



**PVG Asset Management Corporation**  
LOSS AVERSE INVESTING

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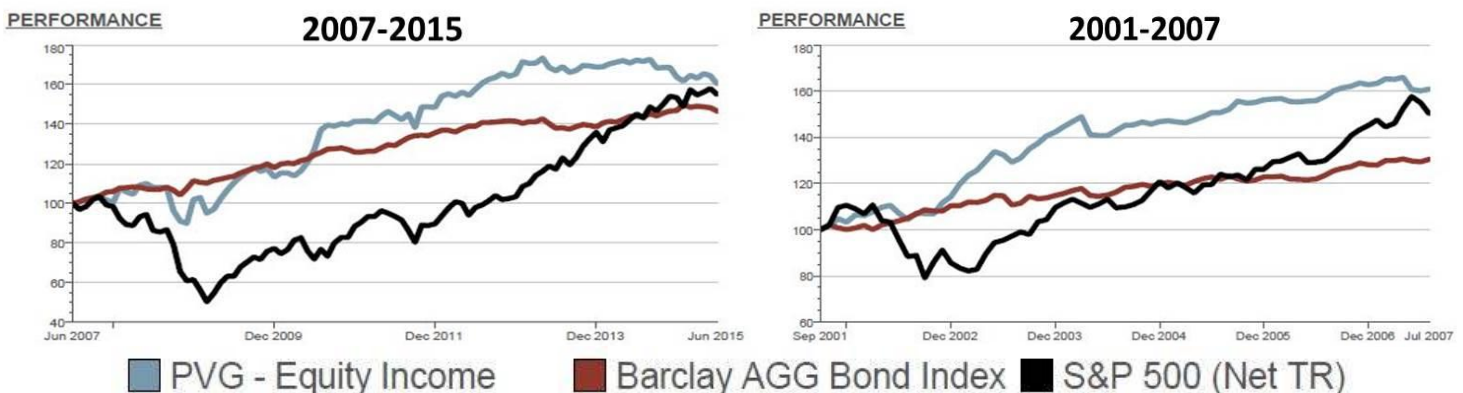
## LOSS AVERSE EQUITY INCOME STRATEGY

### Monthly Update August 2015 Market Cycle Analysis

The PVG Loss Averse Equity Income strategy historically has performed very well over a full market cycle. A full market cycle is defined as a peak in the market, followed by a bear market to the next market peak. It can also be defined as a trough to the next trough. The importance of analyzing strategies over a full cycle is to include both a bull market and a bear market. We believe that falling less in a bear market captures greater returns over the full cycle. We are a manager that likes to hold onto gains made during a bull market and don't let the bear side of the cycle take those gains away.

In our analysis we have included the two prior market cycles, our strategy versus the S&P 500 and the Barclays Aggregate Bond Index. During both cycles we have performed slightly better than the S&P 500, up 60.24% versus 54.93% and 46.66% for the Barclay Aggregate Bond Index from July 1st, 2007 to June 30th 2015. The performance was even more significant during the prior cycle, up 60.84%, 50.07%, and 30.37% respectively. It should be noted the risk in capturing these returns is only about 23% of the S&P 500 measured by Beta and more similar to the bond market.

(Please click [here](#) for full analysis)



Over a full cycle we have historically performed best on a relative basis during falling or bear markets, performing strongly on an absolute basis through most of the bull market, but the later stages of the bull market we have generally underperformed. The underperformance or bond like returns during the later stages of the bull cycle is due to two factors:

- 1) We find if necessary to protect the portfolio with hedges as the exact timing of the market decline is not possible to determine.
- 2) As we own conservative dividend paying stocks, these stocks tend to underperform the high flyers, especially as the market narrows.

We believe we are somewhere towards the very end of this market cycle, and likely have put in a top or will do so soon. If that's the case, we believe this strategy has become very timely and should be considered for an overweight position in our portfolios. During the first six years of this past cycle the strategy either outperformed the S&P 500 or the Barclays Aggregate Bond Index in 6 of the 7 years.

Another factor that points to this strategy being timely, is when the yield of the strategy is at the upper end of the 4%-6% range, the performance has generally been very good. We believe our income tranche of the portfolio is very attractively valued, and in time these stocks should outperform both the stock and bond market. If you compound the dividends at the current rate of 5.7% over 10 years you achieve a return of 74.08%. If you are able to incorporate an additional 1.5% of annual performance you can effectively double your money.

	Electric Utilities	Equity REITs	Mortgage REITs	Business Development Co.	Master Limited Partnerships	Telecom	Junk Bonds
Ticker	<u><b>XLU</b></u>	<u><b>VNQ</b></u>	<u><b>REM</b></u>	<u><b>Ladenburg</b></u>	<u><b>AMPLP</b></u>	<u><b>VOX</b></u>	<u><b>JNK</b></u>
Yield	3.50%	3.86%	12.50%	10.90%	7.54%	2.61%	5.96%

We focus on six general areas of the equity market for our Income Tranche to find attractive yielding stocks. We have included Junk Bonds as a point of reference as to the generally highest yield bonds in the U.S. bond market. Additionally, as an example, the yield on the 10 Year Treasury currently is about 2.24% and the 3 Year Treasury is currently 1.09%.

The Electric Utility and Equity REIT sectors are becoming more attractively valued, but are still vulnerable to rising interest rates. Utilities, as an example, generally trade about a 1.5 multiple yield higher than the 10 Year Treasury ( $1.5 \times 2.24\% = 3.36\%$  yield). Currently the yield is 3.5% on the Electric Utility sector, there is value but not enough. The valuations in the Equity REIT sector as a whole have improved recently as the stocks have come down, we believe the overall sector still possesses too much interest rate risk. There are, however, individual equity REITs that we own that are at very compelling valuations, such as WSR with a 9.3% dividend yield, SNH at 9.1%, and apartment REIT IRT at 9.2%.

The Mortgage REITs are attractive as the sector trades at a 15%-20% discount to book value, which implies the sector is anticipating interest rates rising by about 1.5% to close to 4% on the 10 Year Treasury. The market has already discounted rising interest rate for Mortgage REITs.

We believe the Business Development Companies are the most attractive sector, by far, due to their large discounts to net asset values, compelling dividend yields, protection from rising interest rates, and likelihood of favorable regulation changes from congress. BDCs have protection from rising interest rates as their loans are tied to LIBOR, but their cost of capital is fixed. Most BDCs we follow have yields well above 10%, and trade at 20% or more discounts to net asset value. The BDC sector is down about 23% from its high in 2013, creating great values, normally only seen in bear markets. The biggest fundamental reason for the decline was the compression in yields due to falling interest rates while the Fed was executing QE, this trend is starting to go the other direction. The energy exposure for most BDCs is not material. We believe the decline in the BDC sector has presented a unique opportunity, with yields above 10% and 5% or more appreciation potential annually for the next 5 years.

MLPs are the transportation for energy developed in the U.S. The concern we have is oil prices have fallen by over 50%. As unprofitable wells are closed volumes will slow, which will put downward pressure on dividends. We are seeing our concerns play out and believe the sector is becoming attractively valued. It is hard to have high conviction that oil prices have bottomed, we may not have seen the worse yet for MLPs, but for value oriented investors the risks are much improved.

The Telecommunications sector had been out of favor due to the competitive environment. We do like this sector, two of the largest "Blue Chip" companies have both recently made acquisitions that will drive cash flows for several years. The small companies also have attractive valuations. International telecom companies, we are concerned if the Fed does go down the path of raising rates through 2017, the dollar translation will impact these stocks negatively for U.S. investors.

A final note, this is an absolute return strategy, as we are investing in only dividend paying stocks, and will hedge the portfolio with inverse ETFs, there can be periods like 2014 when income stocks underperform or have negative performance. These periods generally do not last long and have generally been contained to having declines of less than 10%.

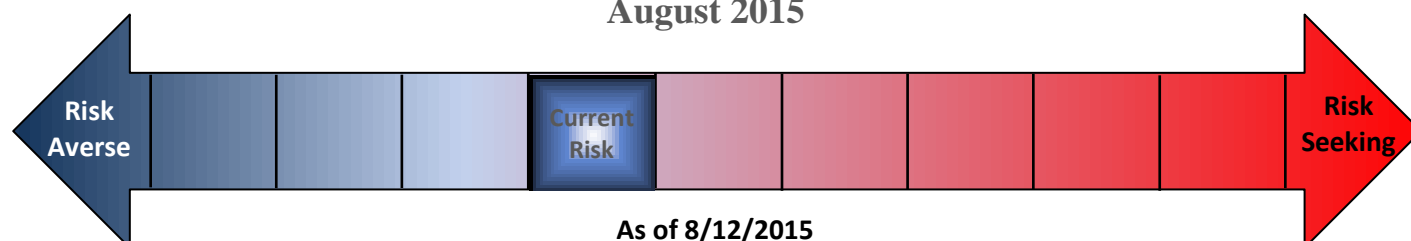
## PERFORMANCE AND ALLOCATION

HISTORICAL PERFORMANCE	
	EQUITY INCOME (NET OF FEES)
BEST YEAR	23.99%
WORST YEAR	-4.03%
AVERAGE ANNUAL COMPOUND RETURN	6.75%
CURRENT DIVIDEND YIELD	5.7%

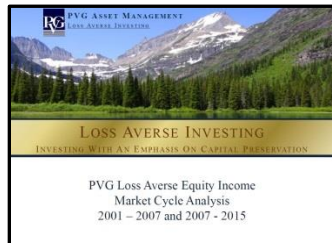
CURRENT ASSET ALLOCATION*	
COMMON STOCKS	27.1%
INCOME STOCKS	41.75%
INVERSE ETFs	13.0%
CASH & EQUIVALENTS	20.15%
NET LONG POSITION	42.85%

### Equity Income Risk Spectrum

August 2015



Please click the image below to view the full Market Cycle Analysis.



Performance results are presented in U.S. dollars and are gross-of-actual-management fees and trading expenses of the composite and reflect the reinvestment of dividends and capital gains unless otherwise denoted. Actual fees may vary based on, among other factors, account size and custodial relationship. \*Annual returns are compounded over the specified period. The current dividend yield is calculated gross of fees as of quarter end or month end date and is an expected dividend yield. No current or prospective client should assume future performance of any specific investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may cause the performance results of your portfolio to differ materially from the reported composite performance. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. Historical performance results for market indices generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. 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. Portfolios in the composite utilize leveraged index products. Leveraged ETFs are considered risky. The use of leverage strategies by a fund increases the risk to the fund and magnifies gains or losses on the investment. You could incur significant losses even if the long-term performance of the underlying index showed a gain. Most leveraged ETFs "reset" daily. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance of their underlying index or benchmark during the same period of time. Exchange traded funds (ETFs) are offered by prospectus only. Investors should consider a fund's investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing. The investment return and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. ETFs trade like stocks and may trade for less than their net asset value. The S&P500 Total Return Index is the total return version of the S&P 500 Index which includes the effects of reinvested dividends. The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. The U.S. Aggregate rolls up into other Barclay's flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976. The investment strategy and types of securities held by the comparison indices may be substantially different from the investment strategy and the types of securities held by the PVG Equity Income strategy. PVG Asset Management ("PVG") is a registered investment advisor with the United States Securities Exchange Commission (the "SEC"). SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the advisor has attained a particular level of skill or ability. Inception for the Equity Income strategy is 10/1/2010; prior performance represents the Income portion of the Balanced Strategy Composite, which PVG believes was managed with the same investment goals. Composite performance represents the results of the PVG management team, which has changed over time due to retirements and new staff. Additional information is available upon request.

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