

# SEVENS REPORT *alpha*

*January 16, 2018*

## In Today's Issue

- Blockchain primer.
- An early look at the blockchain ETFs coming to market.
- A sneak peek at the top stocks that will be in new blockchain indexes/ETFs. (Hint: There's an option to legally front-run the ETFs. If not, you probably own some of these names in client accounts.)
- Multiple ways advisors can use our blockchain content in their practice without executing new transactions.

## Investing in "Picks and Shovels"

In booming sectors and commodities, the safest way for investors to make money is to own the "picks and shovels."

Instead of taking the risky route of buying the individual players in the boom, owning the companies that supply the vital tools, products, or services to the boom's participants can often be a safer way to make profits.

The classic "picks and shovels" story dates back to the mid-19th century. Samuel Brannon, California's first millionaire, bought up all the picks, shovels, and pans he could. Then, he sold them to the miners participating in the California Gold Rush.

A German immigrant profited in a similar way at the same time. Rather than take an all or nothing approach alongside the "forty-niners," he observed the rugged mining terrain quickly wore out prospectors' trousers.

So, he sold a new durable type of pants to the miners. They became a huge hit and he got rich. His name was Levi Strauss.

Both Brannon and Strauss were smart enough to realize that they good sell basic goods to the masses of miners. It was a much safer and surer way to acquire wealth than trying to gamble on one big strike in gold mining.

That's an ancient story, but other similar "picks and shovels" stories have occurred in the financial markets since then...

Take the dot-com boom of the mid and late 1990s. Armies of investors were hunting for the next internet moonshot. But, clever investors were able to make a fortune through buying companies that made routers and switches (the "plumbing" of the internet). For example, Cisco Systems (CSCO) returned close to 4,000% from January 1995 to March 2000.

Another example is biotechnology. Many biotech companies are risky bets on one drug making it to market. For instance, some biotech stocks soared from 2012 to 2014 (Dow Jones US Biotechnology Index was up 225%), yet some went out of business. However, contract research organizations (CROs), that do lab and testing work for big pharma and small drug companies hoping to hit a blockbuster drug, did well in their own right. During this 3-year window, CROs like Charles River Laboratories International (CRL) and Icon (ICLR) returned 133% and 198%, respectively.

There are other cases, too. Semiconductors of the internet of things (IoT)... Fertilizer producers in agricultural upturns (think of corn and soybeans)... and oilfield service companies during oil price surges.

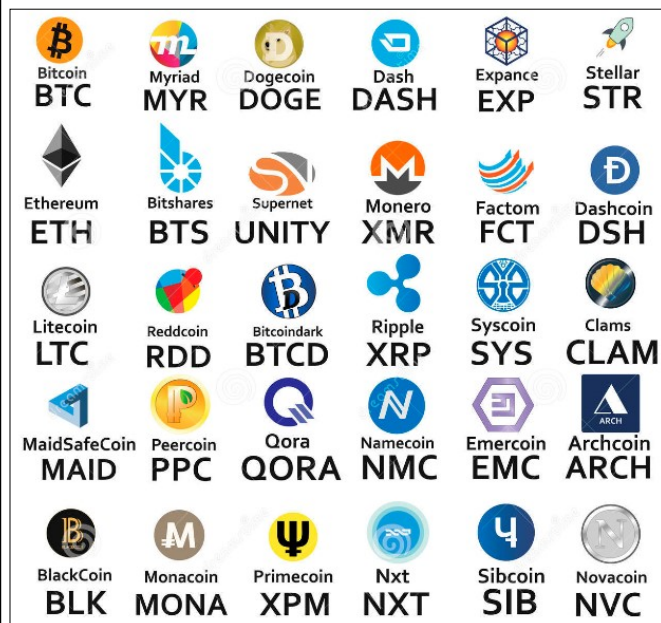
The point is, there's a possibility to make incredible returns on "one-shot" stocks in boom times, but it comes with a considerable risk in investments that could also go bust. That's why the "picks and shovels" approach—investing in the companies that are the *providers* of necessary equipment for an industry, rather than the industry's *end product*—can be a more useful and profitable solution for conservative investors.

Today, we have a "picks and shovels" play whose grow-

ing fame started with Bitcoin. But, its potential reach goes way beyond bitcoin and other cryptocurrencies (“cryptos” for short). This technology’s prospects are so astronomic that it could exponentially change the world as we know it today.

## A Massive “Picks and Shovels” Opportunity

You’ve heard of Bitcoin. How about other cryptos like Ethereum, Ripple, Litecoin, Dash, and Monero?



The website [CoinMarketCap](https://coinmarketcap.com/) lists over 1,400 different types of cryptos. Over 40 have listed market caps of at least \$1 billion and 770 have listed market caps of a minimum of \$1 million.

It’s a wild and crazy market. It’s not uncommon for various cryptos to fluctuate 25%, 50%, or 100% or more in a week, a couple days or 24 hours.

Navigating though the crypto market is a difficult and challenging endeavor to say the least.

As a financial advisor it creates even more issues...

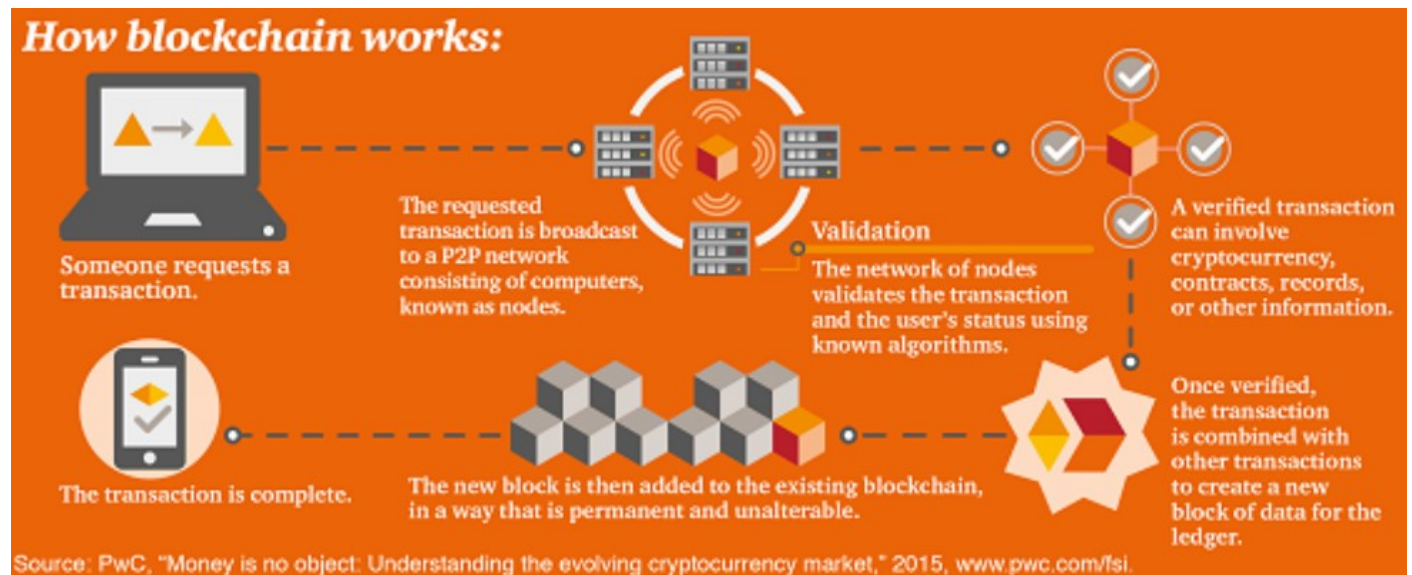
Do you want your clients pulling money from your managed accounts to invest in cryptos on their own? Or do you attempt to guide them on the process of opening up coin-based wallets and playing the crypto lottery? Or do you venture putting them in the Bitcoin Investment Trust (GBTC), which holds actual Bitcoin? (This open-end investment trust, operated by Grayscale Investments, has an expense ratio of 2% and regularly trades at a 50-100% premium.)

None of those options sound all that enticing if you’re in a fiduciary role.

In all honesty, we don’t know if Bitcoin or the rest of the cryptos are in the early stages of a ripping bull market or if it’s a bubble on the verge of popping.

But, we do know the popularity and price of many cryptos (including Bitcoin) have soared. And here at Sevens Report Alpha, what we like most about this new asset class is the underlying technology that supports it. Hence, we’re more interested in taking a “picks and shovels” approach to investing in the crypto market.

That technology is called **blockchain**.



A blockchain is a virtual ledger. The ledger could serve as the basis for numerous things: a new form of money (like Bitcoin)... transactions, contracts, and other documents related to real estate... notary services... tracking and storing voting details in an election... product life-cycle tracking... a new app on your smartphone... and a slew of other applications.

One of the biggest advantages of blockchain is that it's a decentralized distribution system. Due to its decentralization, it has no single point of failure because there are many copies of the database, which can validate each other's accuracy.

The network of blockchain authenticates any new transactions in a blockchain. This makes it tough to hijack the network and that results in making blockchain a secure and dependable accounting system.

Think about like this...

Let's say your client calls and asks you how many shares of McDonald's (MCD) he has. Your in-house database shows 100 shares. So, you tell your client the amount because you trust your system. (Your client trusts you, too!) Later, you learn DTCC says the client has 98

shares. And to top it off, your custodian (Fidelity, who you clear through, for example) lists 95 shares.

You wouldn't really have any recourse because everyone has their own database, back office, software program, etc. That becomes problematic and come with high friction and high fees. To boot, the data is not as secure because your client's information is in all those places and it only takes one hack to get that information out there.

Blockchain solves this problem because it's a distributed database where everyone plugs into the same database and knows your client has 100 shares of MCD. There's no way to tamper with it because everyone has the same copy of the database, which is distributed across billions of computers.

In this case, blockchain becomes the custodian. And there's no friction in the system because it's completely transparent and unhackable.

[The issue is everyone thinks their name will be out there. But, it's really like a Swiss bank account. There's a 64-character number or letter combination that serves as your identity.]

## What blockchain adoption could look like

**2015**

### Exploration & Investment

- Initial capability & use case assessments
- Early adoption likely for internal reconciliation

**2016-2017**

### Early Adoption

- Leading-edge banks see the value of blockchain and begin deployments for asset classes that are bilaterally traded and/or have no central clearing authority
- Regulatory certainty drives adoption for external uses
- Regulatory authorities realize the benefits of blockchain for auditing and compliance, and rule-making begins

**2018-2024**

### Growth

- Banks begin to see the benefits accorded to early adopters and – combined with regulatory guidance and certainty – the network effect takes hold
- New service providers and models emerge
- Deployments go viral across numerous asset classes
- New products and services are created; incumbent processes and services are discarded

**2025**

### Maturity

- Blockchain adoption is considered mainstream and integral to the capital markets ecosystem

Source: Accenture Research

Bettina Warburg, political scientist, member of the Warburg family banking dynasty and Founder/Director of the Blockchain Futures Lab, described blockchain this way:

*“Blockchain technology is a decentralized database that stores a registry of assets and transactions across a peer-to-peer network. The transactions are secured through cryptography, and over time, that transaction history gets locked in blocks of data that are cryptographically linked together and secured. This creates an immutable, unforgeable record of all of the transactions across this network. The record is replicated on every computer that uses the network.”*

Blockchain’s reach is way beyond just cryptos. It could disrupt many of the following industries: banking, cyber security, supply chain management, forecasting, manufacturing, networking, insurance, transportation, online data storage, charity, voting, government, public benefits, healthcare, energy management, media, entertainment, retail, real estate, crowdfunding, and more.

The fact is if an industry deals with data or transactions of any kind, it’s likely a field that can be disrupted by blockchain technology.

Many top companies, from different countries and sectors, are plugged into (discussing, strategizing, using, and/or investing) the game-

changing capability of blockchain.

Here are three actual use cases:

### 1) Australian Stock Exchange to move to blockchain.

The Australian Stock Exchange (ASX), Australia’s main stock exchange, will become the first global market to replace its current clearing system with blockchain technology. It will clear and settle trades—making transactions cheaper, faster, and more secure.

### 2) Walmart, Kroger, & Nestle team with IBM Blockchain to fight food poisoning.

The technology offers a more efficient way to figure out when and where food items are contaminated. The resulting efficiencies could reduce the revenue lost from unnecessary pulling of safe food from shelves and spur a drop in the number of deaths from toxic food.

### 3) Vanguard looks to blockchain for index data.

Vanguard, with close to \$5 trillion in assets under management, has successfully tested blockchain to automatically update data like the names and share prices of companies in index funds (processes that must currently be overseen by individuals).

Furthermore, blockchain’s potential seems to be unlimited according to several experts...

Don Tapscott, CEO of The Tapscott Group:

*“The technology most likely to change the next decade of business is not the social web, big data, the cloud,*

Global Companies Working with Blockchain Technology

Company	Country	GICS Sector	Company	Country	GICS Sector
Commonwealth Bank of Australia	AUSTRALIA	Financials	Nomura Holdings	JAPAN	Financials
DigitalX	AUSTRALIA	Technology	Grupo Financiero Banorte	MEXICO	Financials
KBC Group	BELGIUM	Financials	ABN AMRO Group	NETHERLANDS	Financials
Banco Bradesco	BRAZIL	Financials	Aegon	NETHERLANDS	Financials
Itau Unibanco Holding	BRAZIL	Financials	Sberbank of Russia	RUSSIA	Financials
HSBC Holdings	BRITAIN	Financials	Nedbank Group	S AFRICA	Financials
London Stock Exchange Group	BRITAIN	Financials	Endesa	SPAIN	Utilities
Royal Bank of Scotland Group	BRITAIN	Financials	Swiss Re	SWITZERLAND	Financials
Manulife Financial	CANADA	Financials	Zurich Insurance Group	SWITZERLAND	Financials
Maple Leaf Foods	CANADA	Cons Staples	Siam Commercial Bank	THAILAND	Financials
Royal Bank of Canada	CANADA	Financials	Alphabet	US	Technology
Baidu	CHINA	Technology	AT&T	US	Telecom
Bank of China	CHINA	Financials	Bank of New York Mellon	US	Financials
Ping An Insurance Group	CHINA	Financials	Blackstone Group	US	Financials
Air France-KLM	FRANCE	Industrials	Cboe Global Markets	US	Financials
BNP Paribas	FRANCE	Financials	Eastman Kodak	US	Technology
Deutsche Bank	GERMANY	Financials	First Data	US	Technology
Future World Financial Holding	HONG KONG	Materials	JPMorgan Chase	US	Financials
Hong Kong Exchanges & Clearing	HONG KONG	Financials	Morgan Stanley	US	Financials
Mahindra & Mahindra	INDIA	Cons Discr	QUALCOMM	US	Technology
Mindtree	INDIA	Technology	Red Hat	US	Technology
Tata Consultancy Services	INDIA	Technology	Seagate Technology	US	Technology
Yes Bank	INDIA	Financials	Square	US	Technology
Daiwa Securities Group	JAPAN	Financials	Wal-Mart Stores	US	Cons Staples
Mizuho Financial Group	JAPAN	Financials	Wells Fargo	US	Financials



robotics, or even artificial intelligence. It's the blockchain..."

The World Economic Forum (Deep Shift—Technology Tipping Points and Societal Impact):

*"10% of global gross domestic product (GDP) will be stored on blockchain technology by 2027."*

Ginny Rometty, CEO of IBM:

*"What the internet did for communications, blockchain will do for trusted transactions."*

Large US corporations, including several Fortune 500 companies, are developing, adopting, studying, and investing in blockchain.

Naturally, the ETF industry has taken notice...

## **The Bitcoin-Crypto-Blockchain ETF**

### **Race to Market is Almost Over**

There's been a mad race going on with several ETF issuers, as to who can gain first-mover status by bringing a Bitcoin, crypto or blockchain ETF to market.

Sixteen funds have filed with the SEC for some sort of crypto or blockchain-related investment product. See the table we received from colleague Mike Venuto (Co-founder & CIO of Toroso Investments).

Blockchain will win this race.

The SEC has been steadfast on holding back crypto-related exchange traded products (ETPs) thus far. (The Winklevoss Bitcoin Trust filed over four years ago!)

While crypto fanatics were delighted up to see Bitcoin futures about a month ago, they'll have to keep waiting

for the first Bitcoin ETF—or other crypto ETF—to launch.

In fact, since the start of the new year, several issuers (Direxion, First Trust, ProShares, VanEck, etc.) have withdrawn their Bitcoin ETF applications at the request of the SEC. For instance, Direxion cited:

*"On a call with the Staff on January 5, 2018, the Staff expressed concerns regarding the liquidity and valuation of the underlying instruments in which the Fund intends to primarily invest and requested that the Trust withdraw the Amendment until such time as these concerns are resolved. In response to the Staff's request, the Trust respectfully requests withdrawal of the Amendment."*

**Update:** Recent word is all Bitcoin ETFs were rejected by the SEC (table dated 1/1/18). We wouldn't be surprised if the first Bitcoin—or crypto ETF—didn't receive approval until 2019.

The more recent blockchain ETF filings have not been met with the same angst from the SEC. You see, they're full of plain old stocks and don't have the same challenges of liquidity, valuation and volatility of crypto holdings.

Let's go over the ways (a couple new options should be available this week) to invest in blockchain technology

and potentially get ahead of the crowd...

## **Blockchain Investment Option #1: ETFs**

First, there is the ETF route.

We believe two of the five ETFs

mentioned earlier will debut this week. Due to our research and conversations with contacts, the Amplify Blockchain Leaders ETF and the Reality Shares Nasdaq Blockchain ETF will be first to market. They should be tradable, as early as tomorrow (1/17/18).

Issuer	Filing Date	Replication Strategy	Status
Winklevoss Bitcoin Trust	7/1/13	Will store bitcoin	Denied, but Appealing
Bitcoin Investment Trust	3/22/16	Will store bitcoin	Withdrawn for Now
SolidX Bitcoin Trust	7/12/16	Will store bitcoin	Denied, Out of Race
Ethereum ETF	7/26/16	Will store ether	Awaiting SEC
VanEck Vectors Bitcoin Strategy ETF	8/11/17	Will use bitcoin funds/futures	Withdrawn for Now
Rex Bitcoin Strategy ETF	8/23/17	Will use bitcoin futures	Awaiting approval
Rex Short Bitcoin Strategy ETF	8/23/17	Will use bitcoin futures	Awaiting approval
ProShares Bitcoin ETF	9/28/17	Will use bitcoin futures	Withdrawn for Now
ProShares Short Bitcoin ETF	9/28/17	Will use bitcoin futures	Withdrawn for Now
Evolve Bitcoin ETF (Canada)	9/29/17	Will use bitcoin futures	Awaiting approval
First Trust Bitcoin ETF	12/11/17	Will use bitcoin futures	Awaiting approval
Amplify Blockchain Leaders ETF	11/1/17	Equity basket	Awaiting approval
Reality Shares Nasdaq Blockchain Economy ETF	11/2/17	Equity basket	Awaiting approval
Innovation Shares Blockchain Innovators ETF	11/13/17	Equity basket	Awaiting approval
First Trust Indxx Blockchain ETF	11/13/17	Equity basket	Awaiting approval
Horizons Blockchain ETF	11/22/17	Equity basket	Awaiting approval

Source: Bloomberg a/o 1/1/18

In these two cases, the ETFs vary in terms of strategy...

The Amplify Blockchain Leaders ETF has a degree of active management to it and will seek to outperform an index created by Emerita Capital and EQM Indexes. The companies in that index—and presumably in the ETF—must be actively involved in the development or use of blockchain technology or be partnered with a firm that is involved in blockchain development or use. There's also language in the preliminary prospectus that allows for up to a 25% investment in digital commodities or "blockchain funds." In essence, the Amplify ETF, provided it didn't have to change that provision, prior to releasing the final prospectus, may invest in cryptos.

The Reality Shares Nasdaq Blockchain ETF follows a passive, index-based strategy. Their index scores companies on seven quantitative factors related to each company's role in the blockchain technology ecosystem. Those seven factors are: role in blockchain ecosystem, blockchain product stage, blockchain economic impact, blockchain institute membership, number of filings on blockchain in the last five years, number of patents on blockchain, and R&D expenses-to-revenue percentage.

**Breaking news:** We've received word that the Reality Shares Nasdaq Blockchain ETF was approved Monday as the **Reality Shares Nasdaq NexGen Economy ETF (BLCN)** and is slated to start trading Wednesday (1/17/18). Also, we heard the Amplify Blockchain Leaders ETF was approved as the **Amplify Transformational Data Sharing ETF (BLOK)**. We believe BLOK will begin trading tomorrow, as well. Keep in mind, this is a fast-moving and dynamic situation.

Both of these ETFs will invest in stocks tied to blockchain technology. There's certain to be some meaningful overlap between the first two entrants (and also with the other three, as well).

The other three blockchain ETFs shown from the table may take a few more weeks. They all filed a few weeks after Amplify and Reality Shares.

We think the first two movers stand a good chance to grab the lion's share of assets (with the First Trust Indxx Blockchain ETF, most likely, having a leg up on Innovation Shares and Horizons based on reputation).

This could be a "wait and see" approach. Assets could flood in the doors of the first couple ETFs that offer exposure to blockchain technology. Or not.

**Note:** Keep in mind, the SEC could suspend any or these ETFs up until launch (similar to what happened with the Winklevoss Bitcoin Trust, previously).

## **Blockchain Investment Option #2:**

### **Stocks**

And second, there is the stock route.

There's no real way of knowing what level of asset flows is coming. Our guess is the blockchain ETFs could see significant inflows in the early going...

The crypto ETFs are not available yet, which could increase interest in blockchain-related investments with an institutional vehicle to use. Plus, multiple sources tell there's been significant, institutional interest (i.e., many inquiries) on these blockchain ETFs.

That means there's potential to engage in legal front-running on the stocks in these ETFs. If asset flows are substantial, then demand for blockchain stocks could give them a short-term price bump.

We've done our homework on what stocks have exposure to blockchain technology and should be prominent in the various blockchain technology indexes and ETFs.

**Note:** We don't see any of these indexes/ETFs allowing any of the companies who recently threw "blockchain" into their company name to garner attention. The industry spectacle is Riot Blockchain (RIOT). This tiny biotech company located in a strip mall in Colorado changed its name to include "blockchain." The stock went from around \$5 to \$6 (at the time of its name change)... Up to over \$38 in December... and back down to around \$20 now.

Here is our list of 25 legitimate, blockchain-related stocks (all trade on major US stock exchanges) and a short summary on their connection to blockchain:

**1) International Business Machines (IBM).** First company to launch highly-secure blockchain services that address regulatory compliance across financial services,

government, and healthcare industries (projects with 400-plus clients).

**2) Intel (INTC).** Company is selling its CPU technology alongside its Xeon server processors for cloud-based Coco blockchain enterprise application services. Looking to tap the Baas (Blockchain-as-a-Service) market.

**3) Cisco Systems (CSCO).** Leader in the formation of the Trusted IoT Alliance that focuses on ensuring blockchain interoperability in IoT applications.

**4) SAP (SAP).** Company's "Leonardo Blockchain" provides a way for people, businesses, machines, and algorithms to transact and communicate with one another in a frictionless way by enabling true data sharing.

**5) Microsoft (MSFT).** Company launched Azure Blockchain-as-a-Service in November 2015, allowing its existing government cloud clients access to the Microsoft Azure Blockchain-as-a-Service suite.

**6) Hive Blockchain Technologies (HIVE.V or HVBTF).** Lone pure-play, publicly-traded blockchain company. It is building a bridge from the blockchain sector to traditional capital markets. It is also partnered with Genesis Mining, the world's leading crypto mining hashrate provider.

**7) Thomson Reuters (TRI).** First major industry player to make a smart oracle (BlockOne IQ) available in the blockchain ecosystem for lean experimentation purposes.

**8) Barclays (BCS).** Company is working to tackle standards and interoperability issues.

**9) Nasdaq (NDAQ).** It is at the forefront of the blockchain revolution with its Linq blockchain ledger technology, which has successfully completed and recorded private securities transactions.

**10) Overstock.com (OSTK).** Company operates the tZERO exchange and has been working closely with regulators since 2015.

**11) Oracle (ORCL).** It offers enterprise-grade blockchain cloud services.

**12) NVIDIA (NVDA).** Manufacturer of graphics pro-

cessing units GPUs for crypto mining.

**13) Advanced Micro Devices (AMD).** Manufacturer of GPUs for crypto mining.

**14) Samsung Electronics (SMSN).** It offers infrastructure and services that can be deployed across all industries. Its Nexledger is a blockchain platform built for enterprise.

**15) Broadridge Financial Solutions (BR).** Company provides transparency by adapting distributed ledger technology capabilities to provide daily insight into vote progress throughout the issuer's proxy voting period.

**16) Accenture (ACN).** It is working closely with leaders across a broad range of industries, governments, consortia, academia, and its key technology alliances to move blockchain technology forward.

**17) Texas Instruments (TXN).** Developer of sensors for easy prototyping of IoT devices. Also, IBM's Watson platform has pre-integrated support for Texas Instruments devices.

**18) Infosys (INFY).** Company provides a host of offerings and solutions related to blockchain.

**19) NetEase (NTES).** It introduced the Hyperledger Fabric, which has grown into a true, vibrant community of blockchain engineers.

**20) Taiwan Semiconductor Manufacturing (TSM).** Provider of semiconductor manufacturing services for crypto mining.

**21) JD.com (JD).** It is utilizing blockchain technology to build an anti-counterfeiting tracing platform.

**22) CME Group (CME).** Company is testing various blockchain-based trading platforms, including the recent announcement of the development of Bitcoin futures.

**23) Citigroup (C).** One of the most active investors in blockchain-related startups.

**24) Banco Bilbao Vizcaya Argentaria (BBVA).** Company is exploring the use of blockchain technology in banking with some pilot programs actively underway.

**25) ING Groep (ING).** It successfully completed testing of a blockchain-powered trade confirmation platform in partnership with Calypso and the R3 consortium.

As a bonus, we're also giving you five more foreign stocks that are likely to show up in blockchain indexes/ETFs (We've listed the OTC symbol with the highest average daily volume in each case.):

**1) Siemens (SIEGY).** Company is in collaboration with LO3 Energy to develop blockchain-supported local energy microgrids.

**2) Panasonic (PCRFY).** Contributor to the Hyperledger Iroha Project, which focuses on the creation of a framework for user-friendly applications for mobile devices.

**3) Daimler (DMLRY).** It has successfully tested blockchain technology to carry out large financial transactions with partner financial institutions.

**4) Hitachi (HTHIY).** Contributor to the Hyperledger Project and serves 150 million users through 'PointInfinity,' a point management system.

**5) Fujitsu (FJTSY).** Developer of Blockchain-based Software for a Secure Data Exchange Network.

## Utilizing This Exclusive Information to Your Benefit

As an advisor, there are a couple ways you can use our research and blockchain ETF "sneak peek" to help yourself and your clients...

### Make use of our blockchain primer

The next time a client asks you about Bitcoin, a crypto, or blockchain, you can intelligently talk about it. Meaning, you don't have to hold up the "white flag" and pass on the difficult conversation. We've given you a blockchain primer of sorts with the end user (your clients) in mind. You now have talking points on how to steer the crypto conversation to its underlying technology (blockchain).

In addition, you can educate your clients on how blockchain's reach has the possibility to be so much more than just the crypto market. This colossal transformation

has the potential to change every industry and it's already underway, as we showed you.

### ETFs to consider with estimated timeline

With ETFs being the investment du jour for financial advisors, we conducted our own preliminary study on the ETF race for this segment of the market.

Amplify and Reality Shares should be first to market (again, tradeable tomorrow in our estimation). Plus, we mentioned the other three ETFs that should hit the market next.

If you're interested in the ETF avenue, you can potentially check out asset flows and volumes, as early as tomorrow, and in the days and weeks ahead.

### Top blockchain stocks: Multiple ways to implement

We gave you a list of 30 blockchain-related stocks that should be prominent in all five of these indexes/ETFs.

Perhaps, you could put together your own "blockchain basket" based on the stocks we presented. (Hint: 22 of the original 25 pay dividends). The top five yielders (BBVA, IBM, ING, TRI, CSCO) have an average yield of 3.4%. And the top 10 yielders (add on TSM, INFY, INTC, TXN, NDAQ) have an average yield of 2.8%.

Or, your model portfolios, surely, already own some of the blue-chip names (IBM, INTC, CSCO, MSFT, ORCL, NVDA, and so on) from our list. So, after you have the educational blockchain discussion with clients who want a piece of the crypto action, you can explain that they already have exposure to the supportive, disruptive technology behind all the cryptos through their portfolios. Just about any large-cap index fund will hold some of the names from our list.

On top of that, if a client likes the idea and the story and wants increased exposure, you now have the appropriate stocks to overweight.

Finally, if I was asked for just a few names to speculate on for a high risk/high reward type of strategy, I'd narrow it down to these three for a small allocation:

**Hive Blockchain Technologies (HIVE.V or HVBTF).** The stock has already popped quite a bit, but it's the only



pure-play blockchain company out there. Therefore, it's the most bang for your buck, period.

**Overstock.com (OSTK).** Another stock that's appreciated recently. This one is unique because there's a budding blockchain company ("Medici Ventures") buried inside an ecommerce business. CEO Patrick Byrne is encouraging the adoption of blockchain in the financial markets through this subsidiary. There's a realistic chance the company sells off its online retail platform and shifts its focus entirely to Medici Ventures and tZERO in the future.

**International Business Machines (IBM).** IBM finally put up a good year performance-wise in 2016 (up 24.61%). But, it has been in the doldrums for several years (negative returns in four of the last five years). Things could be turning around... The company got to the blockchain game early. And, Big Blue is taking it very seriously. Don't believe me? It has its own dedicated website for blockchain, which is extremely comprehensive. Check it out here: <https://www.ibm.com/blockchain/>.

Have a good week,

Tom

# Sevens Report Alpha Fund & Stock Ideas

ETF/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
<u>Index Rebal</u> <b>KWEB (KraneShares CSI China Internet ETF)</b>	<p>KWEB is an index rebalance play, where Chinese “N” shares (ADRs of major Chinese internet companies like BIDU, WB, etc.) will be added to FTSE Emerging Market Indices between now and June 2018. (PGJ is an alternative if KWEB is unavailable on your platform.)</p> <p><b>What to do now: Buy.</b></p>	<p>Issue 1: 8/17/17 8/24/17</p>	<p>KWEB: 17.93%</p>	<p>SPY: 15.48%</p>
<u>Smart Beta Pioneer</u> <b>RSP (Guggenheim S&amp;P 500 Equal Weight ETF)</b>	<p>RSP has massively outperformed SPY over longer-term time frames (314% vs. 112% over 17 years). In 2017, RSP has lagged (so far) due to significant tech sector outperformance. We view this as a short-term dislocation and an opportunity to buy RSP at a discount compared to SPY.</p> <p><b>What to do now: Buy.</b></p>	<p>Issue 2: 9/7/17</p>	<p>RSP: 13.48%</p>	<p>SPY: 13.71%</p>
<u>Self-Driving Car Basket</u> <b>SNSR (Global X Internet of Things ETF).</b> <b>ROBO (ROBO Global Robotics &amp; Automation Index ETF).</b> <b>AMBA (Ambarella)</b> <b>QCOM (Qualcomm)</b>	<p>Massive changes to the auto industry, including self-driving technology, are closer to the mainstream than most investors think. The foundational changes to the auto industry could be the next “Megatrend” in investing to provide outperformance for years to come.</p> <p>There is no pure play “self-driving” ETF yet, but SNSR and ROBO offer exposure to many tech companies that are best-positioned in the space. AMBA and QCOM are two of the better stocks with unique exposure to the growing self-driving car industry.</p> <p><b>What to do now: Buy the ETFs. We closed QCOM a month and a half after the Broadcom takeover announcement for a quick, sizable gain. AMBA is up big, as well. If you decided to book similar profits here, that’s justifiable.</b></p>	<p>Issue 3: 9/21/17</p>	<p>SNSR: 9.98% ROBO: 16.20% AMBA: 19.83% QCOM: 23.20% (closed)</p>	<p>SPY: 12.01%    SPY: 3.72% (through QCOM close date)</p>
<u>Electric Car Battery Plays</u> <b>LIT (Global X Lithium &amp; Battery Tech ETF).</b> <b>ALB (Albemarle)</b>	<p>The trend towards the widespread adoption of electric cars is accelerating, with US auto companies planning massive roll outs and several countries putting end dates on the internal combustion engine.</p> <p>There is no pure-play “electric car” ETF, but the key here is better technology, specifically lithium. LIT is a lithium ETF. ALB is one of the leading lithium plays in the market.</p> <p><b>What to do now: Longer-term investors can buy now, but as we said in the issue, LIT and ALB ran up big following China’s electric car decision. Both have digested those gains, but both remain overbought. Waiting for a lower entry point for shorter/medium-term investors makes sense.</b></p>	<p>Issue 3: 9/21/17</p>	<p>LIT: 10.68% ALB: -0.77%</p>	<p>SPY: 12.01%</p>
<u>Dividend Growth</u> <b>DIVY (Reality Shares DIVS ETF)</b> <b>REGL (ProShares S&amp;P MidCap 400 Dividend Aristocrats ETF)</b> <b>SMDV (ProShares Russell 2000 Dividend Growers ETF)</b>	<p>Historically, dividends are responsible for half of the market’s total return. They are an essential component of long-term outperformance. While most investors choose high-yielding dividend stocks, our research shows dividend growth stocks can generate better long-term returns.</p> <p>DIVY is the only ETF that isolates pure dividend growth. This ETF is a fixed income alternative that should provide steady single-digit returns with low volatility and true diversification. REGL and SMDV are ETFs that provide exposure to the “Dividend Aristocrats” of tomorrow.</p> <p><b>What to do now: Buy.</b></p>	<p>Issue 4: 10/4/17</p>	<p>DIVY: 5.32% REGL: 4.69% SMDV: -1.91%</p>	<p>AGG: -0.27% MDY: 8.70% IWM: 5.95%</p>
<u>Merger Arbitrage</u> <b>GABCX (Gabelli ABC Fund)</b> <b>MNA (IQ Merger Arbitrage ETF)</b>	<p>Merger arbitrage is a time-tested hedge fund strategy. It seeks to profit from the timely completion of mergers, takeovers and corporate re-orgs. The strategy has produced solid absolute returns with low correlations to stocks and bonds.</p> <p>GABCX and MNA are the two best-performing—and cheapest—options to invest in this space.</p> <p><b>What to do now: Buy.</b></p>	<p>Issue 5: 10/17/17</p>	<p>GABCX: 0.91% MNA: 2.50%</p>	<p>BIL: 0.07%</p>

# Sevens Report Alpha Fund & Stock Ideas

<u>ETF/Stock</u>	<u>Strategy</u>	<u>Date</u>	<u>Total Re- turn</u>	<u>Benchmark Perfor- mance Since Issue Date</u>
<u>Special Dividends</u> List of 24 stocks	Screened 17,070 stocks to arrive at 24 stocks that have consistently paid large special dividends. Since these yields aren't available on financial websites, the average investor can't see their "hidden income" potential. Our elite list of two dozen special dividend payers have yields that are anywhere from 50% to 600% higher than the S&P 500's yield.  <b>What to do now: Buy (multiple ways to implement in issue).</b>	Issue 6: 10/31/17	24 stocks (avg.): 8.73%	50% SPY/50% AGG: 4.19%
<u>Insider Sentiment</u> KNOW (Direxion All Cap Insider Sentiment Shares ETF)	Numerous academic studies prove following corporate insider buying is a strategy that can outperform. KNOW—and its underlying index—have been consistent outperformers.  <b>What to do now: Buy.</b>	Issue 7: 11/14/17	KNOW: 10.42%	SPY: 8.39%
<u>Global Value</u> GVAL (Cambria Global Value ETF)	A fundamentally-focused deep value strategy that uses a cyclically-adjusted valuation composite to evaluate 45 global countries for investment. GVAL captures the cheapest countries and the cheapest stocks in those specific countries, too.  <b>What to do now: Buy.</b>	Issue 9: 12/12/17	GVAL: 9.50%	ACWI: 5.59%
<u>"Backdoor" Hedge Fund Investing</u> List of 10 stocks	It's almost impossible for investors to access the world's best hedge fund managers. Either their funds are closed, the minimums are too steep (in the millions), or the fees are outrageously high ('2 & 20'). We found 10 little-known ways to access star managers who have produced Buffett-like returns.  <b>What to do now: Buy (multiple ways to implement in issue).</b>	Issue 10: 12/27/17	10 stocks (avg.): 1.90%	50% SPY/50% AGG: 1.73%
<u>Emerging and Frontier Market Bonds</u> EMB (iShares J.P. Morgan USD Emerging Markets Bond ETF) EBND (SPDR Bloomberg Barclays Emerging Markets Local Bond ETF) AGEYX (American Beacon Global Evolution Frontier Markets Income Fund)	Most investors have no allocation to fixed income outside the US, but we think it's worth serious consideration. Emerging and frontier debt funds have yields 2X, 3X, and 4X the yields of traditional fixed income investments... low correlations to major asset classes... and healthier fundamentals (lower debt-to-GDP ratios, faster-growing economies, and better demographics) from a country perspective.  EMB (emerging market debt hard currency), EBND (emerging market debt local currency), and AGEYX (actively-managed frontier market debt) are all attractive options.  <b>What to do now: Buy.</b>	Issue 11: 1/9/18	EMB: -0.02% EBND: 1.11% AGEYX: 0.42%	AGG: 0.03%

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