



# Alpha Seasonal Strategy

June 30, 2018

**Strategy Philosophy:** The Alpha Seasonal Strategy is an asset allocation strategy designed for investors seeking a long-term, systematic approach to risk management. The two main objectives of this strategy are: 1) to avoid large losses, which can cost investors years of compounding; and 2) to achieve gains every year, which, over time, will be high enough to offset the effects of inflation and taxes, providing a meaningful real rate of return. This strategy is intended to provide income investors with a growing income stream sufficient to maintain and grow their standard of living over the years.

The Alpha Seasonal Strategy seeks to exploit three persistent seasonal tendencies in the stock market which have historically affected risk and return for decades. They are: 1) the consistently positive and above-average gains in the pre-election year of the four-year presidential election cycle; 2) the consistent tendency of the stock market to deliver above-average gains from November to May; and 3) the three “power periods” of the fourth quarter. Combining these three seasonal factors into one strategy allows exposure to the stock market during very restricted time periods when Alpha believes the potential risk of loss is low. For more detailed information about this strategy, please refer to the Alpha Seasonal Strategy brochure.

**Strategy Description:** Each year, the Alpha Seasonal Strategy holds a 50/50 combination of an S&P 500 large-cap index fund and conservative bond funds from January 1 to April 30, and then holds a combination of conservative bond funds from May 1 to late-October. The only exception is the nine-month period that extends from January 1 to September 30 of each pre-election year (year three of the four-year presidential election cycle). During this period, the strategy holds a 50/50 combination of an S&P 500 and a NASDAQ 100 index fund.

In the fourth quarter of each year, the strategy invests in three “power period” trades – totaling 20 days – using a Russell 2000 Index fund leveraged by 50%. When not invested in the three power period trades, the strategy is allocated to cash/money market in the fourth quarter.

## HISTORICAL PERFORMANCE FOR PERIODS ENDING JUNE 30, 2018



### Performance Results Net of Fees

#### Annual Calendar Year Returns Ended June 30, 2018

|                         | 2 Qtrs. |       | 2018  | 2017  | 2016  | 2015  | 2014  | 2013  | 2012  | 2011  | 2010   | 2009  | 2008  | 2007 | 2006  | 2005  | 2004 | 2003 |
|-------------------------|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|------|-------|-------|------|------|
| Alpha Seasonal Strategy | -2.06   | 0.82  | -4.23 | -3.29 | 6.40  | 7.20  | 13.70 | -6.00 | 10.17 | 5.08  | 34.39  | 13.42 | 1.34  | 5.36 | 5.99  | 32.72 |      |      |
| S&P:500                 | 2.65    | 21.83 | 11.96 | 1.38  | 13.69 | 32.39 | 16.00 | 2.11  | 15.06 | 26.47 | -37.00 | 5.49  | 15.79 | 4.91 | 10.88 | 28.68 |      |      |

#### Compound Annual Returns for Periods Ended June 30, 2018

|                         | Last Quarter | 1 Year | Last 2 Years | Last 3 Years | Last 4 Years | Last 5 Years | Last 6 Years | Last 7 Years | Last 8 Years | Last 9 Years | Last 10 Years | Last 11 Years | Last 12 Years | Last 13 Years | Last 14 Years | Last 15 Years |
|-------------------------|--------------|--------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Alpha Seasonal Strategy | -0.51        | -4.17  | -3.44        | -3.16        | -0.91        | 0.70         | 1.62         | 1.05         | 2.42         | 3.04         | 5.98          | 5.69          | 5.75          | 6.11          | 5.99          | 6.48          |
| S&P:500                 | 3.43         | 14.37  | 16.12        | 11.93        | 10.79        | 13.42        | 14.59        | 13.23        | 15.28        | 15.19        | 10.17         | 7.82          | 8.83          | 8.81          | 8.63          | 9.30          |

### Risk Overview

| For Periods Ending 6/30/2018<br>Calculated Using Monthly Return Data | Last 1 Year             |         | Last 3 Years            |         | Last 5 Years            |         | Last 7 Years            |         |
|--|-------------------------|---------|-------------------------|---------|-------------------------|---------|-------------------------|---------|
|  | Alpha Seasonal Strategy | S&P 500 | Alpha Seasonal Strategy | S&P 500 | Alpha Seasonal Strategy | S&P 500 | Alpha Seasonal Strategy | S&P 500 |
| Standard Deviation   | 5.01%                   | 8.60%   | 8.16%                   | 10.16%  | 8.40%                   | 9.81%   | 8.70%                   | 10.91%  |
| Beta relative to Index   | 0.40                    | 1.00    | 0.33                    | 1.00    | 0.41                    | 1.00    | 0.31                    | 1.00    |
| Alpha relative to Index  | -10.05                  |         | -7.01                   |         | -4.55                   |         | -2.86                   |         |
| Sharpe Ratio   | -1.11                   | 1.51    | -0.47                   | 1.11    | 0.03                    | 1.33    | 0.08                    | 1.18    |
| Correlation relative to Index  | 0.69                    | 1.00    | 0.41                    | 1.00    | 0.48                    | 1.00    | 0.39                    | 1.00    |
| Maximum Drawdown   | -4.88%                  | -6.13%  | -11.60%                 | -8.36%  | -11.60%                 | -8.36%  | -15.95%                 | -13.87% |

**Disclosure:** Past performance is not a guarantee of future performance. Returns presented above include both actual client performance and hypothetical (backtested) performance. Please see following page for complete disclosures.

## Disclosures to Alpha Seasonal Strategy Data and Illustrations

The Alpha Seasonal Strategy is an asset allocation strategy that seeks to exploit three persistent seasonal tendencies in the stock market which have historically affected risk and return for decades. The model determines, in advance, when to be invested in stock index funds and/or when to be invested in bond funds. Categorized by the four-year presidential election cycle, the investment components of the model are:

- Year 1, 2 and 4 – January 1 to April 30: 50% S&P 500, 25% intermediate-term bond fund, 25% short-term bond fund; May 1 to late-October: 50% intermediate-term bond fund, 50% short-term bond fund
- Year 3 – January 1 to September 30: 50% S&P 500 / 50% NASDAQ 100
- During the fourth quarter of Year 1, 2, 3, and 4: Three power period trades totaling 20 days using the Russell 2000 Index leveraged by 50%. The strategy is invested in cash/money market during the fourth quarter when not invested in the three power period trades. Investors should be aware that the use of leveraged funds in the fourth quarter of each year increases the volatility and risk of this strategy.

For more detailed information about this strategy, please refer to the Alpha Seasonal Strategy brochure.

**Actual client performance: Performance presented since July 2009** represent actual net returns of the Alpha client composite. The net client composite returns include all internal accounts managed by Alpha Investment Management at various custodians that pay Alpha advisory fees ranging from 0.8% to 2.0% annually, and as such, individual results may vary. The Alpha client composite returns are calculated using the time-weighted rate of return method. The monthly composite level performance is calculated by asset-weighting portfolio performance, using end of month market values. Trade date accounting is used for calculation and valuation purposes. The composite returns are net of all fees and trading expenses and reflect reinvestment of dividends, interest and capital gains. Performance results do not reflect the impact of taxes.

A model portfolio of the same name as this strategy may be managed by Alpha and offered by investment advisors at various trading/investment platforms, TAMPs, and/or custodians outside the parameters of the internal Alpha client composite returns. Assets invested in such model portfolios may experience significant dispersion in returns from those of the internal Alpha client composite. The causes of dispersion may include, but are not limited to, higher or lower advisory fees, custodial fees, trading expenses, the date on which a client engaged Alpha's investment management services, and the preference/availability of funds used to implement the strategy (i.e. ETFs vs. mutual funds) at the custodial level.

**Hypothetical Backtested Performance: Returns presented prior to July 2009** are hypothetical (backtested) and represent a reduction in gross returns of 3% annually for fees and expenses, applied quarterly, which would be expected in a real-time internally managed account. (Alpha's maximum advisory fee is 2% per annum. The additional reduction of 1% is approximate for mutual fund expenses not already incorporated in the hypothetical returns.) Returns assume reinvestment of dividends and interest. Performance results do not reflect the impact of taxes. The backtested data does not account for any additional fees and/or trading expenses that may have been incurred at the custodial level. Backtested performance does not represent actual account performance, and the actual results of any Alpha client may have been materially different than the results of the hypothetical results presented.

The Alpha Seasonal Strategy is an active asset-allocation strategy exploiting persistent seasonal factors affecting the stock market. The rules of the strategy are objective and fully disclosed. The backtested computer model applies the rules of the strategy to indexes rather than actual investment vehicles. In the case of bonds, the backtested computer model uses the returns of the Bloomberg Barclays 1-3 Treasury Index. The actual strategy uses a mix of intermediate-term and short-term bond funds – which have different returns than the index. In the fourth quarter, the strategy is invested in cash/money market funds when not invested in the three "power period" trades leveraged by 50%. The results of these trades are contained in the model. The hypothetical returns do not reflect interest that would have been earned on cash/money market funds in the fourth quarter. Other indexes used in the model are the S&P 500, the NASDAQ 100, and the Russell 2000. Indexes are not investment vehicles and persons cannot invest directly in an index. The actual strategy invests in index funds, which may vary somewhat from index returns due to management fees and portfolio structure. The data does include interest and dividends attributed to the S&P 500 and NASDAQ 100 indexes. Even though the construction of the strategy is mechanical, objective, and fully disclosed, hypothetical model results have inherent limitations due to the fact that they do not reflect actual trading and may not reflect the impact that material economic and market factors might have had on the advisor's decision-making if actual client funds had been invested in the strategy. No matter how positive the model returns have been over any time period, the potential for loss is always present due to factors in the future which may not be accounted for in the model.

**Cautions:** The investment strategy that the backtested results were based upon can (theoretically) be changed at any time with the benefit of hindsight in order to show better backtested results, and (theoretically) the strategy can continue to be tested and adjusted until the desired results are achieved. Please note that Alpha has not made any data-fitting adjustments to its managed account model. Backtested or hypothetical data must be approached with caution because it is constructed with hindsight and may not reflect material conditions that could affect a manager's decision process, thus altering the application of the discipline. There is no assurance that these backtested results could, or would have been achieved by Alpha during the periods presented.

The data used to construct the backtested results were obtained from third-party sources, including a database provided by Callan Associates, an institutional investment consultant. While Alpha believes the data to be reliable, no representation is made as to, and no responsibility, warranty or liability is accepted for the accuracy or completeness of such information. The information and opinions expressed in this document are for informational purposes only. Any recommendation or opinion made in this document may not be suitable for all investors. The information contained herein does not constitute and should not be construed as investment advice, an offering of investment advisory services, or an offer to sell or a solicitation to buy any security.

Investors should be aware that the use of leveraged funds for 20 days in the fourth quarter of each year increases the volatility and risk of the equity component of the strategy. Leverage can magnify the losses of an investment during a down market. Given the potential risks involved, strategies employing leverage may not be suitable for all investors.

Past performance does not guarantee future performance. No matter how positive the strategy's returns have been over any time period, there can be no guarantee that the seasonal factors affecting the stock market will persist or that they will have the same intensity as past time periods.

**Index Information:** The S&P 500 Index is market-cap weighted index and is widely regarded as the best single gauge of large-cap U.S. equities. The index includes the common stock of 500 leading companies and captures approximately 80% coverage of available market capitalization. The historical performance results of indices are provided exclusively for comparison purposes only, as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of an Alpha strategy meets, or continues to meet, his/her investment objective(s). It should not be assumed that the performance of Alpha account holders will correspond directly to any index presented or any other comparative index. In the event that there has been a change in a client's investment objectives or financial situation, he/she is encouraged to notify Alpha or their respective financial advisor immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investment strategies devised or undertaken by Alpha) will be either suitable or profitable for a client's or prospective client's portfolio.

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