

# Tactical Long/Short Strategy



**INVESTMENT OBJECTIVE:** To seek capital appreciation in varying market environments while exhibiting less downside volatility than the S&P 500.

**INVESTMENT APPROACH:** The strategy uses technical trading indicators as well as fundamental analysis to actively trade the SPDR S&P 500 (SPY) and the ProShares Short S&P 500 (SH). During periods when a trade signal does not indicate a trend in either direction, the strategy will invest in cash. The strategy can invest in any combination of SPY, SH, and cash. The investment philosophy behind the strategy is that an attractive way to invest is to potentially lose less in market downturns. The strategy is appropriate for investors who are looking to potentially sidestep market downturns while still participating in the upside.

- Seeks to provide downside protection and alpha in market downturns.
- Tactical approach to opportunistically capture returns in various market environments.
- Flexibility to be long, short, neutral, or a combination based on market conditions.
- Takes a neutral position when no opportunity is signaled or data are mixed.
- Fundamental macro overlay on top of a quantitative algorithmic model.

- One way to make money is to avoid losses and drawdowns. **For every 50% loss, an investor would need to make a 100% gain just to break even.** Therefore, it is extremely important to have downside protection in one's portfolio in order to preserve wealth, which this strategy seeks to provide.

Percentage Loss	Percent Rise To Breakeven
10%	11%
15%	18%
20%	25%
25%	33%
30%	43%
35%	54%
40%	67%
45%	82%
50%	100%

- Not only does Tactical Long/Short seek to provide downside protection during market pullbacks, it also aims to generate positive returns in a negative market since it can invest in an ETF that attempts to replicate the inverse of the S&P 500 during downturns.

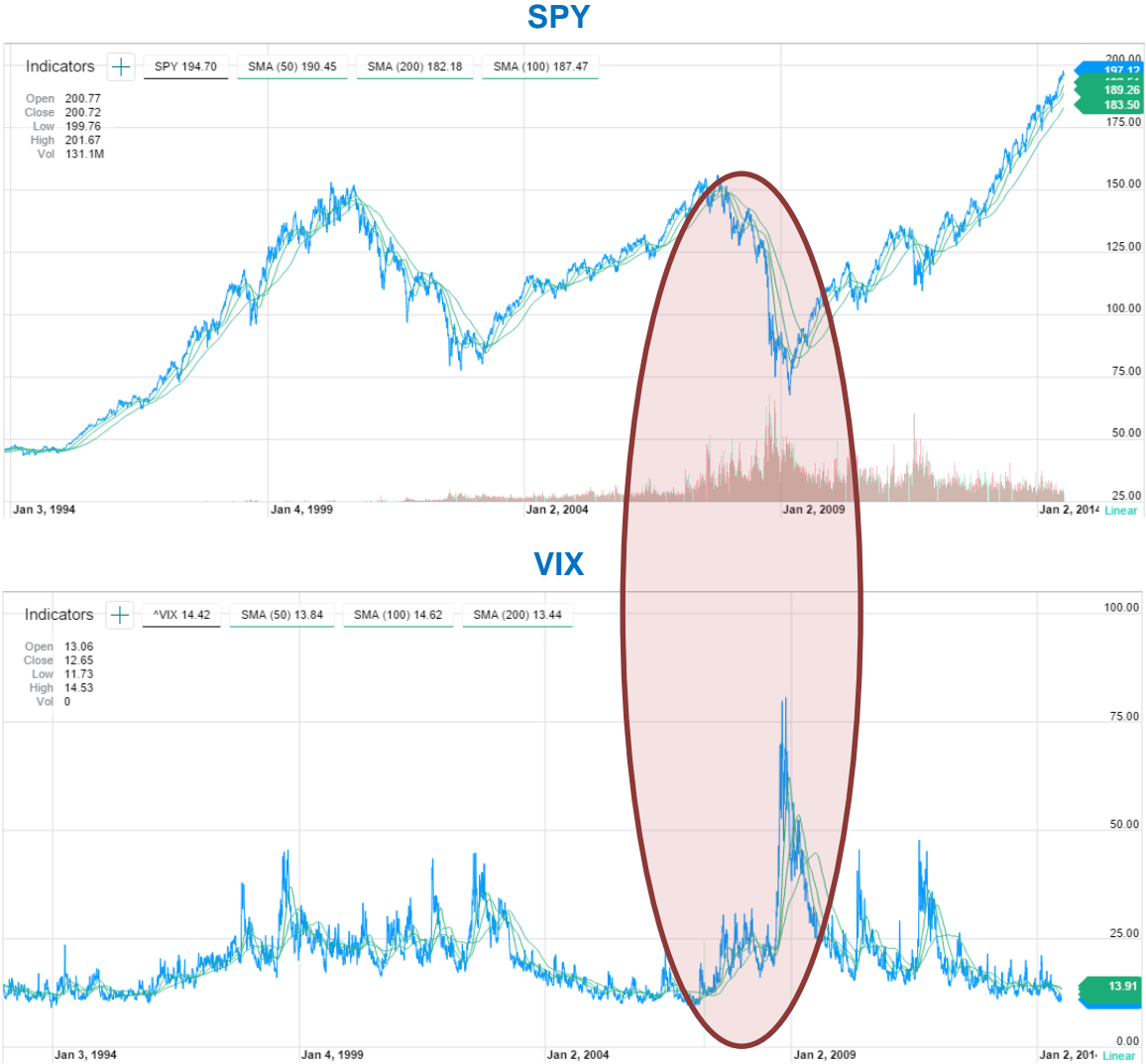
- Construction of the portfolio began with the need to address the trending nature of the markets and determine a way to hedge downside risk without maintaining a long/short ratio that could limit the potential upside. We felt the best way to achieve this was to determine a mechanism that attempts to predict a balance between long and short term trends in the market.
- Historical data\* indicate a generally negative correlation between the SPY and the VIX Index, which in Elite's view is essentially a one-month fear gauge for the broad S&P 500 Index.
- The strategy either invests in SPY, its inverse SH, cash or a combination.
- Proprietary algorithm triggers signals based on dynamic moving averages of the VIX to go from long (SPY) to short (SH).
- Trading frequency depends on market volatility.
- Given that the strategy only holds two very highly liquid ETFs, SPY or SH, it can be liquidated at any given moment during market trading hours with no liquidity issues or timing limitations. New capital is invested in SPY, SH, and/or cash based upon market conditions.

\*Bloomberg Professional

# SPY vs. VIX

Historical data\* shows an inverse relationship between SPY and VIX.

\*Yahoo Finance



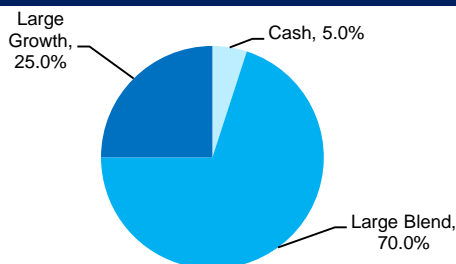
- The strategy uses both technical/quantitative factors as well as fundamental analysis to make investment decisions to stay long or short the market.
- Sometimes the VIX is spiked by factors outside of U.S. fundamentals and S&P 500 earnings data, such as commodity price changes and overseas or macro news. In these cases the VIX is not a direct reflection of volatility due to S&P 500 fundamentals and we have to evaluate whether or not to abide by the model's signals.
- The algorithm has a management decision layer that overlays macro analysis on top of the algorithm to recognize the underlying factors that cause the VIX to cross our proprietary dynamic moving average and how many sectors within the S&P 500 are impacted as the VIX goes up in order to determine whether the portfolio should remain long or go short.
- Based on what factors cause the VIX to cross the dynamic moving average, there are fundamental factors that determine whether we follow the signal or deviate (based on whether the volatility is domestically driven/tied to S&P 500 stocks or caused by other more temporary factors).
- The following two slides show two examples when having a management decision overlay on top of the model generated alpha for the strategy.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD Net Returns		
													Tactical L/S	S&P500 TR	
2017	1.56%	3.71%	-0.29%	1.13%	1.46%	-0.65%								7.06%	9.34%
2016	-2.55%	-0.38%	2.14%	-0.01%	1.35%	-0.13%	2.91%	0.10%	-0.42%	-1.29%	3.11%	1.36%		6.20%	11.96%
2015	-3.09%	5.34%	-1.49%	0.68%	1.23%	-1.92%	1.85%	-5.82%	-5.60%	6.63%	0.34%	-2.15%		-4.70%	1.38%
2014	-3.35%	4.32%	0.79%	0.66%	1.93%	1.96%	-1.33%	3.74%	-1.31%	-1.54%	2.61%	-0.24%		8.24%	13.69%
2013						-1.79%	4.48%	-2.85%	2.53%	4.40%	2.82%	2.45%		12.40%	14.75%

The performance shown is of a strategy consisting of all discretionary accounts using this investment strategy. There is a \$10,000 minimum account size required for inclusion in the strategy. New funds or accounts are added to the strategy upon the first full month of investment and closed funds or accounts are removed from the composite upon the last full month of investment. **Past performance is no guarantee of future results. Performance returns for periods of less than one year are not annualized.** The performance figures contained herein are provided net of 1% management fees basis, reflecting the deduction of investment management fees, as well as brokerage commissions and expenses. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses and is not based on actual advisory client assets. Index performance does include the reinvestment of dividends and other distributions. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars.



## Sector Allocation



## Portfolio Composition

Cash	5.0%
Large Blend	70.0%
Large Growth	25.0%

## Statistics (Net of Fees)

Standard Deviation (Monthly):	2.65%	June Return:	-0.65%
Standard Deviation (Annualized):	9.18%	YTD Return:*	7.06%
Downside Deviation (Monthly):**	1.71%	Average Monthly Return:	0.60%
Downside Deviation (Annualized):**	5.92%	Highest Month:	6.63%
Sharpe Ratio (Monthly):**	0.13	Lowest Month:	-5.82%
Sharpe Ratio (Annualized):**	0.46	% of Positive Months:	57.14%
Sortino Ratio (Monthly):**	0.18	Maximum Drawdown:	-11.19%
Sortino Ratio (Annualized):**	0.64	Longest Winning Streak:	5 Months
Alpha (Monthly):***	-0.12%	Longest Losing Streak:	3 Months
Alpha (Annualized):***	-1.47%	Compounded Monthly Return:	0.57%
Beta:***	0.85	Compounded Annual Return:	7.00%
Correlation Coefficient:***	0.93	Cumulative Return:	31.82%
R-squared:***	0.87		

\*YTD Through June 2017 \*\*Based on Risk Free Rate (RFR) at 3.0% \*\*\*Calculated Against S&P 500 TR

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Elite's direct individual clients are charged 1% management fee only with no performance fee. White or private labeling fees are as follow:

## 1: Adhesion and Investnet/Placemark

Elite's fee schedule for White Labeled services where independent third party investment managers utilize intermediaries responsible for trading and allocations:

- Up to \$100M = 0.30% – 0.35% Annually
- Over \$100M = Breakpoints Negotiable

## 2: Interactive Brokers (IB)

Elite's fee schedule for White Labeled services where independent third party investment managers utilize Elite's investment platform/infrastructure through IB and Elite is responsible for trading and allocations:

- Up to \$100M = 0.60% Annually
- Next \$50M = 0.55% Annually
- Anything over \$150M = 0.50% Annually

## 3: Strategy Licensing Agreement—We provide trade signals to the RIA

- Up to \$100M = 0.40% Annually
- Next \$50M = 0.35% Annually
- Anything over \$150M = 0.30% Annually

**Fariba Ronnasi** - Ms. Fariba Ronnasi, president and founder of Elite Wealth Management, Inc. has headed the strategic management of numerous high net worth individuals. Prior to establishing the firm in October of 2004, Fariba worked as Managing Director for the Private Wealth Division of Columbia Management Company and was responsible for expanding the Private Portfolios Group on the West Coast.

Previously, Fariba was a Business Development Manager for Citicorp in its Private Banking Division. Prior to joining Citicorp, she worked as the Senior Private Banking Manager at Keycorp and established the Technology group for the Private Bank. She has 23 years of solid experience in the field of finance and investment management. Ms. Ronnasi has a BA and MBA in Finance with a minor in Economics from Seattle University and currently holds a Series 65 license.

**Yinmo Wang** - Yinmo Wang conducts financial analysis on the firm's trading strategies. He wrote the trading algorithm for several of the firm's strategies and implements their trading schema, including the continued evaluation of their efficacy. Mr. Wang previously designed in-house funds for clients and evaluated performance reporting for Financial Concepts Unlimited and prior to that, performed finance and accounting functions in support of the CFO at Systems Plus. Mr. Wang received a B.S. in International Finance from Fudan University in Shanghai; an MBA from Montreux Switzerland; a M.S. Finance (MSF) and a M.S. Engineering Management (MSEM) and Systems Engineering (MSSE) from the George Washington University. Yinmo Wang has over 20 years of experience in the industry and is a CFA charterholder.

**Kevin Lennil** - Kevin Lennil manages several portfolios for the firm and has 10+ years of experience in the investment industry and high volume trading in the options market. He managed his own RIA firm, Exagroup, from 2009-2013 before the firm was purchased by Elite Wealth Management and subsequently joined the Elite team in 2014 as a full time employee. Mr. Lennil developed the algorithm for the Tactical Long/Short strategy and currently holds Series 65 and Series 3 licenses.

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#### **Risk Disclosure Statement:**

All investments include a risk of loss that clients should be prepared to bear. The principal risks of the Elite Wealth Management strategies are disclosed in the publicly available Form ADV Part 2A.

Exchange Traded Funds (ETFs) are subject to market risk, including the possible loss of principal. The value of the portfolio will fluctuate with the value of the underlying securities. ETFs trade like a stock, and there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. ETFs may trade for less than their net asset value.

Statistics Definitions can be viewed at <http://elitewm.com/analytics>.

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