SEVENS REPORT *alpha*

May 21, 2019

In Today's Issue

- Have we found the best of both worlds? Alpha recommendation USMV and other minimum volatility ETFs had smaller drawdowns than the S&P 500 during the 2018 correction yet have outperformed YTD.
- Minimum Volatility factor ETFs have proven effective alternatives for core market holdings over both the short and long term, and will help ensure investors don't give back YTD gains in the event of a correction. We have included a table of all minimum volatility ETFs in the market with this issue.
- **USMV (iShares Total Return MSCI USA Minimum Volatility ETF).** We recommended this ETF back in October, and it had a smaller drawdown (-8%) and has outperformed the S&P 500 (10.49% total return).
- **SPLV (S&P 500 Low Volatility Index ETF):** A strong alternative to USMV, this ETF has also had smaller drawdowns (-7%) and outperformed the S&P 500 since October (up 12.73%).
- **EEMV (iShares Edge MSCI Minimum Volatility Emerging Markets ETF) & (EFAV iShares Edge MSCI Minimum Volatility EAFE ETF).** Both international ETFs are strong candidates for core international holdings.

Is Low Volatility Investing the Holy Grail?

As advisors, we're always looking for the "holy grail" of investing.

What that means is we want to make sure we minimize the downside in client portfolios when the market gets volatile, and maximize our gains and outperform the market when the rally is on.

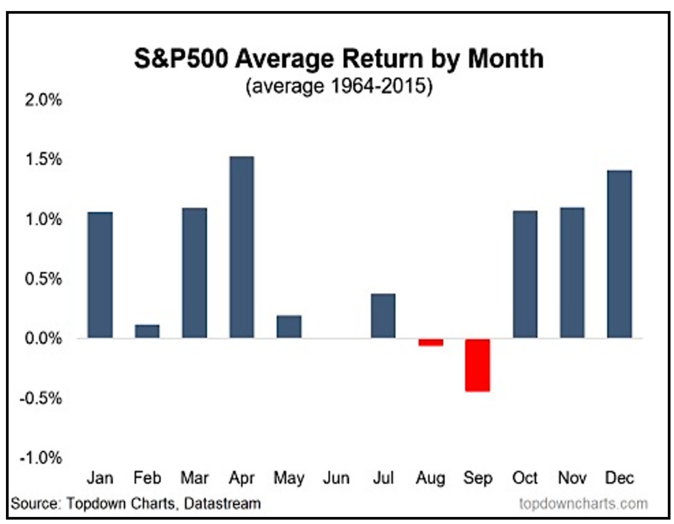
Yes, I know this dual goal might seem like a mere pipe dream, but it's not, at least it's not since last October.

In fact, a previous recommendation from a late-October Alpha issue has done exactly that—had a small drawdown in the October—December correction, and outperformed the S&P 500 during the 2019 rebound.

Those results, and the research we've done this year on **low volatility investing** now has me convinced that the long sought-after holy grail just might be found in the **low volatility ETFs profiled in this issue.**

Now, as I am sure you are quite aware, market volatility has once again reared its ugly head. This time, the culprit is the geopolitical standoff between the United States and China over trade.

Indeed, this debate feels like it will never quite abate, and the uncertainty caused by increased tariffs by both sides over the past couple of weeks, as well as the delayed trade negotiations, has Wall Street worried that we could see another summer swoon that tanks the market back into negative territory for the year.



This trade dust up comes when, historically, markets usually experience a reduction in trading volume given summer vacation and travel schedules. This less-liquid environment often leaves the door open for small headlines to morph into much larger price swings (mainly to the downside) in the major market indices.

At a strategic level, we are always looking for ways to improve our positioning in the markets and thus the opportunity to "de-risk" at lofty heights is one that is likely running through your mind.

Moving a portion of your client portfolios to cash or even to the equity hedged funds we identified just a few issues back are two strategies that would ultimately reduce your net exposure.

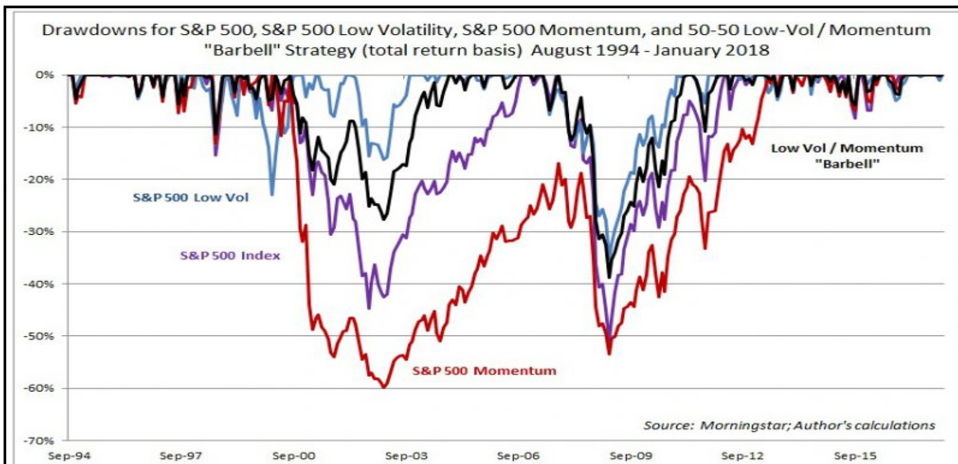
Portfolio Statistics for Various Strategies August 1994 - January 2018

Investment	CAGR	Std. Dev.	Max Drawdown	10-yr Sharpe
S&P 500	10.01%	14.58%	-51%	0.71
S&P 500 Low Vol	11.24%	11.03%	-35%	1.04
S&P 500 Momentum	11.52%	16.75%	-60%	0.78
50-50 Low Vol / Momentum "Barbell"	12.07%	12.04%	-39%	0.94

Source: Morningstar; Author's calculations

Source: Fortune Financial Advisors blog – February 2018

Yet both strategies carry risks of being unable to quickly shift gears and get back into the market if President Trump and his team finally put a bow on this trade deal that spurs a massive rally. Moreover, using equity hedges may also not be ideal for some client portfolio restrictions that don't allow the flexibility to add sophisticated strategies.



Source: Fortune Financial Advisors blog – February 2018

A more attractive solution for many advisors is to simply switch out a core holding with a factor-driven strategy that has proven to minimize market fluctuations.

I'm talking here, of course, about those aforementioned low volatility ETFs, which we introduced you to as part of our general Bear Market Playbook issue back in October.

And, with macro volatility now back in the markets via U.S.-China trade and worries about global growth, now is a perfect opportunity for us to expand on your knowledge of how these funds are constructed, what their true benefits are, and where they fit in any sound investment mix.

<u>Why The Low Volatility Factor Works</u>

Low volatility ETFs have proven to be consistent winners throughout a variety of market conditions, and after evaluating this research, they may ultimately become a staple in your portfolio makeup.

The factors that ultimately shape low volatility indexes have proven to offer attractive characteristics for investors that want equity exposure without the downside risk of a typical broad-based benchmark. Several studies across numerous time frames have pointed out how strongly this category performs through both bull and bear markets.

The table and charts here demonstrate a strong case for the low volatility factor providing stronger returns than the S&P 500 Index over a 25-year period.

One particular statistic that stands out in this field is the low volatility factor providing the intended outcome of decreasing maximum drawdowns.

Now, anyone who has studied bear market math knows that the deeper the hole you dig, the much harder you have to work to get out of it. A 50% decline requires a 100% gain to get back to break even.

Subsequently, a 25% decline only requires a 33% gain to recapture that same high-water mark.

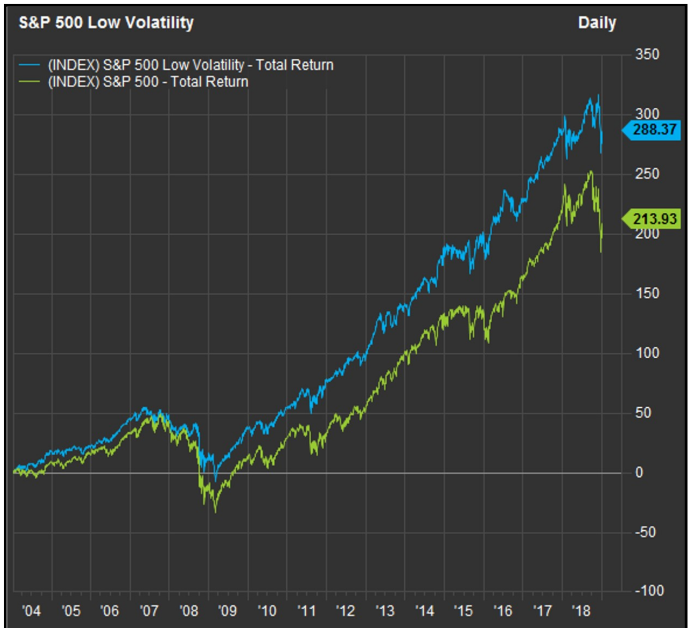
Reducing the drawdown means that you don't have to work nearly as hard on the upside. This is the real math advantage that low volatility ETFs have in their back pocket.

Furthermore, there are numerous psychological benefits to reducing those swings in the portfolio as well.

We all know the gut-wrenching feeling when having to speak with clients who are on the verge of a nervous breakdown when they see their portfolio gains wiped out during a prolonged dip in the market.

Being able to reduce those stresses can help save client relationships and ultimately your income streams. It also builds trust that you are providing true relative alpha that manifests itself in their cumulative account values.

Even if you started near the early part of this century after the last mega-apocalypse of the 2000 tech wreck, you can see just how much relative outperformance the S&P 500 Low Volatility Index has provided.



Source: MarketWatch – Jan 2019

The Low Volatility Landscape

If there's one thing investors love, it's consistency and reliability—two attributes that deftly describe the trend of ETFs that track low volatility stocks.

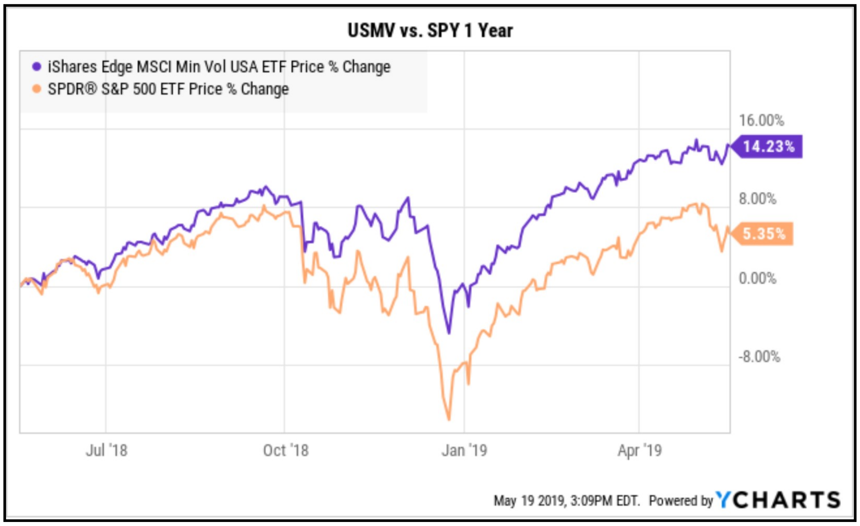
This unique category of the ETF universe has rapidly expanded in recent years through a combination of persistent upside momentum and investor risk aversion. There are now 23 dedicated funds in this field, with eight of them housing more than $1 billion in assets. A complete table of all low volatility funds has been included as an appendix at the end of this report, for your reference.

In our Bear Market Playbook issue, we highlighted our favorite fund in this category, the **iShares Edge MSCI Minimum Volatility USA ETF (USMV)**.

At the time, this fund had just crossed the $17 billion mark and was by far the largest of its kind. However, its strong performance and well-rounded portfolio has now seen its total assets catapult to over $25 billion.

We have been duly impressed with the real-world performance of this ETF during the Q4 2019 volatility. USMV has meaningfully outperformed SPY by nearly double the cumulative returns over the last seven months. More importantly, it only experienced about 60% of the December massacre, and thus it was well positioned to rally out of the hole.

To refresh your memory, USMV is composed of approximately 200 large- and mid-cap U.S. stocks with characteristics of reduced historical price volatility versus their peers. iShares lists the 3-year beta of this fund, or relative price movement versus the market, as 0.74. It's essentially a cross section of the U.S. stock market that has demonstrated less downside risk over a recent look-back period.



The USMV portfolio is multi-sector in nature with caps placed on the maximum allocation for any single group. At present, the top holdings include technology, healthcare, and financial companies such as Visa (V), Waste Management (WM) and McDonald's (MCD).

The portfolio is reconstituted and rebalanced several times per year to ensure its holdings match up with its factor mandate. The fund also charges a very reasonable expense ratio of 0.15%, making it suitable as a long-term core holding in client portfolios.

iShares Edge MSCI Minimum Volatility USA ETF (USMV)	
Inception Date:	10/18/2011
Assets:	$26.08B
Avg Daily Volume:	3.1M
Expense Ratio:	0.15%
# of Holdings:	213
YTD Return:	16.62%
3-Yr Return:	45.11%
Mstar Rating:	4 Star

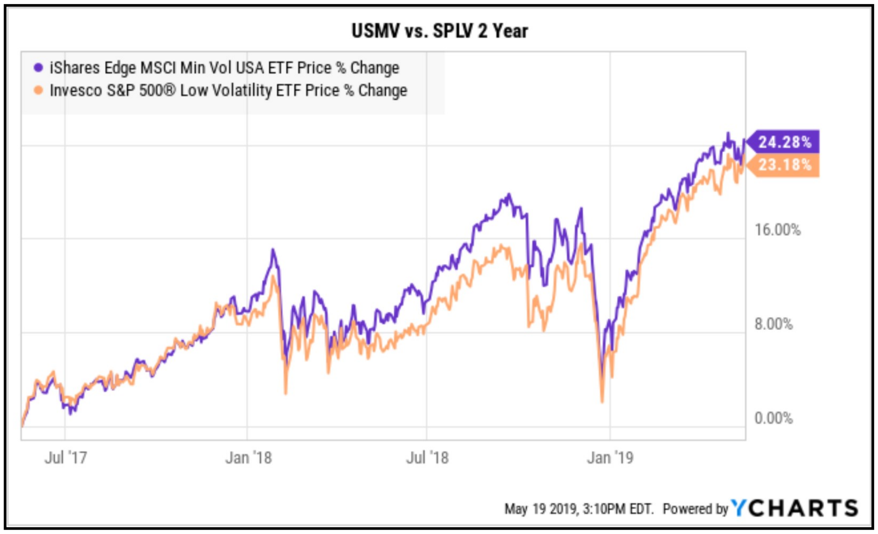
USMV is diversified enough to work as a core equity component and differentiated enough for tactical exposure.

It could replace a fund such as SPY or QQQ, as you could rightly have worries about each facing another pronounced drop. Or, it could be paired with these holdings to shape the future direction of the portfolio. In short, USMV offers a world of utility for all investment styles to keep your portfolios in step with the markets and potentially reduce future drawdowns and accelerate growth through recovery periods.

Another excellent fund in this class and a worthy contender to USMV is the **PowerShares S&P 500 Low Volatility ETF (SPLV)**.

The constitution of this ETF is extremely easy to understand. It identifies the top 100 stocks from within the S&P 500 Index with the lowest volatility over the last 12-months. It then equal weights each holding to ensure a fair distribution to capital across the board. This creates a level playing field for smaller companies to contribute to the performance of the fund and prohibits mega-caps from being overly dominant. Simple math dictates that each holding receives 1% of this ETFs total assets.

SPLV charges a slightly higher expense ratio of 0.25% than other low volatility funds; however, it's not an overly prohibitive expense to endure as a core holding. It also delivers the distinctive characteristic of offering monthly dividend distributions. That trait is rare for an equity-focused fund and many risk-averse income investors will love this as it blends their portfolio closer to the defining features of a bond fund.



SPLV is no slouch in the performance department either. Over the last two years it has tracked quite closely with USMV, and often takes the lead in the horse race to see which is the stronger performer.

The decision between which low volatility fund to use may be more of a coin flip unless factors such as transaction fees play into your analysis. Some brokerage platforms have designated one or the other of these ETFs as a non-transaction fee offering, which would likely place them higher on your individual preference list.

PowerShares S&P 500 Low Volatility ETF (SPLV)	
Inception Date:	5/05/2011
Assets:	$11.15B
Avg Daily Volume:	2.5M
Expense Ratio:	0.25%
# of Holdings:	100
YTD Return:	16.12%
3-Yr Return:	23.25%
Mstar Rating:	4 Star

Furthermore, you may have a slight bias to a particular fund company or index construction methodology that works to the benefit of your practice. There really is no wrong answer here.

Low volatility ETFs also are excellent candidates for substituting foreign stock exposure. One of the knocks against international holdings is that they can experience higher volatility that varies meaningfully from the direction of U.S. stocks.

Thus, the replacement of developed or emerging market stocks with a low volatility option could help mitigate large price swings and generate healthy returns.

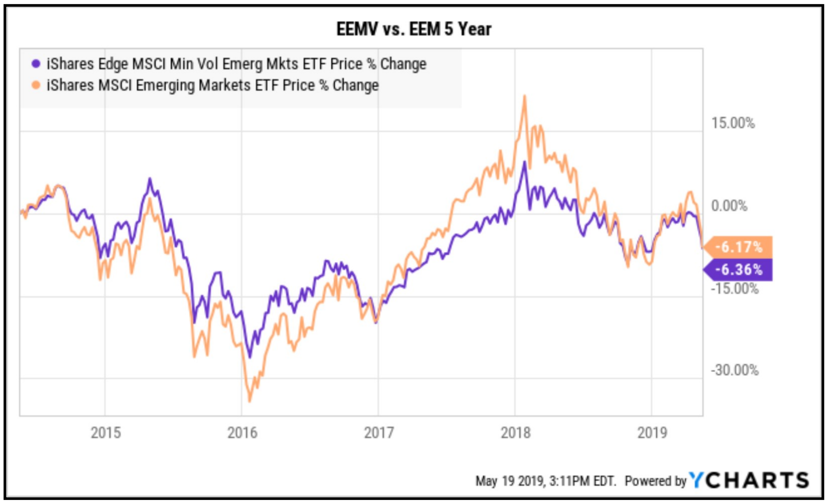
My favorite of the opportunity in the international spectrum is the **iShares Edge MSCI Minimum Volatility Emerging Markets ETF (EEMV)**. It owns a more-focused portfolio of some 300 stocks that have been selected because they have demonstrated relative minimal price fluctuations when compared against their peer group.

The index also carries a similar distribution of regional, country-specific, and sector exposure as the broad-based iShares MSCI Emerging Markets ETF (EEM).

So, it's easy to understand that you are getting similar allocations across the global marketplace wrapped in a package that has demonstrated better risk-adjusted returns.

A five-year comparison between EEM and EEMV shows that the low volatility alternative has had a much smoother overall price pattern and better performance over that time frame.

Most importantly, during the ugly years of 2014, 2015 and 2016, you were able to minimize your losses and still take off with the market as the tide turned.



Another advantage of EEMV is its minimal expense ratio of 0.25%, which is less than half that of EEM. It's not the lowest-cost emerging market fund in the world, yet it is one of the cheapest of its kind for a smart-beta strategy that repeatedly outperforms its broad-based peers.

Those who want a more all-encompassing international option may be drawn to the **iShares Edge MSCI Min Vol EAFE ETF (EFAV)**.

This fund takes the same tact as EEMV by drawing out a focused group of stocks from the well-known EAFE stock index.

The main difference is that EFAV contains both developed and emerging market exposure, which may be preferable for portfolios that want a single solution for their overseas stock allocation.

iShares Edge MSCI Minimum Volatility Emerging Markets ETF (EEMV)	
Inception Date:	10/18/2011
Assets:	$5.36B
Avg Daily Volume:	678K
Expense Ratio:	0.25%
# of Holdings:	313
YTD Return:	0.90%
3-Yr Return:	18.88%
Mstar Rating:	4 Star

Whatever your preference, both international ETFs are excellent replacements for either legacy international holdings that may not be performing up to par, or as a way of reducing drawdown in the future. And interestingly, it just always amazes me how much money is still parked in sub-standard funds with high fees and lackluster performance.

Conclusion

One of the knocks against low volatility ETFs is that they tend to create crowding in certain sector groups and may suffer from higher valuation versus comparative indexes.

Those concerns are certainly valid and may open the door to pairing this factor with either a value index or momentum-driven strategy to further boost diversification. This type of barbell strategy would still help reduce total portfolio drawdown and likely offer stronger performance than typical market-cap weighted benchmarks.

The great thing about these smart-beta indexes is that they are regularly reconstituted and rebalanced without any work on your part.

This ensures that the underlying holdings are properly tuned to the desired characteristics. While these funds won't be market leaders under every single scenario, they have garnered a consistently strong track record that is worth evaluating in the current market environment.

Finally, we all know that when trying to find that holy grail of minimized downside and maximum upside is a tough task. And though no one strategy can do that for you consistently and throughout all market conditions, if there is one group of funds that comes extremely close it's the low volatility funds we've profiled here.

Best,

Tom

Master List of Low Volatility ETFs

TICKER	NAME	SEGMENT	ISSUER	EXP RAT	AUM
USMV	iShares Edge MSCI Min Vol U.S.A. ETF	Equity: U.S. - Total Market	BlackRock	0.15%	$25.45B
EFAV	iShares Edge MSCI Min Vol EAFE ETF	Equity: Developed Markets Ex-U.S. - Total Market	BlackRock	0.20%	$11.20B
SPLV	Invesco S&P 500 Low Volatility ETF	Equity: U.S. - Large Cap	Invesco	0.25%	$10.38B
EEMV	iShares Edge MSCI Min Vol Emerging Markets ETF	Equity: Emerging Markets - Total Market	BlackRock	0.25%	$5.65B
ACWV	iShares Edge MSCI Min Vol Global ETF	Equity: Global - Total Market	BlackRock	0.20%	$4.27B
XMLV	Invesco S&P MidCap Low Volatility ETF	Equity: U.S. - Mid Cap	Invesco	0.25%	$2.76B
XSLV	Invesco S&P SmallCap Low Volatility ETF	Equity: U.S. - Small Cap	Invesco	0.25%	$1.97B
USMC	Principal U.S. Mega-Cap Multi-Factor Index ETF	Equity: U.S. - Large Cap	The Principal Group	0.12%	$1.64B
IDLV	Invesco S&P International Developed Low Volatility ETF	Equity: Developed Markets Ex-U.S. - Total Market	Invesco	0.25%	$762.68M
LGLV	SPDR SSGA U.S. Large Cap Low Volatility Index ETF	Equity: U.S. - Large Cap	State Street Global	0.12%	$362.42M
EELV	Invesco S&P Emerging Markets Low Volatility ETF	Equity: Emerging Markets - Total Market	Invesco	0.29%	$338.16M
SMLV	SPDR SSGA U.S. Small Cap Low Volatility Index ETF	Equity: U.S. - Small Cap	State Street Global	0.12%	$223.96M
FDLO	Fidelity Low Volatility Factor ETF	Equity: U.S. - Large Cap	Fidelity	0.29%	$170.21M
SMMV	iShares Edge MSCI Min Vol U.S.A. Small-Cap ETF	Equity: U.S. - Small Cap	BlackRock	0.20%	$128.05M
JMIN	JPMorgan U.S. Minimum Volatility ETF	Equity: U.S. - Large Cap	JPMorgan	0.12%	$40.64M
JPMV	iShares Edge MSCI Min Vol Japan ETF	Equity: Japan - Total Market	BlackRock	0.30%	$39.07M
EUMV	iShares Edge MSCI Min Vol Europe ETF	Equity: Developed Europe - Total Market	BlackRock	0.25%	$23.78M
RNDM	First Trust Developed International Equity Select ETF	Equity: Developed Markets Ex-U.S. - Total Market	First Trust	0.65%	$22.29M
RNEM	First Trust Emerging Markets Equity Select ETF	Equity: Emerging Markets - Total Market	First Trust	0.75%	$12.65M
AXJV	iShares Edge MSCI Min Vol Asia ex Japan ETF	Equity: Asia-Pacific Ex-Japan - Total Market	BlackRock	0.35%	$9.01M
OVOL	Oppenheimer Russell 1000 Low Volatility Factor ETF	Equity: U.S. - Large Cap	OppenheimerFunds	0.19%	$5.61M
ISZE	iShares Edge MSCI Intl Size Factor ETF	Equity: Developed Markets Ex-U.S. - Total Market	BlackRock	0.30%	$5.28M
LSLT	Salt Low truBeta US Market ETF	Equity: U.S. - Large Cap	Salt Financial	0.29%	$3.87M

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:** **15.22%**	**SPY:** **19.71%**
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:** **-2.18%** **ROBO:** **-3.36%** **AMBA:** **-2.75%** **QCOM:** **23.20% (closed)**	**SPY:** **17.91%** **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:** **-31.02%** **ALB:** **-48.70%**	**SPY:** **17.91%**
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:** **3.93%** **REGL:** **11.64%** **SMDV:** **6.46%**	**AGG:** **3.67%** **MDY:** **5.64%** **IWM:** **3.84%**
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:** **2.84%** **MNA:** **2.63%**	**AGG:** **3.46%**

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:** **4.29%**	**SPY:** **14.06%**
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:** **-7.83%**	**ACWX:** **-5.09%**
"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:** **1.17%** **EMLC:** **-8.04%** **EBND:** **-7.01%** **AGEYX:** **1.62%**	**AGG:** **3.94%**
"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:** **-12.13%** **BLCN:** **-6.43%**	**SPY:** **5.60%**
"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:** **6.27%** **TOTL:** **5.65%** **FTSL:** **4.41%**	**AGG:** **5.67%**

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:** **3.79%**	**BIL:** **2.37%**
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:** **-17.56%**	**ACWX:** **-7.35%**
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:** **-8.35%**	**SPY:** **7.84%**
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:** **-12.55%** **DLS:** **-12.38%**	**EFA:** **---5.18%**
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:** **0.67%**	**SPY:** **7.47%**
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:** **9.16%**	**SPY:** **8.31%**
"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:** **-16.62%**	**EEM:** **-4.97%**

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: -14.43%	IWM: -8.69%
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: -9.06% FINX: 2.37% IPAY: 7.91%	SPY: 3.00%
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: 2.01% USFR: 1.68% SRLN: 2.76% EFR: -1.38%	AGG: 4.88%
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: 4.75% IEME: 3.24% XLC: -0.26% DIS: 21.30%	SPY: 1.54%
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: -23.12% SBIO: -11.97% FXG: -0.68%	SPY: 0.09%

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: -6.81% GNR: -9.25% RLY: -4.18%	DBC: -6.71%
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: 1.72% LDUR: 2.16% MINT: 1.33%	BIL: 1.30%
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: 10.31% DYLS: -11.18% PTLC: 2.91%	SH: —6.02%
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: 1.91% MLPA: 8.18% DCP: -0.18% SHLX: 13.63%	SPY: 6.83% AMLP: 8.52%

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: 10.41% DVP: -0.37%	VTV: 9.94%
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: 2.31%/0.48% ITB/VNQ: 24.22%/20.33% DFE: 9.46%	SPY: 14.71%
Identifying High Quality Stocks COWZ (Pacer U.S. Cash Cows 100 ETF)	*Free Cash Flow Yield (FCFY) and Return On Equity (ROE) are two factors that produce long term outperformance.* *We complied a list of nearly two dozen large cap stocks that have a FCFY over 8%, along with another list of the top 10% companies with highest Return on Equity. We think the stocks on these lists present opportunities to buy quality names on market dips.* *We also identified an ETF that screens based on FCFY, and it provides outperformance with lower drawdowns.*	1/15/19	COWZ: 1.77%	SPY: 10.23%
Preferred Stock ETFs PGF (Invesco Financial Preferred ETF) VRP (Invesco Variable Rate Preferred ETF) PFXF (VanEck Vectors Preferred Securities ex Financials ETF)	*Preferred stocks have massively outperformed the S&P 500 during the October—December correction and barely lagged bonds. With yields of 5% and higher we think preferred stock ETFs present a unique long term opportunity to generate income and reduce volatility in portfolios, while keeping upside exposure.*	1/29/19	PGF: 3.14% VRP: 4.69% PFXF: 5.26%	PFF: 3.54%
Utilities For Income VPU (Vanguard Utilities ETF) NRG (NRG Energy) CNP (CenterPoint Energy)	*We continued our focus on safety and income as we show why "boring" utilities can offer substantial outperformance in a volatile market.* *Utilities outperformed during the Oct-Dec correction, and owning utilities hasn't meant giving up long term performance as XLU has the same five year total return as the S&P 500.* *If you think the markets will stay volatile, utilities are a good place for capital to weather the storm and keep upside exposure.*	2/12/19	VPU: 6.38% NRG: -15.26% CNP: -2.05%	XLU: 6.29%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Cybersecurity: Threats & Opportunities **HACK (ETFMG Primce Cyber Security ETF)** **CIBR (First Trust NASDAQ Cybersecurity ETF)** **FTNT (Fortinet)** **CYBR (CyberArk)**	*Cyber security and privacy on-line are two clearly defined growth areas of tech, as tech adoption progresses towards consumer demanding security and convenience.*	2/26/2019	HACK: -0.28% CIBR: 1.25% FTNT: -6.47% CYBR: 19.82%	QQQ: 4.58%
Cannabis Industry Investment. **MJ (ETFMG Alternative Harvest ETF)** **ACB (Aurora Cannabis)** **CGC (Canopy Growth Corporation)** **APHA (Aphria)**	*Through March of 2019, the cannabis sector was the best performing sector in the market, as that performance reflected the growing adoption of medical cannabis, as well as the unrivaled growth potential.* *Investors and clients are asking about this industry, so we wanted to present a "Cannabis Primer" along with three different investment strategies to get responsible exposure to this market segment.*	3/12/19	MJ: -8.78% ACB: 8.04% CGC: -6.14% APHA: -29.61%	SPY: 2.66%
Socially Responsible Investing **ESGV (Vanguard ESG US Stock ETF)**	*Studies and AUM trends have shown that while clients still care about the bottom line (returns) there is growing popularity among investors to not only generate a solid return, but also for their investments to reflect their core beliefs and values.* *So, we've updated our research to focus on a few core ESG areas that have seen AUM explode over the past two years. These stylistic ETFs can not only outperform, but also help strengthen the client/advisor bond, via directing some investments to issues important to your client.*	3/26/19	ESGV: 1.35%	SPY: 1.62%
Hedged Equity ETFs **DMRL (DeltaShares S&P 500 Managed Risk ETF)** **CCOR (Cambria Core Equity ETF)** **JHEQX (JP Morgan Hedged Equity Fund Class)**	*Stocks have started 2019 with a bang, rising sharply in Q1. But, major macro risks remain present and there is undeniable proof the economy is late cycle.* *Hedged equity ETFs can help advisors and investors maintain long exposure while also providing protection from another 2018 style correction.*	4/9/19	DMRL: -1.05% CCOR: 0.06% JHEQX: -0.45%	SPY: -0.57%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
ARK Invest Family of ETFs **ARKW (ARK Next Generation Internet ETF)** **ARKG (ARK Genomic Revolution ETF)** **XITK (SPDR Fact Set Innovative Tech ETF)**	*We are re-introducing the ARK Family of ETFs. Alpha recommendation ARKK is up 26% YTD and it's outperformed the S&P 500 since our recommendation.* *ARK ETFs offer "one-stop shopping" exposure to the disruptive technologies of tomorrow—technologies that can not only produce outsized long-term returns, but that also are compelling stories for clients and prospects.*	4/23/19	ARKW: -7.75% ARKG: -7.72% XITK: -5.33%	QQQ: -4.72%
The Alpha Opportunity in Healthcare **IHI (iShares Medical Device ETF)** **XBI/SBIO/ARKG (The Quality Bio-tech ETFs)** **IHF (iShares U.S. Healthcare Providers ETF)**	*The healthcare sector has badly lagged the S&P 500 thanks to political concerns (Medicare for all). But, future political risks aside, fundamentals for the healthcare industry are compelling.* *We covered this broadly in the Sevens Report two weeks ago, but in today's Alpha issue we wanted to do a "deep dive" into the space and provide a broader healthcare sector primer, as opportunities to invest in healthcare at the relative value to the market don't come along very often.*	5/7/19	IHI: -1.87% XBI: -3.56% IHF: 1.14%	XLV: 0.33%