The Active Manager

NAAIM

Quarterly Journal of the National Association of Active Investment Managers

Vol. 17 Issue 2, June 2020

INDEX

Taxes Are the Consequence of Successful Investing

GRANT MORRIS, GREG MORRIS

IN LIGHT OF TAX SEASON BEING NEAR (ALBEIT delayed) and that we find ourselves in the midst of a bear market, we thought it was a good time to discuss active management and taxes, which is something we are asked about regularly. We often get asked about the impact of taxes on how we invest, and if taxes erase the benefits of active management. Those are valid questions and our response is consistent – taxes are the consequence of being a successful investor.

There are a number of things to consider when trying to balance an investment approach or manager with the desire to be tax efficient. To be clear, we are not tax experts or CPAs and are not providing tax advice here, just some food for thought on the topic.

It is true that active management, and especially tactical approaches such as trend following, can create more trades and turnover in a portfolio, thus resulting in more short-term gains or losses than a passive/buy & hold approach. Those trades will have yearly tax consequences if done in a taxable account, while running an active/tactical strategy in a tax-deferred account, such as an IRA, will defer taxes and provide a better after-tax return over time. Does that mean that you shouldn't use an active strategy in a taxable brokerage account? Not necessarily. *continued on page 4*

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

NAAIM

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

President's Letter

Matthew Spangler

A LITTLE OVER THREE MONTHS ago, I was looking forward to seeing old and new friends at the NAAIM conference in Tampa, Florida. But as events and businesses began to close down in response to the spread of coronavirus, NAAIM's board made the decision to cancel our Uncommon Knowledge conference for the first time in 31 years. It was not an easy decision, but we thought it was the right decision for the safety of the members. As it turned out, we were just a little ahead of the curve.

In lieu of our spring conference, NAAIM has worked with our speakers to create an ongoing virtual conference through virtual meet-ups and webinars conducted by our presenters. While webinars have long been a tool used by NAAIM, the virtual meetups are designed for advisors to connect and network like you would normally at the conference. I'm excited about what we have been able to put together so far thanks to the efforts of Ryan Redfern and the agenda committee. I hope you have been able to participate in one or more of the events.

May virtual conference sessions included a Solo Advisors GoToMeeting on May 20th discussing how ***Shelter in place has changed the landscape – what are you doing different that is working for you?*** Open to NAAIM members only, the discussion included conference call platforms and tech; compliance/outsourcing; business continuity and disaster recovery; using social media platforms; compliance platforms/data encryption; custody/brokerage; data and analytics; cybersecurity and more.

On May 13th, NAAIM offered ***Plumbing for a Stock Market Low*** by Doug Ramsey of The Leuthold Group, LLC. Doug's presentation discussed the stock market's recent action, and outlook using the Leuthold Group's "weight of the evidence" approach, which is based on valuation, investor sentiment, technical market action, and analysis of the global economy. A recording of the webinar is on the NAAIM Web - Video Stage and is approved for 1 CFP CE credit.

June presentations include ***Before It's Too Late: Using Lumber, and Gold to Actively Manage Stocks & Bonds****** by Michael Gayed, CFA, with Lead-Lag Publishing, LLC and ***Demonstrating Client Leadership*** with Julie Littlechild, featured on page 3.

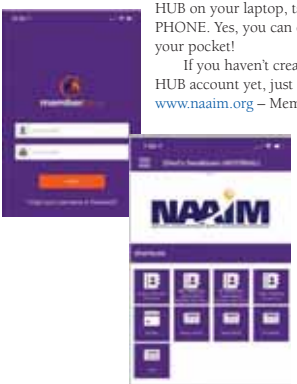
We still have some business items that normally occur during the conference that need to be completed within the calendar year, number one of which is to elect a new NAAIM Board of Directors and Officers. We are hoping to be able to do so at our OUTLOOK Conference in November, if conditions allow us to hold the conference. If not, we will conduct the election via email.

continued on page 9

Explore NAAIM's New Info Hub

WE ARE EXCITED TO INTRODUCE NAAIM'S INFO HUB! NAAIM members now have the ability to easily set up their directory listing, search for other members by custom fields (management style, AUM, etc), register for events, automatically renew their membership, and view and post resources in a resource "library" for others to see.

The Info Hub also offers ONE STOP CLICKING to find webinar recordings, connect with the NAAIM Community Forums Board and visit our public website. You can use INFO HUB on your laptop, tablet and PHONE. Yes, you can carry NAAIM in your pocket!



If you haven't created your INFO HUB account yet, just visit www.naaim.org – Member Login, and create your account (your username is your email address). Once you have created your account with your password you can then visit the ITunes Store or Google Play Store to get the App. (see below).

The more our members input information and use Info Hub, the more useful it will be. We are continuously updating information and adding resources. We hope you will too!

If you have any questions, or need help accessing INFO HUB, contact Susan Truesdale at info@naaim.org.

Get the app….It is called MemberPlus….

- Download from the iTunes store here: MemberPlus IOS version: https://itunes.apple.com/us/app/memberplus/id839204301?mt=8
- Download from the Google Play Store here – MemberPlus Android Version: https://play.google.com/store/apps/details?id=com.micronet.android.memberplus&hl=en

NAAIM INFO HUB – HOME PAGE

Get Started with Info Hub -

https://members.naaim.org/MIC/Login

Your username is your email address. Click on "Create an Account" to add your password.

Make sure your contact profile - **My Info** - is complete and up-to-date, so others can successfully connect with you through the **NAAIM Member Directory**. Personalize your My Directory Listing(s) page by adding a Description, photo and other contact details. This will populate the "about" field in your directory listing.

- Search the **NAAIM Member Directory** for other members
- View NAAIM's Calendar to registering for upcoming webinars and events.
- Manage your membership and payments from **My Info**.
- Explore **Resources** – this includes access to key sites, documents and other information searchable by key word in a title or description. You can add PDFs, video links, or external URL's to this page to share, but please keep them educational - no advertisements. Note: resources
- Access the **NAAIM Forums Board.** Once you have logged in to the NAAIM Forums board from Info Hub, it will open automatically w/o having to re-enter your ID user or password while you are in Info Hub.
- **NAAIM Solutions / Webinars** - will take you to NAAIM's Webinar Hub - where a library of past webinar recordings can be found and future recordings will be stored!
- And, we've made it easy for you to **REFER** other active managers to NAAIM - with a referral form in the Info Hub!

To walk through setting up your directory listing, a introductory recording can be found on Info Hub's home page.

Register on INFO HUB for Upcoming NAAIM Webinars and Recorded Past Webinars

What Do Your Clients Need to Hear from You?

WEBINAR - Wednesday, June 17 at 4:15 PM EST

As we move through the current crisis, your clients are being bombarded by 'reassuring messages' that are all starting to sound the same. If your goal is to demonstrate true leadership to clients, you need to understand what matters most to them, right now, and then cut through the noise by providing meaningful and personalized support. The question is how.

Join Julie Littlechild to hear new research on what clients need right now and how you can demonstrate true leadership. Specifically, Julie will examine:

- What clients really need right now, based on investor research gathered in March 2020
- How to tailor your client communications to support those needs
- How the current crisis will redefine how we communicate with clients in future, and
- How to leverage your plan to demonstrate leadership with prospective clients

Julie Littlechild is been identified twice as one of the 25 Most Influential People in Financial Planning by Investment Advisor Magazine and won the Influencer Award in Practice Management from Financial Planning Magazine. Her expertise as a speaker, writer and researcher, is helping advisors, teams and enterprises gather client feedback and design a compelling client experience that will drive significant engagement, revenue and referrals.

This webinar is approved for 1 CE credit toward CFP®, CIMA®, CPWA®, CIMC® and RMA®

***To replay prior webinars and register for upcoming events*, login to NAAIM's Info Hub at** https://members.naaim.org/MIC/Login.

NOTE: If this is your first time logging into **INFO HUB**, you will have to create an account. Your username is your email address. You will have to select your own password.

ONCE IN ... Events can be found at the top right corner of the Info Hub home page in the left side of your screen in the content list. Recorded webinars will be found in the left table of contents: NAAIM Solutions/WEBINARS

Before It's Too Late: Using Lumber, and Gold to Actively Manage Stocks & Bonds*

WEBINAR - Wednesday, June 10, 4:15 PM EST

Michael A. Gayed co-authored three award-winning papers in 2014 and 2016, and also won the 2015 Founders Award for his paper documenting how Lumber and Gold can be used as signals for managing investment portfolios. This eye-opening paper focuses on the predictive power of two seemingly unrelated commodities which provide important information on the economic cycle, and risk-seeking behavior in various assets. His work has important implications for both asset allocators and active managers.

Michael is Portfolio Manager at Toroso Investments, an investment management company specializing in ETF focused research, investment strategies and services designed for financial advisors, RIAs, family offices and investment managers. Prior to Toroso Investments, Michael was the Co-Portfolio Manager and Chief Investment Strategist at Pension Partners, LLC, an investment advisor managing mutual funds and separate accounts. He is the co-author of four award-winning research papers on market anomalies and investing. Michael is an active contributor to MarketWatch and has been interviewed on CNBC, Bloomberg, and Fox Business, as well as the Wall Street Journal Live for his unique approach to interpreting market movements.

*1 CFP CE credit offered

Calling all NAAIM Member Newsletter Writers and Bloggers!

FOR THE PAST 18 MONTHS NAAIM HAS BEEN publishing **NAAIM Speaks** – a monthly compilation of NAAIM member written articles and blog pieces. NAAIM Speaks is posted on the home page of our website AND distributed to OVER 5,000 individuals who have requested to receive NAAIM announcements. We typically include 10 – 12 member articles in each publication. If you are writing a newsletter or blog and would like to submit an article to post in NAAIM Speaks, please include Dave Moenning on your distribution list david.moenning@heritagecapitalresearch.com, and shoot him an email to let him know you are interested in being included.

Taxes Are the Consequence of Successful Investing

CONTINUED FROM PAGE 1

Our trend following approach was not designed for tax efficiency per se, it was designed to provide a good return over time without suffering the devastating losses that come from bear markets. The desire of investors to always be tax efficient can even be counterproductive – if you never make any money investing, you don't have to pay any taxes – that would be pretty tax efficient, right? Taken to a logical extreme, the most tax-efficient investing approach is one that loses money consistently – allowing investors to offset other gains or income each year with their capital losses. This obviously misses the point of investing.

In 2020, short-term capital gains ("STCG") are taxed as ordinary income, with marginal tax rates ranging from 10% up to 37%. Many advisors and investors – the buy & hold crowd – think you should always hold appreciated securities for at least 12 months (if not indefinitely) in order to receive long-term capital gain tax treatment. Long-term capital gains ("LTCG") are taxed more favorably, at rates of 0%, 15%, or 20% (depending on taxable income and marriage status). We could agree with this view if the buy & hold approach also delivered the same or better performance than trend following, but we don't think it does. Sometimes it is much better to pay taxes on the gains you get to keep than to let a position with a gain unwind and turn into a loss. There are also some behavioral issues surrounding paying taxes and retirement that we'll address in our next article.

Some will argue that if you never sell your winners, thereby avoiding taxes on the gains, then there is more money left in the account to compound over time, leaving you better off in the long run.

Perhaps, but there are no guarantees it will work out that way – and this sounds like something a buy & hold manager would say because they don't know how to do anything different. If you are a passive index investor, bear markets can ruin this approach. Or, if you have a portfolio of "quality stocks that never go down", you are kidding yourself. Just look at long-term charts of GE, Boeing, Kraft Heinz, Exxon Mobil, IBM, 3M, and countless other blue-chip companies that have given up 5, 10, or 15 years' worth of gains recently. People who owned these companies, and never sold because they didn't want to pay taxes on their gains, have just solved their tax problem – no more gains!

At the end of the day, what matters is the after-tax return to investors – so let's compare some after-tax results of an active approach (our Trend Plus) versus a passive approach (a typical 60/40 stock and bond portfolio).

Table A is an excerpt from a schedule showing the modeled returns before and after taxes of the Trend Plus strategy (net of fees), from 2004 through yesterday's close (March 25, 2020). The years in the middle were hidden just for display purposes. Normal disclosure applies – we have not been running this exact strategy this long – the actual strategy results start in 2017.

2004 is the normal starting point we use to present our return data in marketing materials, and this is more than 16 years of return data. Most investors have about 15 to 20 years of serious wealth accumulation and investing prior to retirement: you don't make much money when you are working and young; once you have a family, expenses are high and you are trying to keep up; then finally, when kids are out of the house and you're well established in a career, the serious savings and investing happens. Generally, this may start between ages 40 to 50 and end between ages 60 to 70, give or take years on either end. The 16-year history presented in Table A lines up with that timeframe. Also, the vast majority of these years were in strong bull markets, which should tilt this analysis in favor of the passive approach that we're arguing against.

continued on page 5

Table A

	2004	2005	2006	2017	2018	2019	YTD 2020
Trend Plus pre-tax return	12.4%	8.4%	9.7%	21.3%	(5.0%)	21.0%	6.2%
Average annual	10.4%						
Beginning balance	$500,000	$539,034	$560,890	$1,115,970	$1,265,468	$1,202,262	$1,384,936
Short-term capital gains	$61,959	$34,692	$54,464	$237,298	($63,206)	$252,837	$86,134
Taxes (37%)	($22,925)	($12,836)	($20,152)	($87,800)	$0	($70,163)	($31,869)
After -tax gain	**$39,034**	**$21,856**	**$34,312**	**$149,498**	**($63,206)**	**$182,674**	**$54,264**
After-tax balance	$539,034	$560,890	$595,202	$1,265,468	$1,202,262	$1,384,936	$1,439,200
After-tax return	7.8%	4.1%	6.1%	13.4%	(5.0%)	15.2%	3.9%
Average annual	6.6%						
CAGR	6.7%						

Taxes Are the Consequence of Successful Investing

CONTINUED FROM PAGE 4

For the after-tax returns, we have assumed that: (1) all gains are short-term in nature, (2) taxed at the highest current marginal income tax rate of 37%, and (3) the taxes are paid out of this account (again, all assumptions tilting the analysis in favor of a passive approach). This results in an after- tax compounded growth rate for Trend Plus of 6.7% over 16 years.

Table B shows the same timeframe with a passive (buy & hold) investment in a portfolio of SPY (S&P 500 ETF) and AGG (bond index ETF). Total returns including dividends are used for both ETFs and we assume an annual rebalance to the 60/40 weighting between the two holdings.

These buy & hold returns do not include any management fees paid to an advisor, and since we are assuming this is a passive investment and always deferring the taxes, we have not applied any taxes (again, tilting the analysis in favor of passive). In reality, long-term capital gains tax would apply at each annual rebalance and also whenever funds might need to be withdrawn for spending needs.

Even without applying any taxes, the after-tax compounded return of this account is 6.4%, lower than the results from Trend Plus. Chart A shows the cumulative after-tax gain of both approaches over time.

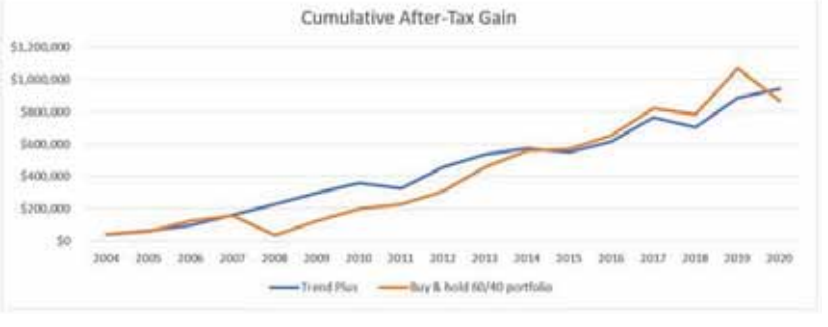
After a historic 11-year bull market (2009-2019), deferring taxes by being a buy & hold investor did not come out ahead – further highlighting the benefit of avoiding the

continued on page 12

Table B

	2004	2005	2006	2017	2018	2019	YTD 2020
S&P 500 Total Return	10.7%	4.8%	15.8%	21.7%	(4.4%)	31.2%	(22.9%)
Agg Bond Index Total Return	3.9%	2.1%	3.9%	3.6%	0.1%	8.5%	2.5%
60/40 Pre-tax return	8.0%	3.7%	11.1%	14.4%	(2.7%)	22.1%	(12.7%)
Average annual	6.6%						
Beginning balance	$500,000	$539,941	$560,170	$1,153,087	$1,319,649	$1,283,972	$1,567,946
Long-term capital gains	$39,941	$20,229	$61,986	$166,562	($35,678)	$283,974	($199,756)
Taxes (20%)							
After -tax gain	**$39,941**	**$20,229**	**$61,986**	**$166,562**	**($35,678)**	**$283,974**	**($199,756)**
Ending balance	$539,941	$560,170	$622,156	$1,319,649	$1,283,972	$1,567,946	$1,368,190
After-tax return	8.0%	3.7%	11.1%	14.4%	(2.7%)	22.1%	(12.7%)
Average annual	6.6%						
CAGR	**6.4%**						

Chart A



Managing Portfolio Risk in 2020 — How Are You Hedged?

A STRONG CASE COULD BE MADE TO CONSIDER portfolio hedging strategies amid the ongoing uncertainty and market volatility stemming from COVID-19. It is not certain whether we are out of the woods yet, and a correction in the near future is a possibility to consider.

Turbulence in Equities Leaves Questions About What's Next

As COVID-19 spread across the world and brought many economies to a halt, equity markets experienced one of the sharpest and fastest declines in history. In barely a one-month period[1], the S&P 500 and Nasdaq-100 Index plummeted 34% and 28% respectively. Volatility spiked to levels comparable to those during the 2008/2009 Financial Crisis and the Crash of 1987. On March 16, the VIX Index jumped to 83 and it averaged 58 for the full month of March.

Almost as dramatic as the sharp market decline was the strength and speed of the rebound following the S&P 500's March 23 low. Congress and the Federal Reserve were quick to act with broad actions and support. However, the economy is still inching its way back towards normalcy, and unemployment has risen to 15%[2] The pandemic has pushed a number of struggling companies to file for bankruptcy, including Hertz, J. Crew, Neiman Marcus, and J.C. Penny. A number of other companies may only be able to survive for so long if health uncertainties continue to disrupt business operations. Despite all of this, the Nasdaq-100 is actually up 9.9% for the year, and the S&P 500 is only 5% off from where it started the year. Many investors, however, feel the rebound in equities may have run too far, too quickly.

1 Feb 20 - Mar 23, 2020 for S&P500, and Feb 20 - Mar 20, 2020 for Nasdaq100

2 Bureau of Labor Statistics, as of April 2020

Bonds May Not Be the Portfolio Buffer They Used to Be

With interest rates and bond yields at such low levels – bonds may not be as effective as a portfolio buffer from equity market volatility. Following the sudden economic shock brought on by the coronavirus, the Fed offered a huge amount of support to markets. It cut its benchmark target rate to 0 - 0.25% and committed to open-ended purchases of Treasuries and agency mortgage-backed securities. Additionally, for the first time ever, the Fed started buying corporate bonds.

As of May 31, 2-, 10- and 30- year Treasuries yielded 0.16%, 0.65% and 1.41%, respectively. Bonds also carry interest rate risk, and if interest rates rise, bond prices fall.

The Challenges for Investors Looking to Manage Risk

Uncertainty around the economic environment presents many challenges for investors trying to manage their portfolios. Questions remain regarding the reopening of the

continued on page 8

Year-to-date changes in equity indexes and 10-yr Treasury yield

Global COVID-19 Monitor—Timely Insight on the Global Pandemic

The Global COVID-19 Monitor from Guggenheim's Macroeconomic Research Team provides a comprehensive analysis related to the spread of the COVID-19 pandemic. The Monitor is updated regularly to provide the most up-to-date assessment of the virus and its impact, both domestically and internationally. Utilize this timely insight to keep your clients informed of this evolving and unprecedented situation.

Read the latest COVID-19 Monitor

GUGGENHEIM

Innovative Solutions. **Enduring Values.**®

Managing Portfolio Risk in 2020 — How Are You Hedged?

CONTINUED FROM PAGE 6

economy, the development of a COVID-19 vaccine, and the potential for additional waves of the virus.

Moving into bonds in difficult markets has historically been effective as a portfolio buffer, but with yields already so low, this option may be less appealing. Where bond yields will go remains to be seen, giving investors reason to re-think the effectiveness of fixed income strategies to reduce risk in their portfolios. Timing the equity markets can be very challenging too, especially during bouts of volatility. Investors may find themselves selling equities in a down market only to see a sharp rebound, such as what we saw in March and April of this year. With the significant rebound in equities, investors should consider how much upside remains and if there is potential for another pullback this year.

Consider Hedging Strategies

Assessing a range of hedging strategies, such as short selling, buying put options, selling futures contracts, and inverse ETFs, could be an important consideration for many investors. Short selling, buying put options, and selling futures require a margin, option, or futures account. Additionally, with short selling and selling futures, it is possible to lose more than invested, and these strategies may require investors to add assets to their account to maintain margin levels. Inverse ETFs may be a more accessible vehicle for hedging, as they do not require a special account, and it's not possible to lose more than the value of your investment.

Inverse ETFs can be effective hedging tools. They are designed to move in the opposite direction of their benchmark on a daily basis. In particular, ETFs offering a -1x daily performance objective to their benchmarks are often used to hedge equity exposures to many broad based indexes, such as the S&P 500, Nasdaq 100, Russell 2000, or MSCI EAFE. Hedging equity exposure in a portfolio can be a part of a long-term investment strategy, or a short-term shelter from adverse market events.

For investors using inverse ETFs over time as a hedge, a rebalancing strategy can be considered. A rebalancing strategy should reflect an investor's goal in maintaining an effective hedge and desired level of monitoring and customization to adjust for changing market and volatility conditions. Common rebalancing approaches include *Calendar Rebalancing,* where adjustments are made at regular time intervals, such as monthly or quarterly, and *Fixed-Percentage Rebalancing*, which triggers rebalancing when the difference between the hedge and the long position returns reaches a certain percentage level, such as 10%.

There are many resources about inverse ETF strategies available online. Before investing, be sure to read any inverse fund's prospectus to fully understand all the potential risks and benefits of use, including their potential use in creating a hedging strategy. To learn more about inverse ETFs and hedging, you can visit ProShares.com/hedging.

Disclosures

This information is not meant to be investment advice.

Shares of any ETF are generally bought and sold at market price (not NAV) and are not individually redeemed from the fund. Brokerage commissions will reduce returns.

Short ProShares ETFs seek a return that is -1x the return of their underlying benchmark (target) for a single day, as measured from one NAV calculation to the next. Due to the compounding of daily returns, holding periods of greater than one day can result in returns that are significantly different than the target return and ProShares' returns over periods other than one day will likely differ in amount and possibly direction from the target return for the same period. These effects may be more pronounced in funds with larger or inverse multiples and in funds with volatile benchmarks. Investors should monitor their holdings as frequently as daily. Investors should consult the prospectus for further details on the calculation of the returns and the risks associated with investing in this product.

Investing involves risk, including the possible loss of principal. *-1x inverse ProShares ETFs are non-diversified and entail certain risks, including risk associated with the use of derivatives (swap agreements, futures contracts and similar instruments), imperfect benchmark correlation, leverage and market price variance, all of which can increase volatility and decrease performance. Short ProShares should lose money when their benchmarks rise. 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.**

ProShares are distributed by SEI Investments Distribution Co., which is not affiliated with the funds' advisor.

President's Letter

CONTINUED FROM PAGE 1

On the positive side, this market has given our members an opportunity to shine and for their strategies to show why active management is important. While everyone is ready for things to get back to business as usual, it has been a time for innovation and growth. Talking with the members has opened up creative ways to communicate with clients and stay in contact when we can't see them in person. Our use of technology has expanded rapidly, we are seeing creative marketing initiatives and overall everyone seems to be doing well and trying to make the best of the situation.

I have found it an opportunity to force myself to expand how I utilize technology more. I've significantly increased my communication with clients to reassure them that we are watching and actively managing their investment portfolios and to reinforce that this is why we preach risk mitigation and active management.

The million dollar question is what the economy's recovery is going to look like. I've sat in a number of podcasts that have stressed not to hope for life to go back to normal. This situation is forcing changes – hopefully for the better. We need to look at ways to implement positive changes into our practices and come out a better advisor, and a better money manager.

The challenge for NAAIM members and advisors is what are the positives we can take away from this disruption that we have had? For active money managers, our strategies have gone through a major stress test. How can we tweak them to be better going forward? If you had to work from home what worked and what didn't? This is an opportunity to evaluate operations in our businesses and in our personal lives as well. How do we capitalize on this disruption?

My focus is also on how to be a better husband and better dad. This has been a valuable time to be together as family; to spend more time as a family and do things as a family that we don't usually do. In many ways, I don't want life to go back to normal and lose this experience and the enjoyment it has given me.

As we work our way through summer and the reopening of our country's economy, I hope to have the opportunity to talk with many of the NAAIM members to explore how we take this experience and make our businesses and our association stronger and more effective. Stay healthy, stay positive and let's talk!

Sincerely,

Matt Spangler
NAAIM President

New NAAIM Members:

James Berman
JB Global LLC
New York, NY
(212) 388-9873

Urvish Bidkar
Aspire Macro
New York, NY
Phone: (609) 456-5818

Dominic Catrambone
Whitford Asset Management, LLC
Paoli, PA
Phone: (484) 329-6271

Trace Dennis
Jal Dennis Group
Wylie, TX
Phone: (972) 429-0603

PJ DuWors
Q32 Capital Management
Montclair, NJ
(862) 203-7325

Sara Flint
Scarecrow Trading
Savage, MN
Phone: (952) 250-7453

Callie Fox
Scarecrow Trading
Savage, MN
Phone: (952) 250-8510

James Gardner
Blackhawk Wealth Advisors
Danville, CA
(800) 925-6496

Dennis Hoffman
Financial Depot
Auberry, CA
Phone: (559) 841-2420

Todd Hurlbut
Incline Investment Advisors, LLC
Incline Village, NV
Phone: (775) 298-8161

Maz Jadallah
AlphaClone Inc.
San Francisco, CA
(415) 967-2532

William James
Family Office Advisor
Granger, IN
Phone: (574) 208-3790

James Kilgore
401 Advisor, LLC
Centerville, OH
Phone: (937) 434-1790

Kevin Moravek
October Effect Ltd.
Virginia Beach, VA
Phone: (757) 390-3336

Grant Morris
McElhenny Sheffield Capital Management
Dallas, TX
(214) 803-3559

Jefferson Nash
Nashional Independent Investment Management, LLC
McKinney, TX
Phone: (214) 385-5945

Bill Sutherland
Assante Wealth Management
Midland, Ontario, Canada
Phone: (705) 526-0577

Introducing the Dorsey Wright MLP Index

SCOTT ACHEYCHEK

MLP History

THE MASTER LIMITED PARTNERSHIP (MLP) structure was created to allow certain partnerships to gain the liquidity of a publicly traded security, like a stock, while maintaining the tax benefits of a partnership. The MLP structure provides a tax advantage to the business and to the shareholders. MLPs do not pay tax at the company level and distribute the majority of their cash flow to the unitholders.

Apache Corporation created the first MLP in the United States, Apache Petroleum Company, in 1981. Shortly thereafter other energy MLPs were formed, followed by real estate MLPs, amusement park MLPs, and arguably the most famous MLP, the Boston Celtics. Congress put an end to the growing types of companies utilizing the MLP structure with the Revenue Act of 1987, which states an MLP must earn at least 90% of its gross income from qualifying sources, which is limited to transportation, processing, storage, and production of natural resources and minerals.

MLPs are now largely dominated by energy companies with business structures that typically can be categorized into three segments: Upstream, Midstream and Downstream.

Upstream	Midstream	Downstream
Exploration Drilling of Wells Research Machinery Rental Oil & Gas Production	Transportation Marketing of Oil & Gas Storage	Refining Marketing & Distribution Processing of Oil & Gas

Indexing MLPs

As we've seen recently, energy prices are a significant risk to MLPs. Typically, midstream MLPs don't own the oil or natural gas that is transported. Instead, the company receives payment for the transportation of the resources. While some Midstream MLPs only transport oil and gas, they can be impacted by the fluctuations in the price of oil and gas. For example, if the price of oil or gas decreases, an MLP's price could also decrease because of the risk that the oil producer decides to reduce oil production capacity, thereby reducing the amount of oil needed for transport.

Similar to investing in other assets, there can be benefits to holding a basket of MLPs to offset the idiosyncratic risk of owning an individual MLP. Alerian launched the first real-time MLP index (the Alerian MLP Index) in 2006. This index is largely considered to be the MLP benchmark. While new and novel at the time, the Alerian index has stayed the same while the MLP landscape has evolved. The Alerian MLP Index limits its investable universe to Midstream MLPs (MLPs that earn a majority of their cash flow from transporting, storage and marketing of oil and gas). Similar to investing in a diversified basket of stocks, wouldn't it seem prudent to invest in a diversified MLP index?

Introducing the Dorsey Wright MLP Select Index

The Dorsey Wright ("DWA") MLP Select Index is designed to select the best performing MLPs based on their relative strength every month. While most MLP indices simply track

continued on page 11

DWA MLP Select Index TR versus Benchmark Indices

Total return performance from 05/01/2015 – 03/20/2020

Source Bloomberg, 05/01/2015 - 03/20/2020

Introducing the Dorsey Wright MLP Index

CONTINUED FROM PAGE 10

midstream MLPs, the selection universe of the DWA MLP Select Index includes all MLPs with the exception of financial MLPs. In addition, eligible MLPs in the DWA index must, have a minimum market cap of $500 million and each MLP must have one month average daily trading volume of $2 million per day on its primary exchange.

On a monthly basis the Dorsey Wright MLP Index selects the top 15 MLPs based upon Dorsey Wright's proprietary Relative Strength Ranking methodology and equally weights them. Combining this relative strength selection and equal weight methodology has resulted in historical outperformance and lower historical volatility than the Alerian MLP Index.

10d, 30d, 60d, & 90d Historical Average Volatility

	10d	30d	60d	90d
1st Calculation Date	06/15/2015	06/09/2015	07/16/2015	08/31/2015
DWA MLP Index	21.18	21.42	21.58	21.70
Alerian MLP Index	23.05	23.30	23.41	23.63

Staying allocated towards the stronger performing members of the MLP universe may be the reason why the Dorsey Wright MLP Select Index has outperformed the Alerian MLP Index over the long term.

MLP Index Comparison: Alerian vs. Dorsey Wright

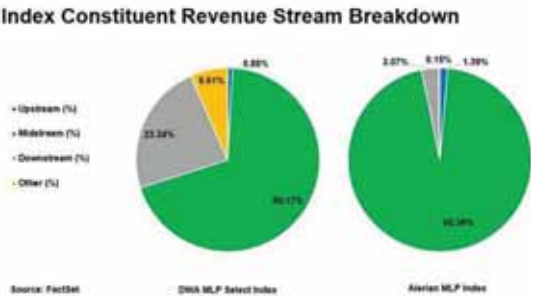
The most popular benchmark of the MLP sector is the Alerian MLP Index (AMZ). Despite being a standard for MLP's, the index is limited to midstream companies. While the Energy Infrastructure Council classifies roughly half of all MLPs as midstream, they do not make up the entire MLP marketplace. The Dorsey Wright relative strength index methodology screens all Energy MLPs and picks the 15 MLPs with the highest ranked relative strength regardless of whether or not a company is upstream, midstream, or downstream.

The below table compares the Alerian MLP Index to the Dorsey Wright MLP Index.

Details	Alerian MLP Index	DWA MLP Index
Average Mkt Cap of Holdings[1]	$3.6 Billion	$4.7 Billion
Number of Holdings	32	15
MLP Selection Universe	Midstream MLPs	All MLPs (ex-Financials)
Rebalancing Frequency	Quarterly	Monthly
Reconstitution Frequency	Case-by-case	Monthly
Index Launch Date	06/01/2009	06/01/2015
Annualized Total Return Since DWA MLP Index Launch Date[2]	-22.8%	-12.1%
Year-to-Date Total Return[3]	-57.6%	-51.4%

Source: [1] Average Market Capitalization as of 3/20/2020 [2] Annualized Total Return, [3] Bloomberg 12/31/2019 - 03/20/2020

Illustrating the difference in constituent selections, the below graphs break down the Revenue Stream of the Alerian and Dorsey Wright MLP Indexes



Source: FactSet 09/19/2019

Bottom Line

MLPs have been beaten up with the Oil downturn in 2020. If an investor were to maintain or look towards MLP exposure while energy has sold off, they may want to consider a unique way to access exposure to this diversified asset class. MLPs are notable for their yield which is often substantially higher than the average dividend yield of comparable stocks. Using Dorsey Wright MLP Select Index allows you to invest in the best performing MLPs, not limited to midstream activities, based on their Relative Strength Ranking Methodology.

Scott Acheychek is President of REX Shares, an independent provider of exchange traded products (ETPs). Scott joined REX Shares in 2016 after holding senior sales and leadership positions at several large global investment banks where he covered hedge funds, asset managers, and financial advisors for multi-asset and commodity specific solutions. Since 2006, he has worked on the launch of over 50 ETNs and ETFs.

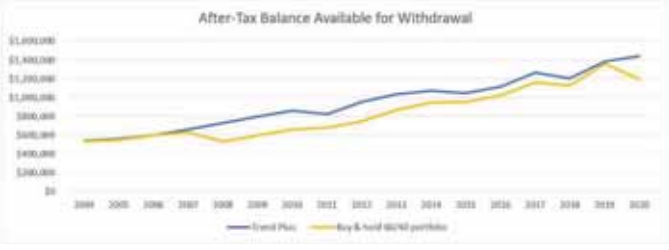
Taxes Are the Consequence of Successful Investing

CONTINUED FROM PAGE 5

Table C

	2004	2005	2006	2017	2018	2019	YTD 2020
S&P 500 Total Return	10.7%	4.8%	15.8%	21.7%	(4.4%)	31.2%	(22.9%)
Agg Bond Index Total Return	3.9%	2.1%	3.9%	3.6%	0.1%	8.5%	2.5%
60/40 Pre-tax return	8.0%	3.7%	11.1%	14.4%	(2.7%)	22.1%	(12.7%)
Average annual	*6.6%*						
Beginning balance	$500,000	$539,941	$560,170	$1,153,087	$1,319,649	$1,283,972	$1,567,946
Long-term capital gains	$39,941	$20,229	$61,966	$166,562	($35,678)	$283,974	($199,754)
Tax paid if account is liquidated	($7,988)	($12,034)	($24,431)	($163,930)	($156,794)	($213,589)	($173,638)
After-tax gain	$31,953	$8,195	$37,555	$2,632	($192,472)	$70,385	($373,394)
After-tax available balance	$531,953	$548,136	$597,725	$1,155,719	$1,127,177	$1,354,357	$1,194,552

Chart B



devastating losses of bear markets. Sure, if we stopped the analysis at the end of 2019, or picked any number of different dates, passive c ould have come out ahead, but look at the whole chart, not just the end point – it was very close or even behind Trend Plus for more years than it was ahead. No one knows what the frequency or severity of bear markets will be going forward – passive investing falling behind during this 16-year period is just one thing to consider.

Another thing we like to look at is the after-tax balance that would be available to withdraw in any given year (not just at the end), since we don't know exactly when funds would be needed. This is a way to assess how liquid and flexible your investment account might be and to consider the fact that the tax on long-term gains will need to be paid at some point.

Table C shows the same pre-tax returns of the passive 60/40 portfolio, but this time, in each year we assume we need to withdraw the entire balance, and thus pay long-term capital gains of 20% when doing so.

This is not a schedule that tracks a balance through the years, rather each year is a separate calculation of what would happen in that year if all funds were withdrawn. For example, if nothing is withdrawn until the end of year 2017, you start 2017 with a balance of $1,153,087, add investment gains of $166,562 but then pay 20% taxes on the cumulative long-term gains made from 2004-2017, or $163,930, ending the year with an after-tax balance of $1,155,719. This after- tax balance available for withdrawal on the passive approach can be compared to the ending balance each year for Trend Plus in Table A.

Chart B shows this comparison of the after-tax available balances each year of both approaches. This after-tax balance is what you'd actually have available to spend on things you want in retirement.

Again, Trend Plus (with STCG) compares very well to the passive investment (with LTCG), matching or beating it in nearly every year, and pulling ahead of the passive approach when bear markets occur. We think this illustrates that trying to justify buy & hold strategies because of their tax efficiency is wrong.

continued on page 13

Taxes Are the Consequence of Successful Investing

CONTINUED FROM PAGE 12

Trend following seeks to avoid large drawdowns and bear markets, while passive investing accepts the randomness of bear markets (the frequency and severity of all future bear markets that are in your investing horizon). Trend Plus has outperformed the buy & hold approach in this timeframe because it avoided large drawdowns in 2008 and now in 2020, even after considering taxes.

Some other things to consider about this analysis and the tax implications of different investment approaches. Do you know what tax regime is going to persist while you are investing, and also during your retirement/withdrawal years? Will income tax rates be higher or lower? Will long- term capital gains always receive favorable tax treatment as compared to ordinary income? Do future changes to tax code make active or passive a better after-tax approach? Good luck guessing!

When it comes to trend following, it is true that there is high turnover because we only buy when the trend model indicates an uptrend is in place, and the holdings are always sold when our stop loss target is hit. Often, the short-term loses will offset much of the short-term gains, and the resulting tax consequence isn't much. It is certainly more tolerable than losing money. If your advisor or broker is concerned more about taxes than investment performance, you should find another advisor or broker.

If a client receives a large tax bill at the end of the year for capital gains, we sort of expect a "thank you!", because that means we made them a lot of money.

Grant Morris, CFA, CFP® specializes in tactical investment strategies and technical analysis for McElhenny Sheffield Capital Management (MSCM). Grant joined MSCM after developing a rules-based trend following strategy to manage his personal investable assets. Through extensive research and analysis, Grant has found that his disciplined trend following approach allows him to participate in most of the "good times" in the stock market while avoiding much of the downside; resulting in larger compounded returns over full market cycles, as compared to typical buy-and-hold strategies. Grant now manages multiple tactical ETF strategies for MSCM clients as well as for his own accounts.

Greg Morris has been a technical market analyst for more than 45 years ranging from analysis software development, to website analysis and education, to money management. He has written four books: Candlestick Charting Explained (and its companion workbook), The Complete Guide to Market Breadth Indicators, and Investing with the Trend. A graduate of the Navy Fighter Weapons "Top Gun" School, Greg is a former Navy fighter pilot who flew F-4 Phantoms on the USS Independence. He also holds a degree in Aerospace Engineering from the University of Texas. Greg has a long history of understanding market dynamics and portfolio management.

NAAIM Solutions | Webinar Series Calendar of Events:

Note: Most of the webinars will be held on the second and third Wednesday of each month following the market close. NAAIM will file for CFP CE credit for some subjects. NAAIM Exchange and Solo Advisor webinars will only be open to members.

Wednesday, June 17, 4:15 PM EST
"Demonstrating Client Leadership, Julia Littlechild, Absolute Engagement

Thursday, June 25, 4:15 PM EST
NAAIM Exchange/Members Only. Topic: Custodians

Wednesday, July 8, 4:15 PM EST
"D+W Sector Rotation" – Winner of the 2019 NAAIM Shark Tank Tactical Strategy category in November. John Worthington, Dauble+Worthington Equity Portfolios

Thursday, July 16, 4:15 PM EST
"Quantifiable Edges for Active Investing", Rob Hanna, Quantifiable Edge

Wednesday, August 12, 4:15 PM EST
"Stance Equity ESG Large Cap Core" – Winner of the 2019 NAAIM Shark Tank Stock Selection category in November. Bill Davis, Stance Capital LLC

NAAIM Exchange: Members-Only virtual meet-ups will be held featuring the following topics (dates to be announced):

- What technology are you using in your business?
- Marketing your firm: Email, Mail, Podcast, Social Media, etc.
- How are you allocated in the Market? (models, defined strategies, other)

Not Yet a NAAIM Member? For a limited time, NAAIM is offering a $100 discount on Regular and Special Memberships. To learn more, contact Susan Truesdale at info@naaim.org or (888) 261-0787.

The Elephant in the Room – Poor Health Practices are the Greatest Threat to Your Clients

LINDA FERENTCHAK

THE GREATEST DANGER TO YOUR CLIENTS' future financial health is often their physical health. Is there a way to bring the issue to the table without overstepping boundaries?

Perhaps the biggest threat to a financially secure retirement has long been health issues that destroy plans and eat away savings with unanticipated costs. The coronavirus pandemic and Covid-19 have highlighted the dangers of poor health practices. Underlying medical conditions that increase the odds of mortality from Covid-19, all too often are the result of lifestyle choices.

Even without a major medical crisis, poor health habits increase costs:

- Overweight and obese individuals and smokers typically pay more than others do for expenses such as life, health, disability, and long-term care insurance.
- Obese individuals spend about 36% more than average-sized people on health services and 77% more on medications due to the ongoing cost of prescription drugs, deductibles, co-payments, and other expenses.
- Even "Big and Tall" sizes for men and "Plus-Size" clothing for women are estimated to cost 10% to 15% more than regular-size clothing.

Healthy people tend to be wealthier people for more reasons than just because it's expensive to be unhealthy. There seems to be a relationship between the decisions made to improve one's health and decisions to save. It has been suggested that people develop a "prevention mindset" where they give more consideration to future implications of present day activities, including the benefits of saving money for future needs.

As a financial advisor, you have probably talked to your clients about developing a financial plan, making the right financial decisions and even how to leave money to the next generation. But one topic that may seem a bit out of one's expertise is your clients' health. A critical step to take to avoid running out of money in retirement, however, is also one of the most overlooked – stay healthy.

Unfortunately, we are not very good at taking that advice. Nearly 75% of American men and more than 60% of women are overweight. According to the U.S. Centers for Disease Control and Prevention about 38% of U.S. adults aged 20 and older are obese – more than 25% over their recommended body weight. We are officially the fattest nation in the world and it has a huge impact on our health and healthcare costs as we age.

Americans, in general, are living longer, but it is not due to our poor health habits. Thanks to advances in high-tech medical care, diseases and health conditions that once killed are now managed to enable us to live longer. But that longer life comes at a high cost, which is in turn driving insurance costs, co-pays and waiting times for procedures up. Given enough money, one can sidestep the queues. But for those depending on Medicare, wait times and costs are rising with little reason to expect a change in trend. The Employee Benefit Research Institute suggests saving $392,000 just for health care by age 65 for a 90% chance of having enough money to pay for medical expenses in retirement.

The problem with changing one's health habits is that it's hard, particularly if one has tried before and failed. Just as we feel the pain of financial losses more than the pleasure of gains, we remember failure more than success and it makes us doubt our ability to change.

What does work when it comes to encouraging better health habits?

1. Money works according to studies in which people received financial rewards when they stop smoking. The more money involved, the more individuals successfully quit in the study populations.
2. Emotion, or some involvement of the heart, is often needed to get people to actually do something about the change they know they need to make. Living to see one's grandchildren is often a key motivator.
3. Having a specific plan of what, where, and when – identifying exactly what you will do differently, where you will do it, and when – increases the chance of success.
4. Writing it down increases the odds of success. Set out your goals, motivations, and steps you will take to achieve them in writing and post it where you will see it on a regular basis.
5. A coach or personal trainer/encourager or support group can help keep individuals on track (Caution: Spouses and significant others RARELY make good coaches).
6. Working with a dietician, enrolling in a reputable weight loss program that offers in-depth nutrition and weight loss counseling, and/or consulting with a weight loss specialist or exercise counselor may be one of the better investments one makes.
7. Be patient, but persistent. Adopting a new habit takes time. On average, studies have shown it takes almost 70 days before a change in behavior has a real impact on your neural pathways.

With that said, dealing with the elephant in the room requires tact and preparation, but it could net you clients for a longer, healthier lifetime.