SEVENS REPORT *alpha*

January 28, 2020

In Today's Issue

- **The Opportunity in Small Caps.**
- The stock market has become extremely "top-heavy" with a few mega-cap tech stocks being the difference - maker in annual performance. While that's been a good thing for the last several years for performance, many investors are now not as diversified as they should be on a market-cap basis.
- Increasing allocations to small caps will increase diversification and, potentially, alpha. Small caps outperformed large caps in Q4 2019, and if an economic rebound actually occurs, small-cap outperformance is something we could see throughout 2020.
- The small-cap ETF universe is very large and many investors can experience paralysis by choice. So, we've done a deep dive into the sector and identified what we believe are the best small-cap ETFs for three different types of clients: Well diversified, more aggressive, and more conservative.
- **IJR: iShares Core S&P Small-Cap ETF.** This core holding has outperformed the Russell 2000 by more than 10% over five years while offering higher-quality exposure.
- **VBK: Vanguard Small-Cap Growth ETF (VBK).** This growth-oriented ETF offers more return for more risk and has outperformed IWM by nearly 20% over the past five years.
- **XSLV: Invesco S&P SmallCap Low Volatility ETF.** This low-vol, small-cap ETF yields 2.4% and has outperformed IWM by nearly 20% over the past five years, despite having lower volatility. Now that's alpha!

Small Caps for Big Gains

One of the primary objectives of *Sevens Report Alpha* is to facilitate the outperformance of your client portfolios. Many times, that research leads us to identifying companies and sectors demonstrating the strongest momentum and/or compelling factors for sustainable alpha.

The flipside of that coin is to help you develop an investment thesis that you may have unintentionally overlooked, or possibly develop a corner of your portfolio that has languished and could use a fresh perspective. It's this latter objective that's led us to develop our latest portfolio proposal–using *small-cap stocks to achieve big gains*.

Small caps have certainly been a relatively neglected market segment, especially when it comes to financial media coverage. In fact, today the media has become obsessed with tracking the mega-cap tech universe.

A CNBC headline from January 18 adroitly summarized the current state of affairs better than I ever could: "In the stock market, it's become Apple, Microsoft and Alphabet vs everyone else."

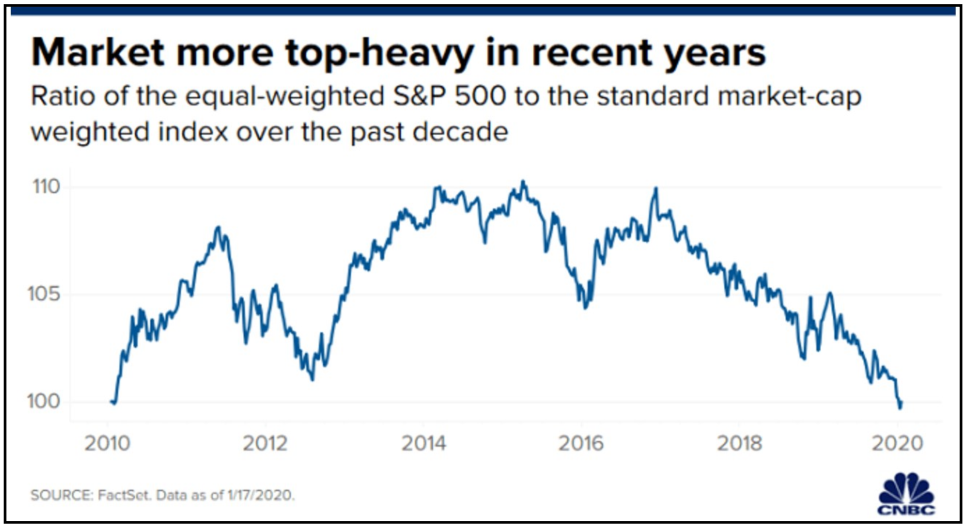
The trillion-dollar market cap club has become the de facto new diversified portfolio, and many pundits now believe holding these three stocks and a few others such as Facebook and Amazon will beget sustainable gains for the next decade.

Together, these five stocks account for a combined $5.2 trillion in market cap and nearly 18% of the S&P 500 Index. It's eerily similar to the type of single-company, single-sector concentration that ruined many a portfolio two decades ago in the 2000-2002 tech wreck.

Now, we are certainly not alluding to the future insolvency of these tech stocks, nor are we comparing their performance outlook to that of past cycles. These are undoubtedly some of the most fundamentally sound companies in the world, and investors have been rewarded for sticking with them. However, history has shown that it's rarely the best practice to put all your eggs in one basket. Indeed, true diversification means owning those areas of the market that have yet to flourish in the same way that the current top performers have.

Put simply, if everything in your portfolio is firing on all cylinders, then you probably aren't truly diversified—and that's when it's time to worry.

The chart here illustrates the ratio between the traditional market-cap-weighted S&P 500 Index and a similar equal-weighted basket of the same stocks.



The point being is that the largest companies have significantly skewed the underlying allocation of this benchmark, and it may be a good time to evaluate the impact of that effect on your portfolio.

One way to ensure that your U.S. equity allocation doesn't become overly concentrated on just a few mega-cap names is to bolster your small-cap exposure. What this does is create a barbell approach in which you are weighting both ends of your portfolio with stocks demonstrating varying size, momentum, and value characteristics. The net result is to own a wider band of exposure to areas with enhanced potential for long-term growth.

In addition to the longer-term benefits of being properly diversified, there's also a set of potential macro economic tailwinds forming for small caps in 2020:

- Small-cap stocks have yet to break out above their 2018 highs, unlike all the other major indices (so it's the only major index that has not yet hit new all time highs).
- Many small-cap indexes are trading at relative valuations well below that of their large-cap brethren.
- Smaller companies tend to be more insulated from global politics and benefit from the local economic activity here in the United States (so they should outperform if the U.S. economy re-accelerates).
- These stocks also have historically done well during periods of inflation, and when the appetite for risk assets is elevated.

So, small caps should outperform large caps this year if we manage to avoid any type of recession in 2020, and if the Fed remains accommodative to asset price appreciation.

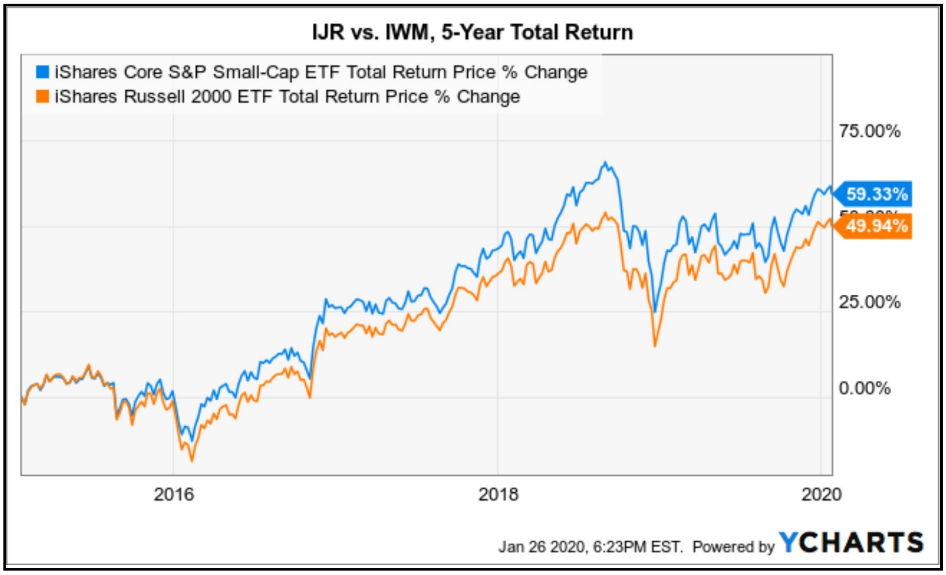
Now, some advisors may look at their portfolios and see a Russell 2000 Index Fund (IWM). But, there are better ways to play small caps, and we think now is the time to consider some changes if you find yourself defaulting to the age-old Russell 2000 Index or if you've been burned by individual stocks in this segment.

Our research has uncovered three best-of-breed small-cap ETFs that should appeal to virtually all types of clients (diversified, aggressive, conservative) and that have outperformed IWM.

Small-Cap Idea #1: Core Allocation

The Russell 2000 Index has long been the benchmark of the small-cap world. It benefits by being the oldest of the modern indexes, having been originally created by the Frank Russell Company in 1984. The purpose of this bellwether is to capture the 2,000 smallest companies from the larger Russell 3,000 Index regardless of fundamental or technical factors. The result is a highly diversified, yet thoroughly archaic, method of owning the bottom 8% of the investable U.S. stock market.

The biggest detractor from the Russell 2000 Index is that it owns so-called "zombie" stocks. These are companies with unprofitable financial results that account for nearly 35% of the total basket as compared to just 5% in the S&P 500 Index (source). These businesses with net operating losses typically face higher financing costs and can find themselves quickly in jeopardy if credit conditions tighten.



Period	IWM	IJR
3 YR	8.56%	8.37%
5 YR	8.24%	9.55%
10 YR	11.83%	13.31%

Fortunately, Standard and Poor's took the initiative to improve on the small-cap index method with their introduction of the S&P 600 Small Cap Index in 1994. Criteria for inclusion in the S&P 600 Index include four consecutive quarters of profitability with a market capitalization between $450 million and $2.1 billion. This helps avoid the riskier microcaps at the absolute bottom of the ladder and overlays a simple quality screen that improves financial conditions.

iShares Core S&P Small Cap ETF (IJR)	
Inception Date:	5/22/2000
Assets:	$48.1B
Avg Daily Volume:	3.1M
Expense Ratio:	0.07%
# of Holdings:	604
YTD Return:	-0.50%
3-Yr Return:	25.17%
Mstar Rating:	5 Stars

In a head-to-head battle, this translates to a far stronger and more consistent track record. The table above compares annualized returns of the iShares Russell 2000 ETF (IWM) versus the **iShares Core S&P Small Cap ETF (IJR)**.

While those differences may not seem like much at first glance, the compounded effect of the S&P 600 Index's performance makes for a meaningful boost in total return.

Furthermore, the chart here illustrates sharper peaks and shallower valleys in the price pattern of this ETF versus the benchmark. IJR has quickly become a powerhouse in the small-cap world by amassing $49 billion in total assets and sports an expense ratio of just 7 basis points.

It's also worth noting that the market-cap weighted IJR portfolio currently offers a P/E ratio of 17.94 compared to 23.51 in the iShares S&P 500 ETF (IVV). **This type of liquidity, low cost, and value have coalesced to make IJR our preferred small-cap core allocation to build your portfolio around.**

Now, how much should you allocate to this type of small-cap holding? Many diversification experts point to a 50-30-20 rule when planning your size profile.

This means directing 50% of your stock exposure to large caps, 30% to mid caps and 20% to small caps. That may serve as a general guide from which you can fit your individual portfolios according to risk tolerance and investment objectives. Our recommendation is anywhere from 10-20% of the total portfolio depending on these unique factors.

It's also important to point out two other ETFs that track this exact same index at different fund companies. These being the Vanguard S&P Small-Cap 600 ETF (VIOO) and SPDR S&P 600 Small-Cap ETF (SLY). Both funds track the same index as IJR and both offer an alternative to own this same basket if your preference is to lean towards those fund sponsors.

Small-Cap Idea #2: Growth Factor

The whole point of investing in small caps is to supercharge the performance of your portfolio, which is why specifically targeting the "growth" factor makes a lot of sense for this segment. There are many ETFs in the marketplace that try to achieve this goal with complicated factor screens, but no one has had more consistent success than the index experts at Vanguard.

Vanguard Small-Cap Growth ETF (VBK)	
Inception Date:	1/26/2004
Assets:	$10.1B
Avg Daily Volume:	152K
Expense Ratio:	0.07%
# of Holdings:	599
YTD Return:	2.09%
3-Yr Return:	50.14%
Mstar Rating:	4 Stars

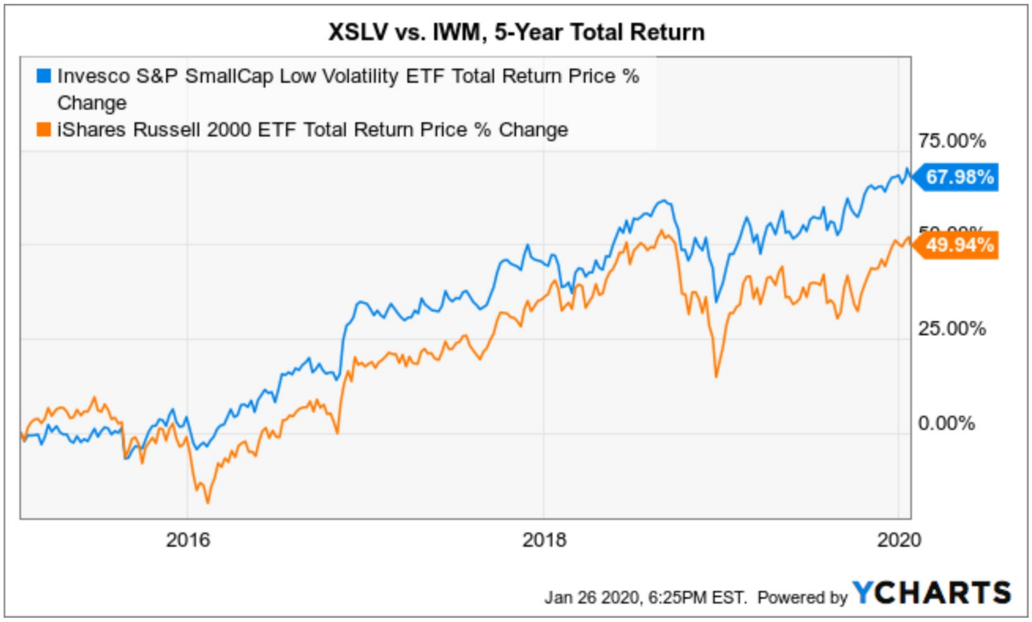
The **Vanguard Small-Cap Growth ETF (VBK)** is the sixth-largest small-cap exchange-traded fund by asset size with over $10.1 billion under management. VBK tracks the CRSP U.S. Small-Cap Growth Index, which scores and ranks stocks according to factors such as long-term and short-term EPS growth, sales growth, return on assets, and investments-to-asset ratio. The end result is a diversified basket of 600 U.S. stocks with a median market cap of $5.4 billion.

The sector makeup of VBK is aligned with growth-focused industries as well, with healthcare (21.40%), industrials (19.70%), and technology (19.40%) rounding out the top three. Its market-cap-weighted structure means that the largest companies are going to take up the lion's share of the portfolio structure. However, the top 10 stocks only make up 6.50% of the complete basket, which makes for a wide distribution of assets throughout.

VBK similarly sports an expense ratio of just 0.07%, so as not to be an undue burden on the performance of the underlying holdings. Its five-year track record has established a wide lead on the benchmark Russell 2000 Index by a margin of nearly 18%. Much of that lead has come in just the last twelve months as VBK has rocketed off the late-2018 lows and continues to move at a breakneck pace.

Owning a small-cap growth ETF means that you get to experience the benefits of this size factor with an emphasis on sectors that are momentum-driven. This index has very little exposure to value-oriented areas such as consumer staples, utilities, energy, and telecom. As such, you are likely going to experience a little more volatility than a more conventionally blended style index.

An ETF of this nature would be best utilized in more aggressive stock portfolios or for those clients who can stomach a higher risk tolerance. It can be implemented as either a standalone core holding or to complement and tilt your exposure alongside a traditional small-cap ETF such as IJR.



Small-Cap Idea #3: Low Volatility

We have been big advocates of low-volatility strategies in prior issues of *Sevens Report Alpha*, and small-cap stocks are no exception.

Sometimes the best way to win in the game of compounded returns is to avoid big drops that take significant time and momentum to recover from. That's how the **Invesco S&P SmallCap Low Volatility ETF (XSLV)** has been able to carve out an impressive track record and 5-Star Morningstar rating over its seven-year tenure.

Invesco S&P SmallCap Low Volatility ETF (XSLV)	
Inception Date:	2/15/2013
Assets:	$2.4B
Avg Daily Volume:	224K
Expense Ratio:	0.25%
# of Holdings:	116
YTD Return:	-0.22%
3-Yr Return:	25.75%
Mstar Rating:	5 Stars

XSLV is constructed by starting with the S&P 600 Small Cap Index universe and selecting the 120 stocks over the last 12 months with the lowest realized volatility. Furthermore, the fund is rebalanced and reconstituted quarterly so that the stocks with the most minimal downside price fluctuations are always part of the basket.

This results in a smart-beta ETF that is diversified enough to own a wide swath of the small-cap universe. The average market capitalization of the XSLV portfolio is $1.8 billion and the fund charges a reasonable expense ratio of 0.25%. Total assets stand at $2.45 billion with average daily trading volume in excess of 200,000 shares. That means this ETF is going to be liquid enough on both the entry and exit to justify in your client portfolios.

The XSLV portfolio is currently weighted heavily towards financial, real estate, and industrial stocks. While those may not seem like rocket-fueled sectors, the fund has a well-rounded base of growth, value, and blended style characteristics.

Furthermore, the 12-month distribution rate is a healthy 2.40% with dividends paid quarterly to shareholders. This should be quite attractive to income-oriented investors who are typically more on the conservative side, and who like to target cash-flow-heavy stocks.

What's also unique about XSLV is its track record. The chart above denotes how this ETF has maintained an 18% lead over IWM on a five-year look back and continues to hit new all-time highs with aplomb.

What's encouraging is that the very factor that this ETF tries to achieve is easily recognizable in its price chart compared to the broader index. Drops are far shallower and tend to lead to faster recovery cycles that improve long-term returns.

A fund such as XSLV is truly a gem because it gives you so many selling points to clients. It's a consistent outperformer in a sector with fickle price patterns. That means its positioned to offer your portfolios more stability than conventional indexes. Additionally, the quarterly adjustments ensure that top-ranked stocks in this volatility factor are always giving you the optimal exposure profile. The dividend stream that outranks the S&P 500 should be another feather in this ETF's cap.

XSLV can be utilized as a standalone ETF in more conservative portfolios or as a complementary option to counterbalance the growthier IJR and VBK. Either option gives you an instant upgrade over what are likely high-priced and underperforming legacy funds that are holding back your portfolio from optimal performance.

Conclusion

The small-cap universe is extremely diverse and flies under the radar of most investment strategists.

These companies are obviously not going to have the same flair or influence as the household names you find in the Dow Jones Industrial Average. That's why utilizing a best-of-breed ETF is an excellent way to gain exposure to this group without over-complicating your portfolio.

Just like we noted in the recent international issue, it's likely that your allocation to small caps has become minimal at best. A re-balancing towards this size factor should be a priority in 2020, and that is likely to pay off in your long-term results.

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:** **28.94%**	**SPY:** **37.44%**
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:** **28.05%** **ROBO:** **10.99%** **AMBA:** **27.71%** **QCOM:** **23.20% (closed)**	**SPY:** **35.38%** **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:** **-18.27%** **ALB:** **-39.24%**	**SPY:** **35.38%**
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:** **5.35%** **REGL:** **18.85%** **SMDV:** **13.39%**	**AGG:** **10.61%** **MDY:** **15.86%** **IWM:** **12.34%**
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:** **5.56%** **MNA:** **8.60%**	**AGG:** **10.39%**

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: 8.40%	SPY: 30.99%
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: 1.37%	ACWX: 3.92%
"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: 9.19% EMLC: -0.82% EBND: 1.27% AGEYX: 10.64%	AGG: 10.90%
"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: -3.33% BLCN: 9,69%	SPY: 21.98%
"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: 12.71% TOTL: 10.24% FTSL: 7.95%	AGG: 12.75%

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:** **6.09%**	**BIL:** **3.81%**
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:** **11.61%**	**ACWX:** **1.45%**
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:** **-6.10%**	**SPY:** **14.23%**
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:** **-3.32%** **DLS:** **-4.04%**	**EFA:** **2.27%**
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:** **25.66%**	**SPY:** **23.41%**
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:** **22.58%**	**SPY:** **24.36%**
"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:** **-2.47%**	**EEM:** **4.24%**

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Micro Caps IWC (I-Shares Micro-Cap ETF)	*Small caps outperformed until this most recent pullback, but while allocations to that sector of the market are rising, micro-caps, a sub-set of small caps, remain generally overlooked.* *Micro caps remain an overlooked, under-researched, and under-allocated part of the small cap universe that can offer diversification and outperformance (micro caps are perennial takeover candidates).*	7/10/18	IWC: -8.54%	IWM: -1.08%
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: 0.77% FINX: 14.93% IPAY: 24.28%	SPY: 18.27%
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: 4.22% USFR: 3.02% SRLN: 6.83% EFR: 6.30%	AGG: 11.90%
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: 8.89% IEME: 12.49% XLC: 14.31% DIS: 23.68%	SPY: 16.59%
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: -8.59% SBIO: 6.13% FXG: 5.27%	SPY: 14.92%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
Commodities PDBC (Invesco Optimum Yield Diversified Commodity Strategy No K-1) GNR (SPDR S&P Global Natural Resources ETF) RLY (SPDR SSGA Multi-Asset Real Return ETF)	*Commodities have typically outperformed during late expansion and early recession phases of the economic cycle. Many economic indicators imply we are entering (or are already in) the late expansion phase of the economic cycle. As such, commodities have outperformed so far this year, and we expect that to continue.*	9/18/18	PDBC: -12.96% GNR: -6.88% RLY: 1.21%	DBC: -11.98%
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: 3.75% LDUR: 5.00% MINT: 2.65%	BIL: 2.73%
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: 26.53% DYLS: -11.45% PTLC: 18.57%	SH: -17.71%
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: -5.12% MLPA: -3.18% DCP: -27.65% SHLX: 17.49%	SPY: 22.69% AMLP: -9.09%

Sevens Report Alpha Fund & Stock Ideas

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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: 16.71% DVP: 5.98%	VTV: 22.64%
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: 13.69%/4.75% ITB/VNQ: 59.25%/35.28% DFE: 21.99%	SPY: 31.76%
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: 13.12%	SPY: 26.61%
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: 10.78% VRP: 14.20% PFXF: 14.97%	PFF: 11.93%
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: 24.52% NRG: -12.67% CNP: -11.45%	XLU: 26.02%

Sevens Report Alpha Fund & Stock Ideas

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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: 8.68% CIBR: 12.64% FTNT: 31.66% CYBR: 28.93%	QQQ: 26.59%
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: -51.88% ACB: -76.38% CGC: -53.76% APHA: -48.70%	SPY: 17.94%
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: 18.48%	SPY: 16.74%
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: 12.96% CCOR: 4.30% JHEQX: 9.33%	SPY: 14.23%

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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: 14.41% ARKG: 4.78% XITK: 10.25%	QQQ: 15.33%
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: 21.59% XBI: 6.30% IHF: 20.60%	XLV: 16.60%
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: 13.93% SPLV: 12.86% EEMV: 3.27% EFAV: 8.22%	SPY: 14.55%
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.*	6/4/19	WELL: 10.73% OHI: 25.25% SCI: 7.75%	SPY: 16.99%

Sevens Report Alpha Fund & Stock Ideas

Fund/Stock	Strategy	Date	Total Return	Benchmark Performance Since Issue Date
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: 11.63% SGOL: 11.88% GDX: 13.74% KL: -1.09% FNV: 29.21%	
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 7.10% SPMO: 3.89% FDMO: 3.46%	SPY: 7.94%

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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:** **11.63%** **SGOL:** **11.88%** **GDX:** **13.74%** **KL:** **-1.09%** **FNV:** **29.21%**	
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** **7.10%** **SPMO:** **3.89%** **FDMO:** **3.46%**	**SPY:** **7.94%**

Sevens Report Alpha Fund & Stock Ideas

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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: 11.63% SGOL: 11.88% GDX: 13.74% KL: -1.09% FNV: 29.21%	
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 7.10% SPMO: 3.89% FDMO: 3.46%	SPY: 7.94%

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Outperforming in A Declining Dollar Environment **VGT (Vanguard Information Technology ETF)** **IHI (IShares U.S. Medical Devices ETF)** **EMLC (VanEck Vectors J.P. Morgan EM Local Currency Bond ETF)** **PDBC (Invesco Optimum Yield Diversified Commodity Strategy No K-1 ETF)**	If there's going to be a global reflation, then it will likely come with a weaker U.S. Dollar. From early 2017 through early 2018 the dollar declined from over 100 to below 90 (so more than 10%) and that had a significant impact on stocks: The 2017 decline in the dollar resulted in **a 31% gain for the S&P 500** from December 2016 through January 2018. But, the dollar decline also created opportunities for specific sectors and assets classes to handily outperform the S&P 500, and we want to identify those opportunities in three strategies: • Targeted sector exposure via a focus on U.S. Exporters • International ETF Exposure • Commodities Allocations.	**11/5/19**	**Various ETFs Listed in the Issue**	
Closed End Funds **ETG (EV Tax Adv. Global Dividend Inc)** **HTD (JH Tax-Advantaged Dividend Inc)** **PDI (PIMCO Dynamic Income)** **NZF (Nuveen Municipal Credit Income)** **FFC (Flaherty & Crumrine Preferred & Income Sec.)** **RQI (Cohen & Steers Quality Income)**	Closed End Funds (CEFs) are under-utilized compared to ETFs (we explain why in the issue) but CEFs have advantages over ETFs both on a yield and tactical basis – and we think that CEFs can be an effective tool, when integrated into a broader portfolio strategy, that can boost yield and create opportunities to generate alpha.	**12/3/19**	**ETG:** **5.85%** **HTD:** **1.99%** **PDI:** **0.91%** **NZF:** **1.64%** **FFC:** **5.11%** **RQI:** **-2.92%**	**SPY:** **5.02%**
Cash Management **FPNIX (FPA New Income Fund)** **MINT (PIMCO Enhanced Maturity Active ETF)** **BBBIX (BBH Limited Duration I)**	In this issue, we identify three funds that provide market-beating returns on cash with very low duration and good liquidity, and we rank them depending on preference: More aggressive (and higher yield), Conservative, and "In Between."	**12/17/19**	**BBBIX:** **0.43%**	**BIL:** **0.30%**

Sevens Report Alpha Fund & Stock Ideas

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Contrarian Ideas 2020 **MJ (ETFMG Alternative Harvest ETF)** **XOP (SPDR S&P Oil & Gas Exploration and Production ETF)** **LQDH (iShares Interest Rate Hedged Corporate Bond ETF)**	**Contrarian Idea: Cannabis Sector.** Cannabis stocks got crushed in 2019, but underlying demand for medical cannabis, along with public acceptance of the idea, continued to grow. **Contrarian Idea: Energy.** The energy sector lagged in 2019, but if there is a rebound in growth, combined with a protracted dollar decline, energy could handily outperform in 2020. **Contrarian Idea: Rising Rates.** Bonds surged in 2019 and the broad consensus is for perma-low rates. But the Fed is now targeting higher inflation, and if growth rebounds, rates could easily move higher.	**12/31/19**	**MJ:** **-1.28%** **XOP:** **-17.05%** **LQDH:** **-1.14%**	**SPY:** **0.51%**
International Exposure **IQLT - iShares Edge MSCI International Quality Factor ETF.** **VIGI - Vanguard International Dividend Appreciation ETF** **GSIE - Goldman Sachs ActiveBeta International Equity ETF**	We all know that **proper diversification is essential to both risk management and long-term outperformance,** and while the outlook for the U.S. markets remains strong, proper diversification must be maintained for investors with long-term time horizons. So, we've done a deep dive into the very overpopulated world of international ETFs and selected the few ETFs that we believe offer a superior combination of 1) Exposure to quality international companies, 2) Focus on developed economies (so this isn't about emerging markets) and 3) Are trading at an attractive valuation.	**1/14/2010**	**IQLT:** **-2.12%** **VIGI:** **-2.14%** **GSIE:** **-2.48%**	**ACWX:** **-3.44%**