SEVENS REPORT *alpha*

July 10, 2018

In Today's Issue

- Another hidden class: Micro-caps stocks.
- Most advisors/investors allocate to U.S. small caps. But why not U.S. micro caps? Most small cap funds have little exposure to the smallest stocks.
- Observations from a micro-cap specialist.
- Fund solutions: A few ETFs, a list of our preferred active

A Misunderstood Asset Class

Finding the market value of a company's outstanding share is one of the easiest formulas—and concepts—in investing.

Current stock price x total number of shares outstanding = market capitalization.

Generally, market cap ranges are classified as large cap ($10 billion and above), mid cap ($2 billion to $10 billion), and small cap ($2 billion and below).

Those simplistic ranges—that many advisors and investors allocate to—leave out an important piece.

It's an overlooked, under-researched, and under-allocated part of the small-cap space known as micro-cap stocks.

For example, the iShares Russell 2000 ETF (IWM) has 2,027 holdings. IWM's underlying holdings range in market cap from approximately $6.7 billion to $101 million.

Per Morningstar, IWM allocates just 9% of its portfolio to micro caps. The same goes for the Russell 2000 index. Mid caps have over 3X the weight of micro caps.

Market Capitalization

Size	% of Portfolio	Benchmark
Giant	0.00	0.00
Large	0.00	0.00
Medium	31.05	30.95
Small	59.82	59.81
Micro	9.13	9.24

Source: Morningstar.com

Morningstar's definition of a micro cap is a stock with a $250 million market cap or less.

Speaking of definitions…

Is $250 million the right yardstick for micro-cap stocks?

That's a tough question to answer because there are many different definitions depending on the source.

For example, various experts define micro caps as:

- Stocks with market cap below $1 billion
- Stocks with market cap below $800 million
- Stocks with market cap below $750 million
- Stocks with market cap below $500 million
- Stocks with market cap below $300 million
- Stocks with market cap below $250 million

There are other broader definitions, too.

Rolf Banz, who conducted a 1981 study on the "small firm effect," advised to rank all the available companies by market cap. Then, separate the bottom rungs of the ladder. Basically, detach the bottom 20% from the upper 80%. The bottom 20% are your micro caps.

"Available" companies brings up another ambiguous question: Do micro caps represent exchange-listed stocks, non-exchange-listed stocks, or both?

For example, outside the major U.S. exchanges, there are plenty of small stocks on the Over-the-Counter Bulletin Board or Pink Sheets.

Point is, it's hard to categorize the tiniest stocks. Interpretations of what qualifies as a micro-cap stock—and where they reside—vary to a large degree.

With all the confusion, it's no wonder this tiny asset class often gets glossed over.

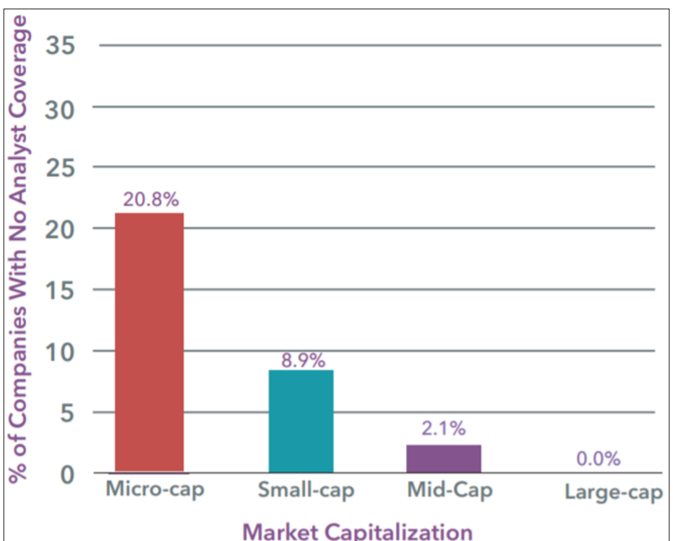
But, there are plenty of reasons it shouldn't be ignored.

Seven Big Reasons to Own Tiny Stocks

Here are seven reasons why micro-cap stocks warrant a piece of an allocation pie...

1) Off Wall Street's radar. While Wall Street provides wall-to-wall analysis on large-cap stocks, it doesn't want to waste its time reporting on little companies. You don't hear CNBC, Bloomberg, or Fox Business running stories on small-cap stocks.

That means plenty of under-the-radar opportunities exist in this less-efficient part of the market.

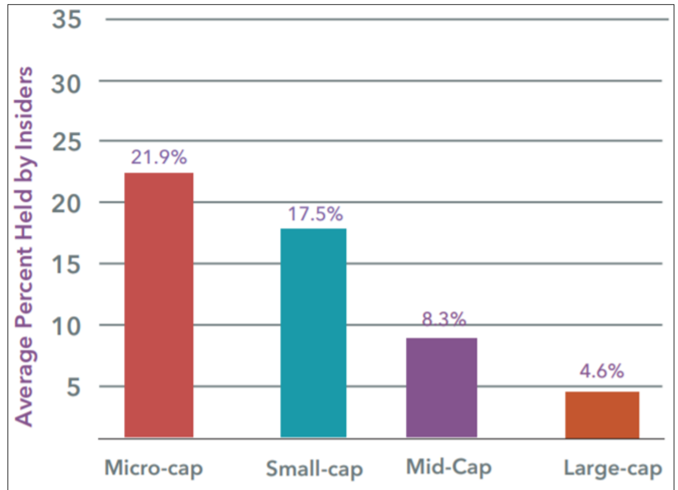


Source: Furey Research Partners, 12/31/17

2) High degree of insider ownership. When insiders own big stakes of a company, they have their own monetary incentives at stake. So, not only are they trying to create long-term value for investors, but, they are aiming to pad their own wallets, too.

High insider ownership means the interest of company management and investors is aligned.

Various studies have shown stocks with high insider ownership perform better than stocks without such ownership. Small stocks possess a sizable advantage in this area.

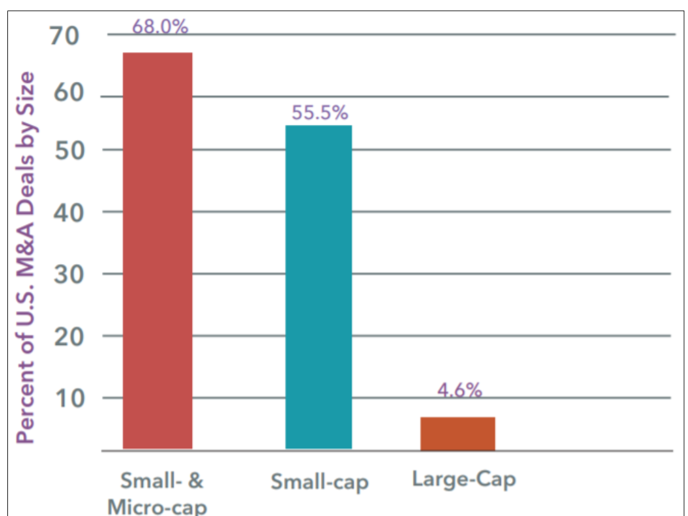


Source: Furey Research Partners, 12/31/17

3) Takeover potential. Bigger companies buy smaller companies.

The highest probability of takeovers occurs at the small- and micro-cap level. Almost 70% of public M&A deals occur at the small- and micro-cap level.

Shareholders of publicly-traded stocks that get acquired usually receive a big payday. (FactSet Mergerstat reports premiums for acquired companies in M&A situations average in the neighborhood of 20% to 40%.)



Source: Furey Research Partners, 12/31/17

4) Lower correlation. As you know, correlation measures the relationship between two different asset classes under the same market conditions.

Small company stocks have lower correlations to other asset classes (including, large company stocks) and make good diversifiers.

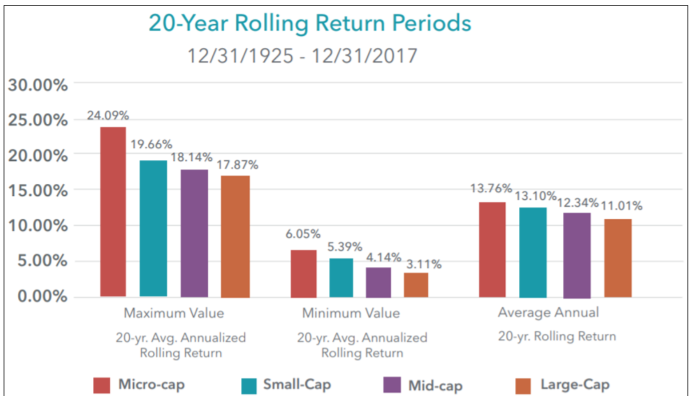
CORRELATIONS OF ANNUAL RETURNS 1926-2017

Category	Large Company Stocks	Small Company Stocks	L-T Government Bonds	Treasury Bills
Large Company	1.00	0.79	0.00	-0.02
Small Company	**0.79**	**1.00**	**-0.10**	**-0.09**
Long-Term Gov't Bonds	0.00	-0.10	1.00	0.18
Treasury Bills	-0.02	-0.09	0.18	1.00

Source: Ibbotson SBBI and FRP, 12/31/17

5) Outperformance. Through full market cycles, micro-cap stocks outperform their bigger-cap rivals (three different sets of them) over the long term. They outperform in long-dated, high-return cycles and long-dated, low-return cycles.

In essence, they provide "higher highs" and "higher lows."



Source: Ibbotson Classic Yearbook 2015, FRP, and FactSet, 2017

Let's translate this outperformance into real dollars. A hypothetical $1 investment into each of the four market -cap slots would have amounted to: $7,338 for large caps, $17,358 for mid caps, $23,522 for small caps, and $36,929 for micro caps.

[FYI: Returns assume the reinvestment of dividends and capital gains, but do not reflect the effect of any applicable sales charges or redemption fees. Micro-cap stocks defined as the bottom two deciles of securities ranked by market cap… Small-cap stocks defined as deciles 6-8. Mid-cap stocks defined as deciles 3-5… And large-cap stocks defined as stocks from the S&P 500 Index.]

6) Performance in low-growth environments. Micro caps tend to perform better than other capitalization stocks in low-growth environments (like we're still in currently).

ANNUALIZED CHANGE (%)

Decade	Large-cap	Small-Cap	Micro-cap	Real GDP
1930's	-0.05%	3.57%	7.17%	0.97%
2000's	-0.95%	4.88%	8.19%	1.80%
2010's	13.92%	14.38%	13.94%	2.15%
1980's	17.55%	16.16%	12.39%	3.11%
1970's	5.86%	10.44%	8.96%	3.21%
1990's	18.20%	15.88%	14.47%	3.22%
1950's	19.35%	18.17%	18.89%	4.20%
1960's	7.81%	11.74%	13.64%	4.51%
1940's	9.17%	14.79%	20.50%	5.61%

Source: FRP, Ibbotson SBBI, CRSP, 12/31/17

Micro caps outperformed large and small caps in low real GDP decades (first two rows) and high real GDP decades (last two rows). They didn't do too bad in the in-between rows (roughly 2% to 4% real GDP decades) either.

7) Performance after rate hikes. Small-cap stocks—including micro-cap stocks—have historically performed well following rate hikes (another period we're in now and likely in for the foreseeable future).

RUSSELL 2000 INDEX RETURNS FOLLOWING FED FUNDS RATE INCREASE

Hike Date	3 months after	12 months after	18 months after	36 months after
2/1/83	n/a	26.52%	5.20%	49.22%
10/1/86	1.75%	29.02%	7.47%	40.02%
2/4/94	-2.54%	-2.69%	16.85%	47.57%
6/30/99	-6.32%	14.32%	7.60%	1.71%
6/30/04	-2.86%	9.45%	15.88%	48.00%
12/15/15	-5.36%	22.63%	17.55%	n/a
Averages	-3.07%	16.54%	11.76%	37.30%

Source: Capital IQ

The Fed has raised short-term interest rates seven times since 12/16/15. We could still see one or two more hikes in 2018.

So far, you likely recognized some of the wording and images from our previous issue on international small caps. We thought it was important to rehash specific parts of that issue—along with new points—to make the case for micro-cap investing.

One of the main takeaways here is micro-cap stocks pretty much march to the beat of their own drum. That is, there are times when they're zigging and the rest of the market is zagging.

Importantly, over the long haul, they've outperformed stocks with higher market caps.

We talked to a micro-cap expert to get a handle on what's been going on in the space over the last decade.

The Lay of the Land from a Micro-Cap Maven

My analyst had an hour-long private call with Maj Soueidan (President and Co-founder of GeoInvesting) in preparation for this issue.

Maj has a fascinating background investing in micro caps...

He's been a full-time micro-cap investor since 1994… He's a sought-after speaker at micro-cap conferences all over the world… And he runs micro-cap strategies and portfolios for an array of investors ranging from individuals, to family offices, to institutions.

Maj co-founded GeoInvesting with Dan Davis in 2007. The duo's goal was to help increase awareness of opportunities in the micro-cap space. By bringing more investors into the space, it would ultimately help price discovery. GeoInvesting's research would also help seasoned micro-cap investors perform their research more efficiently.

Maj might be most famous for his research on "China fraud" back in 2010. GeoInvesting identified dozens of U.S.-listed China stocks that turned out to be frauds. (Specifically, 12 of those China stocks were either halted and/or delisted due to their work.) His firm—and their meticulous boots-on-the-ground due diligence on these companies—was featured in the documentary *The China Hustle*. Forbes called it the most important film of 2018. (My analyst saw it and said it's worth the watch.)

Here's how Maj described the state of the micro-cap industry and its transformation over the last 10 years (paraphrased):

I didn't anticipate the global recession of 2008 and the effect it would have on the micro-cap space.

It's tough to statistically define what happened. The playing field is definitely different...

Today, there aren't nearly as many investors excited about being involved in the micro-cap space. Retail investors evacuated. Brokers don't like to recommend micro-cap stocks to their clientele. Many institutional investors left the space. And the number of true micro-cap funds has dropped considerably.

Basically, a large percentage of micro-cap investors lost money, got spooked, and bailed.

Two dynamics have played out since then...

1) Some investors came back to the market, but they switched to a perceived less-risky investment space. They found large- and mid-cap companies and shunned micro caps. A lot of this shift has been absorbed by pooled alternatives (mutual funds and ETFs).

2) The risk-seekers, who were still out there, didn't want to have the exposure of "time" to the market. Therefore, the last several years, they've been seeking out riskier investments that would hopefully give them a return quicker than having to wait on a value + growth strategy. Think biotechs, FAANG stocks, other sexy high-growth techs, etc. All of which have little regard to a GARP strategy.

Both of these dynamics have also hurt micro caps.

But, this has happened before. A 1997 Wall Street Journal article titled: "Once Hot Micro-Cap Funds Cool Off, Drop in Popularity" is case in point.

Eventually, the market realized the GARP approach, particularly in micro caps (2000-2002). Just as cash outflows can sometimes lead to outsized losses, cash inflows can also lead to outsized gains.

There is no better time to employ a micro-cap GARP strategy than when others are sleeping. That opportuni-

ty appears to be present right now.

Micro-cap stocks have been left in the dust by their bigger-cap peers over the last four years (listed from best to worst):

- 2014: S&P 500 Index: 13.69%, S&P MidCap 400 Index: 9.77%, Russell 2000 Index: 4.89%, **Russell Micro Cap Index: 3.65%**
- 2015: S&P 500 Index: 1.38%, S&P MidCap 400 Index: -2.18%, Russell 2000 Index: -4.41%, **Russell Micro Cap Index: -5.16%**
- 2016: Russell 2000 Index: 21.31%, Russell MidCap 400 Index: 20.74%, **Russell Micro Cap Index: 20.37%**, S&P 500 Index: 11.96%
- 2017: S&P 500 Index: 21.83%, S&P MidCap 400 Index: 16.24%, Russell 2000 Index: 14.65%, **Russell Micro Cap Index: 13.17%**

Not only have micro caps missed the top spot from 2014-2017, they finished in last place three of those four years (and second last in the year when they didn't finish last).

This year is a different story. They have caught some momentum and are easily outdistancing the competition:

- 2018 (through 6/30/18): **Russell Micro Cap Index: 11.85%**, Russell 2000 Index 8.46%, Russell MidCap 400 Index 3.60%, S&P 500 Index 2.65%

If micro-cap stocks get back on the radar, that could mean potential future inflows are coming. Increased inflows into micro caps can lead to better price discovery.

Maj's abbreviated "active" recipe for micro-cap investing: Find stocks that aren't on the radar… find stocks—through additional research—that are not so obviously mispriced… and find stock that possess catalysts that will eventually change the way investors will look at a company.

Whether you're an active or passive investor/advisor, we have fund solutions for both.

Getting Fund Exposure to Micro Caps...

As, we showed you earlier, IWM doesn't do the trick for micro-cap exposure.

And if you think your small cap fund is getting you micro-cap exposure, you better think twice.

For example, Morningstar's small blend category averages just 0.5% exposure to micro caps!

At the least, it's worth investigating your exposure to micro caps.

What are the best ways to get micro-cap exposure?

We've pruned the list down to a handful of ETFs and mutual funds...

Top Micro-cap ETFs

1) iShares Micro-Cap ETF (IWC). IWC tracks the Russell Microcap Index. According FTSE Russell, the make-up of this index is as follows:

- 1,558 securities
- High market cap of $1.1 billion
- Low marker cap of $30 million
- Dollar-weighted average market cap of $546 million
- Median market cap of $248 million

IWC statistics: 8/12/05 inception, $1.1 billion in assets, 42K average daily volume, 0.60% expense ratio, 0.7% yield, 1,459 stock holdings, 3-star Morningstar rating, average market cap of $488 million, and 62% exposure to micro caps.

2) First Trust Dow Jones Select MicroCap Index Fund (FDM). FDM tracks the Dow Jones Select Microcap Index. This index has the following characteristics:

- Represents microcap stocks trading on the NYSE, NYSE Amex, and Nasdaq that are comparatively liquid and have strong fundamentals relative to the micro-cap segment as a whole

- Covers securities whose market caps fall within a range defined by the bottom two deciles of NYSE stocks
- Screens stocks on market cap, trading volume, and financial indicators (P/E ratio, P/S ratio, per-share profit change, operating profit margin, and six-month total return

FDM statistics: 9/27/05 inception, $127 million in assets, 10K average daily volume, 0.60% expense ratio, 0.9% yield, 254 stock holdings, 5-star Morningstar rating, average market cap of $634 million, and 52% exposure to micro caps.

There are two other true micro-cap ETFs: **Invesco Wilshire Micro-Cap ETF (WMCR)** and **Invesco Zacks Micro Cap ETF (PZI)**. These ETFs have much smaller asset bases ($30 million and $20 million, respectively).

Top Micro-cap Mutual funds

My analyst ran a search through Morningstar Advisor Workstation to laser in on micro-cap mutual funds. He eliminated the funds that either didn't have "micro" in their name or didn't have a true "micro-cap" primary prospectus benchmark. That got us down to less than 30 funds.

Since IWC has been around for a while and is the largest ETF in terms of assets, we compared its performance with actively-managed mutual funds that concentrate on micro caps.

Here are the market-beaters (each outperformed IWC over the last year, 3 years and 5 years):

1) AMG Managers Cadence Emerging Companies. This fund is sub-advised by Cadence. The Boston headquartered firm uses a proprietary quantitative model to specialize in growth-at-a-reasonable-price (GARP) investing. Management focuses on strength of management, competitive industry position, business prospects, and improving earnings fundamentals (click here for share class availability).

Additional statistics: 6/25/93 inception, $142 million in total assets, 98 stock holdings, 5-star Morningstar rating, average market cap of $620 million, and 51% exposure to micro caps.

2) Oberweis Micro-Cap. Oberweis Asset Management has made a career out of investing in pools where the competition doesn't swim as much. That is, domestic small- and micro-cap equities and international equities. Management attempts to find companies with innovative products/services that can create new markets or companies that will significantly beat modest growth expectations (click here for share class availability).

Additional statistics: 1/1/96 inception, $98 million in total assets, 91 stock holdings, 5-star Morningstar rating, average market cap of $646 million, and 47% exposure to micro caps.

3) Wasatch Micro Cap. Wasatch Advisors is famous in the mutual fund industry for its expertise in small-cap growth investing. Generally, management teams look for companies that can double in value within five years. This fund sets out to find the "World's Best Growth Companies" and undiscovered gems. This fund is the firm's smallest growth fund by market cap (click here for share class availability).

Additional statistics: 7/28/03 inception, $447 million in total assets, 88 stock holdings, 4-star Morningstar rating, average market cap of $919 million, and 39% exposure to micro caps.

Plus, some honorable mentions:

- **Bridgeway Ultra-Small Company Market**. Quant shop brings a unique approach (click here for share class availability).
- **DFA US Micro Cap**. If you drink the DFA (Dimensional Fund Advisors) "Kool-Aid," you may have access to this fund (click here for share class availability).
- **Perritt MicroCap Opportunities** and **Perritt Ultra MicroCap**. Micro-cap specialists have been at it for three decades and have multiple micro-cap portfolios (click here and here for share class availability).
- **Royce Micro-Cap Opportunity**. Reputable small-cap authorities go even deeper here (click here for share class availability).

- **TETON Westwood Mighty Mites**. Mario Gabelli (the famous stock-picking "Super Mario") is still very involved with this fund (click here for share class availability).

Keep in mind, while some of our honorable mention funds didn't produce the highest returns in recent years, good management teams often bounce back after short periods of underperformance.

Remember, if you're willing to select the active management approach, you need to be able to:

1) Identify managers who consistently outperform
2) Stomach higher costs
3) Be able to stick with a manager through periods of short-term underperformance to capture long-term outperformance

The last point above is key in micro-cap investing in general.

Think Long Term and Choose a Comfortable Position Size

One of the most widely used factors is the size factor.

Stocks of companies with smaller market caps have a tendency to outperform stocks of companies with larger market caps.

Many investors include exposure to small-cap stocks in a diversified portfolio to take advantage of their historical outperformance. Yet, few investors take the additional step to capture an even greater size premium in micro-cap stocks.

Micro caps are unfamiliar territory for most investors. They're often unjustly characterized as "penny stocks," "junk stocks," or "scary stocks." And while they do carry extra risk, they have outpaced the broader market—and delivered greater returns than small-cap stocks—over the long term.

The Center for Research in Security Prices (CRSP) studied size-based portfolios from 1926-2016. CRSP separated stocks into 10 deciles based on market capitalization (CRSP Decile 1 = largest stocks by market cap and CRSP Decile 10 = smallest stocks by market cap). Notice the pattern of higher returns—and higher standard deviations—as market cap decreases.

Table 1: US Stocks, 1926-2016

CRSP Decile	% Average Annual Return	% Standard Deviation	% Standard Deviation when Returns are Below Market	% Standard Deviation when Returns are Above Market
1	9.31	17.44	15.42	25.11
2	10.56	20.14	17.21	33.33
3	11.04	21.80	18.75	35.18
4	10.85	22.70	19.17	37.22
5	11.49	23.85	19.78	36.68
6	11.37	24.64	19.78	36.68
7	11.58	26.98	20.70	45.71
8	11.56	28.83	20.94	45.95
9	11.56	30.94	21.78	48.89
10	13.31	35.71	21.58	63.59
Total Market (CRSP DECILES 1-10)	9.82	18.49	16.15	28.02

Source: Bridgeway, CRSP

In terms of time horizon, investors should strive to stick to a micro-cap approach through a full market cycle (at least five years, if not seven to 10 years, or longer).

Another CRSP study shows ultra-small stocks don't always outperform the broader market. This is especially true over shorter time frames. Over one and three years, they underperform about 50% of the time.

However, over longer holding periods, ultra-small stocks likelihood of outperformance increases dramatically. Across five, 10, 15, and 20 years, they have outperformed the broader market roughly 55%, 70%, 75%, and 80% of the time, respectively.

Table 2: Ultra-Small Stock Performance by Length of Holding Period, 1926-2016

Period	% of Periods in which Ultra-Small Lagged Market	% Average Relative Return when Ultra-Small Underperforms Market	% Average Relative Return when Ultra-Small Outperforms Market
1 year	49.45	-12.28	29.82
3 year	51.69	-7.99	20.02
5 year	43.68	-6.41	13.62
10 year	31.71	-3.53	7.99
15 year	27.27	-2.79	6.72
20 year	20.83	-2.13	5.29

Source: Bridgeway, CRSP

As for micro-cap allocation percentages, they really range all over the map among financial professionals.

For advisors and family offices, who specifically allocate to micro caps, weights can be anywhere from 2% or 3% of a model portfolio up to 10% to 15%.

Position sizing depends on risk tolerance, time horizon, and other factors.

We think the case for adding micro-cap exposure to a diversified portfolio is strong and compelling.

For investors with the proper risk tolerance and time horizon, adding just a 2% or 3% weighing to the tiniest stocks can make a big difference.

As the evidence shows, it pays to think small.

Best,

Tom

Editor's Note #1: Micro-cap ETFs should be another good place to hide if trade wars escalate. (As a reminder, you can revisit our anti-trade war investing playbook issue.) According to Bloomberg, IWC's U.S. revenue exposure is 91%, FDM's U.S. revenue exposure is 91%, WMCR's U.S. revenue exposure is 94%, and PZI's U.S. revenue exposure is 93%. We couldn't run the stats on the active mutual funds, but we'd estimate their percentages are in the same ballpark.

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Index Rebal **KWEB (KraneShares CSI China Internet ETF)**	*KWEB is an index rebalance play based on major Chinese internet and ecommerce companies (China N-shares) being added to FTSE Emerging Market Indices between Sep 2017 and June 2018. KWEB is our conduit to front-run huge index funds that will be forced to buy its underlying holdings.* ***What to do now: We closed KWEB on June 15th (last leg of rebal). It's still viable as a long-term holding.***	**Issue 1:** **8/17/17** **8/24/17**	**KWEB:** **21.46%** **(closed)**	**ACWX:** **6.93%** **(through KWEB close date)**
Smart Beta Pioneer **RSP (Invesco S&P 500 Equal Weight ETF)**	*From an index standpoint, S&P 500 Equal Weight has massively outperformed S&P 500 (cap weight) over the long term (392% vs. 158% over the last 18 years). RSP has lagged recently due to tech sector outperformance. That presents a short-term dislocation and opportunity to buy RSP at a discount to SPY.* ***What to do now: Buy.***	**Issue 2:** **9/7/17**	**RSP:** **12.72%**	**SPY:** **13.65%**
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.***	**Issue 3:** **9/21/17**	**SNSR:** **3.93%** **ROBO:** **4.89%** **AMBA:** **-13.19%** **QCOM:** **23.20%** **(closed)**	**SPY:** **11.67%** **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 U.S. auto companies planning massive roll outs and several countries putting end dates on the internal combustion engine.* *From an investment angle, 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: Long-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 sold off since. The growth opportunity is years, if not decades, ahead.***	**Issue 3:** **9/21/17**	**LIT:** **-10.90%** **ALB:** **-28.49%**	**SPY:** **11.95%**
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:** **4.62%** **REGL:** **6.66%** **SMDV:** **5.13%**	**AGG:** **-1.04%** **MDY:** **10.68%** **IWM:** **13.37%**
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:** **1.39%** **MNA:** **0.52%**	**AGG:** **-1.23%**

Sevens Report Alpha Fund & Stock Ideas

Fund/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. Investors can't see the true yields on these stocks because they're missing from financial websites. Our elite list has yields ranging 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	Basket of stocks (avg.): 7.37%	50% SPY/50% AGG: 3.77%
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: 8.80%	SPY: 8.33%
Global Value 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.* ***What to do now: Buy.***	Issue 9: 12/12/17	GVAL: -1.65%	ACWX: -1.30%
"Backdoor" Hedge Fund Investing 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 ace managers who have produced Buffett-like returns.* ***What to do now: Buy (multiple ways to implement in issue).***	Issue 10: 12/27/17	Basket of stocks (avg.): -5.09%	50% SPY/50% AGG: 1.30%
EM & FM Bonds EMB (iShares JPM USD Emerging Markets Bond ETF) EMLC (VanEck JPM EM Local Currency 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 U.S., 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), EMLC/EBND (emerging market debt local currency), and AGEYX (actively-managed frontier market debt) are all attractive options.* ***What to do now: Buy.***	Issue 11: 1/9/18	EMB: -4.79% EMLC: -7.87% EBND: -7.59% AGEYX: -1.47%	AGG: -0.78%
"Blockchain" Investing BLOK (Amplify Transformational Data Sharing ETF) BLCN (Reality Shares Nasdaq NexGen Economy ETF)	*Blockchain, the technology behind cryptos, has the potential to change many industries. Having the right exposure to companies using or pioneering the use of blockchain, offers substantial long-term growth opportunities. Not only did we break the story on the first two blockchain ETFs (BLOK and BLCN) ahead of every financial media outlet, we also provided a sneak peek at their top holdings and a blockchain primer.* ***What to do now: Buy (multiple ways to implement in issue).***	Issue 12: 1/16/18	BLOK: -1.49% BLCN: -6.07%	SPY: -0.66%
"Active" Bond ETFs BOND (PIMCO Active Bond ETF) TOTL (SPDR DoubleLine Total Return Tactical ETF) FTSL (First Trust Senior Loan Fund)	*Studies show actively-managed fixed income funds have been much more successful at beating benchmarks than actively-managed equity funds.* *In addition, the "Agg" has changed for the worse over time: higher duration, lower yield, and less diversification. These three active bond ETFs—with better statistics and all-star portfolio management teams—stand a good chance at beating the Agg going forward.* ***What to do now: Buy.***	Issue 14: 2/20/18	BOND: 0.61% TOTL: 0.78% FTSL: 0.74%	AGG: 0.87%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Cash Alpha **FPNIX (FPA New Income)**	*FPNIX has generated positive returns for 33 straight years. No other non-government bond fund can boast of an equivalent track record. We also featured "MaxMyInterest," which produces 140 to 150 basis points of alpha versus traditional cash vehicles (MMAs, MMFs, and CDs). Max also increases FDIC insurance and can give advisors visibility to held-away cash.* ***What to do now: Buy (Max is also an excellent cash management solution).***	**Issue 15:** **3/6/18**	**FPNIX:** **0.76%**	**BIL:** **0.54%**
Index Rebal **KBA (KraneShares Bosera MSCI China A Share ETF)**	*KBA is an index rebalance play based on the inclusion of Mainland Chinese equities (A-shares) into MSCI Global Standard Indexes. The first two steps will take place on June 1st and September 1st. KBA is our gateway to front-run massive index funds that will be forced to buy its underlying holdings.* ***What to do now: Buy.***	**Issue 16:** **3/20/18**	**KBA:** **-19.99%**	**ACWX:** **-3.64%**
Anti-Trade War **QABA (First Trust Nasdaq ABA Community Bank Index Fund)**	*QABA is a play to protect against trade war ramifications (97% of its sales are U.S.-sourced). Additionally, it should also be a beneficiary of U.S. tax reform, in that, smaller U.S. companies should capture most of the 35% to 21% corporate tax cut. We also featured three more ETFs (AMCA, AIRR, KRE) and two exclusive stock screens—run through Cap IQ—for advisors to share with clients who have trade war concerns.* ***What to do now: Buy.***	**Issue 18:** **4/17/18**	**QABA:** **5.13%**	**SPY:** **2.39%**
Foreign Small Caps **VSS (Vanguard FTSE All-World ex-US Small -Cap ETF)** **DLS (WisdomTree International Small-Cap Dividend Fund)**	*Most advisors don't allocate to international small caps. But, we think they should reconsider. This hidden asset class holds several advantages over its U.S. equivalents: cheaper valuations, less volatility, lower correlations, higher dividend yields, and past outperformance. We highlight multiple individual ETFs, ETF combinations, and actively-managed mutual funds that do the trick.* ***What to do now: Buy.***	**Issue 19:** **5/1/18**	**VSS:** **-2.90%** **DLS:** **-4.39%**	**EFA:** **-2.22%**
Disruptive Innovation **ARKK (ARK Innovation ETF)**	*Investing in the "cornerstone themes of disruptive innovation" has resulted in huge profits over time (think Amazon, Apple, and Netflix). ARK sees current investment opportunities in innovation platforms, such as automation, energy storage, DNA sequencing, next generation internet, blockchain technology, etc. ARK's top innovation-based themes are all represented in ARKK. In 2017, ARKK was the #1 performing ETF (excluding leveraged and inverse ETFs) with a return of 87%!* ***What to do now: Buy.***	**Issue 20:** **5/15/18**	**ARKK:** **9.29%**	**SPY:** **2.05%**
Buybacks **PKW (Invesco BuyBack Achievers ETF)**	*Companies with meaningful share count reduction have outperformed over the long term with lower volatility. Currently, U.S. companies are flush with cash due to tax cuts and repatriation. In turn, share repurchases broke a new record in Q1 2018 and they're on pace to set a new record for 2018. PKW is the premier ETF to profit from buybacks (largest asset base and longest history). We also featured four alternative ETFs (SPYB, TTFS, DIVB, SYLD) and some individual stock lists.* ***What to do now: Buy.***	**Issue 21:** **5/29/18**	**PKW:** **2.73%**	**SPY:** **2.84%**
"FANG and Friends" of Emerging Markets **EMQQ (Emerging Markets Internet & Ecommerce ETF)**	*"By 2025, annual consumption in emerging markets will reach $30 trillion—the biggest growth opportunity in the history of capitalism."—McKinsey & Company. The combination of four major forces in emerging markets make this a great investment setup: favorable demographics, increasing smartphone availability, surging wireless broadband and Wifi access, and the globalization of the capital formation process. EMQQ is the best ETF to invest in this great confluence. We also featured three alternative ETFs (ECON, KWEB, KEMQ).* ***What to do now: Buy.***	**Issue 23:** **6/26/18**	**EMQQ:** **1.09%**	**EEM:** **0.58%**