VCMulti-Trigger™
OVERLAY STRATEGIES

THE VCM MULTI-TRIGGER OVERLAY

A UNIQUE MATHEMATICAL APPROACH TO MINIMIZING LOSS.

VIRTUE®
CAPITAL MANAGEMENT

www.virtuecm.com | 866.907.4275

VCM Multi-Trigger Overlay Strategy Overview

In 2020 the S&P 500 index experienced the fastest 30% sell-off ever, exceeding the pace of declines during the 2008 Crisis and even the Great Depression. It took the S&P 500 only 22 trading days to fall 30% from its record high on Feb. 19, **making it the fastest drop of this magnitude in history,** according to data from Bank of America Securities. The second, third and fourth fastest 30% declines all occurred back during the Great Depression era, 1929 through 1934 respectively.

2020 also marked the fastest market recovery in history. On August 18th the S&P 500 index recorded a record close **making it the quickest recovery from bear-market territory in its history,** according to Dow Jones Market Data.

During this historical decline and recovery were your clients invested in strategies designed to help automatically mitigate large market losses without having to contact you about making a change in your investments? During a major market correction, many investors don't sell their equity investments soon enough, thereby suffering losses. And as the market recovers, they often times wait too long to re-invest back into the market. and miss out on opportunities for gains.

Most of us have methods to mitigate risk associated with unforeseen events, such as protection for our cars, our homes, our health, our lives and other valuables, the goal of a risk mitigation strategy is to reduce the risk of large losses. Most investors are unaware they can attempt to invest in a way to try to limit market volatility and large losses.

Virtue Capital Management (VCM) labels this investment approach as "Tactical Investing". While there are numerous ways to implement a tactical investment approach, the basic objective is to participate as much as possible in market appreciation during bull markets while attempting to mitigate the impact of major losses during prolonged bear markets.

Many tactical strategies employ the use of stock options to attempt this objective while other tactical strategies utilize a more technical equity risk-on/risk-off approach. VCM has many different tactical strategies available to investors including options and technical solutions to choose from.

Introducing the VCM Multi-Trigger Tactical Overlay

The VCM Multi-Trigger Overlay is a mathematical approach which employs a **proprietary** multi-facet methodology to tactically attempt to mitigate downside equity risk. The strategy employs three algorithmic technical indicators or "triggers" that independently dictate either a risk-on posture (invested in equities) or equity risk-off posture (invested in bonds). These three triggers are the VCM Stop Loss, VCM Tactical Overlay and VCM Market Trend Indicator.

VIRTUE®
CAPITAL MANAGEMENT

www.virtuecm.com | 866.907.4275

THE VCM MULTI-TRIGGER OVERLAY

TRIGGER #1 – VCM Stop Loss:

The Stop Loss trigger is equipped with both a stop-loss and market buy-back feature. If the S&P 500 closes down by 12% or more from its most recent peak value, the Stop Loss will trigger the sale of all equities in the portfolio, and re-investing into bonds. If the S&P 500 experiences a decline of less than 30% from peak to trough the market buy-back feature will trigger when the S&P 500 recovers by 50% from its low, re-investing back into equities. If the S&P 500 experiences a decline of more than 30% from peak to trough the market buy-back feature will trigger much quicker after it reaches its low, re-investing back into equities.

TRIGGER #2 - VCM Tactical Overlay:

The Mathematics – Simple Moving Average (SMA) & Exponential Moving Average (EMA).
Simple Moving Average (SMA) are the most common type of averages used by technical analysts because they are straightforward calculations of a stock average price (usually its closing price) over a set number of days.

For example, a ***10-day Simple Moving Average (SMA)*** can be calculated by adding up the stocks last 10 closing prices together and divide that number by 10. Since this is a moving average, as each trading day passes, the oldest day's closing price drops off and the newest trading days closing value is added to the 10-day average.

OCTOBER

1 + 2 + 3 + 4 + 5

6 + 7 + 8 + 9 + 10

SMA is a backward-looking indicator because it gives just as much equal weighting to the closing price 10 days ago as it does yesterday's closing price. As a result, SMA may not react as quickly to more recent changes in the stock's price.

VIRTUE® CAPITAL MANAGEMENT

www.virtuecm.com | 866.907.4275

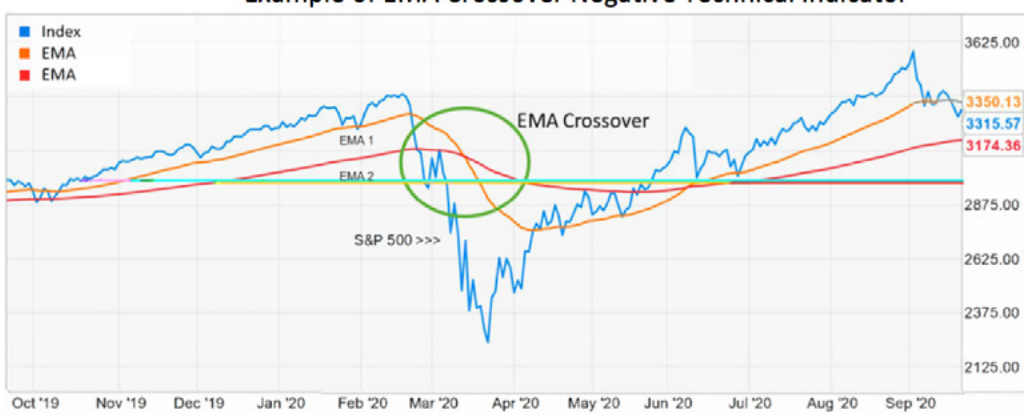
This is where Exponential Moving Averages (EMA) come in. EMA attempts to correct for lag time of a SMA by giving more weight to recent price moves than older ones.

Since EMAs place a higher weighting on recent data more than older data, they are more reactive to the latest price changes than SMAs are, this makes the results from EMAs timelier and explains why the EMA is the preferred average among many traders.

OCTOBER								
1	+	2	+	3	+	4	+	5
6	+	7	+	8	+	9	+	10

Primary Technical Indicators – The VCM Tactical Overlay measures two proprietary EMA's of the S&P 500 closing prices to determine inflection points. When these two moving averages cross, the trend indicators signal a equity risk-on or risk-off position accordingly. Multiple market scenarios were tested utilizing a long time period to determine the optimal technical indicators. We observed that this methodology provides advantageous trigger points that may avoid material downside losses while participating in a portion of upside gains.

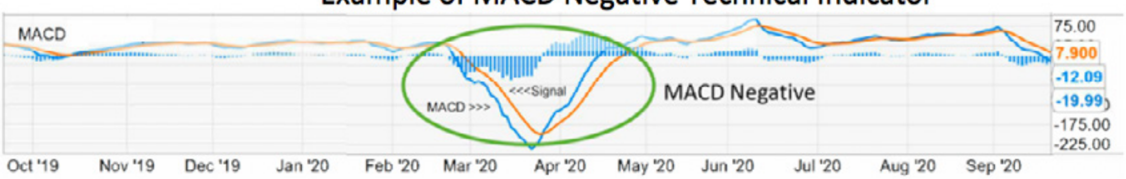
Example of EMA Crossover Negative Technical Indicator



The VCM Multi-Trigger Overlay

Moving Average Convergence Divergence or "Mac-D" (MACD) The MACD serves to help confirm each new equity risk-on and equity risk-off position the Primary Technical Indicators make, by validating both a trend and it's momentum. The MACD accomplishes this by turning a "long" EMA and a "short" EMA into a momentum oscillator by subtracting the price of the longer EMA from the shorter one. This price difference is then plotted as a single line against an even shorter EMA which acts as a Signal to identify turns. This MACD-to-Signal comparison allows the MACD to consistently confirm the direction of the Primary Technical Indicators in a meaningful way. An important point to remember is that all short-term and long-term technical signals must validate a sustained downward trend for the VCM Tactical Overlay to deploy a equity risk-off position.

Example of MACD Negative Technical Indicator



TRIGGER #3 - VCM Market Trend Indicator:

The VCM Market Trend Indicator is an intermediate trend-following algorithm utilizing the 200-day moving average as a primary signal coupled with a secondary proprietary algorithm which seeks to help confirm whether the market is trending upward or downward. It essentially tracks the 200-day moving average of the S&P 500 combined with a proprietary band above and below it, which seeks to help validate the market trend more precisely and attempts to avoid whipsaws. When the price of the S&P 500 falls below the proprietary band, this tranche will exit equities, and conversely when the price of the S&P 500 breaks above the band, the tranche will re-enter equities.

There are two versions of the **VCM Multi-Trigger Overlay Strategies**. Version one **The VCM Multi-Trigger "Tactical" Overlay Strategies** allows 100% of Equities to potentially move into 100% "risk off' (i.e. Bonds). The second version **The VCM Multi-Trigger "Dynamic" Overlay Strategies (25-75)** maintains 25% invested in Equities at all times, while the remaining 75% can potentially move into Bonds. Maintaining 25% in Equities at all times carriers more inherent risk, but also the potential for more gains during certain market conditions.

THE VCM MULTI-TRIGGER OVERLAY

VCM MULTI-TRIGGER "TACTICAL" OVERLAY

Fully Tactical, can be invested 100% Equities Risk-off

Tactically moves in phases/tranches from 100% Equities Risk-On up to 100% Equities Risk-Off and vice versa

<u>Utilizes (3) tactical components:</u>

- 33% to Stop Loss
- 33% to VCM Tactical Overlay
- 33% to VCM Market Trend Indicator

VCM MULTI-TRIGGER "DYNAMIC" OVERLAY (25-75)

Predominantly Tactical, can be invested up to 75% Equities Risk-off

Dynamically moves in phases or tranches from 100% Equities Risk-On up to 75% Equities Risk-Off

<u>Utilizes (1) strategic Component:</u>

- 25% will always remain invested in Equities Risk-On

<u>Utilizes (3) tactical components:</u>

- 25% to Stop Loss
- 25% to VCM Tactical Overlay
- 25% to VCM Market Trend Indicator

Unlike a traditional light switch which is either "on" or "off", you can think of the VCM Multi-Trigger Overlay like a dimmer switch, which can "dial up or down" equities risk based on the severity and type of market condition at any given time. Having three different independent tactical indicators provides equities risk-on/risk-off diversification with the goal to help navigate varying market conditions. While no strategy works perfectly in every market environment, attempting to minimize large losses during prolonged bear markets may dramatically help preserve and increase wealth over time.

History has shown that recovery from catastrophic loss can take years, time some investors don't have. If Virtue Capital's Multi-Trigger Overlay can save your investments even once from a major catastrophic loss, it may prove well worth it.

THE VCM MULTI-TRIGGER OVERLAY

VCM Multi-Trigger Whiteboard Videos

To better explain the strategies, Virtue has created **two VCM Multi-Trigger Whiteboard Animated Videos** that advisors affiliated with Virtue can use in marketing, on their website, or during presentations.

Click on the play button to watch each video

Version One

The abbreviated version in the link below (5:18 minutes) explains the overall approach with an individual investor in mind and simplifies explaining the methodology behind the multiple triggers.

Version Two

The second version of the VCM Multi-Trigger Video can be viewed at the website in the link below by clicking the "Video" tab. This extended version (9:39 minutes) is designed to explain more of the technical aspects of the strategies to advisors.

VIRTUE®
CAPITAL MANAGEMENT
www.virtuecm.com | 866.907.4275

The VCM Multi-Trigger Overlay

Virtue Capital Management – https://www.whyvirtue.com

Stop Loss Portfolios – https://www.stoplossportfolios.com

Moving Average Convergence Divergence (MACD) - https://www.investopedia.com/terms/m/macd.asp

Exponential Moving Average (EMA) - https://www.investopedia.com/terms/e/ema.asp

VIRTUE CAPITAL MANAGEMENT

www.virtuecm.com | 866.907.4275