investors execute an investment strategy with both a strong offense and a strong defense. In response, iSectors® has developed 5 target risk allocations, the iSectors® Enhanced Allocations:

- iSectors® Enhanced Income Allocation
- iSectors® Enhanced Conservative Allocation
- iSectors® Enhanced Balanced Allocation
- iSectors® Enhanced Growth Allocation
- iSectors® Enhanced Aggressive Allocation

The iSectors® Enhanced Allocation models are designed to give investors the ability to choose how aggressively they want to be playing offense or defense, considering their objectives and risk utility. Every iSectors® Enhanced Allocation owns exchange-traded funds (ETFs). These ETF portfolios hold between 6,000 and 8,000 individual stocks and/or bonds.



The iSectors' investment team manages the asset allocation of each target risk model using a blend of 2 core iSectors models and a 20% allocation to an iSectors alternative satellite model. These three iSectors allocation strategies have low correlation to each other (that is, they don't go up and down at the same time). Therefore, the three strategies:

- iSectors® Domestic Equity Allocation (inception date July 1, 2010)
- iSectors® Domestic Fixed Income Allocation (inception date April 1, 2009)
- iSectors® Post-MPT Growth Allocation (inception date February 1, 2005)

tend to work together synergistically, playing offense during periods of equity market growth and defense (reducing losses) when markets are correcting.

To win the "Super Bowl", each of these iSectors' strategies is designed with offensive and defensive components at its foundation.

iSectors® Domestic Equity Allocation

The iSectors® Domestic Equity Allocation is the core equity component at the heart of the iSectors® Enhanced Allocation models. iSectors® Domestic Equity Allocation is overweight value-based ETFs that own U.S. multi-national companies paying above average dividends. In addition, these companies must have raised their dividends every year for many consecutive years. These value-based, dividend paying ETFs make up about 75% of the portfolio and growth ETFs make up the remainder. Some of the securities held in the ETFs owned by the iSectors® Domestic Equity Allocation have increased their dividends every year for 50 consecutive years.

Companies with 50+ Years of Consecutive Dividend Growth, as of June 2022

S&P 500 Dividend Aristocrats Index	# of Years of Dividend Growth	S&P 500 Dividend Aristocrats Index	# of Years of Dividend Growth
Dover (Industrials)	66	**Stanley Black & Decker (Industrials)**	54
Genuine Parts (Consumer discretionary)	66	**Federal Realty Investment Trust (Real estate)**	54
Procter & Gamble (Consumer staples)	66	**Sysco (Consumer staples)**	53
Emerson Electric (Industrials)	65	**W.W. Grainger (Industrials)**	51
3M (Industrials)	64	**AbbVie (Healthcare)**	50
Cincinnati Financial (Financials)	61	**Becton, Dickinson & Co. (Healthcare)**	50
Coca-Cola (Consumer staples)	60	**PPG Industries (Materials)**	50
Johnson & Johnson (Healthcare)	60	**Target (Consumer discretionary)**	50
Colgate-Palmolive (Consumer staples)	59	**Abbott Laboratories (Healthcare)**	50
Illinois Tool Works (Industrials)	58	**Kimberly Clark (Consumer staples)**	50
Hormel Foods (Consumer staples)	56	**PepsiCo (Consumer staples)**	50

Sources: S&P Dow Jones Indices, Bloomberg.

Investors tend to underestimate the strong offense dividends can play in their portfolio. Note this from Investopedia: "Since 1926, dividends have accounted for almost half of stock investing profits in the companies that make up the S&P 500 Index. This means the inclusion of dividend payments has roughly doubled what stock investors have realized in total return on investments as compared to what their returns would have been without dividend payments."

Of course, some companies paying high dividends can be dangerous. Our research shows that the best way to develop a portfolio of sound dividend-paying stocks with low risk of stepping on landmines is selecting companies with a long-term record of consecutive annual dividend increases.

High quality companies that increase dividends for many consecutive years can also prove to be a powerful defensive strategy in down markets for several reasons. These companies tend to be financially sound, that is, they aren't going bankrupt anytime soon. In addition, you can hold on to them for quite a while when they are down if you are receiving a nice dividend that's growing every year.

The iSectors® Domestic Equity Allocation does not directly own international and/or emerging market equities. Instead, the strategy incorporates a broadly diversified universe of U.S. based multi-national companies that have increased dividends for many consecutive years and earn at least 30% of their revenues from international business. Adding more international/emerging market investments to the strategy would tend to be an over allocation to international and emerging markets.

In addition, the iSectors® Domestic Equity Allocation strategy relies on the underlying companies to analyze and invest in international or emerging market opportunities. Who better to understand where their opportunities lie and where to move or concentrate their resources to take advantage of demand for their products or services? This is a much better offensive strategy for taking advantage of international and emerging market investing than the typical approach of owning international and/or emerging market stocks or index funds.

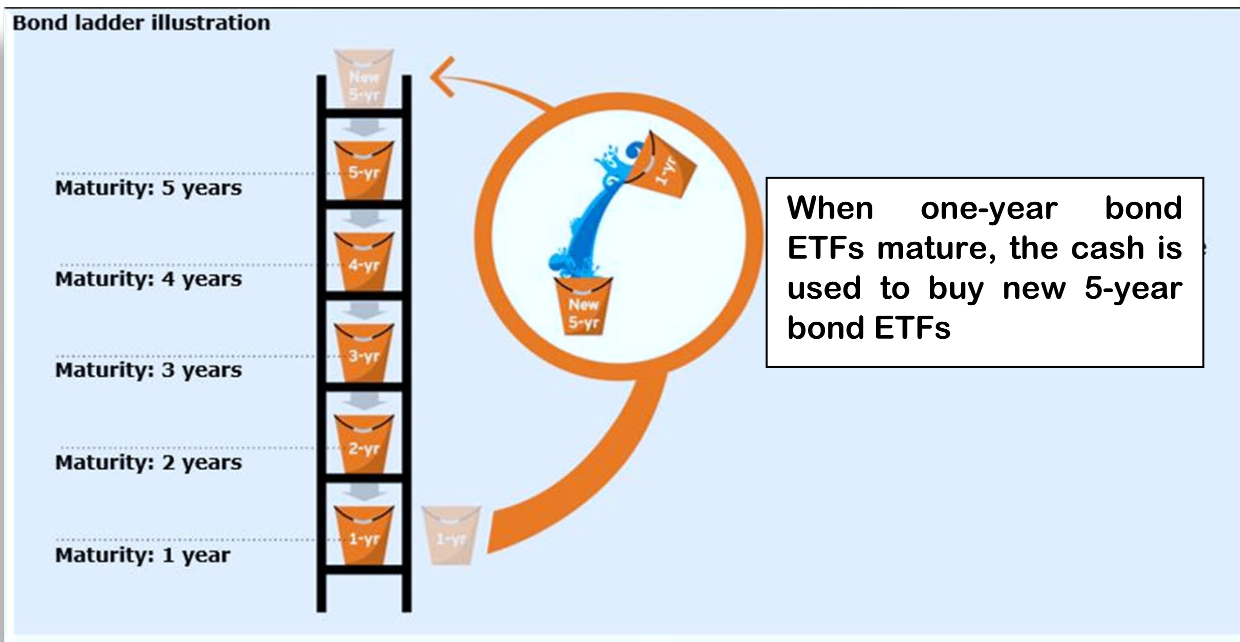
Defensively, this approach also reduces the currency risk. By holding U.S. companies, the price of the stock, earnings, etc. are denominated in dollars not international or emerging market currencies.

iSectors® Domestic Fixed Income Allocation

The iSectors® Domestic Fixed Income Allocation is the core fixed income component at the heart of each iSectors® Enhanced Allocation model. The iSectors® Domestic Fixed Income Allocation is invested in exchange traded funds (ETFs) that own U.S. bonds.

The model portfolio is a 5-year laddered bond portfolio that contains five investment grade corporate bond ETFs and five high yield corporate bond ETFs; each ETF holds from 100 to 500 individual bonds all maturing in either year 1, 2, 3, 4 or 5. The five investment grade bond ETFs represent about 60% of the portfolio and the five high-yield bond ETFs represent the other 40% of the portfolio.

The iSectors® Domestic Fixed Income Allocation's five-year laddered bond strategy has an average duration of about 2 and an average investment grade rating (BBB).



Generally, owning bonds in an investment portfolio containing stocks is a defensive strategy because bonds typically don't go down when stocks go down. In addition, the interest income from bonds helps to mitigate stock portfolio losses.

This doesn't mean bond prices can't go lower…they can and do go lower. Three of the risks of bond investing are, interest rate risk, opportunity risk and default risk.

Interest Rate Risk

Bond prices and interest rates are inversely related (see graph on next page). Interest rate risk occurs when interest rates rise and bond prices fall. Generally, prices of longer maturity bonds (or bonds with a longer effective duration) go down more when interest rates go up than prices of bonds with short maturity (or bonds with a short effective duration). To reduce interest rate risk, iSectors® Domestic Fixed Income Allocation uses a portfolio of five-year laddered bonds with a short average effective duration of 2 years.

Opportunity Risk

Opportunity risk occurs when current interest rates are rising and investors hold bonds that have lower interest rates. To reduce opportunity risk, iSectors® Domestic Fixed Income Allocation's five-year bond ladder reinvests 1/5 (20%) of the bonds that mature each year, into new five-year bonds at higher current interest rates.

Bond Prices and Interest Rates Are Inversely Related

Default Risk

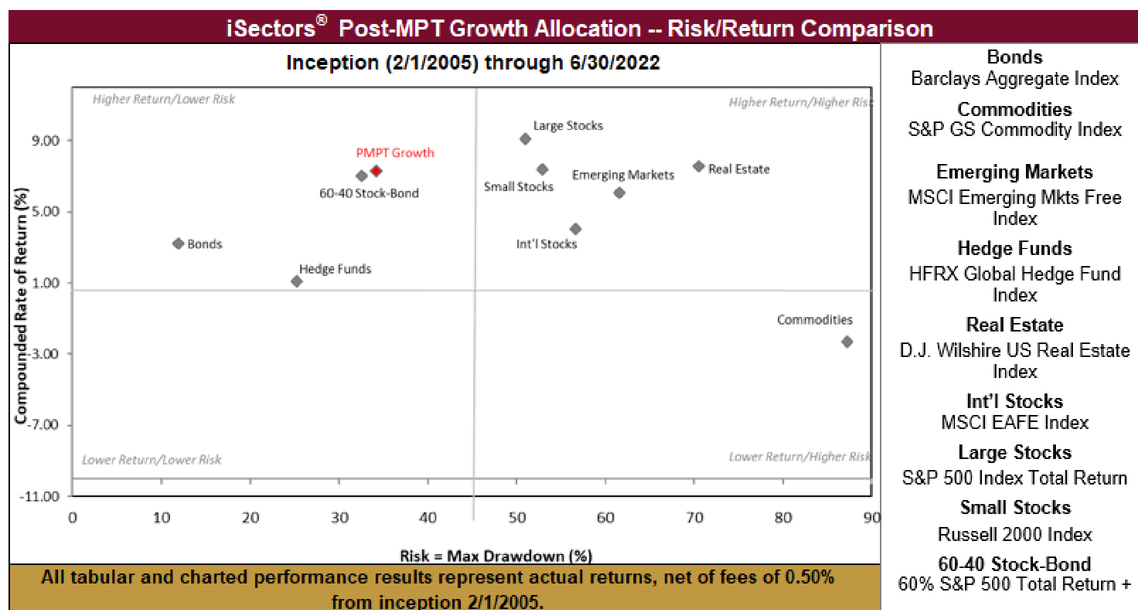
Default risk occurs when a company that issues bonds has financial trouble and can no longer make the interest payments to the bond owners. The company is then said to be in default. To reduce default risk, iSectors® Domestic Fixed Income's bond portfolio uses diversification. The portfolio, through the 10 ETFs it owns, effectively is diversified across about 3,600 bonds.

iSectors® Post-MPT Growth Allocation

The iSectors® Post-MPT Growth Allocation makes up 20% of each iSectors® Enhanced Allocation model. Investing in the iSectors® Post-MPT Growth Allocation adds an alternative investment component to each iSectors® Enhanced Allocation model. However, this alternative investment component is always invested in highly liquid ETFs; it never owns illiquid limited partnerships or other private investments. iSectors doesn't charge 2% management fees or 20% of profits either and investors don't receive year-end partnership tax reports (K-1's). This is true across all investments in all the iSectors allocations. In addition, all the ETFs held in the iSectors allocation models are liquid inter-day, they can be priced daily, performance can be determined daily, even taxes and portfolio holdings can be determined daily.

The iSectors® Post-MPT Growth Allocation is an objective, quantitative strategy. The model portfolio's allocation is re-optimized (for risk and return) each month, based on changes in 15 capital market and economic factors. The model portfolio is allocated among 9 primary sectors that have low correlation to each other; they don't go up or down at the same time. In addition, iSectors® Post-MPT Growth Allocation can play aggressive offense or play defense depending on changes in economic conditions.

Historically, iSectors® Post-MPT Growth Allocation has maintained a low correlation to both stocks and bonds. Therefore, it reduces the volatility (risk) of the iSectors® Enhanced Allocation models. At the same time, the iSectors® Post-MPT Growth Allocation has outperformed the S&P 500 index since its inception February 1, 2005. See the risk (drawdown) versus return on the next graph.



iSectors® Post-MPT Growth Allocation can play defense if changes in economic factors start to indicate recession. For example, iSectors® Post-MPT Growth Allocation might move into government bonds and utilities to hedge the risk of recession. On the other hand, should changes in economic factors begin to indicate inflation, the iSectors® Post-MPT Growth Allocation might move into inflation hedges, such as energy, real estate (REIT's), basic materials and gold stocks.

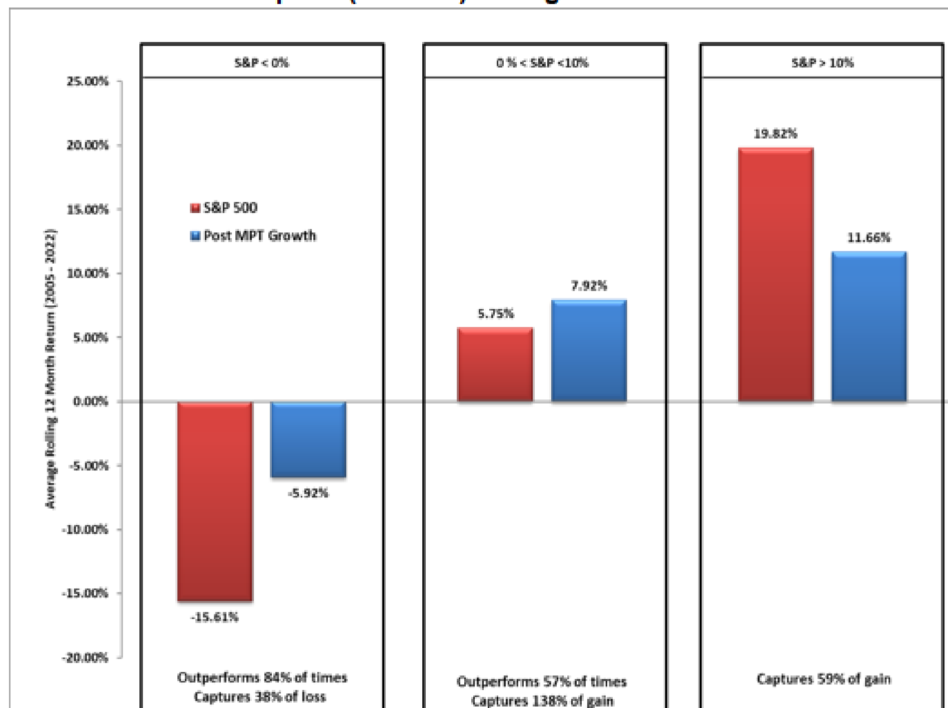
Depending on changes in economic factors, iSectors® Post-MPT Growth Allocation can also play offense. For example, the iSectors® Post-MPT Growth Allocation could begin increasing exposure by moving into technology, healthcare and financials. Leveraged ETFs can be used up to 30% maximum of the iSectors® Post-MPT Growth Allocation or 7% of the iSectors® Enhanced Allocation models.

Simply put, the iSectors® Post-MPT Growth Allocation plays great offense and defense. Like football, the defense is tasked with not losing points to the other team (minimizing loss in down markets). If the defense does its job, the offense isn't required to score a lot of points every time they have the ball (maximizing gains in up markets). That principal is graphically depicted below. iSectors® Post-MPT Growth Allocation tends to outperform the S&P 500 in down markets or markets where the S&P 500 returns are less than 10% annually.

However, when the S&P 500 annualized returns are up more than 10%, the iSectors® Post-MPT Growth Allocation typically underperforms. This is because the strategy is always playing offense and defense. The objective of the monthly reallocation is to generate the greatest amount of return while not losing money or going below zero.

iSectors® Post-MPT Growth Allocation vs. S&P 500

Inception (2/1/2005) through 6/30/2022



This graph compares an investment in iSectors® Post-MPT Growth Allocation to an investment in the S&P 500 Index. The comparison considers returns on rolling 12-month periods for both investments from 2/1/2005 to 6/30/2022. In any 12-month period that the S&P 500 was negative, the iSectors® Post-MPT Growth Allocation outperformed it during that period 84% of the time and only captured 38% of the loss. In any 12-month period that the S&P 500 was positive, but with a gain of less than 10%, iSectors® Post-MPT Growth Allocation outperformed it 57% of the time, while capturing 138% of the gain. In addition, when the S&P 500 gained over 10% in a 12-month period, iSectors® Post-MPT Growth Allocation still managed to capture 59% of the gain.

Conclusion

Both offense and defense are necessary to win the Super Bowl. The iSectors® Enhanced Allocation models are designed, at every level, to play both offense and defense with the intense focus of helping investors win.

About iSectors®, LLC

iSectors® is an ETF Investment Strategist that provides advisors with a suite of 22 proprietary exchange-traded fund (ETF) asset allocation models. iSectors' investment management services, along with technological infrastructure and support staff of our platform partners, helps advisors optimize their business efficiencies, affording them more time to get to know their clients and help them achieve their investment objectives.

Vernon C. Sumnicht, MBA and CFP®
CEO
iSectors®, LLC
W6240 Communication Court, Suite 1
Appleton WI 54914
www.isectors.com
(800) 473-2867

Disclosures

iSectors® is a series of proprietary asset allocation models and services. iSectors, LLC is an affiliate of Sumnicht & Associates, LLC (Sumnicht) and, as such, iSectors and Sumnicht share certain employees' services. iSectors became registered as an investment advisor in August 2008. iSectors allocation models are only available through registered investment advisors as separately managed accounts (SMAs) or unified managed accounts (UMAs). iSectors® is a registered trademark of Sumnicht Holdings, LLC.

The contents of this presentation are for informational purposes only. Content should not be construed as financial or investment advice on any subject matter. This is neither an offer nor a solicitation to buy and/or sell securities. Information pertaining to iSectors' advisory operations, services, and fees is set forth in its current disclosure statement (Form ADV, Part 2 Brochure), a copy of which is available upon request.

iSectors' allocation models are not guaranteed and involve risk of loss. At any given point in time, the value of iSectors allocation model portfolios may be worth more or less than the amount invested. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments and/or investment strategies devised or undertaken by iSectors) will be either suitable or profitable for a client's or prospective client's portfolio.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal either the performance results reflected or any corresponding historical index. Asset allocation and diversification concepts do not ensure a profit nor protect against loss in a declining market.

The historical benchmark index performance results are provided exclusively for comparison purposes to assist an individual client in determining whether the performance of a specific investment meets the client's investment objective(s). It should not be assumed that any account holdings will correspond directly to any comparative index. Index performance results do not reflect the impact of taxes. Indexes are not available for direct investment. Index performance results are compiled directly by each respective index and obtained by iSectors from reliable sources. Index performance has not been independently verified by iSectors. iSectors models are based on index ETFs that can neither outperform nor underperform their benchmark index. We provide benchmark indexes that are well known for comparison purposes only.

Fee Information

Composite performance results reflect the reinvestment of dividends and other account earnings and do not reflect the impact of taxes. Composite performance results provided are net of iSectors' management fee with the assumption that the fee will remain constant for all accounts. Additional fees that could be charged such as platform, advisory and custodial fees are not included. iSectors investment allocation models are only available through registered investment advisors as SMAs or UMAs, who will charge an additional fee for their advisory services. For information about the fees that pertain to a clients' accounts, check with your platform provider. For reasons including size of account, platform provider and custodian utilized, as well as variances in portfolio account holdings, market fluctuation, the date on which a client engaged iSectors' services, regular model rebalancing and/or updates, and timing of account contributions and withdrawals, the underlying fees and performance of a specific client's account may vary from other accounts. RISA (group retirement) accounts may be subject to additional recordkeeping and/or administrative fees.

This information is marketed to investment professionals. iSectors®, LLC has managed the asset allocation models since the firm's inception in 2008. Previously, Sumnicht & Associates, LLC (Sumnicht), an affiliated company, managed the allocations. Sumnicht is a provider of investment management services for institutional, family office and individual clients. Sumnicht claims compliance with the Global Investment Performance Standards (GIPS®). Sumnicht claims that the allocations are GIPS® compliant since each allocation's respective inception dates and have been GIPS® verified from 1/1/2008 to 12/31/2021, as of the verification date of 7/20/2022. The allocation composites include both institutional and individual client accounts whereby iSectors® has sole portfolio discretion with investment objectives matching that of each specific allocation. Performance in this publication is shown in US dollars, net of iSectors' management fee, including the reinvestment of dividends and do not reflect the impact of taxes. Returns will be reduced by platform, custodial, trading, and advisory fees, if applicable. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant accuracy or quality of the content contained herein. Past performance is not indicative of future results. To obtain a compliant presentation and a list and description of the firm's composites, please contact John Koch, Senior Investment Analyst, at (920) 257-5170 or John.Koch@isectors.com

You should not assume that any discussion or information contained in this presentation serves as the receipt of, or as a substitute for, personalized investment advice from an investment professional. This presentation has not been reviewed, submitted for review before, or otherwise approved by FINRA, the SEC or any state or provincial securities regulators.

© 2022 iSectors®, LLC