SEVENS REPORT *alpha*

September 10, 2019

In Today's Issue

- What to do in the "Japanization" of the U.S. Economy?
- Three weeks ago on an *Alpha* webinar, I explained the potential risk of the Japanization of the U.S. economy, That's an environment characterized by perennially low economic growth, forever-low interest rates, more QE, and stagnant stock returns.
- In this issue, we provide a playbook to outperform if we start to see more evidence of the Japanization of the U.S. economy.
- Strategy 1: Long Term Debt. PTCIX (PIMCO Long Term Credit Bond Fund) & VWETX (Vanguard Long Term Investment Grade Admiral Fund). Two "best of breed" long-term debt funds that have yields above 3% and have consistently outperformed.
- Strategy 2: Focus on Dividends. VYM (Vanguard High Dividend Yield ETF) & HDV (iShares High Dividend ETF). Income trumps growth for equities in a Japanization environment, these are two high dividend ETFs with yields over 3% that have outperformed.
- Strategy 3: Alternative Income. PDI (PIMCO Dynamic Income Fund). A closed-end fund (CEF) that's outperformed and has a yield above 8%!

Investing For "Japanization"

Given the slowing of the global economy, we are now at a fork in the road, where global economic stimulus will either work, like it did in 2016 and spur a big rally, or it will not, like what happened in Japan in the 1990s.

Three weeks ago on an Alpha webinar, I explained the potential risk of the Japanization of the U.S. economy, which is an environment of perennially low growth, forever-low interest rates, more QE, and stagnant stock returns.

Response to this topic was fantastic, so we wanted to spend an entire *Alpha* issue detailing a Japanization playbook, so that if it happens, we know what will outperform and where to allocate to outperform.

The U.S. markets are at a crossroads.

The aftermath of the last recession has provided economic policymakers with what they believe to be a roadmap to successfully avoid or counteract recessions. That roadmap includes lowering short-term interest rates, purchasing government bonds, and otherwise intervening in the public markets.

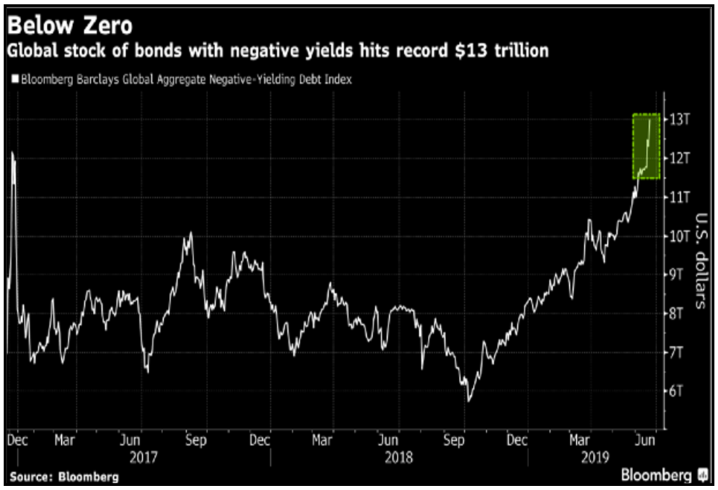
The effects of these decisions were ultimately successful in reversing the profound negative consequences of the housing crisis of 2007-2008. Nevertheless, it would be folly to assume the same playbook will yield the same results in a far different environment during the next economic downturn.

One big reason why is that today's markets are fueled less by exuberant real estate financing, and far more by a combination of full employment, retail enthusiasm, abundant student loans, auto loans, and other consumer-focused debt.

What is most likely is that similar decisions to combat a downturn by policymakers in the face of the next significant market/economic contraction will ultimately lead to one of two scenarios:

A) Successful global stimulus that will keep the bull market roaring for an indefinite period, or

B) A prolonged period of low-interest rates, quanti-



Global bond yields

	2-year	5-year	10-year	15+ year
US	1.51%	1.42%	1.55%	2.04%
Italy	0.02%	0.78%	1.34%	2.45%
UK	0.49%	0.37%	0.45%	1.01%
Spain	-0.57%	-0.35%	0.09%	0.96%
Sweden	-0.66%	-0.71%	-0.36%	1.41%
Japan	-0.30%	-0.34%	-0.24%	0.19%
Belgium	-0.80%	-0.67%	-0.35%	0.54%
France	-0.79%	-0.77%	-0.42%	0.45%
Netherlans	-0.88%	-0.85%	-0.56%	-0.17%
Germany	-0.92%	-0.91%	-0.69%	-0.17%
Denmark	-0.92%	-0.89%	-0.67%	-0.43%

Maturity

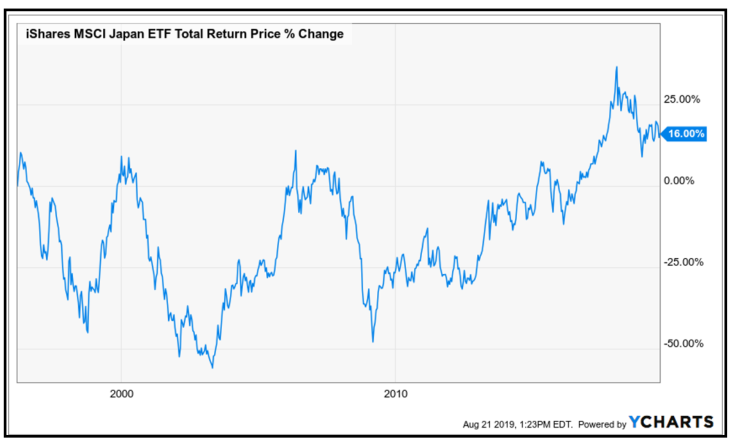
SOURCE: Factset

tative easing, and deflationary wheel spinning akin to the lost three decades Japan has experienced.

In fact, many now are referring to this latter phenomenon as "Japanization," a term used by economists that refers to the same deflationary trap of collapsed aggregate demand.

What I find interesting is how much the global markets are already anticipating such an occurrence despite the fact that stocks are within 3-5% of their all-time highs.

As I mentioned in the *Alpha* webinar from August 22nd (Powerpoint link here, Recording link here) nearly one-third of all tradeable bonds worldwide currently have a negative yield. That's a shocking $13 trillion by recent Bloomberg figures.



The United States is now one of the few standouts in the developed world with bond yields that are still positive, a state that could potentially change quite rapidly considering yields on 10-year and 30-year Treasuries are cratering.

The truly scary scenario is that the United States experiences the same type of economic environment that has existed in Japan for the last 30-plus years. That environment being:

- Forever-low interest rates that fail to stimulate growth (rate cuts)
- Increasing money supply that fails to stimulate inflation (QE)
- Stagnant inflationary asset prices (stocks, real estate)
- Never-ending bull market in bonds/debt
- Constant risk of deflation (cash)
- Stubbornly buoyant currency

What makes this scenario scary is that unlike the decade-long bull market the last round of QE and 0% rates created, history shows us that each application becomes less and less effective. Simply put, this type of stimulus doesn't always lead to bull markets.

Case in point, the Nikkei 225 Index is one of the best historical barometers of stock market price action in Japan, which ultimately peaked in 1990.

The conglomeration of stocks that make up this basket has yet to surpass those prior highs even three decades later.

A more relatable measure of this same occurrence is the return of the iShares MSCI Japan Index ETF (EWJ).

The fund debuted in March 1996, more than 23 years ago, and has only produced a total return of 16% over that time span. That's an annualized gain of just 0.69%.

You can see on the chart on Page 2 of EWJ the numerous sharp declines that have wiped out any meaningful progress in this country's index since the fund debuted.

Now, the purpose of this *Alpha* issue is to answer the question:

What's the best way to allocate our money if the United States enters a true stage of Japanization?

Alternatively, what are the stocks or sectors that you would want to avoid under this scenario?

Both questions are important drivers of portfolio decision-making that should be considered in light of the damaging effects this type of environment would have on your current asset allocation.

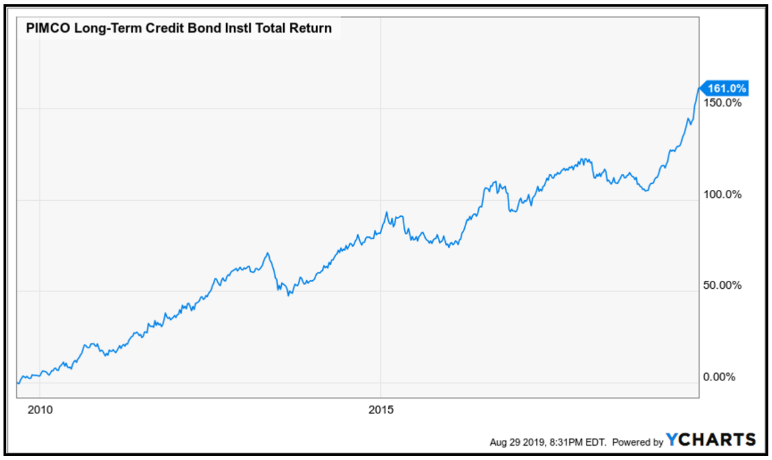
Asset Class: Bonds

The fixed-income markets are likely going to be one of the areas that see strong demand in the event the United States goes back to the well of quantitative easing.

Treasuries and investment-grade corporate bonds were positively affected the last time the Fed cut interest rates and began purchases of debt. Even if interest rates hold relatively steady, this flight-to-safety asset class is likely to outperform stocks as interest payments compound over time.

Importantly, in this type of Japanization of an economy, we want to go as long duration as appropriate to secure the most amount of yield (duration risk, while always prevalent, becomes less important in Japanization environment simply because yields don't rise).

One of our favorite funds for this type of environment is the **PIMCO Long Term Credit Bond Fund (PTCIX)**.



This five-star Morningstar rated fund has been one of the top performers in its category and consistently shown a penchant for alpha over multiple time frames. PIMCO is well known for its credit research, investment manager expertise, and active allocation style.

Mark Kiesel, the fund manager of PTCIX, uses those factors to great effect in constructing the underlying bond portfolio.

PTCIX's current statistics include $4 billion in assets, an effective duration of 12.84 years, and a 30-day SEC yield of 3.84%. The total expense ratio of the institutional share class is 0.85%. While on the high side compared to an index bond ETF, its historical performance has been well worth the additional cost.

The PTCIX portfolio is comprised of 67% corporate bonds, 25% Treasuries, 14% emerging markets, and a smattering of other sectors. Furthermore, the fund managers use swaps and hedges to control interest rate risk and credit volatility as part of their active mandate.

The result is a portfolio of mostly long-dated debt with characteristics closer to an intermediate-term index.

large part to the low expenses and active management style this fund employs.

From a performance standpoint, PTCIX has been a consistent alpha-generator. It has only had one year since it debuted in 2009 where it underperformed the Bloomberg Barclays U.S. Long Credit Index, and that was just by 3 basis points. All other years have shown meaningful outperformance to the upside and reduced risk to the downside.

PIMCO Long Term Credit Bond Fund (PTCIX)	
Inception Date:	3/31/2009
Assets:	$4.45B
Avg Daily Volume:	N/A
Expense Ratio:	0.85%
# of Holdings:	N/A
YTD Return:	24.06%
3-Yr Return:	23.80%
Mstar Rating:	5 Star

The **Vanguard Long Term Investment Grade Admiral Fund (VWETX)** is another venerable contender in this class as well.

VWETX is sub-advised by the Wellington Management Company, which is known for its capable and conservative style. The underlying portfolio is comprised of mostly medium- and high-quality corporate bonds with an average maturity of 15-25 years. It also contains a small supplement of municipal bonds with a similar duration profile.

As a Vanguard fund, it should come as no surprise that the expense ratio of this offering is a miserly 0.12% and its current 30-day SEC yield is a healthy 3.01%.

VWETX has been in existence since 2001 and has managed to accumulate nearly $19 billion in total assets. Morningstar has designated this mutual fund with a four-star rating as it has often trounced its peer group over the last decade.

A $10,000 investment in VWETX over the last 10 years has yielded $24,232, versus $22,791 for the category and $21,839 for the index, according to Morningstar data. That consistent alpha is due in

Both PTCIX and VWETX (or both) can be used as tactical holdings to supplement existing fixed-income exposure. Their purpose is to lengthen the average duration and credit quality of your current bond allocation; enhance total portfolio yield, and ultimately benefit from continued compression at the long end of the U.S. interest rate market.

Perhaps just as important as knowing what you want to own are the areas you want to jettison or stay away from in a long-term deflationary wave.

The most obvious sector for this being high-yield corporate debt, otherwise known as junk bonds. High-yield bonds are issued by companies with lower credit ratings and shakier cash flow characteristics.

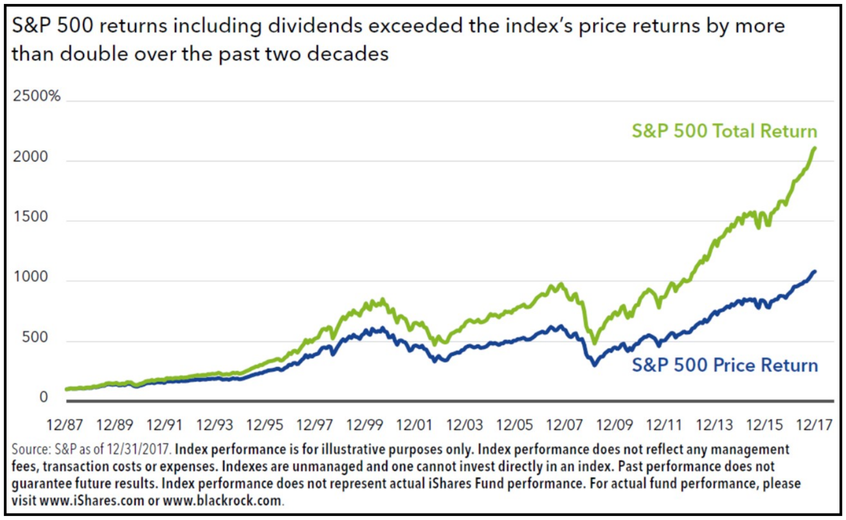
They are going to be the ones who get into trouble quickly as liquidity dries up in the market and the appetite for risk evaporates. There is a potential scenario we see where some growthier companies with negative cash flow similar to Tesla, Uber, Peloton, and others find themselves unable to refinance their debt in this type of environment.

This same thesis also applies to senior loans and floating-rate notes of below-investment-grade companies.

The market for these securities is relatively small within the bond world and they would be heavily discounted if risk appetites turn and interest rates continue to decline globally.

Asset Class: Stocks

A theoretical solution for some advisors may be to jettison most or all their stock exposure in a deflationary environment. Unfortunately, that is not likely to be a practical strategy given the needs of asset allocation models and client expectations for inflationary-focused opportunities.



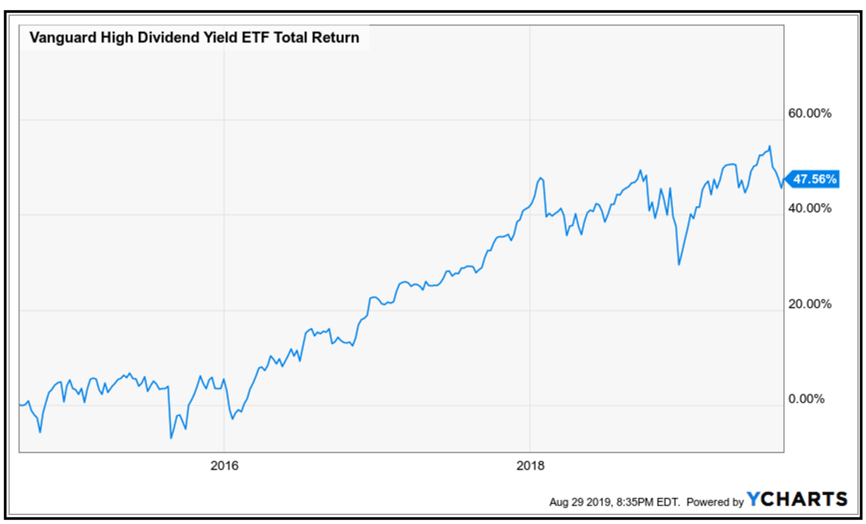
S&P 500 returns including dividends exceeded the index's price returns by more than double over the past two decades

Source: S&P as of 12/31/2017. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. Index performance does not represent actual iShares Fund performance. For actual fund performance, please visit www.iShares.com or www.blackrock.com.

The most advantageous strategy in this circumstance is to avoid high-cash-burn stocks in growth industries and instead focus on cash-rich dividend payers.

Why dividends? Because of how much these corporate actions add to total return given the expected outcome of low-to-no price appreciation.

BlackRock ran the numbers and determined that the reinvested dividends for the S&P 500 has explained almost 50% of the total equity market return over the past 30 years. That's an important statistic that many novice investors who just see price returns overlook.



One of our favorite funds for investing in the world of dividend stocks is the **Vanguard High Dividend Yield ETF (VYM)**.

The fund tracks an index of approximately 420 large- and mid-cap U.S. stocks that include stalwarts such as Johnson & Johnson (JNJ), Microsoft (MSFT), AT&T (T) and more.

The top 10 holdings of the market-cap weighted VYM account for 27% of the total portfolio makeup. The index that underlies VYM also excludes REITs as part of its construction criteria because they don't benefit from favorable tax rates on qualified dividends.

VYM carries a current 30-day SEC yield of 3.29% and has over $25 billion in total assets. It also charges an extremely small expense ratio of 0.06%.

I like to think of this fund as the S&P 500 of the dividend world. It's big, it's liquid, and it's easy to explain to clients as a core holding that pays significant income on a quarterly basis.

This fund has been a strong performer both in relative and absolute terms as well. VYM has produced 10-year annualized returns of 14.16% according to fund company data through 6/30/19.

Another option to consider in this category is the **iShares High Dividend ETF (HDV)**.

For those that prefer an iShares product or simply want a variant strategy for comparison purposes, HDV checks all the right boxes.

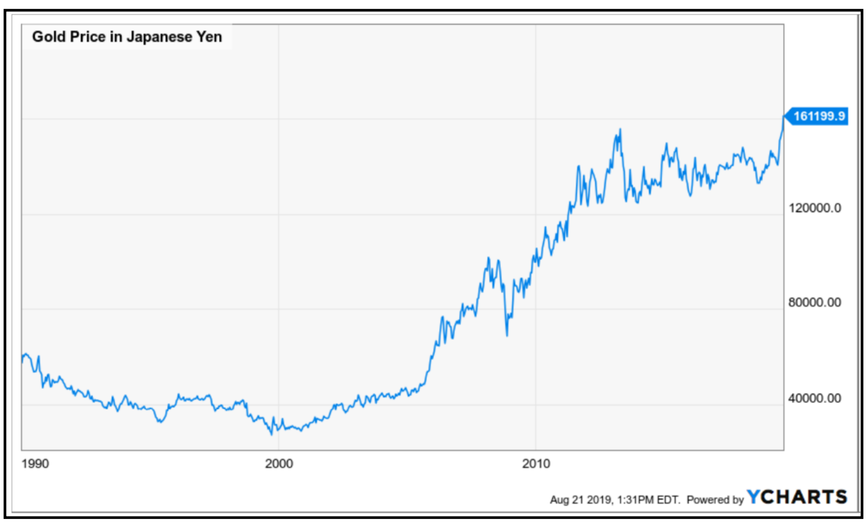
Its underlying portfolio of 75 large-cap, high-dividend-paying stocks are screened for financial health in addition to traditional income factors.

The narrower portfolio and large-cap slant mean that the top 10 stocks, e.g. Exxon Mobil (XOM) and Verizon Communications (VZ), account for roughly 60% of the overall asset allocation. Other key metrics for this fund include its 3.22% 30-day SEC yield, quarterly dividend schedule, 0.08% expense ratio, and $7.3 billion in total assets.

Vanguard High Dividend ETF (VYM)	
Inception Date:	11/10/2006
Assets:	$25.3B
Avg Daily Volume:	800K
Expense Ratio:	0.06%
# of Holdings:	420
YTD Return:	14.43%
3-Yr Return:	31.24%
Mstar Rating:	5 Star

A fund such as this can be used to augment or replace existing core U.S. equity exposure with the goal of tilting toward yield and value-oriented stock characteristics. It also may be desirable to those who are more comfortable owning consumer staples and businesses with cash-rich balance sheets.

The areas you want to avoid when it comes to a sideways churn in economic productivity are the speculative areas of the market. These are the "growth at any cost" style companies that are always burning through cash rather than having an established business model. Think startups in the technology, consumer discretionary, and other cyclical sectors.



It's also reasonable to assume that large-cap stocks are going to be financially better equipped to withstand volatility than smaller stocks that rely on the ease of capital and abundant risk appetites.

These areas will likely falter or underperform a dividend-oriented strategy with an emphasis on shareholder returns.

Asset Class: Commodities

We have done a significant amount of work researching the returns of commodities during economic turmoil, and the one area that continually shines bright is gold.

Even during the lost decades that Japan experienced, owning gold in yen terms was one of the significant bright spots for Japanese investors. This precious metal posted significant relative performance gains that can be attributed to the uncertainty surrounding paper assets such as stocks and bonds in favor of tangible resources.

This dovetails with our prior research that gold was a phenomenal performance benchmark during the last several cycles of Fed rate cuts in the United States. Furthermore, the strength of the yellow metal during just the last several months should bolster confidence that investors are treating the sector as a safe haven amid shaky economic forecasts.

The areas of the commodity markets to avoid are those with more speculative track records.

Energy and agriculture are two examples that have had mixed returns and are just as likely to be bandied about by geopolitical events as they are currency gyrations. There is less of an edge for the risk you would potentially take by allocating to these sectors rather than the rewards that would bear fruit under the best of circumstances.

Asset Class: Alternative Income

The main thrust of this *Alpha* issue is about income-producing vehicles, so we would be remiss to exclude sources of alternative yield through closed-end funds.

A world of quantitative easing, interest rate compression, and deflationary asset prices is likely going to be one that looks favorably on taking a moderate amount of risk to achieve attractive income.

Remember that closed-end funds differ from ETFs in that they have a fixed number of shares and pools of assets that don't expand or contract with buyers and sellers. This means that their underlying net asset value can trade at a premium or discount to the current market price.

PIMCO Dynamic Income Fund (PDI)	
Inception Date:	5/25/2012
Assets:	$2.7B
Ave Daily Volume:	178K
Expense Ratio:	1.15%
# of Holdings:	950
YTD Return:	15.90%
3-Yr Return:	52.78%
Mstar Rating:	5 Star

These vehicles are almost always actively managed by well-known fund managers that use innovative tools to enhance yield through leverage or manage risk using derivatives.

The **PIMCO Dynamic Income Fund (PDI)** is one such example of a multi-sector bond CEF that has been a top contender in its category for a number of years.

PDI is a $2.5 billion pool of assets that is based on a similar underlying portfolio as the popular open-ended PIMCO Income Fund (PIMIX). Both strategies are managed by PIMCO's award-winning CIO Dan Ivacsyn.

The fund sports a variety of underlying exposure in mortgage-backed securities, emerging market bonds, corporate bonds, and other global fixed-income.

It uses a meaningful amount of leverage capped at 40% to help generate its healthy 8% annual yield, with income paid monthly to shareholders. That leverage and the manager's portfolio selections have helped to generate average annual market price returns of 17.17% since the fund debuted back in 2012.

PDI is currently trading near the high end of its historical premium range, which makes it a difficult spot to enter for new investors. It would be far more advantageous to see the PDI market price fall in line with its net asset value or even to a slight discount before allocating to this type of fund.

Keep in mind that many CEFs can trade at persistent premiums or discounts to their net asset value through the majority of the year. That's why any spikes or drops in price should be used to your advantage to reduce or add exposure. CEFs often experience volatility in tandem with the stock market, and thus a period of sharp declines in equities would likely coincide with a buying opportunity for PDI.

Advisors that have never owned CEFs before should be sure to look up the current premium/discount on a free website such as cefconnect.com.

This is an excellent resource for all things closed-end funds, and it can help with timing your entry and exit points by basing those trades around historical norms.

Additionally, those who need to trade in size should be wary about dropping a huge market order on a single closed-end fund without any limit instructions.

Working with your broker's trade desk to purchase or sell in increments such as a daily VWAP pattern would be a far more preferable trading strategy than settling for a huge spike in price.

Closed-end funds can be an advantageous tool for enhancing portfolio yield and accessing an advanced institutional-level portfolio strategy in a tradeable investment vehicle.

Their drawbacks include tighter liquidity than traditional open-ended funds and higher fees due to the combination of leverage carrying costs and manager expenses. These tools are appropriate for those aggressive clients that want to bolster their monthly income while simultaneously accessing an alternative asset compared to conventional stocks or bonds.

Conclusion

The Japanization of the U.S. markets is still more of an educated theory than an obvious conclusion based on the economic road signs at this stage.

Nevertheless, the risk of prolonged stagnation in conjunction with government intervention in the markets is likely to bring with it results unlike any we have experienced before.

Keeping several options on the table for just such a scenario could be the difference between successful advisors and those who get upended unexpectedly.

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:** **20.37%**	**SPY:** **25.17%**
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:** **9.17%** **ROBO:** **-0.40%** **AMBA:** **42.02%** **QCOM:** **23.20% (closed)**	**SPY:** **23.30%** **SPY:** **19.93%** **(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:** **-31.78%** **ALB:** **-50.29%**	**SPY:** **23.30%**
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:** **2.71%** **REGL:** **13.14%** **SMDV:** **6.14%**	**AGG:** **8.78%** **MDY:** **8.84%** **IWM:** **3.47%**
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:** **3.74%** **MNA:** **3.79%**	**AGG:** **8.56%**

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: 4.05%	SPY: 19.31%
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: -4.29%	ACWX: -2.15%
"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: 7.41% EMLC: -4.00% EBND: -1.42% AGEYX: 4.88%	AGG: 9.06%
"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: -6.22% BLCN: -0.43%	SPY: 10.45%
"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: 10.69% TOTL: 8.74% FTSL: 4.45%	AGG: 10.88%

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:** **5.30%**	**BIL:** **3.03%**
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:** **-9.41%**	**ACWX:** **-4.47%**
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:** **-9.76%**	**SPY:** **12.77%**
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:** **-11.06%** **DLS:** **-12.92%**	**EFA:** **-3.85%**
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:** **2.74%**	**SPY:** **12.40%**
Buybacks **PKW (Invesco Buy-Back 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:** **13.27%**	**SPY:** **13.26%**
"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:** **-10.07%**	**EEM:** **-1.96%**

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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: -17.80%	IWM: -8.89%
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: -4.23% FINX: 7.31% IPAY: 18.46%	SPY: 7.71%
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: 2.98% USFR: 2.18% SRLN: 3.82% EFR: -2.02%	AGG: 10.05%
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: 1.34% IEME: 6.81% XLC: 5.58% DIS: 25.55%	SPY: 6.18%
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: -20.94% SBIO: -7.01% FXG: 2.84%	SPY: 4.67%

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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: -11.72% GNR: -9.18% RLY: -2.87%	DBC: -10.86%
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: 2.64% LDUR: 3.50% MINT: 2.02%	BIL: 1.96%
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: 19.30% DYLS: -13.57% PTLC: 8.35%	SH: -10.28%
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: 0.80% MLPA: 3.62% DCP: -20.32% SHLX: 8.19%	SPY: 11.72% AMLP: 1.47%

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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: 13.40% DVP: 1.88%	VTV: 14.07%
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: 6.16%/4.50% ITB/VNQ: 37.24%/29.62% DFE: 8.26%	SPY: 19.98%
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: 5.79%	SPY: 15.33%
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: 8.18% VRP: 9.90% PFXF: 11.43%	PFF: 8.02%
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: 13.46% NRG: -10.63% CNP: -3.91%	XLU: 13.76%

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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: -3.73% CIBR: 1.57% FTNT: -9.16% CYBR: 0.04%	QQQ: 10.00%
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: -30.97% ACB: -24.12% CGC: -42.37% APHA: -28.88%	SPY: 7.43%
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: 7.30%	SPY: 6.31%
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: 2.86% CCOR: 2.03% JHEQX: 3.41%	SPY: 4.02%

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<u>ARK Invest Family of ETFs</u> **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:** **-6.88%** **ARKG:** **-9.64%** **XITK:** **-3.09%**	**QQQ:** **0.22%**
<u>The Alpha Opportunity in Healthcare</u> **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:** **10.06%** **XBI:** **-6.63%** **IHF:** **1.98%**	**XLV:** **1.75%**
<u>Minimum Volatility ETFs</u> **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:** **7.41%** **SPLV:** **6.73%** **EEMV:** **3.02%** **EFAV:** **3.35%**	**SPY:** **4.32%**
<u>Ageing of America Primer</u> **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.***	**6/4/19**	**WELL:** **13.80%** **OHI:** **15.03%** **SCI:** **4.80%**	**SPY:** **6.54%**

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Rate Cut Playbook We wanted to provide both an asset class and stock market sector "playbook" so advisors will know what outperformed, and what underperformed during the last two rate cut cycles. The important part of our research is that we let the numbers, not our assumptions, do the talking and the results were surprising!	*Inside the issue you'll find:* • *Return tables that show the performance of the major S&P 500 sectors over the last two rate cut cycles. (Returns 12 months following the first cut, and Returns from the first cut to the last cut).* • *Return tables for the major bond market segments over the last two rate cut cycles.* • *We identify the sectors and bond segments that lagged in both cutting cycles (again, the results were surprising) and the sectors that outright outperformed and that relatively outperformed.* • *Finally, we also identified the sectors and segments that were the biggest "losers" during the last two rate cut cycles.*	6/18/19		
How to Responsibly Allocate to Gold GLD (SPDR Gold Trust) SGOL (Aberdeen Standard Physical Gold ETF) GDX (VanEck Vectors Gold Miners ETF) KL (Kirkland Lake) FNV (Franco Nevada Corp)	*Gold was one of the top performers in our "Rate Cut Playbook" and it recently just hit a six year high.* *So, in this issue, we wanted to focus on how advisors can responsibly allocate to gold, because again If this trend continues, gold will continue to outperform the S&P 500, and undoubtedly you will field questions from clients about owning gold.* *Beyond servicing clients, from an alpha standpoint, gold trends incredibly well, and if we are at the start of a multi-year uptrend, the returns can be substantial (gold returned more than 800% from 2001-2011 and outperformed stocks during the last two rate cutting cycles).*	7/2/19	GLD: 5.47% SGOL: 5.71% GDX: 7.91% KL: 7.37% FNV: 9.24%	
Momentum Factor Investing MTUM (IShares Edge MSCI USA Momentum Factor ETF) SPMO (Invesco S&P 500 Momentum ETF) FDMO (Fidelity Momentum Factor ETF)	*Factor investing has proven to be an effective strategy for medium and long term investors. One of the strategic factors that consistently rises to the upper half of the performance matrix is "momentum" as a driver of outsized returns.* *Momentum factor ETFs have provided positive excess returns in seven of the last 11 years.*	7/16/19	MTUM -0.77% SPMO: -1.02% FDMO: -2.38%	SPY: -2.55%

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Profit from the Sharing Economy **MILN (The Global X Funds/Millennials Thematic ETF)** **GIGE (The SoFi Gig Economy ETF)**	*Inspiration for the issue came from this comment, which I believe is a profound statement on the next evolution of the economy.* *"Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world's largest accommodation provider, owns no real estate. Something interesting is happening." Tim Goodwin The Batter Is For The Consumer Interface. Each of those companies are part of the new "sharing economy."* *In addition to profiling two ETFs, we also created our own "Watch List" of sharing economy companies that describes 1) What they do and 2) How they make money, so you have a clear view of the entire "Sharing Economy" universe.*	7/30/19	**MILN:** **-2.04%** **GIGE:** **-5.39%**	**SPY:** **-1.11%**
The Case for REITS **VNQ (Vanguard Real Estate ETF)** **VNQI (Vanguard Global ex-U.S. Real Estate ETF)** **REZ (iShares Residential Real Estate ETF)** **REM (Ishares Mortgage Real Estate ETF)**	*Over the past month, only one sector SPDR had a positive return,* ***and it was Real Estate (XLRE) as it rose 1.75%.*** *And, that underscores what has been a great year for the sector, as XLRE has gained more than 22% YTD and only trails tech (XLK) on a YTD performance basis.* *This strong performance shouldn't come as a surprise.* *The current environment is very positive for REITs, given we're likely looking at 1) More Fed rate cuts and 2) A potentially slowing economy.* *More directly, with greater than 3% yields, positive correlation to rising inflation, and a very solid historical track record through growth slowdowns (with one glaring exception), REITs remain an attractive destination for capital in the current environment.*	8/16/19	**VNQ:** **1.99%** **VNQI:** **2.27%** **REZ:** **1.58%** **REM:** **-1.08%**	**SPY:** **2.94%**
Seizing Opportunity in the Defense Industry **ITA (IShares U.S. Aerospace & Defense ETF)** **PPA (Invesco Aerospace & Defense ETF)** **UFO (The Procure Space ETF)**	*The defense sector has been one of the best performing market sectors for over a decade. Consider:* ***Over the past 10 years the defense stock sector has posted an 18.57% annualized return and a 446% cumulative return. That compares to a 12.96% annualized return for the S&P 500 and a cumulative return of 238%.*** *That's significant outperformance that should impress any client. But, right now, we think there's even more opportunity in this sector due to the presence of a potentially major growth catalyst—the space industry.*	8/27/19	**ITA:** **2.59%** **PPA:** **2.33%** **UFO:** **4.25%**	**SPY:** **3.64%**