

# The Active Manager



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## INDEX

### TRADING STRATEGIES

The Retail Disruption Opportunity and How to Invest in It.....	11
Adaptive Rebalancing Using the NAAIM Exposure Index .....	12

### NAAIM NEWS

Join NAAIM in Orlando, Florida for Uncommon Knowledge 2018.....	1
President's Letter.....	2
Uncommon Knowledge - Technical Analysis and Trading Presenters ...	2
Uncommon Knowledge - Back Office Essentials Presenters.....	5
Uncommon Knowledge - Panels, Round Table Discussions and Shark Tank.....	7
Uncommon Knowledge Agenda.....	9
Sponsor Welcome.....	15
New Member Welcome.....	15

## President's Letter



Emily Frazier

**W**ITH VOLATILITY'S RETURN to the financial market, 2018 is shaping up to be a great year to be an active manager and to show your value in managing risk. Which also means it is a great time to be a NAAIM member and to be looking forward to our Uncommon Knowledge 2018 conference. Steve Williamson and the agenda

committee have put together an excellent agenda, but the true value of the conference comes out in the conversations afterwards on the speakers' points and the exchange of information.

One of the most important assets you have in this business is your network and relationships that help you grow and adapt to an ever-changing market and industry. We face new challenges every day where having someone to bounce ideas off, to learn from and to create new solutions to common problems can mean the difference between hours of wasted time and frustration and finding the right answer when it is needed.

This is what NAAIM is all about. Having conversations, learning from peers in our business and taking the time to recharge our enthusiasm for this business. The cool insights I have gained from other members at the NAAIM conferences have helped me refocus, connect and see better what other members are doing. It is a powerful combination of ideas and valuable insights.

The way the conferences are structured, there's something for everyone. While much of the focus may be on better ways to actively manage client assets and reduce risk in client portfolios, there is also information on compliance, marketing, back office efficiencies and more. I don't trade. My focus as head of business development at Spectrum Financial is to learn how other members of the association structure their marketing, what has and hasn't been successful, how they have achieved growth. The ideas I gain at the NAAIM conferences are invaluable to me. I am excited to have another conference coming up very soon. I hope you will be as well, and will join NAAIM in Orlando, Florida April 22-25.

I will be taking off my President hat at the conference and moving on to the position of Chairman. I hope my efforts and the skill sets I have offered over the past year have helped strengthen NAAIM and position it for on-going growth. These last few years on the board have been tremendously satisfying as a means to give back to an association that has provided me with a wealth of knowledge and experience. It is a pleasure to work with my fellow board members and enjoy their personalities and the ways they have used their own skills and resources to focus on NAAIM's needs and goals.

*continued on page 14*



**Uncommon Knowledge 2018**  
**April 22-25, 2018**  
Wyndham Grand Orlando Resort  
Bonnet Creek – Orlando, Florida

## Join NAAIM in Orlando, Florida for Uncommon Knowledge 2018

**I**F YOU BELIEVE MANAGING RISK SHOULD BE A priority when it comes to your clients' portfolios, particularly given the uncertain nature of today's financial

*continued on page 2*

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



6732 W. Coal Mine Ave., #446  
Littleton, CO 80123  
888-261-0787  
info@naaim.org  
www.naaim.org

# Join NAAIM in Orlando, Florida for Uncommon Knowledge 2018

CONTINUED FROM PAGE 1

market, you need to be at the 2018 NAAIM Uncommon Knowledge Conference.

Volatility's return to the market in February was a wake-up call for investors and money managers. Risk is an inevitable element of investing. Managing that risk is a key value you offer clients. Understanding, developing, and implementing better active portfolio strategies to manage risk and enhance returns is at the heart of the Uncommon Knowledge Conference agenda.

But there's more than that to a NAAIM conference. NAAIM members are unique. Their focus on active management of market risk and returns makes them an invaluable resource for like-minded investment managers. This is your opportunity to listen to and ask questions of thought leaders in the investment industry, active investment managers, advisory firm principals,

technical analysts and traders, system testers and verification experts, compliance specialists, and widely recognized authorities in the active management industry.

Uncommon Knowledge offers an intimate conference setting with activities and events designed to enhance networking and build professional friendships. Uncommon Knowledge attendees return year after year for one reason - every conference offers insights and ideas that make their management approaches more effective, their firms more profitable, and their lives more enjoyable.

Find out more about presenters and topics at Uncommon Knowledge 2018 in the following pages and plan now to be at the Wyndham Grand Orlando Resort Bonnet Creek - April 22-25, 2018.

## Uncommon Knowledge 2018 Features Leading-Edge Presenters

### Technical Analysis and Trading



**Tony Dwyer** - Equity Strategist and Managing Director, U.S. Portfolio Strategy for Canaccord Genuity, Inc.



**Mathew Verdouw**, CMT, CFTe - Founder and Global CEO of Market Analyst Software



**Jeff Weiss**, CMT - Chief Technical Analyst at Clearview Trading Advisors, Inc.



**David Bush** - Founder and Managing Member of ALPHATATIVE LLC



**Len Fox** - Founder of Scarecrow Trading

**Tony Dwyer**, Head of U.S. Macro Group, Chief Market Strategist, and member of the Canaccord Genuity's U.S. Operating Committee, in "**Evidence Over Emotion**" - **The Opportunity Still Exists** looks at the current and historical macroeconomic and financial market data to employ a practical intermediate-term investment strategy. As a Strategist, Tony is best known for the practical application of macroeconomic and tactical market indicators designed to assist institutional clients in making intermediate-term market and sector investment decisions.

Tony joined Canaccord Genuity following the acquisition of Collins Stewart in March 2012. Prior to joining Canaccord Genuity, he served as a Senior Managing Director and Chief Equity Strategist for Collins Stewart LLC from 2010-2011 and as the Chief Equity Market Strategist for FTN Financial's

equity arm from 2003-2010. In addition to his analyst role at FTN, Tony held the title of Co-Director of Research, Chairman of the Investment Committee and sat on the firm's Operating Committee. He is frequently seen and quoted on the various Financial News outlets such as CNBC, Barrons, FOX Business, and Bloomberg. Tony is a graduate of Le Moyne College where he earned a Bachelor of Arts degree in Political Science and currently sits on the LeMoyne College Endowment Fund Investment Committee.

**Mathew Verdouw**, CMT, CFTe, Founder and Global CEO of Market Analyst Software, takes on **RRGs - A unique way to display Relative Strength** and their use in asset allocation decisions. Since RRGs were introduced on Bloomberg in

*continued on page 3*

# Uncommon Knowledge 2018

CONTINUED FROM PAGE 2

2011, they have become an important tool for traders, analysts and portfolio managers for security selection and portfolio management. Mathew will also review quantitative work that he has done on RRGs and share how strategies can be built using RRGs.

Mathew has a very straight-forward goal - to create the world's best analytical software for financial professionals and retail traders. As a computer systems engineer, he wrote his own technical analysis platform a year after finishing university in Australia, going on to achieve the Certified Market Technician (CMT) and Certified Financial Technician (CFTe) designations. Mathew has become the only person in the world to currently teach the latest curriculum of all three levels of the CMT program. As Founder and Global CEO of Market Analyst Software, he seeks out the smartest minds in financial analysis to uncover new discoveries in financial analysis and to create the very best tools for his clients.

**Jeff Weiss**, CMT brings the seasoned financial professional's experience to his presentation - **Money, Madness, and the Stock Market; Investment rules for tumultuous times**. After earning his B.A. degree in economics at Rutgers University, Jeff embarked on 40-year career in the investment industry. He has been a member of the Market Technicians Association since 1984, earning his Chartered Market Technician (CMT) designation in 1989. Jeff's big break in the financial business came at E.F. Hutton & Co. - working for the legendary technical analyst Newton Zinder. From there, he served as Chief Technical Analyst at investment firms including Lehman Brothers, PaineWebber, UBS/PaineWebber, and UBS. Jeff contributes his focus on technical analysis to investing through the treacherous 1973-74 bear market and sincerely believes that risk management is the key ingredient in any investment discipline.

Jeff has been a featured guest on numerous television programs, taught technical analysis courses at many colleges, including Rutgers, Cornell University's graduate business school, New York University Stern School of Business, Muhlenberg College and Endicott College. His articles have appeared *MarketWatch*, *AII Journal* and the *Market Technicians' Journal* and he is widely quoted in the financial media. Jeff is Chief Technical Analyst at Clearview Trading Advisors, Inc., and President of JEFFSTREET LLC. His first book, published in 2017, [Relationship Investing - Stock Market Therapy for Your Money](#), was named 2018's "Best Investment Book of the Year" by the 2018 Stock Trader's Almanac (51st Edition).

**David T. Bush** takes on the Bitcoin mania with his presentation **Intro to Bitcoin and Cryptocurrencies**. David is Founder and Managing Member of ALPHATATIVE LLC in

Beavercreek, OH and a seasoned trader with over 20 years of experience in financial markets. Well-versed in multiple trading platforms and languages, David brings years of discretionary knowledge, creative arts background, and risk management experience to his quantitative research, systems, and portfolio strategy Stratversify®. A student of Manhattan's New School and the Mannes Conservatory, he is a graduate of the New School for Social Research with a B.F.A. in Jazz and Contemporary Music. David credits the discipline of music for his affinity and passion for financial market patterns.

David made his mark as the First Place Winner of BattleFin's "Sharpe Ratio Shootout" international quant finance tournament with over 3200 applicants from 41 countries. He was also the 1st place winner of the 2016 NAAIM Shark Tank competition, and currently serves on the NAAIM Board.

**Len Fox**, founding shareholder and CEO of Scarecrow Trading Inc., took a benefit available to all NAAIM members – the NAAIM Indicator Wall – and turned it into a successful trading system. In **Mining the Indicator Wall**, he explains how the strategy was developed and its real money results. Len specializes in signal development and market investment strategies. His signal strategies are consistently found in the top 10% relative to performance over time, which makes his latest venture using the NAAIM Indicator Wall of particular interest.

Using Rydex leveraged funds with a few of Len's enhancements, the NAAIM Wall 2x and 1x systems have returned more than 33% annually net of a 2.5% fee using the 2x model and 17% net of fees at 1x, using weekly indicators available to the NAAIM membership on the Indicator Wall.

*continued on page 5*

## Make Your Hotel Reservations

UNCOMMON KNOWLEDGE 2018 TAKES PLACE at the Wyndham Grand Orlando Resort Bonnet Creek, April 22-25, 2018. To make your hotel reservations at the NAAIM group rate of \$199 per night (plus taxes and fees), contact the hotel directly at: <https://book.passkey.com/event/49483990/owner/10428011/home>



The Wyndham Grand Orlando Resort Bonnet Creek is located at 14651 Chelonia Parkway, Orlando, FL 32821.

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Spectrum Low Volatility Fund

**An investor should consider the investment objectives, risks, charges, and expenses of the any mutual fund carefully before investing. This and other information can be found in the Fund prospectus and should be read carefully prior to investing. To obtain a copy of the prospectus, please call 888-572-8868.**

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# Uncommon Knowledge 2018

CONTINUED FROM PAGE 3

## Back Office Essentials – Compliance, Marketing, Computer Security and Overcoming Behavioral Biases



**Thomas D. Giachetti** -  
Chairman of the  
Securities Practice Group  
of Stark & Stark



**Stephanie Silverman** -  
Executive Coach -  
Silverman Speech  
Consulting



**Richard Lehman** -  
Adjunct Professor of  
Behavioral Finance,  
University of California  
Berkeley Extension



**Robert Krug** - Senior  
Security Solution  
Architect for SonicWall



**Benjamin J. Brandt**,  
CFP®, RICP® -  
Investment Advisor  
Representative,  
Capital City Wealth  
Management, Inc.

**Thomas Giachetti** brings the attorney's view of the SEC to the NAAIM conference, explaining that “guilty until you can prove your innocence” has become all too often the Commission's approach. This has been coupled with the reticent to exit an exam without seeking to extract some form of monetary assessment (from minimal to substantial). In **Beware, the Bully Lives** at Uncommon Knowledge 2018, Mr. Giachetti focuses on what to expect from an SEC exam in 2018 and how to counter an unfortunate growing disrespect by the SEC for the role that advisers fulfill for their clients, sometimes bordering on distrust.

A former investment banker and NASD registered representative, Mr. Giachetti's legal practice is devoted to investment-related matters, including the representation of investment advisers, financial planners, broker-dealers, public and private investment companies (e.g., mutual funds, hedge funds, etc.), CPA firms and registered representatives throughout the United States. He also advises claimants and respondents in securities regulatory, arbitration and litigation matters. Mr. Giachetti is a recognized author and commentator on investment-related legal matters and a frequent lecturer at securities industry compliance seminars, annual meetings, and educational programs throughout the country. He also serves as an expert witness in securities litigation/arbitration matters throughout the United States. In 2014, Mr. Giachetti was featured in *Investment Advisor Magazine's* 12th Annual IA25, a selection of the 25 most influential people in the investment advisor industry.

**Stephanie Silverman** takes on **Strategies for Success - Mindset, Preparation and Delivery**. Stephanie Silverman is an Executive Coach for product and service pitching, public speaking, and all areas of spoken communication. It's important

to be confident, prepared, smart, and likable in a pitch, but how do you do so effectively? In this one-hour session, you will learn strategies for success in pitching your fund or service in three core areas: Mindset, Preparation, and Delivery, and be prepared to activate these practical new tools immediately following the program and see the benefits in your next meeting.

Stephanie delivers highly effective communication workshops and individual coaching services to clients in a diverse range of industries and has provided coaching services to fund managers and marketing teams for multi-billion-dollar companies. Raised in San Francisco, she earned her MFA from Rutgers University and transitioned from acting to presenting as a spokesperson and speaker for a national organization in southern California. Her success in that capacity inspired the organization to utilize her skills as their speaker trainer. Stephanie launched her own company several years later and has been working as both a voiceover performer and presentation coach for more than fifteen years, serving global clientele.

**Behavioral factors may be more important to active managers than they realize**, explains **Richard Lehman**, Adjunct Professor, Behavioral Finance at UC Berkeley Ext. Richard brings more than 30 years of investment industry experience to his presentation on the influence behavioral factors have on the success of an active investment manager. Among other things: investor behavior can be shown to favor active over passive management; a manager's own behavioral biases can negatively affect performance, and; managers may be able to garner “behavioral alpha” from the markets.

Richard teaches behavioral finance and options courses at UC Berkeley Extension and Golden Gate University in San Francisco. He is also the founder of [BehavioralFinance.com](http://BehavioralFinance.com).

*continued on page 7*

# Is Your Custodian Trying to Put You in a Box?



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**We'll be at NAAIM's Uncommon Knowledge Conference in  
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# Uncommon Knowledge 2018

CONTINUED FROM PAGE 5

Richard's prior financial career began with an eleven-year stint on Wall Street with E.F. Hutton and the New York Stock Exchange. During that time, he was named Top Broker in the U.S. Trading Championships Option Division in the 1980s and advised on the launch of two closed-end mutual funds specializing in covered call writing. Richard later worked for several financial data companies, a startup with the first on-demand reports on public companies, and a bank trust department, in addition to having his own RIA. He is the author of three finance books and holds a BS in Management Engineering from Rensselaer Polytechnic Institute in Troy New York as well as an MBA from the State University of New York at Albany.

In **Preventing the Breach**, **Rob Krug** provides a crash course of security policy management and network security architecture design that will help avoid the breach of tomorrow. Discussions will include: the threat landscape review; fortifying the network; security craftsmanship and implementing the solution.

Rob has been in the network engineering and security space for over 25 years and is currently a Senior Security Solution Architect for SonicWall. Recognized as a past SonicWall Security Engineer of the Year, Rob's background includes extensive work with telecommunications, network design and management, and most importantly network security. Specializing in security vulnerabilities, his background includes extensive training and experience in cryptography, ethical hacking, and reverse engineering of malware. Rob has dozens of industry certifications including being a Master CSSA. His background includes having served in the United States Navy, in Naval Intelligence, as well as worked as both a Data Security Analyst and as a Director of Engineering for multiple international service providers. Rob has designed, implemented, and maintained some of the most complex and secure networks imaginable. And...he collects malware for fun....

**Benjamin J. Brandt**, CFP®, RICP®, spotlights **Balancing a rapidly growing business with a rapidly growing family**, explaining how he was able to grow revenue by 30% while growing his children 100% by nurturing prospects through online marketing systems. Benjamin focuses on how to use low-cost, effective content marketing to build and engage an audience and explains why many advisors are making a fatal error by not owning their own platform.

He is a Certified Financial Planner™ and Founder/President of Capital City Wealth Management, a Bismarck, North Dakota fee-only financial planning company. Benjamin is also the host of the popular podcast Retirement Starts Today Radio and the accompanying blog. An Iraqi combat veteran, he served in the North Dakota Army National Guard for eight

years, including a 15-month deployment to Iraq in 2003. You may have seen him featured in *The Huffington Post*, *CNBC.com*, *Forbes*, *Business Insider*, *ClarkHoward.com*, and many others. In his free time, Benjamin and his wife Kristen can be found on the weekends at the hockey rink, or on the gymnastic and wrestling mats, chasing their three energetic children.

## Panels, Round Table Discussions and Shark Tank!

The **NAAIM member panel** discussion **Succession Planning – The Challenge for Tomorrow** has two invaluable goals - First, to help advisers prepare for disaster - an event where the firm's key management and/or trader is unable to continue, whether from accident, illness, or unexpected death. Second, to allow the structured departure of current management to pursue retirement or new interests.

In both situations, a successful plan keeps clients from leaving, continues the firm's management strategies and operations without interruption and maintains the ongoing viability and value of the investment firm. In this information-filled panel, NAAIM members discuss their succession plans, how they have benefited the firm, and considerations advisers need to take as they develop their own unique succession plans.

**Round Tables** are your opportunity to shape the discussion. Framed around 4-6 topics, the round table discussions take on current topics of interest to the NAAIM members in a free exchange of questions and ideas.

**Committee breakouts** provide information on NAAIM's current activities in a number of areas and how you can become a more active part of the association.

**Shark Tank 2018** is a juried competition on the final afternoon of Uncommon Knowledge, in which six NAAIM members have seven minutes to explain their strategies and performance results, followed by questions from the judges and audience. It's a rapid-fire concentration of top active investment approaches and an unmatched introduction to the competitors: Tom Hardin, **Canterbury Investment Management**; Matt Spangler, **Signal Research Group, LLC**; Joseph (Jody) Team, **Team Financial Strategies**; Dave Moening, **Heritage Capital Research**; Paul Glance, Glance LLC; Steve Williamson, **Blackstone Wealth Management**.



# GUGGENHEIM

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### Our Line-Up Includes:

- Equity broad market, leveraged, and inverse funds
- Style box funds
- Fixed-income, commodities, and currency funds
- Sector funds

### Your Rydex Contacts:

#### Carl Resnick

Managing Director, Head of Rydex Funds  
Distribution  
301.296.5216  
Carl.Resnick@guggenheiminvestments.com

#### Mike Bielski

Regional Vice President, East  
312.576.4887  
Mike.Bielski@guggenheiminvestments.com

#### Dan Hornbaker

Regional Vice President, West  
214.770.9506  
Dan.Hornbaker@guggenheiminvestments.com

#### Kristine Warner

Regional Sales Associate  
312.357.0386  
Kristine.Warner@guggenheiminvestments.com



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#### \*14 Rydex Sector Funds

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\*Internet Fund - 4.6.00, Precious Metal Fund - 121.93, Real Estate Fund - 2.20.04, and Utilities Fund - 4.3.00

**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](http://GuggenheimInvestments.com).**

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# Uncommon Knowledge 2018

## April 22 – April 25

### Wyndham Grand Orlando Resort Bonnet Creek

#### Sunday, April 22

7:00AM NAAIM Fishing Excursion (Members and their guests only)  
 10:30AM NAAIM Golf Classic (members only) - Celebration Golf Course  
 4:00-6:30PM Solo Advisors Meeting - Moderator: Mike Dean, DFG Advisory, LLC  
 7:30PM NAAIM Welcome Reception

#### Monday, April 23

7:00-9:00AM NAAIM Board Meeting  
 8:00-9:00AM New Member Registration/Welcome Orientation  
 8:00AM Registration/Sponsor Hall Opens - Continental Breakfast  
 9:00AM **Welcome** - Emily Frazier, President and Steve Williamson, Agenda Committee  
 9:15-10:15AM **"Evidence Over Emotion"-The Opportunity Still Exists** - Tony Dwyer, Canaccord Genuity  
 10:15-10:45AM Refreshment Break-Sponsor Hall  
 10:45-11:00AM ProFunds Sponsor Introduction  
 11:00-12:00PM **The Challenges for Tomorrow** - Succession Planning - Member Panel  
 12:00-1:15PM Lunch and Sponsor Introductions  
 1:15-2:15PM **BEWARE: THE BULLY LIVES - The SEC Continues to Become INCREASINGLY More Aggressive and Punitive During the Regulatory Examination Process** - Thomas Giachetti, Stark & Stark Attorneys at Law  
 2:15-2:30PM Guggenheim Sponsor Introduction  
 2:30-3:30PM **7 Key Strategies for a Winning Pitch** - Stephanie Silverman, Silverman Speech Consulting  
 3:30-4:00PM Refreshment Break - Sponsor Hall  
 4:00-5:00PM **Money, Madness and the Stock Market; Investment Rules for Tumultuous Times** - Jeffrey Weiss, Clearview Trading Advisors, Inc.  
 5:00-6:00PM Break until Monday Evening Dinner Party  
 6:00-8:30PM Monday Evening Dinner Event

#### Tuesday, April 24

8:00AM Continental Breakfast - Sponsor Hall  
 8:30 - 9:30AM **Behavioral Factors May Be More Important to Active Managers than They Realize** - Richard Lehman, Adjunct Professor of Behavioral Finance, UC Berkeley Extension  
 9:30-9:45AM Advisors Preferred Sponsor Introduction  
 9:45-10:45AM **Balancing a Rapidly Growing Business with a Rapidly Growing Family** - Benjamin Brandt, Capital City Wealth Management, Inc.  
 10:45-11:15AM Refreshment Break - Sponsor Hall  
 10:45-11:30AM Gold Sponsor Break-out Sessions (2 firms)  
 11:30AM-12:30PM **Preventing the Breach** - Robert Krug, SonicWall  
 12:30-1:30PM Lunch  
 1:30-1:45PM Direxion Sponsor Introduction  
 1:45-2:30PM **Intro to Bitcoin and Cryptocurrencies** - David Bush, ALPHATATIVE, LLC  
 2:30-3:30PM **RRGs - A Unique Way to Display Relative Strength** - Mathew Verdouw, Optuma  
 3:30-4:00PM Refreshment Break-Sponsor Hall  
 3:30-4:15PM Gold Sponsor Break-Out Sessions: 1) Princeton Fund Advisors 2) Trust Company of America  
 4:15-5:45PM **Round Tables** 2 sessions / 4-6 topics each session  
 5:45PM Break until evening event  
 6:30PM Tuesday Evening Event - Sponsor Hall

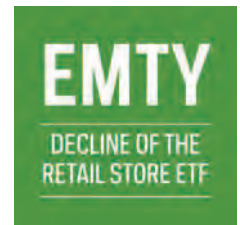
#### Wednesday, April 25

7:30-8:30AM Continental Breakfast - Sponsor Hall  
 8:30-9:30AM NAAIM Founders Award Paper Winner to be announced  
 9:30-10:15AM **NAAIM Annual Membership Meeting:** Treasurer's report; committee reports; vote for president and new board members  
 10:15-10:45AM Refreshment Break-Sponsor Hall  
 10:45-11:45PM **Mining the NAAIM Indicator Wall** - Len Fox, Scarecrow  
 11:45-1:00PM Trading Closing Lunch  
 1:30PM **NAAIM Shark Tank Finals - 6 Strategy Presentations**  
 4:00PM Adjourn



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ProShares EMTY seeks a return that is -1x the return of the index (target) *for a single day*, as measured from one NAV calculation to the next. Due to the compounding of daily returns, EMTY's returns over periods other than one day will likely differ in amount and possibly direction from the target return for the same period. Investors should monitor their holdings consistent with their strategies, as frequently as daily.

**Investing involves risk, including the possible loss of principal.** This ProShares ETF is non-diversified and entails certain risks, which may include risks associated with the use of derivatives (such as swap agreements, futures contracts and similar instruments), imperfect benchmark correlation, leverage and market price variance, all of which can increase volatility and decrease performance. EMTY seeks short exposure and should lose money when its index rises. Investments in the consumer discretionary and retailing industries are subject to risks such as changes in domestic and international economies, interest rates, competition and consumer confidence; disposable household income; consumer tastes and preferences; intense competition; changing demographics; marketing and public perception; and dependence on third-party suppliers and distribution systems. Investments in smaller companies typically exhibit higher volatility. Please see their summary and full prospectuses for a more complete description of risks. **There is no guarantee any ProShares ETF will achieve its investment objective.**

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# The Retail Disruption Opportunity and How to Invest in It

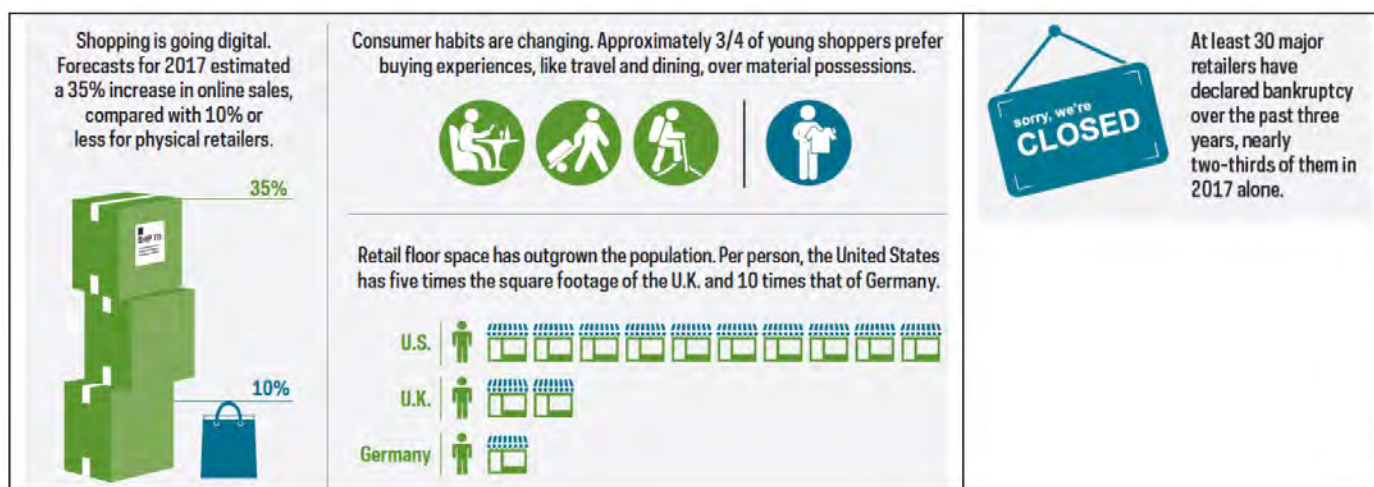
PROSHARES

IT'S NO SECRET THAT THE RETAIL LANDSCAPE IS changing. Bricks-and-mortar retailers are under immense pressure. E-commerce is threatening to take over retail as consumer habits change, shopping moves online, and physical stores struggle to remain viable. Shoppers are moving out of the aisles and onto the Internet—going from J.C. Penney and Macy's to Amazon and Alibaba.

The transformation of retail is still in the early innings, as key indicators suggest.

- By 2020, online sales growth is expected to outpace bricks-and-mortar retailers by 3 to 1 and account for \$4 trillion of the global retail market.
- Stock returns for physical retailers have been weak, and profit margins are approaching lows not seen since the 2008 recession.
- Experts predict that almost 25% of the nation's shopping malls will close in the next five years.

## What's driving the decline of bricks-and-mortar retailers?



## Meanwhile, the online retail marketplace is soaring



## What does this mean for investors?

The changing retail landscape may present opportunities for investors interested in concentrating on a transformative trend in a key part of the U.S economy. Investors now have access to strategies offering short exposure to traditional bricks-and-mortar retail companies and others that focus on the potential growth of online companies. For more information, visit [ProShares' website](#). [links to Retail Disruption landing page]

*Any forward-looking statements herein are based on expectations of ProShare Advisors, LLC at this time. Whether or not actual results and developments will conform to ProShare Advisors, LLC's expectations and predictions, however, is subject to a number of risks and uncertainties, including general economic, market and business conditions, changes in laws or regulations or other actions made by governmental authorities or regulatory bodies, and other world economic and political developments. ProShare Advisors, LLC undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*Sources include: ProShares; Bloomberg; Goldman Sachs Investment Research; Bankruptcy Data; U.S. Census Bureau; eMarketer; Euromonitor; IBGE; IPCA; AKIT; Japan METI; iResearch; NBS China; comScore; U.S. Department of Commerce for Retail; Cushman and Wakefield; Thompson, Derek, "The Great Retail Apocalypse of 2017," The Atlantic, 4/10/17; Peterson, Hayley, "The retail apocalypse has officially descended on America," Business Insider, 3/21/17; Peterson, Hayley, "Wall Street bank says a quarter of shopping malls will close in 5 years," Business Insider, 5/31/17; Beall, George, "The surprising retail habits of millennial shoppers," The Next Web, 9/11/17; Andrews, Travis, "America is 'over-stored' and Payless ShoeSource is the latest victim," The Washington Post, 4/5/17.*

# Adaptive Rebalancing Using the NAAIM Exposure Index

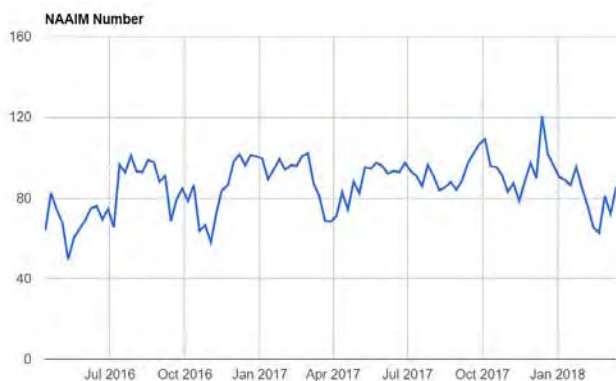
WILL HEPBURN

ONE OF THE SIMPLEST ACTIVE STRATEGIES ONE can use piggy backs on the collective skills of the professional managers who are members of NAAIM, and is outlined in my new book *Why Bad Things Happen to Good Investments*.

Few of us want anyone peeking over our shoulder into our decision-making process. That is our intellectual property and we protect it fiercely. However, NAAIM managers report one number weekly, their current exposure to the stock market, as part of an adviser sentiment indicator project that began in 2006. Data are compiled into the latest NAAIM Number, which tells the memberships overall exposure to the stock market. This number is then used to create the NAAIM Exposure Index, which can give us some valuable insights.

By comparing the current NAAIM Number to the previous week's data, we can see when active money managers, as a group, are getting more bullish or more bearish on the stock market.

Hundreds of newsletter writers, financial websites and market analysts follow and reuse our data and it has become a respected market indicator. Analysts like Tom McClellan of the McClellan Market Report (<http://www.mcoscillator.com>) have noted that when the NAAIM Exposure Index is declining and the stock market is rising, like it was in early January, it is usually the NAAIM Exposure Index that is right.



Let's take a look at a simple system to stay in sync with what the market is actually doing, using the NAAIM Number. Instead of blindly rebalancing to a traditional 60/40 mix of stocks and bonds, let's adjust equity holdings once a quarter to match the previous quarter's average of the NAAIM Number, allocating the rest to bonds. A study that my firm conducted in 2010 and updated in 2017, shows how you would have done by following this easy system.

The study used S&P 500 market returns beginning on 9/30/2006 -the first full quarter of the NAAIM Exposure Index, through 9/30/2017. During this period the S&P 500 went through several complete market cycles which show us the robustness of this simple system.



Although weekly numbers vary more widely, during this period, the quarterly average NAAIM Number ranged from an 87% stock allocation on March 27, 2013 to a 12% exposure to stocks on December 31, 2008. If holding only 12% in stocks during Q1 2009 sounds like a good thing, it was.

The quarterly NAAIM Number during the full length of financial crisis, from 1/1/2008 until 3/31/2009, would have given us an average allocation of 38% in stocks, still a lot better than holding the industry standard 60% in stocks. This simple system kept us on the right side of the major market trends and really dodged financial bullets in 2008-09.

As a result of avoiding the financial carnage the stock market was delivering in 2007-09, the returns during the full 11-year period of the study increased from 7.02% annual average return for a 60/40 portfolio to an 8.85% gain using the suggested form of adaptive rebalancing. That is a 20% greater return from the proactive strategy. Significantly, the NAAIM allocation was profitable in the 4th quarter of 2008 when the markets and the investments of many investors were taking huge losses. That alone would have helped with client retention.

Adjusting for risk, the increase in returns is even more striking. The maximum loss from the NAAIM allocation was 13.62% during the study, while the 60/40 portfolio lost twice as much, dropping 27.18% of its value at one point, even while holding 40% in bonds. These loss figures represent the drawdown in value from the highest point to the lowest point before recovering, and demonstrate the dramatically reduced risk of pursuing growth using the NAAIM allocation.

Because we only measured quarter-end returns, day-to-day volatility for both portfolios would probably have been greater than what is presented here, but if you or your clients only look at your statements quarterly, day-to-day volatility may not bother you much. Clearly, this simple, easy to run system delivered better results with less risk than buy-and-hold.<sup>1</sup>

*continued on page 14*

<sup>1</sup>Past performance is no guarantee of future results.

# YOU'RE ALWAYS LOOKING FOR WAYS TO PLUS YOUR INVESTMENT IDEAS. INTRODUCING A WHOLE SUITE OF THEM.

You're not one of those "set it and forget it" portfolio advisors. But you also wouldn't change an investment just for the sake of change. Direxion now has several funds that fit your thinking: Portfolio<sup>+</sup> ETFs. They let you seek greater returns for your client without changing their diversification strategy. Learn more by visiting [PortfolioPlusETFs.com](http://PortfolioPlusETFs.com). Because staying the course with your investment choices doesn't have to mean standing still.



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Investing in a Portfolio<sup>+</sup> ETF may be more volatile than investing in broadly diversified funds. The volatility of an index may affect a Portfolio<sup>+</sup> ETF's return as much as, or more than, the return of the index. As a result, the Portfolio<sup>+</sup> ETFs may not behave as expected. The Portfolio<sup>+</sup> ETFs are intended to be used by investors who intend to monitor their portfolios.

Risks – An investment in the ETFs involve risk, including the possible loss of principal. The ETFs are non-diversified and include risks associated with concentration that results from the ETFs' investments in a particular industry or sector which can increase volatility. The use of derivatives such as futures contracts and swaps are subject to market risks that may cause their price to fluctuate over time. For other risks including leverage, correlation, daily compounding, market volatility and specific risks regarding each sector, please read the prospectus.

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## Adaptive Rebalancing Using the NAAIM Exposure Index

CONTINUED FROM PAGE 12

If you want better returns with half the risk, now you know one way to get it. All you have to do is buy or sell a small amount of your stock funds each quarter to stay in sync with the NAAIM Exposure Index quarterly average. NAAIM even posts the quarterly average of the NAAIM Number for investor and adviser use. Check out the data at <https://www.naaim.org/programs/naaim-exposure-index/>

This simple strategy, along with some others, are highlighted in my new book *Why Bad Things Happen to Good Investments*, now available on Amazon. The book is aimed at both retail investors and advisers wanting to discover the benefits that active management can provide. The book is designed to convert active management prospects into clients, so consider keeping a few around to give to your prospects.

If you are a NAAIM member and don't yet participate in the weekly survey, contact NAAIM Administrator Susan Truesdale at the NAAIM office. Your individual responses are kept confidential, and it takes me only 20 seconds each Wednesday to input my percentage equity allocation and name. That is all that is required. Letting clients know that you are one of the managers surveyed for this indicator is a simple way to enhance your image with prospects, too.

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*Will Hepburn is the founder of Hepburn Capital Management, LLC, a Registered Investment Advisor in Prescott, Arizona, and an off Wall Street leader in the industry. He is a college instructor having taught classes on investments since 1990. Will is Past President of NAAIM and has been the manager of two mutual funds.*



Over the years, Will Hepburn watched people lose money they took decades to save, retired friends forced back to work, and parents compelled to move in with their children, all because they blindly followed traditional financial advice not knowing that most financial advice only works some of the time. In 2017, he compiled financial advice he had written over the years into a book on why traditional financial advice fails individuals and to offer ways individuals might save them from

suffering the same fate as so many investors who did not know how to keep bad things from happening to their good investments. Published in February 2018, it is available on Amazon.com.

## President's Letter

CONTINUED FROM PAGE 1

If I have one goal going forward it is to see more people actively involved in NAAIM, both as new members and with respect to becoming more involved in the association's committees and programs. At the end of the day, what draws people to an organization is its value to the individual. NAAIM needs to be a means of solving their problems or giving them the inside scoop, a different perspective, or new ideas. I think the 2018 Uncommon Knowledge Conference offers just that. But you can't experience the value without attending, so take advantage of the registration form at the end of the newsletter to make a commitment to meet with us in Orlando at the end of April.

And, invite your peers to come as well. Members are the number one sales force of this organization. When you meet with other advisers and attend other meetings and conferences, talk about NAAIM. Let them know that there is a place where they can learn more about actively managing risk, exploiting market trends, and keeping clients happy and out of deep market declines. Growing our membership helps NAAIM attract and keep sponsors and it brings new ideas to the association.

NAAIM conferences are shaped by advisers for advisers. It's hard to offer enough kudos to the agenda committee. Chairman Steve Williamson is a get-it-done kind of guy and his committee did just that. Matt Spangler, Rob Bernstein, David Bush, John Worthington, just to name a few, did a great job designing an agenda with ideas for the managers and traders in our organization as well as marketing people like myself. Take some time to read about our speakers and the agenda on the following pages.

As for the current market volatility, at Spectrum, we couldn't be happier. Our programs have managed risk well and we see some unique opportunities actively managing the credit markets. Times like this are when active management shows its true value.

I am looking forward to seeing everyone in Orlando. Until then good trading and to quote the team leader of Spectrum's trading team, Chris Hendrix, CMT from his daily commentary, remember – *Discipline is more important than conviction.*

Sincerely,

Emily Frazier  
2017-2018 NAAIM President

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39 Meadowbrook Rd.  
Randolph, NJ 07689  
(973) 328-6448

**Stephanie Davis**  
**Team Financial Strategies**  
1174 N. 3rd St.  
Abilene, TX 79601  
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**Edward G. DeGalan, Jr.**  
**MMI Asset Management**  
120 W. Exchange St., Ste. 103A  
Owosso, MI 48867  
(989) 725-9878

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39 Meadowbrook Rd.  
Randolph, NJ 07689  
(973) 328-1674

**Scott Haynes**  
**Team Financial Strategies**  
1174 N. 3rd St.  
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13024 Ballantyne Corporate Place, Ste. 225  
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1174 N. 3rd St.  
Abilene, TX 79601  
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**Jonathon Much**  
**CTS Financial Group**  
737 N. Michigan Ave., Ste. 2120  
Chicago, IL 60611  
(312) 337-1040

**Todd Much**  
**CTS Financial Group**  
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Chicago, IL 60611  
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**Joseph (Jody) Team**  
**Team Financial Strategies**  
1174 N. 3rd St.  
Abilene, TX 79601  
(325) 480-1587

**Frank Tehel**  
**October Effect, LTD RIA**  
One Columbus Center, #651A  
Virginia Beach, VA 23462  
(757) 390-3341

**Randy Young**  
**Team Financial Strategies**  
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**Conference Registration: Uncommon Knowledge 2018**

- Members: \$700 early registration; \$900 after April 1, 2018 \$ \_\_\_\_\_
- Member w/AUM \$10,000,000 or less: \$350 early registration; \$450 after April 1, 2018 \$ \_\_\_\_\_
- Non-Members: \$900 early registration; \$1,100 after April 1, 2018 \$ \_\_\_\_\_

**Golf Registration:** *(Open to Regular Members only — Must sign up before March 27)*

- Yes, I would like to play in the golf tournament.  
(\$50 fee per player; non-refundable if you cancel) \$ \_\_\_\_\_
- Name(s) of golf player(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Spouse Registration:** Evening social events (\$200)

- My Spouse will be attending the Sunday Welcome Reception, Monday Evening Party, and Tuesday Cocktail Party \$ \_\_\_\_\_
- Spouse Name \_\_\_\_\_

**Are you a NAAIM Member?**  Yes  No

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