

## Model Change

SEPTEMBER 17, 2020

### Current model

#### Effective September 17, 2020:

50% exposed (effectively) to the market:

- 40% SPY
- 10% XLY
- 47% SHY
- 3% cash

### Previous models

#### Effective September 14, 2020:

60% exposed (effectively) to the market:

- 40% SPY
- 10% QQQ
- 10% XLY
- 37% SHY
- 3% cash

#### Effective September 4, 2020:

40% exposed (effectively) to the market:

- 40% SPY
- 10% SDS (20% short S&P 500)
- 10% QQQ
- 10% XLY
- 27% SHY
- 3% cash

#### Effective August 31, 2020:

60% exposed (effectively) to the market:

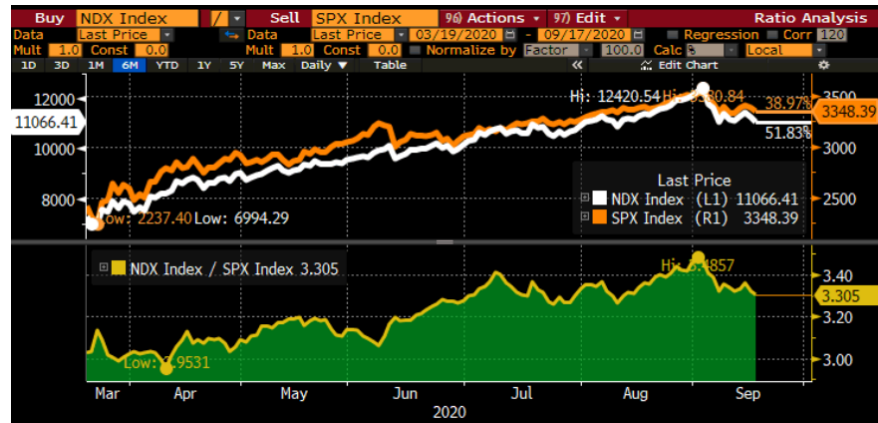
- 40% SPY
- 10% QQQ
- 10% XLY
- 37% SHY
- 3% cash

### Key

- SPY: SPDR S&P 500 ETF Trust
- SDS: ProShares UltraShort S&P 500
- IWM: iShares Russell 2000 Index
- DIA: SPDR Dow Jones Industrial Average ETF
- QQQ: NASDAQ-100 Index ETF
- GDX: VanEck Vectors Gold Miners ETF
- XLV: Health Care Select Sector SPDR ETF
- XLK: Technology Select Sector SPDR ETF
- SHY: iShares 1-3 Year Treasury Bond ETF
- XLY: Consumer Discretionary Select Sector SPDR
- IWN: iShares Russell 2000 Value ETF

The portfolio manager reduced exposure 10% by eliminating the 10% position in QQQ (NASDAQ-100 Index ETF) in response to deteriorating relative strength. The portfolio's model is currently effectively 50% exposed to the market; 40% SPY (SPDR S&P 500 ETF Trust), 10% XLY (Consumer Discretionary Select Sector SPDR), 47% SHY (iShares 1-3 Year Treasury Bond ETF) and 3% cash.

## Relative Strength



Source: Bloomberg, as of 09/17/20. For illustrative purposes only. Past performance is not indicative of how the index will perform in the future. The index reflects the reinvestment of dividends and income and does not reflect deductions for fees, expenses or taxes. The index is unmanaged and is not available for direct investment.

## Broadmark's Four Pillars

The portfolio management team takes a disciplined approach to their investment process that considers qualitative and quantitative factors but provides them discretion regarding how to position the strategy. There are four pillars of the investment process. The first three pillars—valuation, monetary policy and credit conditions, and investor sentiment—are qualitative in nature and indicate extreme market conditions while the final pillar—momentum—is a quantitative assessment of volume- and breadth-based momentum and confirms that a change in the market direction has taken place. The models utilized within these pillars provide key determinates in assessing optimal stock market exposure, including: entry points, the amount of exposure, the type of exposure and exit points.

### VALUATION

The team looks for extremes in valuations to signal when to be cautious and when to be more optimistic about future returns. Historically, at high points in the stock market cycle, valuation levels are elevated and at low points in the cycle, valuations are low. Equity valuations must be assessed within the prevailing economic and interest rate environment.

### MONETARY POLICY AND CREDIT CONDITIONS

Monetary policy and credit conditions are among the key factors in the determination of the long-term direction of the U.S. stock market. When the U.S. Federal Reserve (Fed) is easing monetary policy and credit conditions are accommodative, it provides a healthy environment for equities. A tightening of Fed policy and deteriorating credit conditions eventually create a poor environment for equities. Indicators of the actions of global central banks that could affect U.S. policy and the U.S. stock market are also important in this analysis.

### INVESTOR SENTIMENT

Investor sentiment is analyzed from a contrarian point of view. Most classes of investors are wrong at market extremes. Extreme investor sentiment levels are seen as signals that market reversals may occur. When investors are very optimistic, it is usually the time to be cautious; when investors are selling heavily, it is usually time to increase market exposure.

### MOMENTUM

Healthy markets are distinguished by a high percentage of stocks participating in the advance. During these times, measures of volume and market breadth confirm new highs in the major market indexes. As the stock market and economic cycle near a peak, there are usually decreasing levels of participation in terms of both breadth and volume, which creates negative divergences. The long-term momentum model is used to position the portfolio offensively, defensively or neutral to the market.

**Investing involves risk, including a possible loss of principal.** Past performance does not guarantee future results. No investment strategy can guarantee performance results. Portfolio holdings are subject to change at any time. Forward Management LLC is a registered investment advisor. Forward was acquired by Salient in June 2015. Salient is the trade name for Salient Partners, LP, which together with its subsidiaries provides asset management and advisory services. The views expressed contain certain forward-looking statements. Salient believes these forward-looking statements to be reasonable, although they are forecasts and actual results may be meaningfully different. This material represents an assessment of the market at a particular time and is not a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular security.

Leveraged and/or inverse ETF have certain risks, including but not limited to tracking error from the stated objective due to the use of derivatives and leverage, especially during periods of market volatility.

**Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange.

**NASDAQ-100 Index (QQQ)** is a modified capitalization-weighted index that includes the largest nonfinancial U.S. and non-U.S. companies listed on the NASDAQ stock market across a variety of industries, such as retail, healthcare, telecommunications, wholesale trade, biotechnology and technology.

**ProShares UltraShort S&P 500 (SDS)** seeks daily investment results, before fees and expenses, that correspond to two times the inverse (-2x) of the daily performance of the S&P 500®

**Russell 2000 Index (IWM)** measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

**S&P 500 Index (SPY)** is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

**Treasuries (or Treasury bonds)** are debt obligations issued and backed by the full faith and credit of the U.S. government that have various maturities and are issued at a discount to par.

**Vaneck Vectors Gold Miners ETF (GDX)** index is a modified market-capitalization weighted index primarily comprised of publicly traded companies involved in the mining for gold and silver.

**Health Care Select Sector SPDR ETF (XLV)** seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the Health Care Select Sector Index.

**Technology Select Sector SPDR ETF (XLK)** seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the Technology Select Sector Index.

**iShares 1-3 Year Treasury Bond ETF (SHY)** seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between one and three years.

**Consumer Discretionary Select Sector SPDR (XLY)** tracks a market-cap-weighted index of consumer-discretionary stocks drawn from the S&P 500.

**iShares Russell 2000 Value ETF (IWN)** seeks to track the investment results of an index composed of small-capitalization U.S. equities that exhibit value characteristics.