PARAGON INVESTMENT STRATEGY

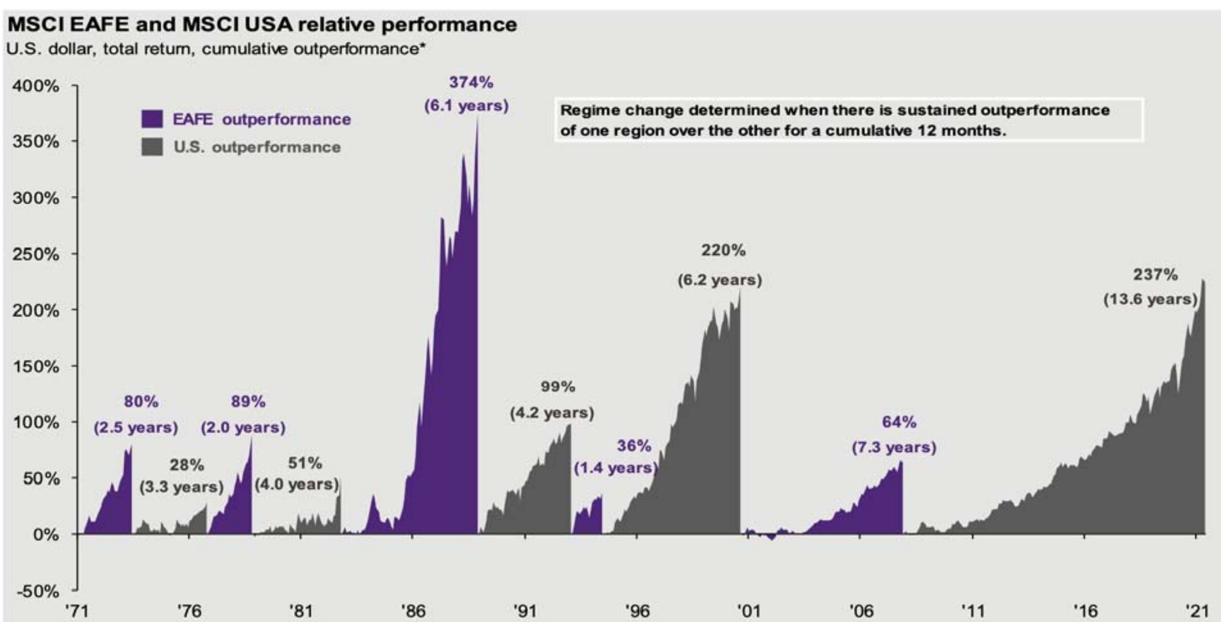
October 2021

Our investment strategy includes the following recommendations:

1. Significantly overweight international stocks relative to domestic stocks.
2. Include significant allocation to small company stocks.
3. Focus on cheaper "value" stocks and high-quality companies; underweight high-valuation stocks, such as technology.
4. We prefer high-quality, short-to-intermediate duration bonds.

Stock Strategy

International Stocks: We are targeting international stocks at 45% of the stock portfolio, compared with our benchmark/normal allocation of 25%. US stocks have outperformed international stocks by a historic margin for more than a decade. International stocks are now trading at a significant discount to US stocks, which have gotten very expensive by any standard. As a result, we have been increasing our international allocation over the past few years. The following chart shows the magnitude of this cycle's US outperformance vs international stocks (the EAFE index).

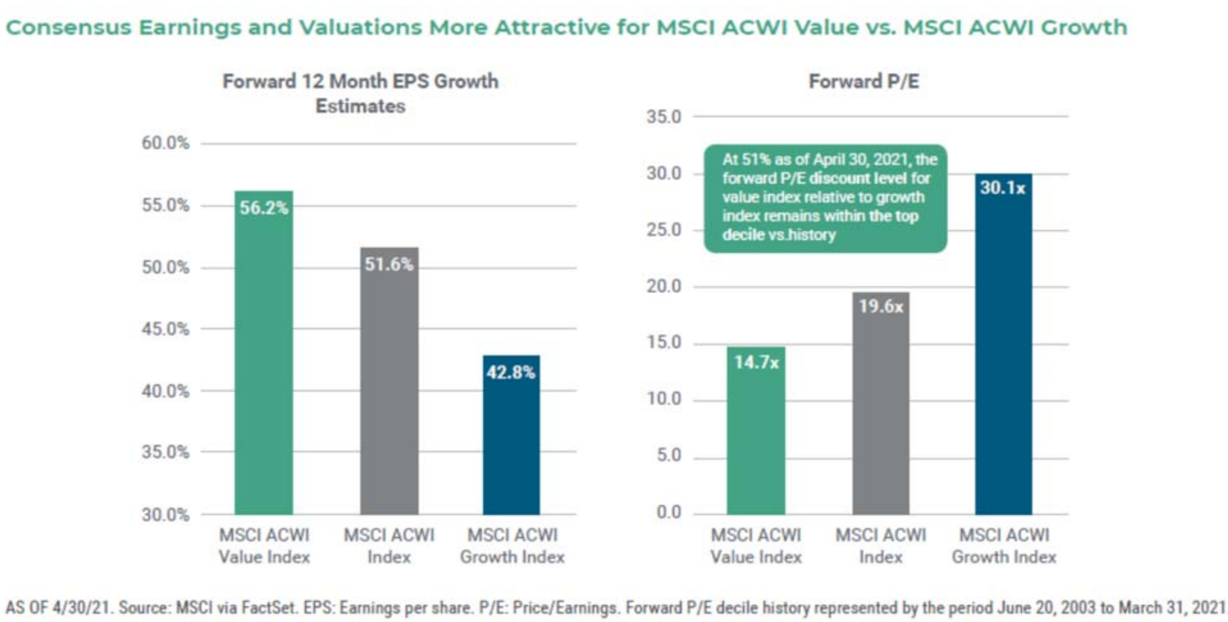


Source: FactSet, MSCI, J.P. Morgan Asset Management.
*Cycles of outperformance include a qualitative component to determine turning points in leadership.
Guide to the Markets – U.S. Data are as of June 30, 2021.

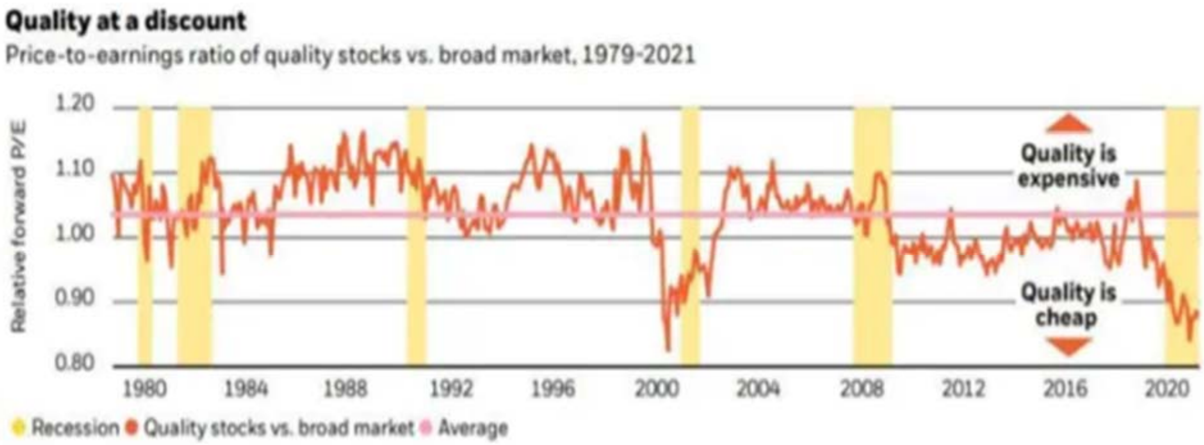
J.P.Morgan Asset Management

Small Company Stocks: Earlier this year, we added small company stocks to the domestic stock portfolio for the first time in several years. As the economy began to recover from the COVID-related decline, we followed the traditional economic-recovery playbook by increasing our small-cap allocation with the expectation that smaller companies will recover faster than larger companies, as they are more economically sensitive. Also, as seen in the chart below, the relative valuation of small-cap stocks to large-cap stocks is at a 20-year low, with small companies trading at more than a 20% discount to large companies, when they typically trade at a premium.

Value Stocks: Similar to international stocks, value (i.e. cheaper) stocks have lagged the rest of the market for many years, and like small-cap stocks should recover faster in an economic recovery, as they tend to be in more economically sensitive sectors. We also expect value stocks to outperform if inflation picks up on a more permanent basis. As the following chart shows, earnings growth of value stocks is expected to be stronger over the next 12 months relative to their growth counterparts (56.2% growth vs. 42.8%). However, they are trading at a significant valuation discount (14.7 P/E ratio vs. 30.1).



Quality Stocks: The stocks of high-quality companies have performed well in the long run, though they have lagged in recent years. They also provide some ballast to the portfolio, by paying dividends that tend to grow consistently, and by typically declining less than the market in downturns. The following chart shows that quality stocks are particularly cheap now.



Quality stocks look to be on sale, BlackRock contends.

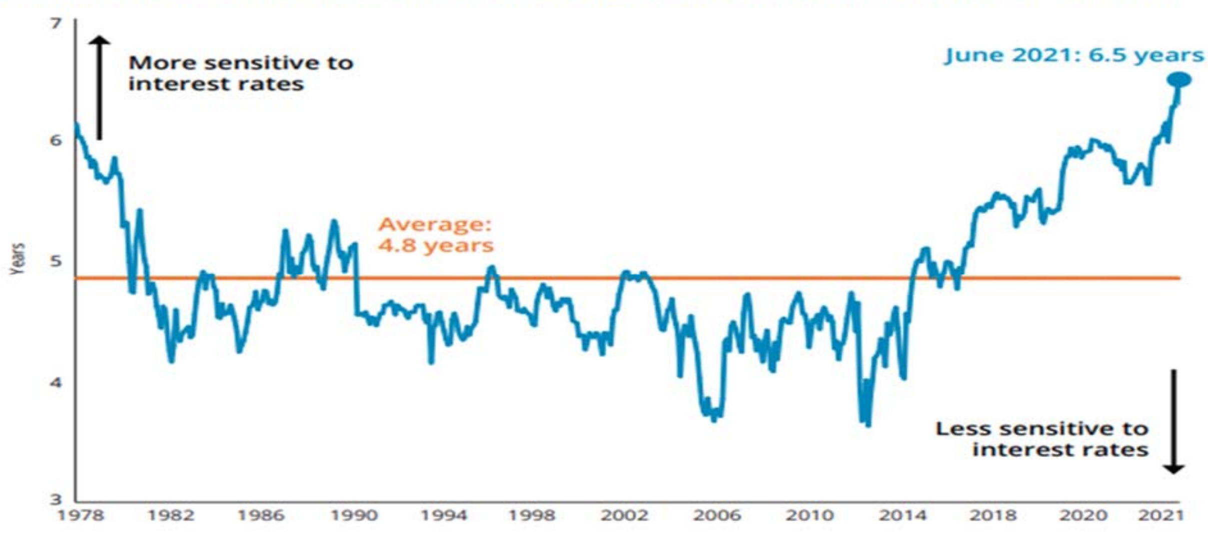
Technology Stocks: Our bias toward value (founded in decades of research) has led to an under-allocation to technology stocks, which have significantly outpaced the market for the past several years. The strong performance from the companies in this sector has technology valuations approaching the 2000 dot-com peak levels. Many of these technology companies are great companies. However, we consider the difference between a great company and a great stock. We believe that valuations in the technology sector are stretched, making it difficult to repeat over the next decade the stellar returns achieved in recent years.

Bond Strategy

High Quality/Short-to-Intermediate Duration Bonds: We are focusing on higher-quality bond issuers and shorter-to-intermediate term maturities. When looking at higher-yielding junk bonds, yields are at all-time low levels, making it unattractive to increase risk levels for inadequate yields. We also compare the yield on a junk bond to a comparable-maturity Treasury bond, and that difference (or “spread”) also is near all-time lows, as shown in the chart below. These factors influence our decision to remain focused on higher-quality bonds.

The duration of the Barclays Aggregate Bond Index has risen to all-time highs, meaning the bond market is now more sensitive to interest rates (duration is a measure of interest rate sensitivity). Therefore, bond prices are more susceptible to increasing interest rates, so we are taking relatively low risk in our bond portfolios by remaining invested in shorter-term maturities.

Duration of the Bloomberg Barclays US Aggregate Bond Index (1/31/78–6/30/21)



Source: Barclays Live, Bloomberg, and Hartford Funds, 7/21. For illustrative purposes only.