iSectors® Enhanced Allocations White Paper

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

Vernon C. Sumnicht, MBA and CFP®
CEO, iSectors®, LLC
www.isectors.com
(800) 473-2867

Rev. August 2024

iSectors® Enhanced Allocations

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

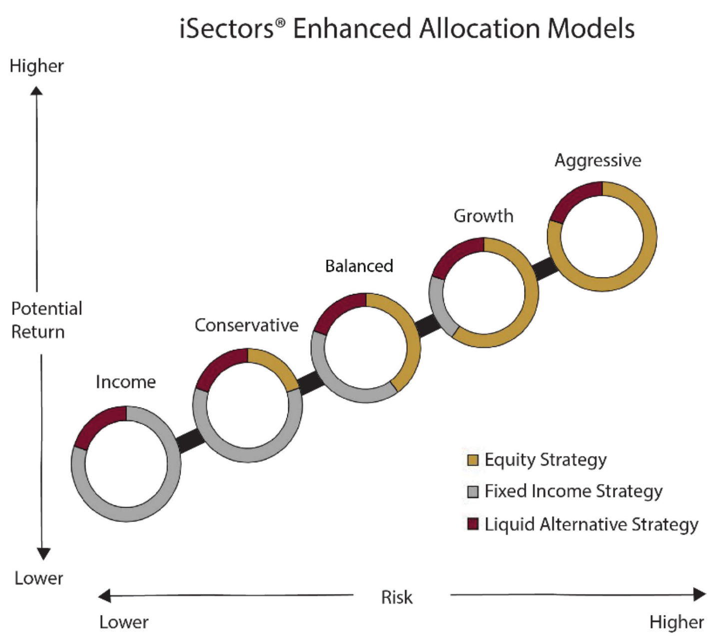
The world of professional football these days is so competitive that a team of talented players and coaches can't win with a strong passing and running game. To win the Super Bowl, you need a "killer" offense and an outstanding defense.

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 two 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. The portfolio overweights ETFs that own quality dividend paying companies emphasizing those that have increased their dividends every year for many consecutive years. This strategy is based on iSectors® research that indicates the value of dividends in providing long-term returns and reduced volatility. In addition, our study suggests that the best approach to selecting dividend-paying equities while avoiding the landmines (dividend-paying companies that go out of business or drastically cut dividends) is to choose companies of high quality. These may be companies with a long history of consecutive annual dividend increases, low price volatility, high excess cash flows, and/or strong balance sheets. These are primarily large, U.S.-based, multinational companies but include small- and mid-cap companies as well. The model may also hold ETFs that own growth stocks to provide additional capital gain opportunities. These global companies derive substantial revenues (35-40%) from international and emerging market countries. Therefore, we do not add international or emerging market ETFs to avoid over-allocation to these asset classes. Sticking with U.S.-based stocks also reduces exchange rate risk for U.S. residents.

Companies with 50+ Years of Consecutive Dividend Growth, as of August 2024

S&P 500 Dividend Aristocrats Index	# of Years of Dividend Growth	S&P 500 Dividend Aristocrats Index	# of Years of Dividend Growth
Dover (Industrials)	69	**Federal Realty Investment Trust** (Real estate)	57
Genuine Parts (Consumer Cyclical)	68	**PPG Industries** (Materials)	53
Procter & Gamble (Consumer Defensive)	68	**Sysco** (Consumer Defensive)	53
Emerson Electric (Industrials)	67	**Target** (Consumer Defensive)	53
Cincinnati Financial (Financials)	64	**AbbVie** (Healthcare)	52
Colgate-Palmolive (Consumer Defensive)	63	**Becton, Dickinson & Co.** (Healthcare)	52
Coca-Cola (Consumer Defensive)	62	**W.W. Grainger** (Industrials)	52
Johnson & Johnson (Healthcare)	62	**Abbott Laboratories** (Healthcare)	52
Illinois Tool Works (Industrials)		**PepsiCo** (Consumer Defensive)	52
Hormel Foods (Consumer Defensive)	58	**Kimberly Clark** (Consumer Defensive)	52
Stanley Black & Decker (Industrials)	57	**Walmart** (Consumer Defensive)	51

Sources: Sure Dividend, S&P 500 Dividend Aristocrats ETF (NOBL).

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.

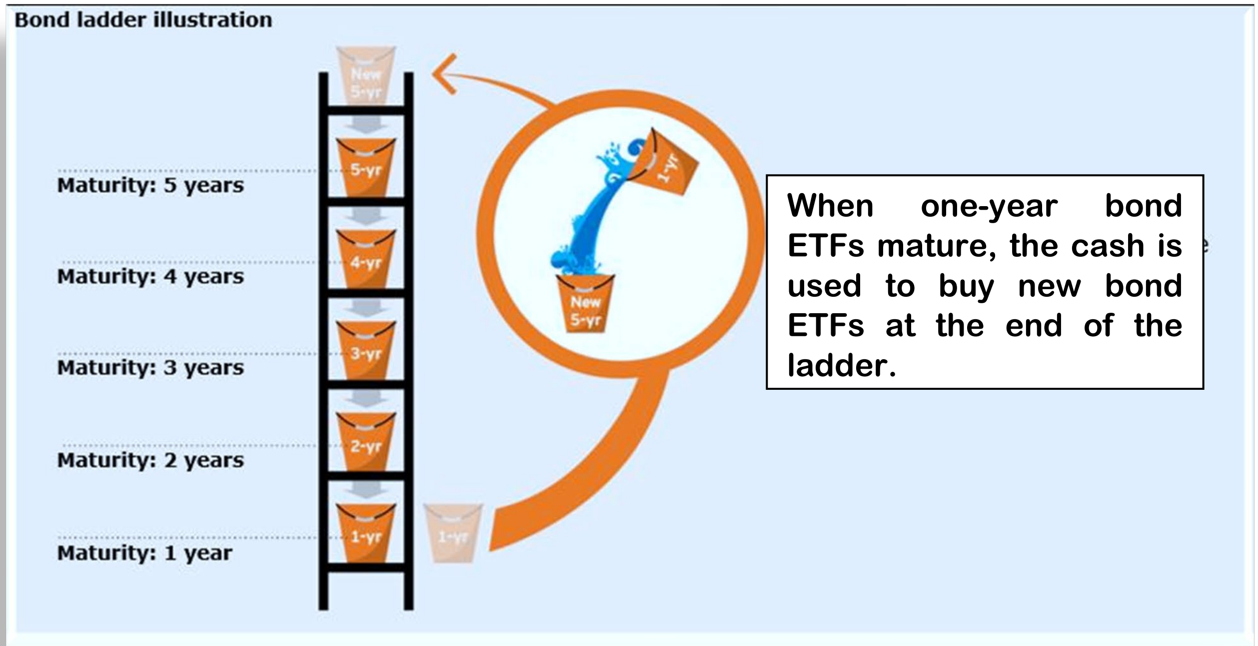
Defensively, this approach also reduces the currency risk. By holding U.S. companies, the price of the stock, earnings, etc. are denominated in dollars not international or emerging market currencies.

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 laddered bond portfolio that contains investment grade ETFs and laddered high yield corporate bond ETFs of varying maturities.

The iSectors® Domestic Fixed Income Allocation's laddered bond strategy has an average target duration that ranges from about 2 -3 and an average investment grade rating.



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 laddered bonds with a shorter average effective duration than its benchmark.

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 bond ladder reinvests a portion of the bonds that mature each year, into new bonds at higher current interest rates.

Bond Prices and Interest Rates Are Inversely Related

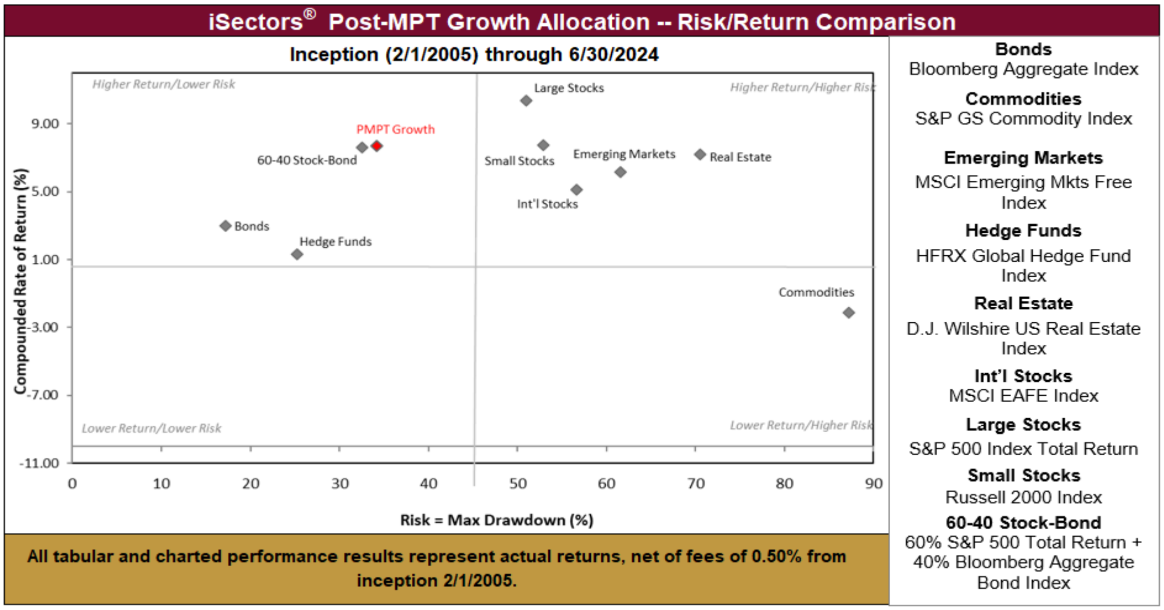
<u>Default Risk</u>
Default risk occurs when a company that issues bonds has financial trouble and can no longer make the interest payments to the bond owners. The company is then said to be in default. To reduce default risk, iSectors® Domestic Fixed Income's bond portfolio uses diversification. The portfolio, through the ETFs it owns, effectively is diversified across over 2,000 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 two dozen economic and capital market factors. The model portfolio is allocated among nine 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. 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 bullion.

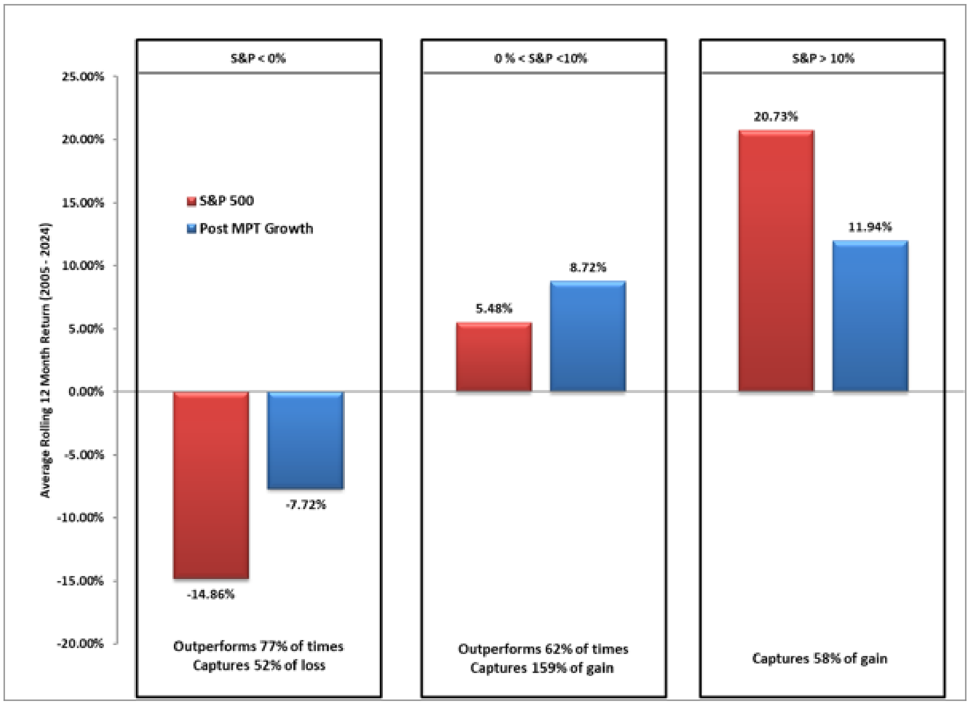
Depending on changes in economic factors, iSectors® Post-MPT Growth Allocation can also play offense. For example, the iSectors® Post-MPT Growth Allocation could begin increasing exposure by moving into technology, healthcare and financials. Leveraged ETFs can be used up to 30% maximum of the iSectors® 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 6/30/2024



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 6/30/2024. In any 12-month period that the S&P 500 was negative, the iSectors® Post-MPT Growth Allocation outperformed it during that period 77% of the time and only captured 52% 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 62% of the time, while capturing 159% 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 58% of the gain.

All historical performance results are net of iSectors strategist fees.

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 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. Remember “investors don’t care how much you know until they know how much you care.”

Vernon C. Sumnicht, MBA, CFP®
CEO, iSectors®, LLC
5485 W. Grande Market Drive, Suite D
Appleton WI 54913
www.isectors.com
(800) 473-2867

Disclosures

iSectors® is a suite 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 employee services. iSectors® became registered as an investment advisor in August 2008. 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® 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® asset allocation models are not guaranteed and involve risk of loss. At any given point in time, the value of iSectors® asset 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. Financial professionals are responsible for evaluating investments risks independently and for exercising independent judgement in determining whether investments are appropriate for their clients.

Past performance may not be indicative of future results. Therefore, no current or prospective investor 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 advisor in determining whether the performance of a specific investment meets their respective 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 primarily on index ETFs that can neither outperform nor underperform their benchmark index. We provide benchmark indexes that are well known for comparison purposes only.

Net Performance results reflect the deduction of the iSectors® Strategist Fee. Actual client results will be lower based on fees for platform, advisory, transaction, and custodial services that are not set at (and may not be known at) the iSectors® level. Additionally, if your account (through your adviser or otherwise) does not fully follow a specific iSectors® model, performance would also, of course, further differ. Please consult your financial adviser for fees applicable to your account. ERISA (group retirement) accounts are subject to additional recordkeeping and/or administrative fees.

Sumnicht & Associates / iSectors® (the "Firm") claims compliance with the Global Investment Performance Standards (GIPS®). 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. To obtain a GIPS® composite report and/or the Firm's list of composite descriptions contact John Koch, Senior Investment Analyst, at (920) 257-5170.

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.