

The Active Manager



Quarterly Journal of the National Association of Active Investment Managers

Vol. 20 Issue 4, October 2023

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Put Outlook 2023 on your calendar and join NAAIM in Chicago

WONDERING WHAT'S AHEAD IN THE WORLD of finance and investing? There's no better way to find new ideas and tap into the thoughts of market legends than NAAIM's Outlook Conference, coming to Chicago November 6-7. In the following pages, meet our presenters and sponsors, and explore the agenda, then make plans to join fellow NAAIM members for a look at the outlook of the investment advisory industry.

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

President's Letter



Ryan Redfern

AFTER A GREAT SUMMER, IT'S time to get back to work at NAAIM. Coming up in just a few weeks is our 2023 OUTLOOK Conference. We are meeting in Chicago this year, from Nov. 6-7 at the Hyatt Regency O'Hare Chicago. The line-up of speakers is exceptional. I am looking forward to hearing the thoughts of:

- Jim Bianco, Bianco Research
- Larry Williams, I Really Trade
- Jay Kaepfel, SentimentTrader.com
- Thomas Giachetti, Esq., Stark & Stark Attorneys at Law
- Ryan Detrick, Carson Group
- Suzanne Norman, CIMA®, CPCC, Suzanne Norman Coaching and Consulting LLC
- Jeff Benjamin, ETF.com
- Marc Hans, Hubspot, and Dirk Pearson, Advyzo
- along with the NAAIM sponsors and our members.

There's still time to join us in Chicago. Group room rates are available at the Hyatt through October 16 and there are still a few spaces left.

Outlook is a very different, more intimate experience than our Annual Conference. With its smaller size and focus on member participation, it's an event I believe NAAIM members will enjoy. If you have the opportunity, don't miss it this year! You will find information about our speakers in the following pages. To register, visit <https://www.naaim.org/outlook/>.

There's a lot happening at NAAIM. Many of the association's long-time members have retired and are focusing their lives in new directions. Rebuilding our membership numbers and bringing in younger members has been a priority for the last two years. We've been asking ourselves: how do we bring the next generation into active management and get back to that original sharing of ideas and openness that has characterized NAAIM?

One of the most effective tools we have found is improving our social media presence to build NAAIM (and name) recognition. Thanks to a lot of help from NAAIM's social media and agenda committee member groups, we are seeing positive results.

You may recently have noticed expanded coverage of the NAAIM Exposure Index. NAAIM is now posting the index weekly on a number of different social media. I'm glad to note that it has generated considerable attention. We are also starting to work on redoing the NAAIM website – another long overdue task.

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OUTLOOK 2023

CONFERENCE

Meet Outlook 2023's Outstanding Presenters

The Outlook for Inflation and the Economy in 2024

Will inflation return in 2024? Will the economy have a recession in 2024? **Jim Bianco** offers answers to these questions at Outlook 2023.

Jim is President and Macro Strategist at Bianco Research, L.L.C. Since 1990 his commentaries have offered a unique perspective on the global economy and financial markets. Unencumbered by the biases of traditional Wall Street research, Jim has built a decades long reputation for objective, incisive commentary that challenges consensus thinking. In nearly 20 years at Bianco Research, Jim's wide-ranging commentaries have addressed monetary policy, the intersection of markets and politics, the role of government in the economy, fund flows and positioning in financial markets.

Jim appears regularly on *CNBC*, *Bloomberg* and *Fox Business*, and is often featured in the *Wall Street Journal*, *Bloomberg News*, *Grants Interest Rate Observer*, and *MarketWatch*. Prior to joining Arbor and Bianco Research, Jim was a Market Strategist in equity and fixed income research at UBS Securities and Equity Technical Analyst at First Boston and Shearson Lehman Brothers. He is a Chartered Market Technician (CMT) and a member of the Market Technicians Association (MTA). Jim has a Bachelor of Science degree in Finance from Marquette University (1984) and an MBA from Fordham University (1989).

Where Now, What Next, and When the Bull Market Ends

Learn what the best recession indicators are and what they say now; what cycles matter, and the road map the stock market will be on for the next 12 months in this presentation by **Larry Williams**.

Jim Cramer calls presenter Larry "Legendary" for his over 60 years in the markets. Others call him Legendary for winning real-time trading contests trading \$10,000 to \$1,100,000 as well as the fact today's contests are usually won by his students. Larry's unique indicators are used by funds and traders around the world. He has been honored with lifetime achievement awards by the International Federation of



Speakers, clockwise from left top, Marc Hans, Tom Giachetti, Larry Williams, Ryan Detrick, Jim Bianco, Suzanne Norman, Jeff Benjamin and Jay Kaepfel.

Technical Analysts and Market Technicians Association, today the Chartered Market Technicians Association.

"In a business known for one hit wonders, Williams has endured, passing the test of time... If there is one person who embodies the mind and the spirit of the individual trader during the entire 40 years existence of futures it probably would be Larry Williams." - *Futures Magazine November 2012*

13 Clues This Bull Market Still Has Legs

Most investors focus on the negatives, but there are many positive things taking place out there. Focusing on facts and looking at the macro environment, sentiment, policy, and fundamentals will show a much different backdrop that you hear about on TV.

Presenter **Ryan Detrick** serves as Carson's Chief Market Strategist. In his role, he is responsible for advancing Carson's Investment Research team, delivering market insights and expanding the firm's investment platform. Beyond this, he provides research and guidance that drives growth for the more than 130 Carson partners who collectively manage close to \$30 billion in assets.

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Meet Outlook 2023's Outstanding Presenters

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How To Be a Financial Ally to Women

"How to be a financial ally to women" was built to address a major challenge facing financial professionals - female clients consistently report that they do not feel seen and heard. Most concerning- 70% of widows say that they change advisors after their spouse's death. This presentation will provide you with insights on the obstacles women face in their professional and personal lives - wage gap, unpaid caregiving, longevity - and practical ways to build processes in your business that display your emotional intelligence, not just your investment intelligence. By connecting better with your female clients, you have a greater chance to retain them as well as grow your referrals. And remember - demographic shifts mean there will be far more women in your practice. By age 65, there are 125 women for every 100 men. At age 85, there are 178 women for every 100 men. Surveys also predict women will control a third of all U.S. assets by 2030 - more than \$30 trillion. The question - how can you help them enjoy this financial power, fearlessly?

Presenter **Suzanne Norman**, CIMA®, CPCC, is a certified coach, speaker, financial literacy expert and follows the motto, "Scientia potentia est." When we have self-knowledge - who we are and what we want - we are much more likely to get it. Suzanne is committed to helping strengthen the financial lives of women. With over three decades as a consultant and leader in the investment management industry, she has learned many best practices to help women, and their male allies, attain strong financial skills. Her belief - women are only truly empowered when they have confidence in this aspect of their lives.

Suzanne earned a BA in Psychology and is a Certified Professional Co-Active Coach (CPCC). She holds the Certified Investment Management Analyst® (CIMA®) certification and a Certificate in Women in Leadership from Cornell. Suzanne's consulting work includes roles as an Education Fellow for the Retirement Income Institute, a Senior Education Advisor for the Alliance for Lifetime Income (501c6), and as an Advisor for the Grossman School of Business' Women in Leadership Program at the University of Vermont.

The Most Important Indicators I Follow (and what they are saying right now)

Learn a handful of simple, but useful indicators to quickly identify the major trend in the stock, bond and commodities markets.

Jay Kaepfel is Senior Research Analyst for SentimenTrader.com and provides regular financial market insight and analysis on a wide range of market topics, including stocks, ETFs, futures, options, and seasonality. His actionable reports highlight unique opportunities for individual and institutional traders. Jay has over 40 years

of market experience. He has served as a money manager, both as a Commodity Trading Advisor and as a Registered Investment Advisor managing a traditional stock and bond portfolio. Jay also has an extensive background in writing and educating traders to succeed in the financial markets. He is the author of "Seasonal Stock Market Trends" (Wiley), "The Four Biggest Mistakes in Option Trading" (Traders Library), "The Four Biggest Mistakes in Futures Trading" (Traders Library) and "The Option Trader's Guide to Probability, Volatility and Timing" (Wiley). He also writes a monthly column on options trading for *Technical Analysis of Stocks and Commodities* magazine. Jay's readers trust him to deliver clear and actionable insights on stocks, ETFs, commodities, options, futures and seasonality.

SEC Exams Become More Onerous: Hot Topic Issues and More

Thomas D. Giachetti is Chair, Investment Management & Securities Practice Group at Stark & Stark - Attorneys at Law. 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,

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The poster features the NAAIM logo at the top, followed by "CHICAGO" in large, glowing letters. Below that, it says "LIVE NATION WELCOME DREAM THEATER". At the bottom, there are three circular images: a map of Chicago, a stylized star, and a purple flower. The text "Outlook 2023" is written in large, red, handwritten-style letters across the bottom. Below that, it says "CHICAGO, ILLINOIS Nov. 6-7". At the very bottom, it says "MEET YOUR PEERS IN PERSON THIS FALL!" followed by a list of bullet points: "Market forecasts from renowned financial analysts.", "Solutions for investment advisory firms in the pandemic warp zone.", "Interactive Networking with active management peers.", and "IDEAS with the potential to drive your advisory practice to greater success!"

MEET YOUR PEERS IN PERSON THIS FALL!

- Market forecasts from renowned financial analysts.
- Solutions for investment advisory firms in the pandemic warp zone.
- Interactive Networking with active management peers.
- IDEAS with the potential to drive your advisory practice to greater success!



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Meet Outlook 2023's Outstanding Presenters

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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.

Tom takes on how to successfully navigate a regulatory exam in an ever-increasing aggressive environment as compliance continues to become more onerous as regulators continue to be increasingly more aggressive, and at times, quite punitive. Included are hot-button issues such as the new DOL Retrospective deadline, cash sweep accounts, and texting, as well as many practice protection and liability issues to help avoid and/or mitigate both adverse regulatory findings and client complaints. This includes full disclosure of conflicts of interest, advisory fees, custodial charges, share class selection, information security, effective initial client in-take and ongoing confirmation processes, and how to best prepare for a regulatory examination.

How To Work with the Media

Working with the media can be a critical part of building and expanding your financial planning practice. Reporters and editors are always looking for new sources and new perspectives to help round out the stories they're working on. And being quoted and presented as an expert can help raise your profile both in the wealth management industry and in the broader universe of clients and prospects. Beyond just being quoted as part of a story, there are also opportunities to be profiled in a feature story about you and your practice. The key is getting your foot in the door and knowing how to connect with and communicate with journalists. This session will guide you through the process of building relationships with reporters and learning when and how to be quoted or represented for publication. Veteran journalist **Jeff Benjamin** will cover the basics and provide a step-by-step guide for

building relationships with reporters, which includes how to get quoted, knowing what's off the record, and understanding what reporters want from you.

Jeff is a veteran journalist with more than 30 years' experience covering the financial markets and broader financial services industry. He most recently worked as a senior columnist at *InvestmentNews*, and prior to that was an analyst at Cerulli Associates and a money management reporter at Dow Jones Newswires. Based in North Carolina, Jeff is a former Marine and has a bachelor's degree in journalism from Central Michigan University.

Unmasking the Magic of CRM Platforms

Marc Hans (Hubspot) and **Dirk Pearson** (Advyzon) explore the applications of their firm's advisor-based platforms in a discussion of Customer Relationship Management platforms.

HubSpot CRM is an all-in-one sales, marketing, operations, CMS, and customer service platform. Co-founders Brian Halligan and Dharmesh Shah based the company on the idea that most customers want to make educated purchases and decisions. They believed that customer relationship management (CRM) tools can facilitate that process. Since its founding in 2005, HubSpot has grown into a global CRM company with offices around the world. HubSpot holds the No. 4 position in our rating of the Best CRMs and it takes the No. 2 spot in our Best Free CRM rating.

Advyzon officially launched its [#integration](#) with @Schwab4RIAs that includes: - digital account opening - digitally submit fees to Advisor Center - firm & account level alerts - end-client statements and tax docs in the Advyzon portal. Advyzon's cloud-based platform combines portfolio management, customizable performance reporting, trading and rebalancing, client web portals, client relationship management (CRM), client billing, and document storage.

Join Us in Thanking Our Outlook 2023 Sponsors for Their Support of NAAIM!





AGENDA

OUTLOOK 2023 | November 6 & 7

Sunday, November 5

4:00 – 6:00 PM Board Meeting
8:00 PM Meet in RED BAR lounge at the hotel for a night cap and your first drink is on NAAIM!

Monday, November 6

7:30 AM Registration – Breakfast in the Sponsor Hall
8:30 AM Welcome – Ryan Redfern, NAAIM President
8:45 AM **The Outlook for Inflation and the Economy in 2024** - James Bianco, President and Macro Strategist, Bianco Research LLC.
9:45 AM **A Look at the Markets and Political Landscape** – Anu Gaggar, Vice President, Fidelity Capital Markets - hosted by CEROS
10:45 AM Refreshment Break
11:00 AM **Where Now, What Next and When the Bull Market Ends** - Larry Williams, Trader and Author, I Really Trade
12:00 PM Lunch - Sponsor Introductions
1:00 PM **13 Clues This Bull Market Is Just Getting Started** - Ryan Detrick, Carson Group
2:00 PM **SEC Exams Become More Onerous: Hot Topic Issues and More** - Thomas Giachetti, Esq, Stark & Stark Attorneys at Law
3:00 PM Refreshment Break
3:30 PM **Unmasking the Magic of CRM Platforms** – Marc Hans, HubSpot; Dirk Pearson, Advyzon
4:30 PM **NAAIM Member Round Tables:** Member participation. Informal discussions on a variety of topics: Marketing, Trading Techniques, Backoffice, Compliance
6:00 – 9:00 PM Piece Pizzeria and Brewery

Tuesday, November 7

7:30 AM Breakfast in the Sponsor Hall
8:30 AM **Analyzing the Macro Landscape** – Michael Schwager, Managing Director of Equities, Guggenheim Investments
9:30 AM **Marketing** – Marc Hans, HubSpot
10:30 AM Refreshment Break
11:00 AM **Media Exposure for Advisors** - Jeff Benjamin, Wealth Management Editor, ETF.com
11:30 AM **Manager's & Media: Tales from our past – Member Panel**
12:00 PM Lunch – Roundtable Summaries
1:00 PM **The Most Important Indicators I Follow (and what they are saying right now)** - ay Kaepfel, Senior Research Analyst, SentimentTrader.com
2:00 PM **How to Be a Financial Ally to Women** - Suzanne Norman, CIMA®, CPCC, Principal, Suzanne Norman Coaching and Consulting LLC
3:00 PM **NAAIM Member Panel** – Follow up to Monday CRM Panel
4:00 PM Conference Adjourns



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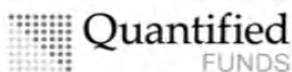


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QCGDX



Overall Morningstar Rating™

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OTRFX



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The Challenges of ESG Investing

BY JIM LEE

INVESTING IS A BALANCING ACT... HOW DO you get the best returns for the least risk?

Over the past few decades, a new generation of investors have tried to balance investment profitability with doing good. While there are a few variations of this (including faith-based investing), the most common framework is ESG (environmental, social, and governance).

It's somewhat controversial and very subjective. How do you define a socially responsible investment? Is it avoiding businesses in certain industries? Is it finding the best-managed companies? Is it staying away from controversy? Or is it about finding companies that are good at solving everyday problems?

Everyone's scorecard is going to look a little different. Everyone isn't going to be happy with the same investments. Part of my job is building portfolios that match client preferences.

Just for fun, I ran through some screens on our growth stock portfolios. By normal ESG standards, we managed to have low risk exposure to carbon-based industries, animal testing, and stem cell research.

But we've also had greater than average exposure to military and defense stocks, particularly after the invasion of Ukraine.

For our dividend portfolios, we have a lot of companies in petroleum, manufacturing, and big pharma. Getting high dividend yields while doing ESG is tricky!

Investing in tech companies like Google, Facebook, and Apple can get controversial, too. While they are

known to treat their employees well, there are some issues regarding anti-competitive practices, data privacy, "fake news", and treatment of overseas contractors.

There is some research that suggests that ESG companies can outperform their non-ESG counterparts. A meta-analysis by Friede, Bush, and Bassen (2015) (<https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917>) reviewed over 2,000 studies and found a positive correlation between ESG factors and corporate financial performance.

How about investor returns? Do ESG screens make a difference? Let's make a quick comparison between the world's largest S&P 500 Index ETF (SPY) and its socially responsible counterpart, the MSCI KLD 400 Social ETF (DSI). The KLD 400 is virtually identical to the S&P 500... without 100 of the "worst-offenders" from an ESG perspective.

Counterintuitively, the ESG index has slightly higher risk... note the larger upside/downside capture ratios relative to the benchmark. This is interesting simply because you'd expect the companies in this index to have fewer bad headlines, PR meltdowns, and social media disasters. The socially responsible index compares well based on historical returns (even with a higher expense ratio). Net of costs, there was an added return benefit of 0.25% year. It's incremental, but real.

Since last January, the performance gap has been much higher... over 1.4%.

Where do these excess returns come from? Is it strictly by "doing good", or by doing something else?

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Name	Ticker	Total Ret YTD (Daily) USD	Total Ret Annulzd 3 Yr (Mo-End) USD	Total Ret Annulzd 5 Yr (Mo-End) USD	Sortino Ratio 3 Yr (Mo-End) USD	Upside Capture Ratio 5 Yr (Mo-End) USD	Downside Capture Ratio 5 Yr (Mo-End) USD	Prospectus Net Expense Ratio
Benchmark: S&P 500 TR USD		17.54	13.72	12.20	1.13	100.00	100.00	
SPDR® S&P 500 ETF Trust	SPY	17.46	13.63	12.12	1.13	99.66	99.80	0.09
iShares MSCI KLD 400 Social ETF	DSI	18.82	13.54	12.37	1.08	101.95	102.16	0.25

The Challenges of ESG Investing

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One way to get insights on manager performance is by doing an attribution analysis. The first step is to look at sector exposure... you'll see that the ESG fund has more technology and less energy.

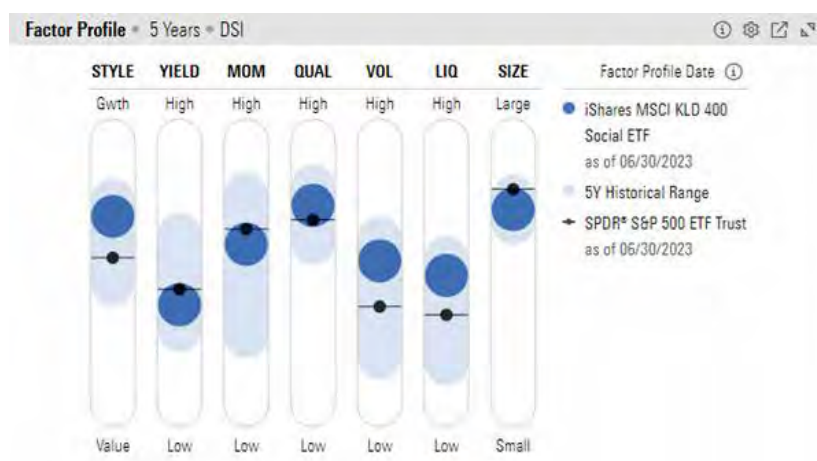
Morningstar also looks at other factors that can explain outperformance, including style (growth vs. value), yield (dividends), price momentum, quality (profitability), volatility (size of daily price swings), liquidity (overall trading activity), and size (large or small company).

Over the past five years, the ESG screens used in the MSCI KLD 400 Social ETF appear to have a bias towards technology companies and growth. This may have had

the net effect of adding 0.25% to annual returns. It also explains the slightly higher risk.

As a professional futurist and investment manager, I enjoy looking at the intersection between finance and social trends. We live in a controversial world, and few things are more controversial in finance now than ESG. I'd like to think that we are investing in companies that are future focused. This means building long-term solutions for people, while still making sense from an investment perspective.

Jim Lee, CFA, CMT, CFP
Founder, StratFI





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Global Cryptocurrency Adoption and the Preference for Bitcoin in Emerging Economies

BY TODD GROTH, CFA

Introduction:

Amidst the ongoing regulatory developments surrounding the introduction of a Bitcoin Spot ETF in the United States, it's crucial to remember that cryptocurrencies and digital assets constitute a global market. The traditional financial system has often been centered around New York, the US Dollar, and the Swift Payment System, which might contribute to a certain myopia regarding global crypto adoption. However, insights from the upcoming 2023 Geography of Cryptocurrency report by Chainanalysis (link [here](#)) help provide a broader perspective on the world of blockchain and digital assets.

Emerging Economies Lead in Crypto Adoption:

In the Chainanalysis report, they rank countries by global crypto adoption, revealing an interesting trend: nearly 75% of the countries within the Top 20 are emerging market economies. These leaders in crypto adoption are not only experiencing economic and demographic growth but also represent a significant portion of the world's population.

Furthermore, these emerging economies tend to have lower levels of banking infrastructure compared to their developed counterparts. They also possess greater demographic growth rates than the more advanced economies, further supporting the long-term growth of cryptocurrencies and the digital asset market.

Google Search Insights:

To gain additional insights into global adoption trends, we analyzed Google search results over the past five years for Bitcoin and Ethereum in various countries and normalized the data for comparison. The results paint an intriguing picture.

The scatter chart divides countries into four quadrants, with Bitcoin and Ethereum search interest on the X and Y axes, respectively. Western Europe and the Philippines show a preference for Ethereum searches, while emerging economies exhibit greater interest in Bitcoin. Switzerland, an outlier, displays average Bitcoin interest and significant Ethereum interest, likely due to its unique status as the country headquarters of the Ethereum Foundation.

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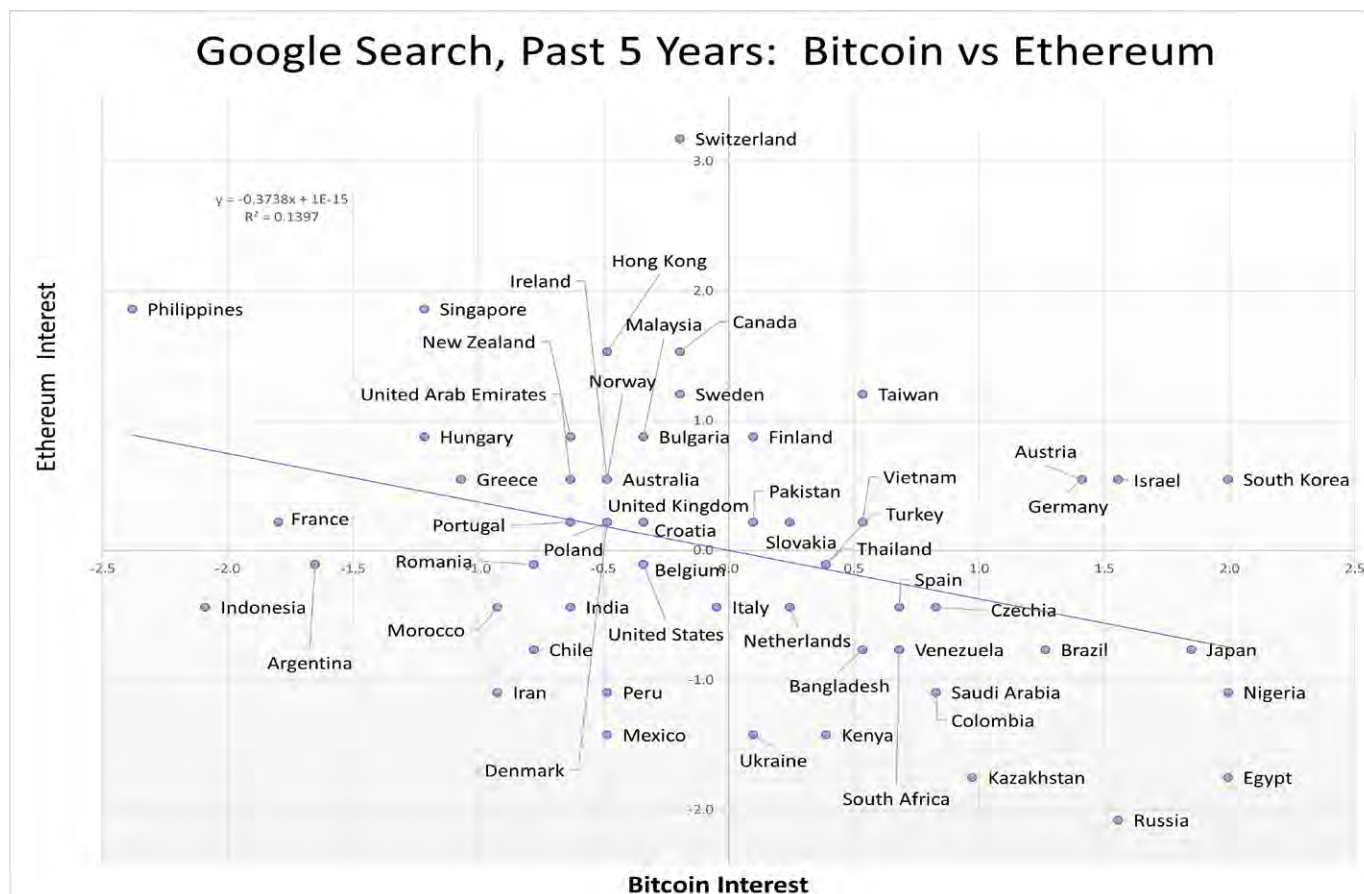


Figure 1: Search Trends for Bitcoin and Ethereum, normalized, from 9/27/18 - 9/27/23. Source: Google

Global Cryptocurrency Adoption and the Preference for Bitcoin in Emerging Economies

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Explaining the Preference for Bitcoin in Emerging Economies:

To understand the preference for Bitcoin over Ethereum in emerging economies, we must consider the context of these economies compared to their developed counterparts. Emerging economies often grapple with weaker and more volatile currencies, less established property rights, lower rates of financial inclusion, and less developed financial infrastructure. In these conditions of economic instability, Bitcoin's primary use case as a store of value becomes highly attractive. People in these countries primarily seek to safeguard their wealth from rapid depreciation, and Bitcoin's limited supply and deflationary nature offer a hedge against inflation.

Bitcoin's widespread recognition and acceptance compared to Ethereum and other cryptocurrencies, make it a more accessible form of payment and investment. It enjoys listing on numerous cryptocurrency exchanges, facilitating ease of access for individuals in emerging economies.

The simplicity of Bitcoin as digital cash and a store of value makes it more comprehensible to those who may lack technical expertise or familiarity with smart contracts and complex blockchain applications. This stands in contrast to Ethereum, which is a more sophisticated platform used for software development and enhancing existing financial infrastructure.

Furthermore, Bitcoin's utility in international transactions and remittances is valuable in countries lacking robust financial infrastructure. These nations also typically offer fewer investment options than developed economies, making Bitcoin an attractive choice due to its history of price appreciation.

Conclusion:

While Bitcoin remains the preferred cryptocurrency in emerging economies due to its store of value properties, it's essential to acknowledge that individuals and businesses in these regions also utilize other cryptocurrencies, including Ethereum, for purposes such as DeFi and accessing global markets. The choice between Bitcoin and Ethereum often depends on the context of the existing financial infrastructure, specific financial use cases and the level of understanding and acceptance of these technologies within a given region.

In the ever-evolving landscape of cryptocurrencies, it is vital to recognize that different regions have unique needs and preferences, contributing to the diverse and dynamic crypto market we see today.

Todd Groth, CFA is Head of Research, CoinDesk Indices. CoinDesk Indices is a leading provider of crypto indices by AUM since 2014 and powers the world's largest digital asset products.

President's Letter

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Another recent change is closing down the NAAIM message board due to declining use. Instead, we're focusing on building discussions on social media platforms, where more of our members are currently active. NAAIM's private Facebook group has become an active exchange of ideas, as has LinkedIn. To optimize NAAIM's social media presence, we are also using a social media manager program.

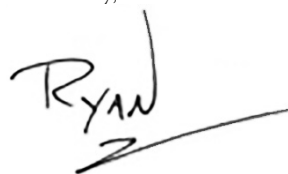
The result – membership is rebounding. There are increasingly positive vibes within NAAIM and lots of committee meetings going on every week. Our committees are working hard to improve NAAIM and I look forward to the momentum continuing!

On the Active Management side, it doesn't hurt to have a volatile market with lots of uncertainty. This fall, we are seeing clients wanting to be more defensive. I tend to think this may be a good indication that a market bottom is close at hand. Seasonality has been playing out in textbook fashion. If the trend continues, the fourth quarter should be a market not to miss out on. At our firm, we're looking forward to it.

Finally, I'm not sure if it is a side effect of getting out from under the Covid shutdowns, but Laura and I have really enjoyed traveling recently. We made it to England this summer – where I don't remember ever seeing so many Americans! Coming up next is the Albuquerque balloon festival, and then Outlook 2023 in Chicago and seeing a great group of NAAIM friends.

I hope you had a good summer and are looking forward to a busy year end. Please keep an eye out for everything that is going on at NAAIM and join us in building for the future.

Sincerely,



Ryan Redfern

Welcome to New NAAIM Members

Dino Lopresti
LoPresti Private Wealth Management
3745 Medina Road, Ste. G
Medina, OH 44256
330-952-2555

Adam Quiring
Q3 Asset Management
2175 Cole Street
Birmingham, MI 48009
248-566-1122

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- How active trading strategies affect the cost of ETF and NTF mutual fund ownership
- How to discuss cost differences of NTF mutual funds versus ETFs with your clients
- Why NTF ETFs may not be less expensive than NTF mutual funds for active trading strategies

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**Contact Mike Bielski at 773 326 9616 or
Mike.Bielski@guggenheiminvestments.com.**

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Communications Surveillance: A Company-Wide Consideration

BY SEAN STAPLETON

THE SECURITIES EXCHANGE COMMISSION'S (SEC'S) primary function is to protect investors by drafting and enforcing regulations which hold firms accountable for their actions. One fundamental example of this is that all interactions between brokers and investors must be scrutinized to ensure no wrongdoing.

The prevalence of digital communications in the modern world has prompted a regulatory overhaul, and since September 2022, the SEC has expanded record-keeping requirements significantly. Two of their standout actions are listed below.

- i) Rolling out a new marketing rule, which has fundamentally altered which communications must be captured by regulated firms.
- ii) Alongside the Financial Industry Regulation Authority (FINRA) and Commodities Futures Trading commission (CTFC), administering billions of dollars worth of penalties in an industry-wide crackdown on the illicit use of mobile devices.

As a result of this activity, compliance has taken center stage. Communications surveillance platforms are now less of an insurance policy and more of a mandatory requirement. More than ever, the compliance function directly impacts staff behaviors, and so its implementation will affect the entire organization it serves, rather than just the compliance team. It's no longer just a box to be ticked.

We'll take a deep dive into the critical roles within any organization, and how they influence a buying decision for monitoring and surveillance vendors.

Chief Financial Officer

Cost-effectiveness - As with every product or service that the firm uses, cost is a major consideration for the CFO. Compliance can be a costly business, and mitigating much risk around non-compliance will be forefront for the CFO. Assuming value from any potential vendors will also be critical, meaning priorities will lean towards competitively priced offerings.

Transparent fees - When considering service agreements, it's important to understand that 'hidden' fees are common in the surveillance sector. Firms may be billed additionally for platform training, for example, a feature which could reasonably be expected to be included in the cost of service.

[SEC Rule 17a-4](#) mandates that records of business communications must be maintained for six years. In order to achieve this, firms may be charged data export fees when they leave their surveillance vendor. This ties users into the working relationship indefinitely, as the export fee can be extremely costly, as it's generally based on the volume of data.

Hidden fees make budgeting very difficult as the CFO can never be certain what's around the corner, or what's waiting at the end of the contract.

Modern Platform Capture - As mentioned, the SEC and CTFC [issued over \\$2 billion worth of penalties](#) last September over the unauthorized use of WhatsApp across the industry. Any CFO will be keen to keep their firm out of the financial firing line, so while there is greater cost in monitoring additional channels (WhatsApp, Telegram), they may deem it worthwhile for full peace of mind.

Regulators take time to legislate for new forms of misconduct, but have shown a willingness to issue retrospective penalties once they have done so. From SMS to WhatsApp, iMessage, WeChat and Telegram, the list of different (largely mobile) corporate channels has grown as digital platforms have proliferated. Partial compliance is just another phrase for noncompliance, and so it would make sense for the CFO to support their COO in capturing as many of these channels as possible, to avoid any nasty surprises in the future.

Evolving capture capabilities - The CFO should look for a vendor that is able to react quickly to develop their product and evolve with regulatory demand. Some leading providers are built on antiquated systems and require longer product development cycles, which could have damaging financial repercussions.

Chief Operating Officer

Minimal restrictions - For any business, communicating on their clients' terms gives a competitive advantage. By limiting the number of authorized channels that brokers can use, it may mean binding them to a platform which a client or prospect is not comfortable with using. Deals come down to making people's lives easier, and a COO will know that the less restrictions they impose, the better. For example, SMS is the [preferred avenue of brand communication for 48% of consumers](#). Email is the next highest, with just 24%.

It's not only about making consumers happy; the COO can optimize efficiency by enabling brokers to operate compliantly, whatever their preferred channel of communication may be.

Finger on the pulse - Capturing many platforms is not just about regulatory cover. There's a reputational risk if firms can't capture modern platforms, as they won't engage tech-savvy prospects. The COO will recognize that a conservative approach is not sustainable in the current digital landscape and should look for adaptability and modern platform capture in their solution.

Native Threading - Native threading should also feature on the COO's wishlist, as once again, the less habits need refining, the more efficient the compliance process will be. In the communications surveillance sector, frustration has intensified around messages not being displayed in their native

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Communications Surveillance: A Company-Wide Consideration

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format, making compliance reviews confusing and time-consuming. By reviewing content in the format they recognize, they'll save time and speed up the entire operation.

Actionable Insights - The insights from archived data are valuable business drivers. While all vendors will provide this information to a certain extent, one key differentiator is the quality of website capture. Website performance can be best evaluated and experienced through 'replay' - the ability to access an interactive version of the website as it appeared at the time of capture.

This is more effective than the relatively disjointed process of analyzing screenshots, as it gives a more authentic feel for the user journey. It is more appealing to regulators too, for the same reason. As a result, the COO should only settle for full replay capabilities in order to better understand their customers.

Customer Service - Communications surveillance software is technical, and as its capabilities expand, its implementation across a wider team becomes more complicated. This is often difficult with older, less digitally adept employees, and so a reputation for prompt, effective training and customer service is extremely valuable. This should be a key consideration for the COO, to avoid damaging bottlenecks.

Legal Department

Marketing rule compliance - Ideally, the surveillance solution will capture all digital channels in order to comply with the new [SEC Marketing Rule](#), which is mandatory. By capturing everything, from Slack to email, websites and social media, the legal department won't need to worry about the implications of digital 'advertisements' being missed.

Mobicomms compliance - We have already discussed the huge fines issued across financial services in the past year, for the improper use of mobile messaging apps. The legal department will need to consider that even if a compliance risk is identified and certain channels are banned, they could still be used, unauthorized, by employees that have come to rely on their convenience. It is therefore in the legal team's interest to capture as many platforms as possible.

Furthermore, if a solution can be implemented which separates business and private communications on personal (BYOD) devices, this would certainly be worth exploring as an additional layer of protection.

Full-Text Search - When a legal hold (or litigation hold) is activated during the process of [eDiscovery](#), the organization in question can suddenly be compelled to produce six years worth of electronic records. Archived content can be used to support such situations, and it's extremely useful if the accumulated data is easily searchable, so the legal department can pinpoint the appropriate sections without rooting through vast swathes of data. Searchability is therefore a very valuable feature, and one that legal teams will depend on.

Evolving capture capabilities - Legal monitoring takes up a large chunk of the legal team's day-to-day workload. It's important that the solution they select is able to pivot quickly and adapt in the transitory compliance landscape, which they will be pushing to keep pace with.

Chief Technology Officer

A future-proof solution - The CTO is likely to favor a vendor that is in tune with modern communications channels. This means less limitations, greater adaptability, and simpler integrations with any wider tech projects. Even if the firm is not currently using a full suite of modern platforms, the wider surveillance capability is useful should they wish to expand their communications channels in the future.

Onboarding - While the CTO will be technically minded, they'll benefit from a vendor that leads on onboarding, ensuring that everything is in place for a smooth transition while project-managing the vital (and sensitive) process of data migration. Poor response times and connection difficulties should be avoided, so it's worth conducting some research to ensure no time is wasted.

Certification - Data surveillance is a complex procedure, fraught with technical and legal considerations. The CTO will need peace of mind that their company data is being handled appropriately in a reliable, robust, platform. Appropriate ISO & SOC certifications and listings with the relevant authorities (such as the FINRA Compliance Vendor Directory) should provide reassurance.

The Greater Good

There are clearly myriad factors when considering a communications surveillance vendor. Success looks different in every role, and so different features provide different benefits to different stakeholders.

Many of these details are intrinsically linked. Technological shortcomings could eventually have legal repercussions, which will in turn impact the firm's finances, and so on. Businesses should therefore strive to choose a solution that has the best holistic impact on your organization, keeping them out of the headlines while having minimal impact on employees' day to day behavior.

Most importantly, they should do their research. The status quo shifts frequently in the compliance landscape, and it would be smart to equip themselves with a solution that can adapt with it.

Sean Stapleton is a Digital Marketing Executive at MirrorWeb, a world-wide leading digital archiving solution for compliance and digital preservation needs. Founded in 2012, Mirrorweb has offices on two continents and a global staffing presence.