



**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 July 2018

As of July 6, 2018, the PVG Loss Averse Equity Income strategy is up approximately 3.0% for the year and up 4.4% for the second quarter. The current dividend yield is 4.9%, consistent with our long-term goal of a 4% to 6% dividend yield. The current Beta is only .40 relative to the S&P 500. During the second quarter, the strategy beat the S&P 500 of +3.4% and the Barclays Aggregate Bond Index of -.2%. We believe we are seeing the beginning of assets moving out of growth and into value stocks, and investors seeking some inflation protection rather than owning bonds.

Our strategy has two tranches, an income tranche and a Blue-Chip tranche. The income tranche is comprised of higher dividend paying stocks that can benefit from higher interest rates or inflation. The income stocks were very strong performers in the second quarter. Our biggest exposures are the Business Development Companies (BDCs), equity REITs, telecom, and energy MLPs (through an ETF so no K1). The BDCs benefit from rising short-term rates, which we believe will continue for a while. Equity REITs and energy MLPs benefit from a strong economy and to some degree from inflation rising. We also bought a position in Gold as a hedge against financial assets falling, as some protection against losing purchasing power with inflation, but most importantly, we believe it is a timely investment.

We have a value approach to our investment style and want to buy real companies at attractive valuations. We recently took advantage of the consumer staple stocks getting smashed and have now bounced off their lows. The financials have underperformed for a good five months and as a result we bumped up our weighting this past month. We believe our Blue-Chip tranche will likely be the stronger of the two tranches and have reduced the income tranche and have increased the Blue-Chip tranche.

The stock market is late in a very long cycle, and concerning, the market has not made a new high since January. Perhaps the high made in January may be the high for the cycle. As we look out to next year there are some very ominous clouds developing in slower earning growth as we anniversary the tax cuts, higher interest rates from the Federal Reserve and the Federal Reserve significantly shrinking its balance sheet. We are not particularly concerned about a trade war, but the China stock market is in a bear market.

We believe our strategy may be entering a very favorable period in terms of performance relative to both the stock market and bond market. If the stock market has problems, it will likely be because of technology stocks running out of momentum, we have no exposure to risky technology stocks. The bond market is facing the prospects of rising interest rates.

We have included a chart you may have seen from us before, but it says a lot. It appears we are in the very early stages of seeing a big rotation from growth stocks into value stocks, which could last a very long time. It is possible growth will continue to outperform in the near term, but over a reasonable time, value outperforming seems like a very safe bet. The last rotation into value was enormous, from 2000 thru 2007, lasting roughly 7 years. There have been 12 cycles of growth or value since 1945 lasting on average 6 years. This current cycle is about 2x the standard deviation of growth outperforming, again this gives us high confidence in the long term this theme will work. Statistically it is likely this current trend in growth outperforming will end soon. These cycles generally change during periods of market volatility or bear markets. The market may continue to rise with value taking the lead, given the big fiscal stimulus from Trump, late in the economic cycle.

The PVG Loss Averse Equity Income strategy is well positioned for this shift. We are loaded with value and growth that looks like value.

## Growth vs. Value Approaching Tech. Bubble Highs



## PERFORMANCE, ALLOCATION AND RISK SCALE

PERFORMANCE	
AS OF 6/30/2018	EQUITY INCOME (NET OF FEES)
2 <sup>ND</sup> QUARTER	4.44%
YIELD	4.90%

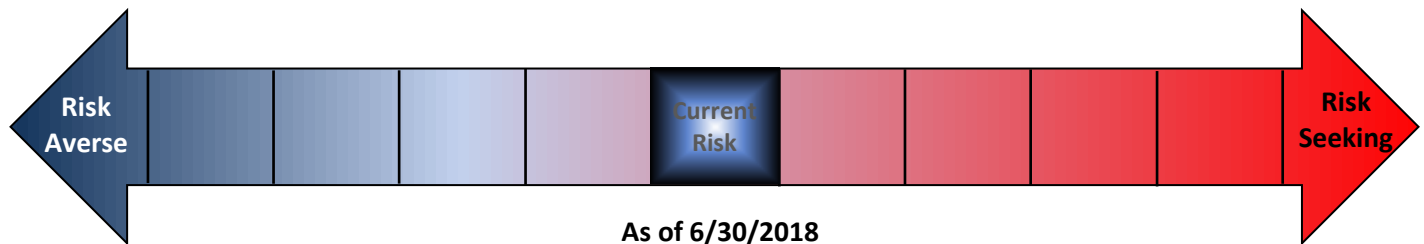
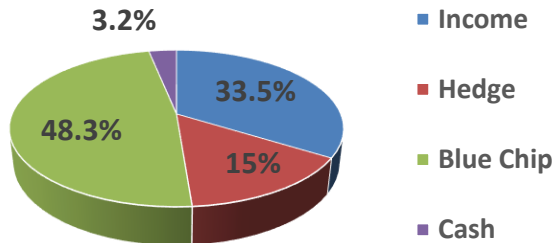
### Blue Chip Tranche

Health Care	8.8%
Consumer Discretionary	6.0%
Financials	8.5%
Technology	3.5%
Industrial	-
Basic Materials	3.5%
Consumer Staples	11.0%
Energy	3.0%
Index	2.0%

### Income Tranche

Equity REITs	8.0%
BDCs	14.3%
Mortgage REITs	1.2%
Telecom	7.0%
MLP (ETF's)	4.0%
Utilities	-
Preferred	-
Commodities	3.5%
Cash	3.2%
Hedge	15.0%

## Loss Averse Equity Income



Performance results are presented in U.S. dollars and are gross-of-actual-management fees and trading expenses of the composite and reflect the reinvestment of dividends and capital gains unless otherwise denoted. 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 or month end date and is an expected dividend 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. 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.