





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

## How It Works

- Incorporating the 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"> <li>▪ Earnings expectations (fundamentals) rising</li> <li>▪ Technical conditions positive</li> </ul>	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

## 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.

### Research Based

Strategy incorporates the insights developed by analyzing 10 years of fundamental data as well as technical data dating back to 1916 and covering all bear markets since The Great Depression.

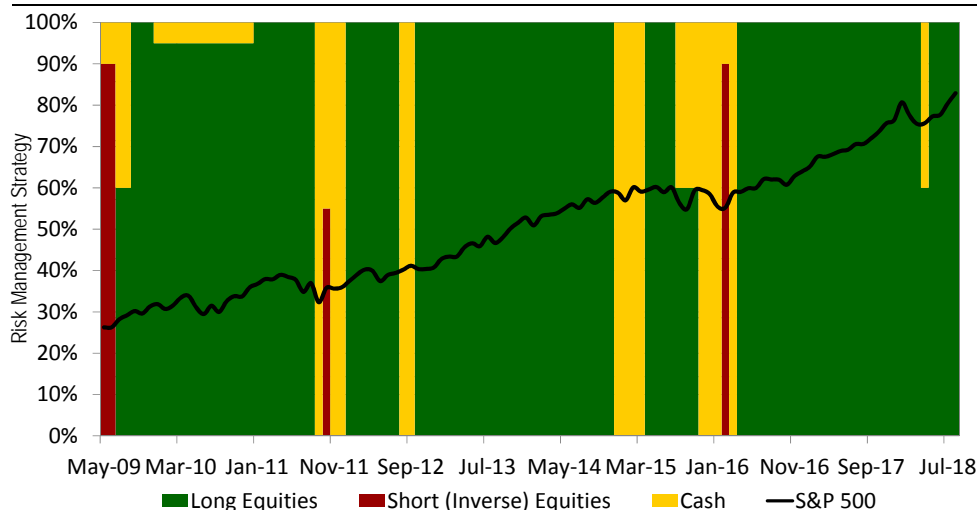
### Rules-Driven Decision Making

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.

## ERMS Tactical Allocation History

May 31, 2009 – September 30, 2018



## Current Allocation (as of October 1, 2018)

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

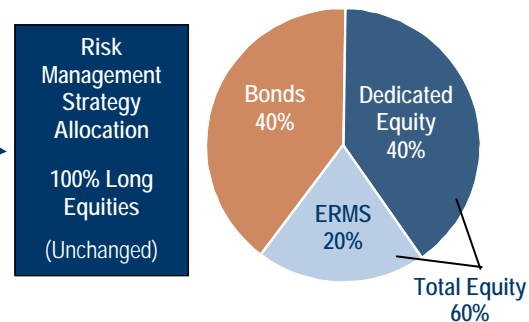
### Fundamental Indicator: POSITIVE

S&P 500 forward 12-month EPS estimates increased 0.8% to \$172.40 in September. This is the 19th consecutive increase, with estimates up 18.2% from yearend 2017 levels. The Fundamental Indicator remains positive.

### Technical Indicator: POSITIVE

The Dow hit new all-time closing highs twice in September before finishing the month up 1.90% to 26,458.31. The month end close was within 1.07% of the all-time closing high set on September 21. The Technical Indicator remains positive.

## Effective Portfolio Allocation





### 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 September 30, 2018, EquityCompass Strategies provided portfolio strategies with respect to total assets (Assets Under Management and Assets Under Advisement) over \$4.2 billion.

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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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