Overview

January 2025

CAPITAL ADVISORS

Key Points

- The framework for the Trump administration's economic policy seems clear – lighter regulation, low business taxes, and a protectionist trade agenda.
- Financial markets were quick to embrace the business-friendly implications of the first two pillars of this framework, while seeming to reserve judgement regarding the potential ramifications of an abrasive trade policy.
- We lean optimistic about Trump's economic agenda under the important caveat that each of its three pillars can *eventually* be executed within reasonable boundaries.
- We say "eventually" in reference to the very real possibility that financial markets might need to impose a course-correction on the Trump agenda at some point.
- Given the embarrassing status of our nation's budget deficit and debt, we believe financial markets will be quick to respond harshly to any policy initiatives that threaten further deterioration.
- This is a mixed blessing for investors because a riot point in the financial markets is obviously nothing to hope for, but if it serves to keep Trump's economic agenda in the fairway, it could be productive for the longer-term investment outlook.
- To be clear, we consider a riot point to be just one possibility within a wider range of potential outcomes; it is not a call for drastic action, and it may be helpful if it prevents our elected officials (and non-elected ones) from doing something stupid.
- We suspect this friction may be tested early in the new year given all indications that Trump's first 100 days in office could be a whirlwind.
- For those feeling less hopeful, either due to political leanings or other risk factors, there is good news – you don't have to take a lot of risk to earn a reasonable investment return in today's interest rate environment.
- For example, investment-grade bonds in the one-to-five-year maturity range offer yields in the 4.5% - 5.0% range.[1]
- This rate of return won't make you rich in a hurry, but it is comfortably above recent inflation, and it can be achieved in an asset class that should be resilient to the worst branches on the probability tree of future outcomes.
- Perhaps the most logical advice for the new year is to expect volatility.
- For those inclined toward caution, there are opportunities to dampen volatility risk – without going into a bunker – please reach out to your Wealth Advisor if this mindset describes you.
- For those willing to accept some uncertainty in the short-term, we suspect the longer-term outlook may be worth the wait if the Trump administration can execute on its business-friendly tendencies without going off the rails in other areas.

[1] Source: Bloomberg

The Case for Optimism

We are framing our relatively hopeful longer-term investment outlook around our belief that there is a lot to like about the core framework of Trump's economic agenda. Lighter regulation and low corporate taxes are unequivocally helpful for the domestic business climate. Even tariffs can be useful if applied in moderation (a big if, perhaps). With appropriate boundaries in terms of magnitude and pace, either imposed by Congress, or the financial markets, we suspect Trump 2.0 can support a productive investment climate on balance, even if it requires periodic bouts of chaos and frustration along the way.

In support of this perspective, we note the narrow margin of the Republican majority in the House and Senate, competing priorities within the Republican party itself, and the likelihood that at least a few Republicans and 100% of Democrats in Congress despise Trump. For these reasons, we do not expect the Trump administration to get everything it wants from Congress, despite its same-team composition for at least the first two years.

Moreover, if Congress fails to prevent a potentially destructive policy idea from moving forward, we believe the financial markets can serve as a secondary backstop. For investors, it is obviously not ideal to imagine a riot in the financial markets sufficient to force a course-correction in Washington. However, we are not overly alarmed about this possibility if it prevents Trump from going too far with unfunded tax cuts or trade restrictions that do more harm than good.

But Should You Disagree…

We recognize there is wide scope for disagreement about the outlook for the next few years. Even setting aside one's feelings about Donald Trump, a case for caution can be supported by any number of visible risk factors, including the U.S.-China power struggle, ongoing kinetic conflicts on multiple continents, and our nation's unsustainable fiscal position.

For those inclined to err on the side of caution, there is good news in the form of a productive interest rate environment. High quality bonds are available with yields in the 4.5%-5.0% range, and it is not necessary to extend too far out on the maturity range to lock in these kinds of interest rates. For taxable investors in the highest brackets, municipal bonds offer even higher yields on a tax-adjusted basis.

A mid-single digit return will not make anyone wealthy in a hurry, but it is sufficient to accomplish many real-world investment objectives like retirement spending, or the typical spending policy of a foundation or endowment. Moreover, current bond yields are comfortably above recent inflation, which has been running in the mid-2% range of late.

To be clear, we do not believe an asset allocation shift is necessary or appropriate for all investors. Even among those inclined to act, we encourage an incremental shift in the direction of more fixed income, as opposed to a major portfolio overhaul, particularly if the adjustment creates a capital gains tax liability. Please reach out to your Wealth Advisor if you are interested in exploring your options in this area. We can help you design a sensible adjustment to a more conservative asset allocation as tax efficiently as possible, for those where taxes apply.

Current Design of Our Investment Strategies[2]

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.

[2] 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.

Managed Equity Strategies

<u>Performance concentration is a 2024 standout</u>

It was a year of extremes, and the market typically swings between extremes, albeit with highly unspecific timing. The *S&P 500 Index* (size-weighted) outperformed the equal-weighted version by 14%, the most significant divergence since 1998 during the run-up to the Tech Bubble.[3] Over the long-term, company size has not mattered historically, with both index versions having logged the same average annual performance as of the end of 2022.

The so called "Mag-7" group of seven mega-cap stocks accounted for most of the 2024 gain for the *S&P 500 Index*.[4] **NVIDIA** had the most significant impact, followed by **Tesla** and **Meta.** These three stocks more than doubled the effect of the other four members of the "Mag-7." Outside this group, **Broadcom** also made an outsized contribution. By investment style, "Value" underperformed "Growth" by over 20%.

<u>Three-and-a-Half Equity Market Keys</u>

Among the myriad factors that will impact equity markets this year, we will focus on three fundamental ones: profit margins, systemic liquidity, and enabling innovations. We will conspicuously leave out valuation because these three factors explain much of the equity valuation level. Trends in these three factors may determine the equity market's direction over the coming years.

Despite the widespread public discussion about equity valuations (which are indeed high), only about one-third of *S&P 500* stocks are trading at a higher P/E ratio than the average for the Index.[5] However, the Index is right in the middle of its historic range if we measure valuation based on expected sales rather than earnings. Again, this relationship speaks to the Index's market-cap weighting structure and the great success U.S. corporations have had in achieving high profit margins.

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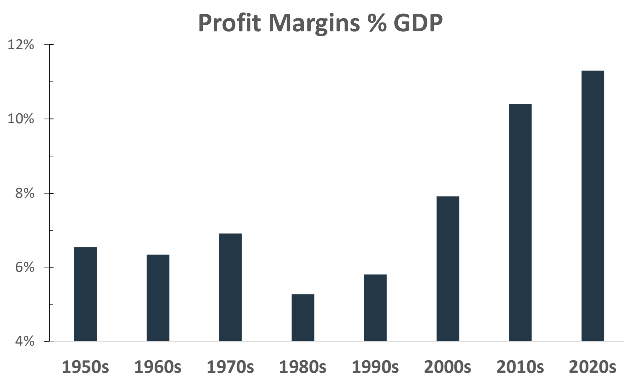
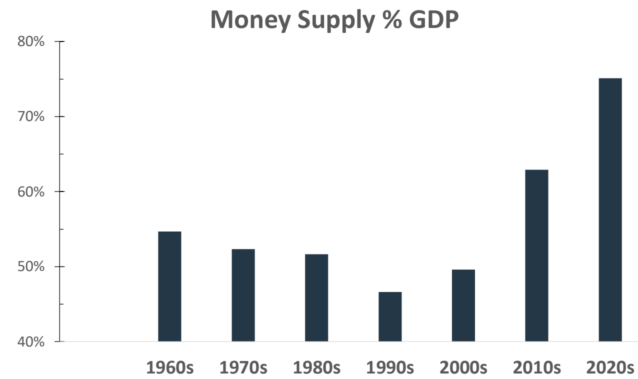
[3] Source: The source for all data in this paragraph is Bloomberg; The equal-weighted S&P 500 Index began in 1989; From 1989 through December 31, 2022, the S&P 500 Index and Equal Weighted S&P 500 Index were up 10% annually.
[4] Source: The source for all data in this paragraph is Bloomberg and CNBC; The Mag-7 includes Alphabet, Apple, Amazon, Meta, Microsoft, NVIDIA, and Tesla
[5] Source: The source for all index data in this paragraph is Bloomberg

We would highlight three factors that support corporate America's high profitability: 1) enabling innovations such as the internet, 2) the global supply chain, which keeps costs down, and 3) pricing power supported by high systemic liquidity and digital marketing capabilities.





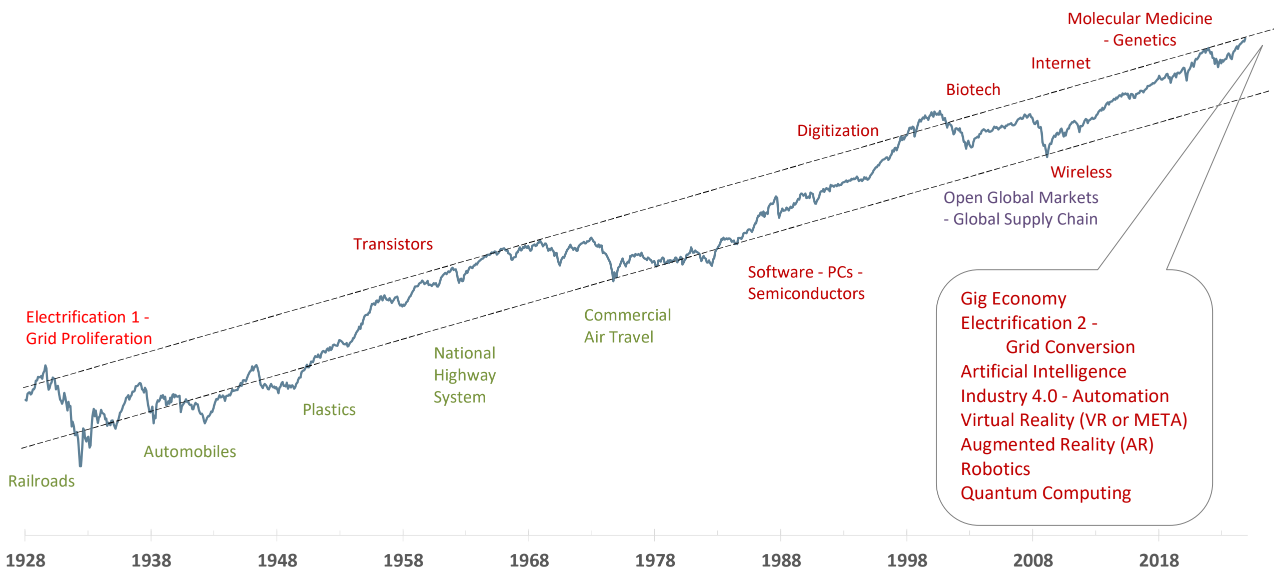
Source: Bloomberg

Systemic liquidity is like the water level in a pool: the higher the level, the higher the asset price levels that can float on top. Although the financial system remains bulging with liquidity, the Federal Reserve and Treasury are coordinating to bring the level down to a sustainably high place. It is like being well into the initial ski run, starting at a very high mountain peak; the big risk is not towards the bottom but as you approach the middle. Equity markets routinely correct 10% or more as value-creating innovations grind value levels higher over the long term.

The argument that "cheaper-PE" stocks should catch up with the more expensive ones primarily works only if systemic liquidity remains very high or increases. Even then, it can be a sign of market overexuberance. Just because another stock is expensive is not a sustainable reason for any stock to value higher.

The third key factor to equity market performance is value-creating, enabling innovation. The chart below shows how such innovations have supported value creation over the past century. With admitted potential for recency bias, note how the innovations have clustered in recent decades. More than that, notice how several major innovations are either coming online now, or within a visible future window (these are in the callout bubble). These are the areas in which we need to own the right management teams overseeing the best business models, possessing the most capable assets, and with the ability to help shape the development of these economic value-creation trends.

Innovation is at the Heart of Value Creation
S&P 500 Index Real Returns (log scale)
Jan. 1 1927 to Aug. 31 2024



Source: Bloomberg

<u>The Current Outlook for Those Top Three Factors</u>

The picture for all three key factors – profit margins, liquidity, and enabling innovations - seems fine now but in reverse order. Enabling innovations are secular trends with relatively high likelihoods of happening but with uncertain timing and socio-economic impact. Global central banks and monetary authorities can control systemic liquidity levels, barring major financial events. Record-high global debt levels require high systemic liquidity to service. Profit margins appear defensible at current levels given advancing technological innovations (such as AI digitization and artificial intelligence) and companies' ability to maintain high prices (due to high systemic liquidity). Profitability, though, is highly sensitive to economic trends. Any sustainable consensus that the economy is slowing would likely retrench equity valuations for a time.

<u>Now for the …"and a Half"</u>

The discussion of fundamental factors likely to control equity markets in 2025 brings us to the non-fundamental uncertainty: "externalities" such as geopolitical conflicts, or even stressed Treasury auctions due to unsustainably high government debt. Using economic game theory, tariffs are a fluid game, meaning that each player gets to react to the other's moves. As long as the players remain rational, the game should not result in significant value destruction. Rational players make decisions that maximize their benefits while considering the potential reactions of others. There is always the risk that one or more players becomes irrational. Pandemics, cyberterrorism, and financial terrorism are among the systemic risks that are higher in 2025 than in decades past.

Our Equity Investment Strategy

We believe the opportunities for long-term value creation are unprecedented. Mining that value at the current valuation levels requires nimble, coordinated, risk-managed moves. We believe any significant future volatility should be viewed as a chance to strengthen exposure to those opportunities.

We plan to maintain a cash reserve in the *Growth Strategy*; we want to be the liquid banker that buys highly attractive assets at a discount when others are fearful. We also plan to maintain the Strategy's broad diversification, including true growth and certain more value-type holdings.

In the *Dividend Strategy*, we intend to maintain a cash yield at or above publicly traded peers while maintaining attractive cash flow growth over time. These attributes give investors valuable cash flows (that they can retain or reinvest) while maintaining some exposure to equity markets. As a reminder, we hold key enabling innovation leaders in the *Dividend Strategy* as well, like **Broadcom** and **Eaton**, which gives the Strategy some exposure to economic value creation while maintaining significant diversification and attractive cash flow generation.

Managed Equity Growth

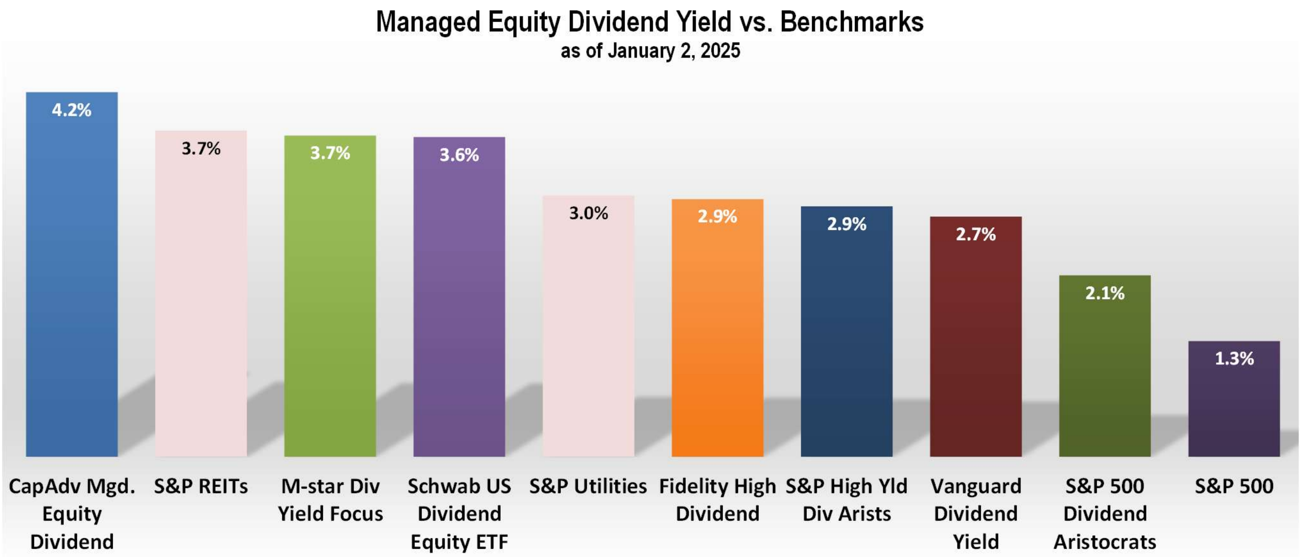
Through 2024, we kept the Strategy beta below 1.0 and retained ample "dry power" in cash reserves in case a significant correction happened.[6] We lightened the Strategy's semiconductor exposure by selling **NXP Semiconductors** (the stock declined over 20% over the balance of the year despite a significant broader market rally). We restructured the Strategy's energy sector exposure to better take advantage of how we saw the energy grid transition evolving. We added **GE Vernova** to strengthen exposure to natural gas, serving as a bridge energy source to nuclear as AI energy demands surge. We shifted from oil production towards natural gas by removing **Pioneer Natural Resources** and adding **EQT.** We diversified our growth investments by targeting major innovations outside the United States, adding **Sea Limited** and **Mercado Libre**. Unlike the rest of the Strategy's holdings, neither company has direct U.S. exposure. Later in the year, we began what we expect to become a multi-year strategy around quantum computing by adding a pure-play company in the space called **IonQ**.

In 2025, we plan to keep strengthening the Strategy's ownership of the enabling innovations that we believe can create long-term economic value. We expect to retain a "dry powder" cash reserve to establish key new positions upon market volatility opportunities. We also constantly search for mispriced or undervalued opportunities. We believe this approach enhances the Strategy's risk management profile while keeping attractive return potential in each holding.

[6] Source: Morningstar

Managed Equity Dividend

This Strategy's investment objective is to provide clients with steady, healthy cash flows, cash flow growth over time, and exposure to the equity market for longer-term capital appreciation. As the stocks in this Strategy have appreciated, we have maintained approximately a 4% yield. Given the current risk-adjusted opportunities, we plan to keep the yield in that area. The following chart shows the Strategy's current yield in relation to publicly traded peers.



Source: Bloomberg

Through 2024, we kept the yield above 4.0%, expanded the cash flow, and kept the Strategy beta well below 1.0.[7] We also retained the Strategy's exposure to enabling innovations. For instance, we maintained positions in **Broadcom** and **Eaton** due to their leadership of key trends in AI and the energy grid transition. The companies also have strong balance sheets and attractive dividend growth profiles. The "acquisition yield" for these two stocks is 8.4% and 4.8% respectively.[8] The acquisition yield is the amount of annual cash the stock currently pays in dividends, divided by the price at the time it was added to the Strategy. These two stocks were among the *S&P 500's* best performers in 2024. Other examples of strengthening the Strategy's innovation profile while maintaining an attractive yield structure include adding **Corning**, a leading global provider of fiber optic technologies needed to enable enhanced AI-related data movement across the internet. Yield diversity is one of the Strategy's key risk management tools.

[7] Source: Bloomberg; Orion
[8] Source: Bloomberg. AVGO was added to the Strategy on June 11, 2021, at $47.12/sh. Eaton was added on February 14, 2019, at $77.61/sh.

Fixed Income Strategies

The fourth quarter witnessed a rather sharp move higher in interest rates, reversing nearly all the decline in market yields from Q3. It now appears the market believes the Fed is closer to its longer run neutral rate than was originally thought as stronger than expected economic growth and concerns about a rebound inflation weigh on bond investors. Looking into 2025, it seems the market has coalesced to an expectation of just 0.25% to 0.50% more in rate cuts by year's-end.[9] 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.

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.[10] 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 outperformed Treasuries in the fourth quarter while our slightly defensive duration profile protected against larger price declines from rising rates. With interest rates much higher than just a few months ago, 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 between 4.5% and 5.0%, depending on one's yield curve positioning.[11]

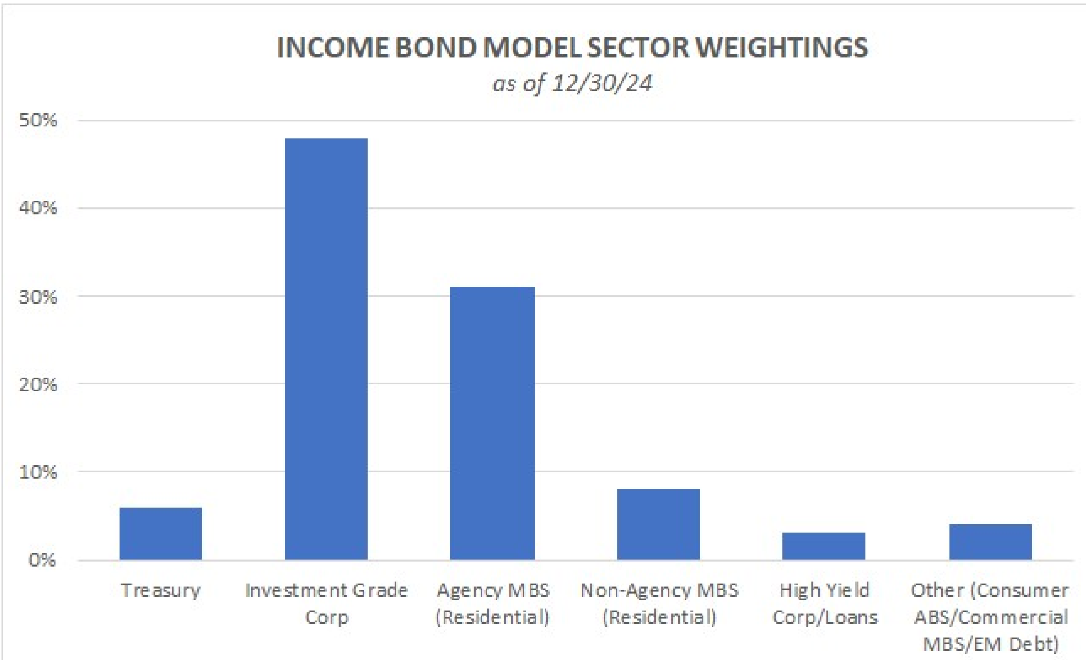
ETF Bond Models

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 Q4. Today, there is a relatively conservatively positioned laddered maturity structure of ETFs ranging between 2026-2030, and the model carries an average net acquisition yield of approximately 4.8%.[12]

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 Q4, the model's negative performance was somewhat mitigated by a slightly defensive interest rate posture relative to the index.

[9] Source: Bloomberg, World Interest Rate Probability as of 12/30/24
[10] Source: ORION
[11] Source: Bloomberg, ORION, as of 12/30/24
[12] Source: Bloomberg, iShares, State Street, as of 12/30/24

Looking forward, "AAA-rated" Agency Mortgage-Backed securities remain heavily weighted and arguably the most attractive investment grade asset class, as relative yields versus both corporates and Treasuries look solid on a both an absolute and historic basis.[13] 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 this year. Today, the strategy carries an average net acquisition yield of approximately 5.1%[14].



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

<u>Municipal Bonds</u>

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." High-quality municipal bonds may provide some stability going forward should risk markets experience bouts of volatility. However, the impending tax plan of the Trump administration could be a slight negative to municipal bond valuations should either personal or corporate rates incrementally decline from here *(the tax benefits would slightly decline for owning a municipal bond versus a taxable one).* However, we believe it is too early to know how problematic any perceived changes may be. Meanwhile, municipal bond portfolios are now yielding between 3.1% and 3.5% tax free *(between 5.2% and 6.0% at the highest marginal federal tax rate)*[15] depending on one's yield curve positioning.

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[13] Source: Bloomberg, as of 12/30/24

[14] Source: Bloomberg, iShares, State Street, as of 12/30/24

[15] Source: ORION, Bloomberg, highest marginal tax rate of 40.8% = 37% federal plus 3.8% net investment income tax, as of 12/30/24

Tactical Global Growth Strategy

Note: This commentary is re-printed from the January report for the Tactical Global Growth Strategy published today (no need to read it twice if you saw the first one)

The table below is derived from the 1-year "Capital Market Assumptions" of a half dozen large investment firms that have published their updated estimates within the past three months. Institutional investors frequently use long-term return forecasts like these as an input for designing investment portfolios or modeling future scenarios in a comprehensive financial plan. This table focuses on the four sub-sectors of the global equity market that comprise the investment universe for the *Tactical Global Growth Strategy*. We are sharing this data to illustrate an important element of the investment process for this strategy.

Capital Market Assumptions
10-Year Return Forecast
Estimates for the Period 2025 to 2034[16]

	Equity Market Sub-Sector			
Institution	**U.S. Large-Cap**	**U.S. Small-Cap**	**Developed Int'l.**	**Emerging Markets**
Blackrock	6.2%	5.4%	8.0%	8.2%
Callan	7.5	7.7	7.5	7.7
Invesco	4.7	7.7	5.9	8.5
J.P. Morgan	6.7	NA	7.1	7.2
Vanguard	3.5	5.2	8.3	6.2
Verus	5.3	6.3	6.7	7.0
Average	**5.7%**	**6.5%**	**7.3%**	**7.5%**

Past performance may not be indicative of future results

These forecasts vary because the future is unknowable, and there is not a single, universally accepted formula for estimating long-term returns in the equity market. However, all such forecasts draw upon some combination of the following inputs:

- Estimated rate of inflation
- The risk-free rate of interest
- Estimated risk premium
- Estimated Long-term growth rate for corporate earnings
- Estimated price-to-earnings multiple (P/E)
- Long-term historical average returns

What is notable about the current range of forecasts is their general agreement about the relative rankings of the four sub-sectors of the global equity market, with international and emerging markets generally estimated to outperform domestic markets, and small-caps generally expected to outperform large-caps *over a 10-year outlook*.

[16] Source: Blackrock, Callan, Invesco, J.P. Morgan, Vanguard, Verus; Estimates published between Sept. and Dec. 2024

Investing would be easy if asset markets could be quantified like the laws of physics. Unfortunately, they can't. For example, a multi-vendor survey of Capital Market Assumptions from 10 years ago looked like the table above, with emerging markets predicted to finish first and U.S. large cap expected to finish fourth. Fast forward 10 years and emerging markets finished last, while U.S. large caps performed the best by a wide margin.

With the benefit of hindsight, we know that forecasts from 10-years ago dramatically underestimated the magnitude of technological innovation that would occur and the geographic concentration of the companies that would lead it. A macro level analysis of the global equity markets from 10 years ago did not foresee the micro-level rise of seven "super-companies" in the United States, the so called "Mag 7" of **Alphabet, Amazon.com, Apple, Meta, Microsoft, Nvidia,** and **Tesla**, whose combined market value today exceeds the entire stock market capitalization of the Eurozone.[17]

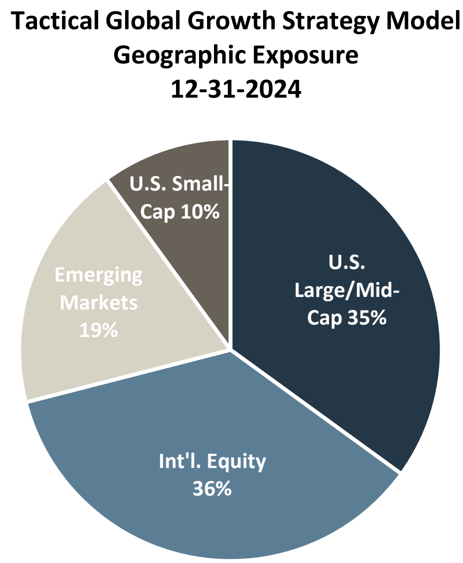
Despite evidence to the contrary exemplified by the rise of the Mag-7, Capital Market Assumptions have earned a place in professional asset management because they matter. In the words of Mark Twain, "History doesn't repeat itself, but it rhymes." There are fundamental relationships in the asset markets around which prices tend to mean-revert, eventually, even if extraordinary developments like the rise of the Mag-7 can change the rules from time to time.

All long-term return forecasts attempt to relate current prices to future prices with some degree of reversion to the mean embedded in the forecast. Whatever the assumptions may be for fundamental inputs like inflation, interest rates, and earnings growth, certain asset markets will look relatively cheaper, and others more expensive, in relation to the inputs that are chosen. It is an imperfect science at best, but carefully constructed Capital Market Assumptions can be useful for informing asset allocation decisions, and modeling future scenarios for a retirement plan or endowment spending policy.

We use Capital Market Assumptions in the *Tactical Global Growth* strategy to help inform its asset mix across the dimensions of domestic vs. international equities, large-cap vs. small-cap, and developed vs. emerging markets. The current asset allocation for the strategy includes an active tilt in the direction of international equities and emerging markets relative to common benchmarks for the global equity asset class. We have also included a meaningful position in small-cap stocks to participate in a potential narrowing of the valuation gap between small-cap and large-cap companies, which has become historically wide in recent years.

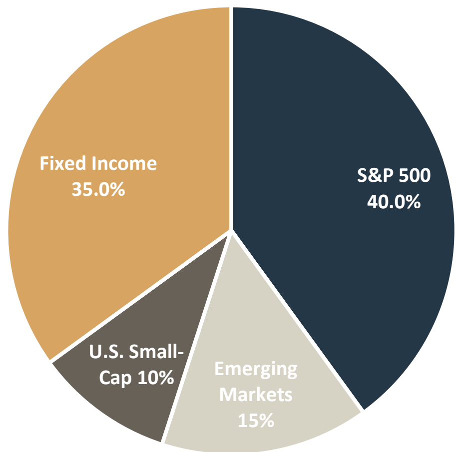
[17] Source: Bloomberg; STOXX; Mag-7 combined market value as of 12-27-24 was $17.1 trillion vs. $15.6 trillion for the STOXX Europe Total Market Index of 17 European countries

These diversifying positions are anchored by a core holding in U.S. large-cap equity, where the top-10 holdings include each of the Mag-7 titans that have been driving innovation for the global economy for the past dozen or so years. And the entire *Tactical Global Growth* strategy serves as a complement to Capital Advisors' *Managed Equity* strategies, where we actively pursue major structural changes that create economic value, wherever that might be.



Dynamic Allocation Strategy

This strategy held the majority of its allocation in risk market sectors throughout the year, allowing a healthy double-digit return for the strategy in 2024. A pickup in volatility toward the end of the year triggered a shift to a more conservative posture with the removal of the **International Equity** sector in early December, followed by the sale of **Real Estate** later in the month. As of quarter-end the portfolio was invested in three of its five risk market sectors representing approximately 65% of the asset mix:



We believe 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 the equity markets perks up.

Despite having the flexibility to shift almost entirely into short-term U.S. Treasuries during times of market stress, the strategy can capture a large portion of the upside whenever global equities experience a sustained advance, like recently.

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.

Morningstar Dividend Yield Focus Index: A selection of 75 US stocks with relatively strong dividend yields and financial quality.

FTSE US High Dividend Yield ETF: Represents the performance of stocks characterized by above-average dividend yields based on the FTSE US High Dividend Yield Index.

Vanguard High Dividend Yield ETF: A passively managed ETF that seeks to replicate the FTSE US High Dividend Yield Index.

S&P US REIT Index: Defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

S&P US Utilities Index: Defines and measures the investable universe of publicly traded utility companies domiciled in the United States.

S&P 500 Dividend Aristocrats Index: Designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years.

S&P High Dividend Yield Aristocrats Index: Measures the performance of the 50 highest yielding companies within the S&P Composite 1500 that have increased their dividends every year for at least 20 years.

Fidelity High Dividend Yield ETF: Tracks the performance of large- and mid-capitalization dividend-paying companies in the Fidelity High Dividend Yield Index that are expected to continue to pay and grow their dividends.

Schwab US Dividend Equity ETF: Tracks the Dow Jones US Dividend 100 Index with companies characterized by financial quality and high dividend yields.

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 Advisors' composites and performance results is available upon request. The actual return and value of an account will 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

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