iSectors®, LLC 4th Quarter 2023 Summary Commentary

All iSectors performance is net of standard fees.

iSectors® Model Commentary Introduction

What we have our eyes on looking out into 2024…

- How our quantitative research interprets the current economic environment:
    - The iSectors® Post-MPT Allocations' exposures have remained relatively steady over the last six months: gold bullion, technology, and healthcare hold the highest weightings.
    - The exposures have remained steady because much of the economic factor data used as inputs to the model have also remained steady.
    - Gold bullion, with a 30% weighting, is the most critical holding within each model.
    - Gold can act as an inflation hedge, currency hedge, and a recession hedge. Liquidity needs, brought about by debt issues, ongoing conflicts in the Middle East, shipping disruptions in the Red Sea, upcoming elections, etc., could lead to sticky inflation if the Federal Reserve feels it is necessary to increase money supply and cut interest rates too quickly. At the same time, the chance of recession is much higher if the Fed keeps interest rates too high for too long. Gold can hedge a portfolio against many risks, while the technology and healthcare exposure will help keep the models on pace with broad equity indices as they continue higher.

- The asset class with a 150% return in 2023:
    - Bitcoin rose 155% over the 12 months ending December 31, 2023.
    - Much of this increase occurred in the 2nd half of the year as anticipation mounted for the approval of a spot Bitcoin ETF. On January 11, 2024, this approval happened, and spot Bitcoin ETFs were available on U.S. exchanges for the first time shortly after that.
    - The iSectors® CryptoBlock® Allocation currently utilizes a Bitcoin futures ETF for 50% of the model allocated to Bitcoin. In the coming weeks, this ETF will be replaced by one (or more) of the spot Bitcoin ETFs launched in mid-January to reduce investment vehicle costs and track the price of Bitcoin more closely.
    - iSectors® CryptoBlock® Allocation is coming up on its 3-year anniversary on February 1, 2024. This model is on a very short list of pure ETF, crypto/blockchain investment strategies with any sort of extended track record.

Broad Index Q4 2023 Overview

- The S&P 500 Index performed well last quarter, gaining 11.69% during Q4 2023. This marks the best quarter for the index since 2020. The 1-year return was 26.29%.
- MSCI All Country World Index also did well in the 4th quarter, gaining 11.15%. Over the last 12 months, the index has risen 22.81%.
- Bloomberg U.S. Aggregate Bond Index also had positive performance, gaining 6.82% during the quarter. Performance over the last 12 months is also positive, up 5.53%. Over the last three years, however, the index is down 3.31%.
- Bloomberg 1-3 Year Government Bond Index had less success than broad bond indices in the quarter and over the last year, gaining 1.15% and 4.32%, respectively.
- S&P Goldman Sachs Commodities Index decreased by 10.73% for the quarter and 4.27% over the past twelve months, with the poor performance in the quarter mainly driven by the falling price of oil. This was the worst performing quarter for commodities since Q1 2020. The 1-year return lags stocks and bonds, but the 3-year annualized return still outpaces stocks and bonds at 19.18% vs. 10.00% and negative 3.31%, respectively.

iSectors® Allocation Q4 2023 Return Attribution Review

iSectors® CryptoBlock® Allocation

- The iSectors® CryptoBlock® Allocation gained 43.51% during the quarter and is up a staggering 91.36% over the last 12 months, outperforming its benchmark, the Indxx Blockchain Index, which was up 11.50% in the quarter and 22.82% in the last 12 months.
- Bitcoin miners and Bitcoin itself both contributed outsized positive returns to the model in the quarter, with the miners acting as quasi-leverage on Bitcoin and outperforming in the 4th quarter and over the last 12 months. The model's more broad-based blockchain equity exposure also had positive performance in those periods, albeit more in line with traditional technology stocks.

iSectors® Post-MPT Allocations

- iSectors® Post-MPT Growth Allocation outperformed its benchmark during the fourth quarter of 2023, gaining 11.94% (net of fees) versus the S&P 500's gain of 11.69%. iSectors® Post-MPT Moderate Allocation also outperformed its benchmark, gaining 10.65% versus its 60/40 stock/bond benchmark, which was up 9.74%. (60/40 = 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond Index).
- As both the stock and bond markets began anticipating interest rate cuts in 2024 from the Federal Reserve, decreasing bond yields positively affected almost every single sector in Q4. Technology and gold bullion were the asset classes that most positively affected returns for the Post-MPT Allocations.
- Historically, the iSectors® Post-MPT Growth Allocation and the iSectors® Post-MPT Moderate Allocation tend to outperform the S&P 500 index when the S&P 500 index's returns grow at an annualized rate of less than 10% or when the S&P 500's returns are negative.

iSectors® Capital Preservation Allocation

- The iSectors® Capital Preservation Allocation was up 2.45% for the quarter and 5.08% over the last year. The model outperformed its Bloomberg 1-3 Year Government/Credit Bond Index benchmark in those 12 months, which was up only 4.61%.
- The iSectors® Capital Preservation Allocation offers a high-quality cash alternative with short durations to preserve investment principal in our current economic environment characterized by increasing and volatile interest rates. It also provides the potential for enhanced returns versus money market funds while maintaining daily liquidity.

iSectors® Domestic Fixed Income Allocation

- The iSectors® Domestic Fixed Income Allocation was up 2.82% for the quarter and 5.46% over the past twelve months. The model has outperformed the Bloomberg US Aggregate Bond Index over the past 3- and 5-year periods.
- It is essential to note the difference in yield metrics reported for fixed income investments. The 30-Day SEC Yield for this model is 5.25% net of iSectors fees, while the 12-month trailing yield is 4.00%. This is a very attractive yield for a short duration laddered bond portfolio with an average investment grade rating.

- The SEC yield measures the income a bond fund is expected to pay out over the next year. It is calculated by dividing the fund's total current income by its net asset value. The 12-month yield measures the income a bond fund has actually paid out over the past 12 months. It is calculated by dividing the fund's total income over the past 12 months by its average net asset value over the same period. The SEC yield is a more accurate measure of a bond fund's income potential because it takes into account current interest rate expectations.

iSectors® Inflation Protection Allocation and *iSectors® Precious Metals Allocation*

- The iSectors® Inflation Protection Allocation increased by 3.18%, and the iSectors® Precious Metals Allocation gained 7.45% during the quarter. Over the last 12 months, the models are up 1.60% and 0.82%, respectively.
- Falling commodity prices led the iSectors® Inflation Protection Allocation to underperform the iSectors® Precious Metals Allocation in the quarter. Gold and silver exposure aided returns for Inflation Protection, while short-term TIPS also helped the model.
- At iSectors® we believe the unprecedented growth in money supply in recent years is causing, and will continue to cause, persistent price inflation over many years to come. Basically, the purchasing power of people's savings will slowly be drained over time. Therefore, most investors would be wise to allocate at least a portion of their savings to investments that will maintain their purchasing power despite the loss of purchasing power of the dollar brought about by inflation.

iSectors® Future Growth Allocation

- Last year, the iSectors® CryptoBlock® II Allocation was reworked and repackaged as the iSectors® Future Growth Allocation. Blockchain equity ETFs remain a part of the portfolio, but the overall universe for the model has been expanded to include more growth-oriented ETFs in industries other than those that focus specifically on the blockchain or cryptocurrency.
- For the quarter, the iSectors® Future Growth Allocation was up 44.88% and is up 89.33% over the past 12 months. This positive performance was mainly powered by blockchain equities and digital asset miners.
- The iSectors® Future Growth Allocation is a diversified portfolio of growth stocks that are on the cutting edge of the technological revolution brought about by the changing digital economy. The combined individual stock holdings of the underlying ETFs total about 250 publicly traded companies, diversified across many sectors.

iSectors® Tactical Global Balanced Allocation

- The iSectors® Tactical Global Balanced Allocation gained 3.07% during the quarter. This underperformed its 60/40 stock/bond benchmark index, which was up 9.74% (60/40 = 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond Index).
- The model is down 0.81% in the last 12 months, underperforming the 60/40 stock/bond index which is up 17.67% over the same period. Overallocation to short-term bonds/cash alternatives held back returns in 2023. An allocation to broad commodities during the second half of the year also detracted from returns.

- The iSectors® Tactical Global Balanced Allocation is currently fully invested in the following asset classes: gold, domestic large and small-cap equities, developed international equity, emerging market equity, aggregate bonds, and REITs.

iSectors® Domestic Equity Allocation

- The iSectors® Domestic Equity Allocation was up 9.06% for the quarter, underperforming the S&P 500 Index. The model has also underperformed over the last year, being up only 11.56% vs. 26.29% for the S&P 500.

- Growth ETFs, driven mainly by their outsized technology exposure, have outperformed quality dividend/value ETFs in the quarter and over the last 12 months. The iSectors® Domestic Equity Allocation employs a dividend/value overweight, which has hindered recent performance, but this has also led to a lower volatility profile of the model vs. its benchmark. Over the last three years, the annualized standard deviation of the model is 15.67% vs. 17.54% for its benchmark, with a maximum drawdown of 19.33% vs. 23.87% for the S&P 500.

iSectors® Enhanced Allocations

- The iSectors® Enhanced Balanced Allocation increased by 7.02%, which underperformed the Morningstar Moderate Target Risk benchmark's increase of 9.50% in the quarter. Over the past 12 months, iSectors® Enhanced Balanced Allocation underperformed the moderate risk benchmark by being up 8.08%, while the moderate risk benchmark increased by 13.23%.
- The iSectors® Enhanced Allocation series includes Income, Conservative, Balanced, Growth, and Aggressive allocation models. Each allocation blends short-term laddered bonds, and equities focused on owning stocks that have increased their dividends for many consecutive years, with a 20% satellite allocation to the dynamic iSectors® Post-MPT Growth Allocation.

iSectors® Global Allocations

- Fourth quarter returns for the iSectors® Global Allocations ranged from 6.24% for iSectors® Global Fixed Income Allocation to 10.04% for iSectors® Global Equity Allocation.
- For the quarter, both the international equity and international fixed income portions of the iSectors® Global Allocations underperformed their U.S. counterparts within the models; however, for the year the international bond exposure within the iSectors® Global Fixed Income Allocation outperformed the domestic fixed income portion of the model.
- Over the last year, the iSectors® Global Equity Allocation has underperformed the MSCI All Country World Index due to a similar underweight to growth exposure that is employed by the iSectors® Domestic Equity Allocation.
- On the other hand, the iSectors® Global Fixed Income Allocation has outperformed the FTSE World Government Bond Index in the last 1-, 3-, 5-, and 10-year periods, primarily due to the model's modest overweight to USD-denominated bonds and lower effective duration (approximately 5.0 for the model and 7.5 for the FTSE WGBI).

iSectors® Liquid Alternatives Allocation

- The iSectors® Liquid Alternatives Allocation gained 4.83% in the quarter and is up 7.68% over the last year. The model has outperformed its hedge fund index benchmark in both periods, as well as 3-year, 5-year, and 10-year periods.
- Like the iSectors® Inflation Protection Allocation, broad commodity exposure held back returns in Q4, but the hedged strategy portion of the portfolio performed relatively well. This includes long/short and market-neutral mutual funds, as well as merger arbitrage and managed futures ETFs. Quasi-private equity exposure also boosted returns in the quarter, represented by micro-cap, IPO, and infrastructure ETFs.
- The iSectors® Liquid Alternatives Allocation provides access to a broad array of alternative and hedge fund-like exposures while providing tax efficiency and daily liquidity without any high performance-based fees or the need to be an accredited investor.

iSectors® Endowment Allocation

- The iSectors® Endowment Allocation was up 6.09% for the quarter.
- The iSectors® Endowment Allocation prioritizes current income over the protection of principal and invests across multiple asset classes including, equity, fixed income, and alternatives.
- The 30-day SEC yield of this model is 6.25%, and the 12-month trailing yield is 6.17%.

All model returns presented net of iSectors' management fee. Index comparisons are provided for information purposes. You cannot invest directly in an index, only in index funds that charge fees.

Disclosure

General Disclosure

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.

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Fee Information

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GIPS® Information

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