SEVENS REPORT *alpha*

June 18, 2019

In Today's Issue

- Next month we are likely going to have the first Fed rate cut in over a decade, and the impact on various assets will be significant.
- Since it's been so long since we've experienced a rate cut, we wanted to provide a "playbook" of sorts so advisors will know what outperformed, and what underperformed during the last two rate cut cycles.
- We compiled return data to show the sector returns of major S&P 500 sectors 12 months after the first rate cut, and for the entire cutting cycle. The results were surprising!
- We did the same for various bond classes, and listed the total return 12 months after the first cut, and the returns for the entire cutting cycle, so advisors can clearly see what's worked.
- Finally, we listed both the assets that performed the best in both periods, and the assets that saw the biggest drawdowns—because avoiding the steep drawdown is one of the underappreciated keys to long term outperformance.

Alpha Strategies for the Next Rate Cut Cycle

Remember last summer, when rumblings about the economy running too hot and inflation finally getting the best of us was all the rage?

Today that seems like a quaint and distant memory. Instead, the headlines this summer are fraught with the instability of trade wars, potentially slowing job growth, uncertain consumer spending and slowing manufacturing data. On a side note, I always find it amazing how quickly the narrative can change, and how we, as advisors and market watchers, are tasked with adapting to this rapidly evolving market.

Today, rather than a too-hot economy and rising inflation, markets are expecting—indeed pricing in—one of the most poignant shifts in monetary policy in the last half decade. That shift is the expectation of a new interest rate cutting cycle by the Federal Reserve.

Consider that it's been three-and-a-half years since the Fed opted to begin the slow process of increasing the Fed funds rate (from essentially 0%) to try and reassert control over an economy they viewed as on strong footing.

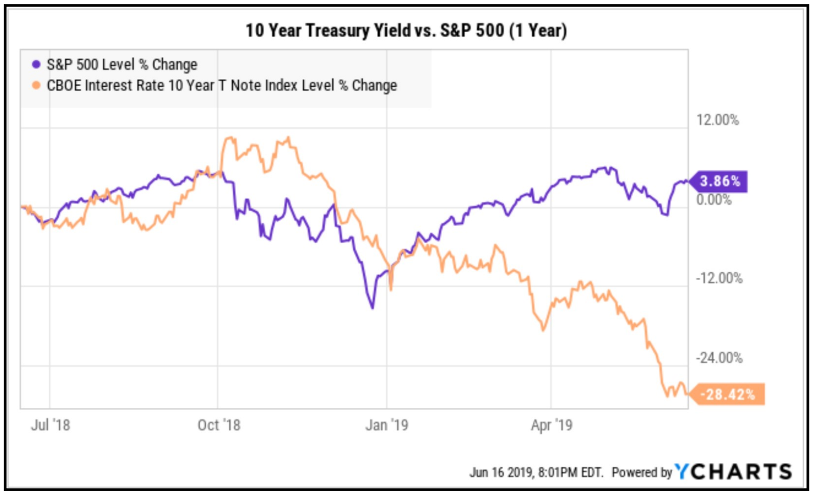
In 2015, the jobs market was seen as nearly hitting full employment; the housing market was steady, consumer sentiment was strong, and inflation was in check. This was the "Goldilocks" moment to start putting some interest rate bullets back in the gun for when they would eventually need ammunition to fight the next crisis and/or recession.

Well, eight rate hikes later and we are currently sitting at a Fed funds rate of 2.5%. The only problem here is, there's leaks in the economic dam, and that's prompting calls for quasi-stimulus.

When investors see this type of disappointing economic data coupled with the flashing recessionary signal of an inverted (or nearly inverted) yield curve, it's time to start thinking about strategies for when (not if) the Fed changes course.

Institutional investors are clearly getting ahead of this notion. After the release of the May jobs data, the Fed funds futures market moved to signal expectations for a full quarter-point rate cut at the July FOMC meeting. The market also is pricing in another cut in September, and an additional cut in December.

That's an aggressive stance considering that the hikes between 2015-2018 have barely had time to plateau compared to similar periods in the past.



It's also pretty obvious what the bond market thinks about the state of the economy.

The 10-Year Treasury yield has been on an ever-increasing ride lower since the stock market peaked back in Q4, 2018. Even the recent recovery in stocks hasn't been enough to ignite a rebound in yields, as they've fallen to some of their lowest levels in the last two years.

While this decline in bond yields (and concomitant rise in bond prices) is good for bond investors near-term, the divergence in stocks and Treasury yields is signaling that something is amiss.

The S&P 500 Index is about 2.3% from its all-time high, while intermediate and long-term Treasury bond indexes are simultaneously rocketing higher.

One of these markets will ultimately be right and the other will be wrong. History has proven more times than not that the bond market tends to be on the prevailing end of these tug-of-war moments.

Given potentially slowing data and an increasing probability of a rate cut, it's time to review and identify the ETFs and strategies that have historically outperformed during rate cutting cycles—something we haven't been through in over a decade!

The Numbers Tell The Story

We thought the best way to determine what sectors and strategies outperformed during rate cut cycles was to look back at the last two, and let the numbers be our guide. So, we dug deep into the data during the last two rate cut campaigns, the first being precisely from Jan. 3, 2001 through June 25, 2003 (date of last cut); and the next being from Sept. 18, 2007 through Dec. 16, 2008 (date of last cut).

By analyzing the returns in the wider equity and bond market segments during and immediately following these periods, **we unearthed the best places for advisors and their clients to generate alpha.**

Perhaps just as importantly, we identified the wider market sectors that advisors and their clients should avoid if they want to maximize their overall returns by limiting their drawdown to underperforming sectors.

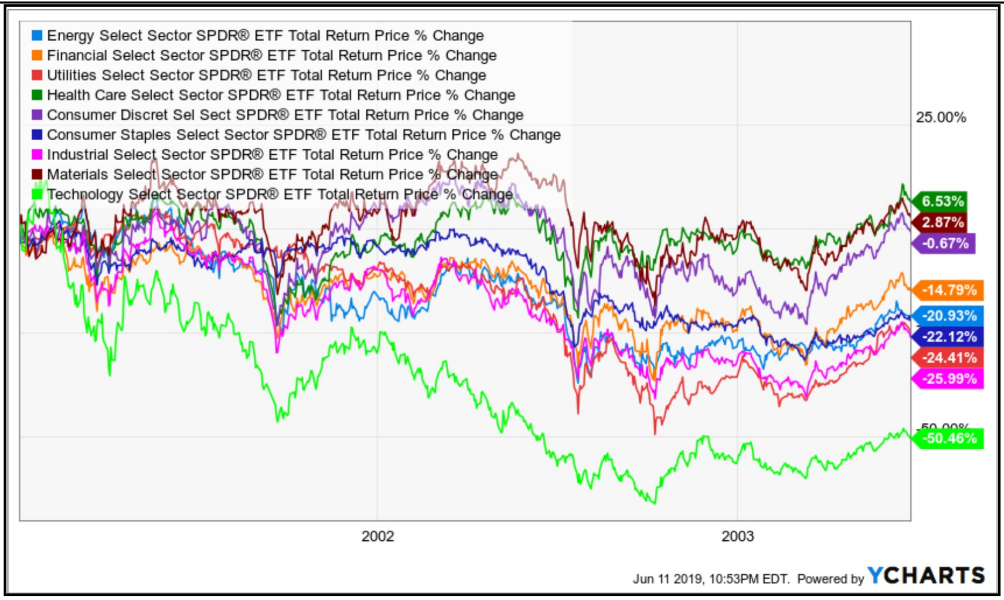
This latter revelation hit us hard, because as you'll soon see, the data was a bit counterintuitive even to us.

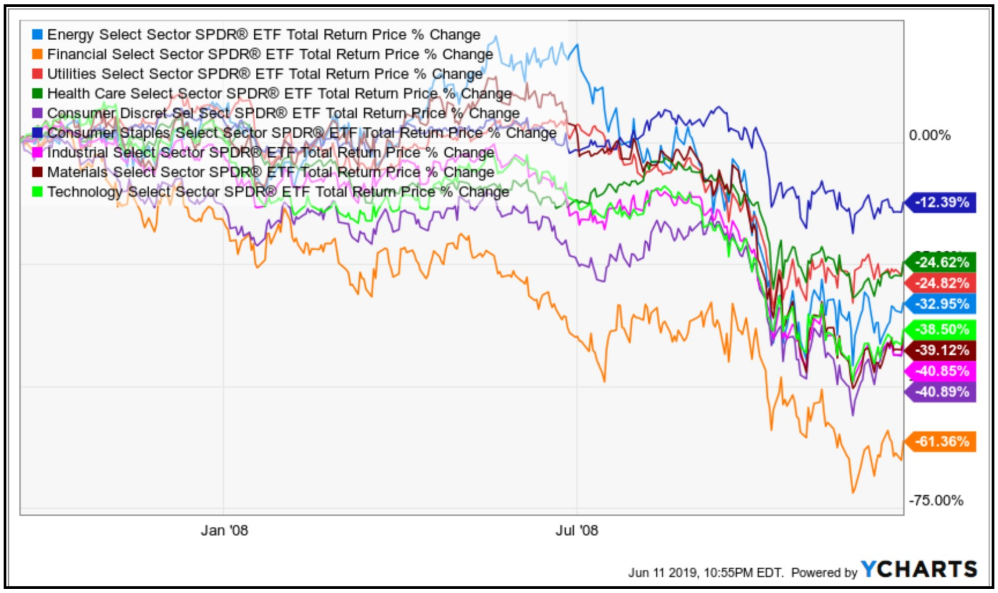
The table on Pg. 3 shows the nine S&P sectors we track daily, and how each did during the respective rate-cutting cycles.

While the equity markets didn't offer too much alpha during these periods of economic softness, some sectors held up much better than others.

We've broken these results down into various conclusions from the data.

Utilities Didn't Provide Cover. The biggest surprise here to us was that traditional safe haven and bond proxy sector, utilities, provided little safe harbor during both rate cut cycles. Utilities did relatively outperform the S&P 500 in both instances, falling 24% from '01-'03 vs. 25% for SPY and declining 24% vs. 38% for SPY in '07-'08. But, neither one of those outcomes are particularly good! *Takeaway: When thinking about being defensively positioned, don't rely solely on utilities as they lagged during both rate cutting cycles.*





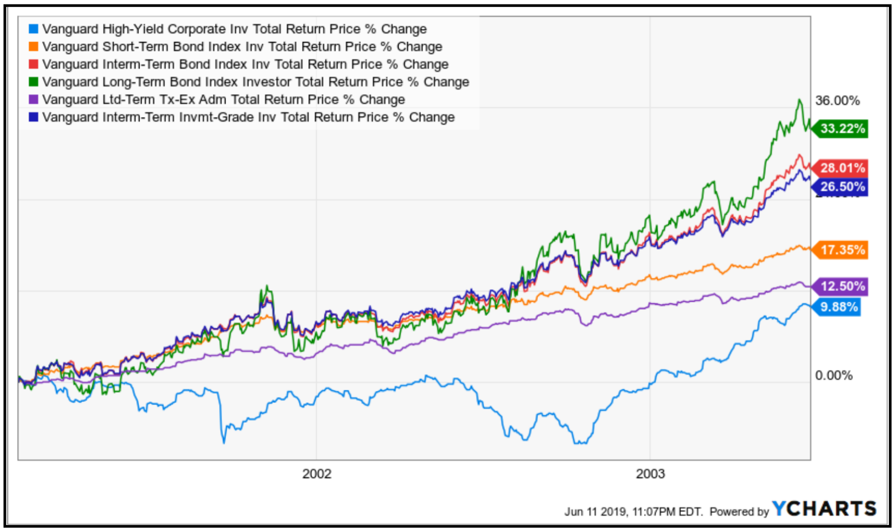
Tech badly underperformed during *both* rate cut cycles. We knew that tech would underperform (down 50% total return) during the 2001-2003 cutting cycle as it had a lot to do with the dot-com bubble bursting.

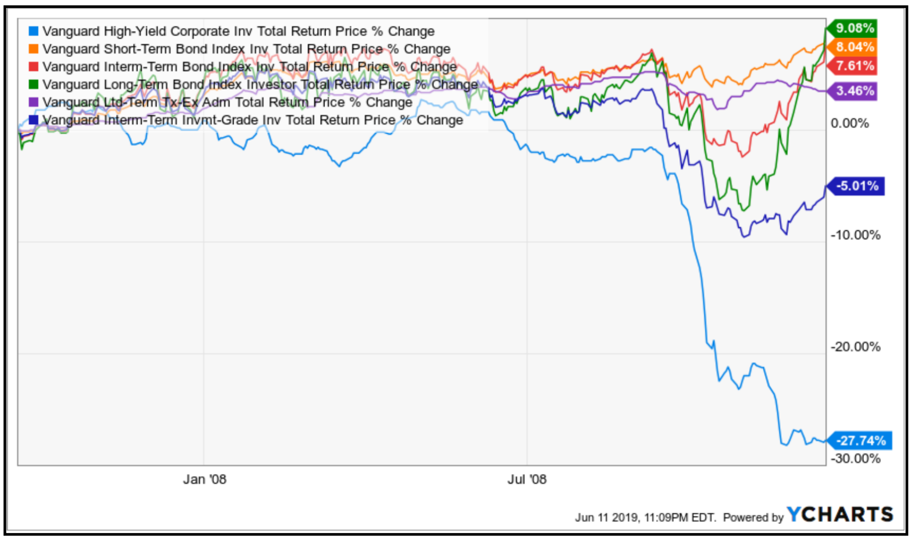
But, what surprised me is that tech also traded poorly during the lead up to the financial crisis, falling nearly 40%! *Takeaway: Review your tech exposure and make sure you're comfortable with it, because history is telling us the drawdowns in rate cut cycles can be painful.*

Remaining sector performance offers some guide on what to own/avoid—although none of the performances were consistently positive. As the table shows, other notable sectors to avoid are financials, industrials and energy as they performed poorly in both rate cut cycles.

TICKER	SECTOR	2001-2003	FIRST 12 MONTHS	2007-2008	FIRST 12 MONTHS
XLE	ENERGY	-20.93%	-17.17%	-32.95%	-9.67%
XLF	FINANCIALS	-14.79%	-11.08%	-61.36%	-40.78%
XLU	UTILITIES	-24.41%	-8.01%	-24.82%	-13.35%
XLV	HEALTHCARE	6.53%	-2.89%	-24.62%	-9.73%
XLY	CONSUMER DISC	-0.67%	4.69%	-40.89%	-19.87%
XLP	CONSUMER STAP	-22.12%	-4.96%	-12.39%	2.79%
XLI	INDUSTRIALS	-25.99%	-9.97%	-40.85%	-18.46%
XLB	MATERIALS	2.86%	6.26%	-39.12%	-10.42%
XLK	TECH	-50.46%	-24.91%	-38.50%	-20.29%

Conversely, relatively outperforming were materials, consumer staples and healthcare. Consumer staples was the “best” performing sector, especially in the first 12 months following a rate cut, which is where we are about to be. *Takeaway: Consider a tactical overweight in consumer staples, healthcare and materials (yes, materials—the numbers don’t lie) as they performed best in the 12 months following a rate cut.*





As for bonds, the table below shows the various duration segments of the bond market via six representative Vanguard bond funds over these respective time periods.

As you can see, bonds outpaced stocks significantly across the board, with intermediate bonds and long-term bond funds leading the performance charge over both periods.

TICKER	SECTOR	2001-2003	FIRST 12 MONTHS	2007-2008	FIRST 12 MONTHS
VWEHX	Vanguard HY Corp Bond	9.88%	-1.60%	-27.74%	-4.45%
VBISX	Vanguard ST Bond Fund	17.35%	7.27%	8.04%	5.29%
VBIIX	Vanguard IT Bond Fund	28.01%	7.44%	7.61%	4.13%
VBLTX	Vanguard LT Bond Fund	33.22%	5.96%	9.08%	3.34%
VMLUX	Vanguard Tax-Exmpt Bond	12.50%	3.93%	3.46%	3.93%
VFICX	Vanguard IG Corp Bond Fund	26.50%	7.70%	-5.01%	-0.84%

Short-term Treasuries also held up well during the respective rate cut cycles. And with the exception of high-yield bonds in 2007-2008, bonds in general handily outpaced equities during these two periods of protracted interest rate cuts.

Now let’s dig a bit deeper into each market segment to see what works when rates are falling—and just as importantly, what *doesn’t* work.

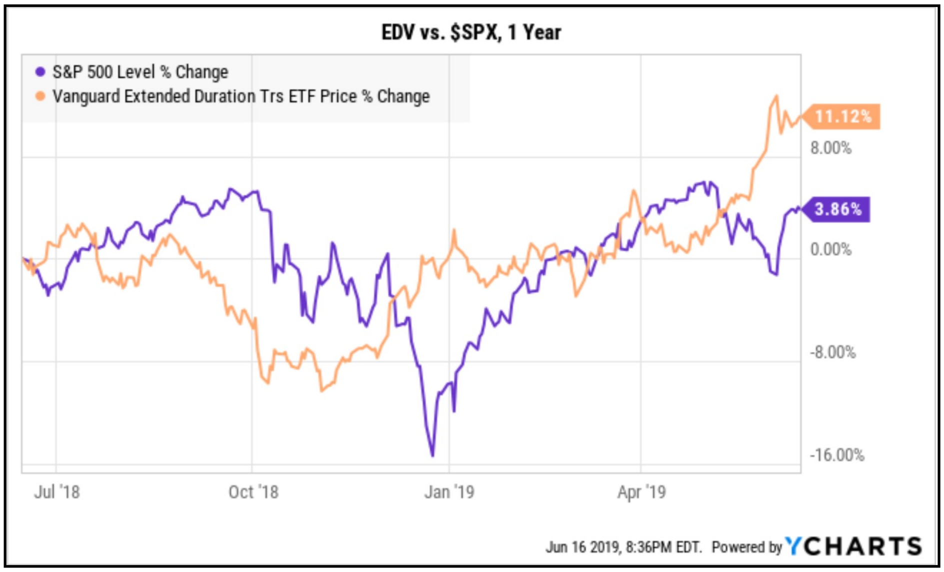
<u>What Works When The Fed Cuts Rates</u>

Treasury Bonds

Both of the last two interest rate cut campaigns resulted in massive declines in the stock market and simultaneously strong rallies in the Treasury bond market.

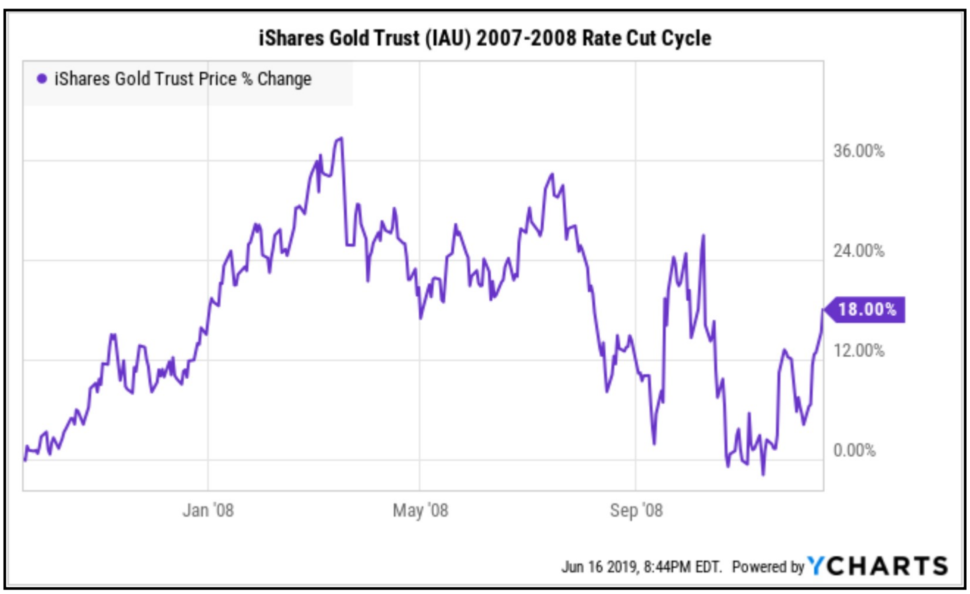
Extending duration and moving to higher-quality Treasuries was one of the most successful investment strategies during these time frames.

The CBOE 30-Year Treasury Bond Price Index gained 22.27% versus a decline of 36.97% for the S&P 500 during the 2008 bear market. The largest realized volatility of the Treasury Index was less than 8% when you look at the small drawdowns of that period.



The 2001-2003 period saw similar results, as the long bond remained largely in an uptrend and finished with a massive relative performance differential versus stocks. It's also notable that the 10-Year Treasury Note was a solid contender with less overall risk.

While it didn't post quite the same gains as the long end of the bond market, it had less volatility and may be a more comfortable spot for advisors who are more conservative in the bond sleeve of their portfolios.



Implementing a Treasury-focused strategy in the current environment may be a little trickier because of where we are currently sitting. Under the last two rate cut campaigns, the 10-Year Treasury Note Yield was trading in the 4.50%-5.0% range, compared to 2.10% at present day.

That left a lot more room to fall (and subsequently bond prices to rise) under the previous scenarios. You should take into account that Treasuries may not get the same boost from this point forward simply because of how much less room we have on the curve. Furthermore, the last nine months of falling interest rates have already been a huge increase to the bond market in general and compressed yields to their current levels.

There are a number of solid options for including Treasury exposure in your clients' portfolios, including the **iShares 7-10 Year Treasury Bond ETF (IEF)** or the **iShares 20+ Year Treasury Bond ETF (TLT)**.

Both are highly liquid, low-cost, and give you instant exposure to varying baskets of interest-rate sensitivity.

For those that want to own some of the most ultra-long dated paper, the **Vanguard Extended Duration Treasury ETF (EDV)** is one of the best options. This fund owns 20-to-30-year Treasury STRIPS with even greater sensitivity to falling rates than TLT. The longer-dated funds may be best used as a barbell strategy to offset allocations to stocks in the portfolio at the other end of the risk spectrum.

Gold

It's tough to ignore the safe-haven qualities that gold prices demonstrated during the last two periods of Fed rate cuts. Whether that was the result of investors simply fleeing stocks for hard assets or looking for deflation-fighting tools, the yellow metal made its presence known.

Gold prices spiked 40% in the six months after the first cut in 2007, and also demonstrated a steady uptrend throughout the 2001-2002 period. This relative outperformance was likely driven by fears of excessive government stimulus devaluing the U.S. dollar as well as the flight from riskier asset classes.

Investing in gold always comes with certain biases in terms of owning it in the physical form versus a more modern vehicle such as an exchange-traded fund. Overcoming those favoritisms can be difficult, but hard data may prevail in this instance and offer a way to further diversify the portfolio away from just stocks and bonds.

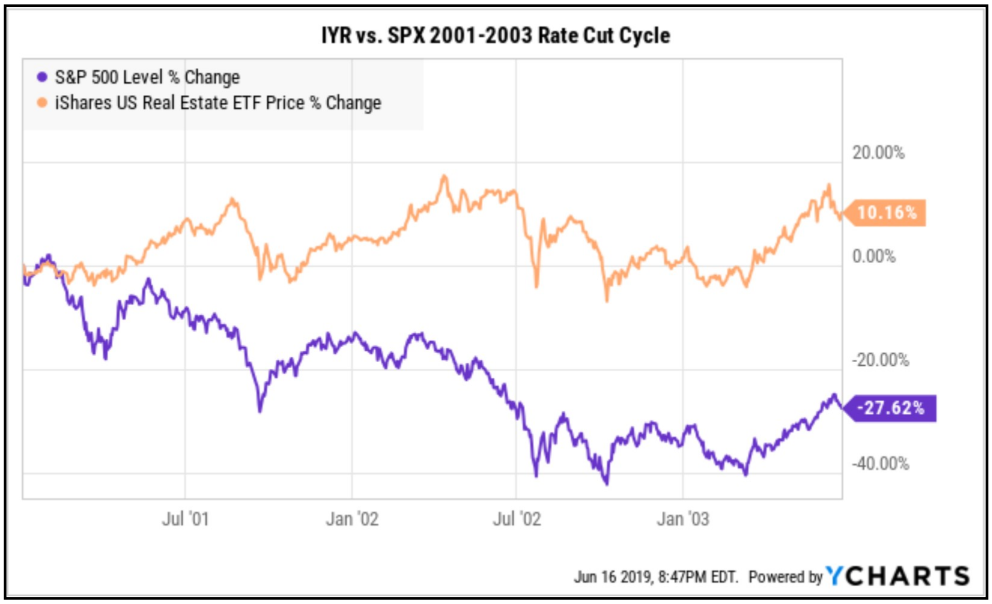
The **SPDR Gold Trust (GLD)** is still the commodity juggernaut with $32 billion in total assets. However, the **iShares Gold Trust (IAU)** might be worth considering almost solely due to its miserly 0.25% expense ratio that is one of the lowest costs in this sector.

IAU has a respectable $12 billion in assets and highly liquid daily trading volume. It is setup the same way as GLD in that it buys physical gold stored in a trust on behalf of its shareholders.

One of the best parts about owning gold in an ETF is that you can buy and sell it for nominal trading fees and aren't beholden to safeguarding, transporting, or haggling over its value.

Real Estate

In a normal market, it's reasonable to assume that if interest rates are falling, we are likely to see a boost to real estate prices. The activity generated from cheaper interest rates translates to better buying, selling, refinancing and other mortgage-related transactions.



This typically boosts the value of publicly traded REITs, which also pay out much better yields than comparable bonds or broad stock market indexes.

Nevertheless, the real estate sector has a mixed history over the last two Fed rate cut periods. In 2001-2003 we saw a significant boost to the **iShares U.S. Real Estate ETF (IYR)** compared to the broad market, as falling interest rates propped up prices. This was likely due to the main focus of this time frame being the crash of technology stocks, which insulated real estate from the sharper declines.

As virtually everyone knows, the 2007-2008 was a much different story. Red-hot real estate prices were one of the main narratives of the last major recession that saw funds such as IYR leading the market to the downside.

Today's real estate prices and expectations are far more in line with the type of market we experienced back in 2001, so it's likely that we don't see the same type of crash that 2008 ultimately wrought. This sector has the potentially to meaningfully outperform the broader market given the backdrop of falling or steady interest rates continuing to buoy prices.

Fundamentals and operating measurements of REITs continue to demonstrate favorable trends that don't appear overly frothy.

Most industry measurements such as apartment rent growth, net operating income growth, and office market availability remain in the middle of their historical ranges over the last 15 years.

Another feather in the cap of the real estate sector in this political climate is that it has little exposure to the trade war narrative. Global companies that rely heavily on revenue or sales from outside the country are likely going to see heightened volatility due to this risk.

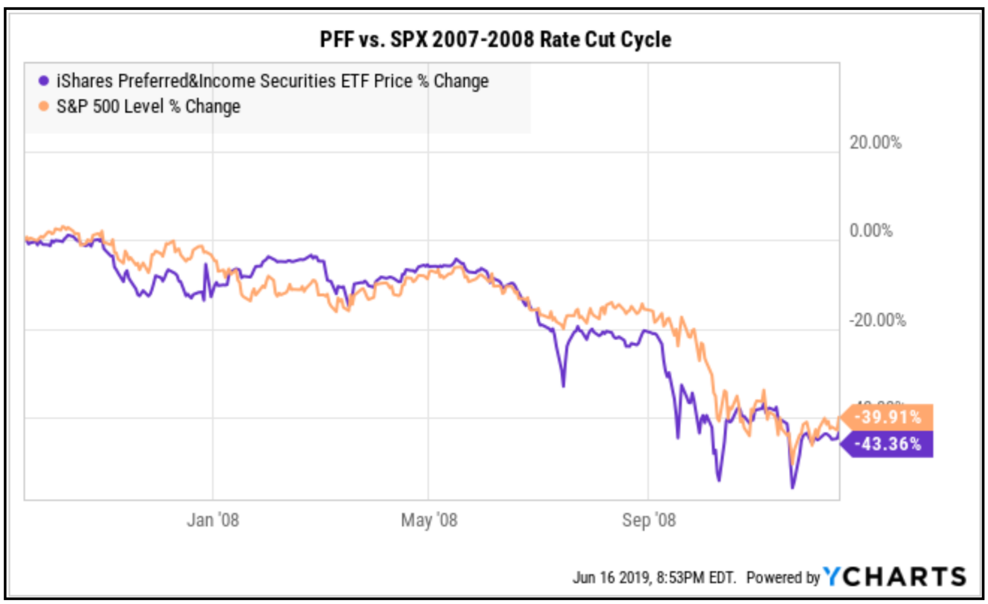
Getting exposure to this market also offers a variety of opportunities for investors to explore. The most common and favored industry benchmark being the **Vanguard REIT ETF (VNQ)** with a massive $33 billion in total assets.

VNQ is an excellent way to access a broad portfolio of 188 publicly traded REITs in the U.S. for a cost of only 0.12% and a current yield of 3.14%.

The **Schwab U.S. REIT ETF (SCHH)** and **Real Estate Select Sector SPDR (XLRE)** are two other excellent choices for broad-based exposure to this sector for extremely low expense ratios. You can't go wrong with either, and the choice may simply be decided by your trading platform or fund sponsor preference.

Cash

One of the overlooked strategies when it comes to rolling with Fed rate cuts is to move more of your portfolio to cash or ultra-short duration instruments. While cash and cash equivalents don't pay much, and will likely see real-world yields fall back near zero, cash was a relative winner during the worst of the last two Fed rate cut cycles.



Even owning a prior fund that we highlighted in *Sevens Report Alpha*, the **PIMCO Enhanced Short Maturity ETF (MINT)**, is an excellent way to generate income with very little interest rate risk. The fund has been an extremely consistent and steady presence throughout its tenure and sports a current 30-day SEC yield of 2.70%.

Another option is previous *Alpha* recommendation FPNIX, the FPA New Income Fund. This money market fund has returned over 4.22% since our March 6, 2018 recommendation—that's over 200 basis points more than BIL. Over 4% in an essential money market fund in less than 18 months isn't a bad return—especially in this market. **[A link to that issue is here](#).**

Getting paid to wait out the storm in funds such as MINT and FPNIX will be an attractive option for conservative income investors that want to avoid volatility and uncertainty.

What Does NOT Work When The Fed Cuts Rates

Maybe just as important in the discussion of performance are the sectors you should avoid in the event the Fed begins to cut interest rates. If you find yourself overweight with any of these categories, it may be time to look at paring back exposure or making sure that you have similar allocations to the aforementioned asset classes to stave off disaster.

High-yield corporate bonds are the first debt sector that should be viewed with skepticism. The **Vanguard High Yield Corporate Fund (VWHEX)** underperformed in both past cycles as plunging stock prices were mirrored by their junk bond equivalents.

Junk bonds are considered some of the riskiest debt for a reason – during any liquidity squeeze or snafu in the economic outlook, they are the first to see their prices marked down significantly. The companies that issue high-yield debt are often the ones that feel the pinch of a recession and can run into bankruptcy or other cash flow issues.

Preferred stocks also are likely to experience heightened volatility should the market experience a prolonged corrective period.

The **iShares U.S. Preferred Stock ETF (PFF)** was hammered during the 2007-2008 bear market despite the best intentions of the Fed to stave off disaster. This was likely tied to the misfortunes of the financial sector during that time frame, but these hybrid securities are a crap shoot just like high-yield corporate bonds.

It's best to steer clear of anything with 400 basis points or more of spread to Treasuries until the dust has settled and a more constructive recovery phase is in the works. Both PFF and VWEHX are certainly going to be options to consider with excellent yields and attractive qualities once the rate cuts are behind us.

Lastly, the utilities sector is almost always synonymous with defensive measures and often follows the path of the bond market more than stocks. However, both past instances of Fed rate cuts led to surprising underperformance in the utility sector relative to a broad index such as the S&P 500.

There wasn't a meaningful "flight to quality" in the direction of these companies to provide shelter from the storm when the market got volatile. That makes us hesitant to believe the next time will be different, and thus utilities should be avoided.

Conclusion

Should the Fed take the aggressive step of cutting interest rates in July, it would be a major acknowledgement that the economic picture is starting to deteriorate, and a more defensive posture is warranted.

Our goal is to provide you with the tools you need to help your clients navigate these changes so you are prepared in advance for any shocks that may ripple through the markets.

Taking proactive steps to position your portfolios for success over the next six months will certainly enhance the trust of your clients and garner an edge in relative performance.

So, if the market is right and we are on the precipice of a new rate cut cycle, you will be the advisor on the block that's best prepared to prevail!

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:** **17.17%**	**SPY:** **22.00%**
Self-Driving Car Basket **SNSR (Global X Internet of Things ETF)** **ROBO (ROBO Global Robotics & Automation Index ETF)** **AMBA (Ambarella)** **QCOM (Qualcomm)**	*Massive changes to the auto industry, including self-driving technology, are closer to the mainstream than most investors think. The foundational changes to the auto industry could be the next "Megatrend" in investing to provide outperformance for years to come.* *There is no pure play "self-driving" ETF yet, but SNSR and ROBO offer exposure to many tech companies that are best-positioned in the space. AMBA and QCOM are two of the better stocks with unique exposure to the growing self-driving car industry.* ***What to do now: Buy the ETFs. We closed QCOM a month and a half after the Broadcom takeover announcement for a quick, sizable gain.***	**Issue 3:** **9/21/17**	**SNSR:** **3.49%** **ROBO:** **-1.13%** **AMBA:** **-9.01%** **QCOM:** **23.20% (closed)**	**SPY:** **20.17%** **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:** **-29.46%** **ALB:** **-45.81%**	**SPY:** **20.17%**
Dividend Growth **DIVY (Reality Shares DIVS ETF)** **REGL (ProShares S&P MidCap 400 Dividend Aristocrats ETF)** **SMDV (ProShares Russell 2000 Dividend Growers ETF)**	*Historically, dividends are responsible for half of the market's total return. They are an essential component of long-term outperformance. While most investors choose high-yielding dividend stocks, our research shows dividend growth stocks can generate better long-term returns.* *DIVY is the only ETF that isolates pure dividend growth. This ETF is a fixed income alternative that should provide steady single-digit returns with low volatility and true diversification. REGL and SMDV are ETFs that provide exposure to the "Dividend Aristocrats" of tomorrow.* ***What to do now: Buy.***	**Issue 4:** **10/4/17**	**DIVY:** **4.12%** **REGL:** **12.55%** **SMDV:** **7.40%**	**AGG:** **5.50%** **MDY:** **7.96%** **IWM:** **4.61%**
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:** **2.95%**	**AGG:** **5.29%**

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:** **4.33%**	**SPY:** **16.28%**
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:** **-3.34%**	**ACWX:** **-3.64%**
"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:** **3.96%** **EMLC:** **-4.58%** **EBND:** **-3.90%** **AGEYX:** **2.75%**	**AGG:** **5.77%**
"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:** **-11.58%** **BLCN:** **-5.62%**	**SPY:** **7.65%**
"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:** **7.78%** **TOTL:** **6.82%** **FTSL:** **4.26%**	**AGG:** **7.53%**

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:** **4.53%**	**BIL:** **2.56%**
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:** **-15.95%**	**ACWX:** **-5.93%**
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:** **-10.85%**	**SPY:** **9.94%**
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:** **-11.41%** **DLS:** **-12.16%**	**EFA:** **--4.64%**
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:** **4.15%**	**SPY:** **9.58%**
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:** **10.43%**	**SPY:** **10.14%**
"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:** **-16.34%**	**EEM:** **-1.85%**

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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: -15.58%	IWM: -7.89%
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: -5.85% FINX: 5.09% IPAY: 13.10%	SPY: 5.01%
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: 2.27% USFR: 1.77% SRLN: 2.54% EFR: -1.47%	AGG: 6.73%
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: 4.40% IEME: 4.19% XLC: 0.73% DIS: 27.73%	SPY: 3.50%
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: -21.61% SBIO: 3.55% FXG: -0.75%	SPY: 2.02%

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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: -11.61% GNR: -7.26% RLY: -3.85%	DBC: -11.21%
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: 1.98% LDUR: 2.50% MINT: 1.55%	BIL: 1.50%
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: 14.27% DYLS: -13.66% PTLC: 4.81%	SH: -8.29%
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: -1.43% MLPA: 5.50% DCP: -12.03% SHLX: 16.80%	SPY: 8.90% AMLP: 5.25%

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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: 10.18% DVP: -2.22%	VTV: 11.39%
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: 5.13%/3.56% ITB/VNQ: 28.19%/25.17% DFE: 9.80%	SPY: 16.93%
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: 0.64%	SPY: 12.36%
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: 5.35% VRP: 5.70% PFXF: 7.42%	PFF: 5.44%
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: 9.24% NRG: -18.73% CNP: -2.18%	XLU: 9.50%

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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: -1.74% CIBR: 0.64% FTNT: -14.31% CYBR: 20.59%	QQQ: 7.10%
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: -13.50% ACB: -3.89% CGC: -9.11% APHA: -27.32%	SPY: 4.66%
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: 3.50%	SPY: 3.60%
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: 0.48% CCOR: 1.41% JHEQX: 0.71%	SPY: 1.37%

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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: -6.94% ARKG: -4.55% XITK: -4.46%	QQQ: -2.43%
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: -5.13% XBI: -1.98% IHF: -3.07%	XLV: 3.51%
Minimum Volatility ETFs **USMV (iShares Total Return MSCI USA Minimum Volatility ETF)** **SPLV (S&P 500 Low Volatility Index ETF)** **EEMV (iShares MSCI Minimum Volatility Emerging Markets ETF)** **EFAV (iShares Edge MSCI Minimum Volatility EAFE ETF)**	***Minimum volatility 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 while still maintaining upside exposure.***	5/21/19	USMV: 2.89% SPLV: 3.01% EEMV: 2.10% EFAV: 1.51%	SPY: 1.51%
Ageing of America Primer **WELL (Welltower Inc)** **OHI (Omega Healthcare Investors)** **SCI (Service Corp International)**	***There is a coming massive demographic shift in the U.S. as within the next 20 years one in every five Americans will reach retirement age, and that aging of Americans will have profound impacts on different market sectors.***	6/18/19	WELL: 4.43% OHI: 4.95% SCI: 2.44%	SPY: 3.90%