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LARGE CAP VALUE STRATEGY

MONTHLY UPDATE
FEBRUARY 2019

The market remained "*risk-on*" in February as the S&P 500 gained 3.2%, tacking on to January's finest monthly return (8% gain) since 1987. The S&P 500 is now back to that impervious level of 2800. That level was tested and failed three times in the last quarter of 2018. With the stark improvement of the stock market, the forward 12-month P/E ratio for the S&P 500 is 16.2, according to FactSet. Back on December 27th, the forward 12-month P/E ratio for the S&P 500 was 14.2. The P/E ratio 10-year average is 14.7 The good news for the balance of the year is that a positive January/February has resulted in a constructive year 87% of the time since 1928, notwithstanding starting P/E levels.

As for February, the market fixated on Q4 2018 earnings, which were expected to be dreary. But as always, expectations were so low, that companies jumped the hurdle. The Q1 bottoms-up EPS estimate dropped by 6.5% (*to $37.60 from $40.21*) during the first two months of the year. According to FactSet, 69% of the companies in the S&P 500 reporting actual results through March 1st for the quarter reported a positive EPS surprise – primarily due to a lower bar.

The market continued higher as investors ignored trade and tariff issues, higher expectations of a Chinese deal, Brexit negotiations, and weakness in Europe. But we expect some weakness in March and a stall at that 2800 level based upon both fundamentals and technicals. The Atlanta Fed reiterated its GDPNow model estimate of 0.3% annualized growth during the 1st quarter. It's not just the U.S. that is demonstrating weakness. Examine the PMI readings across the globe. Japan's February reading on the Nikkei Manufacturing PMI came in at 48.9. China's PMI was 49.2 while Germany's came in at 47.6. This has led to further strength in the U.S. dollar. Approximately 40% of SPX revenues are foreign - thus the strong USD is creating a continued headwind. Risks heading into March are elevated in our opinion after two torrid months, and include;

1. P/E rising from 14.2 to 16.2.
2. Downward earnings revisions.
3. 2800 serving as strong resistance technically
4. US-China trade deal uncertainty.
5. Global growth weakening.
6. Strong US dollar.
7. European Banking System

LARGE CAP VALUE PERFORMANCE
FEBRUARY 28, 2019

	PVG LCV
FEB	2.02%
1 YEAR	10.95%
	R1000 VALUE
FEB	3.20%
1 YEAR	3.16%

Underneath the market, low quality stocks (*B rated or below*) have performed better than higher quality stocks. Growth also outperformed value for the third consecutive month as the Russell 1000 Growth was up 3.6% vs. Russell 1000 Value advancing by 3.2%. Within large cap value, 36% of managers outperformed the benchmark in February. 46% are ahead of the index year-to-date.

Regarding overall sectors, technology did the best for the month, adding 6.63% for February. Industrials, the January leader, posted a 6.06% gain. Utilities surprisingly added 3.55% in February. Consumer stocks underperformed, as Consumer Discretionary posted the lowest return, up 0.65%, while Consumer Staples added 2.12%. Financials underperformed, advancing 2.18% for the month. Health Care also underperformed, up 1.04% for February. It is the worst sector YTD, up 5.7%. 382 of the 500 S&P companies rose, which was a drop from the 472 in January. Of the 123 issues that fell, the average drop was 4.2%. For factor analysis, value type stocks fell below the S&P 500 return. High dividend factor stocks rose by 2.8%. Low P/B ratios rose by 2.4% while low P/S stocks advanced by 1.5%. Low EV/EBITDA stocks rose a mere 0.8% *See chart below for returns on overall sectors and style.*

For February, our top performers were Intel (+8.6), Merck (+6.3%), KeyCorp (+6.2%), Travelers (+5.1%). The worst performers were Gilead Sciences (-7.2%), Occidental (-2.3%), and Ventas (-1.1%). There were no new additions to the portfolio in February. Sector weighting remained consistent with 20% in Healthcare, 18% in Financials, 14% in Energy, 12% in Consumer Discretionary, and 10% in REITs. The average dividend yield for the portfolio is 3.34%. We remain cautious into March due to the above concerns and are maintaining a small portion (4.5%) in cash. We are examining several companies within the consumer staple and financial sectors.

If PVG's products may be a fit for your clients, please call us at 303.874.7471 or email the portfolio manager at tmcintosh@pvgasset.com to schedule an introductory call.

February Data	1-Month (%)	YTD (%)		1-Month (%)	YTD (%)
Index Returns			**Factor Performance**		
S&P 500	3.0	11.08	High Dividend	2.8	13.9
Russell 1000 Growth	4.1	11.9	Low Price to Book Value	2.4	15.4
Russell 1000 Value	3.2	11.23	Low Price to Sales	1.5	12.9
DJIA	4.0	11.62	Low EV/EBITDA	0.8	14.1
S&P 500 Sectors			**Russell 1000 Value Sectors**		
Communication Services	0.8	10.96	Communication Services	3	8.1
Consumer Discretionary	0.7	10.94	Consumer Discretionary	2.2	12.5
Consumer Staples	2.1	7.22	Consumer Staples	2.1	9.4
Energy	1.9	13.18	Energy	2.6	14
Financials	2.2	10.95	Financials	2.2	11.5
Health Care	1.0	5.75	Health Care	2.9	6.7
Industrials	6.1	18.11	Industrials	5.1	18
Materials	3.0	8.66	Materials	2.8	9.1
Real Estate	0.8	11.64	Real Estate	0.2	12.6
Technology	6.6	13.96	Technology	7.8	15.4
Utilities	3.6	7.04	Utilities	4.2	8.4

MORNINGSTAR ★★★★★

Risk Considerations:

Past performance is not a guarantee of future results.

*Performance results are presented in U.S. dollars and are Net of any actual fees and reflect the reinvestment of dividends and capital gains. Actual fees may vary based on, among other factors, account size and custodial relationship. Model results are before the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid or actually paid. *Annual returns are compounded over the specified period. 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 or index. 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 level of skill or ability. The PVG Large Cap Value Composite consists of all fully discretionary large cap value equity portfolios with strong relative earnings and above average dividend yields. The portfolios are concentrated in the healthcare, energy, REIT, and financial sectors. The portfolios are typically invested in 25-35 equities chosen primarily from the United States. 10% of the portfolio can be invested in ADR securities from the major developed markets of Europe and Asia. For comparison purposes, the composite is measured against the Russell 1000 Value Index, which measures the performance of the large-cap VALUE segment of the U.S. equity universe. The U.S. Dollar is the currency used to express performance of each composite. Returns are presented gross of management fees and include the reinvestment of all income.* ***The firm maintains a complete list and description of composites, which is available upon request from Timothy J. McIntosh, CIO, at*** **800-777-0818** *. PVG claims compliance with the Global Investment Performance Standards (GIPS®).*