

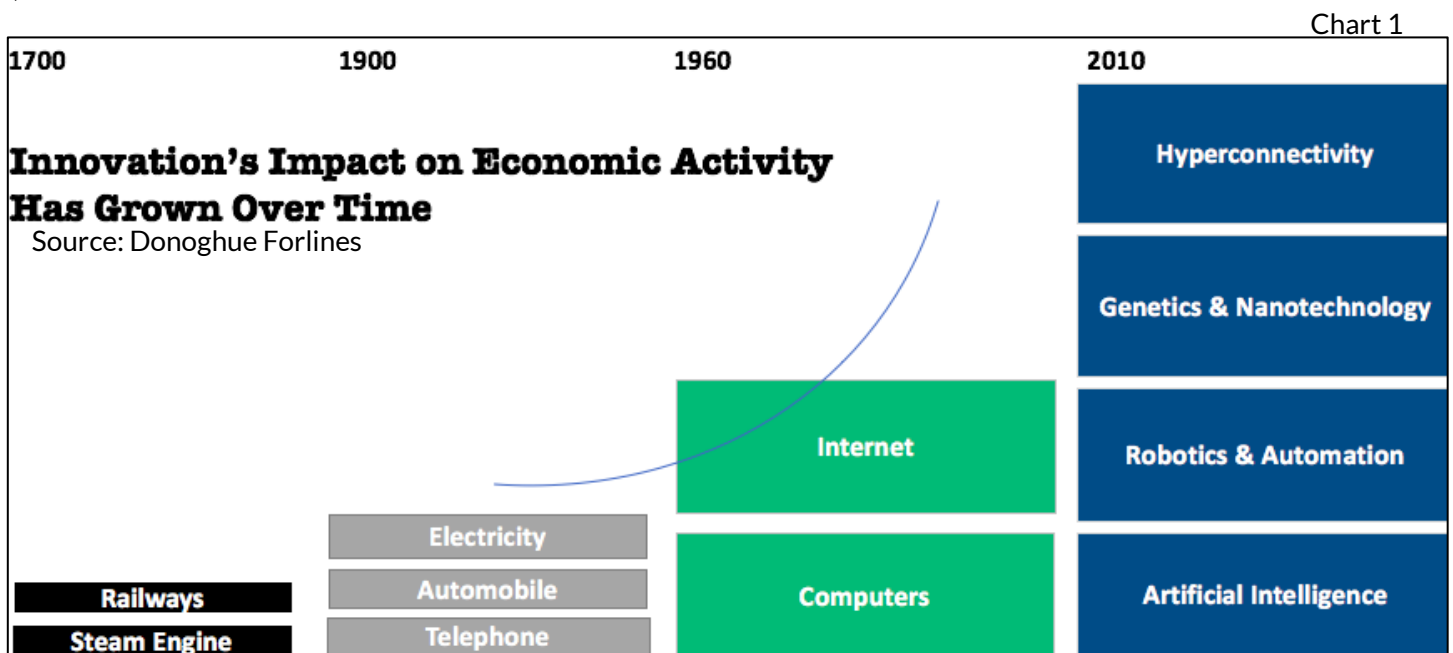
## Out With the Old... And in With Some New(s)

First off ... thank you! 2020 is over (finally) and we are grateful to all our Advisors, Brokers, and partners who trust us with your business. We love being able to do this every day and look forward to the future—and in this issue of Markets in Motion™ we want to focus on two major developments that will enhance our ability to create portfolios that more closely track our long-term investment themes as well as provide for risk management. For those of you who want to catch up on our 2020 review, [here's a link to our December GT Webinar](#) that will provide color on what surely will go down in investing history as a truly unique year.

Now for the New--Donohue Forlines, in partnership with TrimTabs Asset Management (TTAM), has launched two new proprietary ETFs. [Learn more about our ETF development here.](#)

### Innovation as an Asset Class

Today, we are witnessing the real-time disruption of a host of incumbent companies by competitors who have used new technologies to better serve customers. The accelerated pace of innovation is giving rise to the fourth industrial revolution and building a new economy - transforming traditional sectors and industries while creating new ones. Every aspect of our lives will be impacted, creating enormous potential growth opportunities. (Chart 1)



With the economic landscape rapidly changing, investors require a different and forward-looking approach to capture the structural trends that are just getting underway. In our view, not only will traditional “style-box” and market capitalization indexes fail to capture this growth opportunity, but they also will compound the risk of

underperformance by having large allocations to “victims” of disruption. Therefore, we believe innovation has become its own asset class and deserves a strategic allocation in client portfolios. (chart 2).

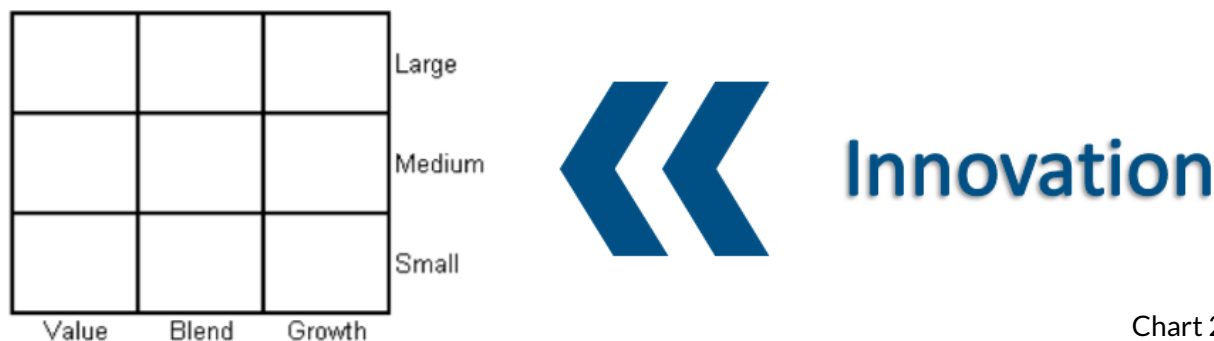


Chart 2  
Source: Donoghue Forlines

Exponential technologies and innovation have been a strategic allocation to the Global Tactical suite for over a decade. However, we felt the current product offerings in innovation were inadequate in accurately capturing our understanding of major trends—either they were too specialized, focusing on new technologies and not the impact on broad markets or they were not diversified, subject to both upside and downside volatility.

Learn about our recent [allocation to innovation in our GT Suite](#).

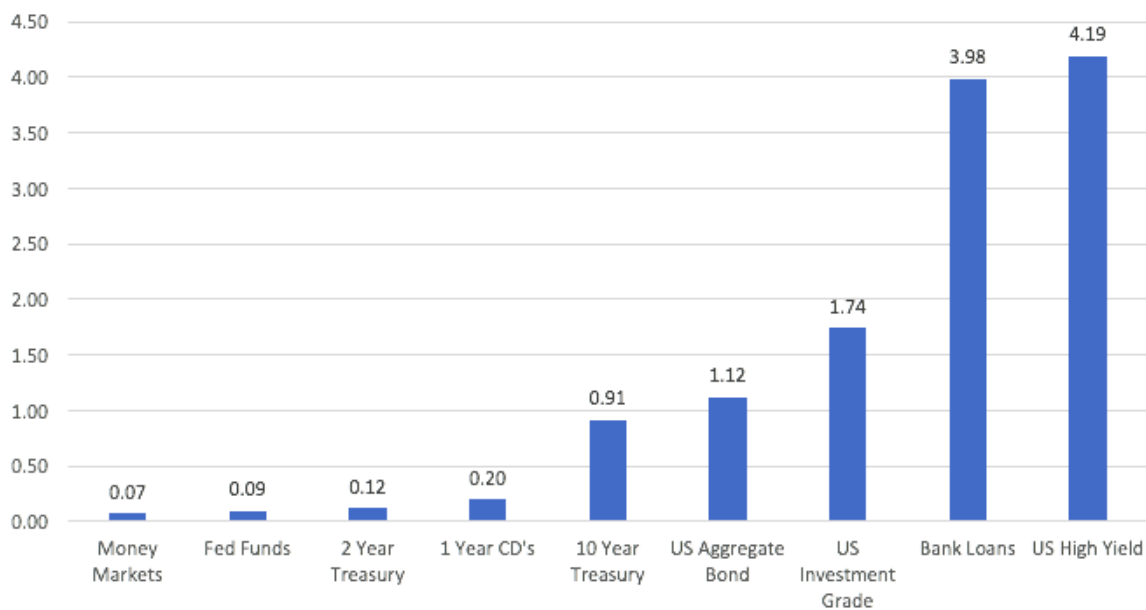
## A New World for Bonds

Simply put, **Interest Rates are in a long-term secular Bear Market.** At 0.9%, yields on 10-year US notes are near the lowest in modern history, and adjusted for inflation, bond investors are locking in a guaranteed loss of about 0.8% per year for the privilege of getting their money back. Additionally, government bonds have reached valuation levels that fundamentally change the characteristics they bring to a portfolio. With real yields negative and interest rates up against their lower bounds, bonds diversification and risk-reduction benefits have weakened.

In the last three years, with the final acceleration caused by the virus-induced massive global economic disruption, Bonds have transformed from “risk-free return” to “return-free risk.”

Because of this, investors are forced to move up the risk spectrum for returns. The best risk-adjusted opportunities remain in credit (specifically high yield corporate bonds) to reduce interest rate risk and generate meaningful yield. However, credit poses its own risks, so investors are also forced to manage volatility with tactical management.

Learn about our recent [High Yield allocation in our GT Suite](#).



Source: Bloomberg; As of December 31, 2020

## Time For an Asset Allocation Re-Think

Our two new proprietary products are part of a broader effort to improve the global tactical suite for the evolving macro environment over the next decade. And it is why conventional indexes in both equities and bonds may require a re-think.

**In particular, the era of passive index dominance may be ending.** For financial advisors, the “core portfolio” has traditionally consisted of a mix of stocks and bonds – commonly referred to as the “60/40.” And in recent years, the 60/40 portfolio has delivered superior risk-adjusted returns.

*But past performance is not indicative of future results and we believe 60/40 portfolio outperformance is over.*

The yield on a 60/40 portfolio has reached an all-time low ... and as we’ve demonstrated above, there’s a sea-change happening in equity markets factors. based on a diverse set of capital market assumptions, the 60/40 portfolio could face a potential “lost decade”.

The 40% in bonds provides less reward and more risk with yields near their lower bounds. And the 60% many investors have in large-cap stocks in traditional styles (e.g. Value,

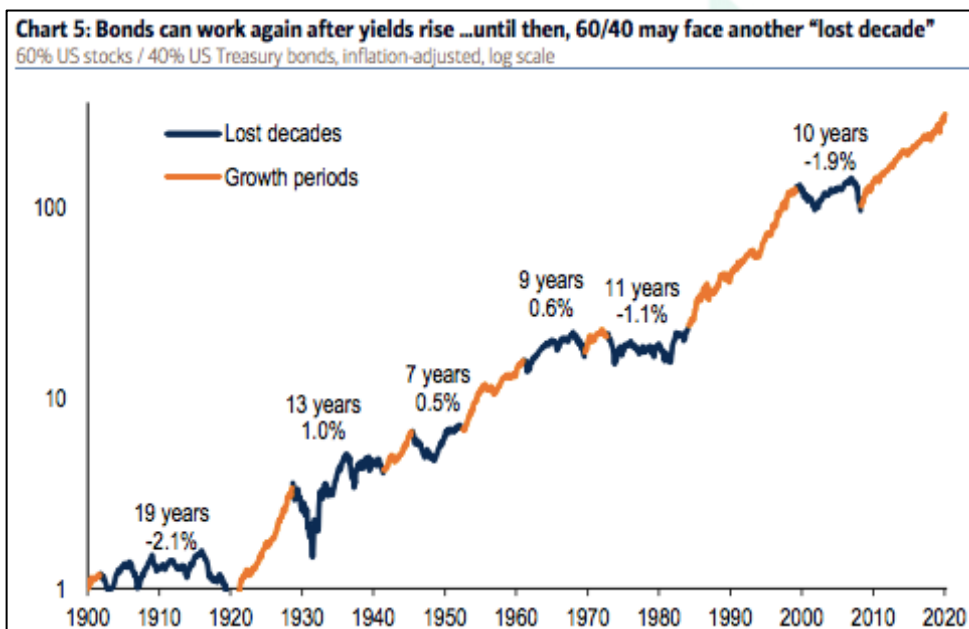


Chart 3

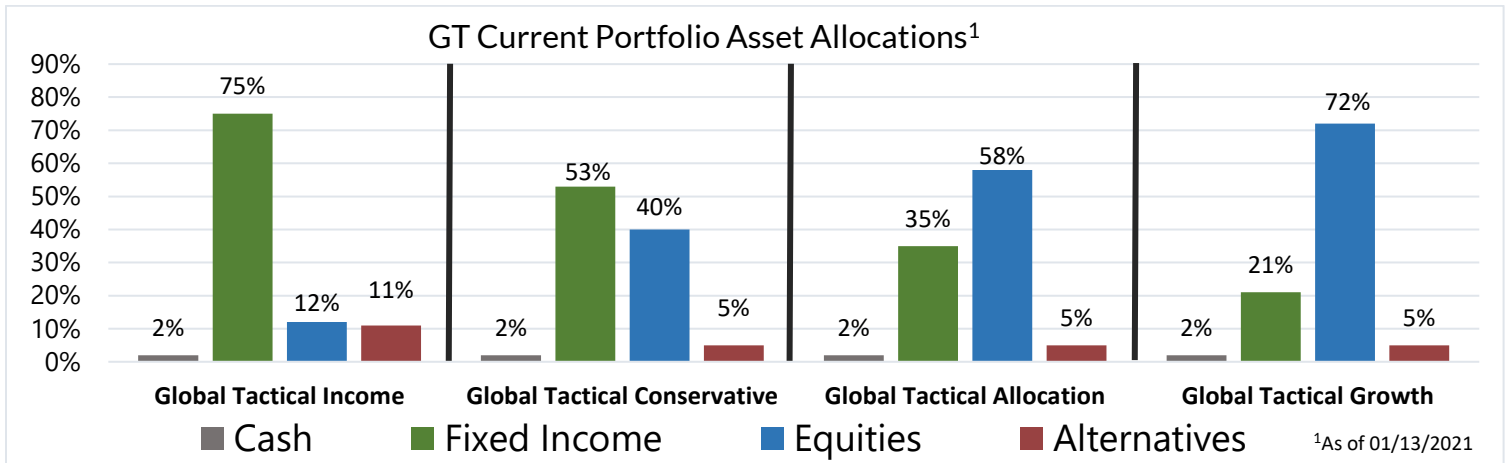
Source: BofA Research Investment Committee

Growth) may be just as perilous over a longer timeframe. Indexes originally constructed to offer diversification are now weighted heavily to just a handful of companies... **and have large allocations to industries at risk to disruption.**

Investors need to adapt their portfolio for today's low return environment or accept low (or negative) expected returns. Advisors are challenged to rethink foundational portfolio elements of investor portfolios – which means seeking out strategies that bolster the “core” going forward. **With no cheap assets, tactical and unconstrained management is now more important than ever.** In order to produce positive returns over the next 5-10 years, investors will need to actively manage growth cycles. Donoghue Forlines Global Tactical suite is an excellent alternative for advisors trying to navigate this new environment for their clients. By exploiting a larger opportunity set and tactically adjusting risk exposure, our global macro strategy will have a major edge over the traditional 60/40 portfolio. In today's markets, global macro is the future and the 60/40 retirement rule is stuck in the past.

## 2021: Short Term Macro Perspective and Current Positioning

- The global economy will strengthen in 2021, but will remain fragmented as the pandemic winds down (see: BREXIT, EU woes; China resetting to new US Administration; more changes in energy markets as climate concerns gradually become more mainstream).
- Monetary/fiscal policy will remain accommodative, but there will be shocks caused by legislators and central bankers who typically mistime windows of accommodation and tightening
- TINA (There IS No Alternative to Equities) will continue to dominate investor behavior. Stocks will continue to outperform bonds; we prefer a barbell of innovative & quality companies with a careful selection of cyclical value companies that will benefit from the virus receding. This includes international opportunities, especially in emerging markets.
- Bond yields will rise modestly; we prefer credit over government bonds for yield and risk aversion
- The USD will weaken, but there will be more currency volatility (an opportunity); we favor Gold as long-term debt/currency/inflation hedge
- Investor euphoria will lead to short-term corrections in 2021; but risk won't be systemic unless Fiscal & Monetary Policy mistakes derail post-Virus recovery



## Recent Portfolio Changes

We initiated a position in our proprietary Tactical High Yield Fund. We believe that High Yield is an attractive asset class that increases the overall risk exposure and yield of the portfolio. We feel combining High Yield with Tactical Defensive Risk Management is necessary in the current environment of low interest rates and a differentiator in portfolio construction.

We initiated a position in our proprietary Risk-Managed Free Cash Flow Innovation Fund. With the economic landscape rapidly changing, investors require a different and forward-looking approach to capture the structural trends that are just getting underway: we feel R&D spending combined with strong free cash flow generation is the best measure. These factors have been responsible for a subset of corporations' emergence as new leaders in global markets.

We initiated a position in developed international equities. To increase the cyclicity of our barbell approach. International stocks should benefit from improving global growth and a weak USD environment.

We exited positions in US Corporate Bonds and Biotechnology. A tactical move to increase the overall cash position of the portfolio to deploy at more attractive entry points.

<sup>1</sup>Information as of 01/13/2021. Individual account allocations may differ slightly from model allocations.



## Portfolio Performance (as of December 31, 2020)

Name	Model	YTD	1 Year	3 Year	5 Year	10 Year
Global Tactical Allocation (gross)	Moderate	1.10	1.10	2.71	6.21	5.47
Global Tactical Allocation (net)		0.05	0.05	1.50	4.89	4.10
<i>HFRU Hedge Fund Composite</i>		1.76	1.76	1.78	2.83	2.54
Global Tactical Income (gross)	Income	-2.78	-2.78	0.79	3.62	—
Global Tactical Income (net)		-3.98	-3.98	-0.44	2.04	—
<i>Blended Benchmark Income</i>		4.72	4.72	3.03	3.65	
Global Tactical Conservative (gross)	Conservative	1.16	1.16	2.48	—	—
Global Tactical Conservative (net)		-0.10	-0.10	1.38	—	—
<i>Blended Benchmark Conservative</i>		3.24	3.24	2.41	—	—
Global Tactical Growth (gross)	Growth	2.67	2.67	3.70	—	—
Global Tactical Growth (net)		1.36	1.36	2.53	—	—
<i>Blended Benchmark Growth</i>		4.78	4.78	3.53	—	—

We invite you to learn more about our [2021 Global Markets Outlook](#) in our upcoming webinar and please do not hesitate to contact our team with any questions. You can get more information by calling (800) 642-4276 or by emailing [AdvisorRelations@donoghueforlines.com](mailto:AdvisorRelations@donoghueforlines.com). Also, visit our [Sales Team Page](#) to learn more about your territory coverage.

Best regards,



**John A. Forlines III**

*Chief Investment Officer*

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The views expressed are current as of the date of publication and are subject to change without notice. There can be no assurance that markets, sectors or regions will perform as expected. These views are not intended as investment, legal or tax advice. Investment advice should be customized to individual investors objectives and circumstances. Legal and tax advice should be sought from qualified attorneys and tax advisers as appropriate.

The Donoghue Forlines Global Tactical Allocation Portfolio composite was created July 1, 2009. The Donoghue Forlines Global Tactical Income Portfolio composite was created August 1, 2014. The Donoghue Forlines Global Tactical Growth Portfolio composite was created April 1, 2016. The Donoghue Forlines Global Tactical Conservative Portfolio composite was created January 1, 2018.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Individual portfolio returns are calculated monthly in U.S. dollars. Policies for valuing portfolios and calculating performance are available upon request. These returns represent investors domiciled primarily in the United States. Past performance is not indicative of future results. Performance reflects to re-investment of dividends and other earnings.

Net returns are presented net of management fees and include the reinvestment of all income. Net of fee performance was calculated using a model fee of 1% representing an applicable wrap fee. The investment management fee schedule for the composite is: Client Assets = All Assets; Annual Fee % = 1.00%. Actual investment advisory fees incurred by clients may vary.

The Benchmark Moderate is the HFRU Hedge Fund Composite. The HFRU Hedge Fund Composite USD Index is designed to be representative of the overall composition of the UCITS-Compliant hedge fund universe. It is comprised of all eligible hedge fund strategies; including, but not limited to equity hedge, event driven, macro, and relative value arbitrage.

The Blended Benchmark Conservative is a benchmark comprised of 80% HFRU Hedge Fund Composite and 20% Bloomberg Barclays Global Aggregate, rebalanced monthly.

The Blended Benchmark Growth is a benchmark comprised of 80% HFRU Hedge Fund Composite and 20% MSCI ACWI, rebalanced monthly. The Blended Benchmark Income is a benchmark comprised of 60% HFRU Hedge Fund Composite and 40% Bloomberg Barclays Global Aggregate, rebalanced monthly.

The MSCI ACWI Index is a free float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The HFRU Hedge Fund Composite USD Index is designed to be representative of the overall composition of the UCITS-Compliant hedge fund universe. It is comprised of all eligible hedge fund strategies; including, but not limited to equity hedge, event driven, macro, and relative value arbitrage. The underlying constituents are equally weighted. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Index performance results are unmanaged, do not reflect the deduction of transaction and custodial charges or a management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. You cannot invest directly in an Index. Economic factors, market conditions and investment strategies will affect the performance of any portfolio, and there are no assurances that it will match or outperform any particular benchmark.

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. For a compliant presentation and/or the firm's list of composite descriptions, please contact 800-642-4276 or [info@donoghueforlines.com](mailto:info@donoghueforlines.com).

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