Lyons Wealth Management

Tactical Investing

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LYONS TACTICAL ALLOCATION

- Lyons Wealth recognizes the importance of both remaining invested in equity markets over the long-term and minimizing portfolio exposure to large equity market declines. The Lyons Tactical Allocation strategy seeks to balance these key investment principles by investing in a basket of select equities, and shifting defensive only when larger, sustained market declines are anticipated.

- We invest in an equal-weighted basket of stocks selected for earnings efficiency and relative value. Our goal is to find stocks of high performing companies available at a reasonable price using our systematic stock selection process. We screen for stocks that meet minimum market cap and dividend yield criteria and select those identified as offering the best combination of high performance and low price.

- When equity market risk is anticipated to remain high for sustained time periods, we may shift to a defensive portfolio of U.S. Treasuries or cash. Our allocation decision is made monthly using our proprietary risk management model, which we call the Quantitative Risk Indicator (QRI). The QRI seeks to identify the substantial sustained market declines that occur infrequently. Therefore we anticipate maintaining our equity allocation over more extended time periods than most tactical managers. When invested in our equity portfolio, we rebalance quarterly by repeating our stock selection process.

LYONS TACTICAL ALLOCATION

Generally speaking, tactical managers attempt to miss the equity market declines by rotating through asset classes or market sectors, while others short stocks to make an effort to hedge.

Allocations may be shifted as often as monthly or weekly. The majority of these managers use ETFs as their exposure to the stock market and primarily rely on systematic signals to make their decisions, also known as algorithms.

In our view, the prudent use of tactical allocation is to maximize the opportunity for investment compounding for as long as possible and attempt to minimize the impact of only the larger market declines that harm cumulative returns.

SUSTAINED DECLINES MATTER

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OUR OBSERVATIONS

- We observe that frequent, small market declines have little impact on a long-term, buy-and-hold investor. Reacting to each one increases the likelihood of being on the wrong side of the market when a reversal occurs. This whipsaw effect is magnified substantially by leverage and impacts tactical portfolios that frequently shift in and out of the market, or between stocks and bonds. Many tactical managers trade in this fashion.

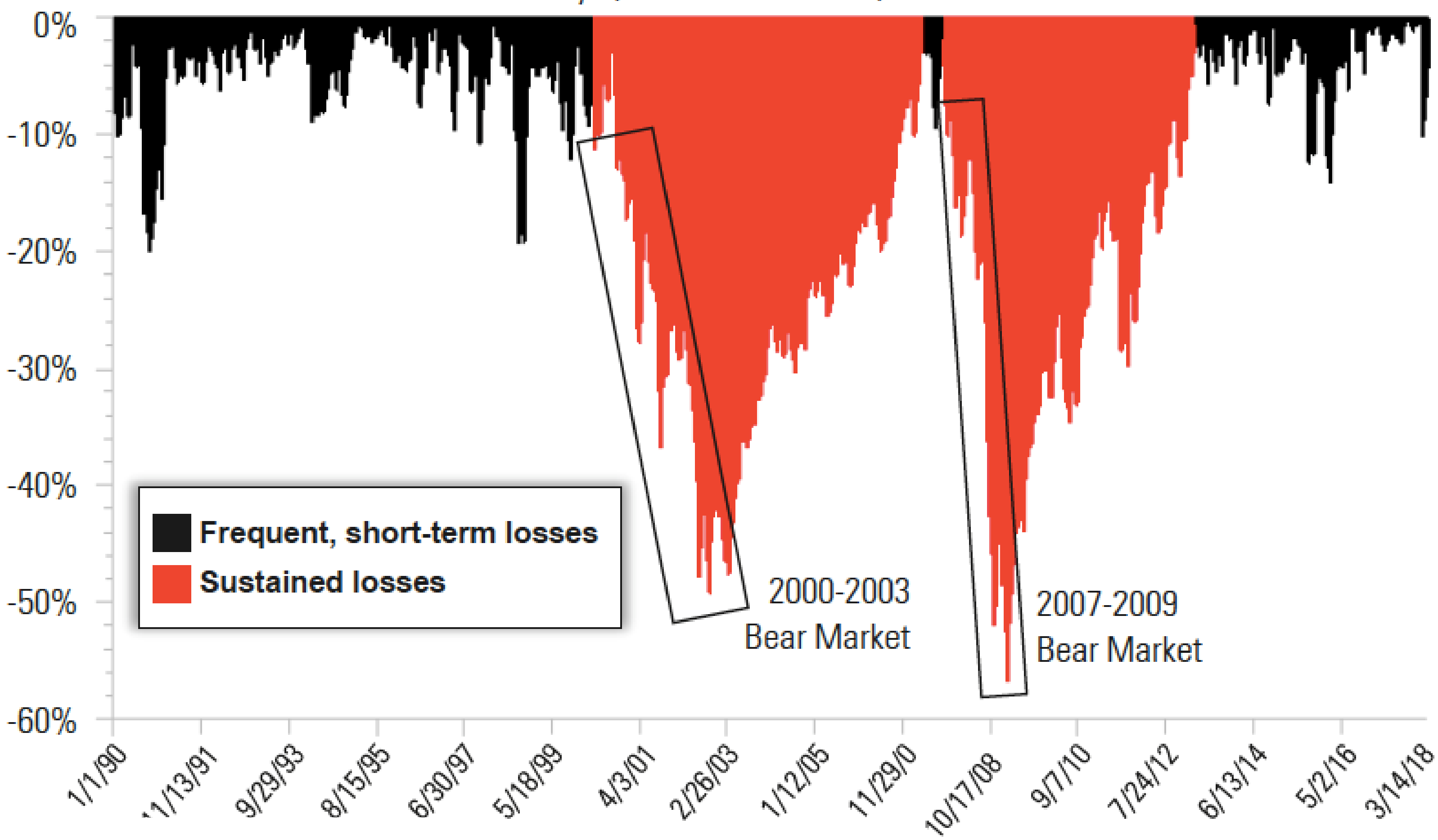
- Like a ship at sea that navigates turbulent waters and changes course only to avoid severe weather, we believe we should stay the course and sail through choppy markets, seeking to steer around extreme conditions only. A defensive strategy that focuses on large, painful market drawdowns may reduce the whipsaw effect and offer a better risk/reward profile.

NOT ALL MARKET DECLINES ARE EQUAL

Key differentiations are:

- The market frequently endures small declines that are brief and quickly retrace to breakeven.
- Bear market declines occur less frequently, yet far more severe and potentially damaging to investor portfolios.
- Eleven bear markets have occurred since 1950—an average occurrence of once every six years. Such multi-year market declines stop investment compounding.
- The years spent holding equities during the decline and recovery periods can have a devastating impact on cumulative investment performance.

S&P 500 Drawdowns (Declines & Recoveries)
January 1, 1990 — March 14, 2018



Graph of hypothetical investment in the S&P 500 Total Return Index from 1/1990-3/14/2018 and assumes reinvestment of dividends. The references indices are shown for general market comparisons and are not meant to represent the fund. Investors cannot directly invest in an index; unmanaged index returns do not affect any fees, expenses or sale charges.

Source: Graph created by Lyons Wealth Management with Zephyr Style ADVISOR using data from FactSet.

BEAR MARKETS

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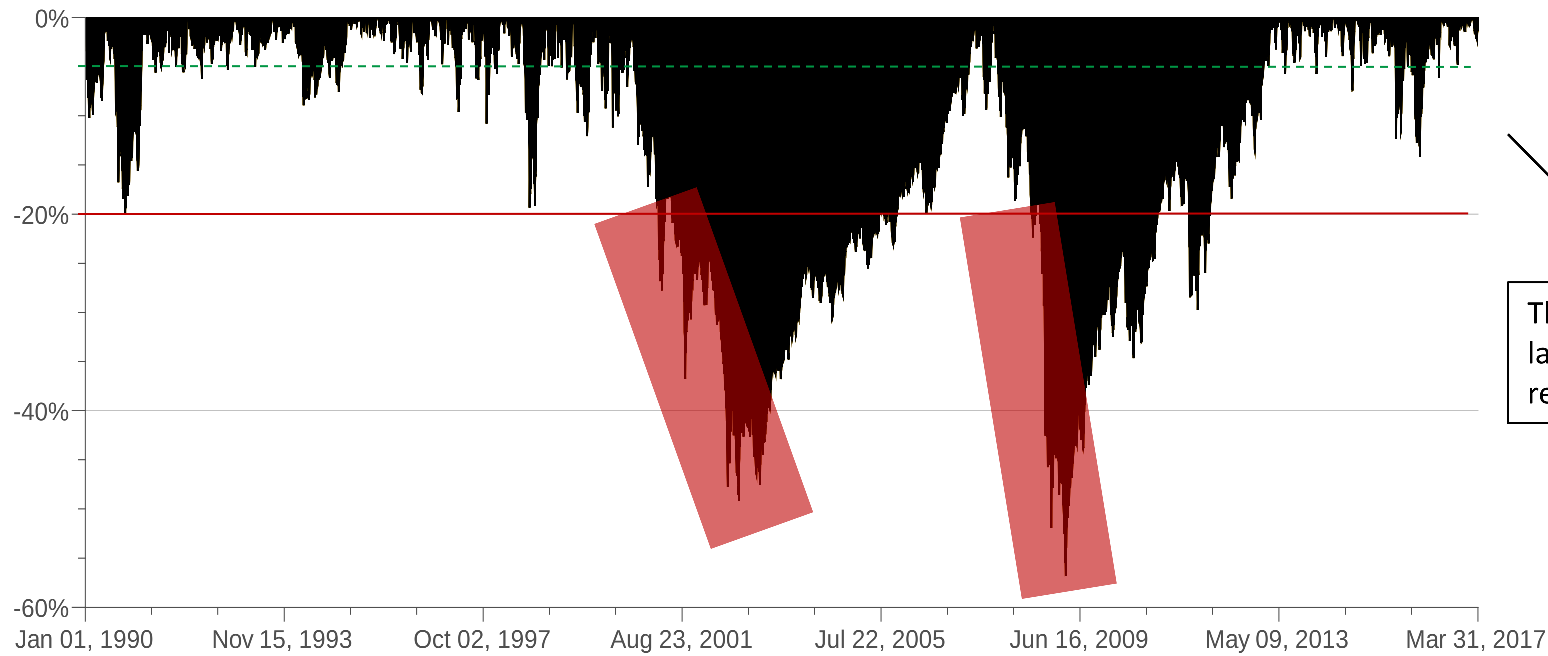
Zephyr StyleADVISOR

Zephyr StyleADVISOR: Lyons Wealth Management

S&P 500 Drawdown

January 2, 1990 - March 31, 2017



The greater the loss, the larger the gain needed to recover and break even.

	Max Drawdown	Max Drawdown Begin Date	Max Drawdown Recovery Length	Max Uninterrupted Loss	Max Uninterrupted Loss Begin Date	Max Uninterrupted Loss Recovery Length
S&P 500	-56.78%	Oct 10, 2007	1021	-22.90%	Oct 1, 2008	363

THE LYONS WAY

- The Lyons Tactical Allocation Portfolio is based on our belief that equities offer a favorable risk/reward trade-off over time, and that minor market gyrations and disruptions do not warrant frequent defensive shifts. Our value investing philosophy is that we can outperform by investing in the stocks of strong companies available at good prices, and seeking the relative safety of a defensive allocation only when we perceive the market risk to outweigh the reward.
- During the most normal market cycle, we strive to out perform the averages. Most tactical portfolios focus so heavily on defense that they underperform the S&P 500 during normal market conditions. We focus on offense first, building a portfolio of individual, dividend-paying stocks. Then we look at defense, seeking to navigate only sustained market drawdowns. Our goal is to participate in long-term equity market growth by being fully invested, yet offer the potential to avoid sustained declines.

HOW WE ARE DIFFERENT

Offense first, defense second

During bull market cycles, we strive to maintain a full allocation to equities. Most tactical portfolios focus so heavily on defense that they underperform during normal market conditions. We focus on offense first, building a portfolio of individual, dividend-paying stocks. Then we look at defense, seeking to navigate only sustained market drawdowns.

Individual stocks, with large-cap concentration

We believe a value-based stock selection process has the potential to outperform over the long-term. Whereas a conventional tactical strategy that uses index ETFs must rely solely on its risk model to achieve its investment objectives, our active management approach and high active share offer an additional means for long- term performance.

No leverage or shorting

We avoid the use of leverage and shorting, both which can create an unfavorable risk/reward profile and lead to significant underperformance, particularly when combined with frequent allocation shifts. Whipsaw is exaggerated by leverage.

Defensed focused on sustained declines only

With the QRI intended to react only to large market declines rather than short-term pullbacks, we believe we can reduce the likelihood of the whipsaw effect that often results from more frequent allocation shifts.

STOCK SELECTION

We focus our performance analysis on cash flow rather than earnings, which are often manipulated by company management to distort true performance.

→

We invest in large dividend-paying companies, as they tend to be more stable during periods of market volatility.

→

Only stocks that meet minimum requirements for market cap and dividend yield are included in our universe.

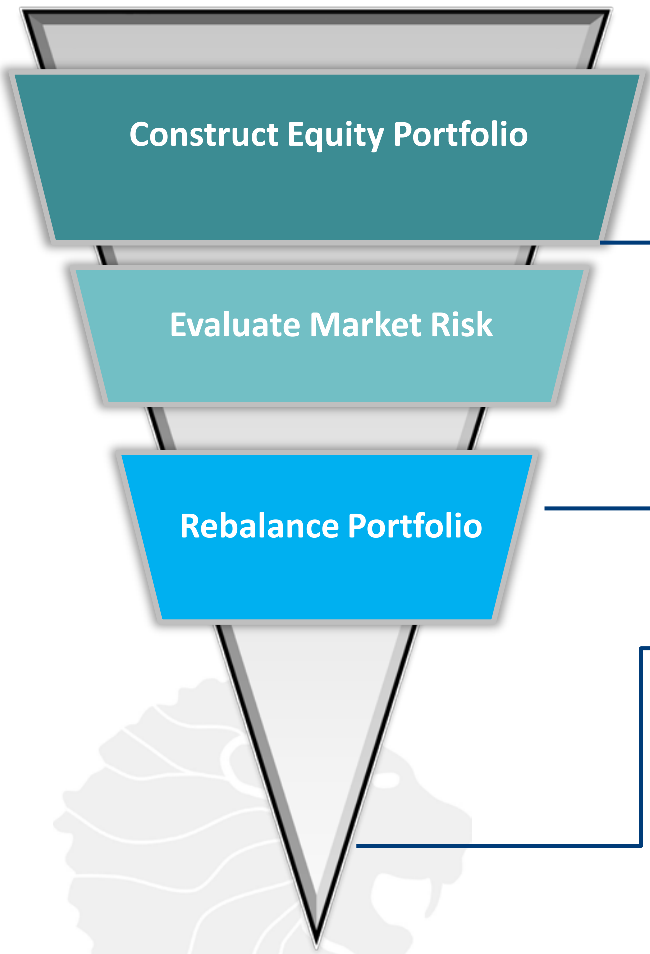
→

We evaluate companies on a relative basis using a series of rank orders, seeking to highlight those companies offering the best relative combination of high performance and low price.

→

Separate performance and valuation rankings are combined and used to build our equal-weight equity portfolio.

BUILDING THE PORTFOLIO



- Stocks meeting our criteria are ranked using a variety of performance and valuation measures.
  - ✓ Screen for stocks that meet minimum dividend yield and market cap criteria
  - ✓ Evaluate current holdings and new opportunities from upper rankings
  - ✓ Select top 25-30 stocks that offer best prospects for performance at a reasonable price

- Once our offense is in place, we evaluate the QRI each month to determine portfolio allocation.
  - ✓ Evaluate market risk each month using the QRI
  - ✓ If QRI signal is positive, maintain equity portfolio
  - ✓ If QRI turns negative, shift to defensive portfolio

- We rebalance our equity portfolio quarterly when the QRI remains positive.
  - ✓ When offense is maintained over long time periods, rebalance equity portfolio quarterly by repeating systematic equity selection process
  - ✓ By repeating our equity selection process, we retain any holdings that still represent a good value according to the model, and replace others even well-performing companies-with new and potentially better opportunities

A More In Depth Discussion On The Back-tested And Live Results Of The Quantitative Risk Indicator Model

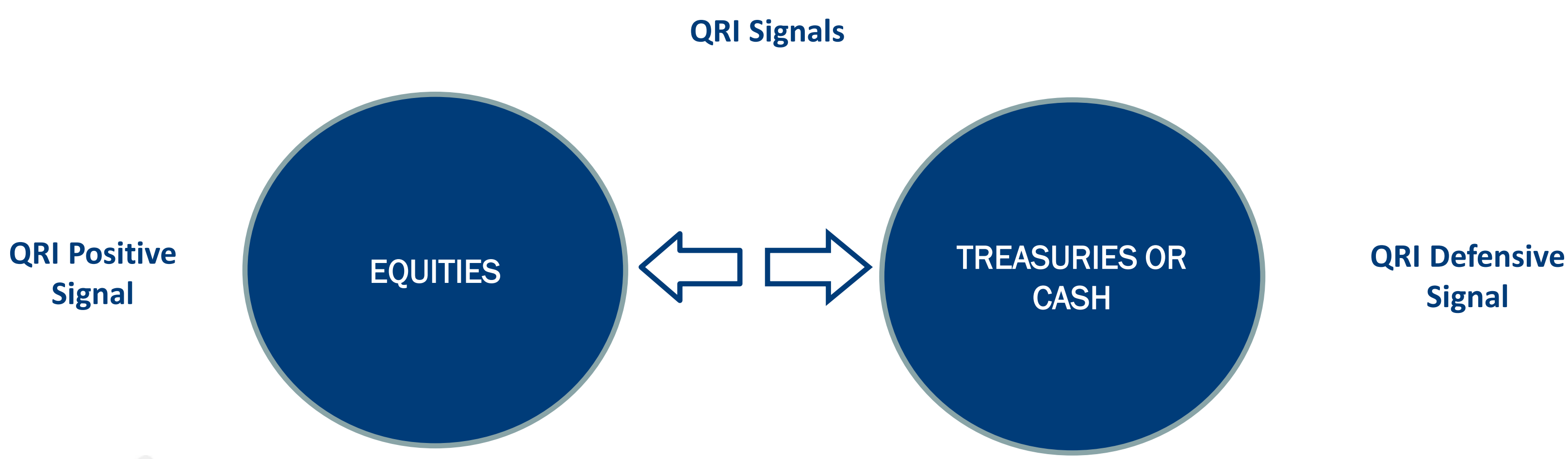
DOWNSIDE PROTECTION

Quantitative Risk Indicator (QRI)

- We've constructed a systematic approach intended to capitalize on the fundamental market price shifts that often precede bear markets.
- The QRI focuses on minimizing the impact of equity bear markers. It assesses market conditions on a monthly basis and drives our allocation between equities and treasuries or cash.
- We determine whether market conditions are favorable by using a proprietary algorithm. For the QRI signal to change, data sets must collectively turn either positive or negative across all time intervals.
- The QRI is a relatively slow-moving signal designed to react only to extreme risk sentiment. We want to avoid the potential for the whipsaw that may result from a short-term dip.

QUANTITATIVE RISK INDICATOR MODEL

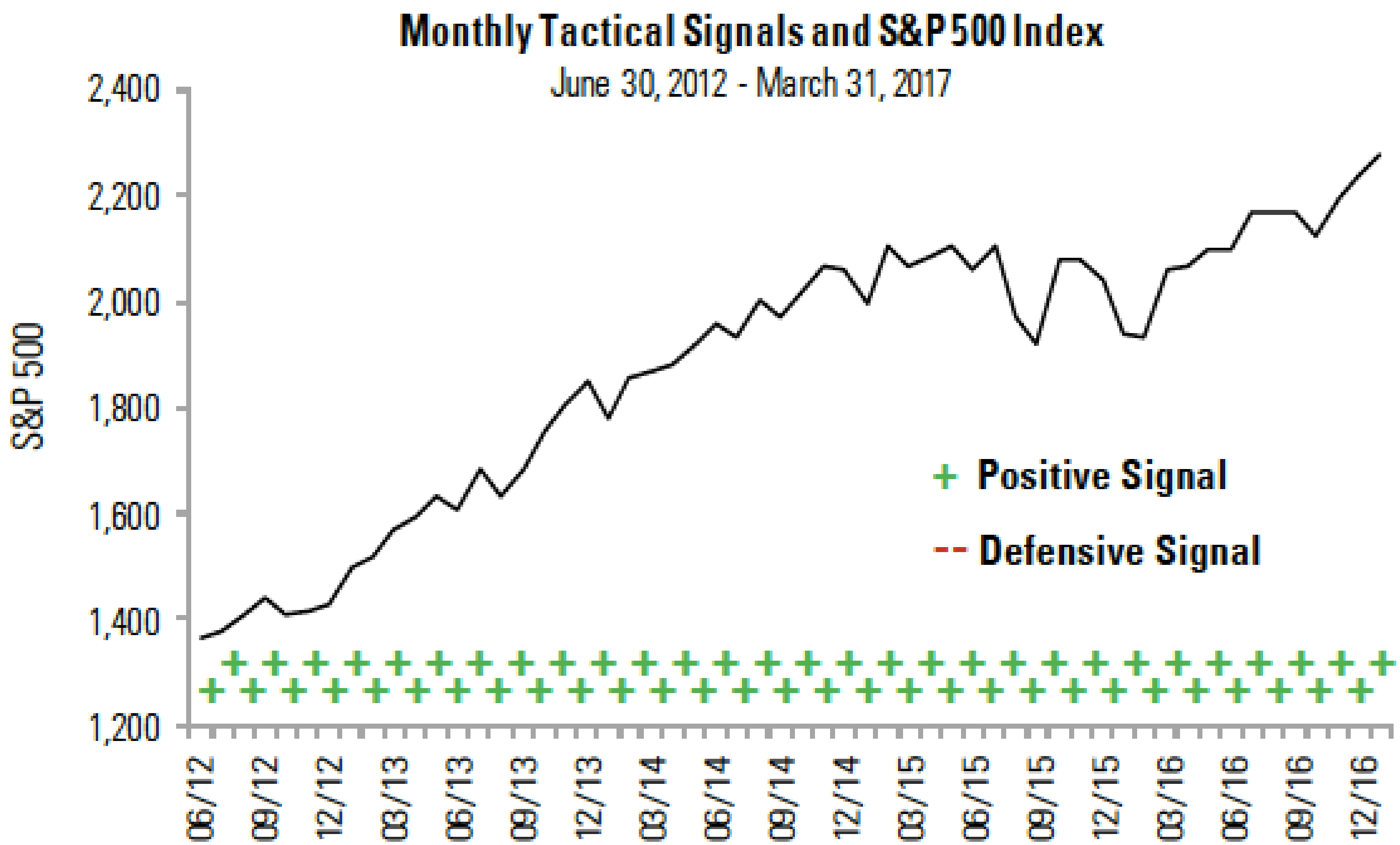
To reiterate, we are concerned only with more rare, prolonged periods of extreme decline.



We anticipate shifting defensive only a few times per decade, allowing us to focus on offense and achieving the long-term benefits of compounding returns.

LIVE QRI SIGNALS

LYONS WEALTH MANAGEMENT, LLC



A monthly, proprietary model signal—positive or defensive—drives portfolio allocation between equities and bonds
Positive signal = full equity allocation.

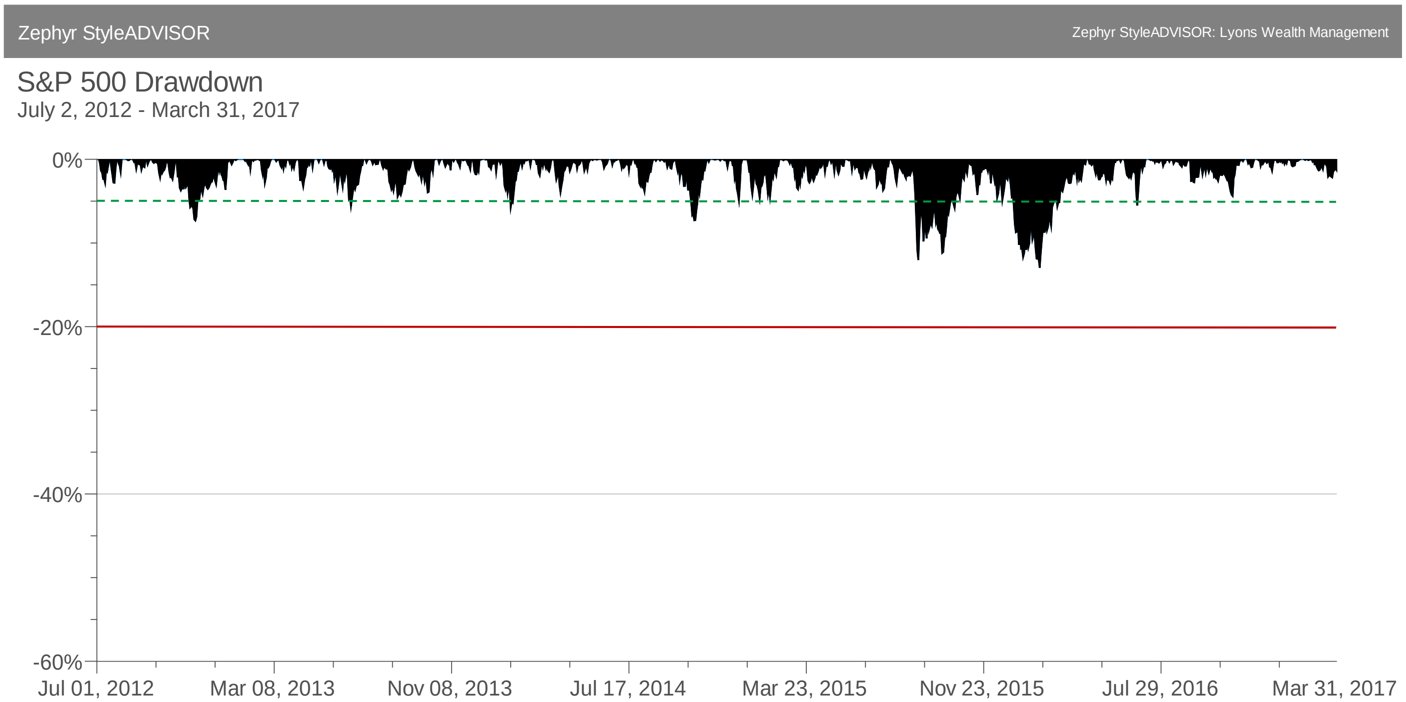
Defensive signal = fully defensive position in U.S. Treasuries, a global safe-haven asset in crises
Since Fund inception, our model has generated **80 positive signals** (through October, 31, 2018), and **0 defensive signals**. We have remained fully invested during this secular bull market.

Source: Lyons Wealth Management, LLC

MARKET DRAWDOWNS

“Normal” Market Drawdowns since 2012

Frequent, small drawdowns with quick recoveries



	Max Drawdown	Max Drawdown Begin Date	Max Drawdown Recovery Length	Max Uninterrupted Loss	Max Uninterrupted Loss Begin Date	Max Uninterrupted Loss Recovery Length
S&P 500	-12.96%	Jul 21, 2015	45	-11.13%	Aug 18, 2015	48

During this time there have been numerous “normal” drawdowns. What we mean by normal is that history proves that small drawdowns of 5-10% occur quite frequently, and the market recovers from them rapidly with no harm to a buy-and-hold investor. There’s greater risk trying to time these pullbacks rather than ride them out.

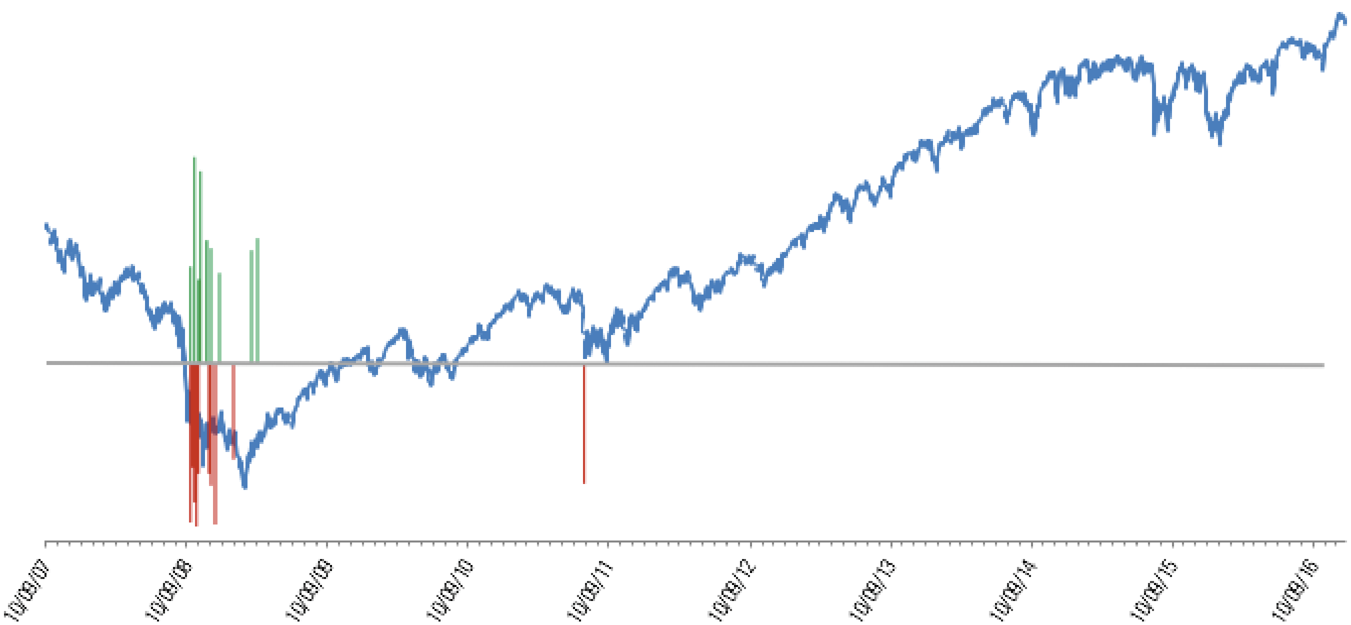
We see in late 2015 and into 2016 some modest corrections of 10-13%, and we can make the case that these are healthy market corrections, a sort of shaking of the tree, that help bring valuations back in line with fundamentals.

Source: Zephyr StyleAdvisor

A FAILED APPROACH

Timing Worst Days: A Failed Approach

The 10 best and worst market days occur during a bear market
2007 Market Top – 12/31/2016



Daily price & return data: FactSet

One of the early theories that tactical managers built their case on was the power of missing the 10 worst days versus staying in the market. The problem is the 10 worst days in a bear market are mixed together with the 10 best days so that you can't avoid the losses without also missing the gains.

Some of the best days occur immediately after the worst. When we look at the 20 best and worst days during this time period, 8 times a best and worst day occurred back to back. 7 of those were a worst day followed immediately the next day by a best day.

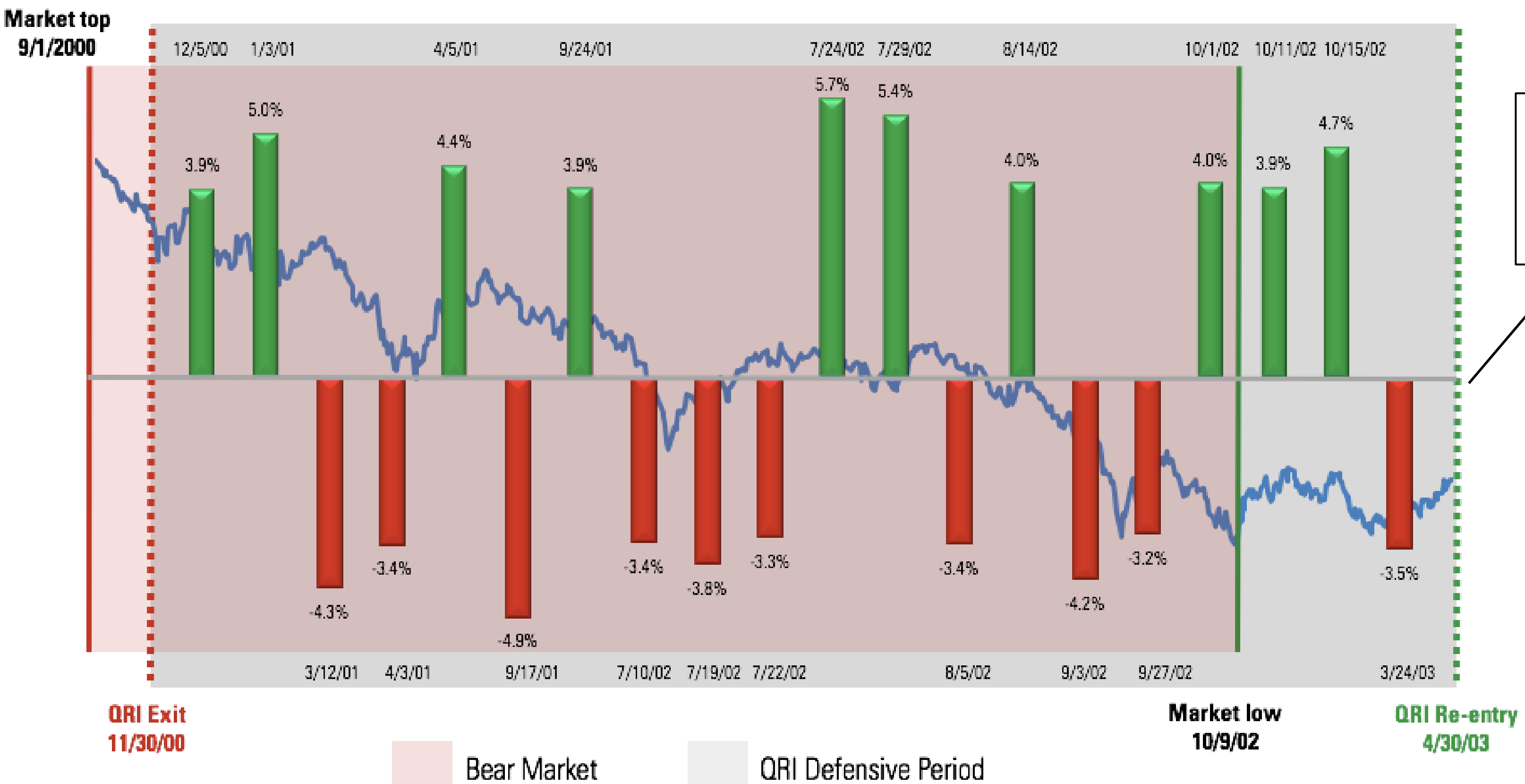
FINANCIAL CRISIS OF 2008-2009

- The financial crisis of 2008-09 has taught us that the confidence of the financial market, once shattered, can't be quickly restored
- Tactical investing is an approach that is designed to perform well when the market is turbulent or declining
- A slower, more focused tactical model that aims to smooth out short-term volatility has great potential to navigate harmful bear market drawdowns, and fully participate in bull market gains by avoiding.
- However, whether it’s a short term or long term type of program, staying the course, like all investment strategies, is your best bet with Tactical funds
- The key is to have a well diversified portfolio and plan for the next bear market, before (not after) it happens

A FAILED APPROACH

Timing Worst Days: A Failed Approach

10 Best & 10 Worst Market Days
2000-2002 Bear Market + QRI Defensive Period



QRI is designed to get out at a time that doesn't feel quite as turbulent yet.

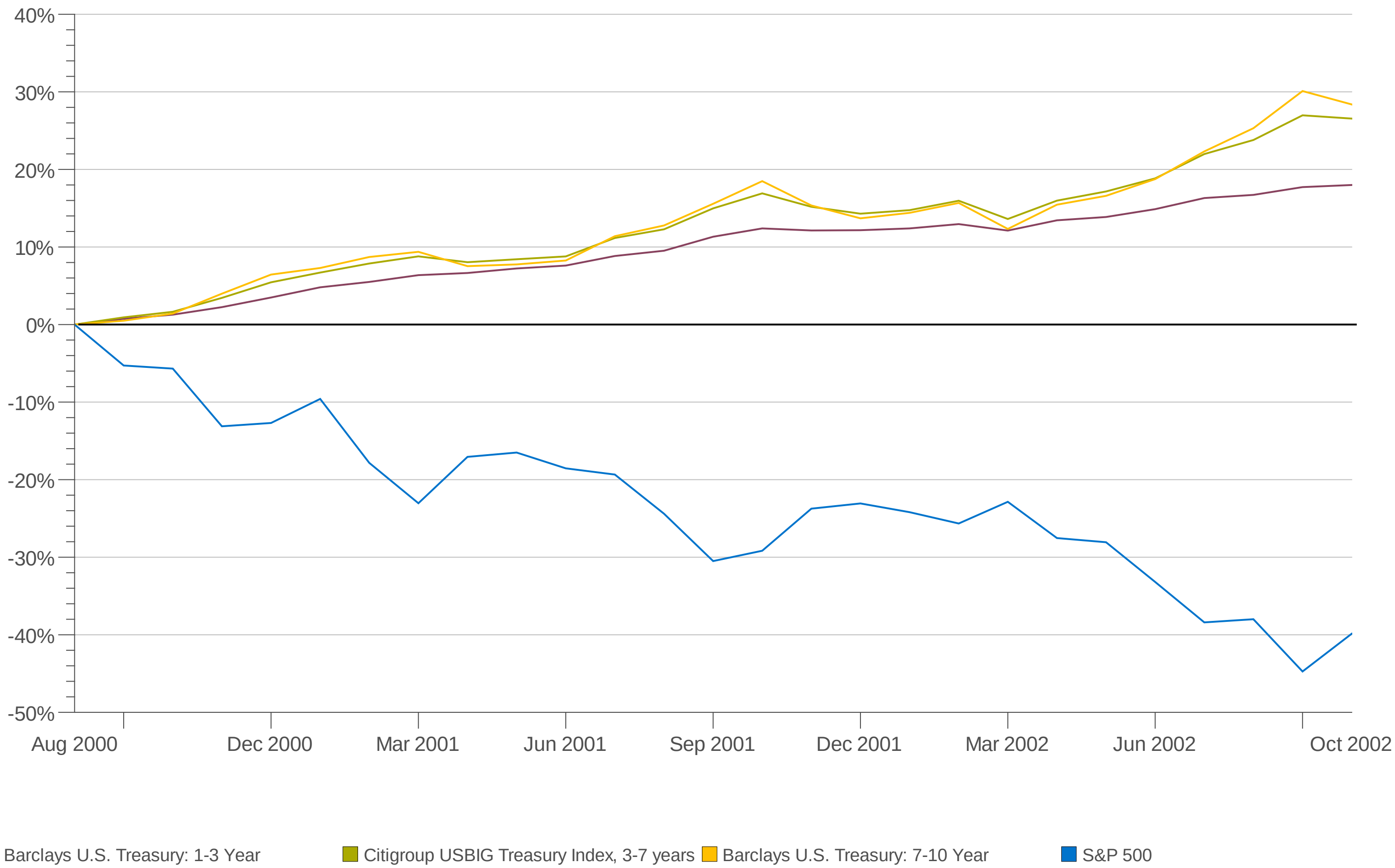
Daily price & return data: FactSet
QRI data: Lyons Wealth Management, LLC

U.S. TREASURY PERFORMANCE

LYONS WEALTH MANAGEMENT, LLC

TREASURY RETURNS -- 2000 BEAR MARKET

September 2000 - October 2002

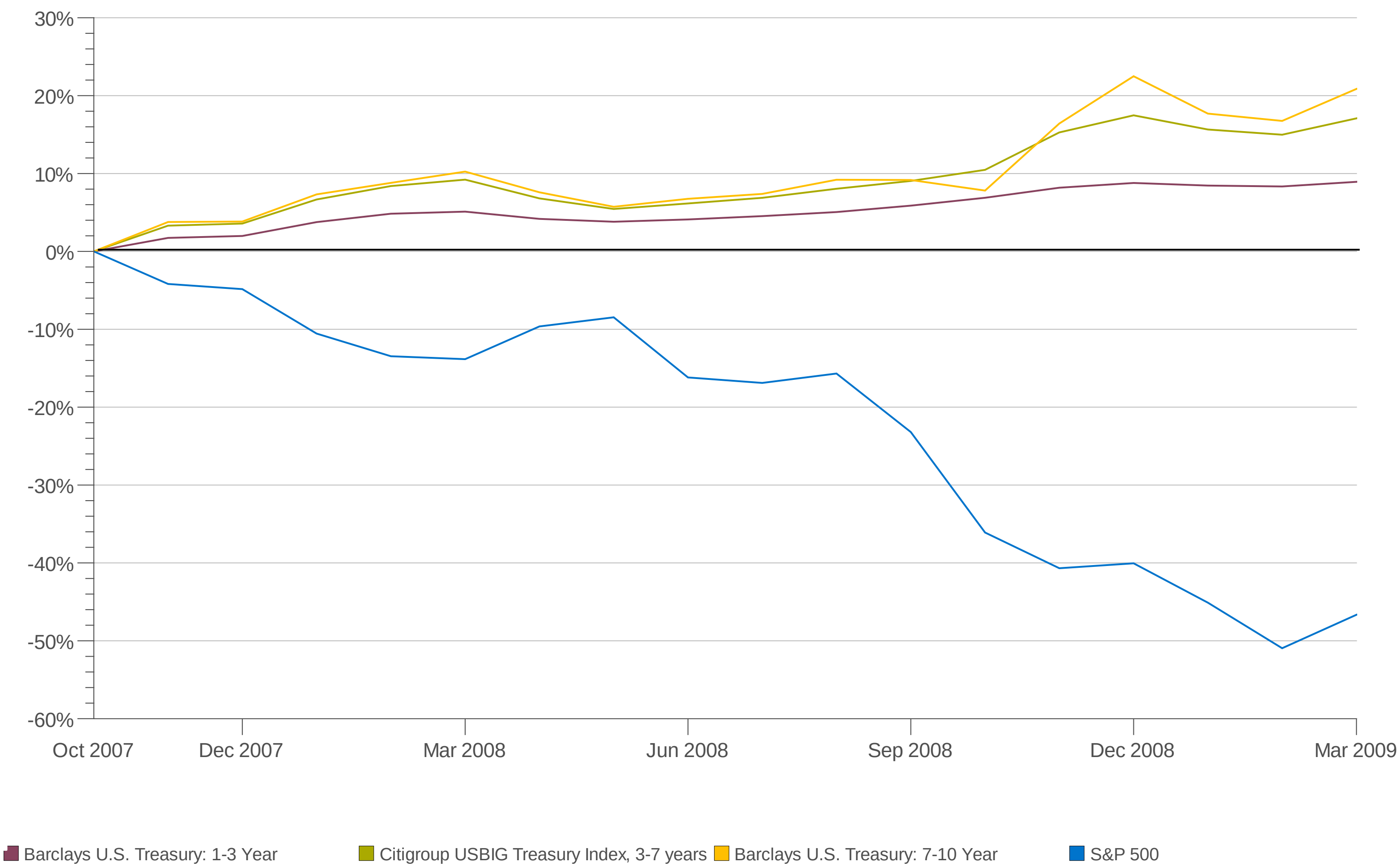


Source: Zephyr StyleAdvisor

U.S. TREASURY PERFORMANCE

TREASURY RETURNS -- 2008 BEAR MARKET

November 2007 - March 2009



Source: Zephyr StyleAdvisor

DISCLOSURE

Important Disclosure

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Data Sources:
Lyons Tactical Allocation Index Data - NASDAQ OMX
Index Data – Morningstar/Zephyr

BIOGRAPHY

ALEXANDER "SANDER" READ

CEO &

Managing Director

Mr. Read has over twenty years of experience in the investment management arena. From March 1993 to August 1996, he managed individual and institutional assets for the Private Client Group of Merrill Lynch, a full service brokerage and wealth management firm. In January 1997, Sander became CEO and Senior Portfolio Manager of his own firm, Alexander Read Investment Management, Inc., which focused on financial planning and managing high net worth clients with concentrated stock positions.

In July 2009, he transitioned to Lyons Wealth Management LLC, an SEC registered investment adviser, where he serves as CEO and has $200M AUM. Mr. Read has had multiple futures related registrations with the Commodity Futures Trading Commission ("CFTC") over the years. He was a CFTC registered associated person with Merrill Lynch from July 1993 to August 1996. From December 1996 to January 1998 he was a registered associated person with Crescent Futures Group, an introducing broker.

Mr. Read was also a registered associated person with Moon Bay Management Inc., a commodity pool operator, from June 1997 to January 1998 and its principal from June 1997 to April 1999. He has been a principal of LTG since August 12, 2015, and a registered associated person since August 27, 2015. Mr. Read is a graduate of the Phillips Exeter Academy and Lake Forest College. He holds a B.A. in Economics and French. In 2008 Mr. Read completed the Rollins College Roy E. Crummer Management Program.

CONTACT US

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