October, 2015 PCM Quant Coalescence

Fed Surprises by Holding Off on Rate Increase, Dollar Weakens, Commodities Rise

Before we begin, I want to provide a quick reminder that we have enhanced our website at http://www.pcminvestment.com. One of the main enhancements is that we now include performance for both our indexes and our composites, as applicable. Also new; you will be asked to enter your email address to get into the website. There will be no password required, so you won't have to worry about forgetting it. This is partly due to helping us stay in compliance with requirements in our industry that we know who has reviewed our website content. Also, links in this newsletter to individual indexes have been removed temporarily. Please use the website link above to see all of our indexes and composites.

Now let's move on to the October quant analysis!

Volatility continues to be the theme after the S&P 500 finished the month of August down 6.26%. Statistically, when the month of August is down more than 5%, there is an 80% chance that September will be down as well. Time will shortly tell which side of that statistic we are on. In the meantime, Bob Doll, Nuveen Senior Portfolio Manager, cited the following seven reasons that he believes volatility will continue. The idea that there are sevens easily identifiable reasons for the volatility would speak to the high likelihood that volatility is indeed here for a while. Here we go…

- Many months of continued decline in earnings expectations
- Credit spreads are widening (meaning investors are starting to expect more yield for taking on risk vs the risk free rate of return represented by short term U.S. Treasuries)
- Further evidence of weakness in China
- Commodity deflation
- Uncertainty over Federal Reserve policy and when they will begin to raise rates for the first time in 9 years
- Technical deterioration (the S&P 500 has broken below the 200 day moving average and *stayed* well below it for the first time since August 2011.)
- Investor skittishness coupled with low summer trading volumes (volume should pick up now that we are past Labor Day and summer vacations are winding down on Wall Street)

The September allocations leaned towards cash equivalents and "opportunistic inverse", the latter meaning the models picked up positions that will have positive returns if the asset class represented by the ETF goes down during the holding period. PCM US Bond Total Return Index sm is allocated to inverse high yield corporates, 3-7 year U.S. Treasuries and cash equivalent. PCM Absolute Bond Index sm is allocated to 1-3 month U.S. Treasury bills.

PCM Absolute U.S. Sector Index sm is inverse U.S. equities and also allocated to cash equivalent. PCM U.S. Industries Total Return Index sm is in cash equivalents, with the only exposure to U.S. Industries for this trading period being the insurance industry. The PCM Absolute Equity Income Index sm remained in a cash equivalent position with the exposure to inverse 20 years U.S. Treasuries and inverse real estate.

The September reallocation of the PCM Emerging Market Total Return Equity Index sm is inverse emerging markets with the remainder in cash equivalent.

Long U.S. Treasuries and inverse U.S. and Asian equities are also represented in the PCM Total Return Portfolio Index sm and PCM Stable Growth Plus+ Portfolio Index sm. Both Indexes also hold the British pound. (Please note that performance numbers on the website for indexes do not include dividends and are appropriately calculated sequentially.)

The PCM Global Tactical Index^{sm} is in cash equivalents, inverse Europe and Asia, and long the Euro and Japanese Yen currencies. The currency allocations are picking up on dollar weakness, as China is selling U.S. Treasuries in its attempt to prop up its own currency. China is trying to balance the benefits of allowing their currency to weaken, which helps its exports with the risk that the fear of a weakening Chinese Yuan could cause capital to flee in advance of that risk. The Global Macro Index^{sm} has cash equivalent exposure and is long the Euro. It is also inverse U.S., Asian, European and emerging market equities.

The PCM Alpha 1 Index^{sm} is inverse Asian and European equities. The PCM Absolute Metals Index^{sm} is all in cash equivalent, while the PCM Absolute Commodities Index^{sm} remained in livestock and added gold.

PCM Index Strategy composites have been recognized for performance by Informa Investment Solutions; most recently for the PCM Absolute Bond Composite^{sm} for the three year performance ending the 4th quarter of 2014, as well as previous awards for 1-year trailing performance and 3-year trailing performance. As of 2nd quarter 2014, the PCM Absolute Bond Composite^{sm} and the PCM Absolute Commodities Composite^{sm} both won a "Top Gun" award for performance in their respective category for the 1-year trailing performance period, with the PCM Absolute Bond Composite^{sm} also winning the "Top Gun" award for 3-year trailing performance. The PCM Alpha 1 Composite^{sm} was awarded the "Top Gun" performance award for the 1st quarter of 2014. We are very pleased to see these particular multi directional strategies being recognized, as the PCM Absolute Bond Strategy^{sm} and PCM Alpha 1 Strategy^{sm} are particularly timely for where we are in the current market cycle.

To view Morningstar Fact sheets of all of our index models, please visit our website at www.pcminvestment.com under the "PCM Strategies" tab.

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About "PCM Quant Coalescence"
Welcome to Provident's bi monthly "Quant Coalescence" communication. We suspect that many of you are no different than us. That is to say that when our quantitative models rebalance every 2 weeks for some indexes or once a month for other indexes, you sometimes find yourselves asking "What is behind a rotation into that ETF?" This

communication is our opportunity to "unite for a common end" with our clients and partners; keeping you updated on our thoughts and perspectives. As you know, our indexes are based on an absolute approach: we strive to make money in up markets or down markets, while trying to greatly minimize loss in any market environment.

Our indexes are also quantitative, reflective of our systematic, unbiased and technical approach. Since our indexes are unbiased, the quantitative models would obviously at times rotate into positions that cause us to scratch our heads. Nevertheless, being so close to the analysis as it unfolds, allows us to quickly begin to validate the fundamental reasons behind the quantitative "following of the money." At other times, the trades are not validated right away; the story unfolds as the days pass. We have been very excited about many of these "validations" and "ah ha" moments. We had another "ah ha" moment when we decided that these insights would also be interesting to those who have entrusted us with their financial peace of mind. Our goal is to be short and to the point, specific to what is happening in our indexes rather than a lengthy macroeconomic perspective.

For further disclaimers and disclosures, see our website for index disclosures and composite disclosures.