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LOSS AVERSE EQUITY INCOME STRATEGY

MONTHLY UPDATE
MARCH 2014
Expecting Interest Rates to Rise in 2014

When interest rates, rise bond prices fall. From May 2013 through December 2013 interest rates rose from 1.6% to about 3.0% on the 10 year Treasury. During this period bond prices fell around 20%. The U.S. Economy is growing around 2%, generally speaking, and inflation appears to be normalizing around 2%, getting us nominal GDP around 4%. We believe as the Federal Reserve continues to taper their bond purchases then interest rates will gravitate toward a more normal level, which historically has been around 4%-8% on the 10 year Treasury. The current yield on the 10 year Treasury is about 2.8% and should approach nominal GDP.

The Federal Reserve meets in March and again in April, followed by June and July, and then September, October, and December. Unless the economy really falls apart by year end, the Fed will be out of the market by then. Since the Fed first started buying treasury bonds and mortgage securities the budget deficit has fallen by about half. The question is where is the crossover point when lower bond purchases will have an impact on the market? We believe at $40 billion or less in bond purchases, so $20 billion treasury and $20 million in mortgages will start to significantly impact the markets as the amount purchased by the Fed will be not be a significant percentage of the market. This should occur in April. So in the second half of the year we would expect rates to rise.

We have two tranches of our portfolio. The growth and income tranche and the income tranche. Collectively the two generate the 5% dividend yield of the portfolio. As rates were rising last year the income tranche performed poorly. We have made adjustments to the portfolio during the last year to significantly reduce our interest rate sensitivity by buying high yield securities that benefit from rising rates and we have initiated an interest rate hedge. We are prepared for another bear market in bonds. Our growth and income tranche last year performed really well, outperforming the S&P 500.

There has been a lot of chatter about a continuation of this strong bull market forming a melt up like in 1999/2000. We don't see this happening without the Fed staying very aggressive for an extended period of time. We don't see many catalysts to drive the stock market higher in the near term. In order to sustain the market rally, interest rates need to stay flat and the economy needs to pick up significantly to improve earnings (neither of which is likely to happen). We believe a correction is needed to reset expectations and to bring stocks back down to an attractive valuation level.

See reverse side for performance & disclosures

PERFORMANCE

PERFORMANCE*	
	EQUITY INCOME (NET OF FEES)
FEBRUARY MONTH-TO-DATE	0.90%
Q1 QUARTER-TO-DATE	0.80%
YEAR-TO-DATE	0.80%

CURRENT ASSET ALLOCATION*	
COMMON STOCKS	33.0%
REIT'S, BDC'S ETC.	26.2%
INVERSE ETF'S	25.0%
CASH & EQUIVALENTS	15.8%
NET LONG POSITION	30.2%

Performance results are presented in U.S. dollars and are net-of-actual-management fees and trading expenses and reflect the reinvestment of dividends and capital gains. The applicable management fee schedule is 1.0%. Actual fees may vary based on, among other factors, account size and custodial relationship. 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 levered 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 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 registered as an 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