

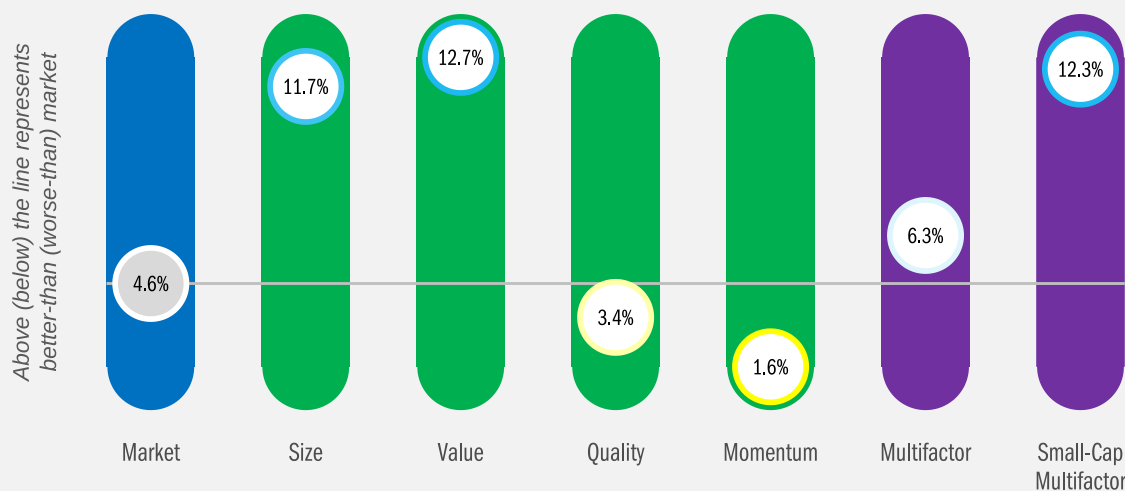
THINGS ARE LOOKING UP

Now that the presidential election has passed, seems investors have turned their collective gaze toward many stocks otherwise forgotten earlier this year. Smaller-capitalization and less-expensive stocks have strongly outperformed over the past few months. While we might not call it the start of a durable trend, we are pleased to see these two groups seemingly respond positively to potentially stronger energy in the global economy, even as any such momentum may be bounded by the still-rampant health crisis. The surge in our favored factors is a reminder, too, that patience tends to be rewarded when it is a part of a disciplined approach to investing that incorporates multiple factors in the methodology.

Turn of Tide?

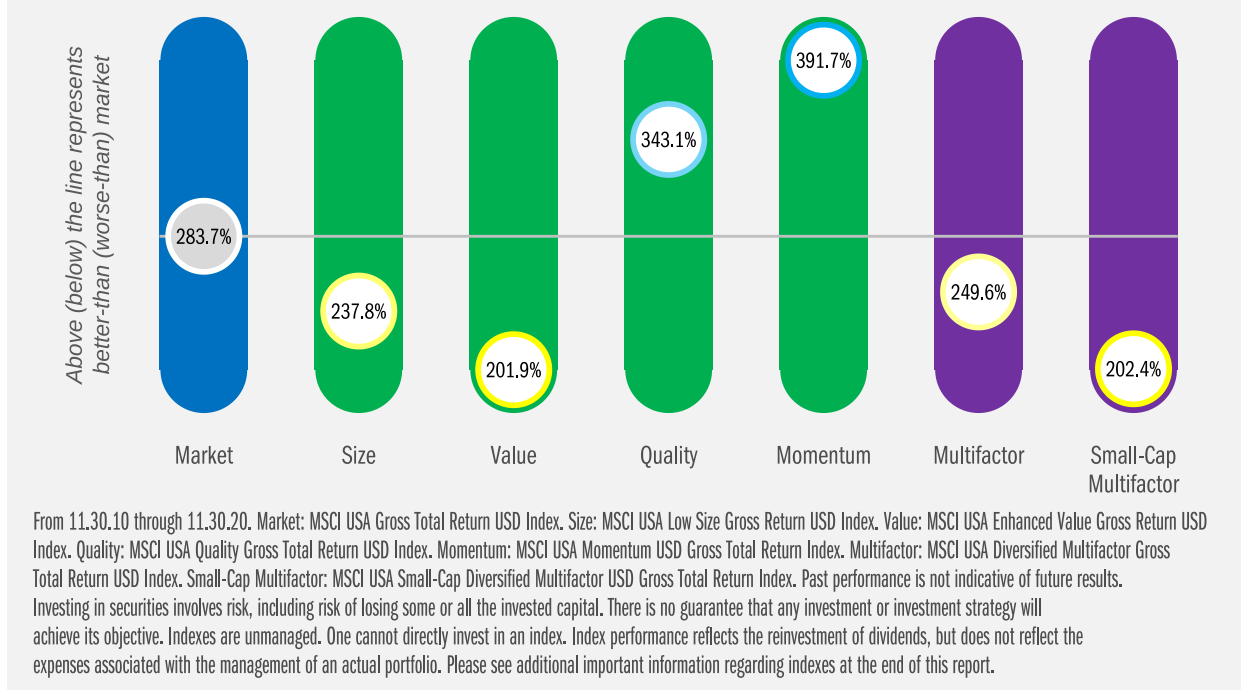
While we incorporate additional “factors” into our models, our emphases of smaller-capitalization and less-expensive stocks form the core of our “multifactor” approach, which seeks to benefit from the merits of each. Figure 1 details index-based individual factor and combined multifactor performance over the past three months. Fine thing to see that Small and Value have shown strong outperformance relative to the market. As we can see from Figure 2, however, there’s still a good bit of catching up to do. The shift in market tone remains a welcome one, though, just as is global continued progress against the pandemic and the range of macroeconomic pressures it has presented.

Figure 1: Market and Factor Performance (3 months ended 11.30.20)



From 08.31.20 through 11.30.20. Market: MSCI USA Gross Total Return USD Index. Size: MSCI USA Low Size Gross Return USD Index. Value: MSCI USA Enhanced Value Gross Return USD Index. Quality: MSCI USA Quality Gross Total Return USD Index. Momentum: MSCI USA Momentum USD Gross Total Return Index. Multifactor: MSCI USA Diversified Multifactor Gross Total Return USD Index. Small-Cap Multifactor: MSCI USA Small-Cap Diversified Multifactor USD Gross Total Return Index. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report.

Figure 2: Market and Factor Performance (120 months ended 11.30.20)



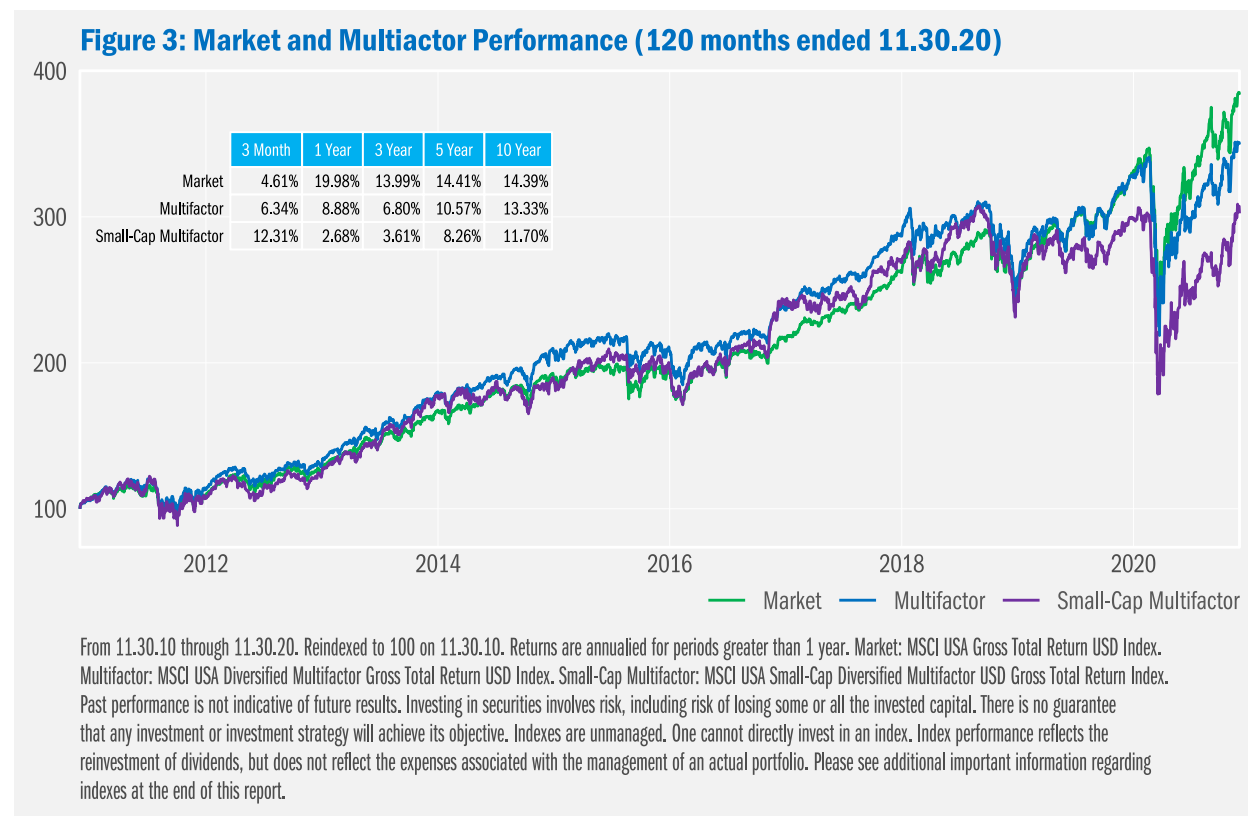
Blend Before Serving

Along with the Relative Size and Relative Price (Value) factors, which generally see stronger “tilts” in our models, we also incorporate emphases on higher-quality names, while also recognizing the power of trends within investing, as reflected by relative momentum in stock prices. While Quality can be measured in various ways, the focus is on sound financial fundamentals. The Momentum factor reflects the tendency for stocks that have seen relatively stronger performance to continue to see relatively more positive performance for a time. These “factors” round out our broadly algorithmic approach to investment. Though the movement of the wider market generally still defines much of the sway within each factor, each of the factors tends otherwise to march to the beat of its own drum. Rather than resulting in a cacophony, the ensuing diversification tends to smooth the ride, with a general propensity toward longer-term outperformance.

Importantly, the data shown in Figure 1 and Figure 2 are not the results of our models. Rather, we offer these data as a basis for understanding the multifactor investing approach and the implications of that approach in terms of potential differences in performance relative to passive benchmarks.

While we can see that outperformance expressed in much of the earlier bit of time shown in Figure 3, we also find that even the multifactor approach has seen weaker performance relative to the market over the past two years or so. As we’ve written in earlier commentaries, much of that relatively weak performance can be attributed to the far superior performance of a very narrow set of mega-cap stocks, with that performance gap having opened up much further this year. Again, we’ve found the emphasis on these select large-cap stocks perhaps short-sighted and in most cases hard to justify based on relative valuation.

Even more, perhaps, we find historical precedent as means for caution. One need only recall the many cycles over which Apple’s shares have been in and out of favor over the decades to substantiate the need for broader-based exposures to stocks in models. It would come as no surprise to us to see increased competition, shift in consumer preference, regulatory action or otherwise crimp the fortunes of 2020’s star stocks.



Patience Because

As the world emerges from the COVID-19 crisis, perhaps we may continue to see that diversification far more often has shown to be a friend to relative performance than it has been a conspirator against more positive outcomes. And, on top of a more broadly diversified portfolio, we further will continue to expect to be rewarded for our patient emphasis on stock characteristics that have been rewarded with better-than-market performance in the past.

Welcoming the New Year

After a year like few others, we figure many will be happy to swap out the calendar. After a year, though, that nonetheless still offered many reasons to be thankful, we want as much to thank you all for your continued trust in our work and your patience in our efforts to seek more positive outcomes in your investments.

Well wishes to all for a safe, healthy and festive end to 2020 and a grand launch into 2021.

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