

Equity Risk Management Strategy (ERMS)

Strategy Overview

December 2018



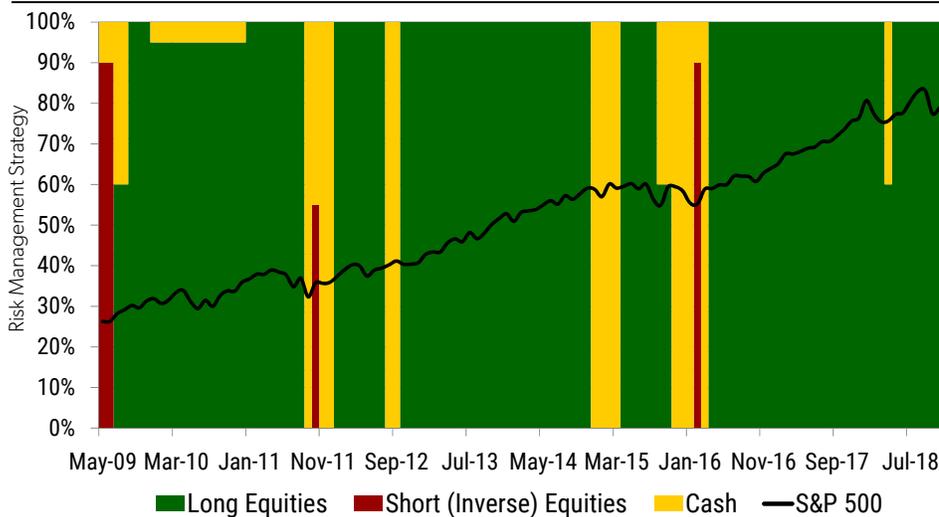
How It Works

- ▶ Incorporating the Equity Risk Management Strategy involves carving out a portion of an equity portfolio for tactical allocation (could range from one-third to a maximum of 50% of the portfolio). The Strategy analyzes technical and fundamental indicators to determine the current market condition and recommends the appropriate tactical allocation.
- ▶ The fundamental indicator tracks the trend in changes of expected earnings for the S&P 500. Two or more consecutive months of declining expectations increases the risk of large market losses and is considered unfavorable, while two or more consecutive months of increasing expectations is considered favorable.
- ▶ The technical indicator determines the market favorability based on the current level of the Dow Jones Industrial Average (Dow).

Status of Technical and Fundamental Indicators	Market Condition	ERMS Action	Portfolio Allocation
<ul style="list-style-type: none"> Earnings expectations (fundamentals) rising Technical conditions positive 	Favorable	Fully Invested	Tactical Allocation: Invested in equities
Either fundamental <u>OR</u> technical conditions are negative	Caution	Reduce Equity Exposure	Tactical Allocation: Cash
Both fundamental <u>AND</u> technical conditions are negative	Unfavorable	Hedge Equity Exposure	Tactical Allocation: Short (Inverse) Equities

ERMS Tactical Allocation History

May 31, 2009 – November 30, 2018



Objective

Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to potentially provide downside risk mitigation and volatility control

Highlights

Seeks to avoid large market losses

- The tactically allocated portion helps manage the portfolio's exposure to equity markets. The tactical allocation would be fully invested in equities when market conditions are favorable. When conditions are deemed unfavorable, tactical allocation is shifted to cash or inverse.
- Large losses make investors vulnerable to ill-timed investment decisions that can, in turn, undermine the pursuit of financial goals.
- ERMS seeks to reduce portfolio volatility and provide risk mitigation from extended market declines, helping investors to stay invested during periods of market turbulence.

Addresses the Shortfalls of Traditional Risk Management Techniques

ERMS seeks to provide risk control during periods of enormous market stress when the performance of various asset classes becomes highly synchronized, and the traditional risk management approach of asset class diversification alone is not sufficient.

Rules-Driven Decision Making

Tactical allocation decisions are based on a predetermined rule-set. This approach helps minimize the subjective biases and imposes discipline and consistency to investment decisions.

This strategy may invest in inverse ETFs.

Current Allocation (as of December 1, 2018)

Assumes a 60% stock / 40% bond allocation with 33% of the equity invested in ERMS

Fundamental Indicator: **POSITIVE**

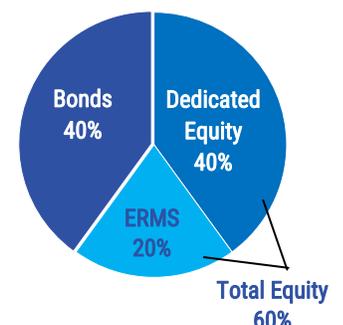
Forward 12-month S&P 500 EPS estimates declined 0.3% to \$172.93 in November. This is the first month-over-month decline since February 2017. The Fundamental Indicator requires two consecutive declines to move to unfavorable, so the Fundamental Indicator remains positive. However, a decline in December would move it to a negative reading.

Technical Indicator: **POSITIVE**

The Dow declined to within 140 points of a 10% decline from its high late in November, but rallied the last five trading days to post a 1.68% gain for the month. The Dow closed November less than 5% from its all-time closing high. The Technical Indicator remains Positive.

Effective Portfolio Allocation

ERMS Allocation
100% Long Equities
(Unchanged)



About EquityCompass Strategies

EquityCompass Strategies is the business name of Choice Financial Partners, Inc., a registered investment advisor and wholly owned subsidiary of Stifel Financial Corp. EquityCompass offers a broad range of portfolio strategies based on its research-driven, rules-based investment process, which merges traditional investment theory with quantitative techniques. As of October 31, 2018, EquityCompass Strategies provided portfolio strategies with respect to total assets (Assets Under Management and Assets Under Advisement) over \$4.0 billion.

Important Disclosures

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Strategy Specific Risks: Any investment involves risks, including the risk of a loss of principal. The Equity Risk Management Strategy invests primarily in ETFs, which are subject to the risk that the values will fluctuate with the value of the underlying investments or indices the ETFs are tracking. *Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Inverse ETFs are considered risky and are not suitable for all investors. Typically, these products have one-day investment objectives, and investors should monitor such funds on a daily basis. Inverse ETFs are constructed by using various derivatives for the purpose of profiting from a decline in the value of an underlying benchmark. Investing in inverse ETFs is similar to holding various short positions, or using a combination of advanced investment strategies to profit from falling prices. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.* Short selling incurs significant risk. Theoretically, securities sold short have unlimited risk.

Description of Benchmark(s): The S&P 500 index is a broad market index that tracks the performance of 500 stocks from major industries of the U.S. economy. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques, strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Indices are unmanaged, do not reflect fees and expenses, and it is not possible to invest directly in an index. Diversification (or asset allocation) does not ensure a profit or protect against loss.

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