CAPITAL ADVISORS

Key Points

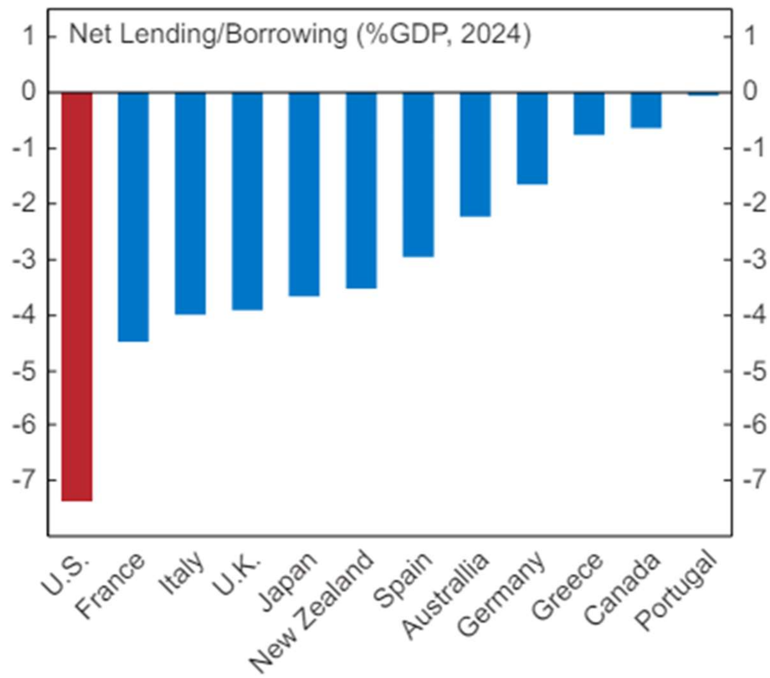
- Throughout history, the U.S. budget deficit was always restored to a sustainable position after temporarily blowing out to address disruptions like recessions, wars, and financial crises…until Covid.
- More than three years removed from the pandemic, the U.S. budget deficit was recently projected to reach 7.0% of GDP in 2024 and 6.5% in 2025,[1] more than double any realistic estimate for what is sustainable.
- The problematic trajectory of the U.S fiscal position is a significant risk factor for investors, in our view, and we take it seriously in our risk management considerations.
- If policy makers fail to address the situation proactively, disruptions in the financial markets are likely to force their hand eventually.
- Timing such a disruption is next to impossible, although we suspect it is not imminent, nor is it inevitable.
- The most hopeful pathway for repairing our national balance sheet would include a healthy contribution from a jump in productivity to help our economy to grow into the debt burden that has been hoisted upon it.
- We are not counting on a productivity miracle to bail us out, but there are important technological innovations on the visible horizon that could be helpful on this front, in our opinion.
- We consider the pathway of our national debt to be one of the most important risk factors facing investors, and we are working hard to navigate it thoughtfully.

[1] Source: Congressional Budget Office; Update to the Budget and Economic Outlook 2024 to 2034; June 18, 2024

The Topic No One Wants to Talk About but Should

The fashionable response to questions about our nation's alarming fiscal position among people in a position to do something about it is to first acknowledge that our budget deficit is "unsustainable," and then immediately change the subject. This is not surprising since the people who control the budget are elected by voters, and voters have consistently demonstrated zero appetite for cutting government benefits or raising taxes to pay for them. This being the incentive structure of our political process, it seems likely that a "riot point" in the financial markets may be necessary to force the changes that are needed.

The U.S. Budget Deficit Has Become
A Global Outlier…Even Relative to Greece



Source: IMF

Lessons From History

Although a so-called riot point seems likely at some point in our future, it is not inevitable. Nations have been going broke for millennia, so the strategies available for addressing excessive government debt are not a mystery. Unfortunately, many of the options require falling living standards, typically by way of inflation and a depreciating currency. One important exception is when a structural surge in productivity allows a nation to outgrow its debt in real terms (i.e. net of inflation).

We don't dismiss the possibility of a productivity miracle to help address our current predicament, and we can even identify a couple of innovations that might lead the way – artificial intelligence (AI) and nuclear energy come to mind. Even so, we suspect the most likely path forward will include some discomfort, so it seems wise to map out the possibilities in advance.

Nine Ways to Avoid a National Bankruptcy

Economist *Horace W. Brock* recently summarized the nine principal ways a government can deal with an unsustainable fiscal position:[2]

1. Raise taxes
2. Cut government spending
3. Print money to paper over growing budget deficits
4. Sell government-owned assets (the U.S. government owns roughly 28% of the total acreage of the nation for example – mostly in the West and Alaska)
5. Privatize existing public assets and services such as railroads or national parks
6. Have the central bank purchase a larger share of existing government debt
7. Employ "Financial Repression" whereby interest rates are capped at a below-market rate for an extended time (this tool was utilized in the aftermath of WWII)
8. Have the government convert a large balance of U.S. Treasuries held by the central bank into zero-coupon securities maturing in 500 years (thus substantially reducing the effective level of government debt and the cost of servicing it)
9. Require *all* holders of U.S. Treasuries to redeem their existing securities for new bonds worth half as much (or pick your percentage)

Out of mercy for the reader we will not elaborate on all these options in this document. For those interested in the details we are happy to provide a full copy of Dr. Brock's paper upon request.

For now, we hope to emphasize the following points:

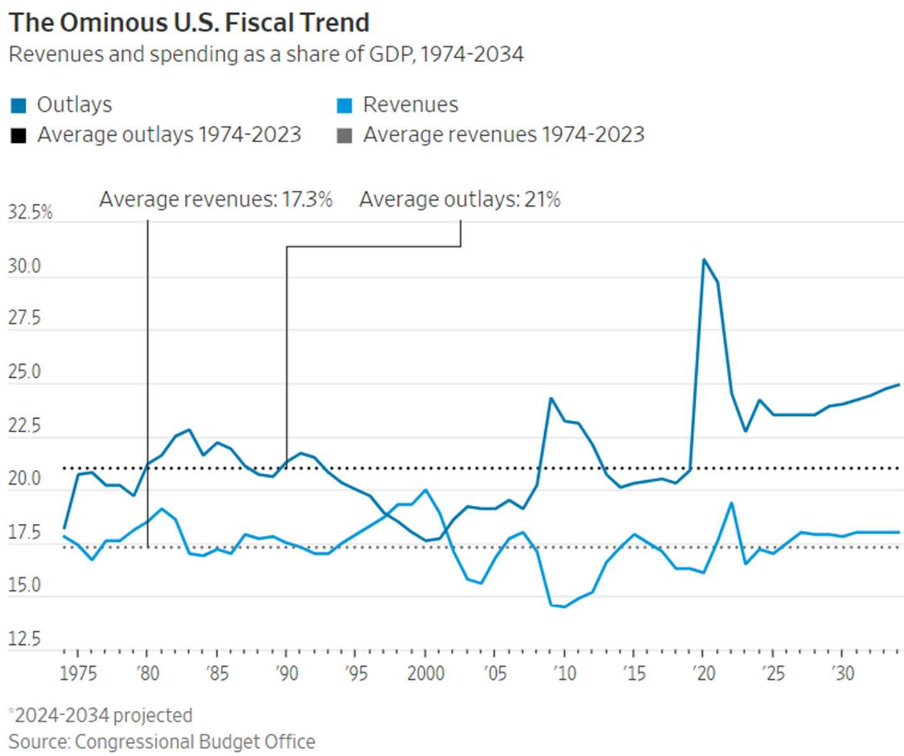
I. The unsustainable trajectory of the U.S fiscal position is a significant risk factor for investors, and we take it seriously in our risk management considerations.
II. If policy makers fail to address the situation proactively, disruptions in the financial markets are likely to force their hand eventually.
III. Timing such a disruption is next to impossible, but we suspect it is not imminent.
IV. The strategies available to policy makers for addressing our debt range from the conventional to the radical, but at least there are options.
V. We are not counting on a productivity miracle to bail us out, but technological innovations on the visible horizon have the potential to be helpful, in our opinion.

[2] Source: Strategic Economic Decisions; "What Exactly is the End Game When a Nation's Debt Level and Debt Servicing Costs Rise Too Far?"; November 2023

The Grown-Up Approach

The way the budget process is *supposed* to work, tax policy informs spending policy such that government revenue and expenditures remain approximately balanced over full economic cycles. It is important to note that perfect balance is not required. In fact, deficit spending can be sustained *indefinitely* provided the average deficit does not exceed the real economic growth rate of the nation (for example, an average annual budget deficit of 3% in a country growing its economy at 3% or greater). This is why a structural jump in productivity can be so helpful by raising the real growth rate of the economy.

The chart below reflects a sustainable budget deficit throughout most of the past 50 years in the United States. Although the deficit shot higher on three occasions: During the double-dip recession in the early 1980s; the Global Financial Crisis in 2008-09; and the pandemic in 2020, the budget always moved back to sustainability once the "emergency" had passed…until Covid.



More than three years removed from the pandemic, the U.S. budget deficit was recently projected to reach 7% of GDP in 2024 and 6.5% in 2025, according to the non-partisan *Congressional Budget Office*.[3] These deficits are *more than double* any realistic estimate of what is sustainable, and they are happening at a time when economic growth has been healthy, and employment is strong. Reasonable observers are correct to worry how ugly these number might look during the next recession…or pandemic…financial crisis…or war?

[3] Source: Congressional Budget Office; Update to the Budget and Economic Outlook 2024 to 2034; June 18, 2024

Current Risk Management Strategies

The challenge in preparing an investment portfolio for the risk of "fiscal mismanagement" is to avoid overreacting prematurely without ignoring the problem. Knowledgeable observers have been fretting over the national debt for so long it feels like the boy who cried wolf (recall Ross Perot's white board charts on the national debt during the 1992 presidential campaign). The same can be said of Japan, where trades designed to exploit Japan's seemingly unsustainable fiscal position have come to be known on *Wall Street* as the "Widow-Maker" due to calamity's failure to arrive as expected for more than 30 years in Japan.

We are currently managing the risk of a fiscal crisis through a combination of opportunistic and defensive postures in our investment strategies. On the opportunistic front, we seek to participate in the technological innovations that may help the country grow its way to a more sustainable debt-to-GDP ratio (see our recent note on this subject here).

We are factoring inflation risk into our strategies by keeping the average duration of our *Fixed Income* strategies shorter than benchmark averages, and by including inflation-resilient companies and industries in the design of our *Managed Equity* strategies.

We have the flexibility to increase cash reserves in our investment strategies if financial markets become disrupted, and for portfolios where it is a fit, the *Dynamic Allocation* strategy can systematically reduce the equity market exposure of a balanced portfolio in response to deteriorating market conditions.

More to Come

We suspect it will be necessary to revisit this topic regularly for the foreseeable future, and we intend to do so as needed in future commentaries. For now, please know that we consider the pathway of our national debt to be one of the most important risk factors facing investors, and we are working hard to navigate it thoughtfully.

Current Design of Our Investment Strategies[4]

The remainder of this report addresses the current positioning of each of our investment strategies under current macro conditions. The specific design of *your* portfolio is customized to match your return objectives and risk tolerance. **For a refresher on how your portfolio is designed, and why, please reach out to your Wealth Advisor any time.**

ASSET LEVEL	Based on your investment objectives and risk tolerance, we set parameters for an optimal stock/bond mix. Instead of keeping your portfolio at a stagnant allocation, we have the ability to change the stock-to-bond-to-cash ratios as market conditions change.
PORTFOLIO LEVEL	By understanding the types of portfolios/accounts we're managing, we structure each portfolio to fit its stage in the investment life cycle (accumulation vs. distribution). We also take into account legacy positions and/or outside assets.
STRATEGY LEVEL	By understanding your optimal asset allocation range and the types of portfolios being managed, we determine how our specific strategies should be combined. We utilize both fundamental and tactical strategies to help take diversification one step further.
SECURITY LEVEL	Our team of CFA charter holders performs deep research behind each security selected and provides rationale for trades. We strive to position your portfolio for prevailing market conditions to participate in long-term trends.

Managed Equity Strategies

<u>Managed Equity Growth</u>

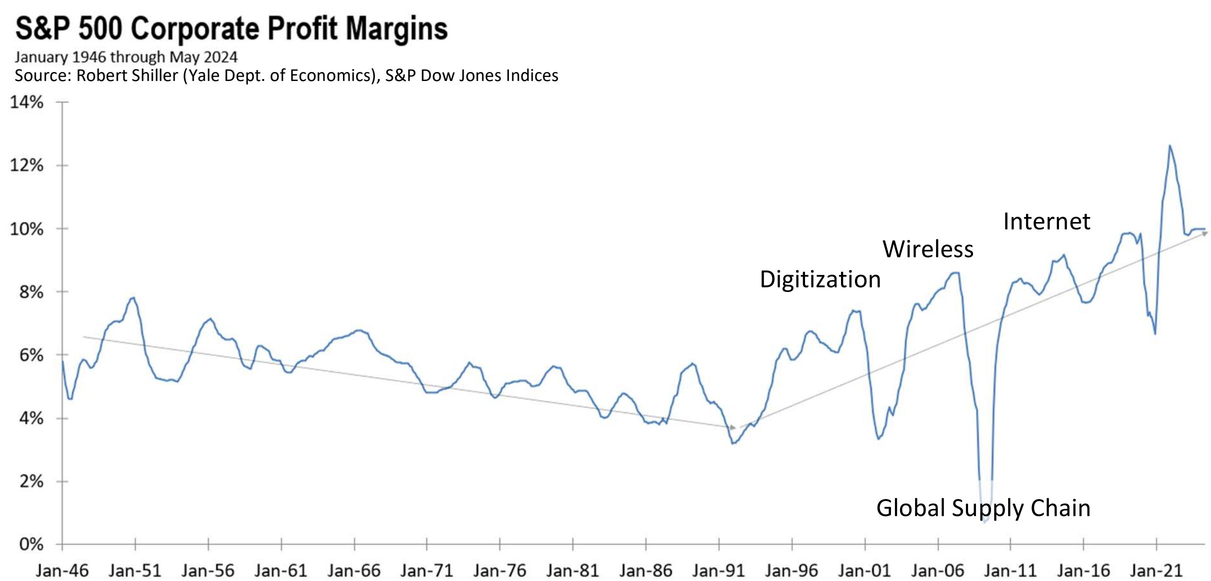
Valuations: The current ~22x S&P 500 Price-to-Earnings level (PE) remains elevated versus the 17x-18x norm (median since 1990) but there is a twist.[5] When we separate the so called "Mag 7" the PE is ~17x, which is in-line with the historical norm.[6] "Enabling" innovations explain the current valuation dispersion. Larger companies that can lead these opportunities' development have meaningfully higher positive earnings revisions and sustainable earnings growth rates. With a very broad brush, think of Mag 7 as a term that describes the biggest immediate beneficiaries of the strongest enabling innovation, at present, AI. These companies are impacting (or even shaping) AI's development curve. The term also refers to companies that have strong balance sheets and healthy cash flow structures (with no debt cost issues due to higher refinancing rates).

[4] The portfolio strategy discussions in this section are supplemental to a compliant GIPS Report. A complete list of Capital Advisors' portfolio models and compliant presentations are available by contacting Capital Advisors.
[5] Source: Bloomberg
[6] Source: Bloomberg; Mag 7 refers to the seven mega-cap stocks that have been leading the market averages higher in recent years: Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia and Tesla

As mentioned earlier in this note, with an emotionally charged U.S. election coming up, record government debt, and elevated geopolitical uncertainties, the Mag 7 offers the relative safety of attractive growth profiles and strong balance sheets and management teams. Investor uncertainty is reflected in measures like breadth, which is one of the key indicators of market stability. In June, for the first time on record, the S&P 500 outperformed its equal-weighted counterpart by over 2% for two straight weeks. Less than 1% of individual weeks since 1990 have exhibited such a performance gap, so having two in a row is particularly notable.[7]

In the last several quarterly notes we focused on "enabling innovations," defined as those that create significant value across sectors. In this one, we focus on the earnings impact. Companies that lead the development of high-value innovations, such as AI, can realize high profit margins if demand outstrips supply. For example, **NVIDIA's (NVDA ~$124)** gross margin was approximately 60% before the AI inflection and is now over 75%.[8]

Looking at the chart below, corporate profit margins embarked upon a lasting ascent when the Berlin Wall fell and global markets opened to the global supply chain, bringing supply costs down. The internet soon compounded the productivity effect. Now, other enabling innovations, like AI, have the potential to at least defend these gains. Higher margins can support valuations. Notably, the 1990s-to-present included a period of sharply higher borrowing. The next several decades could include some forms of deleveraging.



[7] Source: Bloomberg. The S&P 500 Equal Weight Index has data ranging back to 1990.
[8] Source: Company documents; Bloomberg

Strong first half: In years where the stock market was up at least 10% through May, solid momentum generally continued through the back half. In only 16% of those cases was the back half negative (see the table below).[9] The key differences this year could relate to the unprecedented election, potential debt deleveraging (with higher taxes, for example), and elevated geopolitical uncertainties.

S&P 500 Return when January-May is 10%+ (1950-2023)	
June-December average return	9%
Average annual return those years	25%
% of years June-Dec. were negative	16% (3 of 19)

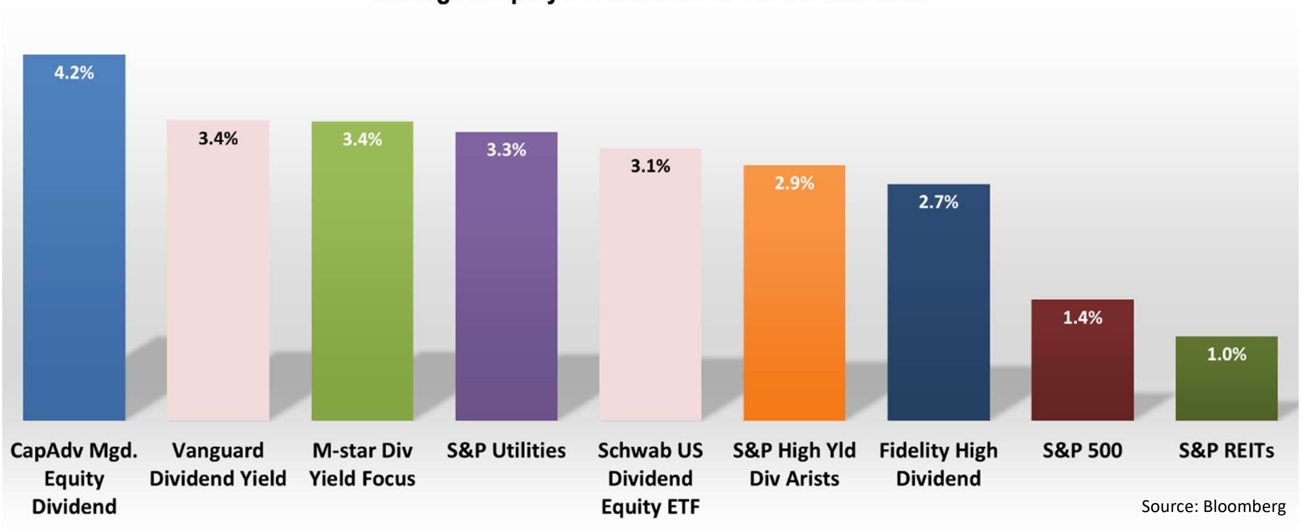
Use of Cash: We use cash to balance risk taken elsewhere in the portfolio and as risk-capital, so we do not have to sell great companies to take advantage of opportunities during times of significant volatility. For much of this year, the cash level has been relatively (even historically) low, in the 7%-10% range. Expect us to move closer to 10% in the near term.

Managed Equity Dividend

Income Goals: The Strategy's primary goals are to provide clients with steady, healthy cash flow, cash flow growth over time, and exposure to the equity market for longer-term capital appreciation. We maintain a focus on stronger balance sheets. As the stocks have appreciated over the past several years, we have consistently rolled the yield higher through the purchase of higher-yielding securities while retaining a distinct *quality* focus. This process has boosted the strategy yield to 4%+, from the high-3s in 2021, for instance. Companies presently yielding significantly below the strategy's overall level play a key role in portfolio "balance," which includes secular trend leadership, world-class management, and strong balance sheets. These factors are key parts of our risk management process.

[9] Source: Bloomberg

Managed Equity Dividend Yield vs. Benchmarks



Income Trends: Over time, we target 4%-6% annual cash flow growth from the portfolio (not every year but averaged over time). Since inception (2012), the strategy has grown its cash flows ~7% per year assuming reinvestment; a 5%-6%+ number is more conservative to use in client discussions given that many clients do not leave cash in the strategy to be reinvested.[10] Given the interest rate environment, a strategy yield in the upper-3s to mid-4s remains prudent. With higher interest rates, there are increased opportunities to jump the yield higher by taking "beneath the cover" risks (primarily business models that lean on, for instance, derivatives); we intend to continue avoiding that route. Still, there remains flexibility to lever the strategy yield up or down depending upon the global economic and financial market outlooks. The strategy is fully invested, though the investment process allows for the raising of cash under particularly risky or volatile conditions.

Highly Appreciated "Enabling Innovators" in the *Dividend Strategy*: When enabling innovation stocks appreciate significantly, we may reduce risk, and defend the *Strategy's* yield profile, by trimming them to a core position as long as the fundamental outlook remains strong. Retaining smaller, core positions allows us to enhance the *Strategy's* risk management profile as well as its longer-term total return outlook, while maintaining an overall yield at or above peers. With dividend stocks, strong price appreciation means the yield could decrease significantly.

One example is **Broadcom (AVGO ~$1,606)**, which had a 4.7% yield when we added it to the *Managed Equity Dividend Strategy* and now yields 1.3% despite strong annual dividend increases. The typical account that acquired Broadcom with the *Strategy* in 2021 made back the initial investment plus 50% through such trims and still owns a position worth ~1.8x the original investment. The position also returned another 10% of the initial investment in dividends.

[10] Source: Orion

Similarly, **Eaton (ETN ~$313)** had a 3.5% yield when it entered the *Strategy* and now sports a 1.2% yield. Portfolio management trims covered the initial investment plus 20%, and the remaining core position is currently valued at nearly 70% of the initial investment. The holding also returned nearly 10% of the initial investment in dividend cash.[11]

We added **Corning (GLW ~$39)** to the Strategy in June and trimmed **Watsco (WSO ~$463)** to a smaller core holding. Corning is a recognized global leader in fiber optic communications and display technologies. It has a 170-year history of innovation. In our view, multiple fundamental drivers support the cash flow outlook, which should give management flexibility to increase the dividend or repurchase shares. We believe the fiber business could benefit greatly as other innovations, such as AI, proliferate and require far higher data loads to be transported at faster speeds and with lower energy costs. Transitioning capital from Watsco into Corning slightly raised the *Strategy's* yield profile while diversifying to attractive, long-term fundamentals. We have now generated cash proceeds equal to 130% of the initial Watsco investment plus subsequent additions. Dividends gained over that time account for another 12% return on investment cost. Stock price appreciation pushed Watsco's yield to 2.3% despite 52% cash dividend growth, down from the 4.5% yield it offered when it was initially added to the *Strategy*. We expect management to keep increasing the dividend at a healthy pace.[12]

Fixed Income

Following the past two quarters of significant rate volatility (both lower and then higher), the second quarter was more benign, with most market interest rates increasing only a modest ~0.1%.[13] It seems that market has coalesced to an expectation of approximately two rate cuts, or 0.50% lower in Fed Funds Rate by year end.[14] At these elevated bond yields, we remain steadfast that "locking in higher yields for longer" in our clients' bond strategies is a prudent investment. However, we are very cognizant of the nation's financing concerns, and are currently focused on overweighting interest rate risk on the short-to-intermediate part of the yield curve, with limited exposures too far out the maturity spectrum.

---

[11] Source: Orion & Charles Schwab Advisor Center, representative account. For further information, refer to the *Enabling Innovation Investment Strategy* note, 6/18/24. *Managed Equity Dividend* added $2,827 of AVGO in the representative account on June 11, 2021. Trims on May 31, 2023 and June 17, 2024 returned $4,220; since June 11, 2021, the position generated $311 in dividend cash. The remaining holding was valued at $4,922 on July 1, 2024. Similarly, the *Strategy* added $3,140 of ETN in the representative account on February 19, 2019 and added $589 on August 2, 2022. Trims on June 9, 2020, October 19, 2021, and September 12, 2023 generated $4,510; since February 18, 2019, the position generated $327 in dividend cash. The remaining holding was valued at $2,500 on July 1, 2024.

[12] Source: Bloomberg & Charles Schwab Advisor Center, representative account; *Managed Equity Dividend* purchased $3386 of WSO in the representative account across April 15, 2020, July 26, 2022, and February 14, 2024. Trims on November 10, 2020, September 2, 2022, July 6, 2023, and June 21, 2024 returned $4,401; since April 15, 2020, the position generated $396 in dividend cash.

[13] Source: Bloomberg, Two-year treasury to Ten-year Treasury Note yields, 6/28/24

[14] Source: Bloomberg, World Interest Rate Probability as of 6/28/24

Managed Credit Strategies

Within our *Managed Credit Strategies*, we are orienting the portfolios toward better credits, with roughly 70% of our clients' exposure in companies currently rated A- or better, on average.[15] We believe our BBB exposure has better balance sheets than the broad market, but we are willing and able to further reduce this allocation should we see specific situations worsen. We also hold a modest allocation to U.S. Treasuries, as applicable, to provide further credit diversification from any potential slowdown in the economy.

Our overweight to investment grade corporate credit slightly outperformed Treasuries in the second quarter and our slightly defensive duration posturing protected portfolios with modestly increasing yields. With interest rates still materially higher than in years past, we will look to add interest rate risk, but not go out much past 10-years. On a go-forward basis, portfolios are now yielding around ~5.1%, depending on one's yield curve positioning.[16]

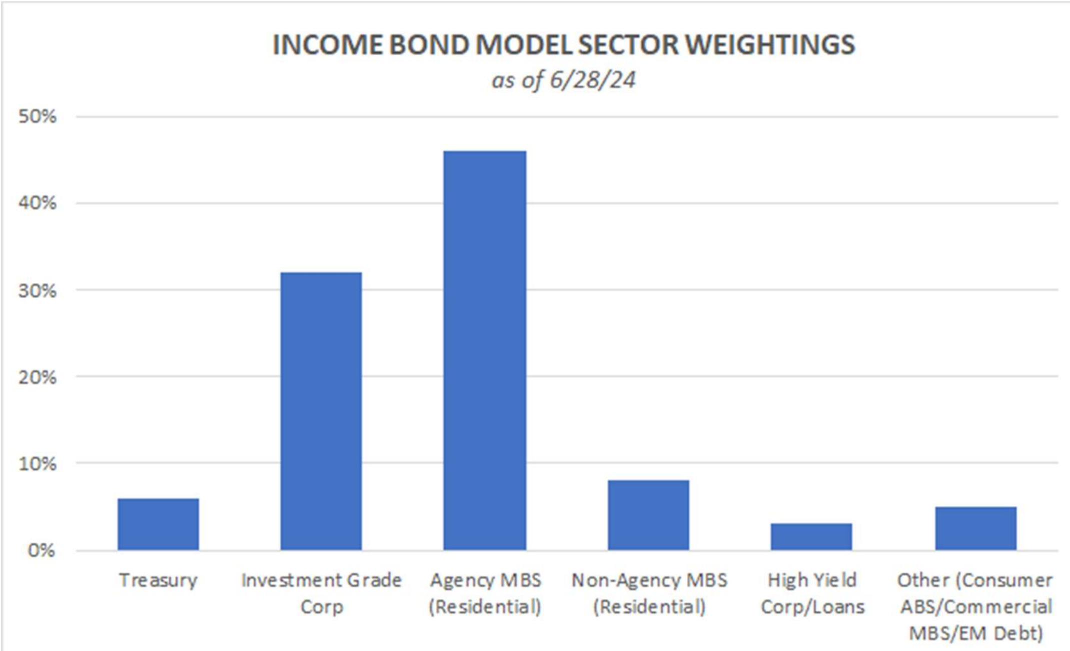
ETF Bond Models

Our *Aggregate Bond* ETF strategy remains 100% invested in "defined maturity," investment-grade corporate bond ETFs, which positively impacted the model's outperformance relative to the benchmark in Q2. Today, there is a relatively conservatively positioned laddered maturity structure of ETFs ranging between 2025-2029, and the model carries an average net acquisition yield of approximately 5.1%.[17]

The *Income Bond* ETF strategy has focused on maximizing cash flows within the construct of balancing risks, most notably through sector diversification (see chart below). In Q2, the model's relatively defensive interest rate posturing provided some price protection versus the benchmark while the higher yield profile created alpha versus the index. Looking forward, "AAA-rated", Agency Mortgage-Backed securities remain the model's largest weighting, as relative yields versus both corporates and Treasuries look attractive on a both an absolute and historic basis.[18] The potential for stable to declining interest rates could bring back incremental buyers of this high-quality asset class (i.e. insurance companies, banks, etc.) over the course of the year. Today, the strategy carries an average net acquisition yield of approximately 5.4%[19].

---

[15] Source: ORION
[16] Source: Bloomberg, ORION
[17] Source: Bloomberg, iShares, State Street, as of 6/28/24
[18] Source: Bloomberg, as of 6/28/24
[19] Source: Bloomberg, iShares, State Street, as of 6/28/24



Source: ORION, iShares, State Street, Doubleline, Janus Henderson

Municipal Bonds

Our *Municipal Bond* portfolios continue to be focused on “A” and above credits with strong debt coverage and liquidity profiles. We have also intentionally over-weighted essential service revenue bonds (water & sewer, utilities, etc.), and general obligation bonds with an average portfolio credit quality of “AA.” Our conservative posture provided some downside protection with municipal bond rates marching significantly higher than their taxable counterparts in the quarter. High-quality municipal bonds may provide some stability going forward, especially as we move toward the national election where rhetoric about a larger federal budget deficit and a possible higher tax rate regime may make the asset class more attractive. Municipal bond portfolios are now yielding between 3.3% and 3.5% tax free *(between 5.5% and 5.8% at the highest marginal federal tax rate)*[20] depending on one’s yield curve positioning.

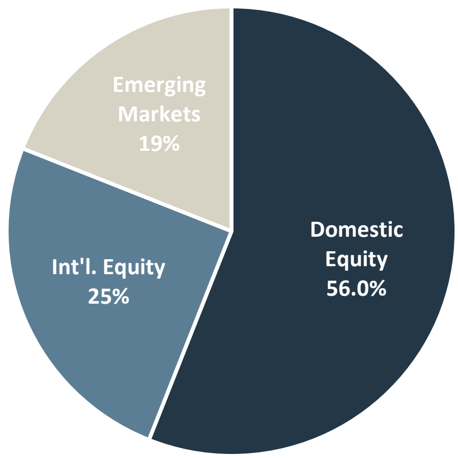
Tactical Global Growth Strategy

As a reminder, we recently revised the investment process for the *Tactical Global Growth* strategy to allow its asset allocation adjustments to align more consistently with economic and financial market cycles, rather than calendar quarters. The investment objective of the strategy did not change, but the execution will involve fewer investment vehicles and an expectation for longer holding periods between portfolio changes. In addition to greater tax efficiency, this approach enables a more deliberate expression of domestic-vs.-international equities, developed-vs.-emerging markets, and large-cap-vs.-small-cap stocks to complement the *Managed Equity* and *Fixed Income* strategies the comprise the core of our investment portfolios.

[20] Source: ORION, Bloomberg, highest marginal tax rate of 40.8% = 37% federal plus 3.8% net investment income tax, as of 6/28/24

The current asset allocation includes an overweight position in international equities and emerging markets relative to common benchmarks for the global equity asset class. These markets are currently trading at one of the widest valuation discounts in multiple decades relative to U.S. stocks.[21]

Tactical Global Growth Strategy
Portfolio Design
June 30, 2024

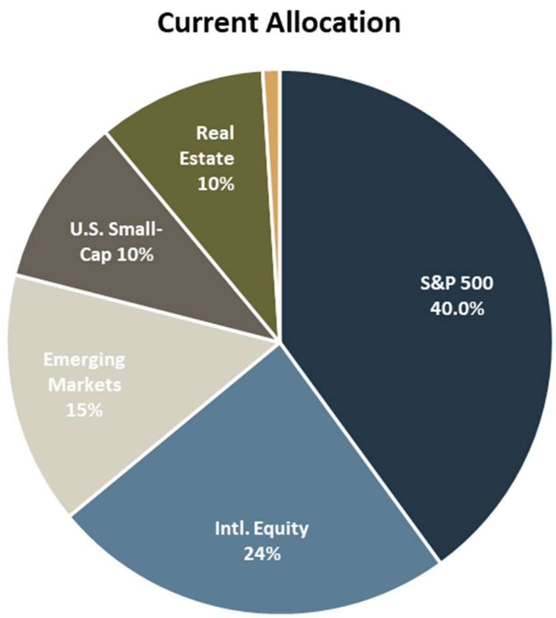


We believe there are structural reasons for U.S. stocks to trade at a premium compared to international equities, but the magnitude of the current discount is at an extreme within the historical range, allowing ample opportunity for reversion to the mean in favor of international markets, in our opinion. On this point, it is not necessary for the valuation gap between international and U.S. stocks to close completely. Even a modest narrowing should support the relative performance of international markets if/when it occurs.

Dynamic Allocation Strategy

This strategy held at least 85% of its allocation in risk market sectors throughout the first half of the year, allowing healthy participation in the strong performance of global equities during the period. As of quarter-end the portfolio was invested in all five of its risk market sectors as follows:

[21] Source: Bloomberg; MSCI



As referenced above, the *Dynamic Allocation* strategy can play a helpful role in the risk management discipline of a balanced portfolio. Each of the five equity market index funds (ETFs) within the strategy has an automatic sell discipline tied to its moving average trend line. In English, this means each sector will be sold when its trend line turns downward. Consequently, money allocated to this strategy can be expected to shift out of risk markets and into short-term U.S. Treasuries whenever downside volatility in these markets perks up.

International Focus Strategy

International equities advanced nicely in the first half of the year to enable a solid return for this strategy at the midway point. Of all the major risk markets globally, we believe emerging markets might have the greatest potential for positive mean reversion following several years of relative under-performance versus developed market equities, particularly in the U.S. It seems noteworthy that emerging markets have weathered the massive tightening of U.S. monetary policy over the past two years without a crisis of some kind. This is almost unheard of historically and it suggests a material improvement in the fiscal resilience of many less developed economies, in our view.

Looking forward, we believe international equities are set up nicely for the year ahead with a likely reversal of U.S. monetary policy, and a possible tailwind from a weaker U.S. dollar exchange rate. Among non-U.S. markets, we would expect emerging markets to benefit most from this combination of variables, if they happen.

DISCLOSURES

This presentation is not an offer or a solicitation to buy or sell securities. The information contained in this presentation has been compiled from third party sources and is believed to be reliable; however, its accuracy is not guaranteed and should not be relied upon in any way, whatsoever. This presentation should not be construed as investment advice and does not give investment recommendations. Any opinion included in this report constitutes the judgment of Capital Advisors, Inc. as of the date of this report, and are subject to change without notice.

This commentary does not purport to be a statement of all material facts relating to the securities mentioned. The information contained herein, while not guaranteed as to accuracy or completeness, has been obtained from sources believed to be reliable. Opinions expressed herein are subject to change without notice.

The investment return and principal value of an investment will fluctuate so that an investor's portfolio may be worth more or less than its original cost at any given time. Due to differences in portfolio timing and position weightings, the returns for any individual portfolio managed by Capital Advisors may be lower or higher than any performance quoted.

The **S&P 500 Index** is a stock market index based on the market capitalizations of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor's. The index is calculated on a total return basis with dividends reinvested and is not assessed a management fee.

The **Russell 1000 Growth Index** seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities that exhibit growth characteristics.

The **Russell 1000 Value Index** seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities that exhibit value characteristics.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI EAFE Small-Cap Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of small- and mid-cap stocks in the developed markets, excluding the U.S.

Vanguard High Dividend Yield ETF is an exchange-traded fund that seeks to track the performance of the FTSE High Dividend Yield Index, which consists of common stocks of companies that pay dividends that generally are higher than average.

Morningstar Dividend Yield Focus aims to track high-yielding, qualified dividend-paying, U.S. based securities screened for companies with financial health. The Index is calculated on a total return basis with dividends reinvested and is not assessed a management fee. It is not possible to invest directly in an index.

Bloomberg Aggregate Bond Index is an unmanaged index made up of U.S. Government, corporate, mortgage-backed and asset-backed securities rated investment grade or higher. The index is designed to measure the performance of the domestic investment-grade bond market.

Estimated portfolio yield represents the 12-month run-rate of interest and/or dividend payments in a strategy divided by the market value of the securities and cash reserves invested in the strategy. Estimated interest/dividend payments and market values are calculated by a portfolio accounting system from *Orion* using a single client portfolio that Capital Advisors believes to be representative of clients' portfolios invested in the same strategy. The actual portfolio yield for any single client portfolio may be lower or higher than the yield quoted. The underlying holdings of any presented portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution.

Security Recommendations: The investments presented are examples of the securities held, bought and/or sold in the Capital Advisors strategies during the last 12 months. These investments may not be representative of the current or future investments of those strategies. You should not assume that investments in the securities identified in this presentation were or will be profitable. We will furnish, upon your request, a list of all securities purchased, sold, or held in the strategies during the 12 months preceding the date of this presentation. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities identified in this presentation. Capital Advisors, Inc., or one or more of its officers or employees, may have a position in the securities presented, and may purchase or sell such securities from time to time.

Items of Note Regarding Exchange Traded Funds: An Exchange Traded Fund (ETF) is an investment company that typically has an investment objective of striving to achieve a similar return as a particular market index. The ETF will invest in either all, or a representative sample of the securities included in the index it is seeking to imitate. Like closed-end funds, ETFs can be traded on a secondary market and thus have a market price that may be higher or lower that its net asset value (NAV). If these shares trade at a price above their NAV they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

The information provided is supplemental to a fully compliant GIPS Report. A complete list of Capital Advisor's portfolio models and compliant presentations are available by contacting Capital Advisors at the number listed below. The actual return and value of an account fluctuate, and at any time the account may be worth more or less than the amount invested.

Additional information, including management fees and expenses, is provided on Capital Advisors' Form ADV Part 2, available upon request or at the SEC's Investment Adviser Public Disclosure site, https://adviserinfo.sec.gov/firm/summary/104643

As with any investment strategy, there is potential for profit as well as the possibility of loss. Capital does not guarantee any minimum level of investment performance or the success of any portfolio or investment strategy. All investments involve risk (the amount of which may vary significantly) and investment recommendations will not always be profitable. The investment return and principal value of an investment will fluctuate so that an investor's portfolio may be worth more or less than its original cost at any given time. ***Past performance is not a guarantee of future results.*** Capital Advisors, Inc. does not provide tax or legal advice and recommends you consult with your tax and/or legal adviser for such guidance. Presentation is prepared by: **Capital Advisors, Inc.** Contact Capital Advisors for a list and description of all firm composites and/or copy of our most recent Form ADV Part 2: 1-866-230-5879 **www.capitaladv.com**