SEVENS REPORT *alpha*

December 12, 2017

In Today's Issue

- Are you underweight international equities?
- Are you having trouble finding value stocks in an expensive market?
- GVAL is an extraordinary ETF that offers a solution by exploring the world for value stocks and it's outperforming, up 25% YTD.

Hunting for Value in an Expensive Market

The phrase "stock market correction" hit a peak popularity score of 100 on Google Trends this month.

I googled it myself: 3,850,000 results.

Perhaps, these outcomes were predictable upon examining some of the facts:

- The US stock market—as measured by the Vanguard Total Stock Market ETF (VTI)—is up 380% (total return) since the bottom in March 2009.
- In the last 70 years (1947-2016), the S&P 500 had 11 declines of at least 20%—or once every 6.4 years. The last "20% or more bear" for the S&P 500 was a 56.8% decline over the 17 months that ended 3/9/09 (almost nine years ago).
- The S&P 500 has booked 13 consecutive "up" months, its best run since the index ran off 15 straight months of gains from March 1958 through May 1959. By the way, we've never had a calendar year in the US stock market where all 12 months were up (a positive December breaks that record)!
- For the seven years from 2010 to 2016, the S&P 500 experienced 417 trading days in which the index gained or lost at least 1% (total return) for the day—and average of 60 per year. YTD through 12/8/17, the S&P 500 has produced only nine trading days of "1% up-or-down" movement. Things are eerily quiet on the volatility front.
- The CAPE ratio—or Shiller P/E Ratio popularized by Professor Robert Shiller— is above 31. This level has only been exceeded twice: 1929 and 2000. If you don't like the CAPE ratio for whatever reason, the story is the same for other valuation indicators. Take the median P/S ratio on S&P 500. It hit its highest level ever this year. (See the image at the bottom of this page that displays current S&P 500 valuations composed by State Street Global Advisors.) Ultimately, the US stocks are expensive on a relative and historic basis.

Now, Google searches, raging bull markets, historically low volatility and stretched valuations don't necessarily mean a correction or bear market is imminent. It's usually some other type of trigger. Once that trigger is hit, abnormally high valuations tend to start the unwinding

S&P 500 Valuation Metrics

	Price-to-Book (P/B)	Price to Earnings (P/E)	1 Year Forward Consensus P/E	Enterprise Value/EBITDA (EV/EBITDA)	Price to Sales (P/S)	Price/Cash Flow (P/CF)
Current	3.19	21.82	19.42	13.08	2.18	14.05
25 Year Median	2.77	18.57	16.51	10.79	1.51	10.83
Current Percentile	79%	74%	80%	93%	96%	80%

process.

As we approach 2018—and typical portfolio rebalancing time—it's worth observing that valuations have historically been a good guide for future returns.

Slim Return Projections for US Stocks

Even with correction worries abound, the fact is many investors—your clients included—still have unrealistic return expectations.

For instance, Schroders Global Investor Study 2017 surveyed over 22,000 investors on return expectations for their total portfolios. The average return expectation is 10.2% per year, over the next five years. (Yes, that number includes bond allocations mixed in, too.)

Putting the fixed income portion aside, the average investor seems to be living in the past. After all, the S&P 500 has gained that exact amount—a total return of 10.2% per year—over the last 50 years (1967-2016).

But, what happens when valuations are elevated—like they are in the US, right now?

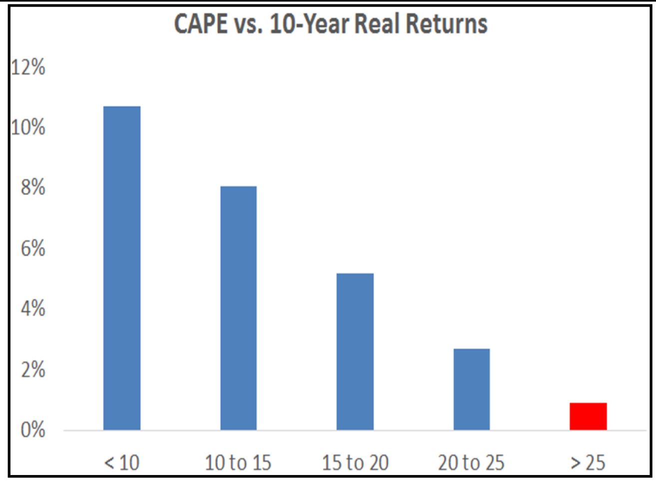
It's not rocket science...

Historically, the answer has been pretty simple. If you bought stocks when they were trading at low valuations, you experienced great future returns. And conversely, if you bought stocks when they were trading at high valuations, you recorded poor future returns.

One way to observe valuations over time is through the lens of the CAPE ratio. Technically, the CAPE ratio is based on stuff Benjamin Graham and David Dodd wrote about in their 1934 book "Security Analysis." These valuation pioneers believed it made sense to compare stock prices with earnings smoothed out across longer time frames (i.e., 5-7 years). With the "CAPE ratio," Shiller rolled it forward to 10 years and adjusted for inflation.

Again, today's CAPE ratio is hovering between 31 and 32. And that means there is a high probability of low, future returns.

As you can see, the red bar (CAPE > 25) is where we are in the US stock market now. 10-year real returns from this valuation level have averaged less than 2% per year.



[US stocks real returns vs. 10-year CAPE ratio, 1881-2011]

Co-founder and CIO of Cambria Investment Management Meb Faber, a recent Alpha webcast guest, used the following two presentation slides while speaking at conferences in New York, Amsterdam, Geneva and Zurich during the first week of December...

If you ignore valuation altogether, and looked back at the three best times to buy stocks in the last 100-plus years, the future 10-year returns were about 19% per year. However, if you looked back at the three worst times to buy stocks, you didn't make any money over the next 10 years (your annualized returns were negative).

Fathom what is possible…

	Nominal Return	Dividend Yield	CAPE Start	CAPE Change per year
AVERAGE 3 Best	18.89%	5.00%	11	8.46%
AVERAGE 3 Worst	-0.36%	2.95%	28	-7.14%
NOW		**2.00%**	**31**	?

Today's CAPE ratio doesn't bode well for future returns. It's three points higher than the average CAPE ratio during the three worst times to buy stocks in over a century.

As an investor or advisor, it's smart to understand the full spectrum of probabilities. From a probabilistic standpoint, think about like a savvy gambler would.

Let's say you're in Las Vegas at the blackjack table...

If you are dealt a 16 and the dealer is dealt an up face card, it's not a good hand. Sure, you could catch a 5 or the dealer could bust, but the odds are not in your favor. Chances are, you're going to lose. It pays to fold.

On the other hand, if you're dealt a 20 and the dealer has an up 6, the odds are in your favor. In this scenario, it pays to be betting.

It's the same in investing. There's no rule that requires you to invest. You don't have to play.

But, in general, it's worth assessing the probabilities.

We can do that by using the old Bogle stock valuation model equation:

$$Rt = D0 + Gt + \Delta P/Et$$

It's essentially, dividend yield + earnings growth + change in valuation. Here's what it spits out. (Note: The table assumes a dividend yield of 2% (roughly, what is right now) and historical earnings growth of 4.7%.)

Probabilistic Investing…

CAPE ratio End	CAPE Change per year	10 year Returns	
45	3.80%	10.50%	Back to all-time high
31	0.00%	6.70%	Stays flat
21	**-3.82%**	**2.88%**	**Back to normal**
17	**-5.83%**	**0.87%**	**Back to historical average**
10	-10.70%	-4.00%	Back to low valuation
5	-16.68%	-9.98%	Back to all-time low

So, how do we get to the 10.2% returns the average investors is expecting?

The CAPE ratio would have to go back to the highest level it has ever been at in the US over the last 120 years and that would fetch 10.5%.

A more likely scenario is the CAPE ratio goes back to a more normal level. Whether that's its historical average of 17 or a more normal level of 21 with low inflation, future 10-year annualized returns are probably in the 1-3% range.

The "father of indexing" Jack Bogle is in the same low-return camp for US stocks. In his newest edition of the "Little Book of Common Sense Investing," Bogle cautions investors by basically says if you're expecting the historical 10% return from US stocks, prepare to be disappointed. He estimates the US stock market will return about 4% annually over the next decade in his latest book released earlier this year. That number isn't too far off Cambria's estimates.

The caveat to forecasted low-single-digit returns is the US stock market could have monster earnings growth. Throughout history, earnings growth has tended to be mean reverting. So, if earnings growth is having a great run, it's likely to reverse course. It's essentially capitalism.

The point here is if you're hunting for value these days and future returns akin to past returns, the US stock market could very well be a difficult place to find it.

Yes, you can find some individual stocks (energy, specialty retail, metals & mining, to name a few areas) that haven't participated in this historic bull market. But, you need to have strong conviction in these kind of names that individual turnarounds are possible. On top of that, as an advisor, you're probably not buying many individual stocks for clients.

The various security types—like ETFs, mutual funds and SMAs—in your wheelhouse are often loaded with their fair share of richly-valued US stocks. For example, the iShares S&P 500 Value ETF (IVE) has about 350 holdings. IVE's top 25 stocks, which comprise over 40% of ETF's weighting, have an average P/E ratio of 23.8.

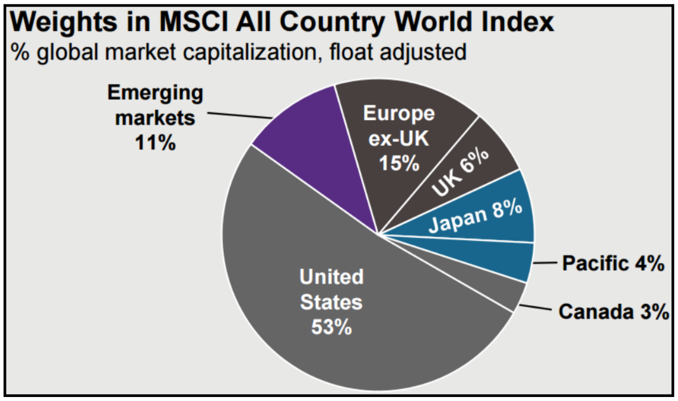
So, let's discuss extending your value opportunity set outside the US equity markets and across the globe…

Expand Your 'Value' Search Globally

To start, look at your overall equity portfolio to determine your international allocation.

You may know the percentage allocation off the top of your head. And if not, running a model portfolio through a Morningstar program—or in-house tool—will serve the purpose.

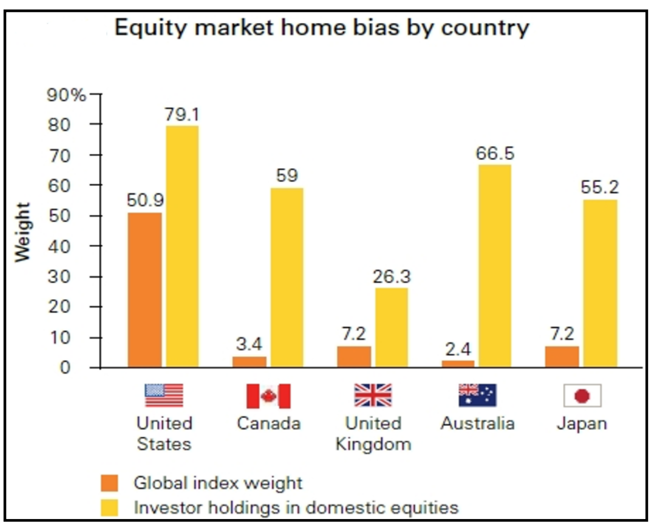
Here's what the world looks like in terms of market capitalization through the lens of the MSCI ACWI Index...



Granted, you're probably nowhere near a 50/50 split between US and foreign stocks.

If that's the case, you're in the majority. The reason is it's comfortable and familiar to overweight your home country. Most people like to invest in what they know.

For the record, home country bias isn't a US-exclusive phenomenon. Everyone does it—irrespective of their country of domicile. So, don't be surprised if your US equity allocation is close to the first yellow bar (near 80%) in this chart...



A recent report titled "Myths, Misconceptions and Blind Spots" from Janus Henderson found similar evidence. Out of 3,000-plus advisors who participated in the study, the average advisor allocated just 22% of client portfolios to ex-US equities.

There's no hard-fast rule in investing as to what percentage your international equity allocation should be. But, a global market cap portfolio is a starting point.

There's even more reason today to consider bumping up your international equity allocation from where it's at now (providing you're near the average allocation weights just mentioned).

Even if you're in the neighborhood of the MSCI ACWI Index country weightings, a dyed-in-the-wool value investor might increase his/her non-US equity exposure even more. For example a GDP-weighted portfolio would look more like 25% US/75% non-US.

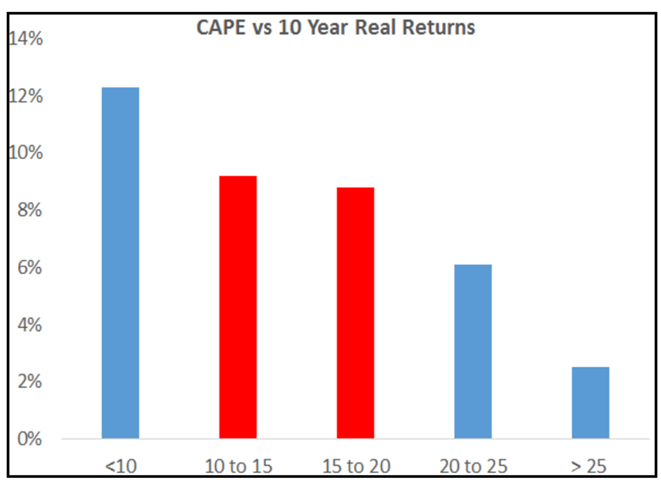
Undoubtedly, there's "career risk" with a 50% or 75% allocation to foreign stocks, but that's where the value is at.

An Overseas Holiday Shopping List...

Meb Faber, who in addition to his multiple roles at Cambria Investment Management, is a cerebral quant, market historian and contrarian investor. In a lengthy conversation earlier this month, Meb told us:

"We have long found valuation to be a useful anchor when examining the US equity market. One of our favorite indicators is the 10-year P/E ratio, also known as the Shiller CAPE ratio.

Earlier this decade, we were curious if it worked globally as well as it does in the US. And since no one else had built the CAPE ratio globally, we set out to do it. Not surprisingly, we found the CAPE ratio works even better globally and across markets, as there are even greater examples of booms and busts than in the US.



[All countries average real returns vs. 10-year CAPE ratio, 1980-2013]

Being country and asset class agnostic is hard, but it significantly rewards investors willing to go beyond their own borders and seek out value anywhere in the world."

Cambria was the first firm to roll out country CAPE ratios...

CAPE Ratios (MSCI Investable Market Indices)					
Country	**CAPE**	**CAPD**	**CAPCF**	**CAPB**	**Avg Rank**
Greece	-7.3	6.3	1.5	0.2	1
Czech Republic	9.4	11.9	4.4	1.2	2
Russia	5.6	27.8	3.5	0.8	3
Portugal	13.7	18.6	4.5	1.2	4
Spain	13.9	20.4	6.6	1.5	5
Poland	13.0	28.3	6.1	1.5	6
Brazil	12.5	25.4	7.7	1.5	6
Italy	16.9	26.4	5.3	1.1	8
Singapore	13.0	27.2	10.0	1.4	9
Egypt	14.1	28.5	7.8	1.7	10
Norway	14.8	30.6	7.1	1.7	11
Turkey	11.1	38.0	8.4	1.6	12
Israel	14.0	34.0	9.5	1.6	13
Colombia	16.7	30.3	11.7	1.4	14
Austria	18.5	44.7	7.2	1.3	15
U.K.	15.7	31.0	9.5	2.1	16
Hungary	14.6	57.9	6.9	1.7	17
Australia	17.3	23.0	11.7	2.0	18
Korea	15.3	89.4	8.3	1.5	19
Malaysia	16.3	35.3	10.9	1.9	20
Hong Kong	16.8	39.1	12.7	1.5	21
Chile	18.1	40.3	10.5	1.8	22
Taiwan	20.9	33.0	10.3	2.1	23
France	20.9	37.9	10.6	1.9	24
China	15.5	48.1	10.7	2.1	25
Finland	20.6	29.8	11.5	2.3	26
Canada	21.3	39.7	10.8	2.1	27
Germany	20.4	45.0	10.1	2.2	28
New Zealand	22.6	28.4	11.7	2.3	28
South Africa	18.6	36.7	12.7	2.6	30
Thailand	20.1	41.6	12.1	2.6	31
Japan	27.0	72.8	10.8	1.7	32
Belgium	25.2	40.8	14.2	2.3	33
Indonesia	19.2	47.4	12.9	3.2	34
Peru	17.4	48.3	16.4	3.1	35
Mexico	22.7	64.7	11.4	2.8	36
Sweden	22.2	41.8	15.6	2.9	37
Netherlands	23.7	49.9	14.3	2.5	38
Ireland	35.1	62.6	16.1	2.2	39
Philippines	22.5	65.4	14.6	3.0	40
Switzerland	25.0	43.7	18.2	3.1	40
India	21.3	91.2	14.5	3.2	42
U.S.	29.0	74.6	16.7	3.6	43
Denmark	36.6	100.1	21.8	4.4	44

[Codes: PE = Price to Earnings, PD = Price to Dividends, PCF = Price to Cash Flow, PB—Price to Book]

Some other groups have followed in Cambria's footsteps (i.e., Research Affiliates and Star Capital). The list of 40-plus countries with a cyclically-adjusted valuation composite is from 9/30/17 (courtesy of Meb's *The Idea Farm*, which is a private email list comprised of comprehensive investment research for paid subscribers).

Some useful statistical takeaways from Cambria's valuation composite:

- Median CAPE ratio is 17.8.
- Average CAPE ratio of foreign developed countries is 20.8.
- Average CAPE ratio of foreign emerging market countries is 16.3.
- 25% most expensive countries have an average CAPE ratio of 26.5 (US in this bucket).
- 25% cheapest countries have an average an average CAPE ratio of 12.3.

But, what's also interesting is many of the cheap countries have been catching momentum—and outperforming the US—over the last year or two. (Check out the performance table that shows YTD returns for a broad list of country ETFs.)

ETF	YTD Return	ETF	YTD Return
Poland (PLND)	46.2%	Switzerland (EWL)	20.1%
Austria (EWO)	45.4%	Sweden (EWD)	19.6%
China (GXC)	44.4%	Russia (RSX)	18.5%
South Korea (EWY)	39.6%	Malaysia (EWM)	18.3%
Nigeria (NGE)	35.7%	Brazil (EWZ)	18.1%
India (PIN)	31.8%	South Africa (EZA)	17.7%
Netherlands (EWN)	31.7%	Chile (ECH)	17.6%
Singapore (EWS)	31.1%	Greece (GREK)	17.1%
Hong Kong (EWH)	30.9%	U.S. (EUSA)	17.0%
Portugal (PGAL)	30.3%	Finland (EFNL)	16.7%
France (EWQ)	28.6%	New Zealand (ENZL)	16.6%
Italy (EWI)	27.8%	Norway (NORW)	16.0%
Thailand (THD)	27.6%	U.K. (EWU)	15.9%
Vietnam (VNM)	27.3%	Australia (EWA)	14.1%
Germany (EWG)	27.1%	Mexico (EWW)	13.4%
Spain (EWP)	26.6%	Indonesia (IDX)	12.9%
Ireland (EIRL)	25.9%	Philippines (EPHE)	12.6%
Turkey (TUR)	25.5%	Canada (EWC)	12.0%
Taiwan (EWT)	22.7%	Israel (EIS)	7.4%
Egypt (EGPT)	22.4%	Colombia (GXG)	7.1%
Peru (EPU)	22.4%	UAE (UAE)	2.6%
Japan (EWJ)	21.4%	Saudi Arabia (KSA)	1.7%
Belgium (EWK)	21.0%	Qatar (QAT)	-22.2%

The US is the second most expensive country—out of 44 countries—on the list.

While not at the bottom performance-wise in 2017, The US is below midway. And again, virtually all of these countries are significantly cheaper than the US.

US and foreign equity markets tend to move in cycles. As you can see in the Global Markets—Rolling 5-year Return chart from O'Shaughnessy Asset Management.

With value and momentum on their side, foreign stock markets could continue to outpace US stock markets for the foreseeable future.

There's a wonderfully-designed ETF that seeks to capture not only the cheapest countries, but the cheapest stocks in those specific countries, too.

The Global Value Hunter

Launched on 3/12/14, the **Cambria Global Value ETF (GVAL)** utilizes a fundamentally-focused deep value strategy with systematic rules to construct a portfolio of global equites.

GVAL Facts	
Inception Date:	3/12/14
Assets:	$165M
Avg Daily Vol:	28K
Expense Ratio:	0.69%
Yield:	2.32%

The filtering process works like this:

1) **Starting universe**. Cambria begins with a broad universe of approximately 45 countries across the globe considered to be developed and emerging stock markets. Currently, this universe consists of 24 developed market countries and 20 emerging market countries.

2) **Top down value**. Cambria targets the top 25% most attractive countries in the world for investment, based on measures of long-term valuation similar to the Shiller 10-year CAPE ratio. Roughly, 12 country stock markets are selected for inclusion each year.

3) **Stock universe**. Within each country, Cambria identifies the top 30 stocks as measured by market capitalization.

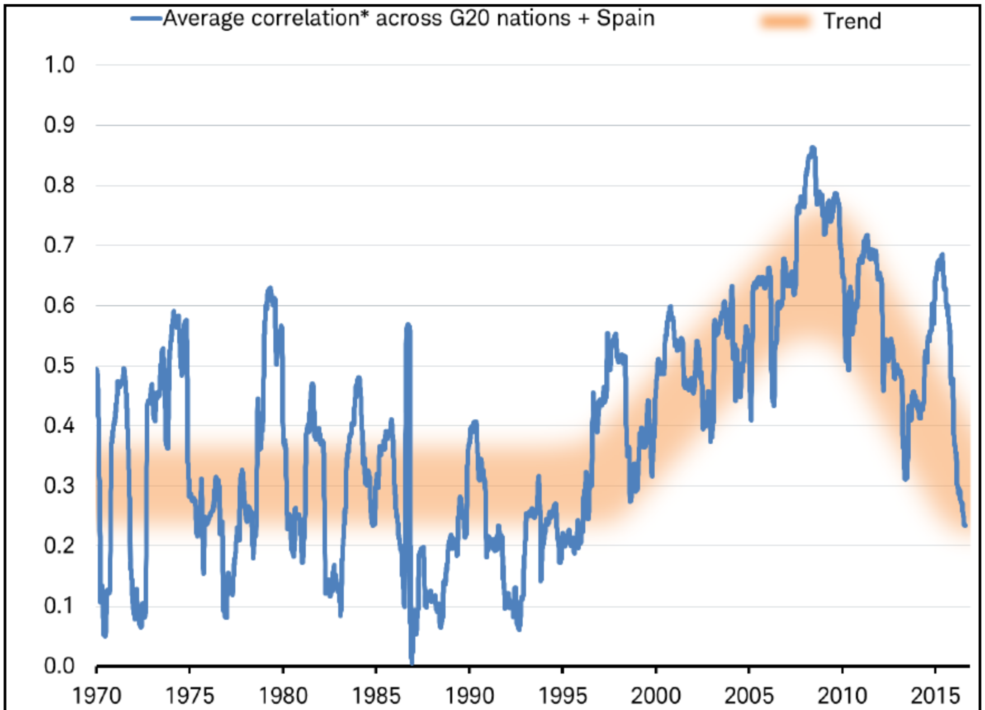
4) **Bottom up value**. From the remaining stocks, Cambria uses a valuation composite across traditional metrics such as trailing P/E, P/B. P/S, P/FCF and EV/EBITDA ratios to select the 10 most undervalued stocks from the top 30 within each country.

GVAL TOP 10 HOLDINGS (AS OF 12/8/17)

NAME	IDENTIFIER	COUNTRY	MAIN BUSINESS	% OF ASSETS
CORTICEIRA AMORIM SA	COR PL	Portugal	Cork	3.50%
UNIPETROL AS	UNIPE CP	Czech Republic	Oil	2.32%
SEVERSTAL PAO	CHMF RM	Russia	Steel	1.94%
LENZING AG	LNZ AV	Austria	Fiber	1.91%
BANCO SANTANDER BRASIL-U	SANB11	Brazil	Banking	1.88%
AMAG AUSTRIA METALL AG	AMAG AV	Austria	Aluminum	1.78%
MOTOR OIL (HELLAS) SA	MOH GA	Greece	Petroleum	1.69%
SBERBANK	SBER RM	Russia	Banking	1.67%
SEMAPA-SOCIEDADE DE INVES	SEM PL	Portugal	Cement	1.42%
PHILIP MORRIS CR AS	TABAK CP	Czech Republic	Tobacco	1.40%

5) **Liquidity**. Cambria uses quantitative measures to ensure all selected equities pass minimum requirements for float and liquidity.

6) **Rebalance**. The portfolio is updated annually and managed to optimize tax holdings and minimize tax exposures.



Source: Charles Schwab Center for Financial Research, MSCI Country Market Index data as of 10/31/2017.

GVAL offers investors several advantages…

First, it provides a classic value investment approach. It s portfolio holds the top quartile of what the Cambria Global Value Index identifies as the cheapest markets in the world based on long-term valuation metrics.

Second, GVAL breaks the size and price link since its weights holdings by valuation. (Meaning, it doesn't use market capitalization weighting, which repeatedly overweights overvalued companies).

Third, it removes emotional decision making—an investor's worst enemy. As Baron Rothschild once said, *"the time to buy is when there's blood in the streets."* However, it's emotionally tough to stay the course when geopolitical headlines are negative. While owning GVAL comes with some of the worst geopolitical headlines, it also provides exposure to securities in oversold markets. If you can hang in there deeply-discounted country stocks, things can go from "awful" to "bad" (and maybe better than "bad"). When that happens, explosive moves can occur (think Greece from mid 2012 to early 2014 or Russia from early 2009 to early 2011).

Fourth, GVAL protects against absolute overvaluation. By rule, it invests in the top 25% of countries based on long-term valuation metrics. It rebalances annually, which gives investors exposure to the cheapest country's cheapest stocks and ample time to recognize profits, as these stocks approach their intrinsic value.

And fifth, it provides diversification—even more so than in the past. Country correlations are the lowest they've been across countries in 20 years (see correlation chart)! We're back to the golden years of diversification. The fund owns a wide-ranging portfolio of companies of all different sizes, industries, and sectors that are located in developed and emerging countries all over the world. GVAL has exposure to Austria, Brazil, Czech Republic, Spain, Greece, Italy, Norway, Poland, Portugal, Russia, Singapore and Turkey. A diversified basket of cheap stocks from hated countries is much easier to stomach than throwing all your eggs in one basket (for example, buying the VanEck Vectors Russia ETF (RSX) only).

As Meb also told us, he's got some serious "skin in the game." He has all of his investable net worth in Cambria's ETF line-up. GVAL is one of his largest holdings.

In the end, think about broadening your opportunity set outside US equity markets.

Adding GVAL is one option. It gives you exposure to various, cheap foreign countries. Plus, it provides access to cheap stocks, which are hard to find in the US without major problems, by buying the value among value.

Another avenue, is to consider an international value ETF. There are several. But, some of the larger ones by assets are: iShares MSCI EAFE Value ETF (EFV), Schwab Fundamental International Select Dividend ETF (FNDF) and Schwab Fundamental International Small Company Index ETF (FNDC).

And yet another way, is to increase the existing weight of your international equity allocation. There are even more fund to choose from here. Broad-based international ETFs like Vanguard FTSE All-World ex-US ETF (VEU), Vanguard Total International Stock ETF (VXUS), iShares MSCI ACWI ex U.S. ETF (ACWX) are all worthy choices. But, they don't have a value tilt.

I'm most interested in GVAL myself because there's no perfect substitute for it. Its unique style of execution makes it unparalleled.

I love the thought of owning an ETF that holds several of the cheapest stocks from the cheapest quartile of investable countries in the world. And then, I can keep it on auto-pilot for the long haul, as it works its magic by rebalancing every year in April.

Editor's note #1: The folks at Cambria tell us that GVAL is available on pretty much every platform. The two major exceptions are Morgan Stanley and Merrill Lynch.

Editor's note #2: Cambria also informed us there will be no capital gain distributions at year-end.

Editor's note #3: As you'd probably guess from the country ETF YTD performance table, GVAL is up big this year (about 25% YTD). But, I expect this strategy to outperform over the long term—no matter when you're buying it.

I'd also contemplate selling it, if and when, US stocks ever show up in its portfolio (providing your portfolio carries a home country bias, of course).

Have a good week.

Tom

Sevens Report Alpha Fund & Stock Ideas

ETF/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Index Rebal **KWEB (KraneShares CSI China Internet ETF)**	*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.)* ***What to do now: Buy.***	**Issue 1: 8/17/17 8/24/17**	**KWEB: 4.41%**	**SPY: 10.10%**
Smart Beta Pioneer **RSP (Guggenheim S&P 500 Equal Weight ETF)**	*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.* ***What to do now: Buy.***	**Issue 2: 9/7/17**	**RSP: 8.35%**	**SPY: 8.41%**
Self-Driving Car Basket **SNSR (Global X Internet of Things ETF).** **ROBO (ROBO Global Robotics & Automation Index ETF).** **AMBA (Ambarella)** **QCOM (Qualcomm)**	*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.* *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.* ***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***	**Issue 3: 9/21/17**	**SNSR: 4.59%** **ROBO: 5.96%** **AMBA: 28.32%** **QCOM: 23.20% (closed)**	**SPY: 6.78%** **SPY: 3.72% (through QCOM close date)**
Electric Car Battery Plays **LIT (Global X Lithium & Battery Tech ETF).** **ALB (Albemarle)**	*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.* *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.* ***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.***	**Issue 3: 9/21/17**	**LIT: 0.87%** **ALB: -2.78%**	**SPY: 6.46%**
Dividend Growth **DIVY (Reality Shares DIVS ETF)** **REGL (ProShares S&P MidCap 400 Dividend Aristocrats ETF)** **SMDV (ProShares Russell 2000 Dividend Growers ETF)**	*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.* *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.* ***What to do now: Buy.***	**Issue 4: 10/4/17**	**DIVY: 2.34%** **REGL: 4.33%** **SMDV: -1.18%**	**AGG: 0.11%** **MDY: 3.92%** **IWM: 1.00%**
Merger Arbitrage **GABCX (Gabelli ABC Fund)** **MNA (IQ Merger Arbitrage ETF)**	*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.* *GABCX and MNA are the two best-performing—and cheapest—options to invest in this space.* ***What to do now: Buy.***	**Issue 5: 10/17/17**	**GABCX: 0.10%** **MNA: -0.13%**	**BIL: 0.13%**

Sevens Report Alpha Fund & Stock Ideas

ETF/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Special Dividends **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.* ***What to do now: Buy (multiple ways to implement in issue).***	**Issue 6:** **10/31/17**	**24 stocks:** **3.47%**	**50% SPY/50% AGG:** **1.84**
Insider Sentiment **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.* ***What to do now: Buy.***	**Issue 7:** **11/14/17**	**KNOW:** **4.31%**	**SPY:** **3.33%**