



**PVG Asset Management Corporation**  
LOSS AVERSE INVESTING

**PORTFOLIO MANAGER:**  
TIMOTHY J. MCINTOSH

**PHONE:**  
800-777-0818

**EMAIL:**  
INFORMATION@PVGASSET.COM

**WEBSITE:**  
WWW.PVGASSETMANAGEMENT.COM

**ADDRESS:**  
10300 49<sup>TH</sup> STREET NORTH  
CLEARWATER, FL 33762

## US CORPORATE FLEXIBLE BOND STRATEGY

### MONTHLY UPDATE AUGUST 2017

Our U.S. Corporate Flexible Bond portfolio gained just under 1 percent for the month of July. For 2017, the portfolio has returned 5.5 percent. These returns are above that of our primary benchmark, the U.S. Barclays Credit Index. Economic data for the month of July was more favorable than June. Our preferential Chicago Fed National Activity Index improved to a positive 0.13 in June from a downwardly revised negative 0.30 in May. All four extensive classes of indicators that make up the index posted improvements from May. 40 of the 85 indicators made constructive contributions to the index in June. 56 indicators showed an improvement and 28 deteriorated from May to June. The Chicago Fed index's three-month moving average, which offers a much better portrait of the movement in economic activity, advanced to a positive 0.06 in June from a negative 0.04 a month earlier.

Another constructive report was the Labor Department job report. The Labor Department announced that nonfarm payrolls increased by 209,000 jobs in July. June's employment gain was amended up to 231,000 from the earlier reported 222,000. Average hourly earnings went up by nine cents, or 0.3 percent, in July. The increase was the largest since March. Unfortunately, wage growth has not been robust as countless jobs being created are in low-wage industries such as restaurants. In fact, restaurants and bars added 53,100 jobs, or nearly a quarter of the figure. Layoffs are also well below par. For every 10,000 people in the workforce, 66 claimed new unemployment benefits in July. This is even below the preceding low point, 83 per 10,000, that occurred during the internet bubble in April 2000. The number of job openings also keep rising, demonstrating economic strength. Job openings rose to a new record in June while hiring decreased, confirmation of the problem companies have finding apt employees. Job openings increased to 6.16 million from 5.7 million in May. With the solid economic reports in June, we expect our Federal Reserve to reduce the immense \$4.2 trillion portfolio of Treasury bonds and mortgage-backed securities starting in September. Regarding interest rates, we still believe a December rate hike is in the cards, despite lethargic wage growth and moderate inflation.



This is because from a macroeconomic viewpoint, second-quarter GDP expanded an annualized 2.6%. This was better than expected and gives the Federal Reserve ammunition to continue on its course. However, as the chart of the 10-year Treasury bond indicates above, yields barely moved last month. It indicates to us that despite the solid economic reports released in July, investors either don't believe that the economy is strengthening or that the thirst for yield is still too strong. As widely expected by the market, the Federal Reserve did not make any major adjustment to monetary policy. Language from the Federal Reserve was changed minimally as the term "*relatively soon*" was injected into the commentary. We anticipate the Federal Reserve will initiate a reduction in its balance sheet by \$10 billion per month. The program will be enhanced to up to \$50 billion per month. We do not expect this to have much impact on yields. Only a weak jobs report before the fall could detail the balance sheet reduction or postpone an interest rate increase in December. Yield spreads in the corporate market have collapsed in the past eighteen months. This has made corporate bonds expensive by historical standards. This is especially relevant in the high yield market. We have positioned our portfolio in higher rated A and BBB+ bonds. A- rated bonds have merely treaded water and offer the same yield (3 percent on average) as they did a year ago while lower rated CCC rated bond have returned over 20 percent. We feel there is a tremendous amount of risk in CCC rated bonds.

We believe our strategy is very timely, and in the not too distant future, the capital markets could deteriorate or perhaps turn into a bear trend like in 2008/2009, or 2000 through 2002, when a recession finally occurs. If such an event were to occur, then our bond strategy is designed to become defensive and preserve capital. We believe the unique flexibility of our bond strategy is ideal for an investor concerned about the potential for future volatility in the bond markets.

Additionally, PVG [has a full set of products](#) that are designed to protect the principle of an entire portfolio in a bear market, yet still achieve very attractive returns. As an example, an investor with a balanced approach could invest 25% of their portfolio with Dynamic Core, 25% into Tactical Total Return for more index exposure, 30% in the PVG Loss Averse Equity Income strategy as a substitute for fixed income and value stocks, and 20% in the PVG US Corporate Flexible Bond strategy, our tactical bond portfolio that uses individual bonds and protects the downside.

If you would like to more information please call, 1.800.777.0818.

PERFORMANCE* JULY 31, 2017	
	PVG
YTD	5.58%
	US BARCLAYS CREDIT INDEX
YTD	4.44%

CREDIT ALLOCATION AUGUST, 2017	WEIGHT
AA	2.8%
A	4.2%
BBB	62.5%
BB+	19.7%
OTHER	10.8%
TOTAL	100%

#### 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. 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 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 pass-through's), 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. Barclays US Credit Bond Index represents publicly issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both US and non-US corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. An investment cannot be made directly in a market 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 particular level of skill or ability. Inception for the U.S. Corporate Flexible Bond strategy is 3/31/2006. Additional information is available upon request.