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VOLUME 7/Supplement 1

SPECIAL ISSUE

MARKET DOWNTURN TOOLKIT

A COMPILATION OF ARTICLES ON PREPARING YOUR PORTFOLIO FOR MARKET TURBULENCE

Cover: The bear often hits without warning, and when we least expect it. We must *prepare* for it before we are in the *midst* of it.

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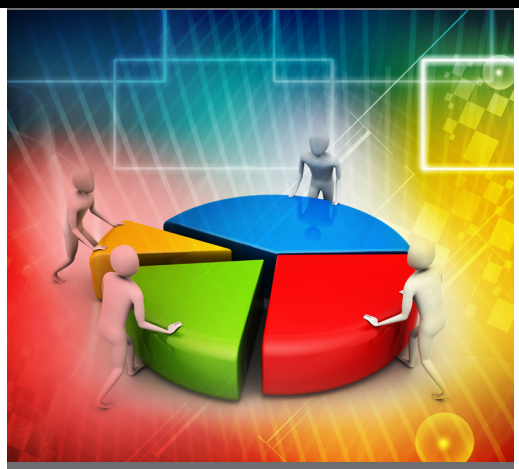

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Special Issue: Market Downturn Strategies, Tactics, & Actionable Ideas

From the Editor/

The March of Folly: Why Investors Repeat the Mistakes of the Past

Fear and greed rule the investment world, and drive-by marketers are always waiting to pounce.

I recall stumbling across Barbara Tuchman's classic book, *The March of Folly*, a few years after high school while in the University of Arizona library—my favorite hangout on campus. It was an engrossing read, with the not-so-subtle premise being that we, as a civilization, continue to make the same mistakes over and over, despite all of the historical knowledge we have at our fingertips. Perhaps it is arrogance: "this time it is different," or "we know so much more now...." Perhaps it is simple mental laziness. Whatever the reason, history is replete with examples of humans falling into the same old traps, despite the glaring warning signs telling us to steer clear.

I thought of that classic read in the aftermath of 2018. Having worked with clients for more than a generation at various brokerage firms, I also thought back to the hubris and arrogance that permeated investors' thinking back at the turn of the millennium. The prospective client who brazenly told me, "...anything worth its salt goes up at least 20% per year."

More recently, the endless stream of slick marketers—disguised as astute market experts—running their incessant commercials on the business networks. Thirty-minute-long videos on the Internet which promise to reveal "*the one stock to buy in 20xx*," if only you can make it through half-an-hour of pure pap. Of course, if you do make it to the end, you find out that you must "invest" $999 for a one-year subscription before the stock is revealed. (Isn't that false advertising?)

Then you have the perma-bears. Like the hypochondriac who had engraved on his tombstone "*I told you I was sick*," they are always out there, just waiting for the inevitable downturn to take credit—and sell their programs.

These marketers—and that is what they are—understand what sells: fear and greed. They know the average, ordinary investor can be easily swayed because they haven't done enough homework to know when they are being swindled. We want to change that.

While this report deals with protecting your Investment Vault during market downturns, it is also designed to be an educational tool; a short little lesson to increase your understanding of the markets, help you become a more astute investor, and encourage you to question the advertising which permeates the airwaves.

While some of the figures will be dated (such is the nature of the business), the messages conveyed are timeless. Having managed clients' money through all market conditions and during some of the biggest downturns of the past century, one tactic I find very insightful is to pull up and review old reports, news articles, and notes from before, during, and after these downturns. The Worldcom report from 1998 with its "Strong Buy" rating. The 1999 book explaining why the Baby Boomers will assure a strong market through the 2020s. The bullish Bitcoin article from December of 2017. These old reports serve as reminders of what can happen at any given time, and provide clues as to how and why the red flags were missed.

We hope you find this brief compendium of articles interesting and, more importantly, useful to your investment process. Also, to keep abreast of current business and financial news and topics, be sure and sign up for our *Penn...After Hours* email report by visiting our home page at www.PennEconomics.com. Happy investing, and here's to your unfettered success!

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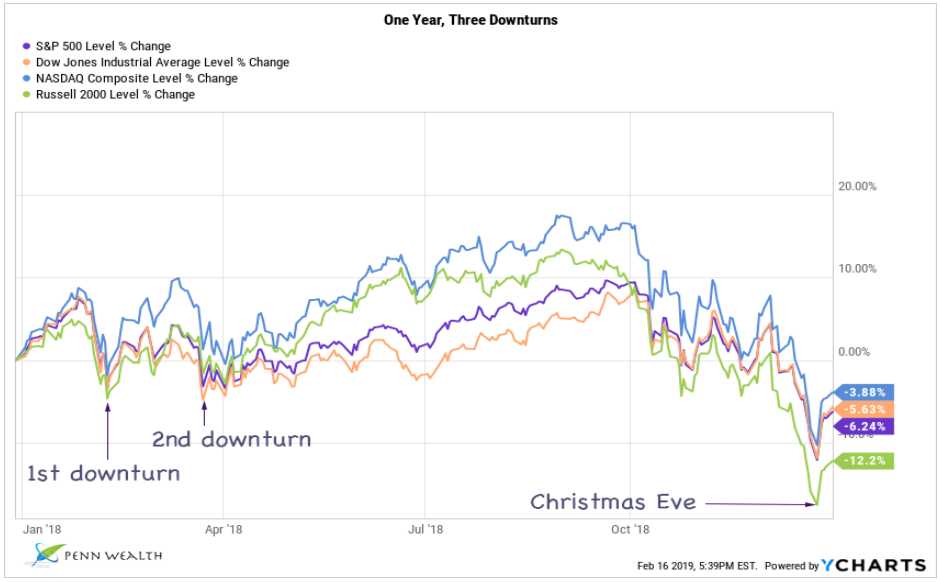
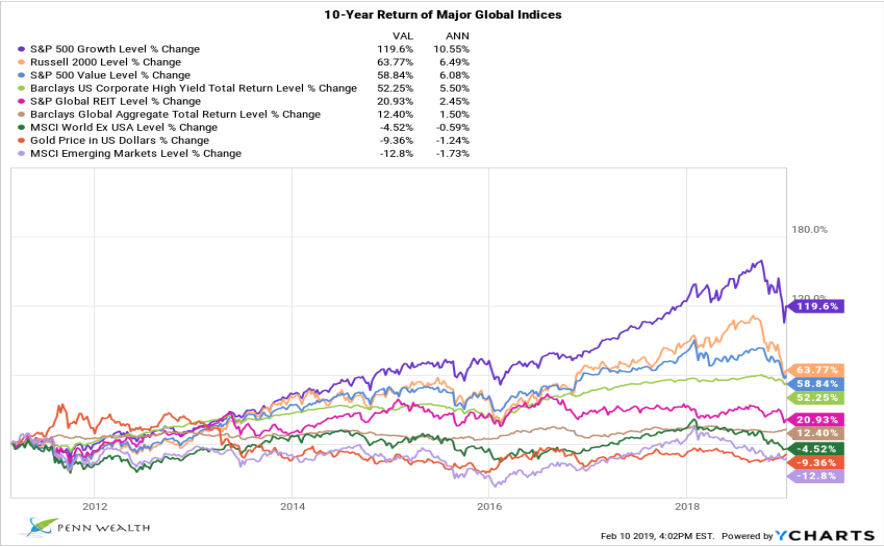
The Story in Charts

Charts tell the story. Here are some favorites we posted in the textbook year of 2018. For the top business and economics stories of the week, visit Penn...After Hours at www.pennconomics.com.

Two warnings, one massive drop...

2018 is a great case study in what can go wrong any given year. There were 19 new highs hit in January for the major indexes. Then, in the two weeks between 26 Jan and 09 Feb, we had nearly double-digit losses. It began to look like a fluke as the indexes—especially the NASDAQ and Russell—climbed back. But by the end of March the second downturn hit. The "sell in May and go away" months were all positive. Another oddity. The nightmare came in Q4 (the "safe" months to get back in), as the high-flying NASDAQ fell 17% and the Russell 2000 dropped 19%.



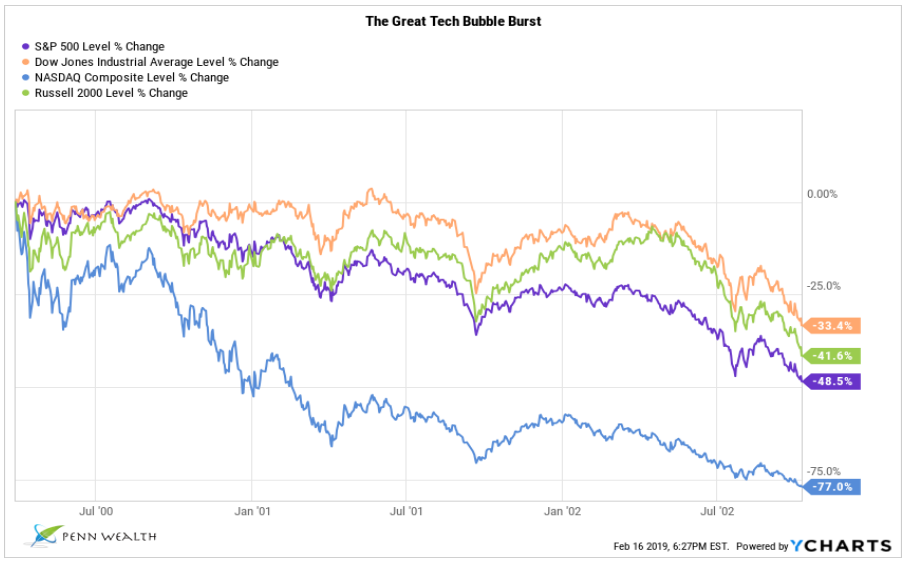


Strategic versus tactical...

Strategic investing looks at historic trends and builds a portfolio around those trends. For example, it is clear that investing in S&P 500 growth stocks is a winner (the purple line), as the group has a 10-year annualized return of 10.55%. Emerging markets and gold seem to be two losers, down 1.73% and 1.24% annually, on average. Tactical investing, however, is more forward looking, and is based on trends we see developing. Tactically, we are currently overweighting both gold and emerging markets.

Never forget what can happen...

The sky was the limit going into the new millennium. Stocks continued to hit new highs, year after year, and market "experts" came up with justifications for continued growth. Terms like "new economy" became popular, and we were told that the Baby Boomers were just hitting their peak spending years, so plenty of good times ahead. Then, seemingly without warning, we had the great Tech Bubble Burst. When the dust settled, the "darling" NASDAQ had lost 77% of its value, while the S&P 500 was shaved in half.



Asset Allocation & Outlook

Market & Economic Outlook

We remain extremely cautious about 2019, with expectations for high volatility and wild market swings.

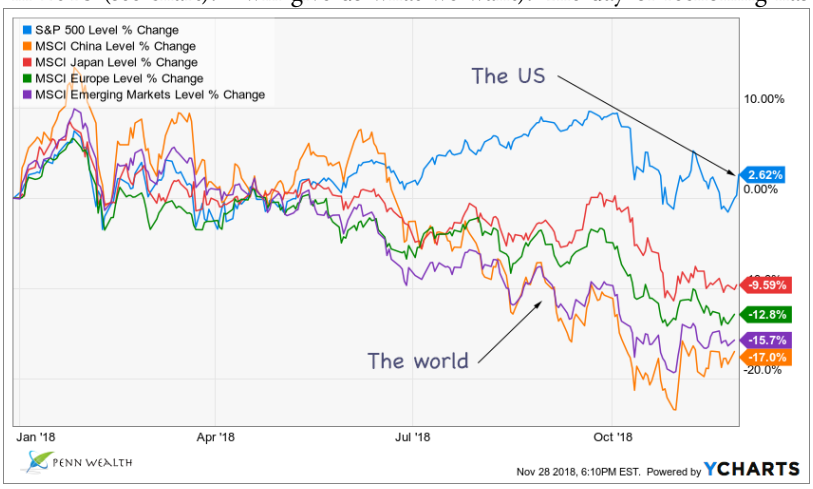
Let's face it, 2018 was a rough year from start to finish. After a rollicking start to the year, the stock market got its first body slam in February and March, with the S&P Index falling nearly 7%. The old adage, "sell in May and go away..," seemed like a no-brainer in 2018 after the two-month sell-off. That would have been a mistake, as the index gained ground for five straight months, May through September. Then October hit.

Let there be no mistake: October was a bloodbath for virtually every corner of the investment world, from stocks to bonds to commodities. Of the eleven S&P sectors, only utilities and the unloved consumer staples sector held their ground over the course of the month.

Back in January, we reported on Jeffrey Gundlach's (the new "bond king") prediction that stocks would underperform for the year (right), but that commodities would excel (wrong). Gold, which is supposed to be a safe haven during distressing times, actually fell double-digits on the year before staging a comeback.

What about hiding out in foreign stocks? After all, we are told (almost lectured to by the financial media) that two-thirds of the world's publicly-traded companies reside outside of the United States, and wasn't China supposed to have overtaken the US economy by now?

Whatever we had in the vaunted Chinese stock market was probably down over 17% in 2018 (see chart). Europe continues to languish, with the MSCI Europe index off 12.8%. Japan? Down nearly double digits. What about the explosive emerging markets we hear so much about? The benchmark emerging markets index (MSCI Emerging Markets) fell 16.6% in 2018. So, as frustrating as the US stock market was in 2018, it remained the sturdiest ship in the harbor. And we really don't see much change to that in 2019, with the possible exception of an emerging markets rally following such an ugly year.



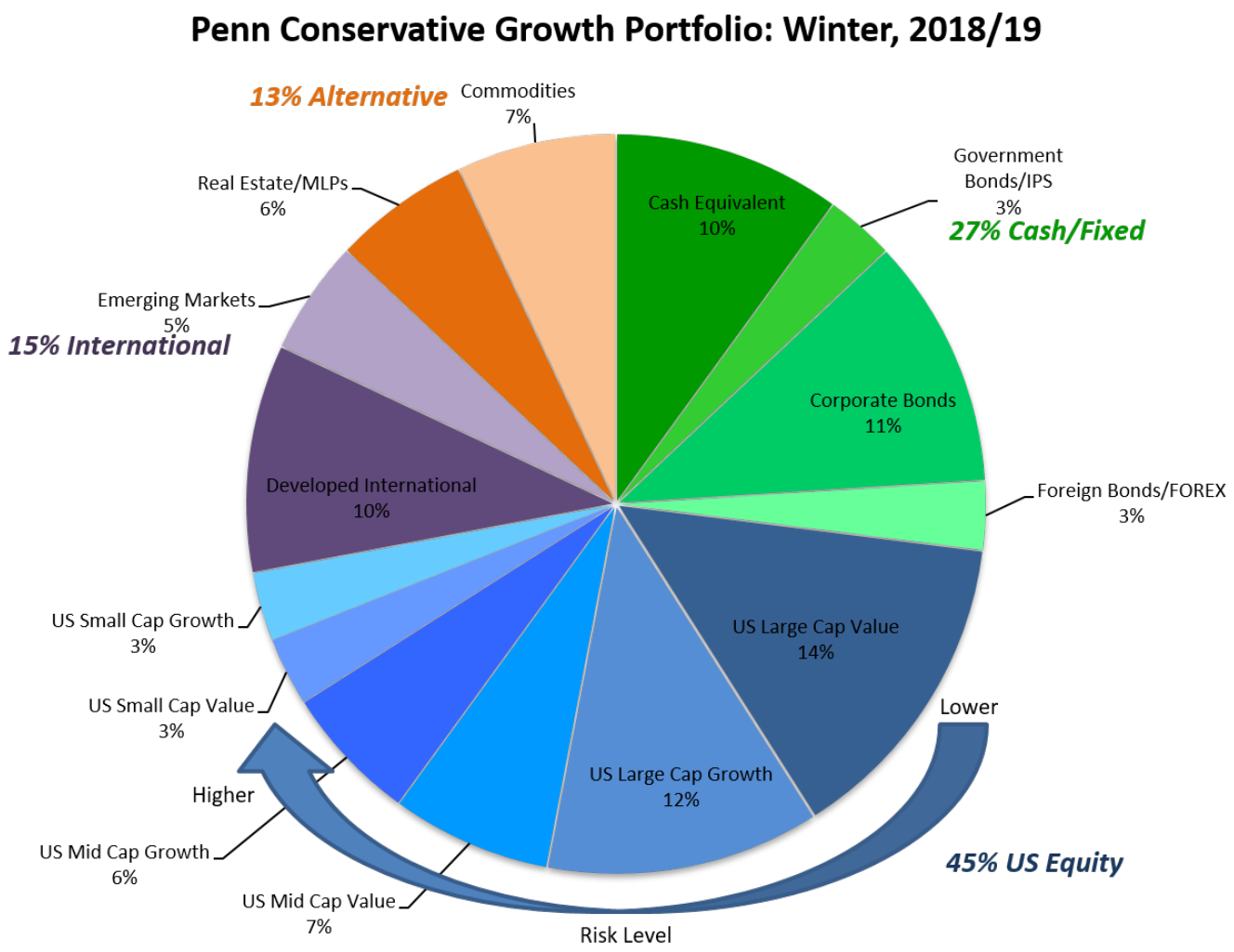
What do we see on the horizon throughout 2019?

A lot has changed over the past twelve months; unfortunately, these changes have made us more concerned about the markets going forward. We will need to be very discerning about which investments go into each slice of the asset allocation pie, and we will need to be tighter with stop-losses.

The global economy's trajectory, while still pointing above ground, has certainly reduced its angle of ascent. Europe is a mess, and leaders on the continent are not even willing to take the first step: admitting they have a problem. Instead of adjusting for lower growth, they are doubling down on the mistakes that stifled their growth in the first place. Brexit is getting dirtier, as the arrogant EU leaders are hell-bent on punishing England for daring to leave such a utopia (hell is a better analogy). France is getting tired of Macron, and the national pastimes, whining and striking, are on the rise. In Germany, we have a chancellor whose political future has been stripped out from under her, but no clear heir to the throne has emerged. But China is the big problem.

China has, in its own mind, already assumed the mantle of world economic leader. This despite the fact that its economy is just over half the size of the US economy. The country has been building its economic foundation on the theft of forced US technology transfers (you want to do business in the country, then you will give us what we want). The day of reckoning has

The Penn Conservative Growth Portfolio is designed for clients with a Risk Level between 51 and 89. For all Penn Tactical Asset Allocations, click here and sign in.



come, however, with a US administration demanding an end to this illegal practice. The dirty little truth is that China's economy is, indeed, slowing. More precisely, it's growth rate is slowing. We believe both China and Europe will present a drag for the global economy next year. Throw concerns over Iran and North Korea into the mix (they are who they are, and only regime change will affect that fact), and we can expect a choppy year. Two-thirds of the companies may be overseas, but we would still heavily overweight domestic stocks and bonds.

What is the emerging markets outlook for the year ahead?

Investing in emerging markets can be a rush. Wild swings and near-constant volatility are the norm for this "Wild West" corner of the investment world. After falling nearly 17% for the year—versus a slightly-negative US market—will 2019 be a breakout year for EMs?

The biggest challenge with lumping the emerging markets together is the disparity of GDP growth we see between the EM countries going forward. The BRIC (Brazil, Russia, India, and China) countries make up the lion's share of most EM investments, but we are down on two of those regions: Russia and China.

Russia remains overwhelmingly-dependent on oil revenues for its GDP, and we don't see an unusual spike up in prices, despite the threatened OPEC/Russian cuts. China, with its $12 trillion economy, has a host of challenges. One of the fallouts of the ongoing trade battle has been the movement of companies out of China and into other emerging markets such as Vietnam and India. The latter poses a huge threat to China, as it is essentially in the same position that China was a few decades ago. India has a population of 1.3 billion and a GDP of just $2.5 trillion, yet nothing is stopping it from becoming the "next China."

In addition to India, we see great potential in some of the former Eastern Bloc nations, Poland in particular. These countries have embraced economic freedom and will end up posing a real threat to their arrogant European neighbors to the west.

Finally, we also see some promise among the Latin American nations which have shunned their long dalliance with communism and socialism in favor of the free market. Argentina and post-Lula Brazil are our favorite picks. Sadly, the economic disaster that is Mexico is only going to descend further into the abyss after that country elected a full-throated socialist to be its new president. "AMLO" may have tempered his words to get elected, but he is already showing his colors as a Chavez wannabe.

To get an idea of the volatility that comes with investing in emerging markets, take a look at the graph on the following page. For all the hype about this

The catalysts for growth that were present in 2017 morphed into fear in 2018, and will be replaced with vitriol and ugly clashes in Washington in 2019.

little corner of the investment world, the benchmark MSCI Emerging Market index is actually down 12.8% over the past decade. Compare that to the 120% gain in the S&P 500 Growth index over the same time frame, and one might question placing *any* money in EMs. However, that would be a mistake: over the five-year period between 2003 and 2007, the EM index rose an average of 37.5% per year, far surpassing any other investment class.

To reiterate, the one little problem with EMs is their volatility. In 2008, on the heels of that impressive run, the EM index fell over 53%. It takes experience and a keen sense of investment history (and geopolitical prowess) to effectively invest in this arena. For the record, we are currently allocating 5% to the emerging markets. We use the iShares Core MSCI Emerging Markets ETF, symbol IEMG, to this end. The fund holds 1,925 different positions from emerging market countries. From time to time we will supplement this fund with a country-specific fund such as EPOL, the iShares MSCI Poland ETF.

Why such a large cash/fixed income allocation?

Going into 2019, we have increased our allocation in the cash equivalents/fixed income asset classes for a couple of reasons. First and foremost, we see heavy volatility through the year. The catalysts for growth that were present in 2017, namely tax reform and deregulation, are not only in the rear-view mirror, we believe they will be replaced with vitriol and ugly clashes in Washington as the two opposing sides do battle.

The conventional wisdom surrounding the mid-term elections held that the markets favored divided leadership in DC. We don't buy it. We believe Congress will be consumed with political retributions and have very little interest in advancing a pro-growth agenda. Unfortunately, the ugly headlines will be magnified and trumpeted by a mainstream media which thrives on chaos and hyperbolic news stories, replete with false narratives designed to foster even more chaos. They simply cannot help themselves. As the markets react negatively to the inevitable bad news, cash and fixed income will offer some shelter from the storm. In the past, gold has also been a good investment in times of trouble, and we see the yellow metal performing very well in 2019 after a five-year flatline.

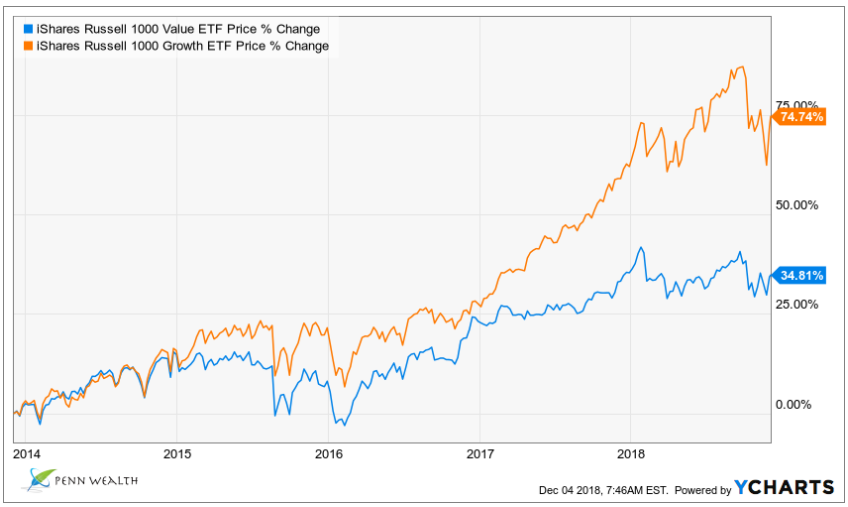
On the bright side, with the Fed near the end of its quantitative tightening (QT) cycle, it has become safer to pick up some individual bond issues—their values should remain steady if we are at or near the end of rate hikes. Even money markets are now yielding about 60 basis points; not great, but better than the zero yield they had a few years ago. Every investor should hold a percentage of their portfolio in a cash equivalent, if for no other reason than to have some buying power when the equities filling one's wish list hit a buy point. Without the cash, investors would be forced to sell another position to fund a purchase, or forgo the acquisition altogether.

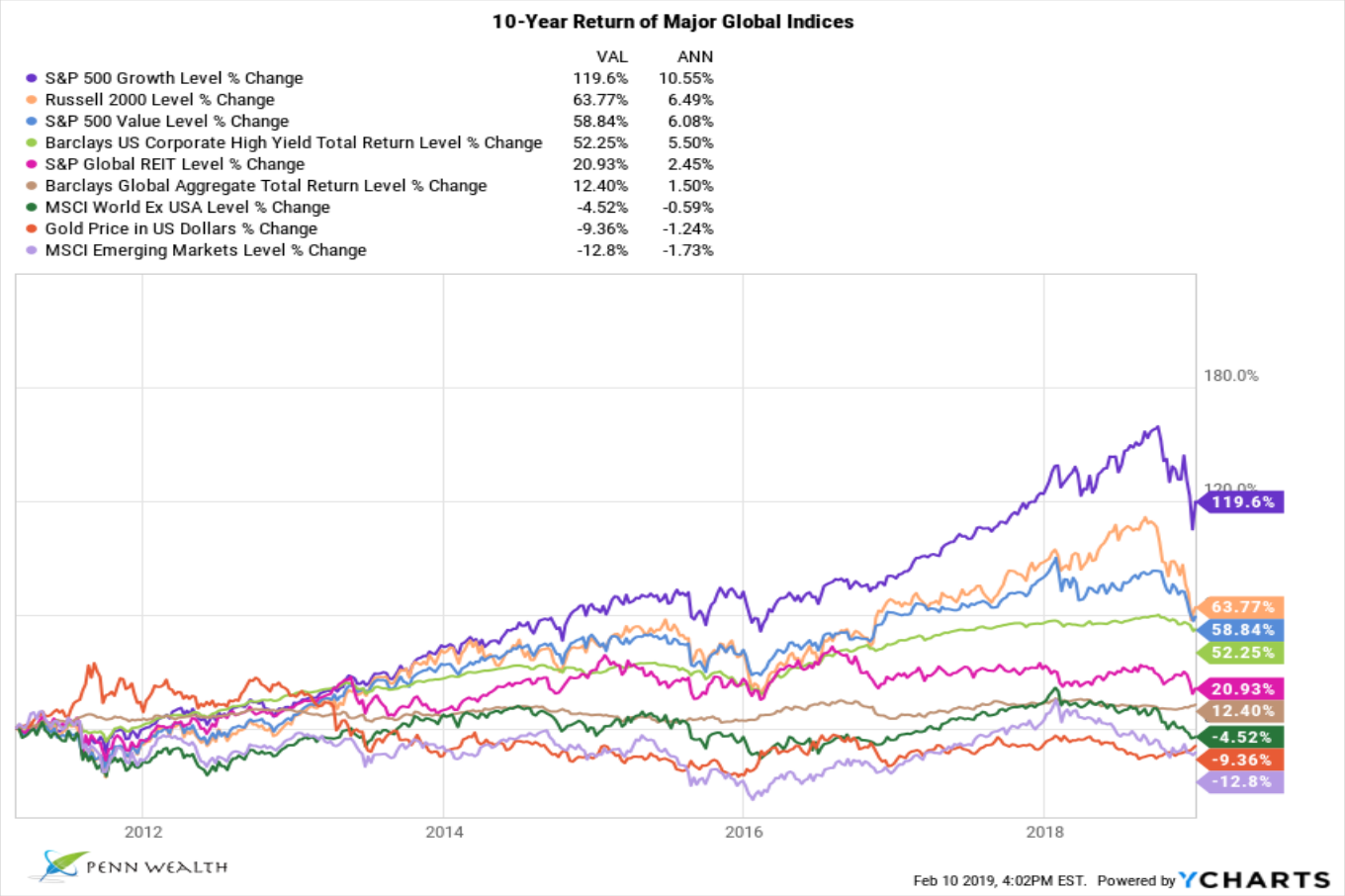
A little over a decade ago, before the financial crisis, we were able to sprinkle 7% bonds throughout our portfolio. No matter what the markets did, we had that steady return serving as our investment foundation. While those 7% gems aren't out there now (without taking a high level of risk), we are seeing some decent-yielding, lower-duration bonds being issued once again. For a current list of available rates, visit our Fixed Income Desk. We believe rates will top out in 2019 at the arbitrarily-set "normalization level" outlined by the Fed, meaning our principal shouldn't erode much on the positions we buy right now. Of course, for specific bonds (as opposed to bond funds), we are paid back our entire principal at maturity—barring a financial disaster by the issuer (AA-rated Lehman Brothers bonds we picked up in the early 2000s come to mind).

Within the Penn Strategic Income Portfolio, we are currently overweighting shorter-duration corporates and bank loans, and underweighting high-yields and foreign bonds.

A great migration back to value stocks?

For most of the past two decades, growth stocks have outperformed value stocks. Take a look at the chart below to see what we mean: over the past five years, a large basket of growth stocks (the Russell 1000 Growth Index) has outperformed a large basket of value stocks (the Russell 1000 Value Index) by over 100%. One of the great challenges with respect to investing, however, is complacency. After a trend emerges, we tend to begin believing in the absoluteness of that trend.





What's more, the so-called experts begin creating narratives to fit that template. But trends were made to be broken, and we are beginning to see signs of the great migration from growth back to value.

Let's identify the difference between the two asset styles by using real examples from the two indexes mentioned. One of the easiest identifiers of growth versus value stocks is the multiple investors are willing to pay for the former over the latter (because of the expectation of higher growth rates going forward). To illustrate this point, the weighted average PE ratio of the 545 stocks represented in the orange (growth) line is 25. However, the weighted average PE ratio of the 731 stocks represented in the blue (value) line is 15. That is an enormous difference. When the markets go into correction, which group do you think will come falling back to earth the quickest?

Want some real-company examples from the two indexes? The top five holdings in IWF, the growth fund, are: Apple, Microsoft, Amazon, Facebook, and Alphabet. The top five holdings in IWD, the value fund, are: JP Morgan, Berkshire Hathaway, Exxon Mobil, Johnson & Johnson, and Bank of America. Fast growers versus stodgy old performers.

It should be noted that one reason many conservative investors buy value stocks is for the higher dividend yield. This has been especially true in the ultra-low rate environment. So, as rates rise, wouldn't that pose a challenge for value stocks going forward as income investors flock back to bonds? We don't believe so.

When we were buying bonds for clients in the late 1990s, 7% corporates and 5% triple-tax-free munis were abundantly available (making our job of protecting portfolios a lot easier, by the way). Today, the effective fed funds rate is sitting at a paltry 2.5%, and we see that rate peaking at around 2.75%—after one more rate hike. The average dividend yield of the top five holdings in IWD (minus Berkshire, which pays no dividend) is just shy of 3%, with many of the holdings yielding over 4% per year. Add that to the growth potential of the companies, and we don't see conservative investors abandoning them for mediocre-yielding bonds.

For these reasons, we are now overweighting the value slices of our asset allocation pie versus the growth slices for the first time in a number of years.

Which sectors could be the biggest winners over the next year?

Let's now drill down further and look at specific sectors in the market. Which of the eleven sectors do we like in 2019, and which would we avoid?

The disparity between sectors in any given year can be stunning. For example, the 2018 performance of the health care sector was around 16%, while the 2018 performance of the communication services sector was roughly -10%. Since the comm services sector is new, let's consider the next two high and low sectors. You might expect the utilities and energy sectors to be similar in performance, but the former was up 11% in 2018 while the latter was down 6% for the year.

Looking forward, we are heavily overweighting two historically defensive sectors: consumer staples (12% versus the S&P weighting of 6%), and utilities (6% versus S&P's 3%). We are also overweighting: energy, health care, industrials, materials, and real estate, though to a lesser degree. Our least favorite sectors as we go into the new year are communication services and consumer discretionary. Clients and members can visit our Tactical Sector Rotation page for the breakdown of each individual sector.

Overall, we remain cautious about 2019 due to ugly political showdowns and a general global slowdown. We see high volatility and wild market swings, and evidence is mounting that the Chinese economy is in real trouble. There will be plenty of head-fakes (like the current trade war truce) throughout the year, and false narratives pushed by the media. Having said that, the big 2018Q4 sell-off and unexpectedly-decent corporate earnings could provide the backdrop for double-digit gains within the US markets.

Portfolio Construction

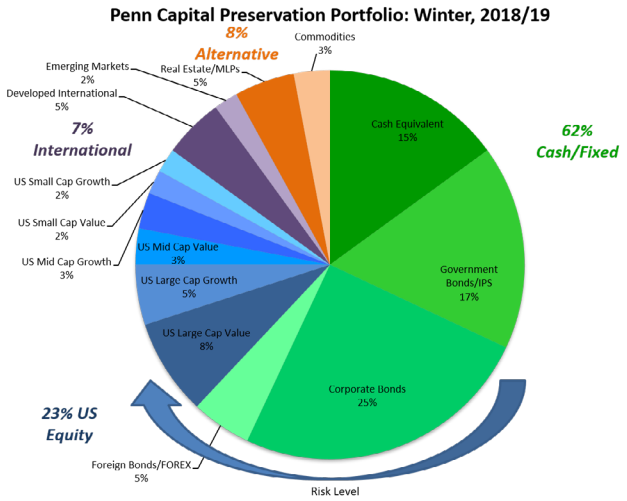
CASH/FIXED INCOME
INTERNATIONAL EQUITIES
US EQUITIES
ALTERNATIVE INVESTMENTS

Tactical Asset Allocation—Winter/Spring 2019

Capital Preservation Portfolio

The Capital Preservation Portfolio is for the most risk-averse Americans. The goal for this model is what the name implies: protecting capital. Here's the challenge: the simple act of living erodes capital through inflation, so keeping everything in cash is not a good option. Unfortunately, the safest of investments—money markets and bank savings accounts/CDs—are also not keeping up with even today's low rate of inflation. This is why it is still important to have a percentage of the portfolio invested in lower-beta stock market instruments, such as an S&P 500 index fund.

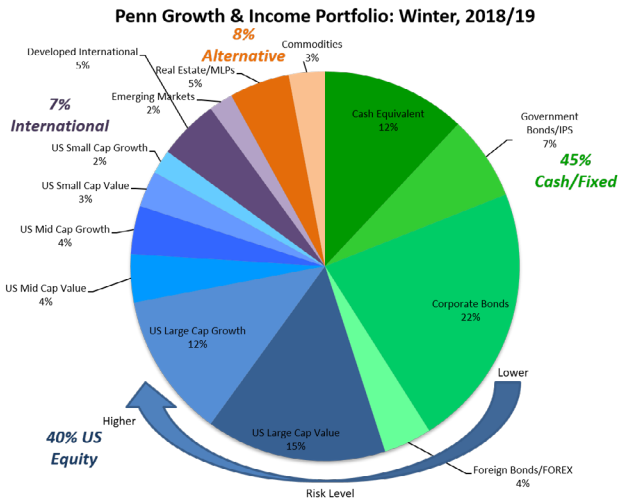
Risk Level 1-27



Growth & Income Portfolio

The Growth & Income Portfolio may be ideally suited for those either in retirement or nearing retirement. The goal is to generate a stream of cash (via dividends and interest) which can provide a nice monthly "paycheck" to owners, but still provide enough growth from the principal to allow for an annual cost of living raise. How much should be taken out of this portfolio on a monthly basis? Take the portfolio's current value times 0.05, divide that number by twelve, and you have the answer. Don't let anyone tell you that more can or should be taken out. If more is needed, it should come from elsewhere.

Risk Level 28-50

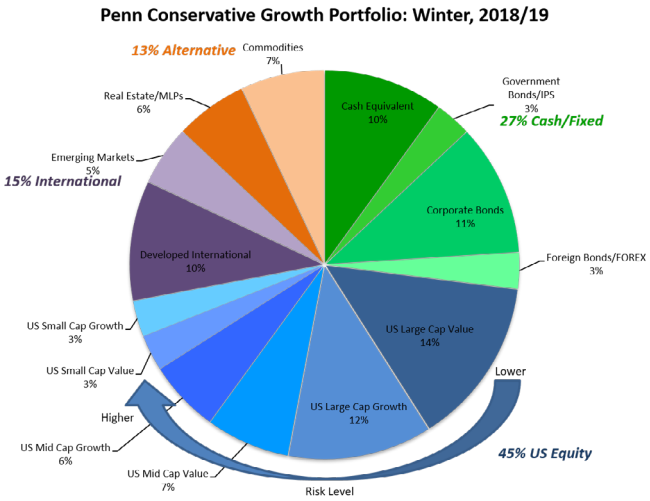


These four allocations are based on our view of the short-term investment and economic horizon, and are for informational purposes only. Always consult your investment professional when designing your own portfolio. To identify your personal Risk Number, visit the Penn Wealth Risk Management page.

Conservative Growth Portfolio

The Conservative Growth Portfolio is where a plurality of American probably fit within the investment universe. This investor wants growth, is not taking any income from their portfolio yet, but is still very cognizant of the risks—both seen and unseen—on the horizon. The biggest surprise for this portfolio this quarter is the 45% allocation to US equities. This is a smaller allocation than in recent quarters, and reflects both the concerns we have for equities in the short term, and the emergence of new opportunities overseas and in alternative investments (like commodities).

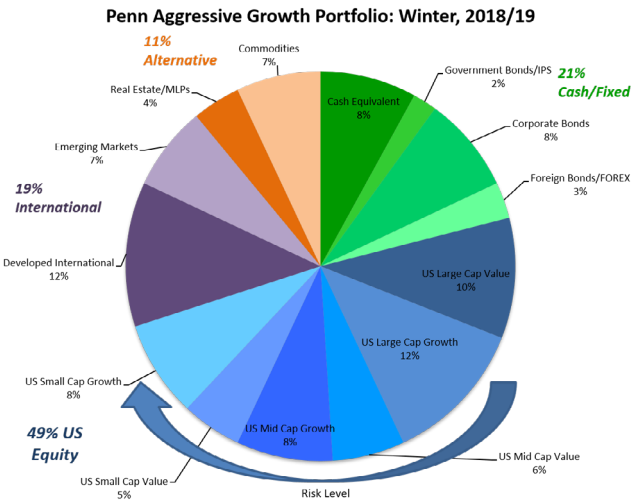
Risk Level 51-89



Aggressive Growth Portfolio

The Aggressive Growth Portfolio is designed for Americans with the highest appetite for risk. Either they are relatively young, with a smaller portfolio, or they have enough discretionary income to be as bold as possible. It may surprise some people to see such a large (21%) allocation within the cash and fixed income style boxes, but this is by design. It is hard to take advantage of a market comeback if there is no cash to deploy as the opportunities arise. This portfolio has the largest international play, both within developed and emerging markets, and by far the largest small-cap (<$2 billion in size) exposure.

Risk Level 90-100



Portfolio Protection Strategies

Tactical Stop-Losses

You worked too hard building your portfolio to let it wither away due to forces outside of your control.

You vaguely remember Black Monday back in 1987. You more vividly remember the dot-com tech bubble burst of 2000/2001. You were invested during the Great Recession of 2008/2009 and took a pounding. It took some time after these events for you to feel comfortable with the markets once again, but you were lured back in after seeing companies like Amazon[AMZN], Apple[AAPL], Netflix[NFLX], and Alphabet[GOOGL] hit new highs on a seemingly-daily basis. Just when you have all of your money working in a nice basket of stocks and funds...BAM! Another correction.

I worked intimately with an old-school broker during the dot-com burst. We were based out of a major brokerage firm in the Midwest; a firm which traced its roots back to Abraham Lincoln's Assistant Secretary of the US Treasury—who happened to be the company's founder.

The old-school broker was a lot older than I was and, after decades in the business, managed a much bigger book of business. As luck would have it, he was planning his retirement right as the tech bubble was hitting its crescendo. As his clients' equity positions came tumbling down, I remember what he would tell them: "Well, time to scoop up some more!" After all, if a stock he recommended at $10 per share was good, at $5 per share it must be great, right?

Not exactly. I was in no position to lecture him on throwing good money after bad, but more that once I walked in his office to find him slumped down in his chair, hands over his face. Ultimately, he extended his retirement plans out into late 2002 to "ride out" the downturn. As soon as he left, the great comeback began.

This is a fantastic lesson for every investor. Here was a man with decades of experience under his belt, who managed millions upon millions of dollars for hundreds of clients, and he was still caught utterly by surprise. We began to buy into the "New Economy" gobbledygook and the notion that this giant wave of Baby Boomers was entering their golden spending years. I recall one "expert" telling us that we wouldn't see another big correction until 2030!

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The past does not equal the future.

Quoting stock market adages and paradigms is a prerequisite once you pass your Series 7 General Securities Exam and become a broker. And the more years under your belt, the more these old saws become ingrained. From "sell in May and go away..." to "buy the rumor and sell the news," it is almost a given that, once a pattern seems to emerge, it will follow the same tracks as it did before. That is a dangerous assumption.

So much of what the "experts" on the financial news networks have espoused has just been downright wrong. Want a great example? How about the virtual assurance that the markets would tank if a certain candidate won the White House in 2016? As a financial news junkie, and someone who is tuned into some form of business news ten to twelve hours per market day, I *know* this to be the case, because I witness it on a weekly basis!

If I could impart one piece of wisdom on the viewers and readers of the financial news networks and publications, it would be this: ***the past does not equal the future***. No matter what happened last May through October, a million global, geopolitical, domestic, and economic data points are not going to align the same way that they did last time around. Basic guidelines are great, but investors must constantly be reading the tea leaves to identify the little ripples that eventually develop into a tsunami.

So when we see something disconcerting heading our way, what are we supposed to do about it?

Without a doubt, the most critical step in making sure your portfolio is not swept out to sea with the next tidal wave is to understand your unique risk tolerance level, and make absolutely sure your portfolio is aligned to that horizon. To make sure everyone has access to their personalized number, we make the risk tolerance questionnaire free and available to all on our site. Of course, this questionnaire cannot uncover, in five minutes, all of the particular circumstances in one's life, so you should always consult with a financial professional at this point. Once you are comfortable

No matter how well our portfolio is constructed, we must deploy tactics to protect gains and limit losses on our individual positions. Enter the stop-loss.

with your risk tolerance level, the next step is to look at the recommended asset allocation for your portfolio. At Penn, we review and update these portfolios quarterly, which are adjusted for: economic conditions, market valuations, geopolitical concerns, and a host of other factors. Clients and Members can see the current quarterly allocations by visiting the Asset Allocation page and signing in.

Implementing stop-loss tactics.

With respect to asset allocation, we are in something of an odd time: asset classes which have historically moved inversely to one another are now often correlated. For example, when stocks go down, bonds have historically gone up in value, making that asset class a safe haven. The same goes for gold.

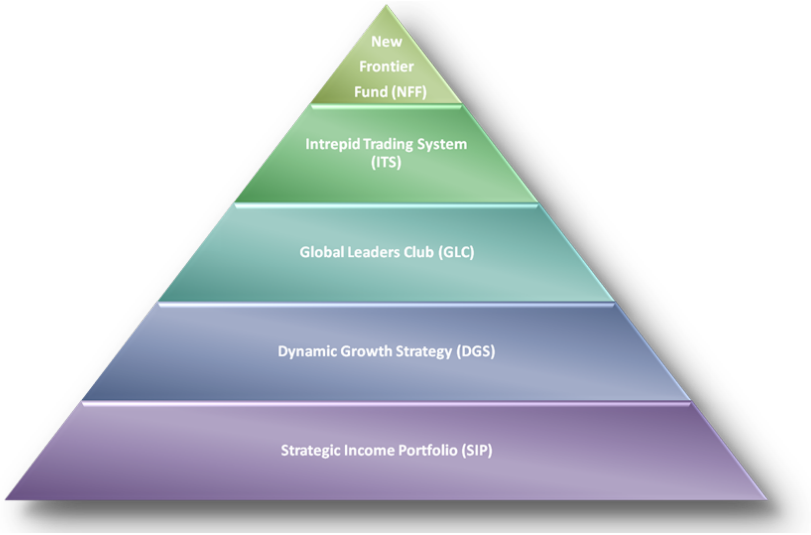
With interest rates rising, however, that will not be the case over the next few years. Cash may not offer an investor much growth in a portfolio, but it is undoubtedly the only true safe haven. Therefore, no matter how well our portfolio is constructed, we must deploy tactics to protect gains and limit losses on our individual positions, with the proceeds flowing into our interest-bearing cash holding area. Enter the stop-loss.

Dump the traditional mutual funds.

I've used stops over the past two decades to protect individual equity positions, but what about the ever-popular mutual fund, that pervasive instrument which makes up the lion's share of most portfolios? Unfortunately, stops cannot be placed on open-ended mutual funds, as they do not trade intra-day.

Let's back up a step and define how the stop-loss actually works. Say you own Facebook[FB], but are concerned about protecting your gains in the wake of massive data breaches at the company. Shares are sitting at $150 (see the graph on the following page), and you want to sell if they fall to or below $145, so that is where you place your stop.

However, take a look on the chart at the big drop in Facebook's share price. On the 25th of July, shares closed at $215. After hours, bad news hit which caused the shares to open at $176 on the 26th of July. If you had a stop on Facebook at $210, it would have executed at $176. That is an important consideration: you may not exit at the price you set.



So, bringing it home with respect to mutual funds, a much better option would be the use of exchange trade funds (ETFs) within your portfolio. Not only are they much more cost-effective to own (on average), but you can also place stops on them just like you do individual stocks.

ETFs have become so popular over the past decade that they are now offered for virtually every little corner of the market, from asset class to sector to industry. Even thematic funds are making the scene. For example, the FlexShares Morningstar Global Upstream Natural Resources Index Fund[GUNR] tracks companies that operate, manage, or produce natural resources in energy, gas, precious or industrial metals, timber, and water.

The second chart on the following page shows a graph of IBB, the iShares Nasdaq Biotechnology ETF. As you can see, the fund rocketed up 18% within a very small frame of time. Had you purchased an open-ended biotech fund (there are plenty out there), you would have had to arbitrarily guess when to place a sell order to protect your gains. And even then, you would have had to wait through the day's trading to see what price you sold it at. With IBB, you could simply place a stop-loss on your position and sleep comfortably at night.

If your investment keeps moving higher, you could simply "move up" your stop price from time to time to lock in even bigger gains. Imagine how using these stops might have protected tech-heavy portfolios before the dot-com burst.

Where you place your stops depends on the strategy you are using for a given position.

At Penn Wealth, we create portfolios based around a client's recommended asset allocation, using some combination of our five different strategies. For example, we might create an Asset Preservation Portfolio (Risk Level 27 or below) using holdings from our Strategic Income and Dynamic Growth strategies. A more aggressive portfolio might use holdings from all five of the strategies. (For a brief description of each, visit our Penn Portfolios page.)

As for where we place the stops on a specific position, it depends on a number of factors, including which strategy we are dealing with. We can give more leeway to income-focused holdings in the Strategic Income Portfolio, for example, due to their lower risk level. Let's consider each of the five as related to stops.

The Strategic Income Portfolio (SIP).

This is our most conservative portfolio, filled with income producing notes, bonds, preferreds, bank notes, and convertibles. As rates have been so low over the past few years, we even sprinkled a few real estate investment trusts and blue-chip stocks in the mix.

While we build a conservative portfolio around a laddered bucket of individual bond holdings (which, of course, cannot have protection placed on them), we supplement these bonds with any number of the 22 or so holdings in the SIP.

For the ETF positions made up of shorter duration bonds or Treasury holdings, no stop is needed. However, for the REIT and blue-chip holdings we will look at the beta (measure of risk), price stability, and creditworthiness of the position to determine where to place the stop. For example, our AT&T[T] holding has a whopping 6.43% dividend yield, an A++ financial strength rating, and a price stability rating of 100 out of 100 (we use ValueLine as our source for these metrics). Therefore, we are comfortable with a stop-loss order 20% or so below our purchase price.

Another note on our bond holdings should be made here. When interest rates are relatively high, an astute investor should load up on solid bonds with high credit ratings. These will provide a solid foundation for the portfolio, and should even go up in value as rates come down.

The Dynamic Growth Strategy (DGS).

In the DGS, we have replaced virtually all of our mutual fund positions with ETF holdings, for the reasons mentioned earlier. We employ a "core/satellite" approach, which we highly recommend to all investors. With this approach, we first start with the most solid, core holdings for each asset class and style. For example, our core holdings include: a large-cap value fund, a mid-cap growth fund, a foreign-developed fund, and so on and so forth. Meanwhile, our satellite positions are used to take advantage of trends we see on the short-term horizon. For example, we currently hold ITA, an aerospace and defense ETF; HACK, a cybersecurity ETF; and XLU, a utilities ETF (among others).

We are hesitant to put stops on our core holdings, as they should perform well over the long run. However, our satellite holdings may have protection placed 10-15% below where we purchased, and they will be raised as the value increases. The IBB Biotech ETF (an actual holding in the DGS) is a great example of this.

The Penn Global Leaders Club (GLC)

In this strategy, we hold forty industry-leading companies from all sectors and a number of different industries. These are companies, not limited by size, which we believe will continue to be the trendsetters in their respective market. Integrated shipping and logistics company FedEx[FDX] is one such holding. Years ago, General Electric[GE] was a no-brainer for membership to the Club. Certainly, when we saw that lumbering ship heading for troubled waters, we dumped it.

Because of the dominant nature of these companies, we tend to hold off on stops in the GLC. Sure, surprises can hit any company, but they are more likely to affect companies in our last two strategies...

The Intrepid Trading Platform (ITP).

The closest we get to Vegas in our Penn strategies, the ITP consists of roughly 15 companies or aggressive ETFs (long or inverse) which we believe are well-positioned for short-term, double-digit pops in price. These are often names few have heard of, as they reside in the small-and mid-cap worlds. Globus Medical[GMED], a $5B medical device maker, is a great example.

When we add a position to the ITP (which clients and members can see by signing into the Trading Desk), we always immediately place a stop-loss order after the purchase. We understand that the timing could be wrong, and the holding could head south quickly, so the stop is generally 8-12% below our buy price.

The New Frontier Fund (NFF).

It is amazing when you think about it. Virtually every great industry leader began, at some point in the past, as a high-risk startup—from Edison at General Electric to Steve Jobs at Apple. In the NFF, we search diligently for the future industry leaders and get in on the ground floor. From genomics to space travel to hydrogen fuel cells, this fund runs the gamut of futuristic technology. If SpaceX ever goes public, this fund will be one of the first investors.

Needless to say, these are highly-speculative positions. While we use the same basic stop guidelines as we do for the ITP, we watch these positions vigilantly.

Create your own strategies and implement stop-loss tactics based on these guidelines.

For Penn Wealth Management* clients, we automatically handle these stop-loss orders, of course. For members of Penn Wealth Publishing, we annotate recommendations for stops on positions which happen to reside in one of our strategies. We do this for informational purposes only, and not as advice (always contact your investment professional before taking any action to determine suitability). That being said, you can create your own portfolio based around the concepts of the five Penn strategies.

For example, you could research the positions you believe to be industry leaders with strong, long-term prospects, and place "loose" stops on them after purchase. If you love to follow companies on the cutting edge of technology (as we do), you could create a basket of high-tech gems, placing a tighter stop loss on these positions. Follow us, or create your own portfolio. Either way, don't let the unexpected yet inevitable market shocks destroy your positions; protect them!

**Within this article we mentioned Penn Wealth Management (PWM). PWM is a separate entity, operating as a Registered Investment Advisory firm with its headquarters in the state of Kansas. All clients of PWM have an advisory agreement on file. This article is for informational purposes only. Always consult your investment professional before investing.*

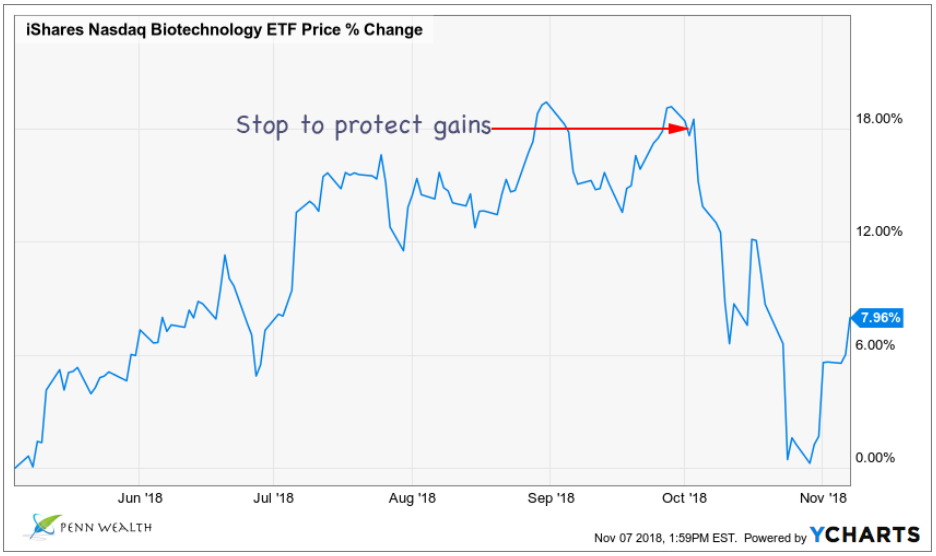
Sample Stop-Loss orders in the Various Strategies...

Facebook[FB] (*GLC*)

On the way up, you are hesitant to take your profits off the table. After a gap down, you want to wait until the stock climbs back up. This is no way to invest. Take the emotions out of the equation with a stop-loss. You can always pick the position up again at a later date.

Biotech ETF[IBB] (*DGS*)

You may feel that you are getting diversification by buying a basket of stocks instead of just one name, but events often take all industry players down at the same time. Using ETFs, you can still get the stop-loss protection you need.



Globus Medical[GMED] (*ITP*)

We saw a lot of promise in Globus Medical, a $2.5 billion (at the time) small-cap medical device maker, but we didn't have the conviction to add it to the Global Leaders Club. We placed an initial stop 10% below purchase price, and moved it up as the shares gained.

Market Downturn Strategies

Using Inverse Funds to Create Gains and Protect Positions

On their face, inverse funds make perfect sense in a bear market, but investors need to be aware of risks.

Other than hiding out in cash, what's an investor to do? At most points in the past, falling values in one asset class meant rising values in other, inversely- or non-correlated asset classes. For example, as markets were hitting their crest back in the spring of 2000, the target federal funds rate was sitting at 6.5% (it is at 2.5% now). That meant an investor could pick up 7-8% high quality corporate bonds till the cows came home. As the Fed began lowering rates to counter the softening economy, the value of those bonds went straight up.

And cash as an investment? We recall 5% money market rates back around that time! Of course, one could also go into precious metals, agricultural commodities, real estate, foreign markets, and other asset classes in an attempt to avert the imploding tech bubble.

To get an idea of how an investor could have diversified away market risk back in the first few years of the new millennium, take a look at the accompanying graph. While the "new economy" NASDAQ was busy falling an almost-unfathomable 73.5% between March of 2000 and the end of 2002, the typical bond portfolio was going up nearly 32%. If you diversified into gold to hedge your market bets over that time frame, you would have been rewarded with a 20% gain.

Fast forward to today. Markets are falling, oil is plummeting, gold is flat, rates are going up (meaning bond values will fall), and emerging markets are nightmarish. What about hiding out in the money market? That is certainly wise for a larger portion of your portfolio as the stock market tries to find a floor, but instead of 5% you will be rewarded with less than one-half of 1%.

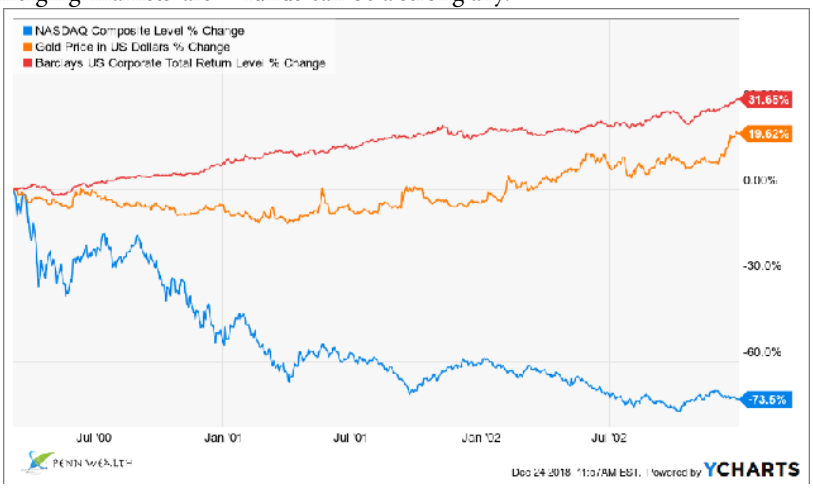
There is one market strategy, however, guaranteed to generate positive performance (overall) as the markets drop: adding inverse funds to your portfolio. So, why don't more investors use this tool? Namely, it is fraught with danger and, barring a crystal ball, investors can get hammered before they know what hit them.

So what are inverse funds, anyway?

There have always been ways for sophisticated traders to take the opposite side of any market bet; unfortunately, most of those methods were historically reserved for a privileged few. That changed with the advent and blossoming of the exchange traded fund. Today, any individual investor can buy any number of inverse funds to hedge against a certain long position.

Let's use the NASDAQ as a classic example. Despite crazy and unsettling gyrations in the tech-heavy index during the first quarter of 2018 (up 8%, down 8%, up 8%), the NASDAQ rose 16% between the beginning of Q2 and the end of Q3. Suppose you had a bad feeling about the fourth quarter for tech stocks, and wanted to either protect your holdings or simply take advantage of another downturn. So, you picked up some shares of PSQ, the $517 million NASDAQ inverse fund, selling for $29 per share on the first day of the fourth-quarter. Good call. By the end of the year, you had gained 18% on that call (see chart on the following page).

Of course, it's impossible to know precisely what is going to happen in the markets, but when all signs are pointing to an overvalued condition in one corner or niche segment of the investment universe, inverse funds can be a strong ally.



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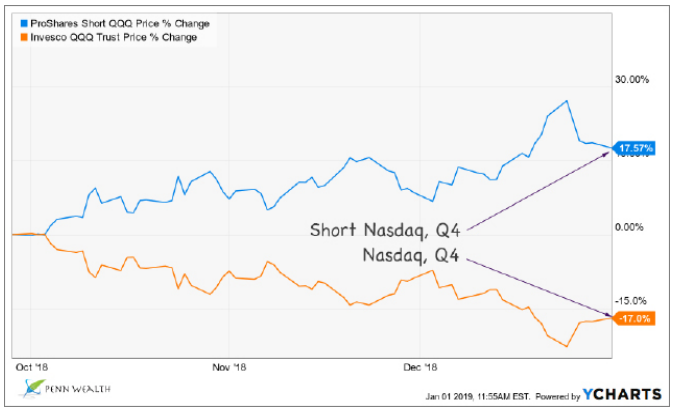
"...the longer one holds an inverse ETF, the greater the tracking error. Look for inverse funds with a low tracking error...and try to take your profits earlier rather than later."

When you do feel a market downturn coming, the last thing you want to do is scramble to find something that makes sense. Instead, you want to have a quiver full of inverse fund arrows you can pull out when needed. On the last two pages of this article, we have identified some of our favorites, identified by the benchmark they are designed to short.

Rumblings of a trade skirmish with China over that country's theft of American intellectual property were present going into 2018. Perhaps we didn't realize just how much the real or threatened tariffs would hurt the communist state, but had we picked up CHAD, the **Direxion Daily CSI 300 China Bear Fund**, we would have gained 28.75% over the course of a very ugly year in the markets.



And what about the oil and gas markets? It's hard to believe, but at the start of the fourth-quarter, crude futures were sitting above $75 per barrel, with experts calling for more pain at the pump (due to the OPEC/Russian cuts and the Iranian sanctions). Wrong. By the end of the year, crude had fallen to $45.81 per barrel, and DUG, the **ProShares UltraShort Oil & Gas ETF** was up 36.18%. (It actually gained 69% in Q4! Interesting side note: when oil hit $45 per share, we took the opposite bet and picked up OIL—a long etf—in the Intrepid Trading Platform.)

What are the risks with trading inverse ETFs?

Certain well-known investors and market gurus have been calling for a big correction since the end of 2016. Had they put their money where there mouth is, they would have taken a bath in inverse ETFs for 90% of the period between then and now. Especially if they had double-or triple-downed on the 2X or 3X inverse ETFs. As the name implies, these move in the opposite direction of their respective benchmark at twice or three times the speed. Of course, you can place stop protection on inverse ETFs, but the moves are often so rapid that investors stop out well below their trigger price.

Another important challenge to understand when dealing with inverse funds is a phenomenon known as tracking error. While an inverse ETF may be designed to track a specific benchmark, these investments are still derivatives. This means that they rely on some type of financial "middle man" (typically a mathematical formula) to help assure they are effectively dependent upon the price of the underlying asset. Tracking error measures that effectiveness.

Here's what that means for investors: Generally, the longer one holds an inverse ETF the greater the tracking error. Look for inverse funds with a low tracking error (this number can be found in the company's data on the holding, or you can simply overlay the fund symbol on a chart alongside the benchmark index and check the inverse alignment—as we did with our ProShares short NASDAQ fund), and try to take your profits earlier rather than later. This is why we typically buy inverse ETFs inside of the ***Intrepid Trading Platform*** rather than the ***Dynamic Growth Strategy*** (our ETF portfolio)—the Intrepid is designed to notch quick gains.

Thinly-traded inverse ETFs—and there are plenty of them on the market—pose yet another risk to investors. If the volume traded within a certain ETF is very low, it is much more susceptible to wild swings in price. Before trading an inverse fund, take a look at its assets under management and compare that figure to other funds in the space. The greater the AUM, the greater the liquidity. And getting stuck in an illiquid investment can cause some serious problems.

Here's the bottom line with respect to inverse fund risks: yes, investors must be very cautious with their use, but don't buy into the blanket condemnation many pundits espouse via their hyperbolic headlines (one recent headline read "*Why Inverse ETFs are a Terrible Hedge*"). If a certain benchmark has a severe downturn, a high-quality inverse ETF based on that benchmark will almost assuredly do very well during that period.

What are some good (inverse) ideas for 2019?

Now that we have a good grasp on the concept of inverse funds, and are aware of the risks, let's consider application: what are some real-world ways to take advantage of inverse funds over the course of the year ahead?

One trend we definitely see developing is the Fed's reduction of their tightening policy. Mid-year 2018, most Fed watchers predicted three to four interest rate hikes in the cards for 2019. Although we called for just two to three, we have now reduced that expectation even further: we predict zero to one rate hikes for the year.

While the central bank won't admit to being swayed by markets, the underlying strength of the global economy is a data point they explicitly watch. And the global economy is slowing down precipitously. Also, expect the Fed to slow down on the $50 billion per month ($600 billion per year) balance sheet reduction program. Since tightening (via interest rate hikes and balance sheet reductions) helped strengthen the US dollar, letting up on the gas pedal should lead to a weakening of the US currency.

Looking at the spreadsheet on the following page, we see that the **Invesco DB US Dollar Bearish ETF** (ticker UDN), has a negative 6.21% return over the past year. If the dollar does indeed weaken, expect UDN to have a very good year.

Another trend to play is the global slowdown. EFZ is the **ProShares Short MSCI EAFE fund**. The MSCI EAFE index is designed to measure the market performance of *developed markets* outside of North America. As our outlook on international developed markets—Europe in particular—is rather dour, this $58 million fund might be a good way to play a global slowdown.

It is easy to feel helpless when global and domestic markets are tumbling. If used properly, inverse ETFs can be an effective way to realize gains and hedge other holdings. They can also provide a nice respite to all of that flashing red on the screen.

From the Universe of Inverse

Benchmark (Inverse of)	Symbol	Name	AUM ($M)	Exp
Agriculture	ADZ	DB Agriculture Short ETN	$0	
Base Metals	BOS	DB Base Metals Short ETN	$1	
Basic Materials	SMN	ProShares UltraShort Basic Materials	$8	
Biotech	BIS	ProShares UltraShort Nasdaq Biotech	$32	
Broad US Market	HDGE	AdvisorShares Ranger Equity Bear ETF	$140	
China	CHAD	Direxion Dly CSI 300 Chn A Shr Br 1X ETF	$66	
Commodities	DDP	DB Commodity Short ETN	$1	
Currencies, Foreign vs US$	UUP	Invesco DB US Dollar Bullish	$505	
Currencies, US Dollar	UDN	Invesco DB US Dollar Bearish	$29	
Dow Jones Industrial Avg	DOG	ProShares Short Dow30	$256	
Emerging Markets	EUM	ProShares Short MSCI Emerging Markets	$110	
Euro Currency	EUFX	ProShares Short Euro	$9	
Europe, Asia, Far East	EFZ	ProShares Short MSCI EAFE	$58	
Financials Sector	SEF	ProShares Short Financials	$18	
Gold	DUST	Direxion Daily Gold Miners Bear 3X ETF	$106	
High Yield	SJB	ProShares Short High Yield	$129	
Japan	EWV	ProShares UltraShort MSCI Japan	$9	
NASDAQ	PSQ	ProShares Short QQQ	$517	
Natural Gas	GASX	Direxion Daily Nat Gas Rltd Bear 3X ETF	$7	
Oil & Gas	DUG	ProShares UltraShort Oil & Gas	$18	
Real Estate	REK	ProShares Short Real Estate	$10	
Retail Stores	EMTY	ProShares Decline of the Retl Store ETF	$6	
Rising Interest Rates	RISE	Sit Rising Rate ETF	$60	
Russell 2000	RWM	ProShares Short Russell2000	$288	
S&P 500	SH	ProShares Short S&P500	$1,923	
Semiconductors	SSG	ProShares UltraShort Semiconductors	$5	
Small Caps	SBB	ProShares Short SmallCap600	$4	
Technology	REW	ProShares UltraShort Technology	$7	
Treasuries, 20-year	TBF	ProShares Short 20+ Year Treasury	$429	
Yield Curve	FLAT	iPath® US Treasury Flattener ETN	$5	

ETFs (sorted by benchmark)...

p Ratio	52 wk Low	Price	52 wk High	1-year Return	RSI	Inception Date
0.75	$21.13	$37.00	$39.50	6.32%	71	2008-04-14
0.75	$13.07	$20.69	$22.02	4.49%	50	2008-06-16
0.95	$23.46	$36.31	$40.16	32.74%	54	2007-01-30
0.95	$15.38	$22.85	$27.62	5.18%	54	2010-04-06
2.72	$7.22	$8.48	$8.99	7.53%	54	2011-01-26
0.85	$27.67	$40.30	$41.12	28.75%	58	2015-06-17
0.75	$37.66	$45.93	$61.00	3.19%	26	2008-04-28
0.76	$23.09	$25.64	$26.12	5.91%	38	2007-02-20
0.76	$20.76	$20.86	$23.27	-6.21%	47	2007-02-20
0.95	$53.83	$61.57	$66.03	3.57%	55	2006-06-19
0.95	$16.23	$20.39	$21.76	14.61%	50	2007-10-30
0.97	$38.37	$43.08	$43.66	7.72%	46	2012-06-26
0.95	$23.78	$29.68	$30.59	16.27%	57	2007-10-23
0.95	$21.68	$25.35	$27.12	10.35%	58	2008-06-10
1.08	$19.04	$22.99	$48.79	-3.27%	38	2010-12-08
0.95	$22.45	$23.61	$24.12	2.47%	55	2011-03-21
0.95	$22.75	$34.65	$36.73	29.89%	62	2007-11-06
0.95	$28.99	$34.46	$37.22	-2.32%	54	2006-06-19
1.08	$14.90	$47.46	$79.35	127.80%	62	2015-12-03
0.95	$27.88	$48.26	$58.54	36.18%	61	2007-01-30
0.95	$15.03	$16.79	$17.94	4.62%	59	2010-03-16
0.65	$29.57	$36.82	$40.43	11.18%	59	2017-11-14
1	$23.59	$24.09	$25.50	1.37%	25	2015-02-18
0.95	$36.82	$46.51	$49.93	11.59%	59	2007-01-23
0.89	$27.08	$31.45	$33.59	4.94%	56	2006-06-19
0.95	$13.75	$20.45	$23.76	-0.76%	51	2007-01-30
0.95	$29.00	$37.12	$39.59	8.41%	60	2007-01-23
0.95	$10.55	$15.26	$17.75	-9.98%	53	2007-01-30
0.91	$21.81	$22.41	$24.43	3.25%	26	2009-08-18
0.75	$60.69	$66.29	$68.94	7.34%	84	2010-08-09

Western Civilization

The South Sea Bubble

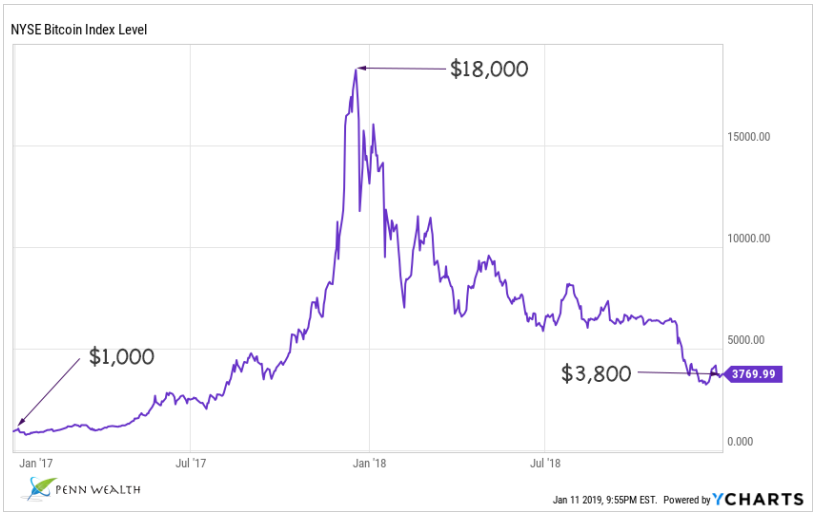
300 years before Bitcoin, the same herd mentality swirled around an investment in Britain's South Sea Company.

The S&P 500 had an outstanding 2017. In fact, the benchmark index was up nearly 20%. *But*, what if we told you there was actually a high-volume investment that rose 1,420% for the year? Hard to believe, but that is the precise return of the NYSE Bitcoin Index in 2017. Back in 2000, investors were becoming emotionally attached to equities with fanciful PE ratios, like AOL. In 2017, they were enamored with something that had no physical attributes—a digital currency.

It was around the beginning of 2018 that we began receiving phone calls from clients about this "currency of the future." Perhaps it was fear of missing out, but millions of Americans were suddenly asking their brokers how to get in on the action.

As is so often the case, by the time an investment reaches "craze" level, people tend to jump in en masse—just in time for the bottom to fall out. Just before Christmas of 2017, the Bitcoin Index topped out around $18,000; not bad for something that was selling for $900 the previous Christmas. The sky was the limit, with digital currency "miners" telling us that $30,000 was on the horizon. By the time the dust settled on 2018, bitcoins were going for under $3,800 a virtual coin. A 75% loss. Ironically, that is almost identical to the 78% drop in the NASDAQ from its high in March of 2000 to its trough.

Perhaps the belated bitcoin investors of 2018 can take some solace in the story of the South Sea Bubble, which took place some 298 years prior.



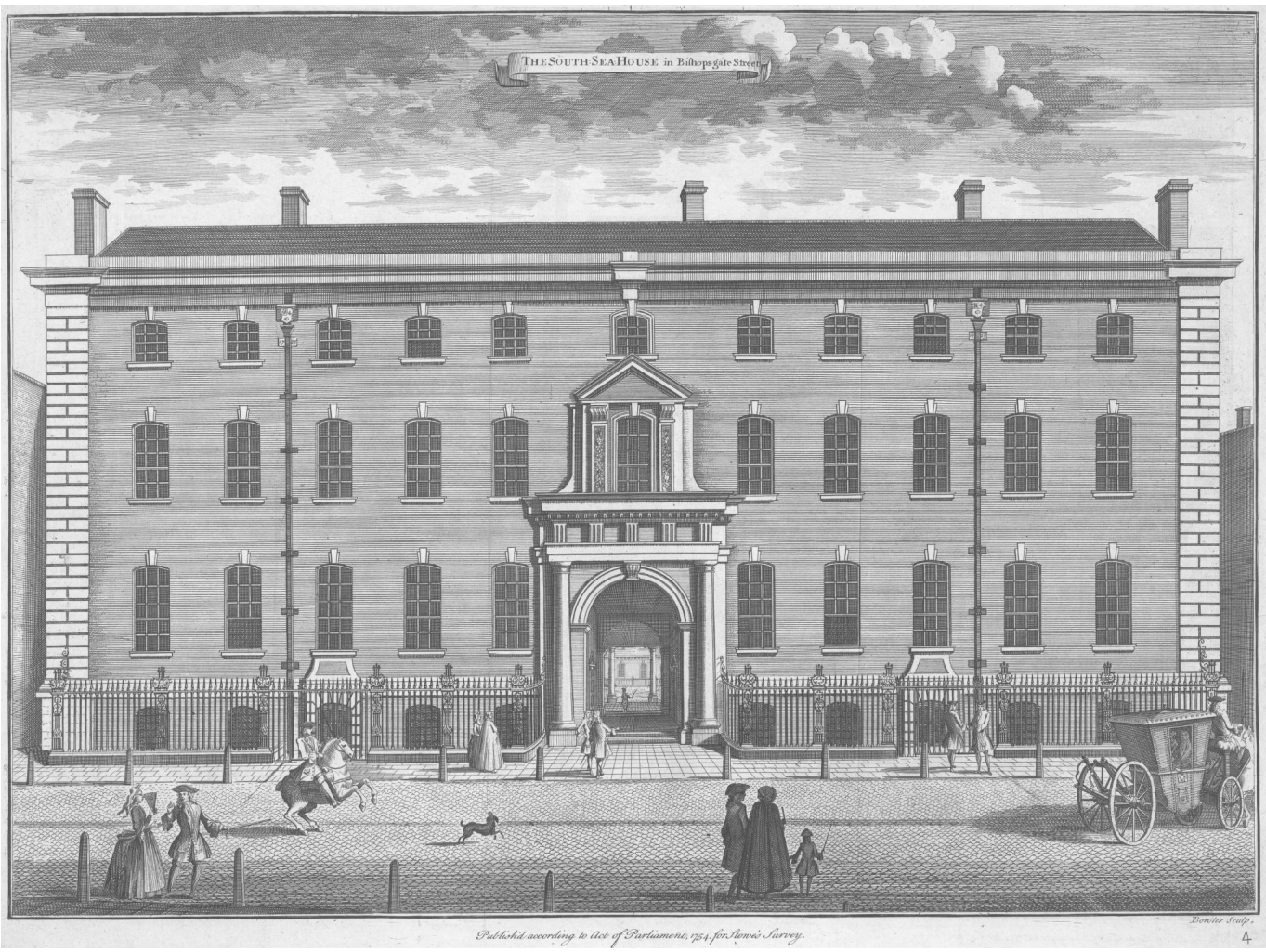
War of Spanish Succession.

When the last Hapsburg king of Spain, Charles II, died childless in 1700, his throne was willed to Duke Philip of France—King Louis XIV's grandson. This didn't set well with the Hapsburg King of Austria (and the Holy Roman Emperor), Leopold I, who wanted his son Charles to take the Spanish throne. Suddenly, France and Austria were at war over the issue, with Bourbon Spain joining with the former (The Bourbon Alliance), and Great Britain, the Holy Roman Empire, and Prussia siding with Austria (The Grand Alliance). Spain was divided, and the balance of power on the continent hung in the balance.

The South Sea Company.

Prior to and during the War of Spanish Succession, Spain controlled South America, which meant the country controlled the lucrative trade between that region and Europe. In 1711, when it was becoming obvious that The Grand Alliance held the upper hand, a British joint-stock interest known as the South Sea Company was created.

The organization was founded by Edward Harley and John Blunt as a competitor to the Bank of England, which had consolidated British government debts on a number of previous occasions. As Great Britain was footing the lion's share of the war's costs, the idea was for the South Sea Company to take over the current national debt. With the approval of the British government, debtholders would be issued shares of the company equal to the amount owed, and would receive interest (in the form of dividend payments) of 6% per year on the shares.



1754 engraving of the Old South Sea House in London, headquarters of the South Sea Company. (Public Domain)

In exchange for the scheme, the South Sea Company would be given a monopoly on trade with South America once the war was over, with the (strong) assumption that Britain would be the victor.

The end of a war, the start of a bubble.

The Treaty of Utrecht did, indeed, signal an end to the war, and Britain did walk away with most of the spoils. But the founders of the South Sea Company were engaging in something of a Bernie Madoff-like Ponzi scheme. They knew that Spain would never willingly give up their lucrative South American trade routes, and they knew that their promises of wealth being made in this endeavor were greatly exaggerated. Their cargo trips, with the cargo generally consisting of slaves, were perpetually unprofitable.

At the start of 1720, South Sea shares were trading around £128. To keep the money flowing in, the directors began circulating false stories of vast wealth being created from the trade side of the business. The stock price rose to £175 the following month, and to £330 by the end of March. By the end of spring, shares were at £550—over a 400% gain from the start of the year.

In a warped deal, greatly misconstrued by would-be investors, the South Sea Company persuaded Parliament to pass the Bubble Act, which required all joint-stock companies to receive a royal charter. From the South Sea angle, this would curtail competition; from the angle of the investing public, this only lent credibility to the company. By summer, South Sea stock had spiked to £1,050 per share.

1720; The "night singer of shares" sells South Sea shares on the street (Public Domain)

The collapse and the fallout.

Like any financial bubble, the collapse came even more fervently than the rise. Questions surrounding the company's actual profit (or lack thereof) went unanswered, and fear began to supplant greed. Investors began unloading shares at a breakneck speed, and by September they were once again trading around £175.

When we think of 18th century England, we envision a small percentage of well-offs, and a vast percentage of the abject poor. But members of all economic quintiles got caught up in the South Sea Bubble. Porters, maids, and clergymen lost their life savings, and members of the House of Commons lost their situation.

Politically, the bubble led to the 20-year reign of Robert Walpole, considered to be the first Prime Minister of Great Britain. Walpole had opposed the South Sea scheme from the start. By clawing back the national debt and dividing it into three government-controlled buckets, he eventually restored order.

Despite the "safeguards" we have in place today, the similarity between the South Sea Bubble and modern bubbles should serve as a warning sign for investors who let emotions dictate their actions.

Consumer Staples

Lowering portfolio beta with consumer staples

They may not be sexy, but stalwart consumer staples might be your best friend in a market pullback.

One of the biggest challenges for investors caught up in a trend is to go against that trend, especially if they have tried to escape the flow of traffic before, only to be pounded by the oncoming vehicles. By the time the trend changes direction, investors are often frozen with indecision.

Thus is the current state of the market rally. After a year, we know that a pullback is coming, we just don't know its timing or voracity. While some percentage of assets can be moved into cash or fixed income to avoid the inevitable pullback, we can also reduce volatility by adjusting our equity holdings—as outlined previously in this issue.

Boring old staples.

While the high-risk, high-flying growth stocks still may have room to run, we love bringing out our contrarian side, searching for bargains in the lonely bin being ignored by shoppers. For a value investor, no sector has been less visited recently than consumer staples.

In the past, we have focused on specific names in an unloved sector for new capital. However, with any investment in one name comes specific risk—the threat of negative news affecting that particular company. The Target (TGT) hack which occurred during the 2013 holiday shopping season, for example. By purchasing a basket of stocks in a sector, we can diversify away some of that specific risk, reducing portfolio volatility even more.

The Consumer Staples Select Sector SPDR®.

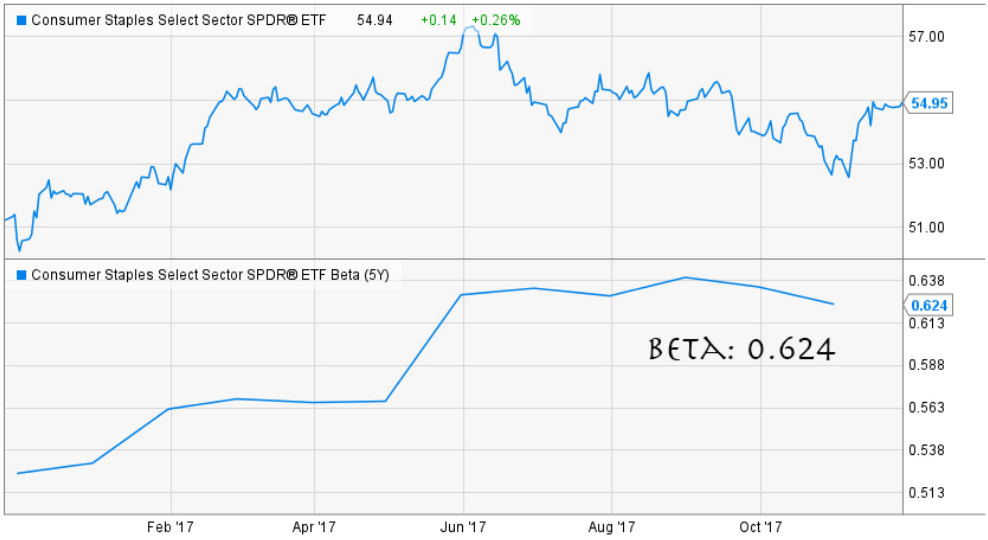
When we zero in on a certain sector, industry, or strategy to deploy capital, the first step is to perform due diligence on all of the different options we have available. As we have discussed in the past, open-ended mutual funds are typically not a good solution, due to their annual expense ratio and non-intra-day liquidity. Fortunately, the ETF market has exploded with new alternatives over the past decade, giving us many options in the consumer staples arena.

After narrowing our choices down to two (the Vanguard Consumer Staples ETF was the runner-up), the clear winner for this sector is the Consumer Staples Select Sector SPDR® ETF, symbol XLP. The fund, which has an unbelievably-low expense ratio of 14 basis points (a $10,000 investment would cost just $14 per year in fees), holds 35 of our favorite staples. The fund reduces risk further by weighting its holdings by market cap, meaning lower portfolio turnover and lower market impact costs i.e. transaction charges. With respect to risk, XLP has a beta of 0.624, meaning it holds about 40% lower risk than the S&P 500.

"Smokers are gonna smoke and drinkers are gonna drink," no matter what the markets or economy are doing. In fact, an argument could be made for increased alcohol consumption during a downturn! XLP owns names we've held in the *Penn Global Leaders Club*, like Constellation Brands (STZ, think Corona, Modelo, Svedka Vodka, etc.), Wal-Mart (WMT), and General Mills (GIS), in addition to other rock-solid names such as Clorox (CL), Sysco (SYY), and Walgreens Boots Alliance (WBA). Virtually all of the holdings reside in five low volatility industries: food & beverage products, staples retailing, household products, alcohol & tobacco, and personal care products.

Emerging markets without all of the risk.

Despite the defensive nature of their business lines, there is nothing defensive about these companies' growth projections. With a focus on emerging and frontier markets, a company with a saturated US footprint may find billions of new users overseas. And one thing's for certain: there are no stocks in this fund with Amazon's stratospheric 300 P/E.



The risk level, or beta, on XLP is nearly 40% lower than that of the S&P 500

Bear Market Strategies

Managing Volatility

The iShares Edge MSCI Minimum Volatility USA ETF was finally combat tested—and it held up even better than we had hoped.

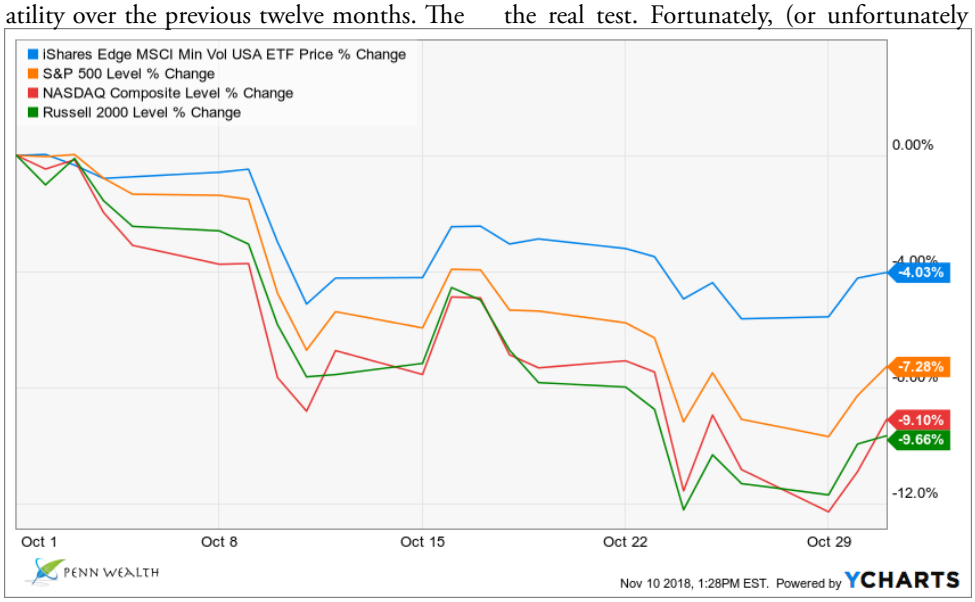
We've tested all of the so-called "risk managed" funds over the past two decades, and we remain underwhelmed. More often than not, these investments tend to underperform in bull markets and drop just as much as their benchmark indexes in bear markets. That being said, after the October rout in the markets, we do have a clear winner in the space.

Before discussing our latest addition to the Penn Dynamic Growth Strategy, which happens to be a low-vol investment, let's take a look at what these vehicles are *supposed* to do. Using some methodology to reduce beta below 1.00 (the risk level of the S&P 500), these funds are advertised as a way to be "in the market" without taking on all of the risk.

The *Invesco S&P 500 Low Volatility ETF*[SPLV], for example, is based on the index by the same name, and buys the 100 stocks in the S&P 500 with the lowest realized volatility over the previous twelve months. The holdings then go through the same screener every quarter for rebalancing.

Our choice, the *iShares Edge MSCI Minimum Volatility USA ETF*[USMV], takes a more in-depth analytical approach. This fund uses an advanced algorithm to construct a "minimum variance" portfolio of holdings, one that considers the correlation between these equities. The fund's proprietary process has some fascinating results. For example, while SPLV has nearly one-quarter of its holding in the utilities sector (as could be expected, based on its approach), and another 34% in real estate and financial services, USMV has just 8% in utilities and the sector dispersion is much smoother (15% industrials, 15% healthcare, 12% technology, and so on).

Strategies always sound great in theory, but the proof is in the pudding. How they hold up under actual market conditions is the real test. Fortunately, (or unfortunately for investors, October morphed into a great little Petri dish in which to study USMV.



Bear market performance.

Take a look at the accompanying graph, which shows USMV (blue line) as compared to three different indexes through the month of October: the S&P 500, the NASDAQ, and the Russell 2000 (small-caps).

Anyone invested in a plain-vanilla S&P 500 index lost 7.28% of their portfolio's value during the month, while those investing in tech stocks or small-caps lost nearly 10%. That is of interest, because both of those segments of the market had been on a tear going into the month. USMV, however, was down just 4.03% in October—around 50% less than the indexes. In other words, its performance lived up to its hype.

With over 200 holdings in the fund, it is nearly impossible for bad news hitting any one holding to have an impact on overall performance. On the other hand, USMV is filled with some pretty impressive growth names. McDonald's, Lockheed Martin, Newmont Mining, and NextEra Energy are all top holdings within its eclectic portfolio.

The fund has a beta of .70, meaning the aggregate holdings offer about 30% less risk than the benchmark. As for cost, it doesn't get much better than this: the gross expense ratio is just fifteen basis points, or 0.15%.

With more anticipated volatility heading our way in 2019, we have moved this investment into a core role within the Dynamic Growth Strategy, and are comfortable with no stop-loss in place. A stable of 205 strong holdings, nicely split between industries and sectors, and with an extremely low cost; what more could we ask for? As always, we will monitor and review the fund quarterly.

Utilities

Utilities Select SPDR® Fund

Utility companies have a lot going for them right now; not least of which, they are in a defensive sector of the US economy.

Talk about an unloved corner of the market. While high-flyers like Amazon, Netflix, and Alphabet have been at the top of everyone's buy list for the past several years, value has been out of vogue. And no group wears the value moniker better than utilities.

Meanwhile, great American utility companies chug along, generating strong revenues, net income, and dividends for their stakeholders. Take Excelon Corp (EXC $36-$44-$45), one of the utility holdings in the Penn Global Leaders Club. With a market cap of $42 billion and a slim p/e of 11, the company earned $4 billion on the back of $34 billion in revenues last year.

And talk about a captive customer base: the company provides power to ten million Americans via its six regulated utilities. If the economy and the markets took a nasty turn down, are these customers going to pull back on their utility usage? That is simply not an option. And that, among other reasons, is the reason why utilities should play an important role in everyone's portfolio.

As for selecting which utilities to buy, this can be a bit tricky. While we own Excelon, for example, the company owns 11 nuclear power plants in the US which could generate a host of headaches—in addition to their 33 gigawatts of power—at any given time. For that reason, we always recommend buying a basket of utilities before picking up individual names. And our favorite basket of utilities comes in the form of XLU, the Utilities Select SPDR® ETF.

Inside of this sector, there are six different industries: electric utilities, gas utilities, multi-utilities, water utilities, independent power producers & energy traders, and renewable electricity. While currently holding only 29 positions, XLU provides a solid cross-section of the industry it represents.

With an impressively-low expense ratio of 0.13%, this highly-liquid fund has nearly $8 billion in assets under management. It has now been around for twenty years, making it one of the most seasoned ETFs on the market. All of the holdings are based within the United States, and the fund has an average market cap of $34 billion—not too big to inhibit future growth, yet not small enough to raise the risk level of the fund. In fact, XLU has a beta (measure of risk) of just 0.13, meaning it carries about 13% of the risk of the S&P 500.

How is the fund correlated to the overall market? Being in the most defensive of the 11 sectors, it tends to do better when growth stocks are faltering. It is also an ideal holding for the late stages of the economic cycle, as a slowdown begins to appear on the horizon. Case in point: over the past month, while the S&P 500 was falling 7.2% and the NASDAQ was shedding 9%, XLU was up 4.82%. This doesn't mean, however, that it performs poorly in a strong market: over the past five years it has an average annual return of 10.89%. The current dividend yield of the fund is 3.34%—about 80% higher than the S&P 500 average yield.

Symbol	Company	% Weight
NEE	NextEra Energy Inc	11.34%
DUK	Duke Energy Corp	8.20%
D	Dominion Energy Inc	6.67%
SO	Southern Co	6.35%
EXC	Excelon Corp	5.85%
AEP	American Electric Power Co Inc	5.02%
SRE	Sempra Energy	4.40%
PEG	Public Service Enterprise Group Inc	3.85%
XEL	Xcel Energy Inc	3.46%
PCG	PG&E Corp	3.44%

Sector Outlook

One trend in the utilities sector is clear: the United States, like most other countries, has been turning its back on nuclear power. While these facilities generate a lot of "clean" power, they are incredibly expensive to build and are becoming increasingly costly to maintain. We see companies like Excelon and Southern slowly weening themselves off of their nuclear assets.

While the loss of existing nuclear would be a headwind for a number of large utility companies, the drop in the corporate tax rate has clearly helped their bottom line. Additionally, as mentioned, investors tend to flock to defensives as the economy slows. While fundamentally-sound utilities rarely hurt investors in any cycle, they can look downright lucrative in a downturn—which may be closer than we think.

Precious Metals

SPDR® Gold Trust

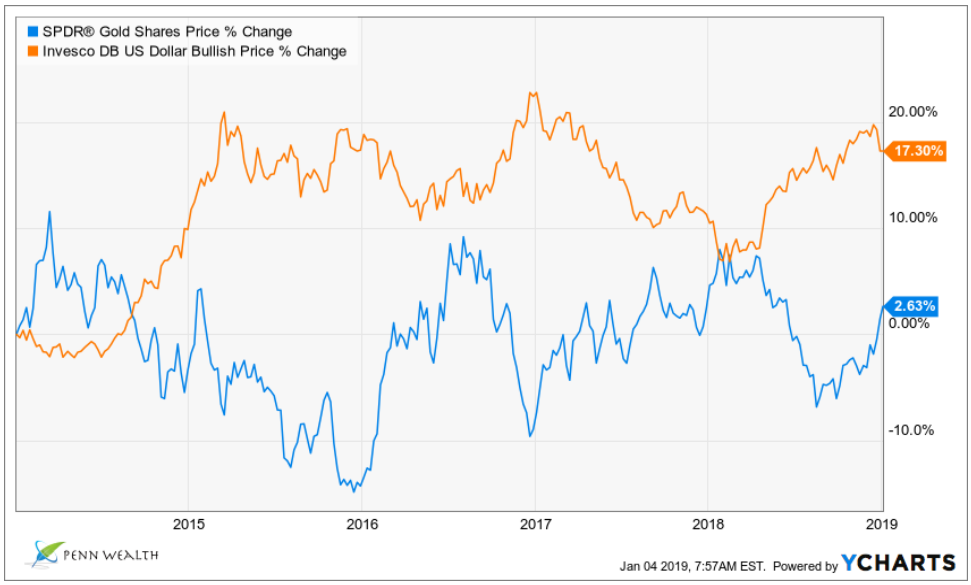
In addition to being a non-correlated asset, the table is setting up nicely for a big gold rally in 2019.

Admittedly, we haven't been big fans of gold as an investment for a number of years. Perhaps it has something to do with all of those clownish commercials featuring a guy in a bad suit standing in front of a green screen video of a giant vault. Had you taken this actor's advice five years ago and put all of your IRA assets in gold, you would now be 2.63% richer.

Nonetheless, we do see the table setting up nicely for a big rally in 2019 for this precious metal, first used as a store of value some 2,700 years ago. And our rationale is built on a multi-faceted foundation: fiscal, monetary, and geopolitical issues are all forming a nice catalyst for gold prices to rise over the next twelve months, perhaps longer.

The US dollar has been strong, but we see that changing this year. Increased fiscal restraint by the US (we use that term loosely) and massive quantitative easing by the European Union has helped the dollar gain strength over the past few years. We anticipate, however, that the Fed is about done hiking interest rates and will slow down on the unwinding of the massive, $4 trillion balance sheet it built up after the financial crisis. Both of those actions will lead to a weaker dollar; and a weakening dollar typically means rising gold prices (see graph).

Gold does not like fiscal responsibility. For example, if the United States ever passed a balanced budget amendment stating that the government could not spend more than it takes each year, gold prices would probably plummet. However, with a president who has talked about a $1 trillion infrastructure spend, and the Democrats back in control of the House, does anyone really believe we will have a modicum of fiscal responsibility coming from D.C? More than likely, especially as growth slows, the federal debt will continue to grow, the deficit will rise, and budget battles will rage—to gold's benefit.



Finally, it is fair to say that gold thrives on chaos. And there is a sense that chaos, both domestically and around the world, will increase in 2019. From ugly battles in D.C., to a hard Brexit, to disruption in the Middle East, expect a troubling year ahead. Also, we can always count on the EU leaders in Brussels to do the wrong thing. Investors will seek a safe haven amongst the carnage, and gold typically serves well in that role.

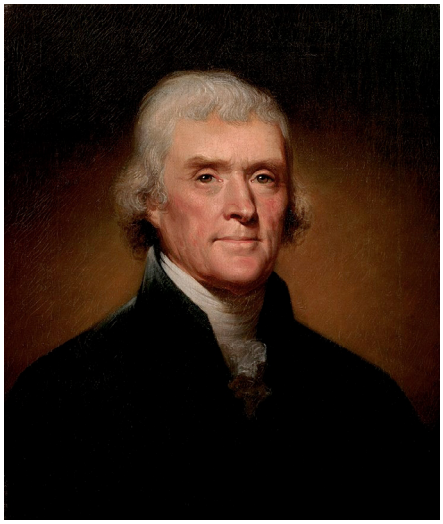
The best vehicle.

Forget the jug-head actor in the gold commercials: buying physical gold within your IRA account is a stupid idea, plain and simple. Furthermore, buying physical gold *at all* doesn't make much sense. If a breakdown of society is coming, it would make more sense to have an easier-to-barter currency such as silver (and about a year's supply of MREs). As an investment, either to simply grow in value or to hedge a long equity portfolio, the best bet is to buy into the $33 billion SPDR® Gold Trust (GLD), currently selling for $121/share.

GLD's size is simply enormous, meaning it is extremely "tradable" and very liquid. We can even place a stop on GLD in case it quickly turns south for some unforeseen reason (like a sudden wave of responsibility in Washington). If we expect gold to go up in value this year (we do), then GLD is the ideal addition to a portfolio.

How much do we expect the precious metal to rise in 2019? We believe it will rise above $1,500 per ounce, which would reflect a 15% jump from here—with the same for GLD shares. Even if the market does rise double-digits this year, 15% is a nice annual return. And, based on recent volatility, the more non-correlated assets we can add to our portfolio the better.

Quotes to steel your determination in turbulent times...



1799, by Rembrandt Peale; Public Domain

Attitude

"Nothing can stop the man with the right mental attitude from achieving his goal; nothing on earth can help the man with the wrong mental attitude."

—Thomas Jefferson

65 BC - 8 BC; Photo Licensed

Embracing Adversity

"Adversity has the effect of eliciting talents, which in prosperous circumstances would have lain dormant."

—Horace

23 AD - 79 AD; Public Domain

The Path Less Traveled

"The best plan is to profit by the folly of others."

—Pliny the Elder

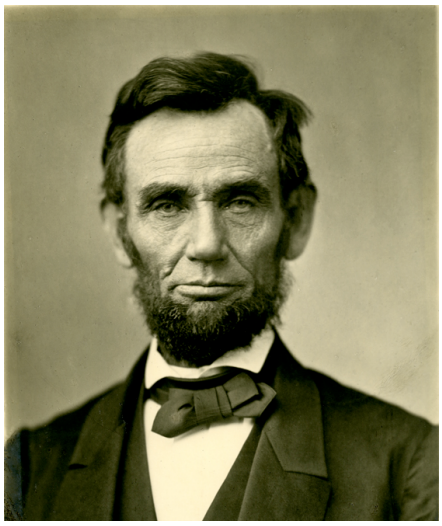
For more quotes visit the Penn Wealth blog at www.PennWealth.wordpress.com

1950, By Equim43; Creative Commons

Emotional Control

What's needed (for successful investing) is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

—Benjamin Graham

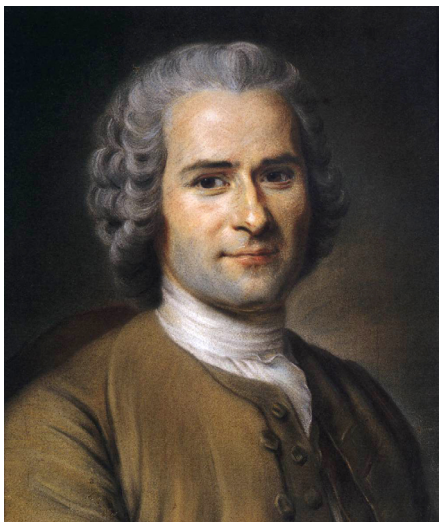


08 Nov 1863, by Alexander Gardner; Public Domain

Preparedness

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe."

—Abraham Lincoln



1753, By Maurice Quentin de La Tour; Public Domain

Patience

"Patience is bitter, but its fruit is sweet."

—Jean-Jacques Rousseau

Penn Strategies

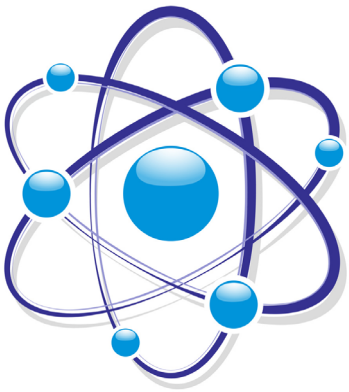
Penn Strategic Income Portf

Asset Class	Classification	Sym	Yield	Name
Allocation	Balanced Open End	BALFX	**2.01%**	American Func
Income	Bank Loan	SRLN	**4.85%**	SPDR® Blacksto
Allocation	Convertibles	CWB	**5.91%**	SPDR® Blmbg E
Taxable Bond	Corporate Bond	LQD	**3.64%**	iShares iBoxx $
Worldwide Bond	Emerging Markets Bond	PCY	**4.86%**	Invesco Emerg
Corporate Bond - High Yield	High Yield Bond	HYT	**8.69%**	BlackRock Corp
Government Bond - Treasury	Intermediate Government	GOVT	**1.96%**	iShares US Tre
Income	Intermediate-Term Bond	BOND	**3.46%**	PIMCO Active I
Growth and Income	Intermediate-Term Bond	TOTL	**3.40%**	SPDR® Double
Income	Multisector Bond	NFLT	**4.77%**	Virtus Newflee
Corporate Bond - High Yield	Nontraditional Bond	HYZD	**5.31%**	WisdomTree In
Corporate Bond - General	Nontraditional Bond	IGIH	**4.76%**	Xtrackers Inv G
Growth and Income	Preferred Stock	PFF	**6.11%**	iShares US Pre
Equities	Regulated Electric Utilities	EIX	**4.09%**	Edison Interna
Specialty - Real Estate	REIT	ADC	**3.54%**	Agree Realty C
Specialty - Real Estate	REIT	O	**4.10%**	Realty Income
Specialty - Real Estate	REIT	VNQ	**4.54%**	Vanguard Real
Growth and Income	Short-Term Bond	IGSB	**2.45%**	iShares Short-T
Worldwide Bond	World Bond	TPINX	**6.44%**	Templeton Glo

Penn Strategic Income Portfolio

olio (sorted by classification)

	52 Wk Low	Price	52 Wk Higl	1-yr return	Stop	Duration
ds American Balanced F1	$26.04	**$27.09**	$28.13	8.84%		5.90
one / GSO Senior Loan ETF	$44.37	**$45.89**	$47.69	1.71%		N/A
Barclays Convert Secs ETF	$45.13	**$48.84**	$54.99	-0.49%		N/A
$ Invmt Grade Corp Bd ETF	$111.25	**$113.75**	$121.18	-2.39%		8.27
ing Markets Sov Debt ETF	$25.56	**$26.79**	$29.63	-4.65%		N/A
p High Yield	$8.95	**$9.83**	$11.07	-3.35%		N/A
asury Bond ETF	$24.05	**$24.79**	$25.00	1.47%		5.79
Bond ETF	$100.80	**$103.05**	$105.83	1.08%		5.65
Line Total Return Tact ETF	$46.63	**$47.55**	$48.50	1.52%		4.56
et Multi-Sect Bd ETF	$22.19	**$23.64**	$25.29	-2.00%		N/A
nterest Rt Hdg Hi Yld Bd ETF	$21.10	**$23.09**	$24.42	0.64%		-0.01
Grd Bd Intst Rt Hdg ETF	$20.99	**$22.81**	$24.99	-2.57%		N/A
ferred Stock ETF	$33.26	**$35.36**	$38.22	-1.79%		4.60
tional	$45.50	**$59.32**	$71.00	-1.05%	$44.00	N/A
Corp	$43.74	**$60.91**	$63.00	27.97%		N/A
Corp	$47.25	**$64.29**	$66.91	26.53%		N/A
Estate ETF	$71.08	**$77.75**	$84.55	2.60%		N/A
Term Corporate Bond ETF	$50.59	**$51.80**	$52.25	1.63%		2.70
obal Bond A	$11.21	**$11.45**	$12.13	1.17%		-1.34



Penn Strategies

Penn Dynamic Growth Str

Specialty	Symbol	Name	Function	Style
Aerospace & Defense	ITA	iShares US Aerospace & Defense ETF	Satellite	Industry
Commodities	DBC	Invesco DB Commodity Tracking	Satellite	Sector
Consumer Staples	XLP	Consumer Staples Select Sector SPDR® ETF	Satellite	Sector
Cybersecurity	CIBR	First Trust NASDAQ Cybersecurity ETF	Satellite	Thematic
Emerging Markets	IEMG	iShares Core MSCI Emerging Markets ETF	Satellite	Strategy
Emerging Markets	BIKR	Rogers AI Global Macro ETF	Satellite	Strategy
Energy	XLE	Energy Select Sector SPDR® ETF	Core	Sector
Health Care	VHT	Vanguard Health Care ETF	Satellite	Industry
Industrials	XLI	Industrial Select Sector SPDR® ETF	Satellite	Industry
Large-Cap Blend	PKW	Invesco BuyBack Achievers ETF	Satellite	Market Ca
Large-Cap Growth	RPG	Invesco S&P 500® Pure Growth ETF	Core	Market Ca
Large-Cap Value	USMV	iShares Edge MSCI Min Vol USA ETF	Core	Strategy
Mid-Cap Blend	NFO	Invesco Insider Sentiment ETF	Satellite	Market Ca
Mid-Cap Growth	IWP	iShares Russell Mid-Cap Growth ETF	Core	Market Ca
Mid-Cap Value	VOE	Vanguard Mid-Cap Value ETF	Core	Market Ca
Precious Metals	GLD	SPDR® Gold Shares	Satellite	Commodit
Real Estate	ICF	iShares Cohen & Steers REIT ETF	Satellite	Strategy
Small Cap Growth	IJT	iShares S&P Small-Cap 600 Growth ETF	Core	Market Ca
Technology	XLK	Technology Select Sector SPDR® ETF	Satellite	Sector
Utilities	XLU	Utilities Select Sector SPDR® ETF	Satellite	Sector

Penn Dynamic Growth Strategy

rategy (sorted by specialty)

	52 wk Low	Price	52 wk High	1-year Return	RSI	Notes
	$160.29	$181.80	$218.83	-6.23%	55	
	$14.32	$15.32	$18.65	-7.94%	54	only in IRA accts to avoid K-1 filing
	$48.33	$51.63	$58.95	-6.11%	46	
	$21.84	$24.49	$28.92	1.80%	55	
	$45.35	$49.03	$62.70	-14.97%	58	
	$22.80	$23.93	$30.84	N/A	N/A	
	$53.36	$62.01	$79.42	-16.66%	54	
	$148.31	$164.64	$181.92	3.80%	53	
	$59.92	$67.87	$80.96	-12.91%	55	
p	$48.95	$54.58	$63.49	-10.41%	53	
p	$93.10	$104.44	$121.47	-4.49%	56	
	$49.50	$53.34	$57.67	2.03%	51	100 least vol S&P stocks; rebal qtrly
p	$53.28	$58.54	$67.18	-6.72%	52	
p	$105.97	$119.63	$137.73	-3.90%	57	
p	$89.59	$100.06	$117.97	-10.78%	54	
y	$111.06	$121.80	$129.52	-2.90%	64	
	$88.40	$98.78	$106.14	5.75%	53	
p	$151.27	$170.77	$209.28	-1.78%	56	
	$57.57	$63.54	$76.27	-2.93%	51	
	$47.37	$53.23	$57.18	8.94%	47	

Penn Strategies

Penn Global Leaders Club

Sector	Industry	Symbol	Company	1-Yr Low
Basic Materials	Chemicals	EMN	Eastman Chemical Co	$67.40
Communication Services	Interactive Media & Services	FB	Facebook Inc	$123.02
Communication Services	Media & Entertainment	DIS	Walt Disney Co	$97.68
Communication Services	Telecom Services	T	AT&T Inc	$26.80
Consumer Cyclical	Home Improvement Stores	HD	The Home Depot Inc	$158.09
Consumer Cyclical	Restaurants	MCD	McDonald's Corp	$146.84
Consumer Cyclical	Specialty Retail	AMZN	Amazon.com Inc	$1,265.93
Consumer Defensive	Discount Stores	DG	Dollar General Corp	$85.54
Consumer Defensive	Discount Stores	WMT	Walmart Inc	$81.78
Consumer Defensive	Grocery Stores	KR	The Kroger Co	$22.85
Consumer Defensive	Packaged Foods	GIS	General Mills Inc	$36.42
Energy	Oil & Gas Equipment & Services	SLB	Schlumberger Ltd	$34.99
Energy	Oil & Gas Integrated	CVX	Chevron Corp	$100.22
Energy	Oil & Gas Refining & Marketing	MPC	Marathon Petroleum Corp	$54.29
Financial Services	Banks - Global	RY	Royal Bank of Canada	$65.76
Financial Services	Capital Markets	LAZ	Lazard Ltd	$33.54
Financial Services	Credit Services	COF	Capital One Financial Corp	$69.90
Financial Services	Credit Services	V	Visa Inc	$111.02
Healthcare	Biotechnology	AMGN	Amgen Inc	$163.31
Healthcare	Biotechnology	CELG	Celgene Corp	$58.59
Healthcare	Drug Manufacturers - Major	BMY	Bristol-Myers Squibb Co	$44.30
Healthcare	Drug Manufacturers - Major	PFE	Pfizer Inc	$33.20
Healthcare	Medical Devices	MDT	Medtronic PLC	$76.41
Healthcare	Medical Instruments & Supplies	BAX	Baxter International Inc	$61.05
Healthcare	Medical Instruments & Supplies	STE	STERIS PLC	$82.88
Industrials	Aerospace & Defense	BA	Boeing Co	$292.47
Industrials	Aerospace & Defense	RTN	Raytheon Co	$144.27
Industrials	Aerospace & Defense	UTX	United Technologies Corp	$100.48
Industrials	Airlines	DAL	Delta Air Lines Inc	$45.08
Industrials	Integrated Shipping & Logistics	FDX	FedEx Corp	$150.94
Industrials	Railroads	UNP	Union Pacific Corp	$121.22
Real Estate	REIT - Office	DLR	Digital Realty Trust Inc	$96.56
Real Estate	REIT - Residential	ESS	Essex Property Trust Inc	$214.03
Technology	Consumer Electronics	AAPL	Apple Inc	$142.00
Technology	Electronic Components	GLW	Corning Inc	$26.11
Technology	Semiconductor Equipment & Materials	AMAT	Applied Materials Inc	$28.79
Technology	Software - Application	ADBE	Adobe Inc	$179.34
Technology	Software - Infrastructure	MSFT	Microsoft Corp	$83.83
Utilities	Utilities - Diversified	EXC	Exelon Corp	$35.57
Utilities	Utilities - Regulated Electric	SO	Southern Co	$42.38

Penn Global Leaders Club

(sorted by sector/industry)

Price	1-Yr High	Stop	Mkt Cap ($M)	Rev TTM ($M)	Prft Mgn TTM	Free $ Flow TTM ($M)	PE Ratio
$76.90	112.45		$10,765	10,137	15.16%	$857	7
$143.80	218.62		$413,251	51,896	37.58%	$17,450	22
$112.65	120.20		$167,699	59,434	21.20%	$9,830	13
$30.87	39.29		$224,672	164,439	20.40%	$20,614	6
$179.41	215.43		$202,649	105,595	10.00%	$10,072	20
$182.37	190.88		$140,591	21,202	24.56%	$4,056	28
$1,640.56	2,050.50		$802,182	220,957	4.03%	$13,361	92
$116.06	118.45		$30,510	25,105	7.24%	$1,465	17
$94.84	109.98		$275,535	511,879	1.01%	$18,428	55
$28.43	32.74		$22,680	124,102	2.99%	$1,163	7
$41.80	60.69	None	$24,944	16,278	12.48%	$2,054	12
$41.74	80.35		$57,802	32,815	-2.00%	$3,469	N/A
$112.54	133.88		$215,039	154,945	9.17%	$14,295	15
$64.87	88.45		$44,816	85,226	4.59%	$3,054	8
$72.79	87.10		$104,731	33,073	29.14%	$12,043	11
$36.86	60.00		$4,352	2,818	11.72%	$550	15
$80.94	106.50		$38,338	27,507	13.75%	$12,218	11
$138.06	151.56		$313,642	20,609	49.98%	$11,995	31
$200.56	210.19		$127,801	23,319	9.44%	$10,448	53
$87.40	107.29	$65.00	$61,115	14,727	19.64%	$4,182	22
$47.99	70.05	$50.00	$78,329	22,037	6.50%	$3,713	54
$42.88	46.47		$247,867	53,373	44.63%	$15,669	11
$84.84	100.15		$113,944	30,378	7.44%	$4,864	51
$66.81	78.38		$35,552	11,060	10.90%	$1,163	30
$110.00	121.67		$9,295	2,696	11.72%	$314	30
$352.90	394.28		$200,407	96,943	10.41%	$13,558	21
$159.17	229.75		$45,296	26,481	9.33%	$1,792	19
$109.95	144.15		$94,929	64,137	7.76%	$4,524	18
$48.56	61.32		$33,294	44,030	8.07%	$2,693	10
$170.99	274.66		$44,636	68,716	7.23%	-$321	9
$153.21	165.63		$112,884	22,525	51.90%	$4,919	10
$106.64	125.10		$21,998	3,000	11.78%	$1,376	80
$249.43	267.41		$16,479	1,392	27.01%	$747	44
$152.29	233.47	None	$722,677	265,595	22.41%	$64,121	13
$30.05	36.56	$29.75	$24,052	10,892	-5.86%	$617	N/A
$34.78	62.40		$33,340	17,253	19.20%	$3,165	11
$237.55	277.61		$115,956	9,030	28.69%	$3,763	46
$102.80	116.18		$789,115	114,906	16.38%	$31,999	43
$45.79	47.40		$44,279	35,523	10.47%	$957	12
$46.61	49.43		$47,957	23,786	10.35%	-$1,246	20

Penn Strategies

Penn Intrepid Trading Platfo

Symbol	Company	Industry
AYR	Aircastle Ltd	Rental & Leasing Services
AMAT	Applied Materials Inc	Semiconductor Equipment & Materials
ACQ.TO	AutoCanada Inc	Auto & Truck Dealerships
BECN	Beacon Roofing Supply Inc	Building Materials
EIX	Edison International	Utilities - Regulated Electric
ERJ	Embraer SA	Aerospace & Defense
GMED	Globus Medical Inc	Medical Devices
GT	Goodyear Tire & Rubber Co	Rubber & Plastics
JCI	Johnson Controls International PLC	Engineering & Construction
NAVI	Navient Corp	Credit Services
NWL	Newell Brands Inc	Household & Personal Products
PANDY	Pandora A/S	Luxury Goods
STRT	Strattec Security Corp	Auto Parts
SYMC	Symantec Corp	Software - Application
TGT	Target Corp	Discount Stores
TX	Ternium SA	Steel
TRN	Trinity Industries Inc	Railroads

Penn Intrepid Trading Platform

orm (sorted by company name)

52 wk Low	Price	52 wk High	Stop	Mkt Cap ($M)	Rev TTM ($M)	Profit Mgn TTM	PE
$15.75	**$19.79**	$25.30		$1,509	$733	27.16%	8
$28.79	**$34.78**	$62.40		$33,340	$17,253	19.20%	11
$8.36	**$11.56**	$23.86		$317	$3,101	-1.16%	N/A
$24.97	**$34.16**	$63.92		$2,342	$6,418	1.54%	34
$45.50	**$59.32**	$71.00	$44.00	$19,327	$12,868	3.59%	42
$17.99	**$23.23**	$28.55		$4,260	$5,129	-2.32%	N/A
$38.01	**$42.19**	$57.83		$4,155	$693	20.79%	30
$18.79	**$21.27**	$36.07		$4,956	$15,670	3.11%	10
$28.30	**$32.18**	$41.53		$29,736	$31,400	6.89%	14
$8.23	**$10.39**	$15.03		$2,680	$2,070	11.55%	11
$15.12	**$20.40**	$32.58		$9,523	$15,177	-36.06%	N/A
$9.56	**$10.80**	$29.16		$4,436	$3,596	N/A	N/A
$28.12	**$34.60**	$46.40		$129	$454	2.93%	10
$17.43	**$19.88**	$29.52		$12,701	$4,750	25.58%	11
$60.15	**$69.61**	$90.39	$53.00	$36,325	$74,526	4.36%	12
$25.52	**$28.63**	$42.43	$23.50	$5,620	$11,766	11.58%	4
$18.99	**$21.87**	$39.35		$3,200	$3,611	18.57%	5

Penn Strategies

Penn New Frontier Fu

Symbol	Company	Price	Mkt Cap ($M)	Rev TTM ($M)	Profit TT
AJRD	Aerojet Rocketdyne Holdings Inc	$36.64	$2,869	$1,986	3.1
BIIB	Biogen Inc	$333.21	$67,136	$13,234	24.
LGND	Ligand Pharmaceuticals Inc	$134.69	$2,863	$242	73.
NKTR	Nektar Therapeutics Inc	$41.01	$7,098	$1,249	59.
VRTX	Vertex Pharmaceuticals Inc	$188.16	$48,086	$2,829	22.
TEVA	Teva Pharmaceutical Industries Ltd	$18.45	$20,099	$19,693	-54.
GLW	Corning Inc	$30.05	$24,052	$10,892	-5.
ARW	Arrow Electronics Inc	$73.52	$6,409	$29,556	1.8
CTSH	Cognizant Technology Solutions Cor	$64.92	$37,590	$15,824	9.0
EPAM	EPAM Systems Inc	$130.48	$7,047	$1,737	8.6
ORBK	Orbotech Ltd	$58.35	$2,836	$1,036	14.
PLAB	Photronics Inc	$10.48	$702	$535	7.8
UCTT	Ultra Clean Holdings Inc	$9.30	$363	$1,088	5.3
LRCX	Lam Research Corp	$144.11	$22,363	$10,930	21.
AVGO	Broadcom Inc	$250.57	$102,050	$20,848	58.
HIMX	Himax Technologies Inc	$3.96	$682	$714	3.3
CVLT	CommVault Systems Inc	$61.08	$2,827	$711	-9.6
FTNT	Fortinet Inc	$73.27	$12,483	$1,711	7.0
SYMC	Symantec Corp	$19.88	$12,701	$4,750	25.

Penn New Frontier Fund

nd (sorted by industry)

t Mgn TM	Free $ Flow TTM ($M)	PE Ratio	Industry
1%	$244	49	Aerospace & Defense
08%	$4,855	22	Biotechnology
78%	$198	18	Biotechnology
71%	$747	N/A	Biotechnology
87%	$1,060	75	Biotechnology
84%	$3,515	N/A	Drug Manufacturers - Specialty & Generic
36%	$617	N/A	Electronic Components
2%	-$27	12	Electronics Distribution
7%	$2,365	26	Information Technology Services
0%	$202	50	Information Technology Services
62%	$172	19	Scientific & Technical Instruments
6%	$38	17	Semiconductor Equipment & Materials
8%	$7	N/A	Semiconductor Equipment & Materials
26%	$2,248	11	Semiconductor Equipment & Materials
80%	$8,245	9	Semiconductors
5%	-$51	29	Semiconductors
61%	$89	N/A	Software - Application
5%	$561	106	Software - Application
58%	$966	11	Software - Application

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