DAY HAGAN
ASSET MANAGEMENT

NDR
NED DAVIS RESEARCH

Smart Sector® Strategy

OCTOBER 2021

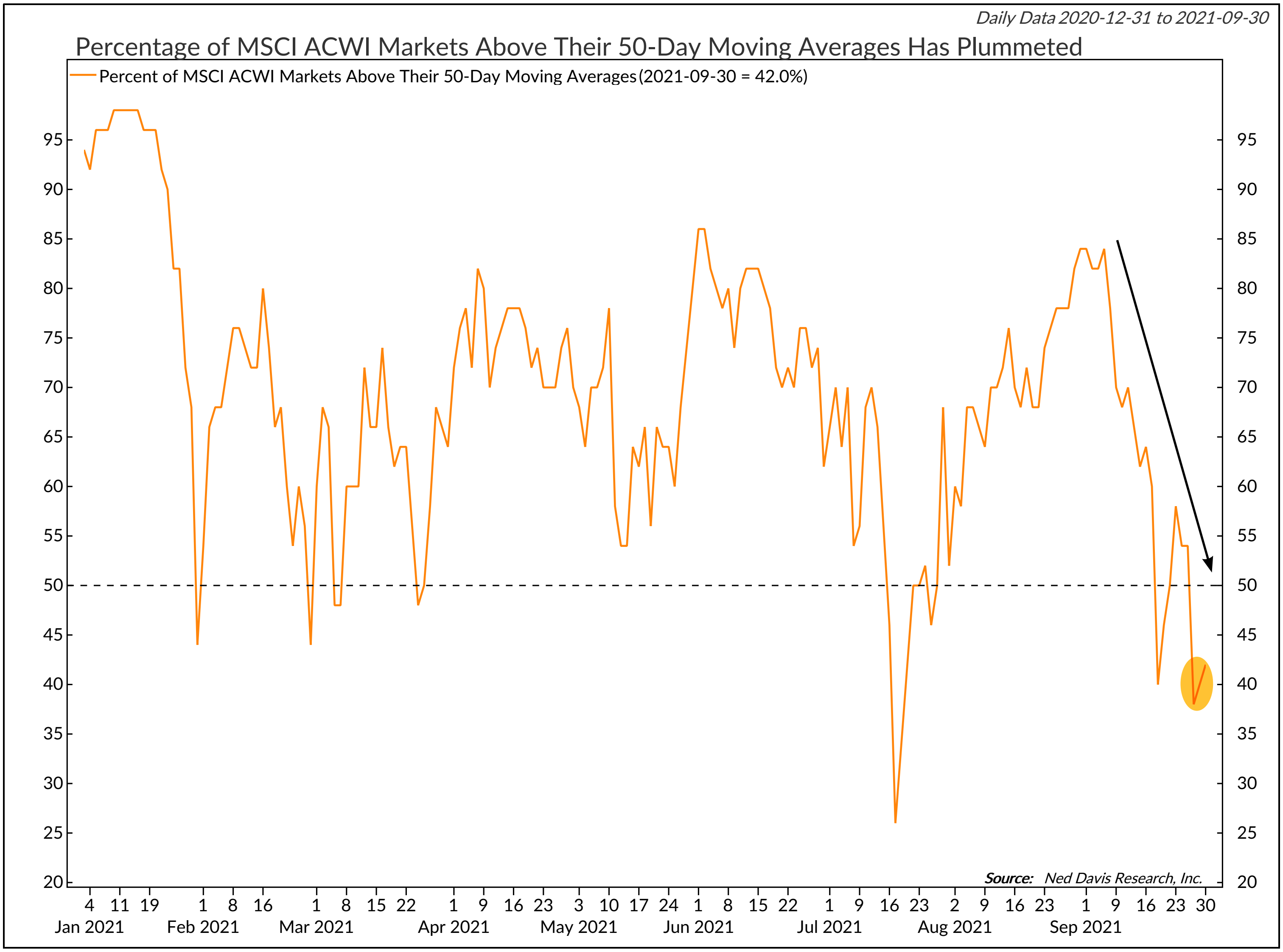
U.S. Market Update

The S&P 500 Total Return Index fell by over 450 basis points (bps) last month. It was the largest monthly decline since March 2020. However, the market has risen for 14 of the last 18 months.

At the start of the month, only one of the technical (internal) indicators was bearish. Global equity market breadth steadily deteriorated through September. By the end of the month, less than half of global markets were trading above their near-term trends (chart at bottom).

None of the external (macro, fundamental, and behavioral) indicators were bearish at the end of September. High yield option-adjusted spreads (OAS) started to widen in late August, indicating an elevated risk outlook. By the end of September, OAS narrowed and returned to a lower risk outlook.

For the Catastrophic Stop model to turn bearish requires further deterioration from both price-based and macro-fundamental indicators. For now, the weight of the evidence recommends that the Smart Sector® strategy maintains a 100% equity allocation.



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Sector Performance Update

Energy (XLE) was the only sector to rise during September, as it gained more than 800 basis points (bps). It broke a two-month losing streak for the sector. It was XLE's best monthly return since February.

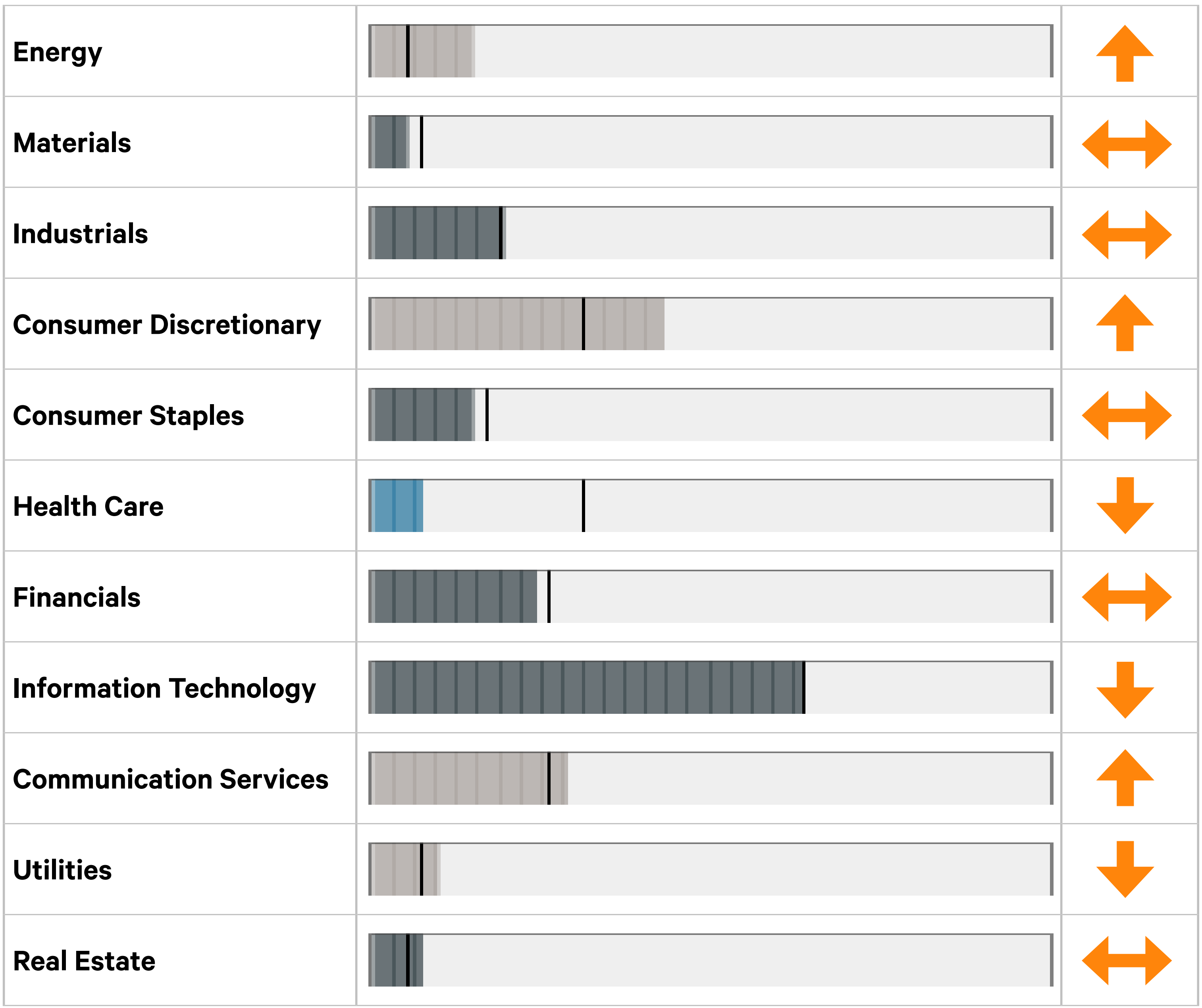
Financials (XLF) and Consumer Discretionary (XLY) each declined by less than 300 bps. XLY had risen for three straight months. XLF has dropped for three of the last four months.

Information Technology (XLK), Health Care (XLV), and Consumer Staples (XLP) all fell by less than 600 bps. It broke a six-month winning streak for XLV. XLK and XLV had their worst months in more than one year. It was XLP's largest monthly drop since January.

Industrials (XLI), Real Estate (XLRE), Communications Services (XLC), and Utilities (XLU) all declined by more than 600 bps. XLRE had risen for ten consecutive months, which was the longest winning streak in XLRE's history. XLC had its seven-month winning streak snapped. XLI suffered its worst month since March 2020. XLU has fallen for three of the last five months.

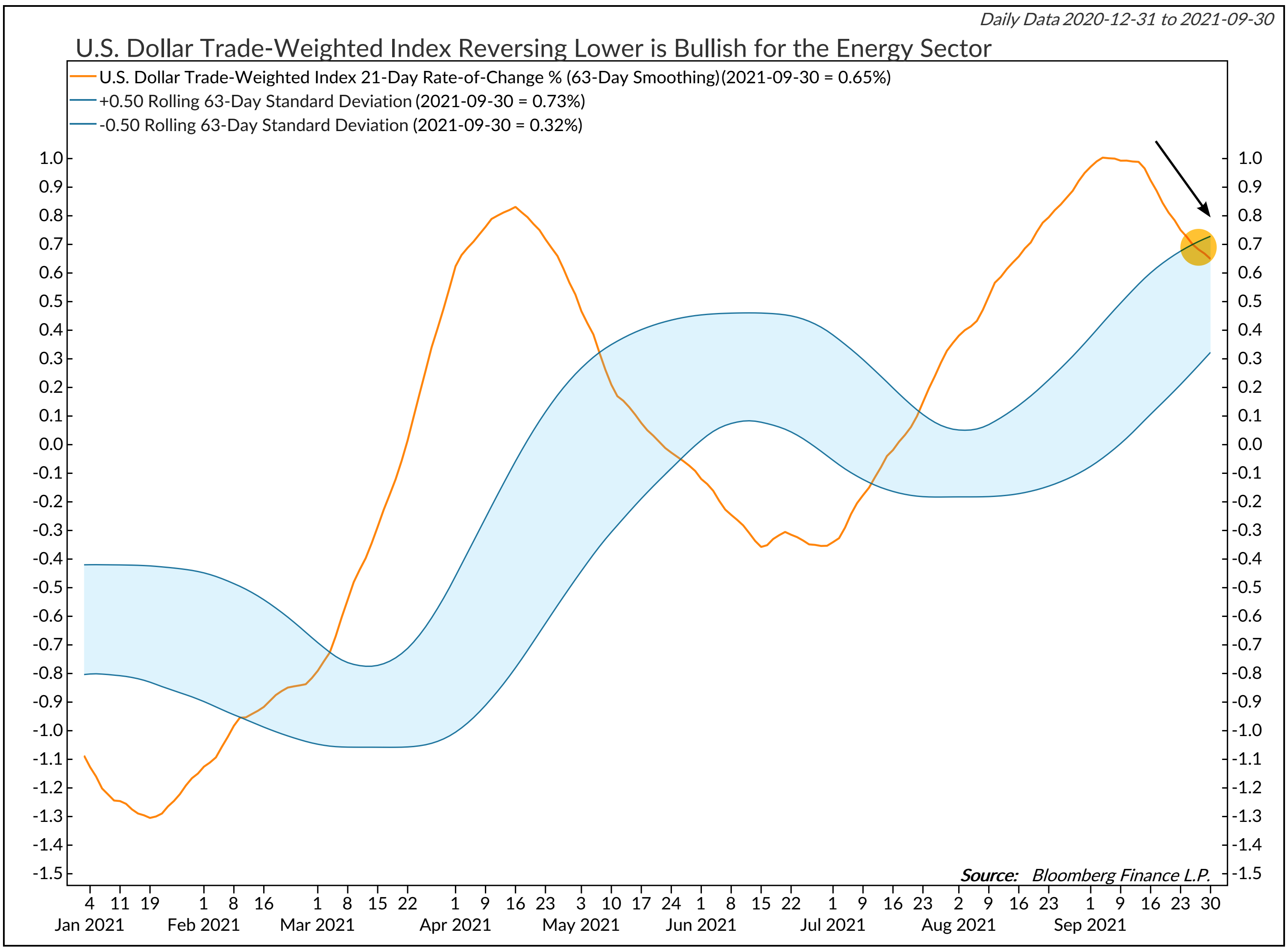
Materials (XLB) plummeted by over 700 bps. It was the sector's largest monthly decline since March 2020. XLB has risen for eight of the last eleven months.

Sector Allocation Summary



The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased, or remained approximately the same as the previous month.

- The Consumer Discretionary sector's allocation jumped to overweight status. The price-based (internals) indicators significantly improved for the sector. Short-term trend, deviation from trend, price momentum, and overbought/oversold indicators all turned bullish. Only an intermediate-term breadth indicator weakened, producing a bearish signal. Two-thirds of the internal and external (macro, fundamental, and behavioral) indicators are bullish.
- The Energy sector's allocation rose and remains overweight. The sector's volatility has declined, which is bullish. The USD index is reversing lower from an overbought condition (chart at bottom), while crude oil sentiment is reversing higher from a pessimistic condition. Those conditions are providing tailwinds for the sector. All the sector's internal and external indicators are bullish.
- The Utilities sector's weighting declined, but it remains overweight. Crude oil and capacity utilization indicators turned bullish on the sector. All the sector's external indicators are bullish. However, the technicals significantly deteriorated as trend, reversal, momentum, overbought/oversold, and breadth measures all flashed new bearish readings. Only one of the internal indicators is bullish.
- The Communication Services sector's allocation increased to modestly above the benchmark. Overbought/oversold, price momentum, and earnings revisions breadth indicators all switched from bearish to bullish. However, the sector's trend weakened to a bearish condition.
- The Information Technology sector's allocation fell to slightly above the benchmark. A near-term breadth indicator deteriorated, producing a bearish signal. Only one of the sector's internal measures is bullish, but only one of the external indicators is bearish.
- The Real Estate sector's weighting remains modestly above the benchmark. There were offsetting indicator changes. The sector is reversing lower from an overbought reading, but industrial production construction supplies are improving.



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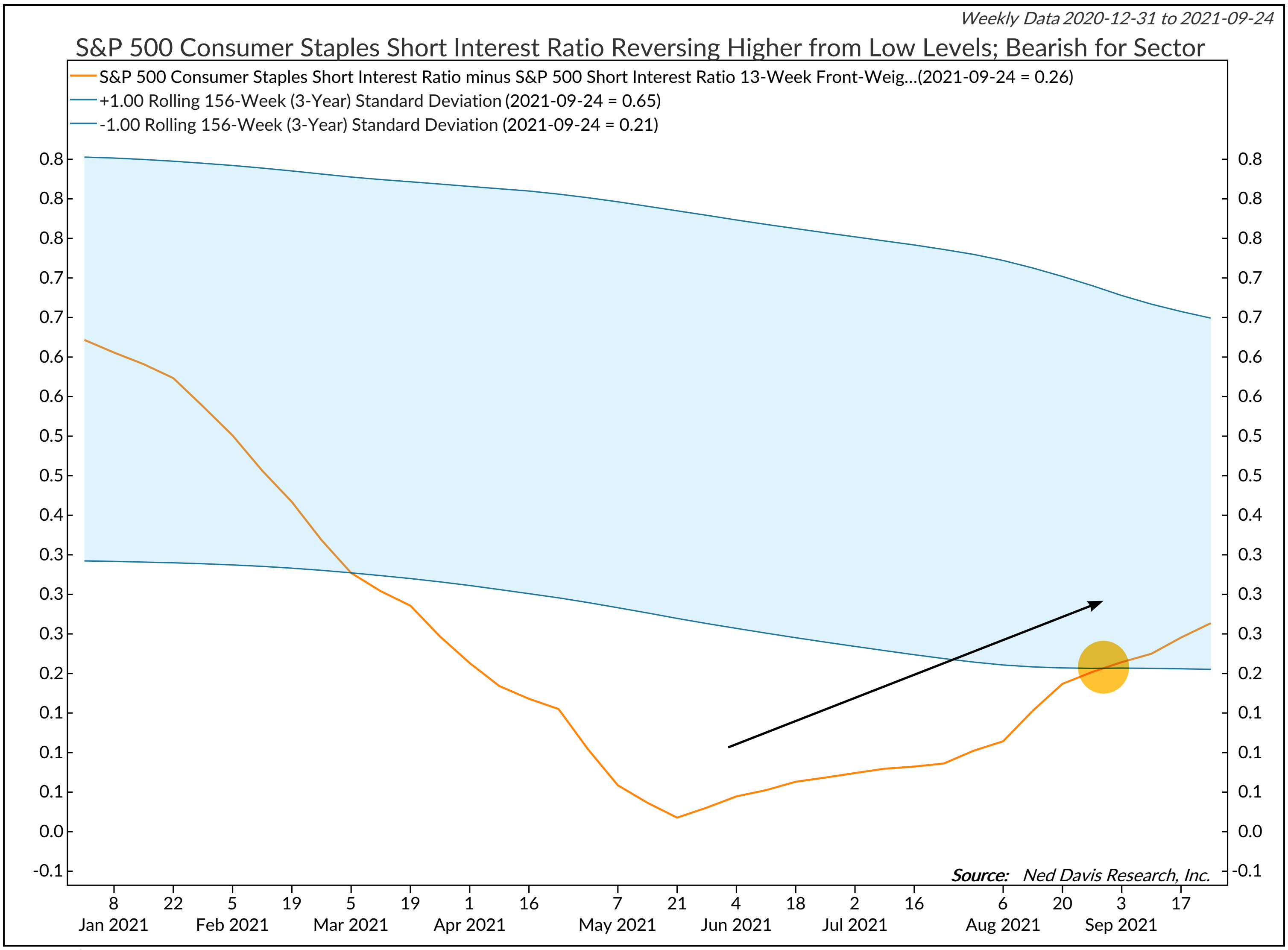
- Industrials' weighting continues to be in line with benchmark allocation. Volatility is receding from elevated levels, which is bullish for the sector. However, there is an elevated number of stocks in the sector making one-year new lows.
- The Consumer Staples sector's weighting is still less than benchmark weighting. Valuations have gotten more attractive and near-term breadth has improved. Those positive indicator changes were offset by weakening momentum, rising short interest from low levels (chart at bottom), and returning to oversold levels, which neutralized the sector's bullish mean reversion signal.
- The Financials sector's allocation remains below benchmark. There were offsetting internal indicator changes. Price momentum weakened, but volatility declined. No external indicators changed signals, as the majority are bearish.
- The Materials sector's allocation fell, so it continues to reside below the benchmark. The sector returned to oversold levels after reversing higher last month. Only one of the sector's internal indicators is bullish.
- The Health Care sector's allocation plummeted, as it continues to be underweight. Price momentum, intermediate-term breadth, trend, and health care new construction indicators all flashed new bearish readings. Valuation and earnings revision breadth measures neutralized their signals. No internal or external indicators are bullish on the sector.



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Smart Sector® Strategy

Strategy description

- The Smart Sector® with Catastrophic Stop strategy combines two Ned Davis Research quantitative investment strategies: The NDR Sector Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting the S&P 500 sectors based on Ned Davis Research's proprietary sector models.
- Each of the sector models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each sector's probability of outperforming the S&P 500.
- Sectors are weighted accordingly relative to benchmark weightings.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered, whereupon the equity-invested position is trimmed to 50%.
- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy immediately moves back to fully invested.

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