DAY HAGAN
ASSET MANAGEMENT

NDR
NED DAVIS RESEARCH

Smart Sector® Strategy

JULY 2021

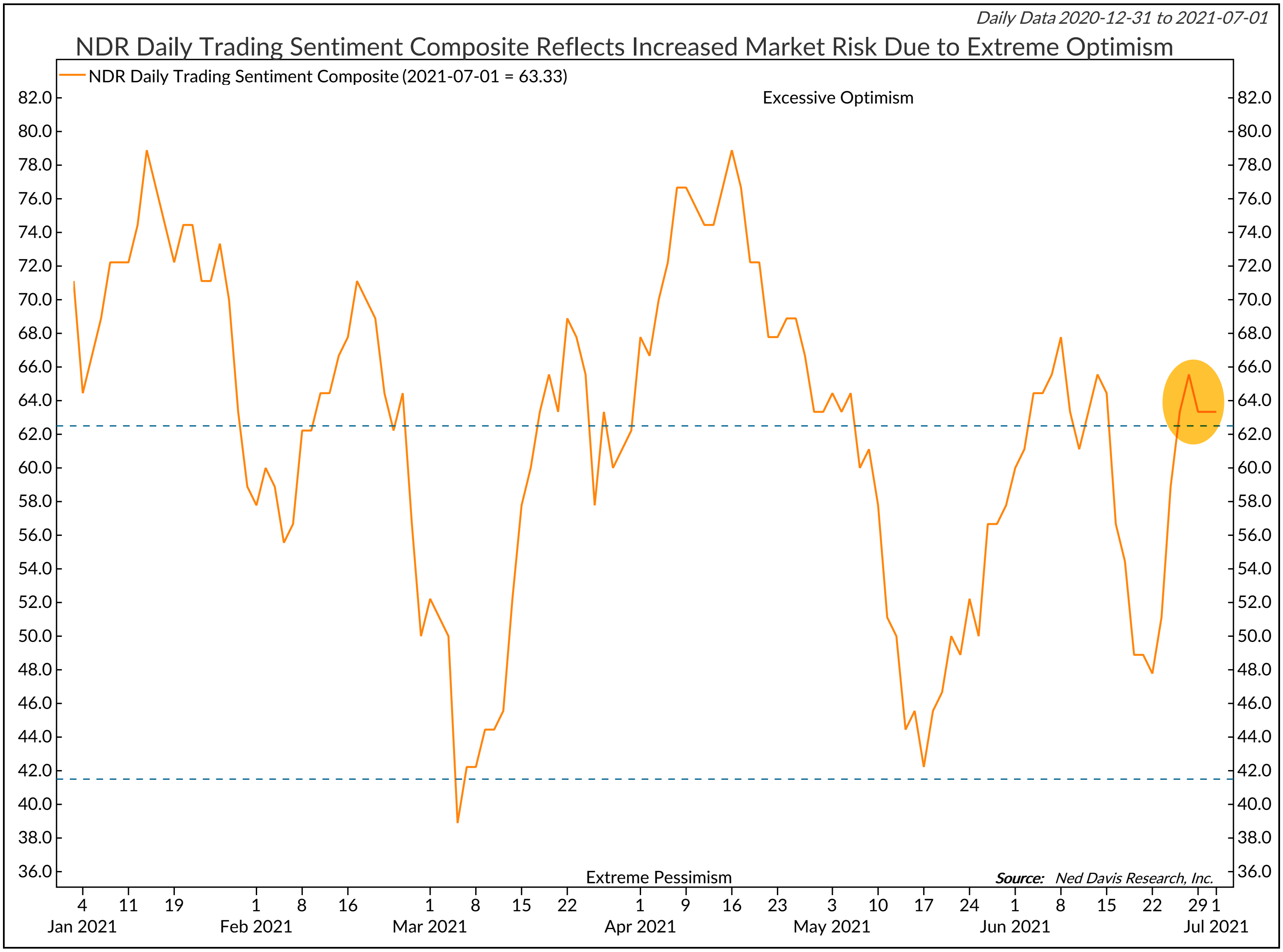
U.S. Market Update

The S&P 500 Total Return Index grew by over 230 basis points (bps) last month. The market has risen for 12 of the last 15 months.

At the start of the month, none of the technical (internal) indicators were bearish. Measures of global market breadth, stock/bond relative strength, trend, and volume demand relative to supply all reflect a favorable environment for stocks.

Two external (macro, fundamental, and behavioral) indicators were bearish at the end of June. The yield curve continues to suggest headwinds for the market. Also, equity market sentiment reflects an overly optimistic condition (chart, below), which typically is bearish.

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

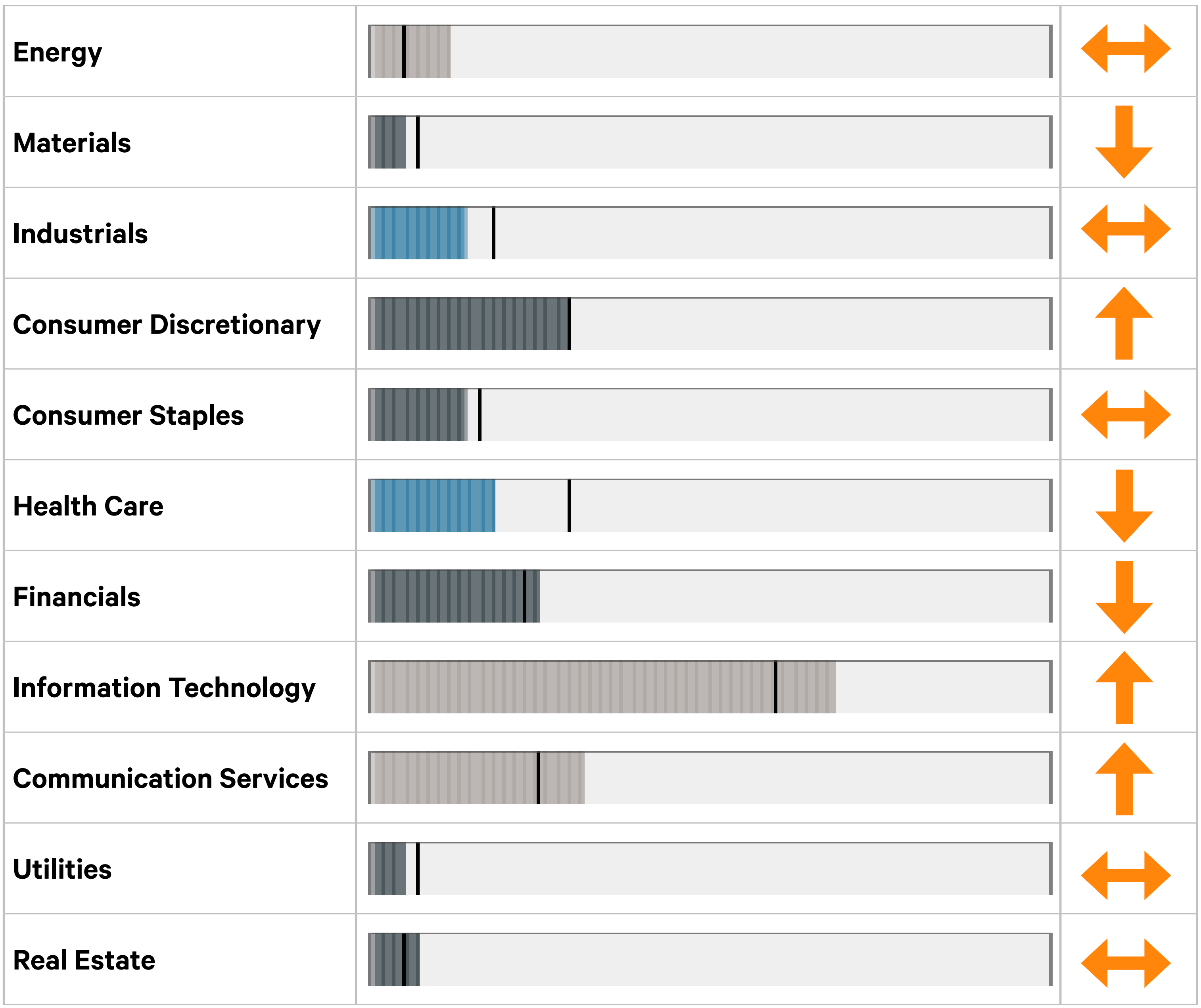
Energy (XLE) and Information Technology (XLK) both rose by more than 400 basis points (bps) during June. XLE has risen for eight straight months and has been one of the top-two performing sectors for four of the first six months in 2021. XLK had its best month since November.

Consumer Discretionary (XLY) and Real Estate (XLRE) increased over 300 bps. XLRE has risen for eight consecutive months. XLY has produced positive returns for three of the last four months.

Communications Services (XLC) and Health Care (XLV) both gained over 200 bps in June. XLC and XLV have increased for seven of the last eight months.

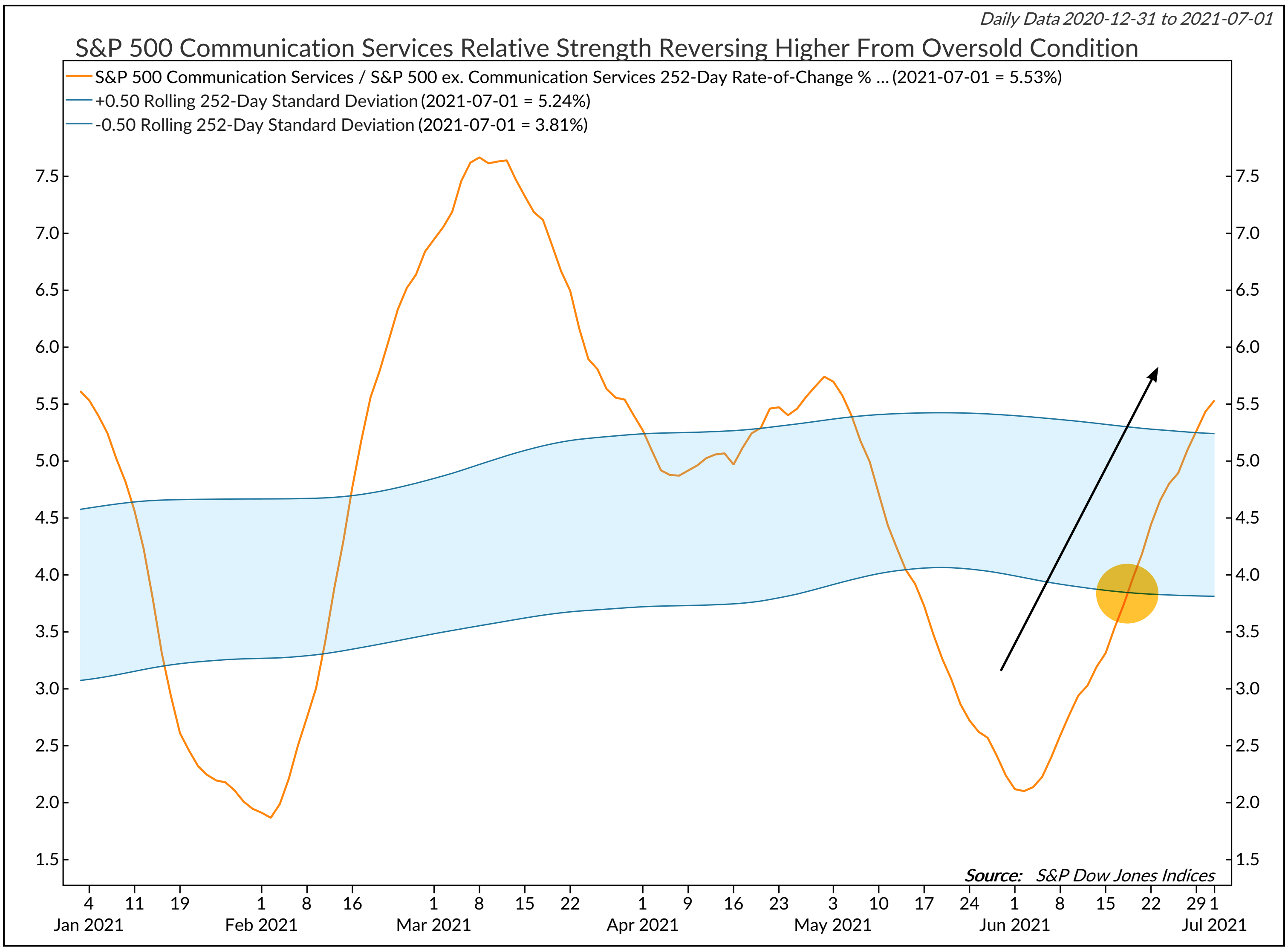
Industrials (XLI), Consumer Staples (XLP), Materials (XLB), Utilities (XLU), and Financials (XLF) all declined last month. The decline broke four-month winning streaks for XLI, XLB, and XLF. It was XLB's largest monthly decline since March 2020. XLU has fallen by 200 bps for the last two months.

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 Information Technology sector's allocation improved to overweight status. Although inflation expectations are not as strong as recent months and the sector has returned to overbought status near-term, intermediate-term overbought/oversold and breadth indicators exited their bearish signals. None of the sector's macro, fundamental, and sentiment (external) indicators are bearish, but only one of the price-based (internal) indicators is bullish.
- The Energy sector's allocation remains overweight. Crude oil sentiment has become overly optimistic, which is bearish for the sector. Only one of the external indicators is bearish. All but one of the sector's internal indicators are bullish.
- The Communication Services sector improved to above benchmark allocation. The sector is reversing from an oversold condition (chart, below) and price momentum has risen to bullish levels. Two-thirds of both the internal and external indicators are bullish.
- The Financials sector's allocation dropped, but it continues to be above benchmark. The externals have deteriorated as economic conditions have moderated, valuations have become more expensive, and the yield curve has recently flattened. All but one of the sector's internal indicators are bullish.
- The Real Estate sector's weighting slightly declined, but it is still higher than the benchmark. The trend in industrial production of building supplies has weakened, which reflects a headwind for the sector.



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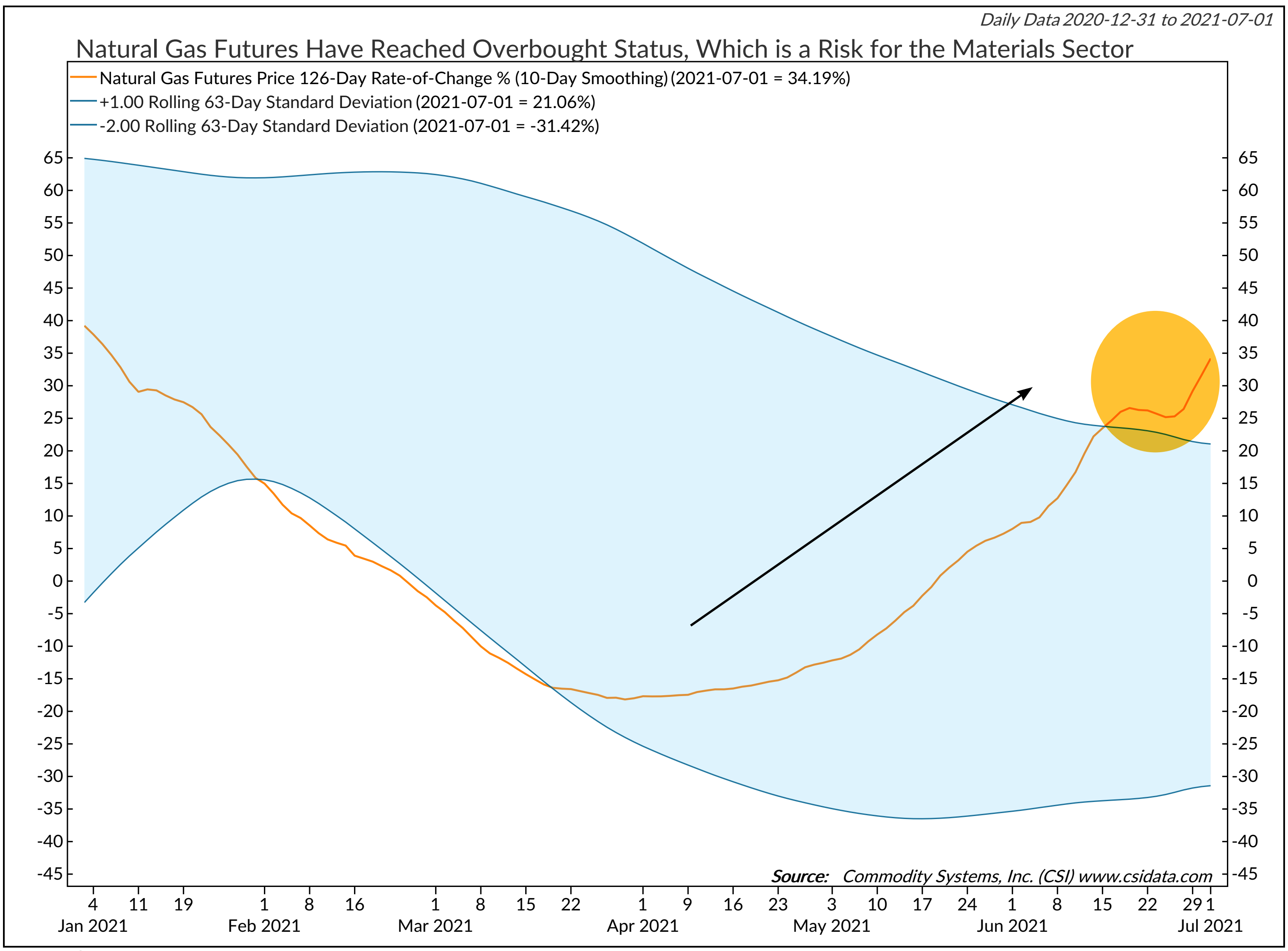
- The Consumer Discretionary sector's allocation improved, but it remains slightly below benchmark weighting. Relative price trends have improved, but earnings surprises are no longer a tailwind.
- The Utilities sector's weighting continues to be slightly below benchmark allocation. Price momentum has deteriorated. Only one of the sector's internal indicators is bullish.
- The Materials sector's allocation dropped from overweight to underweight status. Natural gas has reached an overbought condition (chart, below), which is a headwind for the sector. The internals confirm the weaker externals as price momentum, trend, and overbought/oversold indicators flipped from bullish to bearish.
- The Consumer Staples sector's weighting slightly improved, but it remains below benchmark weighting. Breadth has deteriorated and the sector is no longer reversing from an oversold condition.
- Industrials' weighting is still significantly below benchmark allocation. Consumer confidence has been trending higher over the last year, but the internals are weakening as price momentum has fallen to bearish levels.
- The Health Care sector's allocation plummeted to underweight status. Health care expenditures are no longer a tailwind. None of the external indicators are bullish. The internals have confirmed the worsening externals as price momentum, trend, and relative risk measures turned bearish.



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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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