

5 T H A N N U A L
Financial Advisor
RETIREMENT SYMPOSIUM

Advisors' Answers to Controlling Risk and Reducing Volatility

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Broad Investment Outlook

- High-quality bonds won't offer much opportunity
- Many US corporations are relatively healthy
- Still in a “secular bear market”- likely until 2016-2018
- Stock returns driven by dividends
- Asia is primary growth engine; Latin America second
- Emerging markets rising; developed markets declining



A New Normal for the Bond Market

The 10-Year US Treasury rate has been steadily declining for the past 33 years

10 Year UST Rate 1981-2013



Source: St. Louis Federal Reserve 2014



A return to an increasing rate environment like this one could be disastrous for bond investors

10 Year UST Rate 1953-1981

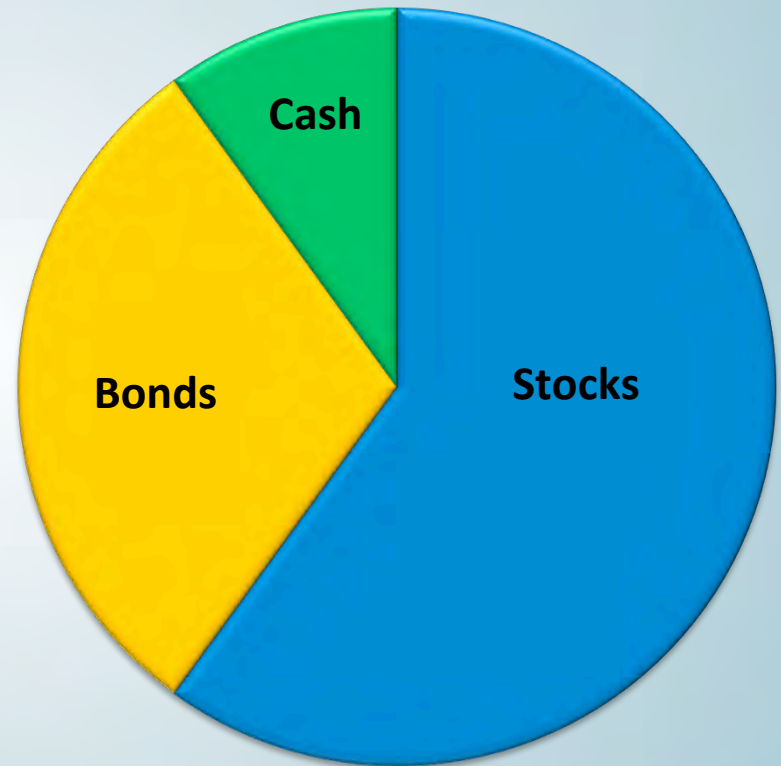


Source: St. Louis Federal Reserve 2014



MPT... Potentially Dangerous for Retirees

- Industry turned it into a marketing machine to simplify the story for financial salespeople
- Asset allocation does not equal risk management
- Bonds may not always “bail out” stocks
- Bonds have lost their “cushion”



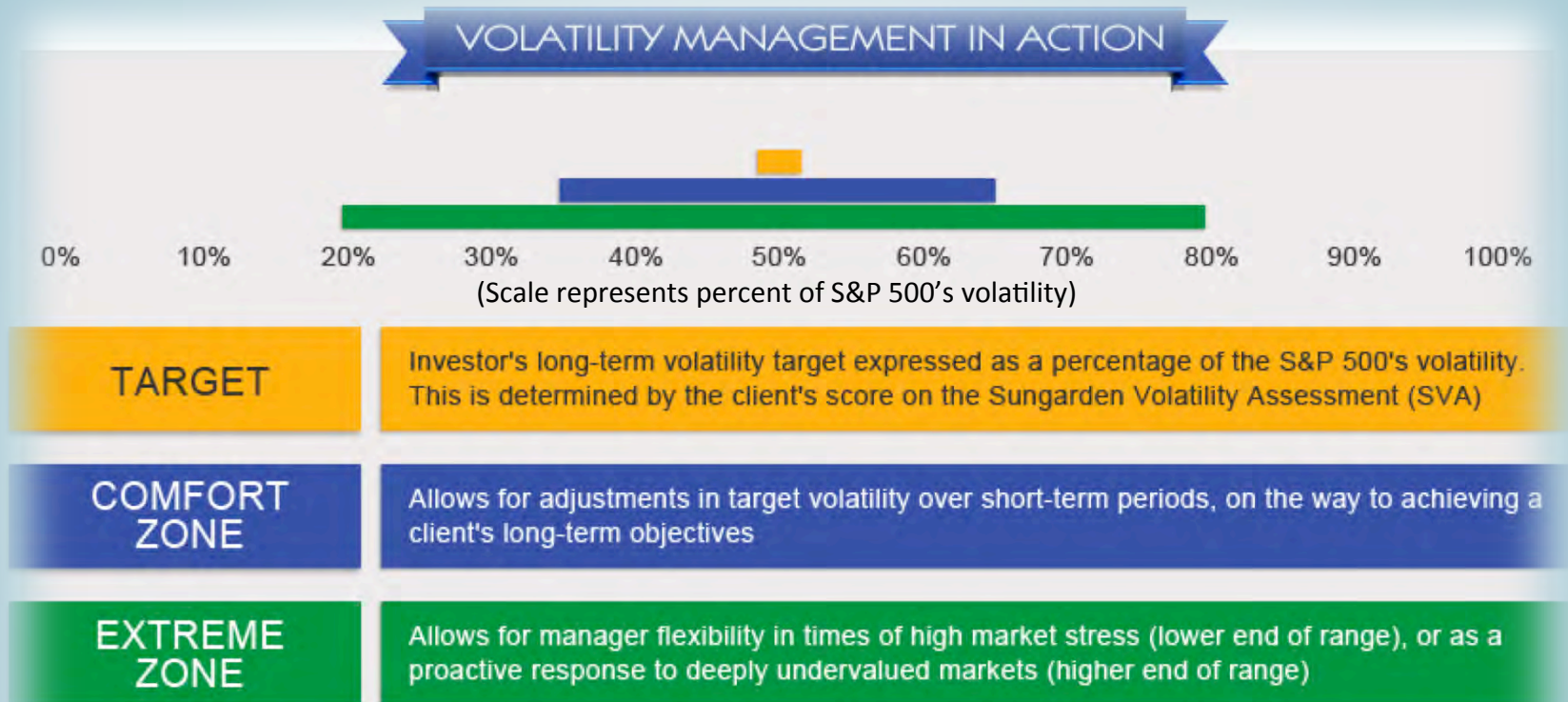
Our Philosophy: Manage Volatility

- ✓ Start with a **long-term** outlook
- ✓ Keep **emotions in check**
- ✓ Search for **upgrade** situations
- ✓ Act with **conviction**
- ✓ Consider the **tax impact** of every decision

OUR NUMBER ONE GOAL: AVOID THE BIG LOSS



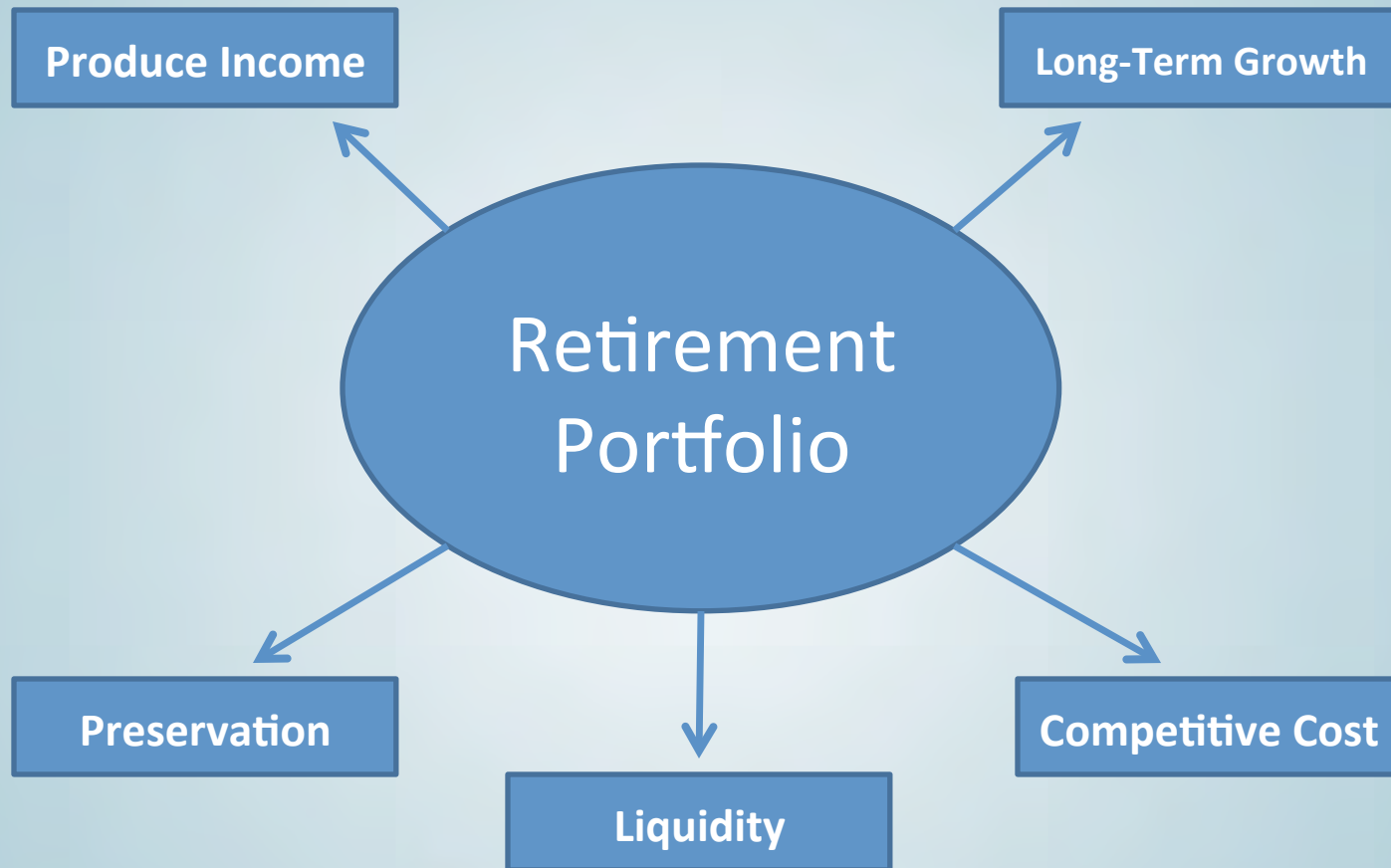
Volatility Management in Action



Source: Sungarden Investment Research 2014



5 Features of Successful Retirement Portfolios



Traditional Approaches No Longer Reflect Market Realities¹

Income/Preservation

	<u>Preservation</u>	<u>Produce Income</u>	<u>Long-Term Growth</u>	<u>Total Cost</u>	<u>Liquidity</u>
Short Term Bond Funds	✓				✓
High Quality Bond Funds					✓
Low Quality Bond Funds		✓	✓		✓
Closed End Income Funds		✓	✓		✓
Individual Bonds	✓			✓	



Traditional Approaches No Longer Reflect Market Realities

Growth

	<u>Preservation</u>	<u>Produce Income</u>	<u>Long-Term Growth</u>	<u>Total Cost</u>	<u>Liquidity</u>
Equity Index Funds			✓	✓	✓
Equity Income Funds		✓	✓		✓
Equity Growth Funds			✓		✓



Traditional Approaches No Longer Reflect Market Realities²

Hybrid

	<u>Preservation</u>	<u>Produce Income</u>	<u>Long-Term Growth</u>	<u>Total Cost</u>	<u>Liquidity</u>
Allocation Funds			✓	✓	✓
Hedge Funds			✓		
Alternative Mutual Funds	✓		✓		✓



Hedged Dividend Investing: Natural Enemies... Working Together

Dividend Stocks

- Responsible for the majority of total stock market returns since 1926
- Helps offset market volatility
- Serves as an important income replacement for bonds
- Dollar income level may rise over time
- Allows for more precise income targeting
- Individual stocks have no “expense ratios”

Inverse Exchange Traded Funds³

- Designed to move in the opposite direction of a benchmark or index
- Highly liquid
- Easy to adjust a portfolio’s “short position” or hedge depending on the market environment
- No margin account needed (unlike shorting)



Preservation

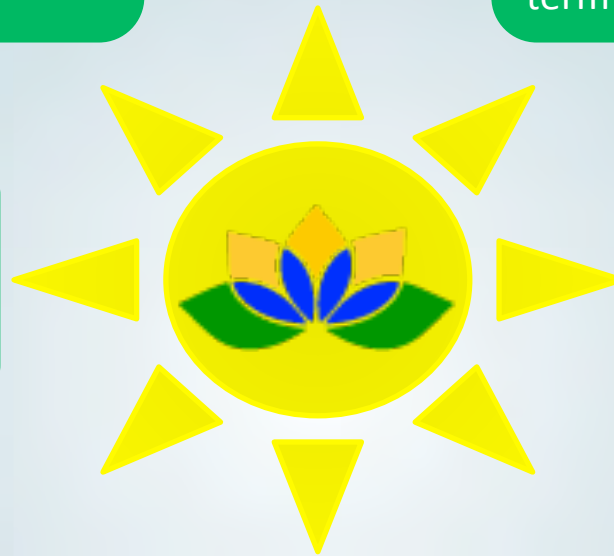
- Actively hedge a portion of our clients' portfolios using inverse ETFs

Long-Term Growth

- We look to identify and take advantage of specific long-term secular trends

Producing Income

- Seek to produce income at a target rate of 3% above the dividend yield of the S&P 500



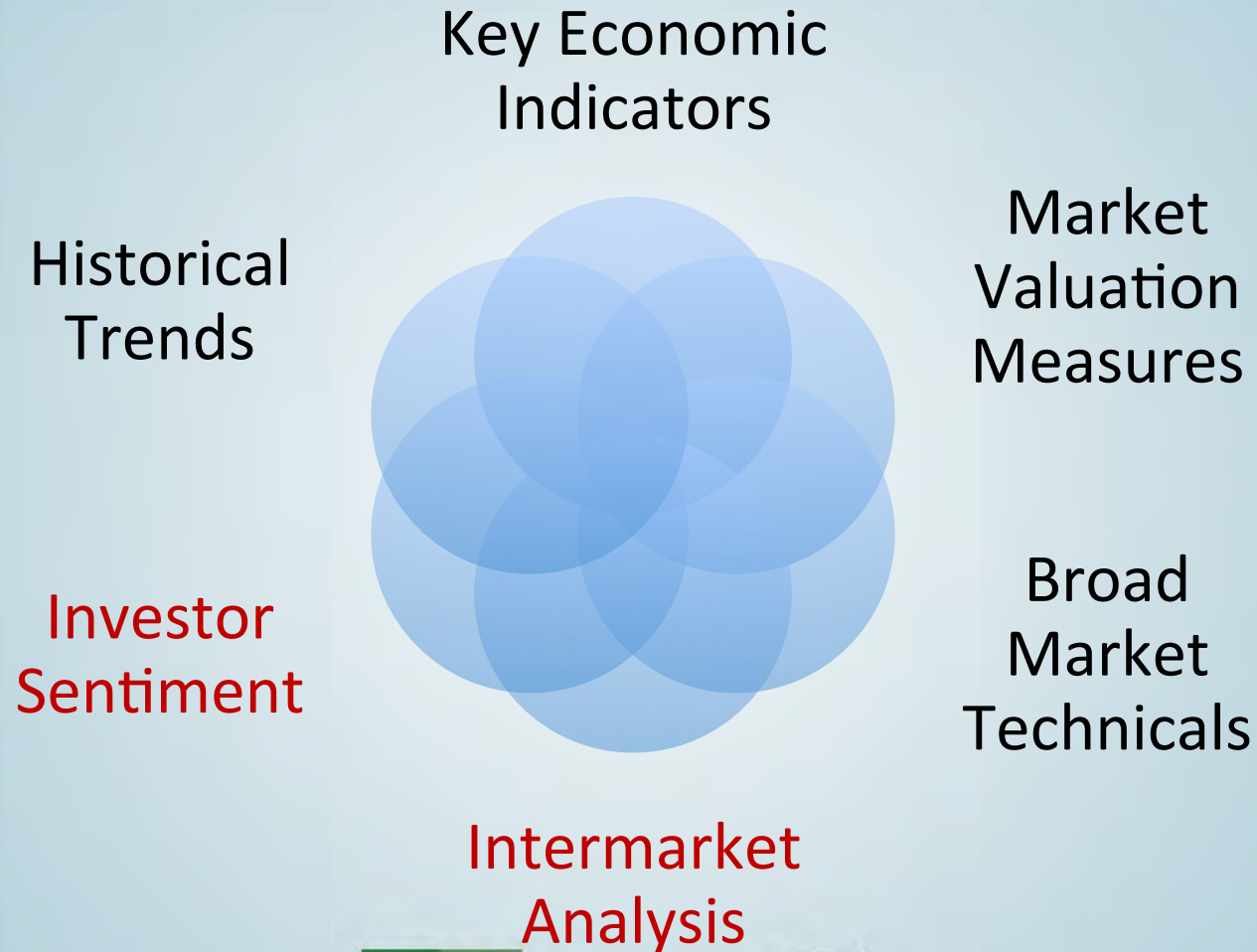
Competitive Cost

- Because the strategy uses dividend paying stocks and ETFs, the typical expense ratio is between 0.15% and 0.30%

Liquidity

- Strategy holds only stocks and ETFs that can be liquidated quickly

Assess Market Environment



Stock Selection Process Summarized

Investment Themes

- After careful analysis, we identify what we believe to be undeniable, sustainable opportunities which we think will drive investment growth. This analysis typically results in the identification of 8-10 major themes, each with 1-5 subthemes.

Investment Universes

- Now that we have identified the investment themes, we identify the investment universe for each theme. Do we invest in one or more stocks, ETFs or Mutual Funds.

Security Selection

- We use a combination of fundamental analysis (sometimes referred to as qualitative analysis), quantitative analysis (looking at the numbers, ratios, etc.) and technical analysis (charting).

Market Environment

- We look to determine the target level of total market exposure (long and short) for the portfolios, and adjust that as needed. We seek the best tradeoff between risk and return in the current market environment.



Portfolio Strategies Overview⁴

PORTFOLIO STRATEGIES OVERVIEW

	LV Low Volatility	CFF Cash-Flow Focused	GLT Global Thematic	ARP Active Research Portfolio
Primary Objective:	Preservation	Income	Growth	Growth
Secondary Objectives:	Income + Growth	Preservation + Growth	Income + Preservation	Income + Preservation
Investment Horizon:	1-3 Years	3-5 Years	3-5 Years	1 Year
Target Annual Yield (1):	S&P 500	S&P 500 +2-3%	N/A	N/A
Target Volatility (2) (3Yr vs. S&P 500):	25%	50%	75%	100%

(1) S&P +2-3% indicates a yield of 2-3% greater than the S&P 500.

(2) Target volatility is expressed as a percentage of the volatility of the S&P 500 over a three year period. Actual results may vary based on actual portfolio decisions made. The ARP portfolio is only hedged in major market declines.



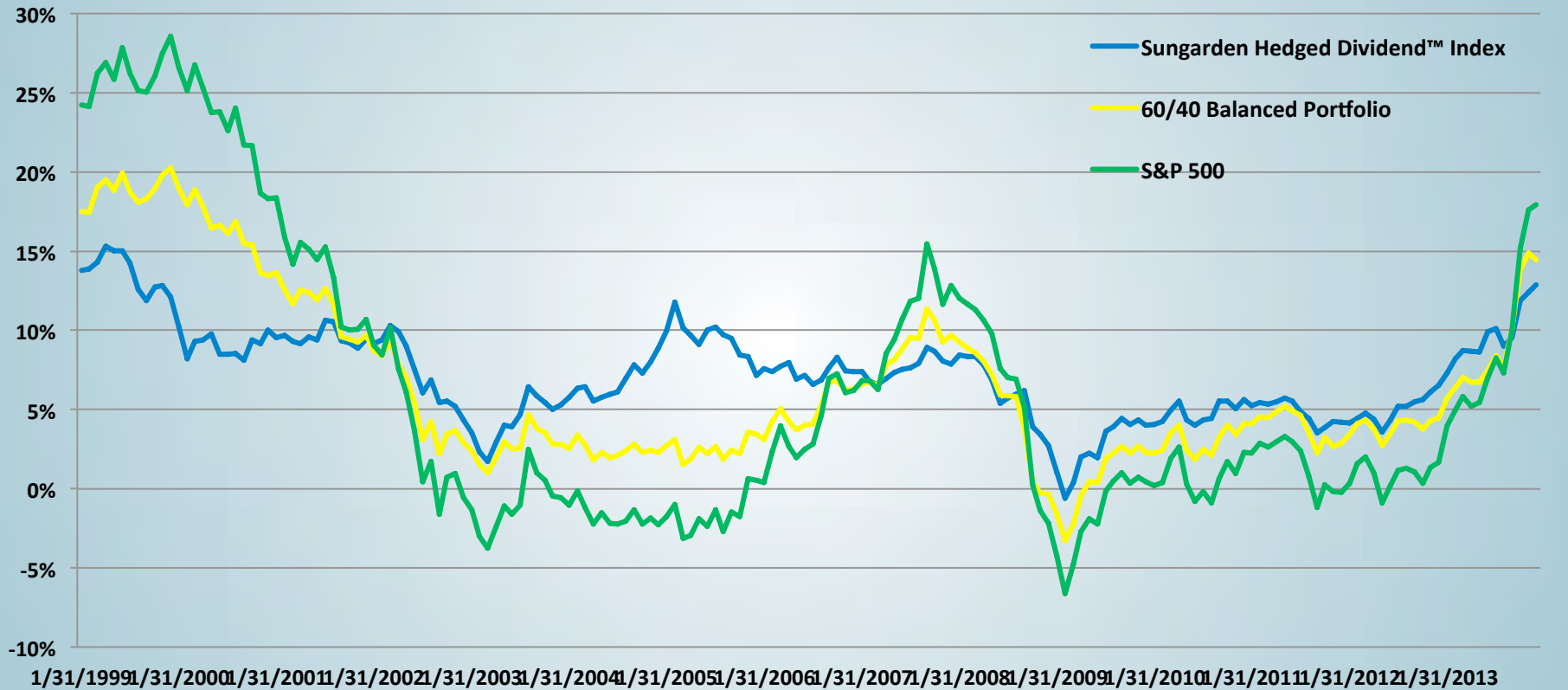
Communicate!

- Informed Investing Blog™
- Bullet Point Reports™
 - Stocks
 - ETFs
 - Investment Themes
 - Quarterly Strategy Updates
- Trade Notes



Hypothetical Five Year Rolling Returns⁵

Source: Sungarden Investment Research 2014

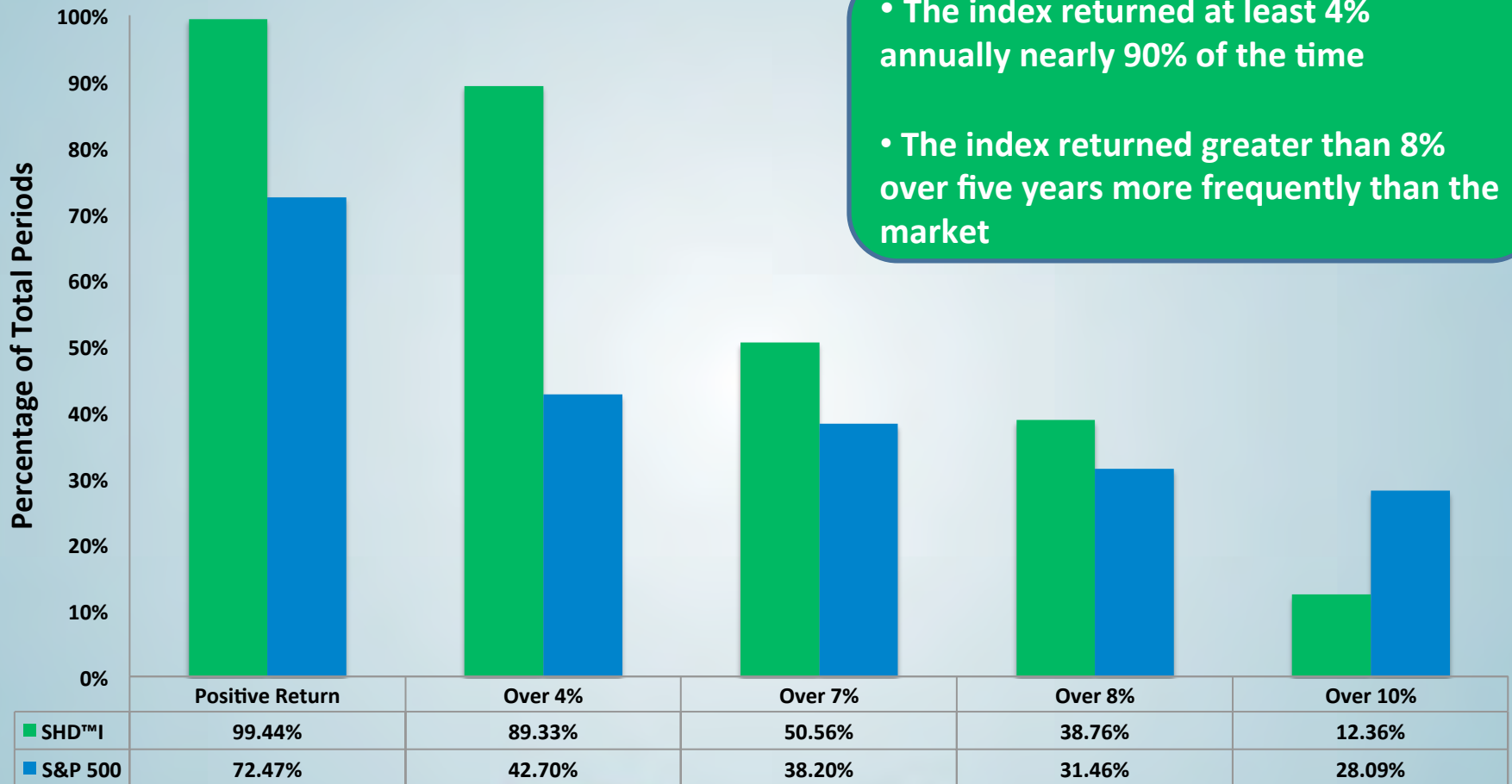


Indices are unmanaged and investors cannot invest directly in an index

The blue line has offered a smoother ride



Hypothetical 5 Year Rolling Periods Performance⁵



Questions?



Disclosures

1. Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained directly from the Mutual Fund Company or your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.
2. Hedge Funds are unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are NOT subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardized pricing and valuation information to investors. There are substantial risks in investing in Hedge Funds. Hedge Funds represent speculative investments and involve a high degree of risk. An investor could lose all or a substantial portion of his/her investment. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment. An investment in a Hedge Fund should be discretionary capital set aside strictly for speculative purposes. An investment in a Hedge Fund is not suitable or desirable for all investors. Only qualified eligible investors may invest in Hedge Funds. Hedge Fund offering documents are not reviewed or approved by federal or state regulators. Hedge Funds may be leveraged (including highly leveraged) and a Hedge Fund's performance may be volatile. An investment in a Hedge Fund may be illiquid and there may be significant restrictions on transferring interests in a Hedge Fund.



Disclosures

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2. (Continued) There is no secondary market for an investor's investment in a Hedge Fund and none is expected to develop. A Hedge Fund may have little or no operating history or performance and may use hypothetical or pro forma performance which may not reflect actual trading done by the manager or advisor and should be reviewed carefully. Investors should not place undue reliance on hypothetical or pro forma performance. A Hedge Fund's manager or advisor has total trading authority over the Hedge Fund. A Hedge Fund may use a single advisor or employ a single strategy, which could mean a lack of diversification and higher risk. A Hedge Fund and its managers or advisors may rely on the trading expertise and experience of third-party managers or advisors, the identity of which may not be fully disclosed to investors. A Hedge Fund may involve a complex tax structure, which should be reviewed carefully, and may involve structures or strategies that may cause delays in important tax information being sent to investors. A Hedge Fund's fees and expenses- which may be substantial regardless of any positive return will offset the Hedge Fund's trading profits. Hedge Funds are not required to provide periodic pricing or valuation information to investors. Hedge Funds and their managers/advisors may be subject to various conflicts of interest. The above summary is not a complete list of the risks and other important disclosures involved in investing in a Hedge Fund and is subject to the more complete disclosures contained in a Hedge Fund's confidential offering documents, which must be reviewed carefully.



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5. Indices are unmanaged and investors cannot invest directly in an index. The performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends. The Sungarden Hedged Dividend Index is a 80/20 allocation consisting of 80% S&P 500 Dividend Aristocrats and 20% Rydex Trust Series Inverse S&P 500 Mutual Fund. The index is rebalanced after the allocation moves outside a 5% threshold.



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