**PVG ASSET MANAGEMENT**

LOSS AVERSE INVESTING

WWW.PVGASSETMANAGEMENT.COM

# CORE EQUITY

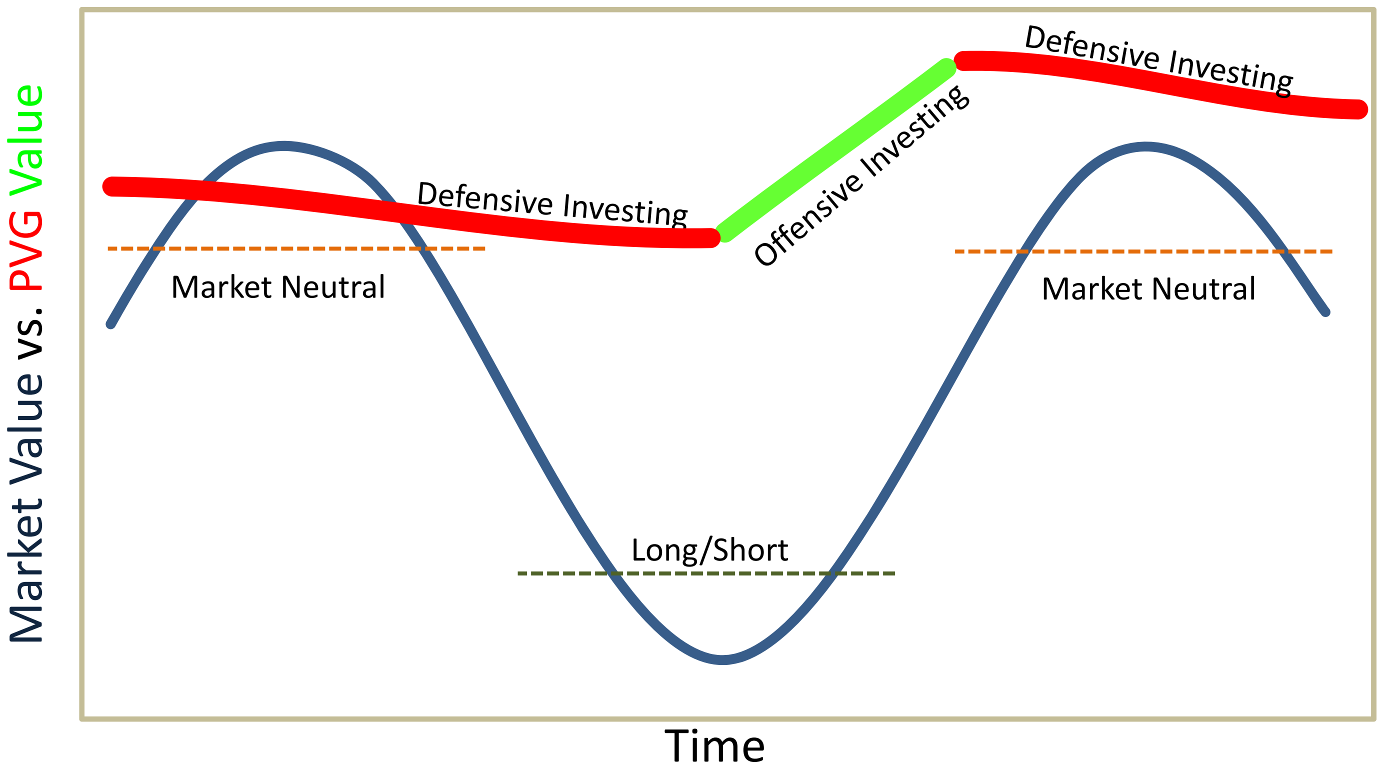
# MARKET CYCLE OVERVIEW

PVG has coined the phrase, **"Loss Averse Investing"** to best describe the approach of preserving capital during negative markets. Our belief is that by capturing the least amount of downside helps apply an investment stance that operates with far less overall risk, yet captures greater returns over the long term market cycle.

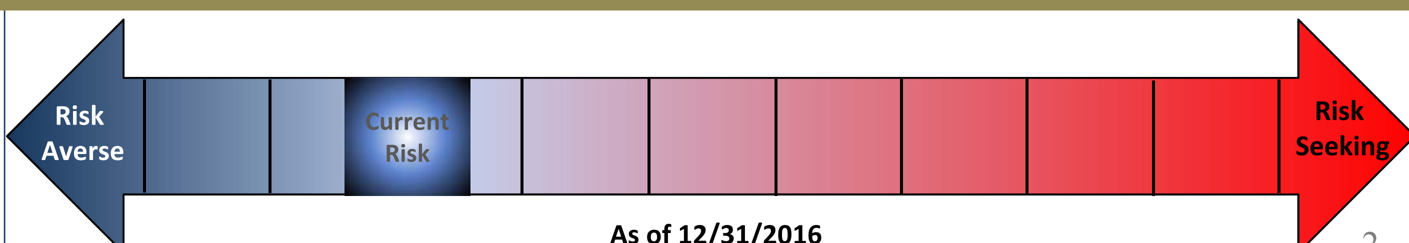
The major risk to portfolios is the systemic risk or market risk, and there are times that the systematic risk of owning either stocks or bonds or both must be taken out of the portfolio.

There are managers who control portfolios that can replace traditional asset classes or sub-categories that do not have the same systemic or market risk as traditional managers. These management firms specialize in managing stocks, bonds, or a combination of both in a tactical manner, which reduce or eliminate the systemic risk, and can also be known as, ***absolute return managers***.

The hypothetical chart below shows how PVG establishes different hedging techniques depending on the current market cycle. During peaks of the market, PVG will become more cautious and take a market neutral approach to protect assets during sustained or unforeseen market pullbacks. At the bottom of the cycle PVG will become more of a long/short as we find a bottom in the market. As momentum in the market picks up, the strategy will become more like a long only strategy.




# CURRENT PORTFOLIO RISK SPECTRUM




As of 12/31/2016

# WHERE DOES LOSS AVERSE INVESTING FIT?

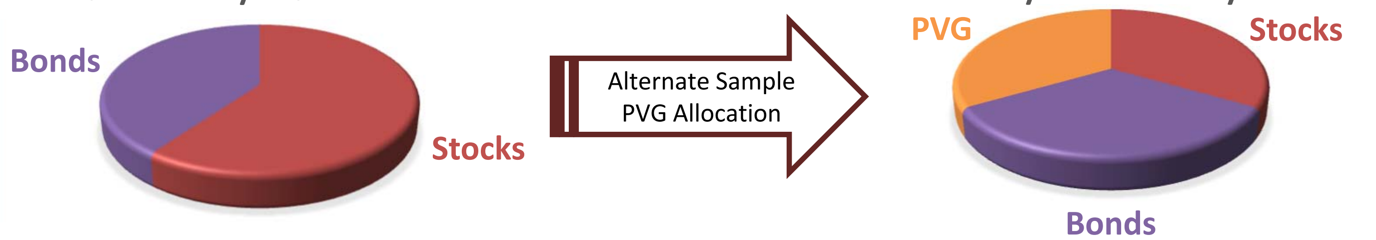
Traditional asset class models are typically set up between stocks and bonds. A moderate investor may use a 60/40 blend - 60% stocks and 40% bonds.

## MODERN PORTFOLIO THEORY

*This theory suggests that it's possible to create an optimal portfolio along the efficient frontier which will offer the maximum expected return for a given level of risk. Traditional strategies have implemented a partial stock and bond strategy in applying this theory.*

**MODERN PORTFOLIO THEORY**
**60% STOCKS/40% BONDS**

**PVG – ALTERNATIVE**
**33% STOCKS/33% BONDS/33% PVG**




## CORE EQUITY

*This strategy could offer a substitute for the core holdings of a traditional portfolio. PVG defines Core Equities as generally large cap quality companies that are traditionally growth or cyclical companies that are expected to experience higher than market earnings growth. We feel that this strategy should be used as a core portfolio for most investors.*

### ***Why Allocate to PVG?***

- **All asset classes may fall during bear markets**
- **Stocks and Bonds are at all time highs and both may have systemic risk**
- **Investors need to be able to manage risk against the asset class in which they invest in by hedging, i.e. inverse ETFs or cash**
- ***Ultimately - Clients who seek to be invested in the financial markets and want to preserve their wealth without traditional market fluctuations***

# PERFORMANCE

## ANNUAL RETURNS (NET OF FEES)
## DECEMBER 31, 2016

| | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR | INCEPTION |
|---|---|---|---|---|---|
| **CORE EQUITY** | 9.89% | 2.80% | 4.40% | 0.89% | 4.59% |
| **BARCLAY AGGREGATE BOND INDEX** | 2.81% | 3.07% | 2.26% | 4.37% | 4.24% |
| **S&P 500 TR** | 11.98% | 8.76% | 14.59% | 6.89% | 9.53% |

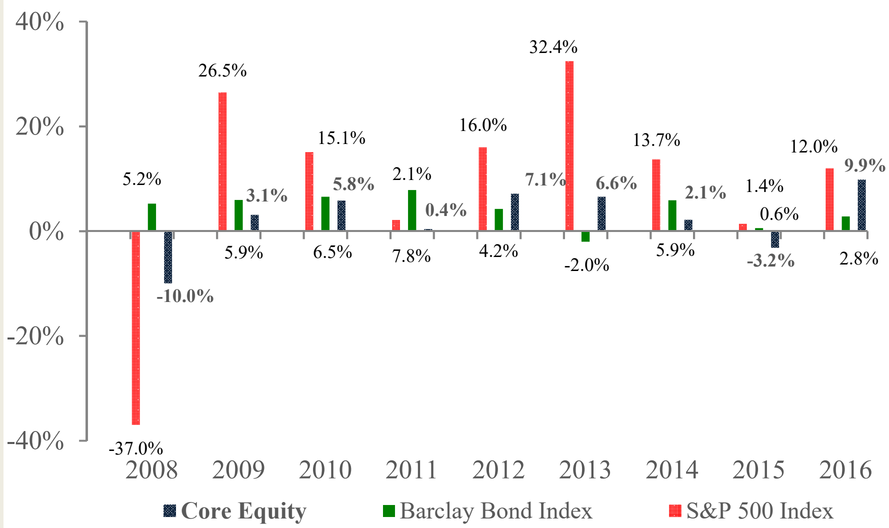
## STATISTICS

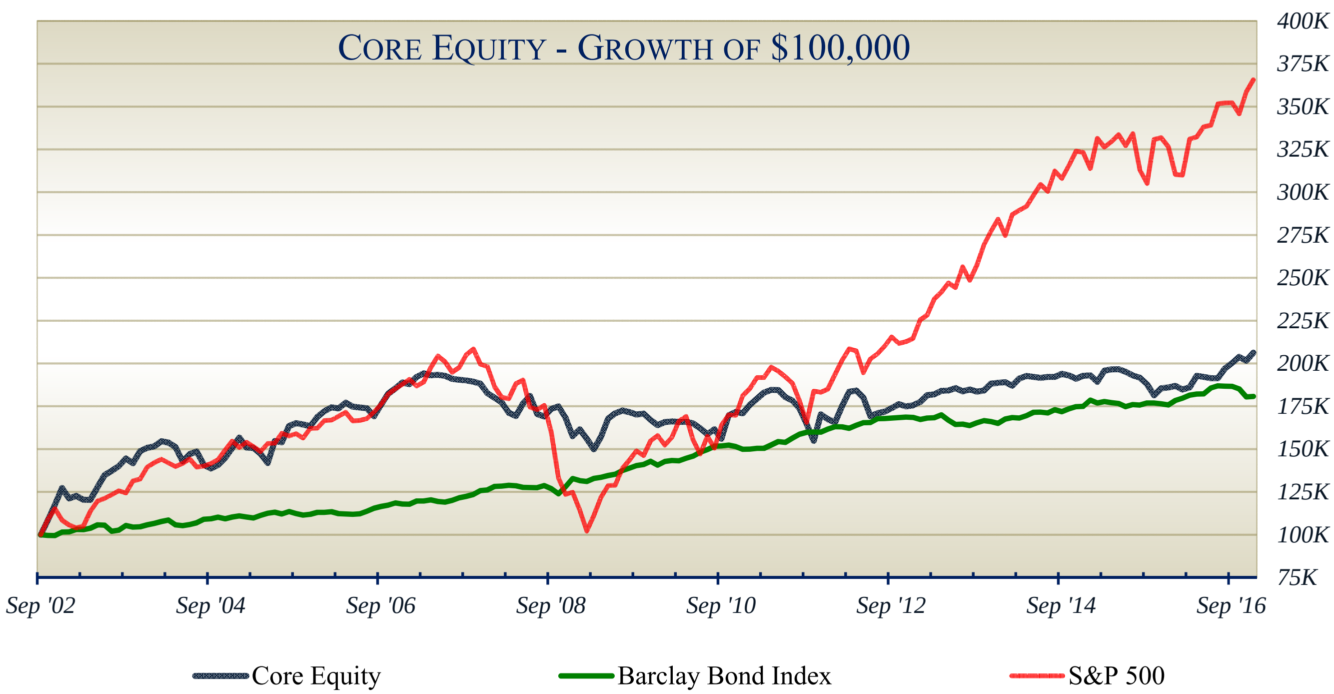
| | S&P 500 | BARCLAY AGG BOND |
|---|---|---|
| **BETA** | 0.52 | -0.35 |
| **$R^2$** | 0.54 | 0.02 |
| **UPSIDE CAPTURE** | 54.15 | 57.85 |
| **DOWNSIDE CAPTURE** | 36.85 | -87.39 |
| **MAX DRAWDOWN (QUARTERLY)** | -8.41% | |
| **MAX RUN UP (QUARTERLY)** | 11.79% | |

## INVESTMENT OBJECTIVE

This strategy seeks an attractive "absolute return" for investors by capturing as much as 80% of a long term market advance while minimizing losses during falling markets.

PVG defines Core Equities as generally large cap quality companies that are traditionally growth or cyclical companies that are expected to experience higher than market earnings growth. We feel that this strategy should be used as a core portfolio for most investors.



# Core Equity Composite Returns

| | Qtr 1 | | Qtr 2 | | Qtr 3 | | Qtr4 | | Annual | | Barclay Bond Index | S&P 500 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GROSS | NET | GROSS | NET | GROSS | NET | GROSS | NET | GROSS | NET | | |
| **2016** | 3.63 | 3.16 | -0.31 | -0.74 | 6.92 | 6.48 | 1.19 | 0.78 | **11.77** | **9.89** | **2.81** | **11.98** |
| **2015** | 2.24 | 1.79 | -1.37 | -1.82 | -5.55 | -5.99 | 3.47 | 3.02 | **-1.46** | **-3.20** | **0.58** | **1.38** |
| **2014** | 2.37 | 1.91 | 0.19 | -0.27 | 0.90 | 0.46 | 0.49 | 0.04 | **3.98** | **2.14** | **5.88** | **13.70** |
| **2013** | 4.18 | 3.72 | 0.32 | -0.15 | 0.73 | 0.26 | 3.11 | 2.62 | **8.55** | **6.56** | **-2.02** | **32.44** |
| **2012** | 9.26 | 8.83 | -4.53 | -4.95 | 3.53 | 3.07 | 1.14 | 0.68 | **9.40** | **7.14** | **4.22** | **16.00** |
| **2011** | 0.01 | -0.41 | -1.43 | -1.88 | -7.97 | -8.41 | 10.56 | 10.09 | **1.17** | **0.37** | **7.84** | **2.11** |
| **2010** | 1.27 | 0.95 | -4.41 | -4.75 | 7.96 | 7.56 | 1.79 | 1.35 | **6.61** | **5.81** | **6.54** | **15.06** |
| **2009** | -2.44 | -2.69 | 9.94 | 9.66 | -0.74 | -1.00 | -2.53 | -2.90 | **4.47** | **3.11** | **5.93** | **26.46** |
| **2008** | -5.67 | -5.89 | 0.94 | 0.69 | 2.87 | 2.61 | -7.40 | -7.62 | **-9.30** | **-9.98** | **5.24** | **-37.00** |
| **2007** | 2.95 | 2.74 | -0.84 | -1.09 | -0.64 | -0.91 | -4.72 | -4.98 | **-3.36** | **-4.24** | **6.97** | **5.49** |
| **2006** | 3.16 | 2.89 | -1.61 | -1.87 | 5.19 | 4.93 | 3.33 | 3.06 | **10.07** | **9.04** | **4.33** | **15.79** |
| **2005** | -5.76 | -6.00 | 4.79 | 4.54 | 6.97 | 6.74 | 5.01 | 4.74 | **11.01** | **10.22** | **2.43** | **4.91** |
| **2004** | 0.00 | -0.25 | -1.54 | -1.79 | -4.99 | -5.25 | 11.63 | 11.34 | **5.10** | **3.92** | **4.34** | **10.88** |
| **2003** | -0.44 | -0.72 | 14.39 | 14.09 | 3.54 | 3.27 | 7.18 | 6.95 | **24.67** | **23.59** | **4.10** | **28.68** |
| **2002** | - | - | - | - | - | - | 12.07 | 11.79 | 12.07 | 11.79 | **10.26** | **-22.10** |

# Core Equity Holdings

## Portfolio Holdings
### As of Quarter End – December 31, 2016*

### Common Stock Holdings

| Position | % |
|---|---|
| GOOGLE CL C NON-VOTING (goog) | 2.0% |
| General Electric Co. (ge) | 2.0% |
| MGM RESORTS INTERNATIONAL (mgm) | 2.0% |
| TJX COS INC NEW (tjx) | 2.0% |
| MACY'S INC (m) | 2.0% |
| CSX CORP (csx) | 2.0% |
| NORDSTROM INC (jwn) | 2.0% |
| CVS Health Corp (cvs) | 2.0% |
| Olin Corp. (oln) | 2.0% |
| Pfizer (pfe) | 2.0% |
| BIOGEN IDEC INC (biib) | 2.0% |
| BANK OF AMERICA CORP (bac) | 2.0% |
| KOHLS CORP (kss) | 2.0% |
| CIENA CORPORATION (cien) | 2.0% |
| PITNEY BOWES INC (pbi) | 2.0% |
| Microsoft Corp. (msft) | 2.0% |
| Staples Inc. (spls) | 2.0% |
| CITIGROUP INC COM © | 1.0% |
| J.P. Morgan (jpm) | 1.0% |
| Axsome Therapeutics Inc. (axsm) | 1.0% |
| ERICSSON (LM) TEL-SP ADR NEW (eric) | 1.0% |
| Bebe Stores, Inc. (bebe) | 1.0% |
| | |
| | |
| | |
| | |
| Total | 39.0% |

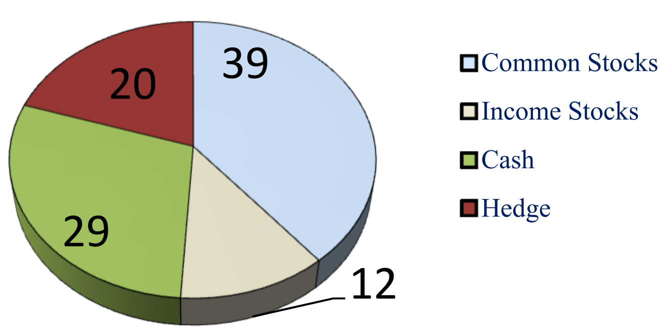
### Income Stock Holdings

| Position | % |
|---|---|
| PowerShares CEF Income Portolio (pcef) | 10.0% |
| City Office Reit Inc. (cio) | 2.0% |
| Total | 12.0% |

### Cash and Hedge

| | |
|---|---|
| Cash | 29.0% |
| Hedge | 20.0% |

## Portfolio Allocation




| Portfolio Holdings | Weight |
|---|---|
| **Total Equity Holdings (Common Stock & Income)** | **51.00%** |
| **Effective Hedge** (Inverse ETF's) | **40.00%** |
| **Cash** | **29.00%** |
| ***Net Long*** | ***11.00%*** |

*Portfolio Holdings may not reflect the current holdings of the Core Equity strategy.*

# Proactive and Reactive Hedging Techniques

PVG reduces undiversifiable market volatility and risk by hedging portfolios with inverse market index securities, stop losses and cash positions. Hedging tactics are utilized to reduce overall volatility of the portfolio, and may also result in minimizing losses that may occur in an unfavorable cyclical or secular market.

### Proactive – Hedging Portfolios

Inverse ETF's

- Broad Market ETF's Only
- Portfolios are never net short (Except Long/Short)

### Reactive – Stop Losses

Placed on Individual Securities (When hedge is not in place)

Stop Loss Value

- Tighter stop on more mature valuations
- Looser stop on undervalued securities

### Goal

Risk Reduction not Maximum Returns

- Designed to prevent portfolio losses of 10% or more

# Factors that Drive PVG Hedging

PVG utilizes both fundamental analysis and technical indicators to drive the hedging of the strategy. The main focus is derived from the valuation analysis of our universe of stocks as well as the trend and chart analysis in the overall market. Our goal is to reduce the risk of the overall portfolio when the analysis and indicators give us a signal.

### Fundamental Analysis

- Multifactor Macro Indicators
- Market Cycle Analysis
- Valuation Analysis

### Technical Indicators

- Sentiment Indicators
- Trend Analysis
- Chart Analysis

### Goal

Overall portfolio beta and risk reduction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*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. 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. There will be brokerage commissions associated with buying and selling ETFs, stocks, and mutual funds unless trading occurs in a fee-based account. 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. 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 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 registered as an 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. To receive a complete list and description of the firm's composites and/or a presentation, please contact PVG. Inception for the Loss Averse Growth strategy began 10/1/2002, however, on 4/1/2010 PVG added the Innovative Growth strategy to the composite for half of the strategy. PVG has broken out the two different strategies and has renamed the two composites Loss Averse Core Equity and Loss Averse Innovative Growth. Composite performance represents the results of the PVG management team, which has changed over time due to retirement and new staff. Additional information is available upon request.*

Investment Products:

| | | |
|---|---|---|
| Are Not FDIC Insured | Are Not Bank Guaranteed | May Lose Value |