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GUGGENHEIM

PROFUNDS®

NAAIM Outlook 2016 Returns to Dallas Ft. Worth - November 14 & 15

See page 4 for more information, page 5 for the agenda and page 16 for registration form.

The views and opinions of the authors are not necessarily those of NAAIM, its officers or Board of Directors.

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President's Letter

Ken Graves

I HAVE LONG OWNED TOO many cars but recently I bought a new one. I had been looking for a while--well 18 months really. Off and on, I'd look, drive, scratch my head due to being unimpressed. Nothing seemed to really flip my switch on a car. So what did I buy? Exact same brand and same model as I had before, different engine set up than I had before (more sedate than my old one).

Do I like it? No, if I am being honest not really much to get excited about. It's okay but it just doesn't do much for me and yet in actuality, it does WAY TOO MUCH for me! No key is inserted to start it. Push button to start, push button to park it, push button transmission… really (yes, I miss my 6 speed manual), push button to answer the phone. The car doesn't even have a dipstick to check the oil. It checks it for you and tells you the oil level. The car is a bit too smooth, too sterile, too soft. The car has almost no "feel" to it unless you get too close to the lines on the pavement and then the steering wheel vibrates—heck, I thought I had eyes to tell me I was too close to the lines.

What's a car got to do with investment management? The parallels are huge actually.

As of late, the newest idea in our business seems to be that of a "Robo Advisor" and it has seemed to cause concern for many people in the investment management biz. I have not been all too concerned about Robos really. Have I learned a lot about it? Well, a fair amount but I don't see it as much of a threat really to the real core of our business. Why?

Robos are sort of like my new car. They are new, shiny, they are the latest and greatest but they don't really have much to it in terms of "feel", presence, feedback. There might be a lot of technology to it but what does that really do for the owner of a Robo account? It doesn't seem like there is much to it for the end user.

First, let's look at of the progress so far of being a Robo. Some of them have had to raise their fees already. That would indicate a bad revenue model design from the get-go. Well, if they got that wrong, what else might they have planned poorly. There have also been Robos interested in or needing a merger. Maybe they were making too much money as a Solo Robo shop and decided (via some algo I assume) to spread the money around. Then there was the report of at least one Robo who halted trading for a few hours when the Brexit vote was announced. REALLY??? The market backs off a couple of percentage points and the Robo says NoGo? I recall back in

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Investing in Election-Year Markets

GUGGENHEIM INVESTMENTS

Lead-in: Presidential election years are unique, and this election year is shaping up to be like no other. The impact of elections on markets and investor portfolios can be significant, and we take a historical look at how markets have behaved during these cycles.

SINCE THE BEGINNING OF TRADED SECURITIES markets and politics, there has been debate about the interaction between the two. In the late 1960s, the debate coalesced into the first of many mathematical theories that attempted to assign cause and effect to the patterns of market movements during various years of presidential terms. One of the first formal proposals was the "presidential election cycle theory" developed by Yale Hirsch, which suggests that the third year of a presidential "cycle" is the best-performing year for markets. Since then, studies have proliferated, and it is not clear if there is an actual full cycle trend, or if there is a real difference between Democratic or Republican administrations.

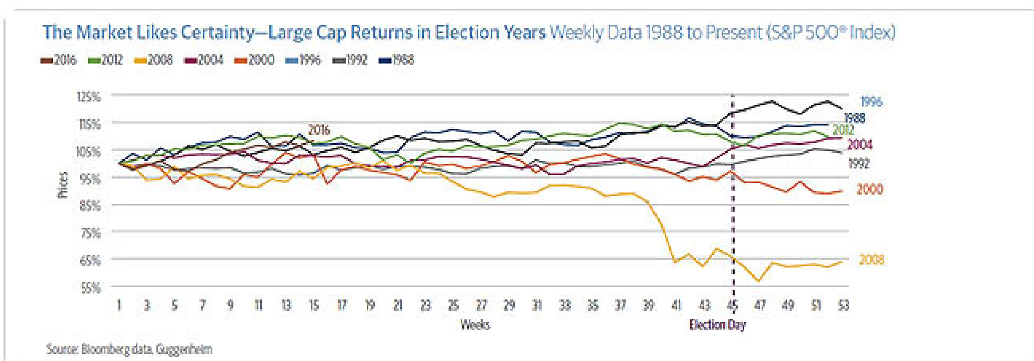
In the following, we take a narrower slice of time, just the election year itself, and look at market performance recently. We also share some ideas on prospects for different sectors in the future under a presidency by either of the likely nominees (Hillary Clinton and Donald Trump).

The markets have been volatile so far in 2016, and we entered the seasonally weak period for equities in May. In late July, the party nominating conventions took place, and then the actual presidential race began. Between now and the end of the year, Congress will do little except for political positioning. Positioning and "message" legislation can add uncertainty to markets, as outlandish proposals by both parties garner headlines and even preliminary votes, but with no chance of actual passage.

Within the actual election year, we see a trend that seems to reflect an uncertainty premium before the election and an improvement in trend after the election, especially if the economy is not in a recession.

The table is set for a lot of noise, but not a lot of real action—a recipe for continued uncertainty.

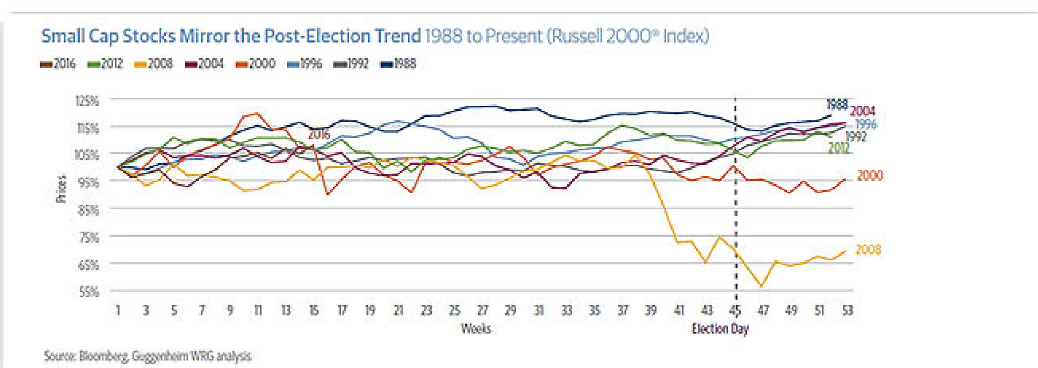
In the following chart, we trace the path of the S&P 500 on a weekly basis for each presidential election year back to 1988. The line at 45 weeks is approximately when the presidential election occurs. An interesting outlier is 2000, which was the year President George W. Bush was first elected. His election was contested, and there was no certainty until a Supreme Court decision on December 12—the 50th week of the year.



The Market Likes Certainty—Large Cap Returns in Election Years Weekly Data 1988 to Present (S&P 500® Index)

Source: Bloomberg data, Guggenheim

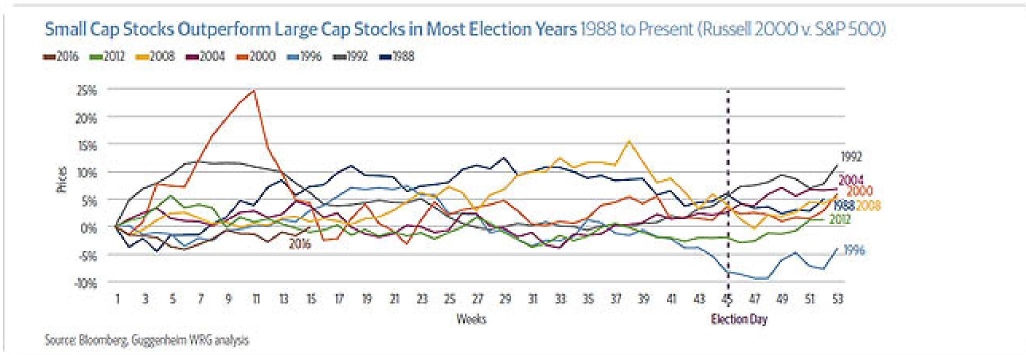
While large-cap stocks have performed well, in general, in the last weeks following the election, so have small-cap stocks.



Small Cap Stocks Mirror the Post-Election Trend 1988 to Present (Russell 2000® Index)

Source: Bloomberg, Guggenheim WRG analysis

Finally, following the election, small-cap stocks tend to outperform large-cap stocks. Given the higher beta of small-cap stocks, it is not surprising that they should outperform in an environment where the direction of the trend has changed to a positive one.



Year 1 performance—Better than average since 1980

We found that the first year after the election, "Year 1" of the new political cycle, has generated higher average and median returns—both for large- and small-cap stocks (see the following chart).

Price Appreciation by Year of Election Cycle—Large- and Small-Cap Indices. Year 1 Wins

S&P 500 Price Change	All years 1980-2015	Campaign Year	First Year of Term	Years 2 and 3	Russell 2000 Price Change	All years 1980-2015	Campaign Year	First Year of Term	Years 2 and 3
Average	9.83%	3.08%	11.92%	11.26%	Average	10.34%	6.96%	13.47%	9.96%
Median	12.59%	6.73%	15.25%	14.12%	Median	15.56%	15.56%	15.61%	10.47%

Source: Bloomberg data, Guggenheim

Larger policy/U.S. macro trends: breakdown of Trump vs. Clinton

We have fast-forwarded the tape to the general election matchup (Trump vs. Clinton) and identified the potential implications for both scenarios using a standard breakdown by industry sector. In our minds, there are three potential investment implications from the general election:

1) An investment allocation that favors areas positively affected by a Trump victory
2) An allocation that favors areas positively affected by a Clinton victory
3) An allocation to areas that may do well regardless of the election outcome

Sector allocation

This assessment is entirely based on Washington policy—and we do not have an opinion on the fundamental value of the securities in these sectors—but this election has some substantial investment implications given the wide spread in potential outcomes. Here are some very broad sector implications that we see:

- **The Trump sector allocation:** positive for consumer discretionary, energy, industrials, information technology (IT), materials, and telecom services; negative for consumer staples and health care; and neutral for financial services and utilities.
- **The Clinton sector allocation:** positive for industrials, IT, materials, and utilities; negative for consumer discretionary, energy, and telecom services; and neutral for consumer staples, financials, and health care.
- **The sectors that could benefit regardless:** industrials, IT, and materials.

Potential impact on the Senate

Barring a total Trump disaster, the House should stay in Republicans' hands given their 29-seat majority and lack of competitive/swing seats. The Senate is essentially a jump ball, with the winner of the White House likely to bring the Senate along for the ride. The Senate is currently GOP-controlled 54–46, though 24 of the 34 seats up this cycle are Republican-controlled, and seven of them are in states Obama won twice. The GOP is only really playing offense in Nevada and is

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NAAIM Outlook 2016

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NAAIM OUTLOOK OFFERS TWO DAYS OF presentations, networking, and roundtable discussions in Dallas Ft. Worth, November 14 & 15. The 2016 agenda centers ***on the impact of technology on marketing and trading*** in the investment advisory industry. With more expert panels, networking, and topical roundtables than ever before, this year's Outlook conference will provide the practical and efficient data that you need for your technology decisions.

Featured speakers include Jeff Rose, Alliance Wealth Management LLC; Ben Warwick, Quantitative Equity Strategies LLC; Chris Hendrix, Spectrum Financial Inc. and John McClure, ProfitScore Capital Management.

Sponsored by NAAIM National Co-Sponsors **Guggenheim** and **ProFunds** and Platinum Sponsors **CEROS/Advisors Preferred** and **Direxion**, Outlook is an exceptional opportunity to experience the peer-to-peer collaboration unique to NAAIM. The full conference agenda appears on page 5. Register online at www.naaim.org/events/outlook/

A NAAIM group room rate is available at the Dallas-Fort Worth Airport North Marriott Hotel - 8440 Freeport Pkwy, Irving, TX 75063 - at $149.00 per night. To lock in your room, book online with the Marriott. The deadline to reserve your room at this reduced rate is October 22, or until the room block runs out.

Our Thanks to NAAIM's Outlook Sponsors

Shark Tank 2017 Preliminary Competition Underway

SHARK TANK IS ALIVE AND BITING BUT SOME changes are afloat. Live preliminary presentations at Outlook in November have been eliminated! Instead, managers wishing to participate are requested to submit video presentations along with a written application to the committee for consideration to present in the finals at Uncommon Knowledge 2017 in San Diego, April 30 - May 3.

NAAIM Shark Tank preliminaries have been broadened to accept applications and videos from members as well as non-members.

A variety of formats will be accepted. NAAIM staff will be available at the 2016 Outlook conference in November to record member presentations by pre-arranged appointment. ***Competition Rules and Intent to Compete follow on page 17.***

100,000 hits ago . . .

WILL HEPBURN

TEN YEARS AGO THIS SUMMER, THE NAAIM Exposure Index was created as a method to project NAAIM into the consciousness of an industry that largely still said, "who?" when NAAIM came up.

No one had ever developed a way to survey active money managers because we all consider our strategies, models and indicator mix to be an intellectual property that we guard closely. Few of us allow outsiders a peek into our black box.

Our Survey dealt with that issue by only asking the simplest of questions: "What is your overall exposure to the stock market," not getting into any specifics. Responses are tallied anonymously and can be done in only about 20 seconds so it is non-intrusive on our member's time.

The response has been terrific. To date over 200 member firms have provided input for the Survey and in doing so have helped put NAAIM on the map.

How successful is the NAAIM Exposure Index, you might ask?

We have at least 35 various analysts, newsletter writers and websites that have begun to use our Index as an indicator, including Ned Davis Research, Thompson-Reuters, StockCharts, The McClellan Market Report, Barron's and Bloomberg, just to name a few. Those are only those third party users that we can identify. Many others anonymously download our data and repackage it as they see fit.

An Internet search brings up 8,230 hits when searching for "NAAIM Exposure Index", so our work shows up in a lot of places.

The NAAIM web page that houses the Exposure Index has averaged over 35,000 page hits per year for the past few years. A lot of people are looking at our Index.

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OUTLOOK 2016

The Impact of Technology on Marketing & Trading Techniques in your Practice

November 14 & 15
Dallas / Ft. Worth Airport Marriott

AGENDA

Presentation days are subject to change

Monday, November 14

8:00 AM — *Registration*

- ❖ **Best Practices in Trading – Member Panel:** Members will discuss various trading products, why they favor them over competing products and what problems have been solved using them. Lee Harris, Price Capital Management; Jacob Deschenes, Era Capital Management; Jim Applegate, Financial Services Advisory, Inc. - Moderator
- ❖ **Introduction to Modeling –** Chris Hendrix, Spectrum Financial, Inc.

12:30 – 1:30 PM — *Lunch – Sponsor Introductions*

- ❖ **Promoting Active Management in a Passive World – Member Panel:** Brian Boughner, Parallel Financial; Paul Schatz, Heritage Capital, LLC; Jason Wilder, CMG Capital Management. Emily Frazier, Spectrum Financial, Inc.
- ❖ **Round Table Session #1 –** concurrent topics:
  - Benefits and Pitfalls of Back Testing
  - Procedures, Accuracy and Compliance in the Trading Process
  - Integrating Digital and Print Marketing
  - Using Technology to Win The Business

Cocktail Reception

Tuesday, November 15

8:00 AM — *Continental Breakfast – Sponsor area*

- ❖ **Best Practices in Marketing – Member Panel –** Members will discuss various marketing techniques using technology, what technologies and platforms they favor and the problems they have solved using them. Panel members to be announced
- ❖ **How I Built a Thriving Practice and Blog with over 12 Million Visitors Simultaneously –** Jeff Rose, Alliance Wealth Management, LLC
- ❖ **Trading Truths and Back Testing Pitfalls** – John McClure, ProfitScore Capital Management

12:30 – 1:30 PM — *Lunch*

- ❖ **Round Table Session #2** – concurrent session topics:
  - Benefits and Pitfalls of Back Testing
  - Procedures, Accuracy and Compliance in the Trading Process
  - Integrating Digital and Print Marketing
  - Using Technology to Win the Business
- ❖ **Maximizing Firm Value with Technology: Three Keys to a More Valuable Advisory Practice** – Ben Warwick, Quantitative Equity Strategies, LLC.

3:30 PM — **Conference Adjourns**

3:45 – 5:00 pm — Video or webinar record Shark Tank applicants –By previous appointment with NAAIM


ProFunds®
Not just funds, ProFunds
Taking Indexing a Step Further
We understand that investing is not about riding out the market's twists and turns. It's about adapting to them. So we have developed a different kind of fund family—one that's built on the power of indexing, but takes the concept a step further. We offer funds that seek to magnify or provide the inverse of the daily returns of an index or benchmark. And funds that you can move in and out of as often as you like, without trade restrictions or redemption fees.

What's the Best Way to Manage Risk?

ANDREW ROGERS

THERE ARE MANY DIFFERENT METHODS TO calculate and monitor portfolio risk. However, many believe that the best approach starts with, and is generally driven by, the philosophy and requirements of the investor within the context of the investment mandate and portfolio goals. Effective risk management, therefore, combines a rigorous due diligence process with the establishment of investment guidelines, and leads to the definition and implementation of risk policies and procedures. From there, it then evolves to a continuous monitoring of exposures using a variety of advanced risk metrics and strategies.

Thorough due diligence is a prerequisite for any effective portfolio risk management process, and a full quantitative analysis of the track record is an important first step. In a relatively recent development, The Gemini Companies have seen trading advisors greatly increase their data transparency and are generally happy to provide information on returns, holdings, allocations and historical margining. These data points can be used to determine information about volatility, historical drawdowns, correlations to benchmarks, return distributions, etc., and serves a dual purpose—to fact-check the manager-provided metrics as well as to provide a framework for additional research. Trading advisors can provide this information to investors to fill in any gaps about a specific investment strategy, how risk is managed internally, and the operational framework for doing so.

In this way, a strong understanding of the investment process allows investment risk to be both understood and managed on an ongoing basis. As part of their continual risk-management monitoring, investors should, at a minimum, be able to confirm that the trading advisor is adhering to their stated investment and risk guidelines. This involves monitoring the portfolio to make sure that mandates are not being broken with regard to the size of positions and the markets that are traded. While this measure is necessary for good governance, this is especially important to avoid any unforeseen concentration risk, liquidity risk, and geographical risk. Additionally, ensuring that a portfolio is properly liquid and diversified, a prerequisite for the efficacy of standard risk metrics, also generally allows investors and advisors to better manage extreme, or "tail," risk events.

Among the most common risk analytics applied to portfolios are variants of Value-at-Risk (VaR) calculations as well as stress-testing. Interestingly, the strength of VaR is also its weakness—while effective at calculating potential losses at a given confidence interval, VaR does not forecast the magnitude of losses in periods of tail risk.

Stress-testing with both custom and historical scenarios can partially fill this gap, but they are only as strong as the scenario being presented. By their nature, no two financial crises are ever identical, with the resulting correlations between markets being difficult to predict. In those cases, the explanatory power of both Monte Carlo and discrete event stress-test models can generally be limited.

Therefore, while VaR statistics and mathematical modeling can be useful, many believe a robust approach towards risk management should include an overall-exposure-based strategy. This allows for the forecasting and management of actual losses when correlations between markets and asset classes diverge from their modeled or historical patterns.

It is for these reasons that we see many top trading advisors employ this type of proactive methodology. They combine traditional risk strategies with limits on exposures to markets and asset classes, as well as a top-down portfolio-level view of risk. When trading advisors set and adhere to comprehensive risk management policies and procedures that augment this approach, they can generally implement a sensible way to both forecast and manage losses in multi-standard deviation events—and provide a strong framework with the potential for total returns consistent with mitigating potential losses, thereby benefiting investors as well as their firms and strategies.

Andrew Rogers is Chief Executive Officer of The Gemini Companies (www.thegeminicompanies.com).

Why buy Investment Advisor E&O? We've never been sued.

KENNETH GOLSAN

THIS MONTH'S RIA RISK TIP ADDRESSES ANOTHER common question our office receives from the RIA community: "Why should we purchase Investment Advisor E&O? – For we have yet to experience a lawsuit and/or a claim in all our history."

Great question and asked with rhetorical color – completely understandable. Is that not the case with the majority of advisors? – Most have never experienced such an onslaught.

It is an understandable question because the facts are not readily available. There is very little publicly obtainable information to assist in one's exposure analysis; to fulfill one's motive to purchase Fiduciary/Professional Liability (E&O) insurance as a strategy to defend and transfer an "obvious" severe exposure.

Here are some of the reasons why this common question is presented:

1. **Data is neither Collected nor Compiled.** There is no industry "body" (governmental agency, industry association or otherwise) that collects, compiles and publishes complaint and/or dispute data for the RIA industry. While the registered representative industry has FINRA, which acts as such for its purposes, no such body exists for the RIA community. Therefore, we have no data at our fingertips to help us understand the exposure (personal or otherwise) of acting as an RIA.
2. **Disputes are private.** Complaints are brought by private parties, held confidential, and are arbitrated and settled privately. Again, like (1) above, another potential area of helpful information squashed.
3. **Advisors protect their reputation.** How would the broadcasting of a complaint, dispute, claim, lawsuit and/or settlement affect one's practice? Who wants to find out?! Therefore, such dreadful experiences are not something one wishes to share with one's industry colleagues!
4. **Fiduciary claims are "Severe" (not "Frequent") in nature.** Lower activity produces lower dissemination of facts. As the western regional "referred" insurance brokerage for one of the largest RIA programs in the U.S. – while we may have a basket-full of potential events and a dozen or so (likely small as well) disputes or complaints, we will normally carry only a small handful of open claims and/or lawsuits at any point in time. Again, low frequency. Yet – high severity. The average claim, currently, is within the $200,000-$260,000 range in "settlement" with "defense costs" typically parallel (an additional $200,000-260,000) for a TOTAL claim figure in the $400,000 to $600,000 range (defense + settlement).
5. **How long have you been an RIA?** How successful is your firm? When we hear the second part of the common question – "We've never been sued… In the history of our RIA firm, we have yet to experience such." –The best answer is to consider the two aforementioned questions. If you have operated your firm for less than 10 years, we would state that such time is insufficient for a fair and wise analysis. How many market crashes do we experience in each 10-year period? "Stick around…" the veteran advisor will counsel "… You'll get your turn yet!" Secondly, how successful is your practice? How many clients do you have? Unfortunately, if you're successful enough, you will no doubt someday be the "proud" participant of such an event. It is good to remember a couple of key issues. Pursuant to our Annual RIA Risk Survey declaring that the various types of claims are brought based both on "actual" or "alleged": (1) claims, sadly, have to be defended whether they are true (actual) or false (alleged); and (2) only a very small fraction find themselves "umpired" in court. Essentially, all are simply settled, which removes the determination, many times, of any judicious confirmation of fiduciary breach. Frustrating, but that is our system.

Imagine driving your car without ever seeing another automobile on the streets, without being an eyewitness to a vehicular collision, hearing of such events, or the presence of such actuarial data. Would not such an atmosphere cause one to question the necessity of carrying automobile liability insurance?

As a father of three young boys, I tell them to "Stop, Look and Listen". Golsan Scruggs incorporates a RIA bio and practice risk-analysis process we call *ia360* for each and every client. This process helps us understand your practice, present common and pertinent claim potentials, and analyze coverage issues so that a proper solution is structured. Per other RIA Risk Tips, there is no standard insurance contract. Each underwriter attempts to incorporate its own unique terms, language, definitions, exclusions, etc. So, buyer beware!

E&O and/or Fiduciary Liability insurance can be confusing and seemingly expensive. Whether us or an alternative insurance representative, it is good to "Stop, Look and Listen."

Golsan Scruggs is an insurance brokerage firm operating throughout the United States specializing in investment advisor E&O errors & omissions insurance (aka professional liability insurance) for RIA registered investment advisors. As one of the largest insurers of RIA firms in the U.S., we have a dedicated staff that understands the risks of the financial services industry and delivers superior results. We make the underwriting process painless. CHUBB ALLIANCE PARTNER, WESTERN REFERRED AGENT

GUGGENHEIM

Guggenheim's Rydex Funds

Committed to Active Advisors

Your active management style can be a big differentiator now, as investors struggle to navigate challenging market conditions. As your investing partner, Guggenheim Investments is committed to supporting your firm through our Rydex funds and other benefits that deliver value to your clients:

- **Breadth & Flexibility:** Unlimited exchange privileges, with no holding periods and transaction fees, among equivalent share classes, of the 57 Rydex funds (Certain share classes may impose sales charges on new purchases or for early redemptions). We also offer 12 funds that price twice daily through Guggenheim Investments and on select platforms.
- **Innovation:** A leader in providing benchmark replication products, as well as the industry's first inverse and leveraged mutual funds.
- **Thought Leadership:** Scott Minerd, our Chief Investment Officer, guides Guggenheim Investments' investment strategies and our views on global developments. In addition, we publish topical white papers and thought pieces that can be valuable in today's market.
- **Responsiveness:** A team of dedicated sales professionals who understand and address the needs of active advisors.

Call 800 258 4332 to ask us about how we and our Rydex products can help you in your business.

Read a fund's prospectus and summary prospectus (if available) carefully before investing. It contains the fund's investment objectives,risks, charges, expenses and other information, which should be considered carefully before investing. Obtain a prospectus and summary prospectus (if available) at GuggenheimInvestments.com or call 800 258 4332.

Inverse and leveraged funds are not suitable for all investors. •These funds should be utilized only by investors who (a) understand the risks associated with the use of leverage, (b) understand the consequences of seeking daily leveraged investment results, (c) understand the risk of shorting, and (d) intend to actively monitor and manage their investments. •The more a fund invests in leveraged instruments, the more the leverage will magnify any gains or losses on those investments. •Inverse funds involve certain risks, which include increased volatility due to the funds' possible use of short sales of securities and derivatives, such as options and futures. •The funds' use of derivatives, such as futures, options and swap agreements, may expose the funds' shareholders to additional risks that they would not be subject to if they invested directly in the securities underlying those derivatives. •Short-selling involves increased risks and costs. You risk paying more for a security than you received from its sale. •Leveraged and inverse funds seek to provide investment results that match the performance of a specific benchmark, before fees and expenses, on a daily basis. Because the funds seek to track the performance of their benchmark on a daily basis, mathematical compounding,especially with respect to those funds that use leverage as part of their investment strategy, may prevent a fund from correlating with the monthly,quarterly, annual or other period performance of its benchmark. Due to the compounding of daily returns, leveraged and inverse funds' returns over periods other than one day will likely differ in amount and possibly direction from the benchmark return for the same period. For those funds that consistently apply leverage, the value of the fund's shares will tend to increase or decrease more than the value of any increase or decrease in its benchmark index. The funds rebalance their portfolios on a daily basis, increasing exposure in response to that day's gains or reducing exposure in response to that day's losses. Daily rebalancing will impair a fund's performance if the benchmark experiences volatility. **Investors should monitor their leveraged and inverse funds' holdings consistent with their strategies, as frequently as daily.** • For more on these and other risks,please read the prospectus.

Shares of the funds are not deposits of, or guaranteed or endorsed by, any financial institution; are not insured by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, or any other agency; and involve risk, including the possible loss of the principal amount invested. Certain funds may be affected by risks that include those associated with sector concentration, international investing, investing in small and/or medium size companies, and/or the funds' possible use of investment techniques and strategies such as leverage, derivatives and short sales of securities and alternative or nontraditional asset classes and strategies such as absolute return, long/short, commodities, currencies and managed futures. Please see the funds' prospectus for more information.

President's Letter

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1987 when I was trying to decide whether to get in this business and in one day the market fell over 20% in one day! How would a Robo handle that?

But, wait, we have digressed here. The focus in this business is to be about the customer, the end user, the investor. So what does the customer get from a Robo? They get a login sequence. Wait, our clients have that already. With Robos, they get automated updates about changes in their account. Yeah, we do that too. With Robos, they get a structured process, hopefully systematically applied to their holdings which have been programmed into the allocations of their defined needs. Well, we do that too! But we also take the quantitative side of things and personalize the risk scores, personalize the allocations into the personalized accounts. Not too sure Robos do that. So what does a Robo customer get when they really need some serious analysis of their financial life, their overall risk(s) or their specific risk(s) in certain holdings or ways to dampen that risk by non-correlated investments? Maybe a client would be better served addressing their own situation by using inversely correlated holdings? What about the risks of their other investments like shared accounts or retirement plans at work or accounts held elsewhere? We do that for our clients. Robos can't since they don't know what questions to maybe press the customer on or about. Or what does a Robo customer do when they get nervous about finances due to job situations or market conditions or added personal expenses? Our clients call us and talk or we do web reviews or we meet with them personally. I don't think Robos do that.

Or in a longer term downturn like 2000-2002 or 4Q 2007 – 1Q 2009, do clients really need to be quarterly rebalanced to 60/40 or any other split they might have used? What if they think they want to change? Who at the Robo firm answers those questions? Is it Rob O. or Robin O.?

See, this is all a lot like my new car. Lots of technology in my new car and in Robos too, but when I wanted to check on something, I could have used the online/onboard "Device Manual" built into the car. But I didn't. I called Krystal—my ADVISOR at the dealership. She brought me a loaner car, took care of everything. She knew how to find out what was wrong with the car, when it needed an update to the software, when I needed tires rotated and today…. I got my car back. Yes, in the new car I have 3 levels of programmed FM stations and 2 levels of AM stations and satellite radio and a CD and a 20 gig hard drive that I can download about a gazillion songs to but I can still only listen to 1 station at a time, 1 song at a time.

See, at the end of the day, especially on things that matter like investments and cars and houses and colleges for our kids, etc., online can give me a lot but it is not personal, it doesn't care and though it can inform me, it can't truly help me and know me. Only people can do that.

It has been said, "People don't care how much you know till they know how much you care" and Robos don't care and they can't care.

Let's all work to get better at what we do, better at how we help people and apply our professional disciplines to our professional lives and Robos will always be around but they will always be second tier to you in what the client needs, wants and knows.

All the best,

Ken Graves

PS. I still own my old version of my new car and guess which one I will be driving this weekend… My old friend indeed!!

Did You Know? NAAIM has many ways to connect!

In Person

- NAAIM Conferences
    - 2016 Outlook, Nov 14-15, Dallas, TX
    - 2017 Uncommon Knowledge Conference, Apr 30-May 3, San Diego
- Regional Workshops

Online

- NAAIM Community
- NAAIM Linked In Group
- NAAIM Twitter
- NAAIM Facebook Page
- NAAIM Website

If the market is manipulated, what then is the optimal strategy?

PAUL GLANCE

MANIPULATION CAN BE DEFINED AS THE ACT to control or play upon by artful, unfair, or insidious means especially to one's own advantage.

The elements we will address are the definition of unfair actions both legal and illegal.

The first question we will address is to whose advantage?

In order for you to make money, the opposing side of the trade must lose money. The opposing side is usually the market maker. There are several market makers in each asset class. However, the market makers are usually a team of professional traders from the major brokerage houses and banks. The market maker trading teams are supported by quantitative analysts who continually calculate the opposing open interest and adjust hedge positions in order to insure minimum risk to their firm. The options and futures markets are employed to hedge positions. The options market is larger than the stock equity market.

The legal advantages that the market maker firms have are:

1. Ability to see order flows in real time.
2. Ability to underwrite new stock offerings.
3. Ability to calculate the maximum profit for the firm as a function of asset price at option expiration or at future contract settlement.
4. Ability to influence the asset price by placing large orders at market close at a step change in price. These orders are often not filled but often influence the bid ask quotes and settlement price.
5. Ability to place high frequency and computerized trades.
6. Ability to see breaking news in real time on high speed networks.
7. Ability to adjust the spread between bids and ask which is important in fast markets.
8. Ability to adjust offer fill volumes.
9. Ability to influence investor sentiment by intentional release of "expert" bullish or bearish news and internet articles. A good example is a 6/8/2016 Goldman news headline on Yahoo Financial: "There's an elevated risk of a big market selloff."

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Investing in Election-Year Markets

CONTINUED FROM PAGE 3

unlikely to lose both Illinois and Wisconsin. The key Senate races are in the key Electoral College states (New Hampshire, Ohio, Pennsylvania, Missouri, North Carolina, Florida), which means whoever wins the White House has likely won by winning those states.

Potential impact on policy and legislation

As far as we can discern, Trump only has two pronounced policy "red lines": (1) building a wall on the southern border (bullish for materials sector), and (2) tariffs on China-made products (bearish for consumer staples via the dislocation of the global supply chain). Outside of this, Trump has maximum policy flexibility.

From a market standpoint, we would expect sentiment around a GOP presidential win to be positive and led by the energy sector given regulatory shift and legislation on development (increased drilling) and pipeline siting (direction from pro-energy GOP Congress versus a Trump Administration that is an open question on energy policy). With a Republican White House win, GOP control of Congress is highly likely, which means the ability to pass tax reform and "Obamacare" reform/repeal through the reconciliation process.

For health-care investors in the GOP sweep scenario, the main question is if they will really repeal and replace—an outcome that is unclear and would completely upend the sector. Telecom and cable would likely welcome GOP control by removing various forms of broadband regulation imposed by the Democratic Federal Communications Commission. Franchises and restaurants would also likely welcome a GOP sweep, as the Joint Employer Rule could be reversed. Mergers and acquisition should increase with more market-friendly regulators at the Department of Justice and Federal Trade Commission.

With a Clinton presidency, we would expect investors to be wary of prescription-drug-control measures, though note that there would still be a policy "put" with the House in GOP hands. We suspect that immigration reform and an infrastructure plan would be central to Clinton's first 100 days, which would be positive for materials and IT.

Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners and manages assets across fixed income, equity, and alternatives. Guggenheim Investments focuses on the return and risk needs of insurance companies, corporate and public pension funds, sovereign wealth funds, endowments and foundations, wealth managers, and high net worth investors. They offer frequent market commentary and whitepapers for their clients and the investment community.

If the market is manipulated, what then is the optimal strategy?

CONTINUED FROM PAGE 12

10. Ability to ask for Government intervention during market crisis events.

The illegal advantages that the market makers firms may have and are not allowed to exploit are:

11. Ability to see real time order flows from company insiders whose orders may be based on insider information or soon to be released company news such as earnings.

12. Ability to "front run" large orders.

The Role of Governments

The US Government acts to stabilize markets especially during crisis events. The exact methods are not transparent but it appears that the White House and Federal Reserve are allowed to act in concert with the major banks and brokerage houses to control and stop panic sells offs. The White House usually has one or more former Wall Street executives on staff to advise the President and coordinate government market policies. This group has the influence to stop trading and close markets.

Foreign governments such as China have periodically suspended short selling, suspended selling, and suspended trading.

Does the house always win?

The expression that the "Gambling House" always wins (in the long term) also applies to the market makers. As proof of the above statement, the author points out that the vast majority of retail and professional investors lose money and / or underperform the S&P500. This can be verified by reviewing the performance of the professional hedge funds and certified professional traders listed on www.HedgeFundReseach.com and professional strategies listed on www.TimerTrac.com. Over 70% of the investment strategies listed underperform the S&P500. As of 6/8/2016, out of a total of 419 active professional strategies listed on TimerTrac.com, 117 were outperforming the S&P500 YTD performance of 3.34%. That is 72% of active professional strategies were underperforming the S&P500 in 2016 YTD.

Gambling can be defined as an investment in which the expected outcome has a less than 50% probability of success. By this definition, many stock market investors are gamblers.

If you believe the above arguments, what is the proper course of action?

One possible course of action is to bet on the side of the "House" via;

- Never trade (bet) based on a news story
- Expect the market to move opposite to the direction predicted by the majority of news stories
- Expect market crashes to be reversed by "the plunge protection team"
- Expect trading to be suspended in crashing asset markets
- Develop a systematic quantitative strategy which tracks the open interest bets placed against the "House".

One source of open interest bets, is the CBOE options listings of put and call volumes. Writing options is one method of betting on the side of the option market maker. Buying naked options is an example of betting against the option market maker or "House".

A second course of action is to stop trading financial assets and invest in alternative investments which have a greater than 50% probability of outperforming the S&P500. The challenge is to find investment strategies which consistently outperform the S&P500.

Paul Glance has a PhD in mechanical engineering from Michigan State University. In 1992 he finished in second place in the USA Today national stock contest which was the starting point for his financial career as a sub advisor to Hedge Funds and Mutual Funds. He currently is president of Glance Financial Advisors LLC and provides licensed signals and software to NAAIM members.

100,000 hits ago . . .

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Occasionally the media shows shallow thinking by calling the Index a contrary indicator. They clearly believe in the magic of crystal balls and somehow expect active managers to all have one, remaining ignorant that what we really do is adapt rather than predict.

Tom McClellan has done articles in The McClellan Market Report several times when there has been a divergence between what the Indexes do and the NAAIM Exposure Index is saying Tom's conclusions have been that our Index is usually the one that is correct in predicting the direction of the markets at the times of such divergences.

Has our giving the content of the NAAIM Exposure Index away for free been a successful use of NAAIM resources? The next time you talk about NAAIM to another active manager and they are already familiar with NAAIM you will know the answer.

Respondents to the weekly NAAIM Survey can earn the NAAIM Trendsetter Award, get a special ribbon on their name tags at conferences, and are authorized to use the specially designed Trendsetter logo on their promotional materials. Ask at our office how you can get these benefits.

If you are not already responding to our weekly survey, please consider doing so. It doesn't matter how you calculate market exposure across your models as long as you use that method consistently. The Index is designed to measure the change in bullishness, not specific levels. If you don't get weekly emails to participate in the Survey, call the NAAIM office to get them started.

Will Hepburn is the President and Chief Investment Officer of Hepburn Capital Management, LLC, in Prescott, Arizona. He is a longtime member of NAAIM and has served on the Board of Directors including stints as President and Chairman. Will was the driving force behind the development of the NAAIM Exposure Index 10 years ago.

New Members

NAAIM welcomes the following Regular members:

Michael Andersen
Andersen Wealth Management
6 West Dover St.
Easton, MD 21601
(410) 690-4894

Jeffrey Cribbs
Chicago Wealth Management, Inc.
2 North Riverside Plaza, Ste. 1620
Chicago, IL 60606
(312) 376-8350

Brendan Connaughton
ClearPath Capital
222 Front Street, 3rd Fl.
San Francisco, CA 94111
(415) 316-8056

Jeff Spencer
Innsbruck Financial Consultants LLC
1340 Ohio St.
Terre Haute, IN 47807
(812) 232-4570

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[1]Beta is a measure of price variability relative to the market. [2]The Solactive High Yield Beta Index is a rules-based, systematic strategy index that provides exposure to a weighted portfolio of three different ETFs. The allocation to each US High Yield Corporate Bond ETF is changed every month to an equal weighting of all ETFs. The Index is calculated and distributed by Solactive AG and is calculated and published in US Dollars. One cannot directly invest in an index.

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NAAIM Outlook 2016

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NAAIM has negotiated a group rate of $149.00 single/double at DFW Airport Marriott. To make reservations online visit: DFW Airport Marriott or call 1-800-228-9290. The deadline to receive the NAAIM group rate is October 22, 2016.

N A A I M
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T: 888.261.0787 | F: 719-309-1290 | Contact Person: Susan Truesdale
www.naaim.org | info@naaim.org

NAAIM Shark Tank Preliminary Competition 2017 - Rules

Purpose of the NAAIM Shark Tank Competition:

NAAIM Shark Tank was created to help NAAIM members gain exposure to new ideas in asset management and to identify and foster potential new business relationships.

Objectives NAAIM intends to accomplish during the competition include:

- To formalize the networking potential for NAAIM members
- To provide a structured venue for NAAIM Members to present strategies/models/signals to other members, managers and asset gatherers
- To provide NAAIM members exposure to new ideas in asset management
- To provide managers/asset gatherers opportunity to identify potential new relationships

Who may submit an application:

The application process for the preliminary competition is open to all investment practitioners who have developed strategies with live trading in actual accounts. NAAIM membership is not required to take part in the preliminary competition.*

Preliminary Competition Application Criteria:

1) A video presentation of the strategy must accompany the written application
2) The video presentation must be no longer than 7 minutes
3) The video presentation must address the following:
   a. What you are trading
   b. Performance
   c. Frequency you are trading speaking to the tax efficiency
   d. Why you serve as a third-party investment manager
4) NAAIM will accept the presentation in most file formats including but not limited to: Webinar recordings such as GoToMeeting or Webex; YouTube; and Windows Media.
5) NAAIM will accept only one strategy and one manager per video. (Limit: two strategies per firm may be submitted).
6) Completion of written application found online at: NAAIM Shark Tank Preliminary Competition Application.

Applications and Video Due Date: Friday, February 3, 2017, 5:00PM EDT.

Finalists will be announced: March 3, 2017.

Finalists must be members of NAAIM and registered paid attendees of Uncommon Knowledge 2017 to present their strategies at Uncommon Knowledge, April 30 - May 3 in San Diego, CA.

Recording options:

1) Registered Outlook 2016 Attendees are invited to record their presentation using Citrix GoToWebinar following the conference on Tuesday, November 15 from 3:30 to 4:30PM CDT. Please contact Susan Truesdale to make your appointment. (one per person).
2) Paid NAAIM members are welcome to use NAAIM's GoToWebinar account to record their presentation. Please contact Susan Truesdale to make an appointment. (One recording per strategy – no do overs).

NAAIM Shark Tank Preliminary Competition

INTENT TO SUBMIT:

Please submit your intent to participate in the Shark Tank Preliminary Competition prior to submitting a video and full application. This information will only be used for the purpose of contacting potential participants with reminders or information about the contest.

☐ Please place me on the list to participate in the preliminary Shark Tank Competition
☐ I am a NAAIM Member

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If you have questions, please contact Susan Truesdale at 888-261-0787.