THE STOP LOSS ADVISOR WHITEPAPER

STOP LOSS PORTFOLIOS

A PROPRIETARY INVESTMENT MODEL OF VIRTUE CAPITAL MANAGEMENT

Simple Strategies to Capitalize on Market Gains, Minimize Losses and Eliminate Emotion from Decision-Making

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CAPITAL MANAGEMENT

FINANCIAL PLANNING | INCOME PLANNING | RETIREMENT PLANNING | WEALTH MANAGEMENT

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STOP LOSS PORTFOLIOS

Why the Stop Loss Portfolio?

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.

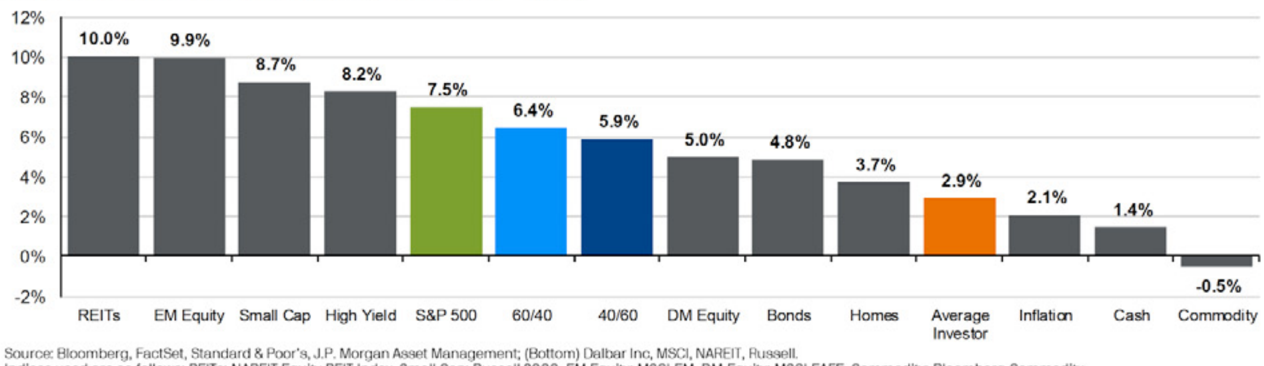
2020 also marked the fastest market recovery in history. On August 18th the S&P 500 index recorded a record close **making it the quickest recovery from bear-market territory in its history,** according to Dow Jones Market Data.

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 wand miss out on opportunities for gains.

Emotional Investing

Emotional and behavioral drivers are notorious for pushing many individual investors into poor results. All investors like to buy low and sell high, but as the following chart illustrates, this does not happen for many investors, who must instead suffer the consequences of buying high and selling low. Capital appreciation is an important part of investing, but of equal or greater importance is reducing losses.

20-year annualized returns by asset class (2001 – 2020)



Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc, MSCI, NAREIT, Russell.
Indices used are as follows: REITs: NAREIT Equity REIT Index, Small Cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Bonds: Bloomberg U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg 1-3m Treasury, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.
Guide to the Markets – U.S. Data are as of March 31, 2022.

J.P.Morgan ASSET MANAGEMENT

VIRTUE CAPITAL MANAGEMENT

Bear Markets

Bear markets are declines that are greater than 20%, and the average decline is 37.10%.

BULL MARKETS				BEAR MARKETS			
Start Date	End Date	Gain/Loss	#Days	Start Date	End Date	Gain/Loss	#Days
6/12/28	9/7/29	74.0%	452	9/7/29	11/13/29	-44.7%	67
11/13/29	4/10/30	46.8%	148	4/10/30	6/1/32	-83.0%	783
6/1/32	9/7/32	111.6%	98	9/7/32	2/27/33	-40.6%	173
2/27/33	7/18/33	120.6%	141	7/18/33	10/21/33	-29.8%	95
10/21/33	2/6/34	37.9%	108	2/6/34	3/14/35	-31.8%	401
3/14/35	4/6/36	92.4%	389	3/6/37	3/31/38	-54.5%	390
4/29/36	3/6/37	38.1%	311	11/9/38	4/8/39	-26.2%	150
3/31/38	11/9/38	62.2%	223	10/25/39	6/10/40	-31.9%	229
4/8/39	10/25/39	29.8%	200	11/9/40	4/28/42	-34.5%	535
6/10/40	11/9/40	26.8%	152	5/29/46	10/9/46	-26.6%	133
4/28/42	7/14/43	69.2%	442	6/15/48	6/13/49	-20.6%	363
11/29/43	5/29/46	75.2%	912	7/15/57	10/22/57	-20.7%	99
10/9/46	6/15/48	20.8%	615	12/12/61	6/26/62	-28.0%	196
6/13/49	8/2/56	267.1%	2607	2/9/66	10/7/66	-22.2%	240
10/22/57	12/12/61	86.4%	1512	11/29/68	5/26/70	-36.1%	543
6/26/62	2/9/66	79.8%	1324	1/11/73	10/3/74	-48.2%	630
10/7/66	11/29/68	48.0%	784	11/28/80	8/12/82	-27.1%	622
5/26/70	1/11/73	73.5%	961	8/25/87	12/4/87	-33.5%	101
10/3/74	11/28/80	125.6%	2248	3/24/00	10/9/02	-49.1%	929
8/12/82	8/25/87	228.8%	1839	10/9/07	3/9/09	-56.8%	517
12/4/87	3/24/00	582.1%	4494	2/19/20	3/23/20	-33.9%	33
10/9/02	10/9/07	101.5%	1826				
3/9/09	2/19/20	400.5%	3999				
Average		121.7%	1121	Average		-37.1%	344
Median excl. 1929-1934		133.8%	1380	Average ex.	1929-1934	-34.4%	357
Median		75.2%	615	Median		-33.5%	240
Median excl. 1929-1934		77.5%	937	Median excluding 1929-1934		-32.7%	302

Source: Taiber Kosmala & Associates LLC.

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Let's look at two previous Bear Markets and how the S&P 500 would have performed with and without the Stop Loss Protection

	Stop Loss Date	Buy Back Date	# of Days	With Stop Loss	Without Stop Loss
	1/16/08	5/6/09	476	4.49%	-27.03%
	2/28/20	3/27/20	28	-0.35%	-19.77%
Average			**252**	**2.07%**	**-23.40%**

Potential Impact of Loses

This illustration shows how both portfolios were up in 7 out of 10 years. Portfolio 2 had double the gains and also double the losses as portfolio 1. Limiting loss and allowing the portfolio to compound is the goal.

	PORTFOLIO 1	PORTFOLIO 2
Starting Value	$100,000	$100,000
Year 1	-8%	-16%
Year 2	-7%	-14%
Year 3	11%	22%
Year 4	3%	6%
Year 5	9%	18%
Year 6	6%	12%
Year 7	5%	10%
Year 8	-20%	-40%
Year 9	10%	20%
Year 10	4%	8%
Ending Value	**$108,609**	**$105,606**
Average Return	**1.3%**	**2.6%**

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Mathematics of Losing Money

The table below illustrates both the amount of time and rate of returns required after experiencing a loss in order to get your nest egg back to where it was. Let's look at how long it would take to return to break even if you experienced a 30% loss while expecting a 10% annual return. A 42.9% return over 3.7 years would be required to break even in this example.

THE NUMBERS DON'T LIE

Amount of Loss	Return Required to Break Even	# Years to Break Even with 10% Return
10%	11.1%	1.1
15%	17.7%	1.7
20%	25.0%	2.3
25%	33.3%	3.0
30%	42.9%	3.7
35%	53.9%	4.5
40%	66.7%	5.4
45%	81.8%	6.3
50%	100.0%	7.3

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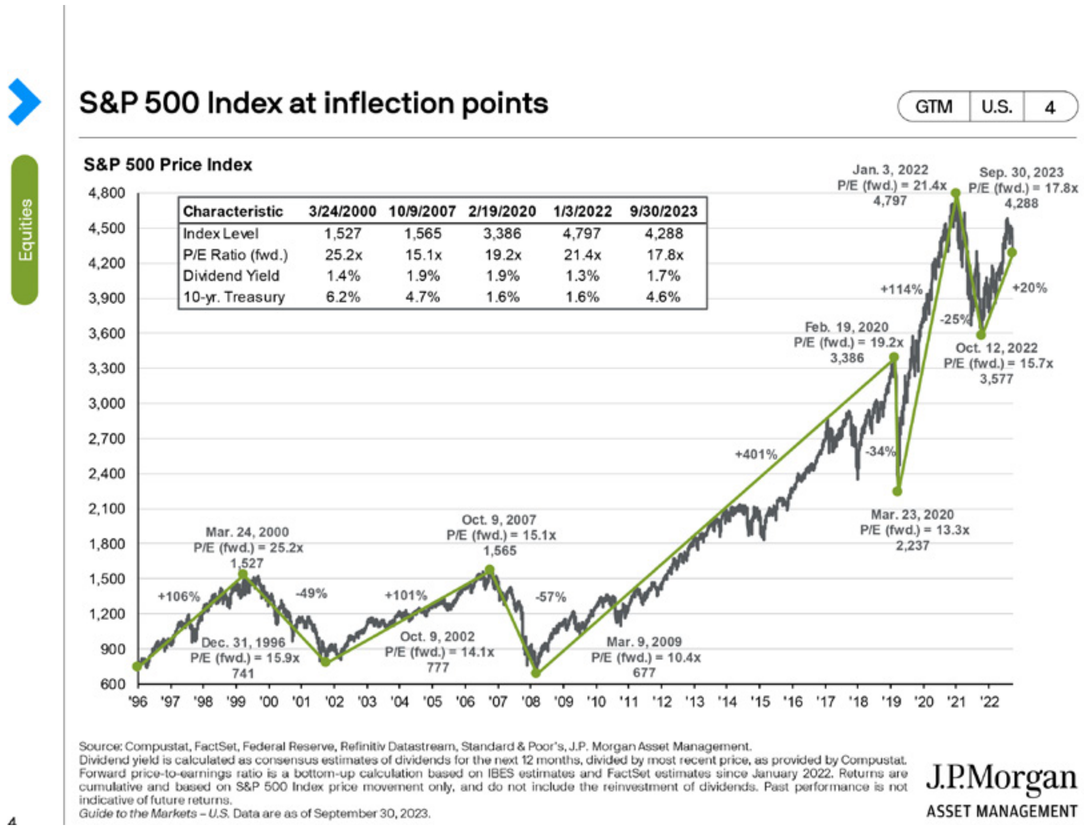
S&P 500 Index Performance

Let's look at the market cycles since 1996. We see the S&P 500 index was up 401% since the most recent bottom on March 9th, 2009. Now you can see where the S&P 500 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.



Should You Invest in Equities?

The answer to that question depends on a variety of factors that are unique to you individually. With that said, many investors do invest in equities to help reach and maintain their financial goals. As the above chart illustrates, over long periods of time the stock market has recovered from losses (bear markets) to go on to reach new highs. A concern many investors have near or in retirement is that they will be living off of their savings and experience a bear market which can have double compound in reverse effect, if you will. An important factor to consider is sequence-of-return risk.

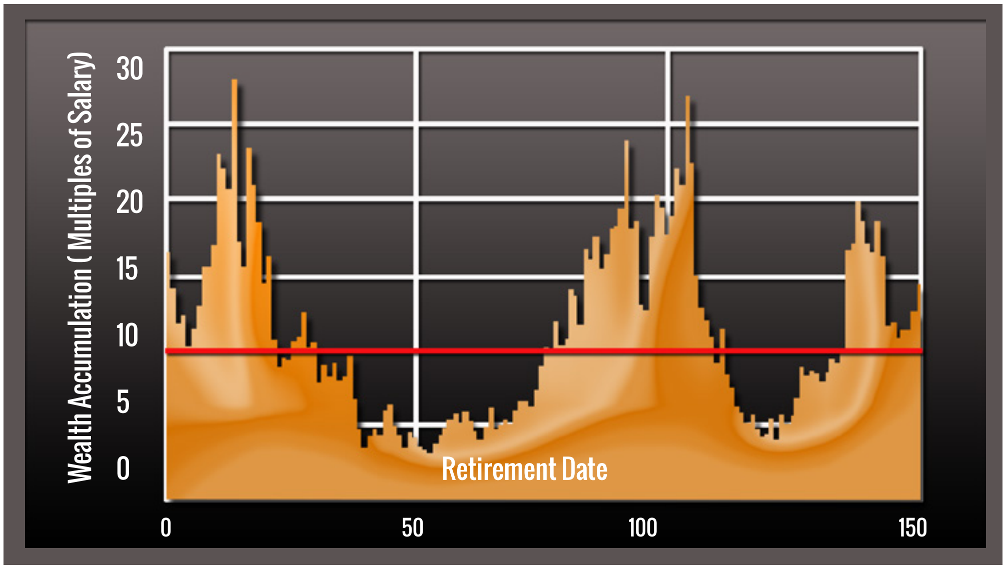
Sequence-of-Return Risk

Sequence-of-returns risk is something which can apply both in pre-retirement and post-retirement. Two investors may enjoy the same average return on the investments in their portfolio, but they may still experience very different outcomes if they encounter a different sequence for when these returns arrive. This sequence can impact both those who are saving and contributing to their portfolio over time and those who are withdrawing a constant stream of cash flow from their portfolio during retirement.

It is equally, if not more important, during retirement. In essence, we need to focus on the timing of your retirement and how much you plan to withdraw from your retirement accounts.

Get the timing right, and your money is likely to last over the course of your household's entire retirement. Get the timing wrong, and your money may not last over the course of your lifetime.

In a recent blog post, Wade Pfau, a professor of retirement income at The American College, ran some numbers to show the effects of what's called sequence-of-return risk. The following figure shows a Monte Carlo simulation of a time series chart for 151 hypothetical investors. These 151 investors worked and saved for 30 years and received 30 years of market returns, but they differ only in which 30 year period they worked and saved in this 180 year simulated historical time frame.

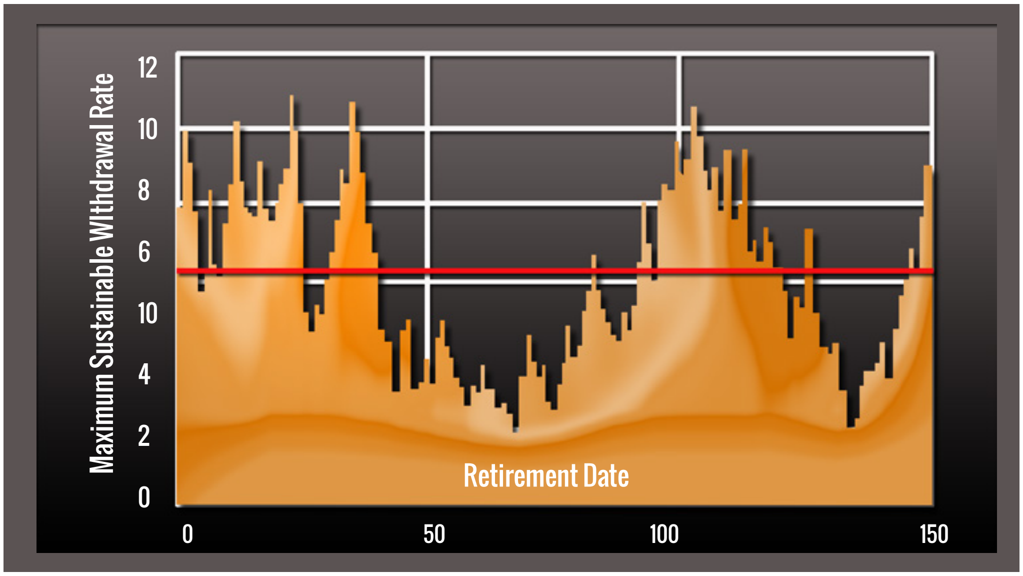


What he found was this: those hypothetical investors could expect to build, on average, a nest egg equal to 10 times their salary, but the outcome ranged from a little less than 3 times salary to more than 27 times salary. "These are very different outcomes for people who otherwise behaved exactly the same," Pfau wrote.

What's more, Pfau noted that in some cases, the hypothetical investor who retired one year after the one who accumulated 27 times their salary built a nest egg of just 17 times their salary. In other words, there's a bit of serendipity going on here for all of us saving for and hoping to live in retirement. In some cases, investors might miss their chance to reach their savings goal after 30 years, wrote Pfau.

"People are more vulnerable to the returns experienced when their portfolios are larger because a given percentage change has a bigger impact on absolute wealth. A big portfolio drop at the end could possibly wipe out all of the portfolio gains from the first 25 years of one's career."

According to Pfau, the same risk exists in retirement, and perhaps even more strongly if retirees are using a constant inflation-adjusted withdrawal strategy. Using Monte Carlo simulations, he showed that for his 151 hypothetical retirees, the actual maximum sustainable withdrawal rates over 30 years ranged anywhere from 1.9% to 10.9% for reasons beyond one's control reflected simply by the luck of when they retired.



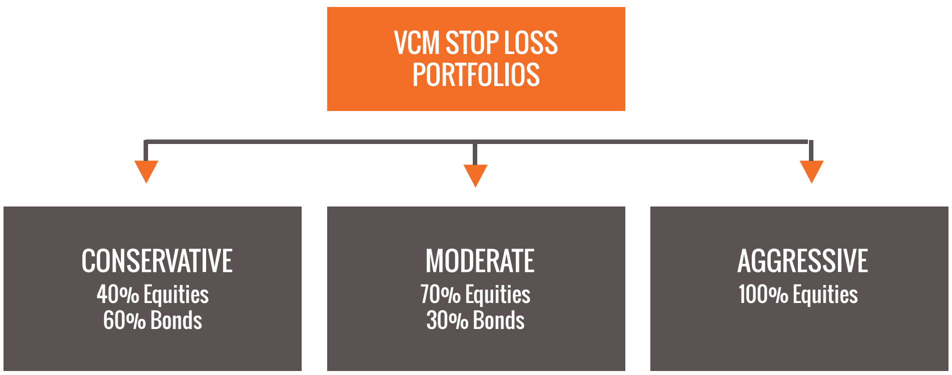
STOP LOSS PORTFOLIOS

What can you do to mitigate the risk that the market's sequence of returns will wreck your retirement plans?

Sequence-of-return risk is a function of volatility. One potential option would be to reduce the sequence-of-return risk by reducing the risk of the portfolio. Other approaches which reduce the downside risk (volatility in the undesired direction) could also be considered. Financial derivatives can be used to put a floor on how low a portfolio may fall by giving up some of the upside potential for the portfolio.

Introducing VCM's 3 unique Stop Loss portfolios

Help eliminate emotion by employing a tested portfolio management structure when the S&P 500 deteriorates with a proprietary stop loss and re-entry methodology.



These portfolios are equipped with both a "Stop Loss" & "Market Buy Back" feature

1. If the S&P 500 closes down 12% or greater from its most recent peak value, the Stop Loss will trigger the sale of all equities in the portfolios and reinvesting into bonds. Each new peak value in the S&P 500 is determined after the Stop Loss trigger moves from equity risk off to equity risk on.

2. When the S&P 500 recovers by a predetermined percentage from its low, our Market Buy Back feature is triggered, resulting in reinvesting into equities.

Two Stop Loss Triggers - Price Level & Percentage Decline

1. Price Level Buy Back - If the S&P 500 declines 12-30%, then the model will buy back at a 50% price level retracement (i.e. S&P 500 falls from 4000 to 3700, buy back at 3850)

2. Percentage Level Buy Back - If the S&P 500 declines by 30.01% or greater, the model will buy back into equities much quicker during a market recovery.

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STOP LOSS PORTFOLIOS

The goals of these portfolios are simple

1. Eliminate emotion through a systematic portfolio management structure
2. Let the market fluctuate by employing a proprietary stop loss and re-entry methodology
3. Participate early during stabilized market recovery

Three Equity "Risk-On" Investment Options

Market Cap Weight

The weight of a company in the index is equal to the market cap of that company divided by the total market cap of all the companies in the S&P 500 index. While investors and maybe even some financial advisers might believe they're getting broad exposure though an index allocated to more than 500 stocks, the reality is that the top five holdings in the traditional S&P 500 combine for the same weight in the index as the bottom 370 companies.

The basic model of an index constructed based on the market capitalization of the underlying companies means investors end up most heavily exposed to the few companies at the top.

There's nothing wrong with that as long as investors understand the risk-reward scenarios. For instance, as of March 16, 2021 if you combine communication and information, the technology sector makes up about 40% of the S&P 500[1], and most analysts view the sector as a lead driver of the index's volatility.

For example, as of February 23, 2021 Apple represented 6.13% of the S&P 500 market cap weight[2]. Mega-cap companies like Apple and Amazon have swelled in size over the years. Let's look at the top 5, 10 and 25 companies weighting of the S&P 500 market cap weight index.

Top 5 companies represent more than 18% of the index's total value.
Top 10 companies represent of more than 28% of the index's total value.
Top 25 companies represent of more than 41% of the index's total value.

Equal Weight

An equal weighted index is just as it sounds. Every stock in the index has the same weight, regardless how large or small the company is. Therefore, even Apple (Market Cap Weight of 6.13%) will have the same weight (0.2%) as the smallest company that is a constituent in the S&P 500.

Equally weighting component holdings, Exchange Traded Fund diminishes concentration risk and provides a more balanced exposure across sectors (small, mid and large cap). Additionally, the ETF re-balances on a quarterly basis to maintain its equal-weight strategy.

We are not arguing market cap weight over equal weight, but instead advisors and investors should consider pairing equally weighted indexes with cap-weighted versions to have exposure to both versions.

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Since the first equally weighted versions of the S&P 500 were launched in 2003, the strategy has moved in cycles, swapping the lead eight times[3] with their cap-weighted counterpart.

From 2003 through 2006, the equally weighed indexes beat cap-weighted, which followed a two-year win streak by cap-weighted during the market downturn in 2007 and 2008. Equal-weight bounced back during the market rebound in 2009 and 2010, cap-weighted took the lead in 2011, then equal-weight went on another three-year win streak.

In 2015, the performance led to cap-weighted, then back to equal-weight in 2016, and cap-weighted won the past four years.

The leadership changes between the two versions of the same index can be explained by some of the extreme differences when it comes to sector weightings.

The different weighting schemes of the S&P 500 Equal Weight Index (EWI) and S&P 500 Market Cap-Weighted Index (MWI)

Sector	S&P 500 MWI	S&P 500 EWI
Consumer Discretionary	9.80%	10.40%
Industrials	8.20%	14.00%
Information Technology	25.50%	15.60%
Financials	10.90%	12.00%
Health Care	15.40%	14.00%
Energy	2.60%	3.30%
Consumer Staples	7.80%	7.70%
Utilities	3.60%	6.50%
Real Estate	3.00%	6.40%
Materials	2.40%	5.50%
Telecommunication Services	10.70%	4.70%

S&P Global. "S&P 500 Factsheet," Page 5. Download "Factsheet." Accessed April 16, 2020. S&P Global. "S&P 500 Equal Weight Index Factsheet," Page 5. Download "Factsheet." Accessed April 16, 2020.

Invesco QQQ

Invesco QQQ is an exchange-traded fund (ETF) based on the Nasdaq-100 Index®. The Fund will, under most circumstances, consist of all of stocks in the Index. The Index includes 100 of the largest domestic and international nonfinancial companies listed on the Nasdaq Stock Market based on market capitalization. The Fund and the Index are rebalanced quarterly and reconstituted annually.

Sector allocations

More than just a tech fund, Invesco QQQ ETF showcases underlying holdings from multiple sectors and industries. Invesco QQQ sector allocations as of Mar 31, 2022:

No Strategy Is Perfect

Stop loss strategies, including ours, will not always get it right. Not every 12 percent loss signals a would-be catastrophic market or stock decline. It is important to remember the power of losses, percent of decline, and time it takes to fully recover could be catastrophic for those in or near retirement, especially if you are taking withdrawals from your investments during a correction period.

VCM employs a variety of investment strategies that are viable in the current marketplace.

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Disclosure

Virtue Capital Management, LLC is an SEC registered investment advisor. Virtue Capital Management only transacts business in states where it is properly registered or is excluded or exempted from registration requirements.

Please be advised that investing involves risk and that no particular investment strategy can guarantee against a loss. In particular, stop loss/buy orders do not guarantee securities will be sold/bought at a particular price. Stop loss/buy orders are generally converted to market orders at the specified price, and may be executed at a lower/higher price do to liquidity and current demand for the security. In addition, stop loss/buy orders may increase trading cost which could lower the portfolio's rate of return. The cash position may be more or less than 3% in the future which would have an impact on returns.

All investments involve the risk of potential investment losses as well as the potential for investment gains. Prior performance is no guarantee of future results, and there can be no assurance, and clients should not assume, that future performance will be comparable to past performance. No client or potential client should assume that any information presented or made available through this paper should be construed as personalized financial planning or investment advice. Personalized financial planning and investment advice can only be rendered after engagement of the firm for services, execution of the required documentation, and receipt of required disclosures. Please contact the firm for further information.

The S&P 500 index is designed to be a broad based unmanaged leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe or representative of the equity market in general. This index does not reflect the deduction of any fees. It is not available for direct investment. Exposure to an asset class represented by an index is available through investable instruments based on that index. The charts provided are for illustrative purposes only and do not take into account your particular investment objectives, financial situation or needs and may not be suitable for all investors. They are not intended to project the performance of any specific investment and are not a solicitation or recommendation of any investment strategy.

1 Investment New

2 Slickcharts.com/sp500 02.23.2021

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