SEVENS REPORT *alpha*

January 15, 2019

In Today's Issue

- Investing in "quality" companies is one of the best ways to weather a period of extended volatility in stocks. Two of the best measures of "quality" are Free Cash Flow Yield and Return on Equity.
- Two Stock Screens: We screened the S&P 500 to find the companies that have a Free Cash Flow Yield (FCFY) above 8% and the stocks that are in the top 5% of the entire market for Return on Equity.
- We also examined past performance of high FCFY names and list the seven stocks that have FCFY above 8% and have outperformed the S&P 500 since September 2017.
- COWZ: A unique ETF that includes FCFY and ROE as part of the screening process. It's handily outperformed "Value" ETFs over the past two years!

Two Ways to Identify "High-Quality" Stocks

The adage, "A rising tide lifts all boats" is an apt description of the relative ease with which equity gains advanced over the course of the last decade.

Indeed, the selection of stocks to own during any uptrend in the market is far easier than a downturn or volatile environment.

Yet as we enter what many are considering to be a new phase of uncertainty and market disruption, we think it's going to be crucial for advisors to know how to identify so-called "high-quality" stocks/companies.

But, what does "high quality" mean?

"Value" doesn't necessarily mean "high quality."

Whale oil companies were once a value, and turned out to be a "value trap."

In this Alpha issue, we take a deep dive into two factors that we, and others, think constitute "high quality" stocks—factors that should help these stocks and ETFs weather the ongoing volatility and outperform over the long term for investors.

For decades, analysts and academics have used various fundamental indicators to define what's meant by high-quality. Some of the most common fundamental metrics used here include price-to-earnings ratio or price-to-book ratio. This data is thought to determine a company's attractiveness relative to its current share price.

And while these ratios work well to identify signs of comparative value, they don't clearly detect whether the business operations are creating sustainable returns relative to expenses.

I think a better assessment of what it means to be a high-quality stock is to measure the actual cash flow of a company in relation to its size and standing.

This is a far more precise way to determine just how strong a business is, and if that business is of sufficient quality to weather potential market storms.

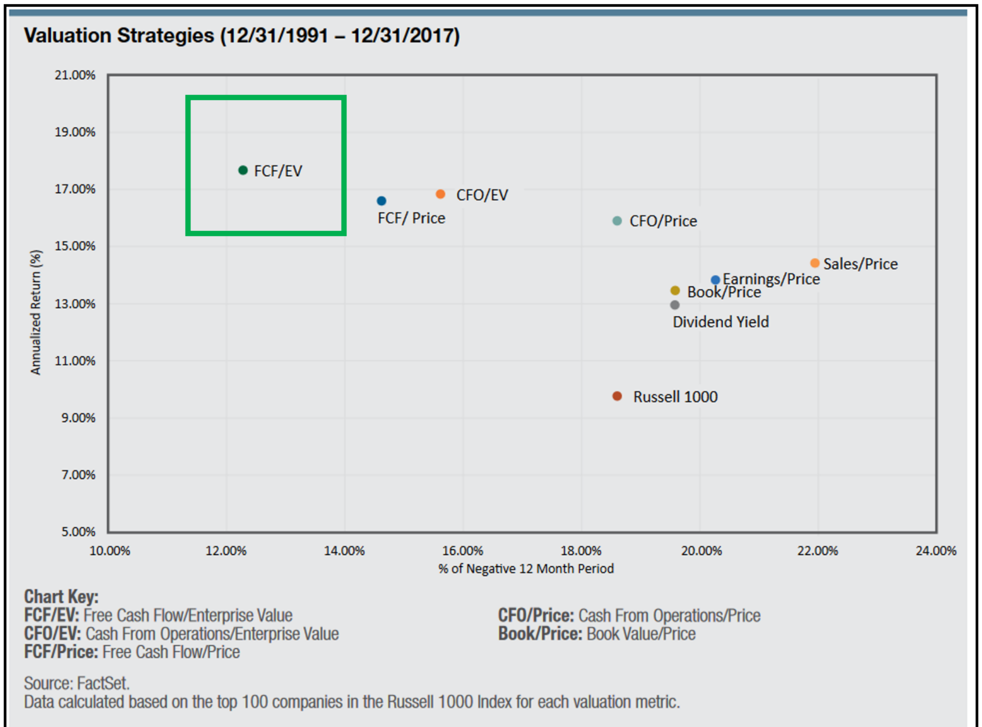
One of my favorite metrics to accomplish this task is the calculation of *Free Cash Flow Yield (or FCFY for short)*.

If this metric sounds familiar to long standing *Alpha* subscribers, it should. Ali Motamed, who is a Managing Partner of Invenomic Capital Management and the 2014 Morningstar Alternatives Portfolio Manager of the year, espoused the benefits of high free cash flow yield on our Alpha webinar from September 28, 2017.

This metric is derived by dividing the free cash flow (amount a company has left over after all expenses and capital expenditures are paid), by the enterprise value of the stock.

The result of which provides an insight into a publicly traded company's internal performance and sustainability.

Having that free cash offers companies a substantial long-term advantage, as it can be used to: 1) Reduce debt, 2) Buyback stock, 3) Fund dividends or 4) Fund long-term acquisitions (having money to buy quality assets on the cheap is important for wealth creation in companies as well as families!).



Source: Paceretfs.com

How much does FCFY impact a stock's performance?

The graphic above illustrates that stocks with high FCFY experienced stronger annualized returns and reduced periods of negative returns relative to other fundamental ratios.

Another important factor in many high-quality stock screens is *Return on Equity (or ROE)*. This statistic is calculated by dividing net income by shareholders equity.

If this metric sounds familiar, again, it should.

Recent Alpha webinar guest Gina Martin Adams, the Chief Strategist for Bloomberg Intelligence, cited Return on Equity as one of her favorite investing factors during our webinar on December 20.

Shareholders equity is equal to a company's assets minus its debt, which provides a picture of the net assets of the stock. Therefore, ROE is expressed as a percentage, where higher net income versus a healthy balance sheet will produce stronger internal returns.

We believe these two factors offer unique ways for investors to identify truly high-quality companies with attractive core fundamentals that have a significant edge for future performance.

As such, to aid you in identifying some of these companies, we're conducted screens and research to identify high FCYF and ROE stocks, as well as two unique ETFs that screen for true financial quality.

Free Cash Flow Yield (FCFY)

Again, for longer-term Alpha subscribers, a FCFY screen should sound familiar. In September 2017, in conjunction with Ali Motamed's webinar, we screened the S&P 500 for stocks that yielded 8% or higher, and sent that list along with the webinar and transcript.

Free Cash Flow Yield Screen (FCFY Above 8%)

Symbol	Name	Sector	FCF (TTM)	Mkt Cap ($ bil)	EV ($ bil)	PE Ratio (TTM)	1 Yr % Ret	FCFY
PRU	Prudential Financial Inc	Financial Services	14,927	35,122	37,796	5.29	-29.07%	39.49%
SYF	Synchrony Financial	Financial Services	9,576	18,141	29,814	8.01	-39.24%	32.12%
PFG	Principal Financial Group Inc	Financial Services	4,168	12,822	13,245	6.13	-37.40%	31.47%
MET	MetLife Inc	Financial Services	12,487	41,724	41,031	8.44	-18.79%	30.43%
MU	Micron Technology Inc	Technology	8,951	36,658	35,301	2.70	-22.84%	25.36%
BEN	Franklin Resources Inc	Financial Services	2,123	15,498	9,625	21.46	-31.55%	22.06%
RJF	Raymond James Financial Inc	Financial Services	1,770	10,666	9,698	12.97	-16.67%	18.25%
DFS	Discover Financial Services	Financial Services	5,820	20,591	32,133	9.04	-23.32%	18.11%
ETFC	E*TRADE Financial Corp	Financial Services	2,298	11,512	13,013	13.68	-11.48%	17.66%
AFL	Aflac Inc	Financial Services	6,191	34,197	36,032	7.11	3.81%	17.18%
WDC	Western Digital Corp	Technology	2,825	10,755	17,252	23.23	-53.51%	16.37%
COF	Capital One Financial Corp	Financial Services	12,218	37,675	78,614	11.11	-24.09%	15.54%
PGR	Progressive Corp	Financial Services	5,524	34,735	36,158	11.98	7.12%	15.28%
STX	Seagate Technology PLC	Technology	2,044	10,916	13,795	7.67	-7.77%	14.82%
FCX	Freeport-McMoRan Inc	Basic Materials	3,725	15,679	25,727	5.01	-45.62%	14.48%
MTB	M&T Bank Corp	Financial Services	2,180	20,812	15,504	13.44	-16.29%	14.06%
ALL	Allstate Corp	Financial Services	4,640	28,475	33,697	8.15	-21.09%	13.77%
HIG	Hartford Fin Services Group	Financial Services	2,313	15,835	16,869	N/A	-21.02%	13.71%
BAC	Bank of America Corporation	Financial Services	46,881	251,047	343,785	12.18	-16.53%	13.64%
KSS	Kohl's Corp	Consumer Cyclical	1,662	10,966	12,191	11.09	22.33%	13.63%
L	Loews Corp	Financial Services	3,148	14,343	24,372	11.65	-9.01%	12.92%
AXP	American Express Co	Financial Services	14,020	83,410	110,771	23.14	-4.02%	12.66%
SBUX	Starbucks Corp	Consumer Cyclical	9,961	78,865	79,374	19.74	12.14%	12.55%
JPM	JPMorgan Chase & Co	Financial Services	34,645	334,836	278,262	12.45	-8.72%	12.45%
HPQ	HP Inc	Technology	3,982	32,188	32,298	6.40	-2.62%	12.33%
TRV	The Travelers Companies Inc	Financial Services	3,709	31,436	33,204	13.26	-11.71%	11.17%
LRCX	Lam Research Corp	Technology	2,248	21,425	20,220	10.44	-26.02%	11.12%
STI	SunTrust Banks Inc	Financial Services	3,769	24,145	37,495	9.25	-21.91%	10.05%
NTAP	NetApp Inc	Technology	1,218	14,970	12,463	55.5421	7.86%	9.77%
LUV	Southwest Airlines Co	Industrials	2,563	26,912	26,538	7.6332	-28.98%	9.66%
C	Citigroup Inc	Financial Services	21,399	134,635	224,283	N/A	-30.04%	9.54%
LYB	LyondellBasell Industries NV	Basic Materials	3,848	33,263	40,492	5.7993	-24.62%	9.50%
AMAT	Applied Materials Inc	Technology	3,165	32,305	33,584	10.3058	-35.95%	9.42%
MCK	McKesson Corp	Healthcare	2,751	22,337	29,515	168.1324	-29.16%	9.32%
IBM	International Business Machines Corp	Technology	12,741	106,620	139,180	18.7712	-25.91%	9.15%
GILD	Gilead Sciences Inc	Healthcare	7,912	88,290	87,287	56.875	-12.69%	9.06%
OMC	Omnicom Group Inc	Consumer Cyclical	1,777	16,436	19,763	14.2132	0.56%	8.99%
DXC	DXC Technology Co	Technology	1,799	16,056	20,064	8.9145	-35.22%	8.97%
WRK	WRKCo Inc	Consumer Cyclical	1,421	10,236	16,028	5.4258	-40.26%	8.87%
CINF	Cincinnati Financial Corp	Financial Services	1,116	12,350	12,594	9.0561	3.27%	8.86%
KLAC	KLA-Tencor Corp	Technology	1,163	13,976	13,433	15.6068	-14.83%	8.66%
BBY	Best Buy Co Inc	Consumer Cyclical	1,227	14,195	14,217	13.955	-22.65%	8.63%
AAPL	Apple Inc	Technology	64,121	703,553	751,735	12.4798	-6.79%	8.53%
AMP	Ameriprise Financial Inc	Financial Services	1,477	15,431	17,366	9.5375	-38.41%	8.51%
VIAB	Viacom Inc	Consumer Cyclical	1,644	10,837	19,420	6.3146	-16.59%	8.47%
TAP	Molson Coors Brewing Co	Consumer Defensive	1,888	12,884	22,932	7.9402	-31.57%	8.23%
AGN	Allergan PLC	Healthcare	5,728	48,087	70,473	21.6015	-18.29%	8.13%
AMGN	Amgen Inc	Healthcare	10,448	124,538	129,044	51.7037	11.94%	8.10%
SWKS	Skyworks Solutions Inc	Technology	830	11,296	10,269	12.6753	-29.42%	8.08%

In this most recent screen, which was just complete, we again started with the universe of the large-cap S&P 500 Index.

We omitted any stocks with a market capitalization of less than $10 billion to create a subset of approximately 400 U.S.-based companies.

The calculation then divided trailing 12-month free cash flow by enterprise value. This generated our FCFY factor, which we sorted from high to low and is seen in the above table.

The result is a list of 49 stocks with FCFY of greater than 8%. These are the "cream-of-the-crop" companies with the highest free cash flow relative to their complete balance sheet.

Several important observations initially jumped out at me when I looked at the above list, which was also attached to this issue email:

- As with our initial screen back in September 2017, financial services stocks standout in their representation within the group. They overwhelmingly dominate the list along with a smattering of technology, consumer discretionary and basic materials companies as outliers. Insurance companies also standout as some of the top cash cows on this list.
- P/E ratios are generally quite attractive overall in this list. The recent sharp downturn in share prices (see 1-year % returns) has quickly re-

priced this fundamental criterion.

- Several stocks are even demonstrating single-digit P/E numbers on a trailing 12-month basis.
- There are only two stocks on the list that are in the mega-cap arena with Bank of America and JP Morgan. The others, while still considered large-cap, have far more room for potential growth.

- From a share price performance standpoint, Kohl's Corp (KSS), Starbucks Corp (SBUX), Progressive Corp (PGR) and Aflac Inc (AFL) are the four outliers with positive stock returns over the last 12 months.

In addition to finding takeaways from the current list, I wanted to see how this list compared to the original FCFY screen. So, went back and looked at the original FCFY list from September 2017, and ran the performance of the names to see **what stocks outperformed the S&P 500 *and* that were included on the most recent FCFY screen.**

Of the original FCFY screen, there were seven stocks that outperformed the S&P 500 since September 2017 and that also appeared on our recent screen:

- Kohls (KSS) 66.06% return
- Seagate (STX) 30.36% return
- Aflac (AFL) 15.18% return
- E*TRADE Financial (ETFC) 11.11% return
- Viacom (VIAB) 10.96% return
- J.P. Morgan (JPM) 9.58% return
- Omnicom (OMC) 6.48%. return

Cincinnati Financial (CINF) and Travelers (TRV) were also on both screen sand have positive performance since September 2017, but relatively underperformed the S&P 500, which is up about 5% since then.

Looking deeper at performance since the original screen, from a sector standpoint, consumer cyclicals had the best average return while financials, not surprisingly, had the worst average return.

From reviewing the data, I took away a few conclusions:

First, Seagate (STX) is the only stock that 1) Has a positive total return and outperformed the S&P 500 since the original screen, 2) Has a positive 12 month total return and 3) Made the original FCFY screen, the updated FCFY screen *and* was also on our Return on Equity screen. It's the top performer of the two screens.

Starbucks (SBUX) also showed well as it also has positive 12 month performance and is on the most recent FCFY screen and Return on Equity screen. But, it didn't make the original FCFY screen back in September 2017.

Third, despite concerns about the economy, consumer cyclicals generally performed better than other sectors (including defensives and technology).

Finally, financials were a major drag on average performance. Financials have been hit hard over the past three months by falling rates and worries about margins, but their free cash flow yields remain substantial and attractive.

Over the longer term, these are factors that lead to long-term outperformance, so I think these are "buy on the dips" candidates in longer-term accounts such as IRAs.

A Cash-Flow Focused ETF

Of course, not every advisor is enamored with the prospect of choosing individual stocks for client portfolios.

Many advisors prefer the quiet efficiency of an exchange-traded fund (ETF) to do the identification, sorting and rebalancing of their asset allocation.

Like many other aspects of investment criteria, free cash flow yield has been commoditized into an ETF wrapper that you can access in a single step.

The **Pacer US Cash Cows 100 ETF (COWZ)** isn't designed to pay mega dividends as its name would lead you to believe. Rather, the fund selects the top 100 stocks from the Russell 1000 Index with the highest free cash flow yields.

Stocks are weighted within the index by FCFY with a 2% cap on any single company.

In fact, the current blended free cash flow yield of COWZ is 7.88% compared to 3.41% in the Russell 1000 Index. It also sports a P/E ratio of 12.55 versus 21.24 in the Russell 1000 as of 9/30/18.

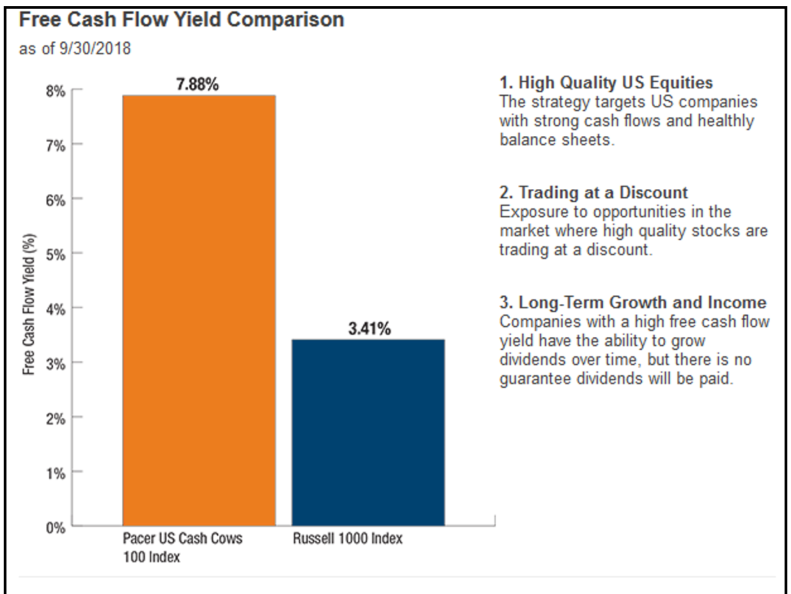
Pacer US Cash Cows ETF (COWZ)	
Inception Date:	12/16/2016
Assets:	$165.7M
Avg Daily Volume:	45.5K
Expense Ratio:	0.49%
# of Holdings:	100
YTD Return:	7.19%
3-Yr Return:	13.84%
Mstar Rating:	N/A

The fund is essentially a high cash flow, high-quality, value screen from within the large-cap domestic equity market.

COWZ also sports a respectable dividend yield of 2.32% as well as a broad distribution of capital among numerous sector groups.

COWZ debuted just over two years ago and has already amassed over $150 million in assets. It charges a net expense ratio of 0.49%, which is still in the reasonable realm of a smart-beta strategy with unique factors at work.

Daily trading volume has also been steadily climbing in this ETF over the last six months as more advisors take notice of its attractive characteristics and deep liquidity of the underlying components.



Source: Paceretfs.com

It's also interesting to note that COWZ has significantly outperformed the popular iShares Russell 1000 Value ETF (IWD) over the last two years (see chart, previous page).

The fund is running about an 8.6% performance gap that was far more significant prior to the Q4 2018. And, it's likely to assume that this fund would once again become a top alpha generator during a market recovery, and it is currently trading at one of its

Return on Equity Screen (Top 5% of the S&P 500)

Symbol	Name	Sector	FCF (TTM)	Mkt Cap ($ bil)	EV ($ bil)	PE Ratio (TTM)	1 Yr % Ret	ROE (TTM)
MCO	Moody's Corporation	Financial Services	1,398	27,452	31,467	25.6774	-5.13%	3717.61%
NRG	NRG Energy Inc	Utilities	466	11,319	17,211	N/A	39.04%	1047.58%
KMB	Kimberly-Clark Corp	Consumer Defensive	2,128	38,744	46,020	24.3747	-5.57%	796.06%
LMT	Lockheed Martin Corp	Industrials	1,107	75,384	89,272	24.5635	-18.44%	595.68%
HD	The Home Depot Inc	Consumer Cyclical	10,072	196,109	220,129	18.9335	-9.34%	585.60%
ABBV	AbbVie Inc	Healthcare	11,922	133,981	165,704	18.4029	-4.67%	418.37%
UPS	United Parcel Service Inc	Industrials	474	83,981	102,469	15.6384	-18.15%	293.08%
SPGI	S&P Global Inc	Financial Services	2,080	43,220	44,776	25.5958	0.32%	280.62%
ORLY	O'Reilly Automotive Inc	Consumer Cyclical	1,190	27,381	30,516	21.4846	43.15%	257.62%
ADSK	Autodesk Inc	Technology	84	28,094	28,604	N/A	22.68%	186.07%
CLX	Clorox Co	Consumer Defensive	792	19,538	21,941	23.8411	3.63%	117.07%
HLT	Hilton Worldwide Holdings Inc	Consumer Cyclical	1,078	20,742	27,701	15.4393	-10.09%	112.99%
MSCI	MSCI Inc	Financial Services	536	12,906	14,082	32.0087	16.51%	110.18%
SBUX	Starbucks Corp	Consumer Cyclical	9,961	78,865	79,374	19.7422	12.14%	107.20%
AAL	American Airlines Group Inc	Industrials	(903)	14,757	34,526	12.8675	-38.29%	105.83%
HSY	The Hershey Co	Consumer Defensive	1,167	22,256	26,153	21.9627	-5.58%	102.28%
STX	Seagate Technology PLC	Technology	2,044	10,916	13,795	7.674	-7.77%	101.07%
MA	Mastercard Inc	Financial Services	6,102	195,983	193,869	38.3354	24.64%	90.54%
MTD	Mettler-Toledo International Inc	Healthcare	393	13,202	14,110	33.4698	-8.71%	76.05%
K	Kellogg Co	Consumer Defensive	1,866	19,884	29,065	10.791	-16.14%	73.71%
MO	Altria Group Inc	Consumer Defensive	7,164	94,516	106,028	8.9661	-30.84%	71.93%
VZ	Verizon Communications Inc	Communication Services	15,662	232,880	344,876	7.1705	6.22%	70.98%

more attractive entry points for new capital.

A fund such as COWZ is truly a dual threat for any diversified portfolio. It's broad enough to be used as a core U.S. holding with a value-centric approach, or as a more tactical position to generate alpha over a full market cycle.

The benefit of this strategy is that you get the merits of the free cash flow yield screen in a single package that is easy to manage.

The fund also does all the rebalancing and reconstitution of the index for you on a regular basis, so you never have to worry about a single stock skewing your return profile.

I also would be remiss in pointing out that COWZ has a sibling fund in the **Pacer U.S. Small Cap Cash Cows 100 ETF (CALF)**, if a smaller company footprint is on your 2019 needs list (Hey, you've got to love the creativity of the ticker game in these funds).

Return on Equity (ROE)

Our return on equity screen used the same basic universe parameters as free cash flow yield.

The roughly 400 eligible large-cap stocks were whittled down to just 22 by identifying the top fifth percentile with the highest return on equity over the last twelve months.

The results produced an interesting mix of top-stocks with many varying characteristics. Below are my key observations of this group.

The sector dispersion is far more diversified in this list than the free cash flow yield list. You can find a top-performing company in almost every industry, which lends itself well to those who are looking to bolster their exposure in specific groups.

Again, there were two crossovers that standout in both lists (FCFY and ROE), i.e. Starbucks Corp (SBUX) and Seagate Technology PLC (STX).

These stocks are worlds apart in their respective businesses, yet they share similar fundamentals that lend themselves to outperformance. It's no secret why both have been top performers in their respective categories over the last year.

It's interesting to note that return on equity doesn't always correlate with massive stock price returns in the immediate period.

Moody's is still down slightly on the year even though it's one of the top-performing financial services/research stocks in ROE terms.

If you were going to create an ETF from scratch with a quality screen, it's a sure bet this group would be excellent candidates for inclusion.

In fact, Mastercard (MA), Altria Group (MO), and Lockheed Martin (LMT) all are in the top 10 holdings of the ultra-popular iShares Edge MSCI USA Quality Factor ETF (QUAL).

P/E ratios are generally higher across the board for top ROE stocks; however, there are many with attractive valuations that should be given consideration for 2019 opportunities.

It's clear that the top companies in the return on equity screen aren't just profitable, but they are efficiently allocating capital to generate positive net income and cash flow.

These are companies with the capability to weather future economic storms with strong business models and capable management teams.

Conclusion

One of the top themes embedded in the last several *Sevens Report Alpha* issues has been the shift from identifying growth stocks to identifying stocks and sectors with more intrinsic value characteristics.

The two fundamental factors outlined in this issue continue in that vein by recognizing companies that are generating excellent returns for shareholders. It's my supposition that these lists are a fantastic starting point for idea generation in the new year, as they carry with them qualities that many investors will find desirable in virtually any environment.

Of course, there is no way to know exactly when we will reach a stable platform for another run higher in the market. However, it's always good to have fresh fodder ready for new allocations when the time is right.

Best,

Tom

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: 5.20%**	**SPY: 7.34%**
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: -8.15%** **ROBO: -10.90%** **AMBA: -20.80%** **QCOM: 23.20% (closed)**	**SPY: 5.72%** **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: -23.5%** **ALB: -42.0%**	**SPY: 5.72%**
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: 1.21%** **REGL: 3.30%** **SMDV: -0.17%**	**AGG: 0.33%** **MDY: -1.75%** **IWM: -3.54%**
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: 1.43%** **MNA: 4.15%**	**AGG: 0.13%**

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:** **-2.92%**	**SPY:** **2.31%**
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:** **-5.73%**	**ACWX:** **-9.26%**
"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:** **-4.16%** **EMLC:** **-6.89%** **EBND:** **-5.76%** **AGEYX:** **-2.34%**	**AGG:** **0.59%**
"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:** **-21.60%** **BLCN:** **-15.70%**	**SPY:** **-5.28%**
"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:** **2.34%** **TOTL:** **2.30%** **FTSL:** **1.08%**	**AGG:** **2.27%**

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: 2.09%	BIL: 1.38%
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: -26.90%	ACWX: -11.40%
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: -13.00%	SPY: -3.31%
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: -15.70% DLS: -15.20%	EFA: -11.20%
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: -3.62%	SPY: -3.64%
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: -2.13%	SPY: -2.89%
"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).*	Issue 23: 6/26/18	EMQQ: -23.40%	EEM: -5.08%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Micro Caps IWC (I-Shares Micro-Cap ETF)	*Small caps outperformed until this most recent pullback, but while allocations to that sector of the market are rising, micro-caps, a sub-set of small caps, remain generally overlooked.* *Micro caps remain an overlooked, under-researched, and under-allocated part of the small cap universe that can offer diversification and outperformance (micro caps are perennial takeover candidates).*	7/10/18	IWC: -18.30%	IWM: -15.00%
The Future of Consumer Spending IBUY (Amplify Online Retail ETF) FINX (Global X FinTech ETF) IPAY (ETFMG Prime Mobile Payments ETF)	*The way U.S. consumers purchase goods is changing—rapidly. And, getting "pure play" exposure to the rise to online retailers and to the growth of mobile payments could be similar to investing in credit cards back in the mid-80's. There are few other established corners of the market that offer this type of growth potential.*	7/24/18	IBUY: -17.10% FINX: -15.60% IPAY: -9.20%	SPY: -7.63%
Floating Rate Funds FLOT (I-Shares Floating Rate Bond ETF USFR (Wisdom Tree Floating Rate Treasury Fund) SRLN (SPDR Blackstone / GSO Senior Loan ETF EFR (Eaton Vance Floating Rate Trust)	*Despite stubbornly high bonds/low yields, bonds are still now in a longer term bear market, and there exist few non-inverse bond alternatives that can produce absolute gains in a falling bond environment.* *Floating rate ETFs rise as bond yields fall and offer absolute return potential in bond portfolios, and are an important tool in constructing client bond portfolios in a rising rate environment.*	8/6/18	FLOT: 0.27% USFR: 0.85% SRLN: -0.56% EFR: -5.50%	AGG: 1.51%
Content Is King PBS (Invesco Dynamic Media ETF) IEME (Ishares Evolved U.S. Media & Entertainment ETF) XLC (Communications services SPDR) DIS (Disney)	*How generational changes in the cable TV industry are presenting massive long-term growth potential (think NFLX's 4000% return since 2012).* *Industry Primer: How the cable industry is changing from a service-based business, to a content-based business.*	8/20/18	PBS: -3.54% IEME: -5.75% XLC: -9.64% DIS: -0.79%	SPY: -8.96%
Momentum & Value PSCH (PowerShares S&P SmallCap Health Care Portfolio) SBIO (ALPS Medical Breakthroughs ETF) FXG (First Trust Consumer Staples AlphaDex ETF)	*In our first of a recurring series, each quarter we'll profile some of the best ETFs from a momentum and value standpoint.* *Most investors and prospects can be grouped into those two investing styles, and we want to provide consistent, value-add idea generation for each type of investor, so you're always armed with compelling ideas and stories for clients and prospects, regardless of their investment style.*	9/4/18	PSCH: -22.30% SBIO: -13.70% FXG: -6.26%	SPY: -10.30%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Commodities **PDBC (Invesco Optimum Yield Diversified Commodity Strategy No K-1)** **GNR (SPDR S&P Global Natural Resources ETF)** **RLY (SPDR SSGA Multi-Asset Real Return ETF)**	*Commodities have typically outperformed during late expansion and early recession phases of the economic cycle. Many economic indicators imply we are entering (or are already in) the late expansion phase of the economic cycle. As such, commodities have outperformed so far this year, and we expect that to continue.*	9/18/18	PDBC: -12.00% GNR: -10.40% RLY: -8.01%	DBC: -11.30%
Short Duration Bond ETFs **MEAR (IShares Short Maturity Municipal Bond ETF)** **LDUR (PIMCO Enhanced Low Duration Active ETF)** **MINT (PIMCO Enhanced Short Maturity Active ETF)**	*The downtrend in bonds accelerated in September and October of 2018, and it was a reminder that advisors face challenges in the fixed income markets over the coming years.* *One of the best ways to protect investors in a bond bear market is by shortening duration of bond holdings, so we presented three short duration bond ETFs that have yields that are close to the 10 year Treasury, but that have much shorter average maturities.*	10/16/18	MEAR: 0.25% LDUR: 0.17% MINT: 0.29%	BIL: 0.33%
Bear Market Strategies **USMV (I-Shares Edge MSCI Minimum Volatility USA ETF)** **DYLS (Wisdom Tree Dynamic Long/Short US Equity ETF)** **PTLC (Pacer Trendpilot US Large Cap ETF)**	*The October 2018 equity market decline sparked fears of an end to the multi-year bull market. So, we wanted to provide some suggestions on practical "bear market" strategies for advisors that wouldn't involve market timing or deviating from keeping clients in the markets over the longer term.*	10/30/18	USMV: -2.35% DYLS: -9.55% PTLC: 0.37%	SH: 3.15%
Special Dividends **List of 19 stocks**	*Screened 17,070 stocks to arrive at 19 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).*	11/6/18		
Momentum & Value 4th Quarter Edition **WTMF (Wisdom Tree Managed Futures ETF)** **MLPA (Global X MLP ETF)** **DCP (DCP Midstream LP)** **SHLX (Shell Midstream Partners LP)**	*In our Q4 installment of our Momentum and Value series we focused on strategies for the volatile and difficult market.* *Our momentum strategies were focused on non-correlated ETFs to provide diversification.* *Our value strategy focused on the MLP space, which had compelling yields in an environment where the oil price should stabilize.*	12/4/18	WTMF: -0.15% MLPA: -0.99% DCP: -9.14% SHLX: -5.32%	SPY: -4.18% AMLP: -0.21%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Growth into Value Rotation **RPV (Invesco S&P 500 Pure Value ETF)** **DVP (Deep Value ETF)**	***Recognizing the switch in outperformance from value to growth in 2014 was one of the easiest ways to help clients outperform.*** ***Now, there are signs markets might be switching back, to an era where value outperforms growth. The ETFs included in this report serve as a "one stop shop" to add quality value exposure to client portfolios.***	**12/18/18**	**RPV:** **-4.90%** **DVP:** **0.81%**	**VTV:** **1.60%**
Contrarian Ideas to Start 2019 **IEMG/EEMV (Emerging Market ETFs)** **ITB/VNQ (Homebuilders/Real Estate ETFs)** **DFE (WisdomTree Europe SmallCap Dividend Fund)**	***The start of a new year means new money needs to be put to work, so we wanted to provide some unique and interesting contrarian ideas that can outperform in 2019.***	**1/2/19**	**IEMG/ EEMV:** **2.94%/2.22%** **ITB/VNQ:** **8.26/6.22%** **DFE:** **6.00%**	**SPY:** **2.96%**