THE STOP LOSS CONSUMER 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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STOP LOSS PORTFOLIOS

Why the Stop Loss Portfolio?

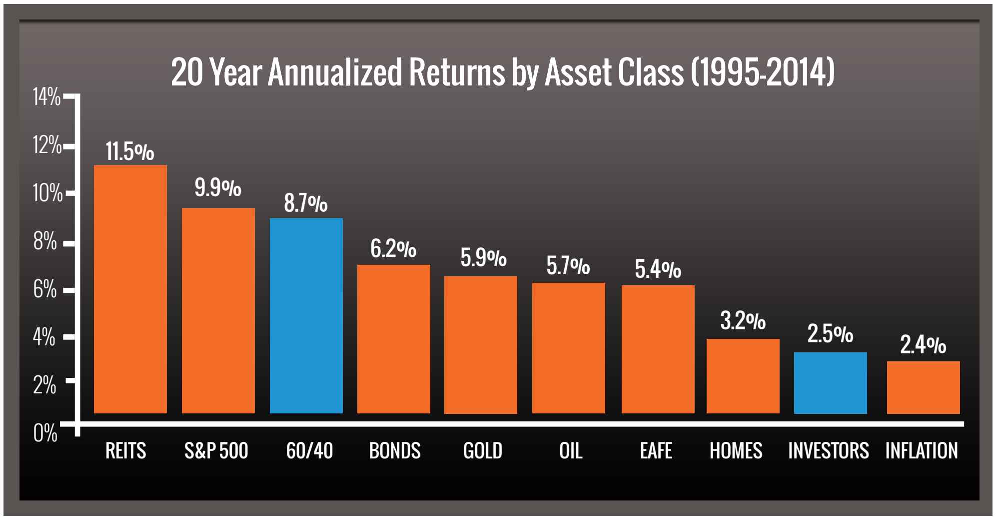
Remember the bear market of '07 - '09, when some investors lost between 20 to 40% of their account values? During a market correction, many investors don't sell their equities soon enough and often wait too long to reinvest into equities as the market recovers. Now there's a way you can help avoid this from happening to your clients again.

The portfolios were built to help investors in the following ways:

1. Achieve full diversification across all U.S. equity sectors
2. Remove the emotions from investing
3. Limit downside risk and
4. Participate during a market recovery

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.



Past performance is no guarantee of future results. The indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. 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. Returns are annualized (and total returns, where applicable) and represent the 20-year period ending 12/31/13 to match DALBAR's most recent analysis. The above-listed indexes are unmanaged indexes. An investment cannot be made directly in an index. There are special risks of investing in REIT's, such as lack of liquidity and potentially adverse economic regulatory changes. Commodities can be extremely volatile investments. International investing presents certain risks not associated with investing solely in the United States. This chart is for illustrative purposes only and is not intended to predict or depict the return of any one investment.

Bear Markets

Bear markets are declines that are greater than 20%, and the average decline is 35.43%.

BULL MARKETS				BEAR MARKETS			
Start Date	**End Date**	**Gain/Loss**	**# Days**	**Start Date**	**End Date**	**Gain/Loss**	**#Days**
11.13.29	04.10.30	46.8%	148	09.17.29	11.13.29	-44.6%	57
12.16.30	02.24.31	25.8%	70	04.11.30	12.16.30	-44.3%	249
06.02.31	06.26.31	25.8%	24	02.25.31	06.02.31	-32.9%	97
10.05.31	11.09.31	30.6%	35	06.27.31	10.05.31	-42.5%	100
02.10.32	03.08.32	19.7%	27	11.10.31	02.10.32	-34.9%	92
06.01.32	09.07.32	111.6%	98	03.09.32	06.01.32	-51.0%	84
10.10.32	11.11.32	19.6%	32	09.08.32	10.10.32	-31.0%	32
02.27.33	07.18.33	120.6%	141	11.12.32	02.27.33	-28.0%	107
10.19.33	02.06.34	37.3%	110	07.19.33	10.19.33	-29.4%	92
03.14.35	03.10.37	131.6%	727	02.07.34	03.14.35	-31.8%	400
03.31.38	11.09.38	62.2%	223	03.11.37	03.31.38	-54.5%	385
04.11.39	10.25.39	26.8%	197	11.10.38	04.11.39	-24.4%	152
06.10.40	11.07.40	26.7%	150	10.26.39	06.10.40	-31.9%	228
04.28.42	05.29.46	157.7%	1492	11.08.40	04.28.42	-34.4%	536
05.19.47	06.15.48	23.9%	393	05.30.46	05.19.47	-28.5%	354
06.13.49	08.02.56	267.1%	2607	06.01.48	06.13.49	-20.6%	362
10.22.57	12.12.61	86.4%	1512	08.03.56	10.22.57	-21.6%	445
06.26.62	02.09.66	79.8%	1324	12.13.61	06.26.62	-28.0%	195
10.07.66	11.29.68	48.0%	784	02.10.66	10.07.66	-22.2%	239
05.26.70	01.11.73	73.5%	961	11.30.68	05.26.70	-36.1%	542
10.03.74	09.21.76	73.1%	719	01.12.73	10.03.74	-48.2%	629
03.06.78	11.28.80	61.7%	998	09.22.76	03.06.78	-19.4%	530
08.12.82	08.25.87	228.8%	1839	11.29.80	08.12.82	-27.1%	621
12.04.87	07.16.90	64.8%	955	08.26.87	12.04.87	-33.5%	100
10.11.90	03.24.00	417.0%	3452	07.17.90	10.11.90	-19.9%	86
09.21.01	01.04.02	21.4%	105	03.25.00	09.21.01	-36.8%	545
07.23.02	10.09.07	101.5%	1904	01.05.02	07.23.02	-32.0%	199
11.20.08	01.06.09	24.2%	47	10.10.07	11.20.08	-51.9%	407
03.09.09	04.29.11	101.6%	781	01.07.09	03.09.09	-27.6%	61
10.03.11	04.01.14	71.5%	911	04.30.11	10.03.11	-19.4%	156
Average		86.2%	758	Average		-32.9%	270
Avg. excluding 1929-34		102.2%	1050	Avg. excluding '29-'34		-30.9%	343
Median		63.5%	556	Median		-31.9%	215
Med. excluding 1929-34		73.1%	889	Median excluding '29-'34		-28.5%	363

Source: Bianco, Leuthold

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%**

Mathematics of Losing Money

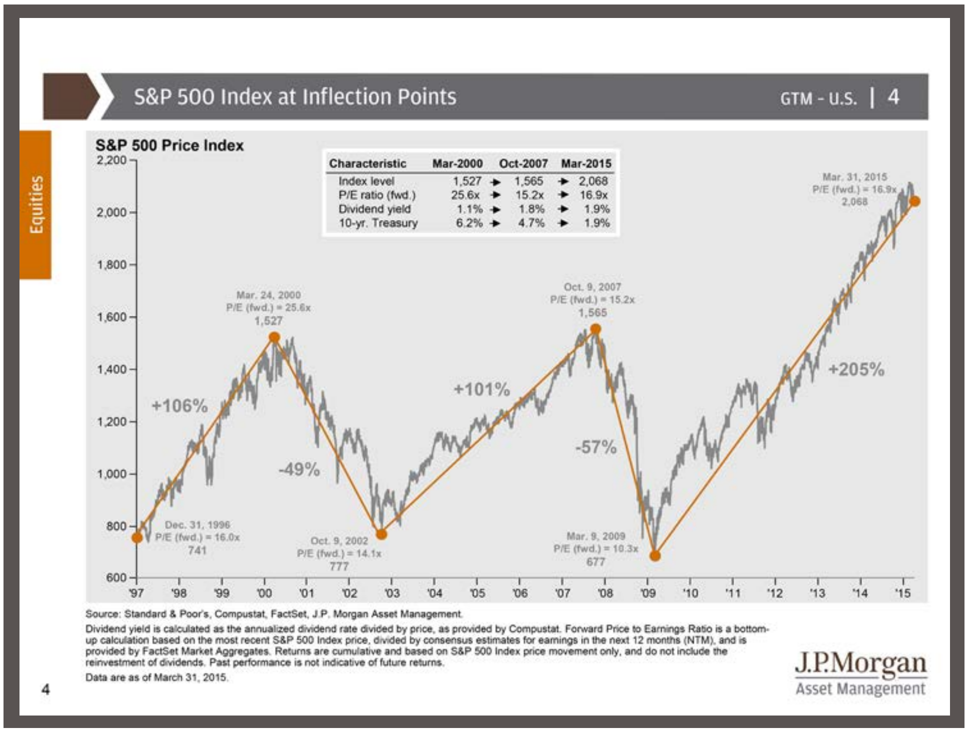
The table below illustrates both the amount of time and rate of returns required after experiencing a loss in order to get your nest egg back to where it was. Let's look at how long it would take to return to break even if you experienced a 30% loss while expecting a 10% annual return. A 42.9% return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

S&P 500 Index Performance

Let's look at the market cycles since 1997. We see the S&P 500 index is up over 205% since the most recent bottom on March 9th, 2009.



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. In fact, the Dow Jones and S&P 500 record run could continue today (11.19.2014), after the Dow chalked up its 26th new high of the year on Tuesday while the S&P 500 registered its 43rd record close of 2014. (CNBC 11.19.2014). 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.

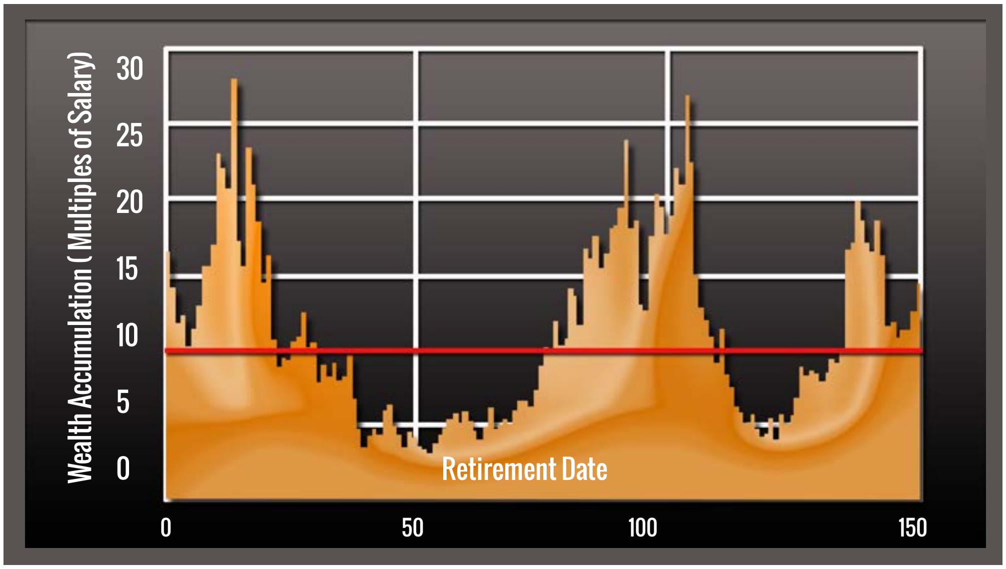
Sequence-of-Return Risk

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.

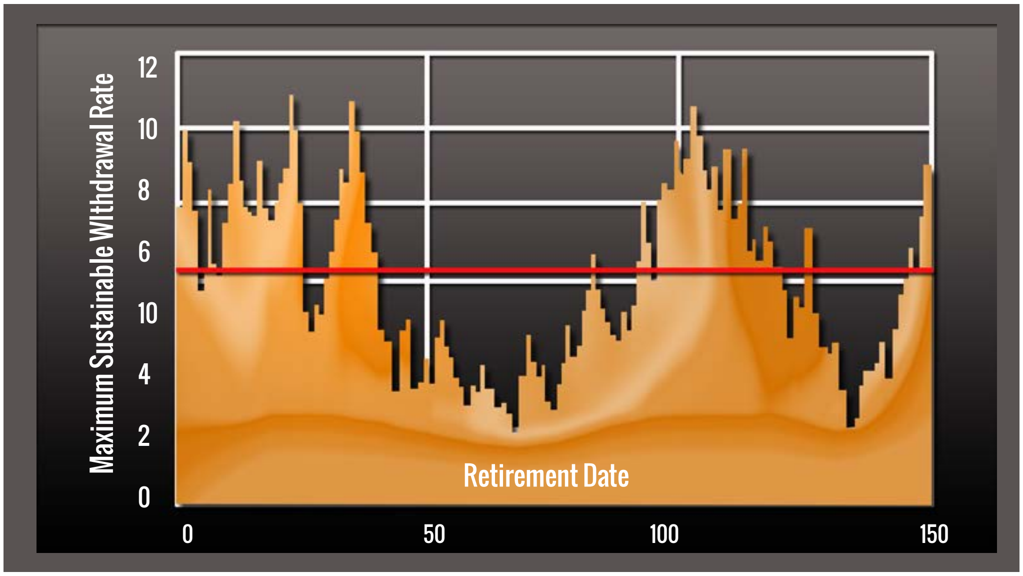


What he found was this: those hypothetical investors could expect to build, on average, a nest egg equal to 10 times their salary, but the outcome ranged from a little less than 3 times salary to more than 27 times salary. "These are very different outcomes for people who otherwise behaved exactly the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

1. **Aggressive**
2. **Balanced/Moderate**
3. **Conservative**

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 peak value, the Stop Loss will trigger a "flight to safety" by selling all equities in the portfolios and reinvesting primarily into bonds.

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 2000 to 1700, buy back at 1850)

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.

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

STOP LOSS PORTFOLIOS

When Would The Stop Loss Have Occurred?

Look at what would have hypothetically happened if the stop loss portfolios were available during the below time periods, comparing when the stop loss would have triggered to staying invested in the same investments without the stop loss feature.

STOP LOSS PROTECTION HYPOTHETICAL HISTORY

Stop Loss Protection Date	Buy Back Date	Length of Duration (Months)	With Stop Loss Protection	Without Stop Loss Protection
8/21/90	1/18/91	4.9	6.99%	0.60%
8/28/98	10/23/98	1.8	1.09%	4.72%
10/12/00	5/30/03	31.6	29.29%	0.25%
1/16/08	5/06/09	15.7	4.61%	-27.17%
5/26/10	8/2/10	2.2	2.25%	5.06%
8/05/11	10/21/11	2.5	0.97%	2.96%
AVERAGE		9.8	7.53%	-2.26%

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.

Arabesque Wealth Advisors employ a variety of investment strategies that are viable in the current marketplace. For more information, please call us at 800-215-3070 and visit www.arabesquewealthadvisors.com

STOP LOSS PORTFOLIOS

Keep moving forward and up.

Shield your investments with our Stop Loss Portfolios.

***STOP LOSS TRIGGER DETAILS:** Equities/RSP will be sold when the S&P 500 closes down12% or greater below its peak value (intra-day movement below 12% from peak will not trigger equities "RSP" sale) • There is no guarantee that we will sell RSP right at 12% in fact there is an extremely low probability that would ever happen. • The investor would have to be invested at the peak value of the S&P 500 to experience the full downside loss (hypothetically 12% for aggressive investors) prior to selling equities. • Since the equity sell trigger is when the S&P 500 closes down 12% or greater, the example below would apply. • Aggressive equity sell trigger = 12% • Moderate equity sell trigger = 8.4% (70% invested in RSP X 12% loss =8.4% loss) • Conservative equity sell trigger = 4.8% (40% invested in RSP X 12% loss =4.8% loss)

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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.

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.

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