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PORTFOLIO UPDATE – SEPTEMBER 9, 2020

In the latter part of July, WCM increased its conviction in risk assets across our asset allocation portfolios in recognition of the confluence of the early stages of economic recovery, the effects of massive amounts of fiscal and monetary stimulus, and the disruptive changes rippling through society as a byproduct of the coronavirus pandemic which we believe are unlocking a new wave of innovation and growth in how and where we live, work, eat, learn and recreate. From a portfolio manager's perspective, it is always good to be right, but as in all other things it is possible to have too much of a good thing. The second half of the Summer saw a blistering rally in stocks, particularly technology and new-economy stocks, that picked up as though the market had not broken in February and March. And now, in early September, with a strong rally particularly in technology-oriented stocks in our pocket, we have made the decision to establish a modest underweight to risk by reducing US equity ownership and increasing cash holdings.

We could debate whether or not the rally was too much, but we fully agree it was too quick. Many of our technical charts were signaling that the market was getting ahead of itself, and some trusted voices to whom we listen were saying stocks were pricing in 2021 or even 2022 growth already. In more sane times success begets success and the march higher might continue unabated, but election season is never sane. We do not need to handicap this election outcome to know the process is rife with uncertainty given the polarized population, a Summer of tears in our social fabric, and an election process that could leave us wondering on outcomes for days or even weeks. It is often our experience that the market can find a way to deploy capital and grow if conditions are known, even if conditions are known to be poor. It is a machine for identifying and pricing risk and discounting results. When uncertainty is rampant though, about the only thing we can count on is directionless volatility.

The last several trading sessions prior to today manifested those concerns, again sooner and more abruptly and steeply than we anticipated. On today's rally, we seized the positive price movement as our opportunity to take a step back in terms of market risk, settling into a modest underweight of equity risk relative to our benchmarks, and an increase in cash. Within our Core and Disciplined Yield series, we lowered exposure to a group of equity ETFs to achieve the targeted underweight in aggregate terms as well as sector/industry and style. We also effectively eliminated exposure to convertible securities within our bond allocation because of the equity-like downside risk they present. For our ESG series, we reduced holdings in a broad-based ESG equity index ETF.

As stated in our August month-end newsletter, the situation is neither all risk nor all reward. There are challenges, not the least of which is the still unsolved COVID-19 pandemic and its effects on employment, local businesses, education, housing and evictions, mobility and of course fragile public health systems. We have discussed numerous times that we have to hold two ideas at the same time, the first being that Main Street is hurting, and the second that Wall Street is prospering. Trillions of dollars in stimulus have inflated asset prices at the same time that unemployment, housing insecurity and food insecurity remain at troublingly high levels. The noise of the election season will pass and the real story for the market's continued stability and growth will be whether the currency of higher stock prices and more lending capital will filter down through all levels of the real economy and re-establish small businesses and home-grown jobs to fulfill the possibilities record high equity prices promise.

WILDE CAPITAL MANAGEMENT, 3322 ROUTE 22 WEST, SUITE 808, BRANCHBURG, NEW JERSEY, 08876
(866) 894-5332 WWW.WILDECAPITALMGMT.COM CONTACT@WILDECAPITALMGMT.COM

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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

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