PROVIDENT CAPITAL MANAGEMENT

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PCM QC: Quant Coalescence 06.30.2017

U.S. & GLOBAL Markets YTD review: 06.30.2017

Intl. Developed equity markets: iShares MSCI EAFE Index Fund (EFA)	↑	16.93%
Intl. Emerging equity markets: iShares MSCI Emerging Markets Index (EEM)	↑	13.16%
US Equity markets (Large Cap Core): S&P 500 index (SPY)	↑	8.99%
Global Government Bond markets: Citigroup World Government Bond index (WGBI)	↑	5.79%
Balanced U.S. portfolio: 60% (SPY)/40% (AGG)	↑	5.04%
U.S. Bond markets: iShares Core U.S. Aggregate Bond (AGG)	↑	2.28%
US dollar: PowerShares DB US Dollar Index Bullish Fund (UUP)	↓	-6.47%
Commodities: iShares S&P GSCI Commodity Trust (GSG)	↓	-11.10%

Source: Bloomberg

Many of PCM's composites respectfully tracked the above indices (ETF's) 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.

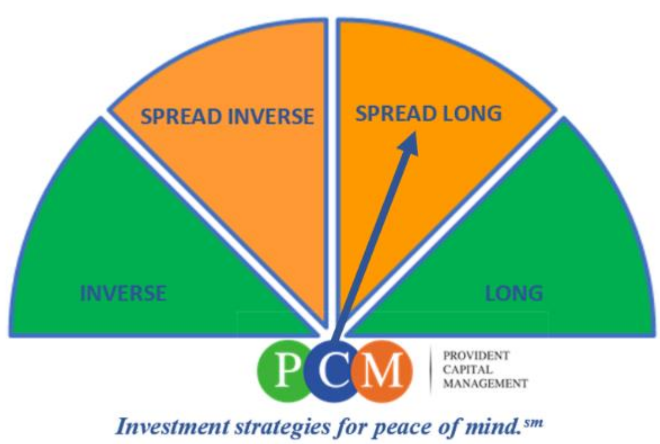
PCM's T5 - Top five performing composites year to date (06.30.2017)

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

1. PCM Absolute International
2. PCM Emerging Market Equity
3. PCM Absolute U.S sector
4. PCM U.S Industries Total Return
5. PCM Emerging Market Bond

Introducing PCM's Strategy Dial:

(Visual representation of our multi-directional strategy allocations)



PCM's Strategy Dial cont.

PCM Strategy Dial Explained: (PCM U.S. Industries Total Return)

PCM's US Industries is composed with up to four ETF's allocated at the beginning of each month. The strategy invests in a proprietary allocation of ETFs quantitatively selected from among 23 U.S. industry sectors and 2 "inverse" ETFs, the inverse Dow Jones Industrial Average and the inverse S&P 500. The four ETF's selected are given an equal weight of 25% each. Since there are only two "inverse" ETFs in the basket and given that there are four positons allocated each month, the most "Opportunistic Inverse" the strategy can be is 50% inverse and 50% cash. The most "Opportunistic long" the strategy can be is 100% (four 25% positions in various US Industries). The possible combination of holdings can be broken down as follows:

Allocation	Strategy
Long 3 or 4 ETFs	Opportunistic Long
Long 1 or 2 ETFs and Cash Equivalent	Spread Long
Long 1 or 2 ETF and Cash plus one Inverse	Spread Inverse
Long 0 ETF's and Cash plus two Inverse ETFs	Opportunistic Short

Historic Perspective:

Given the fact that we have been in a generally rising market since March of 2009, it is not surprising that the strategy has resulted in a high percentage of the time being "Opportunistic Long" or "Spread Long". When we review our strategy during the last serious bear market of October 2007 through March of 2009, the strategy first moved into a "Spread Short" position in the month of December 2007 and, with only two exceptions, remained "Opportunistic Short" or "Spread Short" through the end of the bear market in March of 2009.

While allocations in our PCM US Industries ETF strategy tend to be trend following, it has historically reacted quickly to a change in trend direction. During the October 2007 to March 2009 bear market it moved to a "Spread Inverse" allocation on December 01, 2007 and then back to a "Spread Long" allocation on March 01, 2009. We have received various requests to provide a visual tool that may help further explain how our multi-directional strategies work. We believe the "PCM Strategy Dial" will be a helpful tool when discussing our strategies with your clients and prospects. Our "PCM Strategy Dial" will help illustrate in which of the four directional strategy positions our strategies are invested. Additionally, our PCM Strategy Dial will also be available on our website at www.pcminvest.com.

Looking Forward: Q3 2017

PCM U.S. Industries

(US Equities)

PCM Absolute International

(International Equities)

PCM Absolute Bond

(World Bonds)

Going into July, our composites moved to "Spread Long" in both the US and International space. Specifically, US Industries has moved to 50% cash equivalent and 25% each Healthcare and Medical Devices. PCM's Absolute International is 25% each in cash equivalent, international treasuries, New Zealand, and Singapore. PCM's Absolute Bond is "Spread Long" with 50% in cash equivalents and 50% international corporate bonds. Each of the above composites may be reallocated monthly with the exception of PCM's Absolute Bond, which may reallocate bi-monthly.

In our May QC letter, the International developed and emerging markets outperformed the US markets in the first quarter of 2017.

The International & Emerging market theme has continued to perform through the conclusion of the second quarter and into the third quarter of 2017. US equity value metrics remain at historic highs. The US equity price to sales ratio has reached a new all- time high last week. The Shiller 10 year average Price Earnings Ratio now stands at 30 and, as John Hussman points out, *"current valuations among the highest 3% of historical observations, on that particular measure. In reality, however, the situation is much more extreme. While some observers take solace in the fact that the CAPE reached a much higher level of 44 at the 2000 bubble peak, that historical comparison ignores the embedded margin. See, at the 2000 peak, the embedded margin of the CAPE was just 5.1%, compared with a historical norm of 5.4%. At present, because of depressed wages and high profit margins in recent years (which are now reversing given a 4.4% unemployment rate), the CAPE quietly embeds a profit margin of 7.2%. Put another way, investors are currently paying a very high multiple of a very high earnings number that quietly benefits from cyclically elevated profit margins. On the basis of normalized profit margins (an adjustment that improves historical reliability), the normalized CAPE would presently be 40. There is only a single week in history where the normalized CAPE was higher. That was the week of March 24, 2000, when the S&P 500 hit its final bubble peak, at a normalized CAPE of 41."*

The above statistics have not been lost on investors as they continue to move to emerging markets in order to find more reasonably priced valuations.

Please consider PCM's multi-directional strategies for your clients that are concerned about the above 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.

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.
