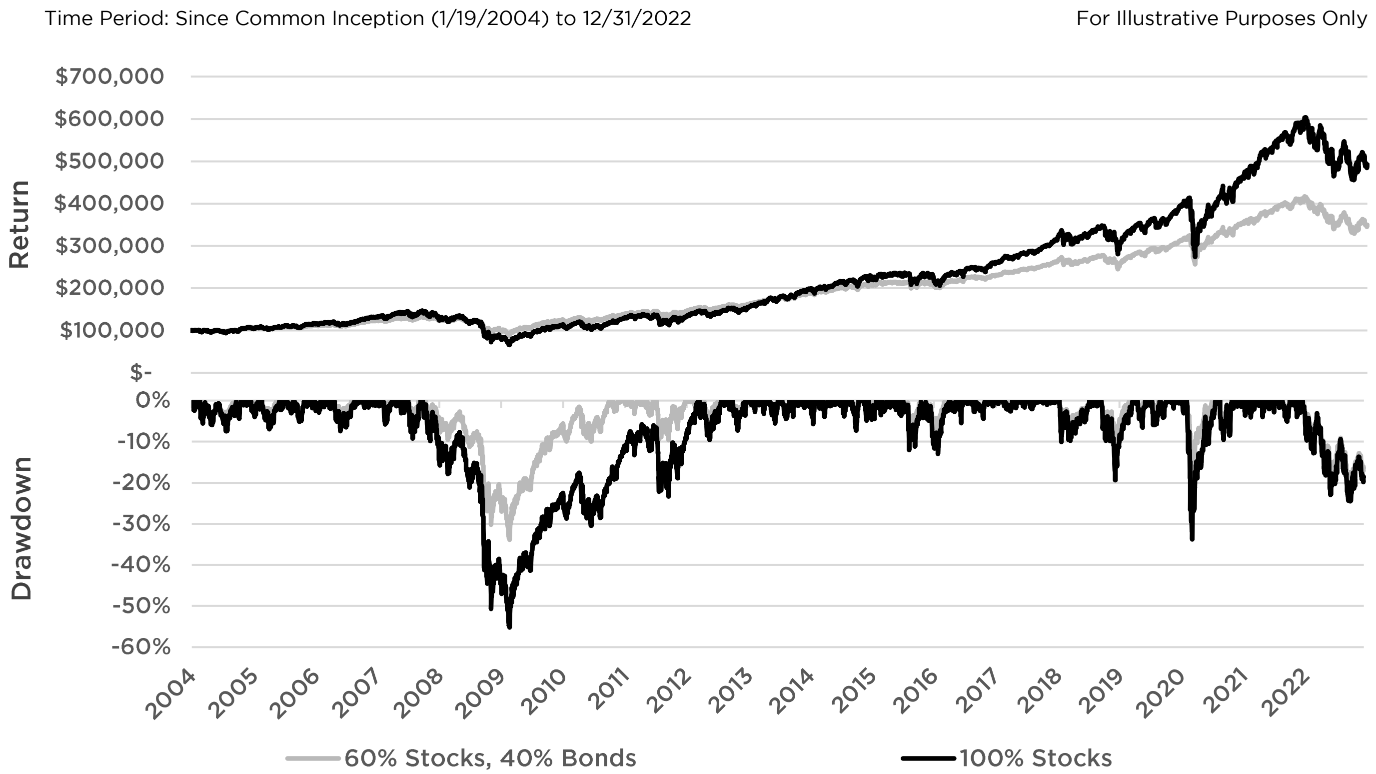
Why Diversifier Strategies (Still) Matter

As we near the end of 2022 we thought it would be helpful to remind investors why **diversifier strategies matter**. No strategy works all the time, as was evident this calendar year, and prudent risk management often means not every investment should be moving in the same direction at the same time.

While some investors might be swayed to adjust investment strategy amid a down year for stocks and bonds, proper diligence requires more than a look at a couple years' recent performance. **Diversifier strategies** seek to strengthen portfolios by functioning as a separate asset class, distinct from stocks and bonds. They target differentiated risk-reward profiles, attempting to support portfolios when traditional assets are stressed.

A blend of alternatives with stocks and bonds can potentially extend the risk-management benefits associated with traditional asset class diversification. Over the long run, diversifier strategies have tended to provide investors with reasonable returns as well as attractive risk-management benefits, making them suitable for many types of portfolios.

The Classic 60% Stock, 40% Bond Portfolio vs 100% Stocks

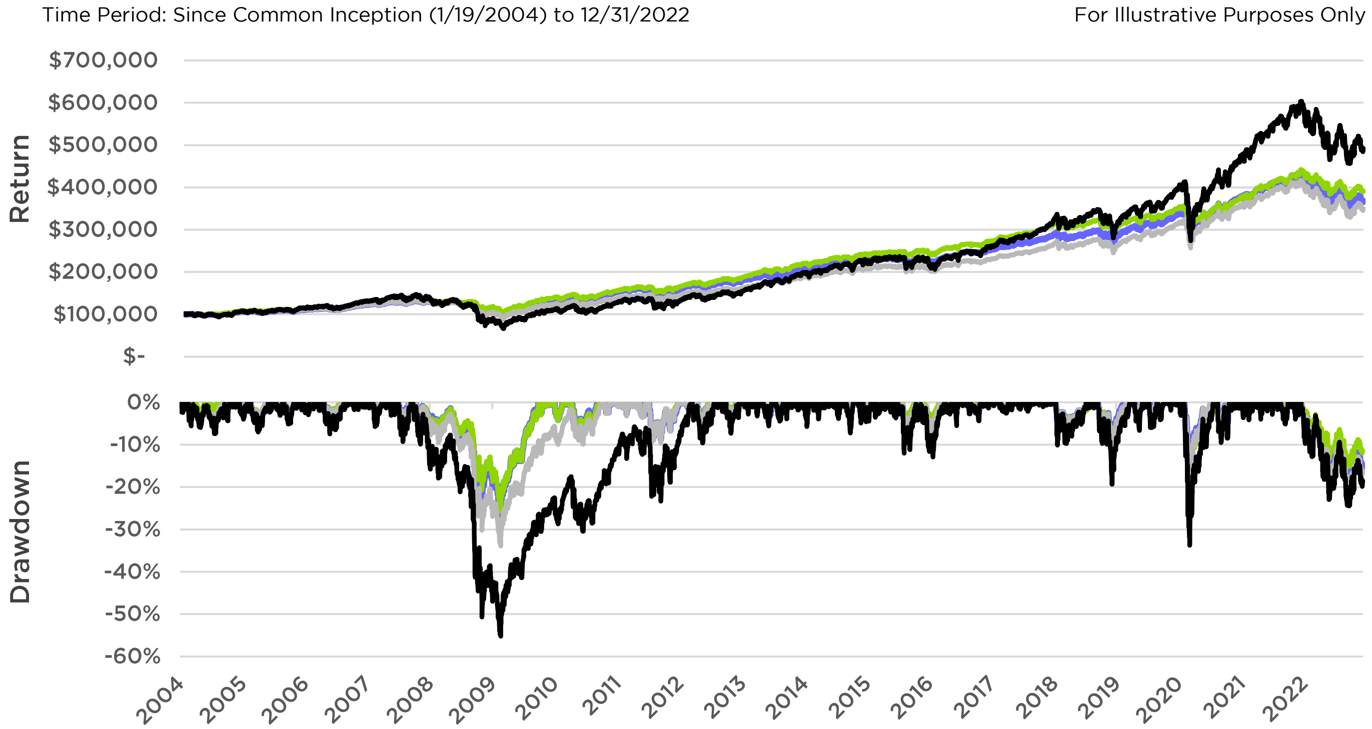


Source: Bloomberg, Morningstar. The 100% Stocks Portfolio is completely composed of the S&P 500 Index. The 60% Stocks, 40% Bonds Portfolio is made up of the S&P 500 and Bloomberg Barclays Aggregate Bond Index. It is not possible to invest an index. The data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.

Stocks and bonds each have pronounced strengths and weaknesses. The addition of bonds to an all-stock portfolio improved the drawdown profile, reduced the portfolio's relationship with stocks, and lowered standard deviation – potentially all good things. Stocks, meanwhile, had a higher annualized return – but they had the worst drawdown profile and did not diversify away stock market risk.

The addition of a tactical high yield strategy and a market neutral strategy, like the **Counterpoint Tactical Income Fund** and **Counterpoint Tactical Equity Fund** respectively, to a portfolio further improved upon the benefits associated with stocks and bonds. Returns were higher than the traditional 60/40 portfolio but lower than the 100% stock portfolio, while max drawdown showed meaningful improvement. The chart below shows how these dynamics play out for investors over time.

50% Stocks, 10% Bonds, 20% Tactical High Yield & 20% Market Neutral Portfolio



As of December 31, 2022	Return (Annualized)	Max Drawdown	YTD	1 Year Return	5 Year Return	10 Year Return
50% Stocks, 10% Bonds, 20% Tactical High Yield, 20% Market Neutral	7.47%	-25.80%	-11.14%	-11.14%	4.91%	7.82%
50% Stocks, 30% Bonds, 20% Tactical High Yield	7.12%	-26.60%	-14.61%	-14.61%	5.31%	7.57%
60% Stocks, 40% Bonds	6.81%	-33.91%	-16.07%	-16.07%	5.87%	8.13%
100% Stocks	8.76%	-55.25%	-18.11%	-18.11%	9.43%	12.56%

Source: Bloomberg, Morningstar. The 100% Stocks Portfolio is completely composed of the S&P 500 Index. The 60% Stocks, 40% Bonds Portfolio is made up of the S&P 500 and Bloomberg Barclays Aggregate Bond Index. The 50% Stocks, 30% Bonds, 20% Tactical High Yield Portfolio is composed of the S&P 500, Bloomberg Barclays Aggregate Bond Index, and the Tactical High Yield 200-DMA. The 200-DMA Tactical HY is defined by buying the Morningstar High Yield Category when it closes above its 200-day moving average the prior day. The strategy entirely switches to exposure of the Bloomberg US Treasury 3-5 Year Index when the Morningstar High Yield Category closes below its 200-day moving average. "Market Neutral" is entirely composed of the J.P. Morgan Equity Risk Premium - Global Balanced Multi-Factor (Long / Short) US (JPQFMFWA) Index. It is not possible to invest an index. The data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.

Conclusion

Just as adding bonds to a portfolio strengthened its risk profile amid downturns, the addition of two distinct diversifier strategies can potentially make a stock and bond portfolio even more robust. History shows a diversifier strategy can improve portfolio drawdown performance without a major sacrifice of long-run performance.

Systematic diversifier strategies attempt to support portfolios in volatile markets. Although many diversifiers may lag amid strongly trending bull markets, the right strategy seeks to lower volatility of returns, reduce capital drawdowns, and enable managers to invest opportunistically when markets are stressed. Diversifier strategies often help advisors prepare for adversity. They can also position advisors to be proactive when markets provide fundamental opportunities.

As of December 31, 2022	Return (Annualized)	Max Drawdown	YTD	1 Year Return	5 Year Return	10 Year Return
Tactical High Yield	7.27%	-10.81%	-8.24%	-8.24%	1.85%	3.96%
Market Neutral	4.09%	-32.05%	4.30%	4.30%	-3.36%	1.61%
Stocks	8.76%	-55.25%	-18.11%	-18.11%	9.43%	12.56%
Bonds	2.99%	-18.41%	-13.01%	-13.01%	0.02%	1.06%

Source: Bloomberg, Morningstar. The “Stocks” is completely composed of the S&P 500 Index. “Bonds” is made up of the Bloomberg Barclays Aggregate Bond Index. “Tactical High Yield” is composed of the Tactical High Yield 200-DMA. The 200-DMA, which is defined by buying the Morningstar High Yield Category when it closes above its 200-day moving average the prior day. The strategy entirely switches to exposure of the Bloomberg US Treasury 3-5 Year Index when the Morningstar High Yield Category closes below its 200-day moving average. “Market Neutral” is entirely composed of the J.P. Morgan Equity Risk Premium - Global Balanced Multi-Factor (Long / Short) US (JPQFMFWA) Index. It is not possible to invest an index. The data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.

Important information about the funds is available in their prospectuses, which can be obtained at counterpointfunds.com or by calling 844-273-8637. The prospectuses should be read carefully before investing. Investors should carefully consider the investment objectives, risks, charges, and expenses of the funds managed by Counterpoint Mutual Funds. The Counterpoint Mutual Funds fund family is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Counterpoint Mutual Funds, LLC is not affiliated with Northern Lights Distributors, LLC member FINRA/SIPC.

Important Risk Information

Mutual Funds involve risk including the possible loss of principal. The Fund may invest in high yield securities, also known as "junk bonds." High yield securities provide greater income and opportunity for gain but entail greater risk of loss of principal. The use of leverage by the Fund or an Underlying Fund, such as borrowing money to purchase securities or the use of derivatives, will indirectly cause the Fund to incur additional expenses and magnify the Fund’s gains or losses. Derivative instruments involve risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. Past performance is no guarantee of future results. There is no assurance the Fund will meet their stated objectives.

Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. The Adviser’s reliance on its strategy and judgments about the attractiveness, value and potential appreciation of particular securities and the tactical allocation among investments may prove to be incorrect and may not produce the desired results. No level of diversification can ensure profits or guarantee against loss.

Index Definitions

The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. The Morningstar US Fund High Yield Bond category is made up of U.S. high-income debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below. High-Yield Muni portfolios typically invest a substantial portion of assets in high-income municipal securities that are not rated or that are rated at the level of or below BBB (considered high-yield within the municipal-bond industry) by a major ratings agency such as Standard & Poor's or Moody's.

The Barclays US Aggregate Bond Index is made up of the Barclays US Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. As it is not possible to invest in the index the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Indexes do not include management fees.

The Tactical High Yield 200-DMA is defined by buying the Morningstar High Yield Category when it closes above its 200-day moving average the prior day. The strategy entirely switches to exposure of the Bloomberg US Treasury 3-5 Year Index when the Morningstar High Yield Category closes below its 200-day moving average. One cannot invest directly in an index or category and unmanaged index or category returns do not reflect any fees, expenses, or sales charges.

The JPQFMFWA Index is the J.P. Morgan Equity Risk Premium - Global Balanced Multi-Factor (Long / Short) US Index.

Morningstar

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