

SEVENS REPORT *alpha*

Webinar #8: “Insider Sentiment” Investing
Thursday, December 7th, 2017

Presenter: Tom Essaye

Guest: Scott Martindale, President, Sabrient Systems LLC

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- Goals for Today's Webinar
 - “What Do You Think About Markets?”
 - Scott Martindale – President of Sabrient Systems LLC
 - Introduction to Sabrient
 - Four core models
 - *Baker's Dozen* portfolio
 - Drilling down on KNOW's underlying index
- Q&A

“What Do You Think About the Market?”

- Tax Cuts Propel Markets to New Highs
 - Assuming modest bump from tax cuts, valuation of market no more stretched than it has been in 18+ months.
- But, with tax cuts now fully priced in – the biggest question facing markets is “What’s Next?”
 - What can propel the next leg of gains?
- Meanwhile, clouds continue to gather on macro horizon: 10’s – 2’s. Copper. Chinese growth.
- Macro Playbook: Stay the course – clouds gathering on the horizon, but unlikely to cause any major pullback between now and year-end.
- Micro Playbook: All about rotation.
 - What’s worked for all of 2017 (FDN/XLV/IHF/IBB/IEMG/XLU/XLP) vs. Cyclical & Value (KRE/KBE/IWM/XLI/TBT/TBF & IVE). Still waiting on the 10 year yield to meaningfully close above 2.40% on a weekly basis – that’s the key.

Sabrient...

- **Quantitative** fundamentals-based multifactor models since 2000
- Diverse team of engineers, analysts, programmers, led by former NASA engineer (lunar landing project) **David Brown**
- Numbers-driven; Bottom-up rather than top-down
- Passive & active portfolio strategies
- Strategic beta indexes for **ETFs** introduced in 2006 (Claymore)
- In 2009, introduced “*quantamental*” GARP selection approach to create the ***Baker’s Dozen*** annual portfolio of 13 top picks – which became a First Trust **UIT** in 2013 (now monthly)
- Sabrient receives licensing fees on roughly \$5 billion of assets



Sabrient's Acquisition of Gradient Analytics Adds Even More Brain Power...

- **Fundamental** in-depth forensic accounting analysis since 2002
- Team of CFAs, CPAs – finance & accounting backgrounds
- Earnings quality and anomalous insider activity
- Clientele of institutional portfolio managers & hedge funds
- Acquired by Sabrient in 2011
 - ➔ Long vetting helps to “play defense”
 - ➔ Built an **Earnings Quality Rank (EQR)**

Live Performance: 10/1/2013 – 6/30/2017	
Quintile	Cumulative Since Launch
5	51.0%
4	38.1%
3	40.1%
2	32.0%
1	16.6%
Top-Bottom Spread (5-1)	34.3%

Baker's Dozen Portfolio Whipping the Market...

Sabrient Baker's Dozen Monthly UIT Portfolios - 2017

Sabrient Baker's Dozen Model Portfolio, May 2017 - Performance to Date						
TICKER	COMPANY NAME	INDUSTRY	MARKET CAP (\$ B)	ENTRY PRICE (Close 5/19/17)	LAST PRICE	GAIN/LOSS (%)
CAVM	Cavium Inc.	Semiconductors	4.90	71.39	85.48	19.74%
COG	Cabot Oil and Gas Corporation	Oil and Gas	10.70	23.48	28.95	23.30%
CVX	Chevron Corporation	Oil and Gas	199.30	106.52	118.99	11.71%
LOGM	LogMein Inc.	Software Services	5.80	113.05	119.00	5.26%
LPX	Louisiana-Pacific Corporation Inc	Lumber	3.30	22.69	27.61	21.68%
NUE	Nucor Corporation	Steel	17.80	56.66	57.50	1.48%
OLN	Olin Corporation	Chemicals	5.10	31.20	35.64	14.23%
PHM	PulteGroup Inc.	Homebuilding	7.20	23.13	34.13	47.56%
STM	STMicroelectronics N.V.	Semiconductors	12.50	16.37	22.62	38.18%
WDC	Western Digital Corporation	Data Storage	25.00	86.66	78.86	-9.00%
WGO	Winnebago Industries Inc.	Recreational Vehicles	0.80	26.25	54.75	108.57%
XL	XL Group Ltd	Insurance	11.00	41.45	38.82	-6.34%
XPO	XPO Logistics Inc	Logistics	5.90	52.79	79.03	49.71%
Average Gain/Loss =						23.39%
SPDR S&P 500 ETF (SPY) Gain/Loss				238.31	265.01	12.36%
S&P 500 Equal Weight ETF (RSP) Gain/Loss				90.97	100.25	11.20%

Sabrient Baker's Dozen Model Portfolio November 2017			
TICKER	COMPANY NAME	INDUSTRY	MARKET CAP (\$ B)
ANDV	Andeavor	Refining & Marketing	16.6
BP	BP p.l.c.	Oil & Gas	97.5
EXTR	Extreme Networks, Inc.	Communications Equipment	1.5
MU	Micron Technology, Inc.	Semiconductors	53.2
NMIH	NMI Holdings, Inc.	Mortgage Finance	1.0
NXST	Nexstar Media Group, Inc.	Broadcasting	3.0
OLN	Olin Corporation	Chemicals	6.0
STM	STMicroelectronics N.V.	Semiconductor	18.0
TEX	Terex Corporation	Construction Machinery & Heavy Trucks	3.8
VOYA	Voya Financial, Inc.	Diversified Financial Services	7.6
WLH	William Lyon Homes	Homebuilding	0.9
WRK	WestRock Company	Paper and Packaging	14.9
XPO	XPO Logistics, Inc.	Logistics	9.0

	Gross Return	Benchmark
Jan 2017 Bakers Dzn	+ 22.7%	+ 18.9%
Apr 2017 Bakers Dzn	+ 17.3%	+ 13.8%
May 2017 Bakers Dzn	+ 23.4%	+ 12.4%
Jun 2017 Bakers Dzn	+ 16.8%	+ 9.6%
Jul 2017 Bakers Dzn	+ 14.9%	+ 7.9%
Aug 2017 Bakers Dzn	+ 13.5%	+ 9.8%
Sep 2017 Bakers Dzn	+ 10.9%	+ 6.0%

As of 11/30/2017 - Based on data from FTPortfolios.com

Sabrient Multi Cap Insider/Analyst Quant-weighted Index (SBRQAM) Characteristics...

- **Seeks a weighted portfolio displaying a combination of:**
 - ✓ **solid earnings quality**
 - ✓ **insider buying activity**
 - ✓ **positive revisions to EPS estimates**
 - ✓ **relatively defensive investor sentiment**

*** Index tracked by 5-Star Morningstar-rated KNOW ETF**

SBRQAM Index Methodology...

1. Identify the eligible universe

- ✓ S&P 1500 and must have Wall Street analyst coverage
- ✓ At least \$1 million daily trading volume over past 30 days
- ✓ EQR score better than 1 (i.e., the worst earnings quality quintile is eliminated)

2. Insider/Analyst Sentiment model screens universe down to 100 stocks

- ✓ Number of insiders buying, and Magnitude of increase in beneficial ownership
- ✓ Proportion of sell-side analysts revising EPS estimates upward, and Magnitude of revisions
- ✓ No limits on turnover or sector concentrations

3. Defensive Sentiment model determines quant weightings

- ✓ *Sabrient Bear Score* measures how well a stock holds up during weak market conditions
- ✓ Dividend Yield and Cash Flow Yield also in the model

4. Modified Exponential Weighting of final 100 stocks

- ✓ Top 50 from Defensive Sentiment Model weighted exponentially ranging from 2.6% to 0.96%
- ✓ Bottom 50 each get flat 0.35% weights

Are You “in the KNOW?” Solid Outperformance Since Inception...

12/8/2011 inception thru 11/30/2017



Strategy Review

Alpha Issue & Date	Strategy	Funds Recommended	Updated Opinion
Issue 1: Index Rebal (8/17/17)	Long Chinese Internet Stocks on Inclusion into Emerging Market Global Indices.	KWEB	Buy on the dip.
Issue 2: Equal-weight (9/7/17)	Buy S&P 500 ETF that outperforms over long term.	RSP	Buy – Thesis Still Valid– Outperformed lately.
Issue 3: Next Mega Trend: Self Driving Car Basket/Electric Car Basket (9/21/17)	Get longer term exposure to the generational growth potential of the changing car industry.	SNSR/ROBO/AMBA/QCOM LIT/ALB	Our best performing strategy. The average recommendation is up 9% and we closed QCOM out up 23%. Longer term thesis still valid.
Issue 4: Dividends (10/4/17)	Get exposure to dividend growth and the next generation of “Dividend Aristocrats.”	DIVY/REGL/SMDV	Buy. We continue to prefer dividend growth over outright yield as a longer term strategy.
Issue 5: Merger Arbitrage (10/17/17)	An uncorrelated strategy that provides steady mid- to high-single-digit returns.	GABCX/MNA	Buy. This is a totally uncorrelated strategy that provides bond-like returns without the market risk.
Issue 7: Insider Sentiment (11/14/17)	Using corporate insider buying, combined with other overlays, as a way to outperform.	KNOW	Buy. This ETF and strategy have outperformed consistently over the past several years.
<u>Other Strategies Not Involving Specific ETF/Mutual Fund Calls</u>			
Issue 6: Special Dividend Stocks (10/31/17)	Screened 17,070 stocks and provided a list of 24 stocks that have consistently paid big special dividends (hidden from investors).	List Available for download	Buy. These names should continue to provide strong income over time.
Issue 8: Conference Notes (11/28/17)	Attended 3-day AAI Investment Conference and provided “Cliff’s Notes” on the best strategies and ideas presented.	Notes available for download off SevensReport.com	Tremendous value from both a strategy and idea generation standpoint.

Q&A