



# HARVEST INVESTMENT SERVICES

"Harvest Gains and Limit Losses"

## AlphaSolutions Conservative Growth and Income Model

*A portfolio that focuses on dividends with moderate growth*

### Portfolio Goals

**Primary:** Seeks to provide dividend income with moderate growth.

**Secondary:** Seeks to reduce equity market volatility during bear markets by reducing equity exposure.

### Suitability

Investors that require current income from their investments and seek distributions that will keep pace with inflation.

Investors that seek to reinvest dividends as part of a long-term investment strategy.

Investors that do not wish to experience large swings in portfolio volatility and would like active portfolio management to minimize risk.

### Investment Strategy

The Conservative Growth and Income model invests in two major asset classes, fixed income and equities. The CGI fixed income weighting is nearly twenty-five percent whereas the equity allocation is approximately seventy-five percent. We select holdings or Exchange Traded Funds that meet specific goals within each of those two major asset classes. Within this factsheet, we will identify how and why we make investment selections, briefly describe the due diligence process we went through, as well as highlight some key investments and their attributes.

#### Fixed Income Strategy

Within the fixed income asset class, we analyze the long-term interest rate cycle to determine if we should invest in traditional fixed income securities or fixed income investments that minimize interest rate risk, also known as duration risk. Currently, we have objectively analyzed the interest rate cycle, the state of the economy as well as information from the Federal Reserve and determined that there is a greater threat that interest rates will go higher.



Therefore, we screen for sectors that minimize interest rate risk by investing in shorter-term fixed income securities. Also, we seek fixed income investments that have a floating or variable rate component instead of having the interest rate fixed for an extended period. An additional method that we seek to minimize interest rate risk is through the use of various hedges.

To demonstrate how we screen and evaluate fixed income holdings while we focus to minimize interest rate risk is as follows: within the Preferred marketplace we examined a number of preferred ETFs due to the fact that preferred securities have lower duration risk and have historically outperformed traditional fixed income securities such as 10+ year government bonds, municipal bonds and investment grade corporate bonds in a rising rate environment.

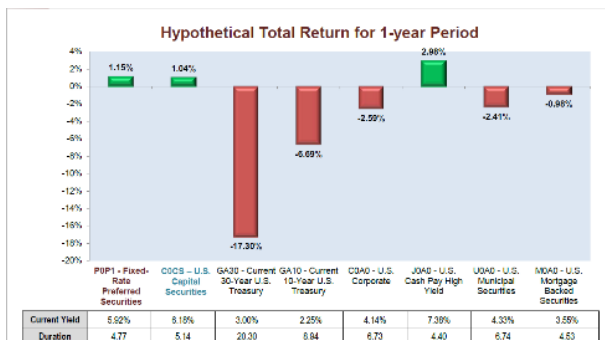


Figure 1: Effect of a 1% Rise in Interest Rates

In our due diligence, we sought managers that had an active approach to minimize duration risk unlike the benchmark that is weighted by debt capitalization with the risk being dependent on the aggregate of issues. Some of the key criteria that we screened for to objectively understand the duration risk inherent to the various preferred ETFs was the attribution mix of fixed, variable or fixed-to-floating coupon rates. In our analysis, we sought ETFs that have a higher percentage of variable or fixed-to-floating coupon rate as a key requirement.

In addition, within the portfolio analysis we surveyed for higher relative coupon yields, which generally have less rate sensitivity in a rising rate environment, all else being equal. In keeping with this theme, we spoke with management to better understand when it is appropriate or when they may switch to shorter maturity issues as either interest rates change or credit risk changes. While we considered how the risk of rising rates will affect the screened ETFs, we also examined the credit quality ratings to make sure that we do not realize more credit risk than the benchmark. Additionally, within our attribution analysis we screen for a greater percentage of the securities to be invested in institutional preferreds than the benchmark.

We identified having a higher percentage in institutional preferreds as an important way to minimize the daily buying and selling or supply/demand of ETF trading risk to a minimum. Retail investors have a higher tendency to become short term traders when market volatility or credit risk propagates itself within the sector. This selling perpetuates price declines by creating additional short term supply that requires a downward price adjustment to balance buyers and sellers. This short term selling artificially creates more price volatility and a diversion from the true value of underlying asset prices.

These are just a few examples of the due diligence process that is done to analyze the risk/reward profile and to select a Preferred ETF that meets our objective of minimizing interest rate risk while providing very competitive yield comparison.

## Equity Strategy

The equity strategy within Conservative Growth and Income model seeks investment strategies that focus on long term dividends from numerous investment strategies and various investment classes. CGI focuses on ETF's that screen for companies that pay a dividend. Therefore, each equity holding will pay a dividend. Some of the ETF's pay a high nominal dividend, for instance, a dividend yield greater than 5%, while others pay a high relative dividend compared to its benchmark, for example, an ETF that uses the S&P 500 as its benchmark and pays a dividend greater than 1.92%.

The importance of dividends cannot be overstated. Between 1900 and 2008, \$1 dollar invested in U.S. equities would have grown in real terms (after inflation) to \$582, while considering price appreciation only it would have grown only to \$6. This corresponds to a real compounded rate of return of 6% with dividends reinvested versus only 1.7% per year without dividends reinvested.

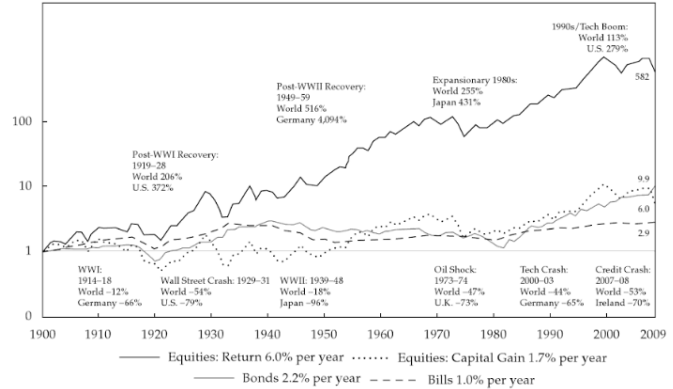


FIGURE 9.6 Impact of Reinvested Dividends on Cumulative Real Returns in the U.S. Equity Market: 1900–2008

Source: Dimson, Marsh, and Staunton (2009).

It has been documented that the dividend yield on the S&P 500 has declining since 1981. As a result, we utilize ETF's that invest in nontraditional asset classes that pay a strong dividend, such as real estate investment trusts, master limited partnerships, and business development corporations. These nontraditional investments pay a strong dividend and are not highly correlated with traditional equity holdings within the portfolio.

Since CGI screens in numerous ways for ETFs that pay strong dividends the portfolio will have a fundamental value tilt with a much greater weighting in value than growth positions. In addition, the portfolio will have stronger fundamental ratios or factors, such as a lower Price-to-Book ratio, lower Price/Sales, lower Price/Earnings ratio as well as other financial ratios than a growth model, while having a higher dividend yield. This point is important when we consider historic growth traps that saw valuations become very expensive and subsequently collapsed. For example, the energy bubble in the early 80's and the technology bubble of the 2000's, are classic examples of growth traps.

### Morningstar Equity Style Box %

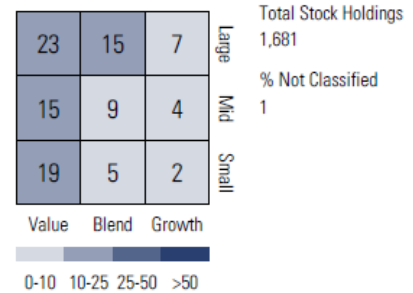


Figure 2: Morningstar Style Box Percentage

In addition to screening for dividends and for fundamental factors, which have historically minimized volatility and

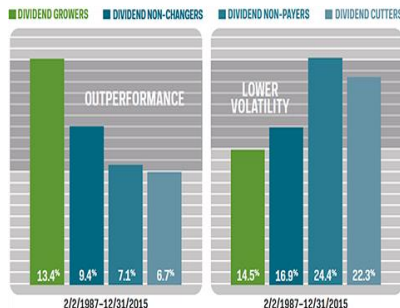


Figure 3 See notes

performed very well based upon numerous studies on size and valuation. We also analyze and compare volatility when evaluating ETFs to include in the model. Often a particular strategy will have lower volatility due to its algorithm in how it selects specific equity holdings. The S&P 500 Dividend Aristocrats ETF is based on companies within the S&P 500 that have grown their dividends for at least twenty-five consecutive years. This is a very difficult feat that few companies are able to accomplish, especially considering that the United States has had recessions, stock market shocks

and geo-political tensions that make it difficult to increase dividends in a challenging environment. As a result, the dividend aristocrats strategy has performed well and does so with lower volatility than its benchmark.

CGI also utilizes ETFs that specifically screen for volatility and implement a low volatility strategy. The S&P 500 Low Volatility ETF invests in the one hundred companies of the S&P 500 with the lowest realized volatility over the past 12 months. This strategy may outperform during market sell-off due to its low volatility selection process. The low volatility strategy performed very well relative to the market during the sell-off that took place from September to October, 2014. Furthermore, during the market rebound the low volatility strategy kept pace with the market, resulting in considerable outperformance during the full market cycle. It is imperative to minimize market declines to the overall growth of a portfolio. For instance, if the decline is 20%, it requires a 25% increase in value to make up for the loss.

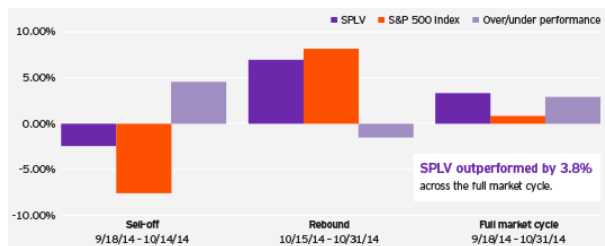
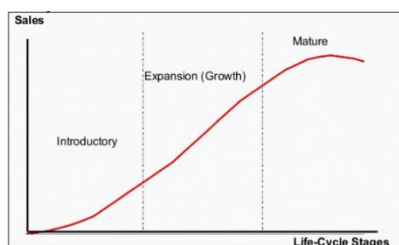


Figure 4: See notes

CGI may not invest in flashy IPOs or small technology companies because many are not profitable and when they are profitable they reinvest their profits to grow instead of paying some profits in the form of a dividend. However, we have identified large technology companies that pay a dividend that may be included in CGI. These



technology companies have mature products or businesses and generally have been in business for a considerable period when considering the infancy of the technology sector. Companies, such as Apple, Microsoft, and Intel are examples of technology companies that meet these criteria. There are more technology companies that pay a dividend or companies that are increasing their dividend payout than in the past. Therefore, the sector is becoming a larger contributor to the overall dividend payout of the S&P 500, with

possibly more room to grow when considering free cash flow to dividend payout ratio. Additionally, many of these companies have considerable cash and cash equivalents overseas that given the proper domestic tax policy may be repatriated and possibly paid out to shareholders in the form of higher dividends or a special dividend. The technology sector is usually under-weight within dividend focused investment strategies, sometimes substantially; however, this does not have to be the case, especially when you consider that the five and ten-year dividend growth rate of the technology sector is growing considerably faster than the market and other major sectors.

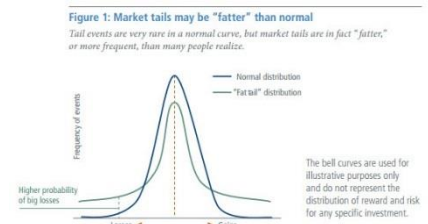
## Risk Control Measures

Although our goal is to remain invested in order to receive declared dividends as well participate in the long-term appreciation of the equity markets, we want to minimize the risk of major drawdowns from steep extended bear markets, such as the one we experienced from November of 2007 – March 2009 or March 2000 – October 2002.

We utilize a combination of technical indicators to minimize market risk associated with severe bear markets. The technical indicators that we utilize within CGI are longer term, that will not initiate a signal change due to short term market volatility, but will attempt to signal and track secular bull and bear markets. We utilize three primary indicators to arrive at our downside risk indicator.

The first indicator that we employ to identify the market trend is with the use of a moving averages. A moving average is a technical indicator that helps smooth out price variability by smoothing out short term “noise” from price fluctuations, making it easier to view the direction of the market trend.

- A trend system seeks to capture large price moves caused by fundamental factors that include economic trends derived from central banks or government policies, such as, interest rate policy, currency exchange rates, tax policy or the business cycle. Additionally, investor expectations of future economic and market conditions will affect equity prices, as well as basic supply and demand principals
- Prices and investment returns are not normally distributed on a bell curve, but do exhibit fat tails. There are numerous price or stock returns that are larger than would be expected had they been randomly distributed.
- Money flows support market trends and as the accumulation phase accelerates, market trends become more pronounced therefore the investing public invests more of their assets, increasing market volume and broadening market gains.



The second indicator that we utilize is a market breadth indicator. Market breadth measures the number of stocks that are advancing or declining relative to the total market.

- Generally, a higher percentage of advancing stocks adds confidence and confirms the upward price movement and suggests that the bulls are in control, while a higher percentage of declining stocks confirms declining stock prices and suggests a bearish trend.
- Example of technical analysis based upon market breadth.

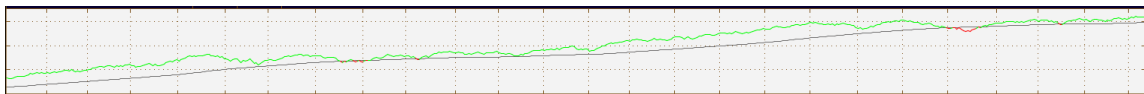


Figure 5: Market Breadth with a moving average

The third indicator that we utilize is a volume indicator. Volume has been tied to price movement in the past and helps to confirm the trend or may indicate weakness.

- Volume is considered in combination with price movement and an interpretation implies that volume confirms price direction.

| Volume  | Price   | Interpretation                 |
|---------|---------|--------------------------------|
| Rising  | Rising  | Volume confirms price rise     |
| Rising  | Falling | Volume confirms price drop     |
| Falling | Rising  | Volume indicates weak rally    |
| Falling | Falling | Volume indicates weak pullback |

- Example of technical analysis based upon volume indicator.

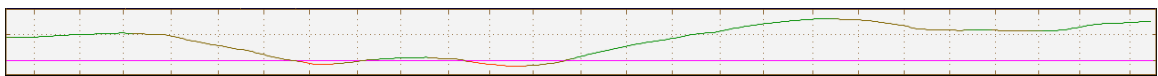


Figure 6: Market Volume Oscillator with a signal line

The three indicators work together to provide us with long term market trend as well as to provide us with risk-on/risk-off market signals that allows us to Harvest Gains and Limit Losses.

The key reasons to follow a technical analysis system is that when prices trend to the upside as in a bull market they generally do so for an extended period with significant price appreciation. Conversely, during the distribution phase of a bear market, markets decline for a shorter period but the decline is more severe therefore having downside risk control and avoiding large declines is imperative to Harvesting Gains and Limiting Losses.



Past performance is no guarantee of future results. Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice. The investment or strategy discussed is not suitable for all investors. All investments involve risk, including loss of principal. In addition to the normal risk associated with equity investing, investments in small and mid-cap companies are narrowly focused investments that exhibit higher volatility and are less readily marketable than investments in larger companies. Also, international investments involve special risk consideration, which includes currency fluctuations, lower liquidity, economic and political risk. Principal values and investments returns are neither guaranteed nor issued by, guaranteed by, or obligations of a bank, savings and loan, or credit union; and are not insured or guaranteed by the FDIC, SIPC, NCUSIF or any other agency.

1: All indices shown are BofA Merrill Lynch indices as noted. All data is sourced from BAC-ML research website. The table illustrates approximate total return figures over a 12 month period if interest rates rise 1% and do not represent the return on any particular investment. Data as of 12/31/2020. Duration shown is effective duration. Duration is a measure of a bond's sensitivity to interest rate changes that reflects the change in a bond's price given a change in yield. The performance figures are for illustrative purposes only and do not account for all factors that may potentially impact returns

2 Source: Morningstar Style Box Diversification. The Morningstar Style Box reveals a fund's investment style as of the date noted on this report

3 Source: Ned Davis Research, based on an analysis of Russell 3000 stocks from 2/2/1987–12/31/2015. Results of a hypothetical \$100 in stocks in the United States, divided into: Dividend Growers (dividends per share increased); Dividend Non-Changers (no change in dividend per share); Dividend Non-Payers (no dividends paid); Dividend Cutters (dividend per share decreased). Dividend activity measured over trailing 12 months. Assumes dividends reinvested and all are equally weighted. Past performance does not guarantee future results. Volatility refers to standard deviation, a statistical measure that captures the variations from the mean of a stock's returns and that is often used to quantify risk over a specific time period. The higher the volatility, the more the returns fluctuate over time.

4 Source: Bloomberg, L.P., as of Apr. 30, 2015. Past performance is no guarantee of future results. An investor cannot invest directly in an index. Of course, low volatility cannot be guaranteed. **Performance data quoted represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance data quoted.** An investor cannot invest directly in an index. The results assume that no cash was added to or assets withdrawn from the Index. Index returns do not represent Fund returns. The Index does not charge management fees or brokerage expenses, nor does the Index lend securities, and no revenues from securities lending were added to the performance shown. Of course, low volatility cannot be guaranteed.

The average current yield of the portfolio is the weighted average of the distribution and current yields of the securities in the model portfolio at the time of writing. Distribution yield is the anticipated annual distribution as a percentage of the current price of the security. These distributions are not guaranteed and can fluctuate. The average current yield is not the anticipated annual return of the portfolio. The total annual return of the portfolio is a combination of annual distributions and price fluctuation which can be positive or negative over the course of the one year. The average current yield will change over time. There can be no guarantee the portfolio will pay the average yield over and period of time. This yield is gross of all fees.

This Model portfolio is being offered through the Advisory Services offered through Harvest Investment Services, LLC, a Registered Investment Advisor.