PORTFOLIO MANAGERS:
Patrick S. Adams, CFA

PHONE:
800-777-0818

EMAIL:
INFORMATION@PVGASSET.COM

WEBSITE:
WWW.PVGASSETMANAGEMENT.COM

ADDRESS:
5975 South Quebec St., Suite 270
Centennial, CO 80111

Loss Averse Equity Income Strategy

Monthly Update
May 2014
Opportunistic Income

We have two tranches of our portfolio, the growth and income tranche and the income tranche. Together the two generate around a 4.5% dividend yield on the portfolio. We would like to focus on the income tranche of the portfolio in this update. We currently have about 33% in the growth and income tranche and about 34% in the income tranche, with 10% in cash, and the remainder in hedges or inverse ETFs.

The income tranche is designed to get attractive dividend yields, but also some appreciation by being opportunistic. The growth, or inflation protection, in the portfolio comes from the growth and income tranche. In the income tranche there are six main sectors we focus on to get yield: electric utilities, equity REITs, mortgage REITs, business development companies (BDCs), master limited partnerships, and global telecom companies. We would consider fixed income securities, such as closed end funds, or ETFs, if there was an unusual situation to take advantage, but on a secular basis we are very negative on the bond market. Year to date, electric utilities have been big winners, and are not attractively valued with P/E multiples of 18 times currently, with dividend yields of only 3.8%. We do not find this sector attractive. The equity REIT space has also been very strong this year, and now have yields of around 2.8% on average, we are finding undiscovered quality investments in this sector. Mortgage REITs have also performed well this year, and have dividend yields of approximately 11.4%. The BDC's have dividend yields of around 11.1%, and are down about 9% for the year. We believe the BDCs are the most attractive sector by far. The global telecom stocks are about flat on the year, and have dividends of about 3.4% on average. The master limited partners are up about 2.4% on the year, and have yields of about 6.0%. Just for comparative purposes the 10 year Treasury yields 2.6%, intermediate corporate bonds 3.2%, and junk bonds 5.7%.

Yields of Different Sectors or Asset Classes

Electric Utilities	Equity REIT	Mortgage REIT	BDCs	Global Telecom	Master Limited
3.8%	2.8%	11.3%	11.1%	3.4%	6.0%

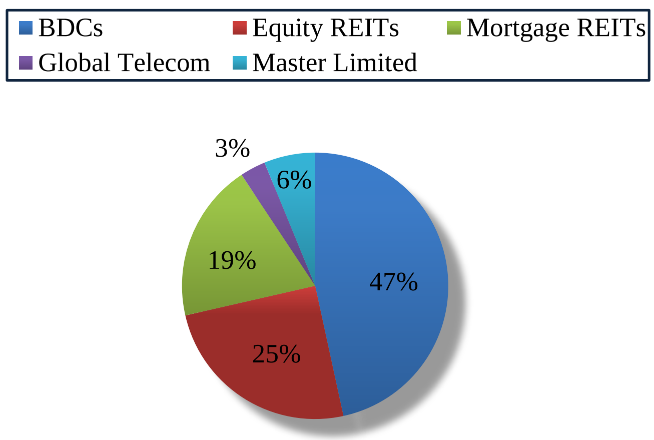
We currently have exposure in the equity REIT space, mortgage REITs, BDCs, a small position in global telecom, and MLPs through an ETF so we don't have the k-1 tax forms to deal with. We are very selective in the equity REIT space, where our average yield on the securities we own is 7.1%. This yield is significantly higher than the sector average. We have no exposure to the electric utility sector due to valuation concerns. This sector does correlate highly with the bond market, as do the mortgage REITs. The mortgage REITs are still undervalued from the decline they experienced last year when interest rates rose sharply, most are still trading at significant discounts to book value. We are much more positive on mortgage REITs than electric utilities.

See reverse side for continuing comments

The sector that stands out most is the BDC sector. These are companies that have a similar legal structure as a REIT. BDCs make loans to middle market companies where the banks no longer carry a focus, due to banking regulation that disfavors banks making loans, and the fact that the regional banking sector has largely disappeared. It is not because it isn't a very lucrative area to lend. Additionally, BDCs typically require a lot of collateral when they make loans, substantially reducing risk. The BDC sector has underperformed this year relative to the other yield oriented sectors due to S&P taking BDCs out of their indices and Russell is in the process. BDCs don't have an exemption from the SEC that REITs have, which allows the fees they charge to be viewed like operating expenses, the fees are being added to the expense structure of the indices. We view this as odd and not fundamental. We would expect the BDCs to also get this exemption, but the timing is not certain. The BDC sector is very attractive for income, and when this technical selling is over in June, the sector should have significant appreciation. We believe the sector is 10%-15% undervalued.

We have been slowly adding to the BDC sector on this weakness, however, it is causing some drag to performance short term. This should be a very attractive sector in a slow growth economy, and compressed dividend and bond yields.

Sector Weightings of Income Tranche



Performance

Performance*	
	Equity Income (net of fees)
April month-to-date	0.27%
Quarter-To-Date	0.27%
Year-to-date	1.49%
Dividend Yield	4.50%

Current Asset Allocation*	
Common Stocks	33.2%
REITs, BDCs etc.	34.7%
Inverse ETFs	22.0%
Cash & Equivalents	10.1%
Net Long Position	28.9%