



## PVG Asset Management Corporation

LOSS AVERSE INVESTING

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# LOSS AVERSE INVESTING STRATEGIES UPDATE

April 2018

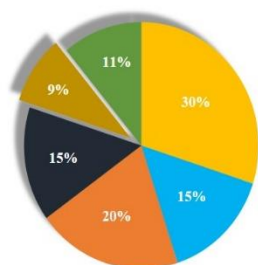
## Overview

The stock market is beginning to struggle on a technical basis or lose momentum. The S&P 500 made a new high in January, that looked like an exhausting parabolic move. These types of moves are generally associated with market peaks. Since then the market has been making lower highs but not lower lows at this point, so it looks as though we are consolidating and not entering a bear market at this point. Our fundamental view is positive when looking at the strength in earnings in 2018, however, we are concerned about extremely tough comparisons in 2019. We would expect perhaps flattish earnings in 2019 as the economy slows and interest rates rise.

## Tactical Total Return

Tactical Total Return is having an outstanding year thus far up 3.8%, essentially doubling the S&P 500 Index up 1.8% and significantly beating the Barclay's Aggregate Bond Index which is down -1.8%. The strategy utilizes 4 different indices and has a 10% sleeve of our best individual stock ideas. The strategy was able to generate significant outperformance or Alpha in its weighting of the 4 broad stock indices and the stock holdings. The strategy utilizes moving averages to determine the current allocation to each market sector. We have a history of outstanding security selection and only selecting a few positions in the stock sleeve is a real treat for stock pickers.

This strategy, over the long term, is designed to generate the highest risk adjust returns relative to all our tactical and loss averse strategies. We modified Tactical Total Return last year to utilize our technical moving average algorithm, and obviously adding a sleeve of individual stocks. The strategy has the same defensiveness as it always has, down only -5% roughly in 2008, yet we believe we can outperform the S&P 500 Index more constantly in rising markets. Our Dynamic Core strategy has been running off our technical model now for over 3 years and has an audited back test over a 15-year period.



- SPDR S&P 500 ETF (SPY)
- Powershares QQQ Trust (QQQ)
- iShares MSCI EAFE (EFA)
- iShares Russell 2000 (IWM)
- Alpha Sleeve
- Cash

CURRENT ALPHA SLEEVE HOLDINGS		%
The Walt Disney Company (dis)		2.0
Olin Corp. (olin)		2.0
BIOGEN IDEC INC (biib)		1.0
Walgreens Boots Alliance Inc. (wba)		1.0
Cleveland-Cliffs Inc (clf)		1.0
AMC Entertainment Holdings Inc (amc)		1.0
Whitestone Reit (wsr)		1.0
Total		9.0

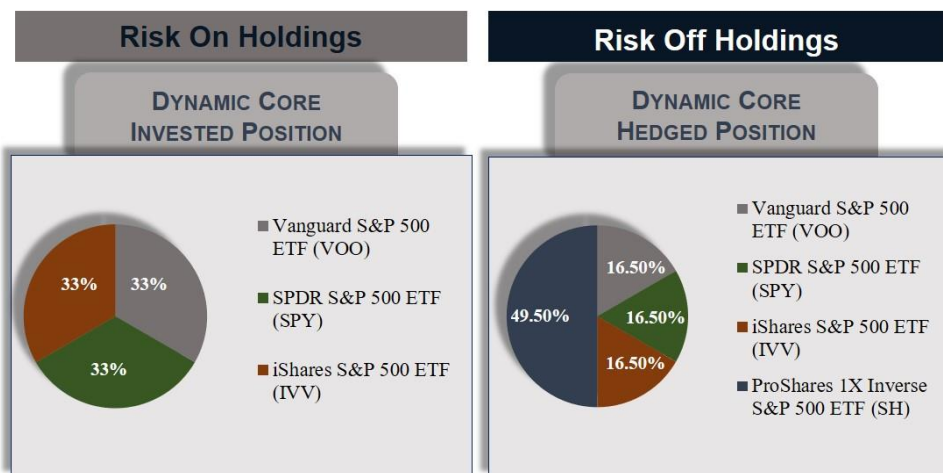
We believe the Tactical Total Return strategy allows the investor broad market participation, downside protection, but also the ability to capture attractive risk adjusted returns. The downside protection will likely be critical in the not too distant future.

PERFORMANCE*	
APRIL 17, 2018 (NET OF FEES)	
	TACTICAL TOTAL RETURN
YTD	3.83%
	S&P 500
YTD	1.79%

## Dynamic Core

The Dynamic Core strategy is holding its own well in this volatile market. The last sell signal we had was during the 4<sup>th</sup> quarter of 2015, and the last buy signal was the first quarter of 2016. This allowed the strategy to avoid that roughly 12% decline. Since then, the strategy has been fully invested and got the upside of the market gross of fees. Including the 4<sup>th</sup> quarter of 2016 the strategy is up 37.3% gross of fees. Thus far this year the strategy is up 1.05%.

The key to beating the market is participate in the market when it's rising, and conversely protecting the downside when the market is falling. Our Dynamic Core strategy avoids major declines but stays invested as long as the trend has not been broken. For most tactical managers, what tends to eat into performance and causes tax issues is all the trading. As we mentioned, we have been fully invested for about 25 months. When we do get a sell signal we are only selling half the portfolio and buying the inverse of the S&P 500 on the other half. It would not surprise us to see a sell signal at some point in the not too distant future, but we will allow our technical model that has a beautiful long-term history to make that determination.



PERFORMANCE*	
APRIL 17, 2018 (NET OF FEES)	
	DYNAMIC CORE
YTD	1.05%
	S&P 500
YTD	1.79%

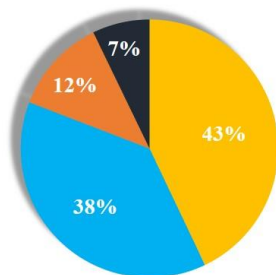
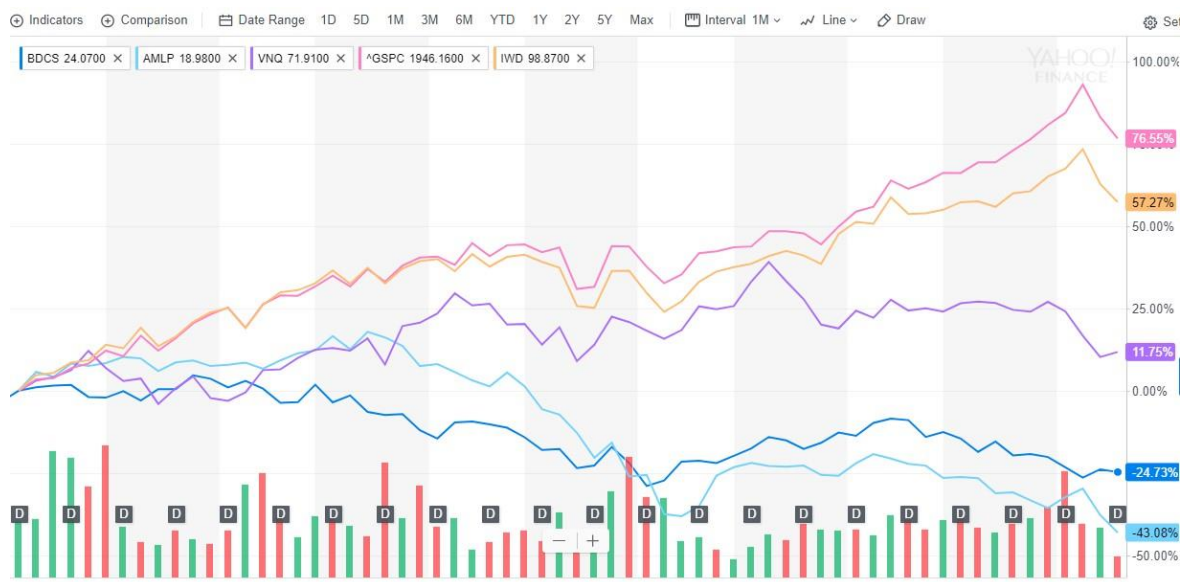
## Loss Averse Equity Income

We are big believers in reverting to the mean, as an example, as technology stocks get overly expensive and energy stock become too cheap the markets will rotate out of technology and into energy, as long as the fundamentals support it. This has been something that has occurred forever. When we look at the market, we see value in the “value” stocks, REITs, BDCs, and energy MLPs. When you look at the energy MLPs over the last 5 years they are down roughly -43% over that period versus the S&P 500 Index up roughly 77%. AMLP is the Alerian MLP ETF, it has a very attractive dividend yield of 9.0% and we believe that is a secure dividend that will grow over time. At this point in the market cycle would you rather own an inflated stock market or a very attractively valued income producing asset that has actual assets that could be liquidated for significant value? Not as pronounced are the BDCs and the equity REITs, both also have attractive income streams and are undervalued relative to their net asset values. The BDCs generally have yields over 10% and REITs above 5%.

We maintain price targets on all our stocks and are quite happy with the portfolio. Our portfolio is undervalued by 16% based on 2018 earnings. We are assuming a flat market. The current dividend yield is 5.6% and is expected to grow at a higher rate than inflation. Another way of looking at it is our portfolio has 16% upside plus the 5.6% dividend yield based on our price objectives. We believe the strategy is compelling in terms of timing. We are prepared to increase the inverse S&P 500 ETF if the market breaks lower to dampen any losses during a bear market.

### 5 Year Chart

#### S&P 500, Russell 1000 Value, REITs, BDCs, Energy MLPs



Blue Chip Tranche		Income Tranche	
Health Care	8.5%	Equity REITs	16.8%
Consumer Discretionary	8.5%	BDCs	14.0%
Financials	1.5%	Mortgage REITs	1.7%
Technology	1.5%	Telecom	5.5%
Industrial	0.5%	MLP (ETF's)	4.0%
Basic Materials	4.0%	Utilities	-
Consumer Staples	7.5%	Preferred	-
Energy	3.5%	Commodities	2.0%
Index	1.0%	Cash	7.2%
		Hedge	15.0%

PERFORMANCE*	
APRIL 17, 2018 (NET OF FEES)	
	LOSS AVERSE EQUITY INCOME
YTD	-0.92%
	S&P 500
YTD	1.79%

Please call us at 303 874 7471 or email us at [rgarcia@pvgasset.com](mailto:rgarcia@pvgasset.com) to schedule an introductory call regarding our strategies.

The **Loss Averse Equity Income** strategy is a portfolio of high quality dividend paying stocks, with a very attract dividend yield, inflation protection, and we protect against falling or bear markets when we think it is appropriate with inverse ETFs on the market indices. This portfolio has a low correlation with the major stock and bond indices, and has very attractive returns over a full market cycle, adding both return and diversification to an overall portfolio.

The **Dynamic Core** strategy is a tactical portfolio that is designed to mirror the S&P 500 Index in rising markets, yet in bear markets maintain a defensive posture and preserve capital. It uses only technical input based around the moving averages of the S&P 500 Index.

The **Tactical Total Return** strategy is a tactical portfolio that is designed to mirror four indices in rising markets, yet in bear markets maintain a defensive posture and preserve capital. The strategy also has a very unique, “Alpha Sleeve” which allows us to utilize the best ideas of the firm in a 10% sleeve of the portfolio. The “Alpha Sleeve” can invest in individual securities or ETF’s.



**LOSS AVERSE INVESTING STRATEGY UPDATE (PDF)**  
[CLICK HERE](#)

**Risk Considerations:** Past performance is not a guarantee of future results. 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 and is the expected forward 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. PVG's Portfolio Risk Spectrum is based off a number of factors including portfolio structure, holdings, weighting and risk measures. It is not meant to define the client's risk profile or appetite when investing with PVG. The Portfolio Risk Spectrum may change from the current position at any time depending on the factors stated for measurement. 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 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. Inception for the Tactical Total Return strategy is 09/30/2001. Inception for the Dynamic Core strategy is 09/30/2001. The strategy was redefined on 12/31/2014 to a technical algorithm overlay model. The Dynamic Core Strategy previously utilized subjective fundamental input and is now utilizing only algorithmic technical input. 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