Dynamic Market

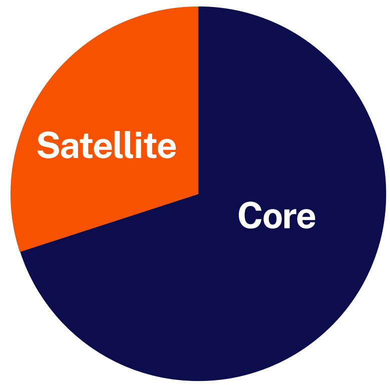
Congress Wealth Advisor Solutions

congresswealthadvisorsolutions.com

Embracing the market… safely

Congress' Dynamic Market portfolios are designed to allow investors to capture market returns for the majority of the time they are invested but seek to offer the benefits of active management for those times when markets are trading to extremes. That's important because active management allows investors to reduce the risk in their portfolios during difficult markets and increase their equity exposure and opportunity for growth when markets are performing well.

The portfolio is divided into two distinct allocations: A core allocation (70% of the total) and a satellite allocation (30%of the total). The core allocation is a traditional diversified portfolio designed to capture long-term market returns where the mix of securities offers exposure to a variety of institutional quality asset classes. The allocations to each asset class are fixed to allow investors to quantify the hypothetical risk and volatility of the portfolio, based on the historical returns of each asset class. The core portfolio is systematically rebalanced to make sure the portfolio retains its target allocations over time.



The potential benefits of properly diversifying and re-balancing a core portfolio are well known. By combining asset classes with low correlations to each other (due to different risk characteristics), the portfolio is presumed to become more efficient, meaning it delivers the highest amount of return for a given level of risk. On a less technical level, diversification is an example of "not putting all your eggs in one basket." By owning a variety of asset classes, investors mitigate the risk that any one of them will under perform expectations. With asset class returns zigging and zagging at different times, the overall portfolio volatility can be reduced and the probability of consistent returns over long periods of time may be enhanced.

Another important benefit of Congress' Dynamic Market strategy is that the core portfolio is very inexpensive to manage on an ongoing basis. Dynamic Market does not require a high volume of trading, so transaction charges are low. Additionally, because the portfolio has a low turnover rate, it has an eye toward tax-efficiency.

Note:

Over long periods of time, the portfolio may accumulate low cost-basis positions that have the potential for realizing higher capital gains in the future.

Perhaps most importantly for those who believe that it's difficult to time the markets or to predict future market performance, the Dynamic Market core allocation allows investors the comfort of knowing that they're always invested in a diversified portfolio of asset classes that should increase the probability of delivering expected returns. [There is no guarantee that any portfolio will provide specific returns based on past results or expected returns.]

Dynamic Market Model portfolios

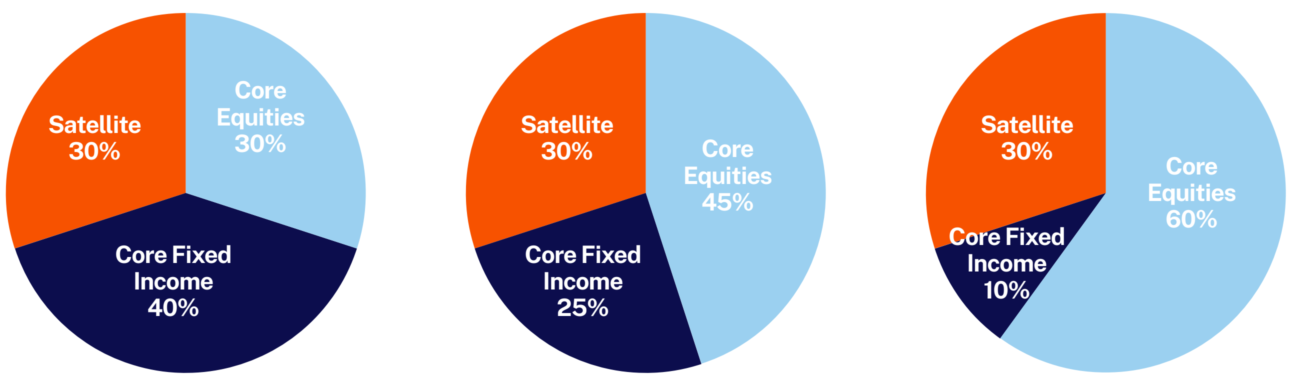
Our Dynamic Market program offers three model portfolios: Conservative, Moderate, and Appreciation. Each model portfolio has a 'Core' holding comprising 70% of the portfolio and a 'Satellite' holding comprising 30% of the portfolio.

The core allocation within each model is static and is based upon the portfolio's objective. While the holdings within the core allocation may change, the allocation to equities and fixed income will not. The satellite allocation within each model is dynamic and is tactically managed between equities, fixed income, and cash positions to tilt the portfolio to a defensive, neutral, or aggressive position — based upon proprietary valuation and technical models used by the investment team.

The pie charts below demonstrate that each model portfolio is comprised of a 70% core holding, including equities and fixed income, and a 30% satellite holding that is actively managed. As you can see, the Moderate model has more equity exposure than the Conservative model and less equity exposure than the Appreciation model.

As the satellite allocations change, the total exposure of the portfolio to equities and fixed income can change as the tilt in one direction or the other impacts the total portfolio. This is demonstrated on page 4 with multiple pie charts in various market conditions.

Three Model Market Portfolios



Dynamic Market Conservative

Dynamic Market Moderate Growth

Dynamic Market Appreciation

Core asset allocation

Equities

U.S. Large Cap	S&P 500 Index
U.S. Mid-Cap	S&P 400 Index
U.S. Small Cap	Russell 2000
International Developed	MSCI EAFE Index
International Emerging	MSCI EAF Emerging Market Index
International Frontier	MSCI Frontier Index

Fixed Income

U.S. Treasury Bonds	Bloomberg Barclays U.S. Treasury Index
U.S. Investment Grade Bonds	iBoxx USD Liquid Investment Grade Index
U.S. High Yield Bonds	Barclays High Yield Index
International Developing Bonds	S&P/Citigroup International Treasury Index
International Emerging Bonds	Emerging Markets Bond Index Plan
Bank Loans	Bloomberg Barclays U.S. Floating Rate Notes
Mortgages	Bloomberg Barclays MBS Float Adjusted
TIPS	Bloomberg Barclays U.S. Treasury Inflation Notes

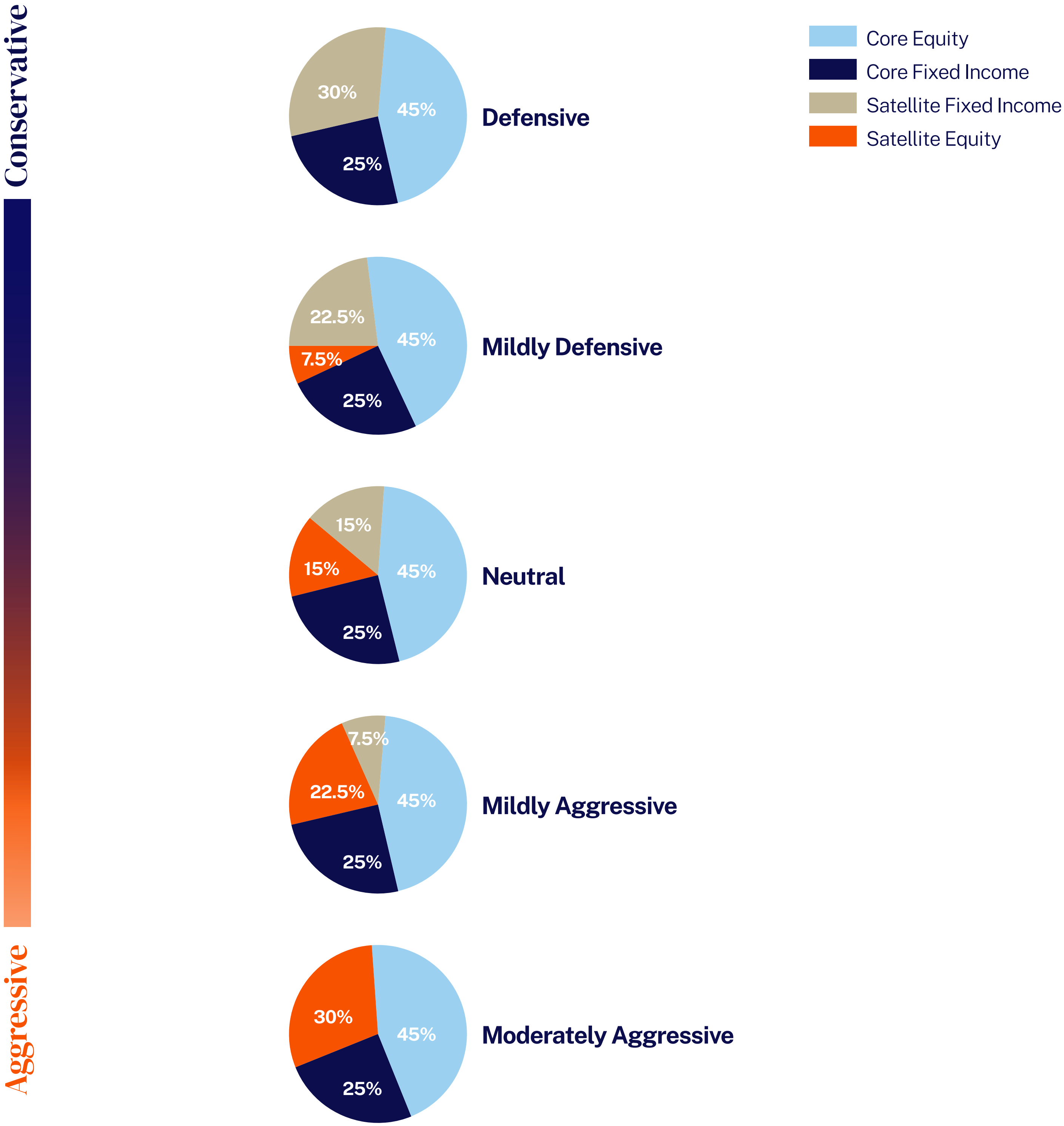
Real Assets

Precious Metals	Bloomberg Precious Metals Index
Real Estate	DJ Real Estate Index
Commodities	Bloomberg Commodity Index

Indices listed above are for illustration only. The portfolio's actual holdings may vary.

Portfolio allocation across market conditions

As market conditions change, the allocation of the satellite portion of the portfolio can also change and tilt the overall portfolio to a defensive, neutral, or aggressive position. The five possible allocation positions are outlined below for our Dynamic Market Moderate Growth Portfolio.



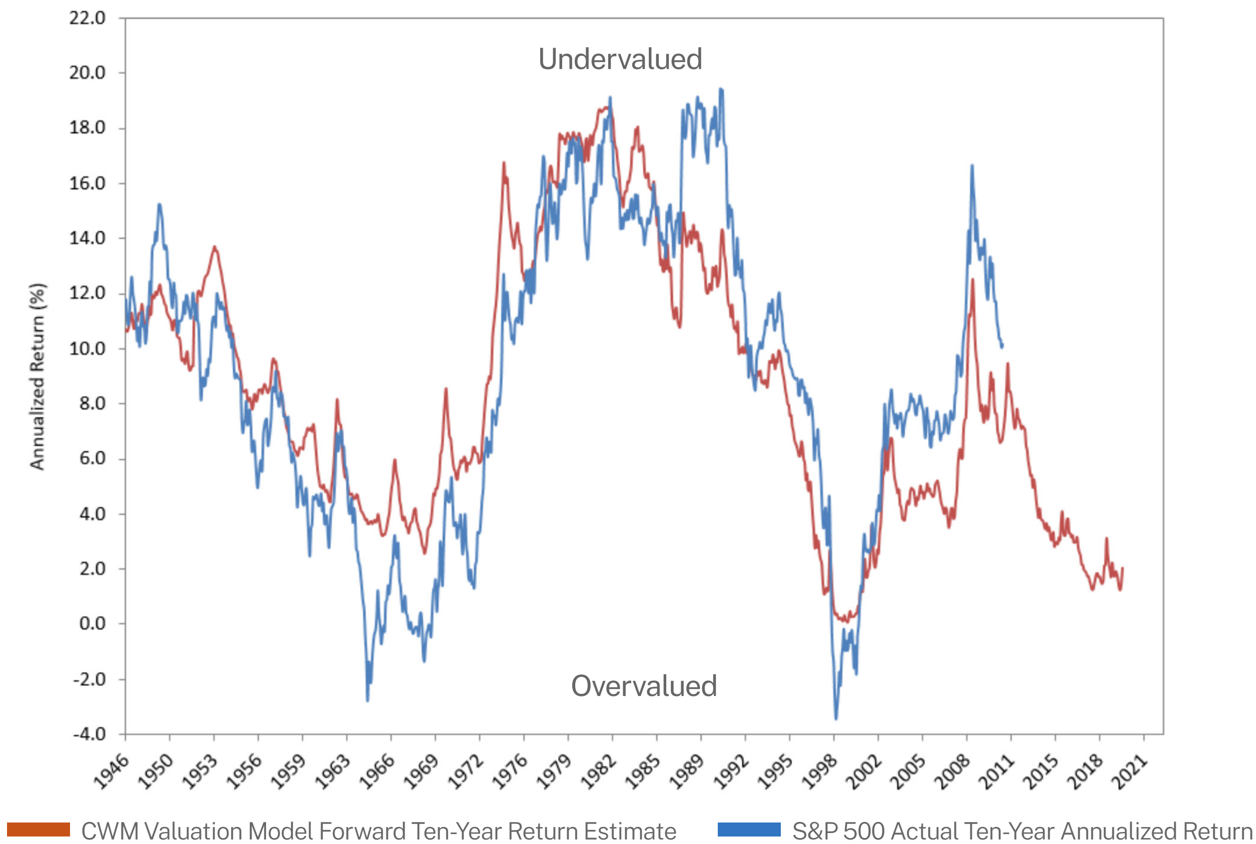
An active satellite component

The problem with strategic investing is that when markets become overvalued, the data overwhelmingly suggests that future returns will be less than expected. In the short run, markets may riot and volatility can spike well beyond expected levels based on past performance. In other words, while buying and holding asset classes assures that you capture all of the returns of the market in a bull market, it also assures that you capture all of the volatility and losses in a bear market.

The satellite allocation of the Dynamic Market strategy is designed to “hedge” the performance of the core allocation at market extremes. The 30% allocation to an actively managed quantitative position is large enough to have a significant impact on portfolio performance, but small enough to allow Dynamic Market investors the comfort of knowing they are still (to a large extent) letting the core portfolio work for them. The key to the satellite allocation is that it is designed to take advantage of Congress’ proprietary models (“Valuation Model and Technical Model”), which is designed to assess the overall technical health of the market, in order to adjust the Dynamic Market asset allocation at market extremes. The satellite allocation is comprised of three asset classes. The neutral allocation of the satellite is 50% equities and 50% fixed income. When markets are unfavorable, the satellite component of the portfolio can reduce the equity allocation and invest up to 100% of the satellite in quality bonds or short-term T-bills. Conversely, when markets are favorable, the satellite component can increase the equity allocation to up to 100% of the satellite. The determination of whether markets are favorable or unfavorable is based upon a combination of our proprietary valuation and technical models for equities. Similarly, the choice between cash and quality bonds is based upon our Technical Model for bonds. Notably, favorable or unfavorable markets result from extremes in either valuation or technical conditions, or both, which means they typically do not happen very often. As a result, we expect the satellite component of the strategy to trade approximately once per year.

Our proprietary valuation model

Congress has been using quantitative methods for managing our portfolios for years. Our quantitative valuation model* uses a variety of factors to help determine whether markets are under or over valued. The factors in the model include Price to Earnings (PE) based measures, non-PE based measures, intrinsic value, and relative value measures. Each of the valuation factors is statistically tested to make sure it has a significant relationship to long-term returns. Because we utilize a variety of factors to determine valuation, the models remain in neutral territory for the majority of the time. But on those occasions when our model is indicating valuation extremes, the satellite component of the portfolios is adjusted to take advantage of what could be a significant opportunity to earn additional returns and/or mitigate risk.



Sources

-Bloomberg -Yale Department of Economics (econ.yale.edu) -Ned Davis Research -S&P Down Jones Indices (us.spindices.com)
-FRED Economic Data®, Federal Reserve Bank of St Louis

*Valuation Model Versus S&P 500 Ten-Year Return

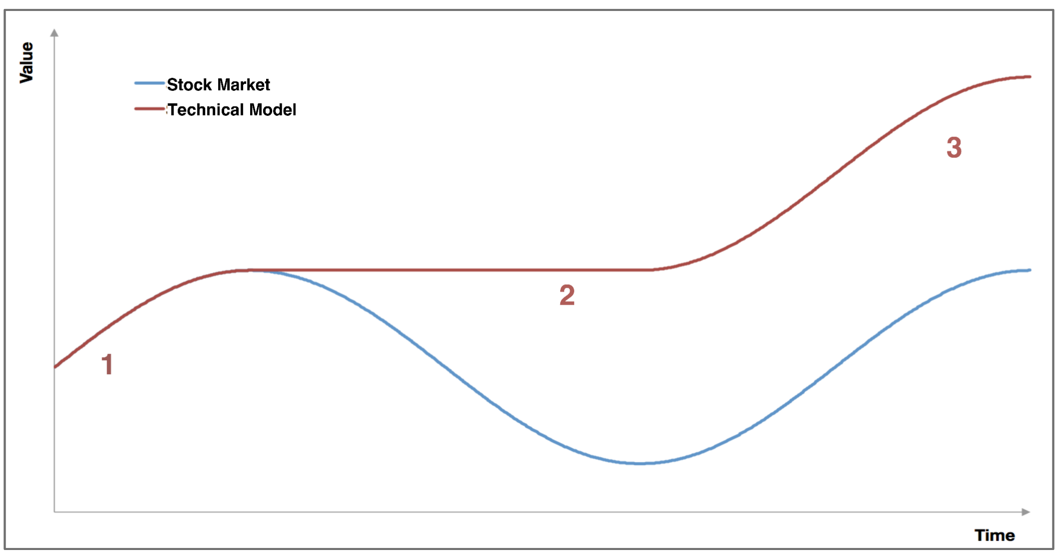
The above chart displays the projected ten-year annualized S&P 500 return derived from Congress' valuation model (the red line), alongside the actual ten-year annualized S&P 500 return (the blue line). Please note that the red line runs through current times, while the blue line ends ten years ago. That is because while we do know what type of S&P 500 return Congress' Valuation model is currently projecting for the next ten years, we do not yet know what the actual S&P 500 ten-year annualized return will be over the same time frame on an annualized basis. However, as indicated by the strong correlation between the two lines on the chart, Congress' proprietary valuation model has been a reliable tool for projecting actual S&P 500 returns ten years into the future.

Valuation and trends

While valuation tools are very good for long-term forecasting, we compliment them with our proprietary Technical Model to guide us in our final asset allocation decisions in the satellite portion of the portfolio.

The Technical Model of the satellite is based on a wide range of technical indicators, and it is designed to assess the overall technical health of the market. While valuation is a very strong tool for forecasting long-term returns (i.e. cheaper valuations are associated with stronger future returns), it tends to have poor timing, as valuations typically improve when the market is falling. The purpose of the technical component is to improve the timing of the allocation changes made to the satellite. For instance, when the market is rising, valuation tends to gradually deteriorate. However, as long as the market remains technically healthy (i.e. it keeps trending higher), the technical component should ensure that the satellite does not reduce equity exposure too early.

At the same time, when the market is falling, valuation will typically improve. However, increasing equity exposure when the market is falling (a.k.a. “catching a falling knife”) could turn out to be costly. In this situation, the technical component should allow the satellite to increase equity exposure only when the technicals improve (i.e., when the market stops falling).



This stylized illustration describes the hypothetical performance of the Technical Model over a complete market cycle. The numbers on the chart represent different phases of the cycle. The objective of the Technical Model is to keep the satellite invested in equities during bull markets (1 and 3) and get the satellite out of equities and into bonds or cash during bear markets (2). Defending the principal against large draw downs (2) while simply capturing stock market performance to the upside (1 and 3) can lead to significant out performance over a complete market cycle, without ever needing to take on more risk than that of the market itself.

The information and chart is created from select data and is for illustration purposes only to show volatility mitigation in a graphic way, not to be inferred as or indicative of actual performance.

Satellite asset allocation

As the Technical Model determines when the portfolio should move to overweight or underweight equities in the portfolio, it also influences the degree of the change depending on the valuation position of the markets.

Any time the Technical Model is bullish (left side of the table below), the satellite allocation to stocks will range between neutral and overweight, depending on the valuation model. More specifically, the satellite will remain at a neutral allocation (50% stocks and 50% bonds or cash) if valuation is expensive but will move to an incrementally more aggressive stance if valuation is neutral (75% stocks and 25% bonds or cash) or cheap (100%stocks). On the other hand, anytime the Technical Model is bearish, the satellite allocation to stocks becomes defensive. More specifically, the satellite will only allocate a small amount to stocks (25%) if valuation is cheap, but will be entirely allocated to bonds or cash if valuation is either neutral or expensive.

Technical Model

Valuation Model	BUY SIGNAL	SELL SIGNAL
CHEAP	**MAX OVERWEIGHT** 100% Stocks	**MILD UNDERWEIGHT** 25% Stocks / 75% Bonds or Cash
NEUTRAL	**MILD OVERWEIGHT** 75% Stocks / 25% Bonds or Cash	**MAX UNDERWEIGHT** 100% Bonds or Cash
EXPENSIVE	**NEUTRAL** 50% Stocks / 50% Bonds or Cash	**MAX UNDERWEIGHT** 100% Bonds or Cash

Disclosure

Congress Wealth Management, LLC ("Congress") is a registered investment adviser with the U.S. Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940, as amended.

For additional information, please visit our website at congresswealth.com or visit the Investment Adviser Public Disclosure website at www.adviserinfo.sec.gov by searching with Congress' CRD #310873.

Congress acquired certain strategies of Pinnacle Advisory Group, Inc. on April 30, 2021.

The summary of the strategy is based upon the opinions of Congress, and the data available at the time of publication. Information and opinions discussed in this commentary may be superseded, and we do not undertake to update such information.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio, which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

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