Q4
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WEALTH MANAGEMENT QUARTERLY INVESTMENT LETTER

Opus CAPITAL MANAGEMENT

The Folly of Forecast

Quick Look

- It is our belief that returns in the short run are driven more by sentiment than fundamentals, which makes them nearly unforecastable.
- 2020 is a spectacular example in the folly of one-year forecasts, as any prognostications for the year would have been rendered useless just a few weeks after they were written.
- Given any of the economic statistics brought on by the COVID-19 outbreak in advance (let alone all), estimates for 2020 would have been wildly bearish, with calls to sell stocks and rush to cash.
- Even if we set aside the onset of the pandemic as an extreme example, this past quarter shows the pitfalls when investing based on near-term, macro expectations.
- Investors who sold in front of the election, or because of diminished fiscal stimulus hopes, or because of fears of a second lockdown, missed the 15% surge in the S&P 500 over the final two months of 2020.
- For long-term investors, living through these short-run fluctuations in sentiment is the premium you pay in order to achieve 6% to 7% real returns in the long run, which, when given an appropriate time horizon, are driven by earnings growth and dividends.
- Looking back on 2020 we are proud to say our best investment decision was having a rules-based asset allocation strategy already in place for your portfolios.

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About Opus Capital Management

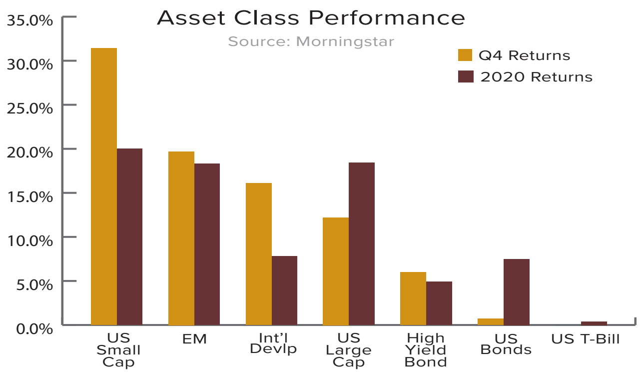
Opus Capital is an evidenced-based investment advisory firm driven by our overriding mission to help people. We believe the marriage of comprehensive financial planning + statistically proven investment principles creates the clearest roadmap to long-term success.

We are independent and transparent in all aspects of investment management decision making and financial planning. We selectively partner with like-minded individuals and families, endowments, foundations, and 401(k) plans in 30 states.

Quarterly Investment Letter, Q4 2020

"Investing consists of dealing with the future, but the future isn't knowable, that's where the risk in investing comes from."
~ Howard Marks ~

Well, we made it. We finally reached the end of 2020 – the uncertainly, the frustration, the divisiveness, the despair - all of it. Good riddance.



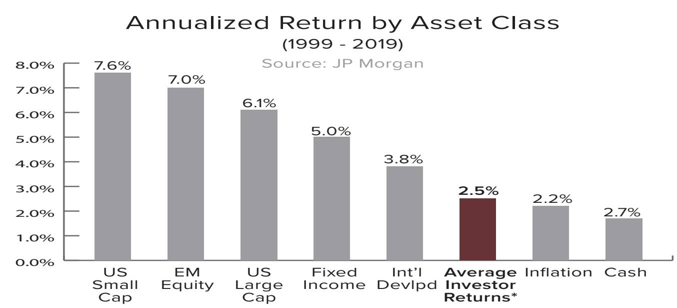
The New Year is a good time for reflection on the year past, as well as predictions on the year to come. We have never found value in one-year price targets on the S&P 500, as it is our belief that returns in the short run are driven more by sentiment than fundamentals, which makes them nearly unforecastable. 2020 is a spectacular example of the folly of one-year forecasts, as any prognostications for the year would have rendered useless just a few weeks after they were written, given that:

1. The pandemic was not predictable.
2. Even if it was, market prognostications would have almost certainly been incorrect.

The former is obvious, while the latter is more challenging, as it contradicts the investment decision making of many market participants. Consider, anyone who predicted the above-average return for the S&P 500 this year would have almost certainly done so under the pretense of a continuation of economic expansion fueled by record-low unemployment. Instead, the reality we experienced upon the arrival of COVID-19 was:

1. The highest unemployment rate of the post-World War II era.
2. The largest economic contraction since the Great Depression.
3. The fastest 20% and 30% drawdowns for the S&P 500 Index on record.

Given any of those statistics in advance (let alone all), estimates for 2020 would have been wildly bearish, with calls to sell stocks and rush to cash. Investors ultimately did this, but not in January. Instead, it happened in March, as investors pulled more than $300 billion out of mutual funds and exchange-traded funds during the month, and parked over $1 trillion in money market funds during March and April. Investors who moved to cash have missed gains since the market bottom of nearly 70% on the S&P 500 and nearly 100% on the Russell 2000 Index. Positive flows back into stock mutual funds and exchange-traded funds did not resume until November, after the market had fully recovered. The impossibility of market timing, which requires making correct predictions on both the market top and bottom, and the continued insistence of market participants on trying to do so, explains the lion's share of the average investor's poor historical returns.



*Average Investor Returns are based on analysis conducted by Dalbar, Inc and utilizes the net of aggregate mutual fund sales, redemptions, and exchanges each month as a measure of investor behavior.

Even if we set aside the onset of the pandemic as an extreme example, Q4 shows the pitfalls when investing based on near-term macro expectations, which requires correct predictions for the event itself and the corresponding market reaction. The prevailing thought coming into Q4 was that markets (which had already fully recovered from the March drawdown) were

U.S. EQUITY RETURNS (%)

As of 12/31/20	Q4 2020	1-Year	3-Year	5-Year	10-Year
S&P 500	12.2	18.4	14.2	15.2	13.9
Russell 1000 (Large Cap) Growth	11.4	38.5	23.0	21.0	17.2
Russell 1000 (Large Cap) Value	16.3	2.8	6.1	9.7	10.5
Russell 2000	31.4	20.0	10.3	13.3	11.2
Russell 2000 (Small Cap) Growth	29.6	34.6	16.2	16.4	13.5
Russell 2000 (Small Cap) Value	33.4	4.6	3.7	9.7	8.7

Source: Morningstar

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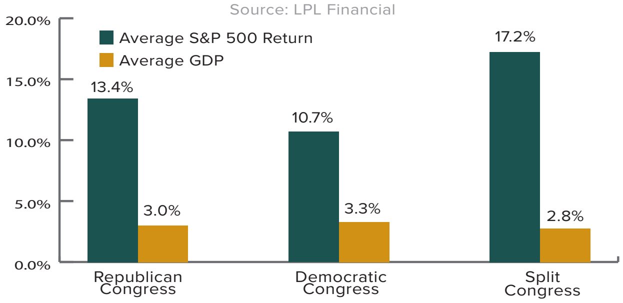
pricing in a Blue Wave election, which would result in a second round of massive fiscal stimulus, which would boost stocks, led by continued U.S. large-cap growth dominance, which were more immune or even benefitting from the COVID-related environment, which at the time was abating from its mid-summer spike. Instead, here is how the quarter unfolded:

1. A Blue Wave did not occur on Election Night. The Presidential election was closer than the polls predicted, and the GOP picked up nine seats in the House, narrowing the Democratic House Majority. Though Senate control remains undecided, the GOP enters the Georgia runoffs as favorites to retain control, which would result in a split Congress.

2. Even though the election results immediately dimmed the prospects of a stimulus bill, the S&P 500 recorded its best post-election one-day gain ever, as the focus shifted to the fact that stocks have historically posted their best returns when neither party is in full control.

Congressional Makeup & Market Returns
(1950 - 2019)
Source: LPL Financial



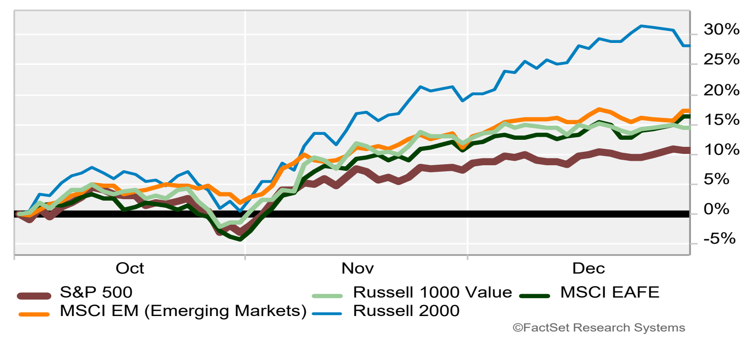
3. The following Monday, news broke that Pfizer's experimental COVID-19 vaccine was more than 90% effective based on initial trial results, greatly exceeding expectations of its potential efficacy. Trading that day reflected a historical factor style shift of one-day outperformance of Small and Value stocks, to the detriment of high Momentum.

4. COVID-related statistics spiked rapidly during the quarter, as cases, hospitalizations, and deaths in the U.S. all reached their highest levels on record.

5. At quarter-end, a $900 billion fiscal package for pandemic relief passed, as the rapidly escalating COVID situation forced the hand of the lame-duck Congress to take action.

As many predicted, stocks had a great quarter, but the events played out in a markedly different fashion than the original prevailing narrative. Investors who sold in front of the election, or because of diminished fiscal stimulus hopes, or because of fears of a second lockdown, missed the 15% surge in the S&P 500 over the final two months of 2020.

Q4 2020 Equity Asset Class Returns



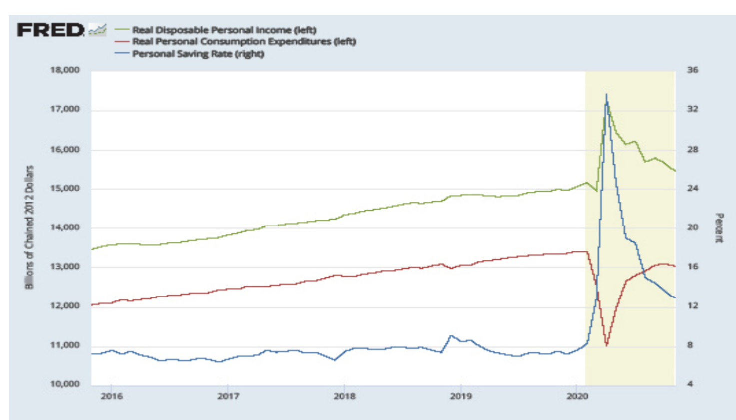
Diversified equity portfolios did even better in Q4, as Developed International, Emerging Markets, and Small Cap stocks all outperformed the S&P 500 Index for the quarter. Value stocks, which prior to Q4 had underperformed Growth by their largest one-year spread in history, also outperformed, as leadership pivoted to stocks tied to the business cycle, as opposed to the FAANGs or working-from-home stocks.

So where are we as we enter 2021? There are a number of reasons that investors are optimistic:

- Chief among them, the arrival of the vaccine, which provides a path to herd immunity by the middle of next year, and a timeline for resumption of a fully functional economy.

- A spending surge next year driven by pent-up demand and excess savings built up during the past year. Corporate earnings are expected to jump nearly 40% in 2021.

- A fresh round of fiscal stimulus that can bridge the gap during the vaccination roll out. Stimulus was so big this year that it completely filled the hole of real disposable personal income lost to the shutdown.



Other observations include:

- Investor sentiment readings registering in the "euphoric" or "greed" levels as U.S. stocks sit at all-time highs.
- Elevated valuations, which have risen over the past year primarily on the expanding multiples and rising expectations of growth stocks.
- Technology as the most overweight equity sector in manager surveys.
- After cutting rates this year, the Fed has stated it has no intention of raising the Fed Funds rate anytime soon.
- The yield curve is expected to steepen on the expectation of better economic growth and with the 10-Year rate just a half of a point off its all-time low.

Incredibly, these final five bullet points were also true as we entered 2020. These may factor into next year's market prices, but more likely, the market will be driven by the things we don't yet know. A scenario exists in which a post-COVID euphoria, powered by stimulus and low interest rates, melts the market up to dot-com valuations in 2021. There is also a scenario in which sentiment turns sour because of sudden unexpected inflation, or a protracted drop in speculative assets prices, or festering COVID challenges. For long-term investors, living through these short-run fluctuations in sentiment is the premium you pay in order to achieve 6% to 7% real returns in the long run, which, when given an appropriate time horizon, are driven by earnings growth and dividends.

Looking back on 2020, we are proud to say that our best investment decision of the year was having a rules-based asset allocation strategy already in place for your portfolios, eliminating the risk of emotional stock sales at market bottoms. By design, this procedure rebalanced many portfolios into stocks within days of the stock market bottom. With the benefit of hindsight, one can clearly see the buying opportunity back in March, but investor flows at the time suggest how difficult it was to predict in real time through market timing.

With the robust market appreciation since, stock allocations in many of our portfolios have exceeded their maximum allowable allocation, and we have rebalanced those portfolios once again back to their neutral allocation levels. Psychologically, the pain to sell stocks at market highs can feel as bad and counterintuitive as buying during market bottoms. While the timing is rarely as on point as the March rebalance, historically we have found our minimum and maximum allocation weights to have a pretty good track record of being directionally instinctive.

While the monotony of everyday life during the pandemic may have felt interminable, the lightspeed at which stocks moved has investors confounded that we roundtripped a full market cycle in less than six months.

Bear Market Recoveries

Largest S&P 500 Index Declines Since WWII

Peak	Bottom	Bear Mkt Length	% Decline	Recovery Length	Recession?
Oct-07	Mar-09	17 Months	-56%	49 Months	Yes
Mar-00	Oct-02	31 Months	-49%	56 Months	Yes
Jan-73	Oct-74	21 Months	-48%	69 Months	Yes
Dec-68	May-70	17 Months	-36%	21 Months	Yes
Feb-20	Mar-20	1 Month	-34%	5 Months	Yes
Average All Bear Mkts		12 Months	-30%	20 Months	
Average Bears w/ Recession		18 Months	-37%	30 Months	
Average Bears w/out Recession		7 Months	-24%	10 Months	

Source: LPL, FactSet

Perhaps 2020 will be an anomaly and markets will return to more traditional multi-year cycles. If this is the new normal, market timing, which was a challenge before, seems an impossible task now given the current speed of markets. We have strong conviction that a game plan utilizing unemotional, rules-based strategies are the best way of navigating the unknowable future.

We are optimistic of a return to normalcy in our lives sometime during Year 2021 and appreciate your partnership and willingness to adhere to your game plan during Year 2020. Tough at times... but pays dividends over the long-term.

Happy New Year from your Opus Capital Team.

INTERNATIONAL RETURNS (%)

As of 12/31/20	Q4 2020	1-Year	3-Year	5-Year	10-Year
Int'l Developed ex US	16.1	7.8	4.3	7.5	5.5
Emerging Markets	19.7	18.3	6.2	12.8	3.6

Source: Morningstar

FIXED INCOME RETURNS (%)

As of 12/31/20	Q4 2020	1-Year	3-Year	5-Year	10-Year
Aggregate Bond	0.7	7.5	5.3	4.4	3.8
Muni	1.9	4.5	4.0	3.2	3.9
Int'l Bonds	4.5	8.4	4.0	4.7	2.4
High-Yield	6.0	4.9	4.7	6.7	5.5
Short-Term	1.1	3.8	3.1	2.7	2.1
90-Day T-Bill	0.0	0.4	1.5	1.2	0.6

Source: Morningstar

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