



**PVG Asset Management Corporation**  
LOSS AVERSE INVESTING

**PORTFOLIO MANAGER:**  
Patrick S. Adams, CFA

**PHONE:**  
800-777-0818

**EMAIL:**  
information@pvgasset.com

**WEBSITE:**  
www.pvgassetmanagement.com

**ADDRESS:**  
6898 S. University Blvd.  
Centennial, CO 80122

## LOSS AVERSE EQUITY INCOME STRATEGY

### Monthly Update October 2014

From the market high in September, to the low in October, the S&P 500 has corrected about 10%. The Russell 2000, the small cap index, is down almost 15% from the yearly high to the recent low. Finally, we have a correction. The market has broken some important support levels through the widely regarded 200 day moving average, so you can argue unless the market snaps back strongly, the trend has perhaps changed to negative.

On the fundamental side, we don't think there is very much change to the slow growth economy that we have been experiencing, but the sentiment perhaps is changing. What we mean by that is earnings growth for the S&P 500 is slowing, but the economy is really not changing much. The problem for corporate earnings growth is the strong rise in the dollar. The dollar is up about 10%. With 40% of the average company's revenues, in the S&P 500, being generated from international exposure, the strong dollar translates into lower revenue to the tune of 4%. Additionally, the stronger dollar has crushed commodity prices, this hurts the energy sector earnings, but it is a net benefit to the economy as the U.S. is a net importer of oil. Oil is down over 20% from its recent high, which is a bear market.

Europe presents a significant risk to the global economy, as it has entered a recession, and it's being impacted of by a cascading Russian economy. Additionally, Europe has a significant Muslim population that has been protesting the events in the Middle East.

The bond market has been very strong on the long end, and the intermediate part of the yield curve is up about 3% for the year. Lower quality bonds have corrected about 7% from high to low. The bond market has basically run for cover, discounting some deflation.

Ebola is an unknown risk, which is hard to judge the actual economic impact. If it spreads to several hundred cases in the U.S., we believe it will be perceived as a major problem.

What we have been doing in the Loss Averse Equity Income strategy is reducing our hedge recently, due to the pull back in the market, but also raising our cash position to dampen volatility. Our hedge had been around 37%, factoring in the leverage. Our hedge is now currently 24% factoring in the leverage and our cash is about 24%. We have about 56% long, with 24% hedge, so a net long position of about 32%.

The risk, and recent volatility in our portfolio, has been in our income tranche, oddly enough, as the bond market has been positive recently. Of the 32% net long, our income tranche is the exposure to the market in how we allocate our hedge. We do not see any fundamental issues with the income tranche, and believe it represents outstanding value. We believe these stocks are significantly undervalued relative to the market. As an example, the BDCs that we own are trading at a 17%

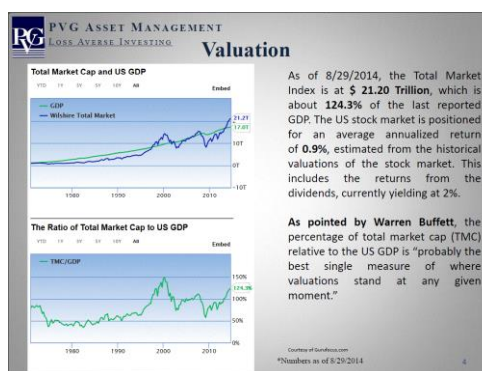
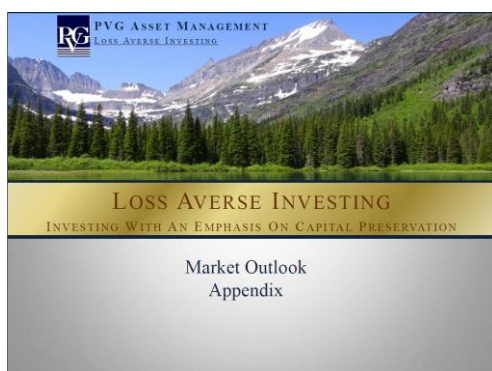
discount to book, where they have recently traded at a 5% to 10% premium and the current yield is 12.4%. We are very happy to earn just the yield, but we think at some point there will be significant appreciation. Again, the relative attractiveness versus a 2% yield on a 10 year treasury makes it worth accepting some short term volatility.

We believe a bear market could be developing as many of the issues we have raised need some time to work out, not to mention the liquidity injection of the Federal Reserve's QE policy is ending this month. It feels like there is another unknown shoe to drop, on the other hand, the U.S. economy is not falling apart, and low bond yields should get the housing market going again. If these low oil prices hold it will filter its way into increased consumer spending. In the near term, we expect the market to see lower highs and lower lows, with significant trading opportunities if you can catch them.

How we recommend you use this defensive strategy is as a fixed income substitute, or a conservative allocation for equities. Keep in mind that we have equities in our portfolio and in the short term it may not act like a bond, but over a longer period should provide similarly low historical volatility yet have superior returns. For equity investors the strategy is a great place to hide while this potential bear market plays out. For conservative investors the strategy can be used as a core portfolio. We are very confident of having superior returns versus both the equity market and bond market over a full market cycle, while having relatively low volatility during bear markets.

*See reverse side for performance & disclosures*

**For a copy of our latest market outlook please click on the slides below or [click here](#).**



## PERFORMANCE

PERFORMANCE*	
	EQUITY INCOME (NET OF FEES)
SEPTEMBER MONTH-TO-DATE	-2.45%
QUARTER-TO-DATE	-2.52%
YEAR-TO-DATE	-0.99%
DIVIDEND YIELD	4.86%

10/14/2014 ASSET ALLOCATION*	
COMMON STOCKS	24.6%
REITs, BDCs ETC.	33.2%
INVERSE ETFs	20.5%
CASH & EQUIVALENTS	21.7%
NET LONG POSITION	37.8 %

Performance results are presented in U.S. dollars and are net-of-actual-management fees and trading expenses of the composite and reflect the reinvestment of dividends and capital gains. 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 date. 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 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 passsthroughs), 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.