



## PCM QC: Quant Coalescence 09.30.2017

Most of PCM’s composites have tracked their respective indices (ETF’s) performance, below, and in some cases surpassed their respective benchmarks. All of our 22 composites are constructed with an element of “risk management”. Our Absolute Total Return strategies are unique; since our composites can tactically rotate into an “inverse” ETF position, which could produce positive returns while the underlying asset class is declining. PCM’s goal is to provide clients with transparent tactical strategies, which are designed to significantly outperform their benchmarks through a full, low to low market cycle, as opposed to beating them in rising markets only.

### U.S. & GLOBAL Markets YTD review: 09.30.2017

Intl. Emerging equity markets: iShares MSCI Emerging Markets Index (EEM)	↑	27.19%
Intl. Developed equity markets: iShares MSCI EAFE Index Fund (EFA)	↑	19.94%
US Equity markets (Large Cap Core): S&P 500 index (SPY)	↑	14.15%
Balanced U.S. portfolio: 60% (SPY)/40% (AGG)	↑	9.75%
Global Government Bond markets: Citigroup World Government Bond index (WGBI)	↑	8.63%
U.S. Bond markets: iShares Core U.S. Aggregate Bond (AGG)	↑	3.16%
Commodities: iShares S&P GSCI Commodity Trust (GSG)	↓	-4.48%
US dollar: PowerShares DB US Dollar Index Bullish Fund (UUP)	↓	-8.57%

Source: Bloomberg

### PCM’s T5 - Top five published performing composites year to date (09.30.2017)

To view our performance and disclaimers please click on the strategy below.

1. [PCM Emerging Market Equity](#)
2. [PCM Absolute International](#)
3. [PCM Liquid REIT](#) (*Site update in process*)
4. [PCM Absolute U.S sector](#)
5. [PCM Emerging Market Bond](#)

### Observations:

PCM’s Developed and Emerging Market composites continued to be our top performing strategies through the end of the Third quarter, 2017. They have respectfully held the number 1 and 2 positions since the beginning of the year. Of interest, PCM’s Liquid REIT composite has moved into our top five, now our third best performing published composite YTD. PCM’s Liquid REIT provides investors an ability to participate in publically traded liquid real estate, via our ETF investment strategies. Each month it will rotate into an ETF REIT that our quantitative approach has selected. It is chosen out of a basket of 10 REIT ETF’s representing various sectors of real estate such as office space, strip malls, mortgage REITS, in the US and or International real estate markets.



**PCM’s Strategy Dial:**

*(Visual representation of our multi-directional strategy allocations)*



Last quarter we introduced our PCM Strategy Dial. We illustrated PCM’s US Industries composite, in order to demonstrate how the strategy could go from the opportunistic long quadrant to the opportunistic inverse quadrant. This quarter I would like to use our PCM Strategy Dial to illustrate our PCM Absolute Bond composite.

**PCM Strategy Dial Explained: (PCM Absolute Bond)**

PCM’s Absolute Bond strategy is composed with up to two ETF’s allocated at the beginning of each month. The strategy invests in a proprietary allocation of ETFs, quantitatively selected from a basket of 8 ETF’s. These eight ETF’s provide exposure to: short, intermediate and long term US and International sovereign and corporate Bonds. The basket also includes ETF’s which provide exposure to various credit qualities and include an inflation protection ETF. Most importantly the basket contains a non-leveraged inverse ETF in order to provide potential protection and positive returns when rates are rising. The two ETF’s selected are given an equal weight of 50% each. Since there is only one “inverse” ETF in the basket, and given that there are two positions allocated each month, the most “Opportunistic Inverse” the strategy can be is 50% inverse and 50% cash equivalent. The most “Opportunistic long” the strategy can be is 100% (two 50% positions in various bond ETF’s). The possible combination of holdings can be broken down below:

<b>Long 2 ETFs</b>	<b>Opportunistic Long</b>
<b>Long 1 ETF and a Cash Equivalent ETF</b>	<b>Spread Long</b>
<b>Long 1 ETF and one Inverse ETF</b>	<b>Spread Inverse</b>
<b>Long 1 Inverse ETF and a Cash Equivalent ETF</b>	<b>Opportunistic Inverse</b>

**Historic Perspective:**

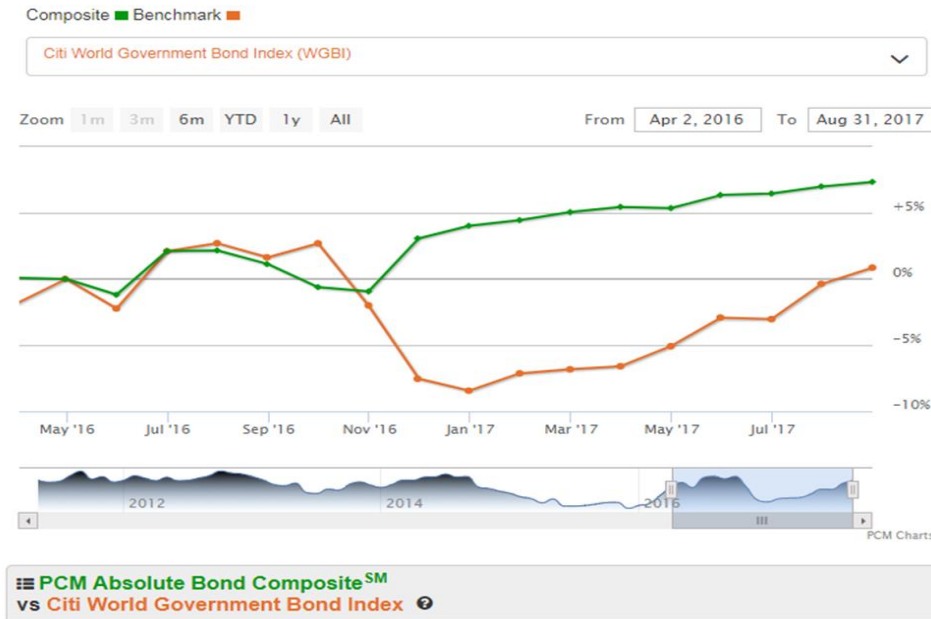
The US and many world sovereign bond markets have been in a long term, 30 plus year, bull market. The PCM Absolute Bond composite has a 6 year GIP compliant track record, during which time there has not been many opportunities to demonstrate how well the inverse ETF may potentially protect and enhance the return of the portfolio.

The bond markets did experience a sharp move up in rates (down in bonds) during the last quarter of 2016. Our PCM Absolute Bond strategy responded well, topping Informa’s performance list for both the fourth quarter of 2016 and for the



entire year of 2016. The PCM Absolute Bond strategy moved to “Opportunistic Inverse” in November and December of 2016 resulting in a **positive** 5% return in our composite for the fourth quarter, versus an 8.5% **decline** in the Citi Corp Bond (Our benchmark). See chart below showing the monthly performance during the last quarter of 2016. Of course, past performance is no guarantee of future results. However, we believe that the performance of our Absolute Bond strategy during this period, illustrates the potential that our strategies can provide investors.

### PCM Absolute Bond Composite<sup>SM</sup>



### Looking Forward: Q4 2017



**PCM U.S. Industries**  
*(U.S. Equities)*



**PCM Absolute International**  
*(International Equities)*



**PCM Absolute Bond**  
*(World Bonds)*

Moving into the final quarter of 2017, our equity composites moved to “Opportunistic Long” in both the US and International space. Specifically, US Industries has moved into 25% each Materials, Industrials, Food and Beverage and Biotechnology. PCM’s Absolute International is 25% each in Canada, Japan, Switzerland and the United Kingdom. PCM’s Absolute Bond is “Spread Long” with 50% in cash equivalents and 50% High Yield Corporate Bonds. Each of the above composites may be reallocated monthly with the exception of PCM’s Absolute Bond, which may reallocate bi-monthly.



Valuations remain extreme. There has never been a better time to add a PCM Multi-directional strategy to your portfolio. Please consider PCM's multi-directional strategies for your clients that are concerned about extreme valuations. Our clients have found that by employing our proprietary risk management system they can truly take advantage of investing strategies with peace of mind<sup>sm</sup>.

Superior full-market cycle returns are directly correlated to a reduction or elimination of large drawdowns in any given portfolio or investment strategy. To accomplish this an investment strategy must employ some form of risk management and should have the ability to capture positive returns in both rising and falling markets. Furthermore, it is important to have the ability to participate in all asset classes, all asset sizes and all asset styles across all markets to insure diversification that is truly non-correlated.

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