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The Case for Capital Preservation

L&S ADVISORS

The case for capital preservation

At L&S Advisors, we take a fundamentally different approach to traditional investment managers who recommend that investors just endure the loss of capital that accompanies bear markets and periods of extended decline.

Their advice: Ride it out.

We believe it is easier to make money by not losing money.

We seek to align our clients' capital with sound investments. That means high quality stocks in periods that our analysis identifies as opportune and the relative safety of cash when the potential for loss is elevated. In this way, we look to avoid the risks of significantly down markets by moving out of stocks when the outlook seems poor.

Our mantra: Risk management transcends everything.

We believe this approach has historically delivered an attractive balance between opportunity and risk for our clients.

Priority 1: Avoid Loss

Growth of $100, S&P 500 Index 1994 – 2016

What really matters – **For stock investors, missing big market downturns is demonstrably more important than participating in the rallies. As the illustration above shows, missing the ten best days for the S&P 500 Index over the 20-year period from 1994 through 2016 would have cost an investor roughly half of the index gains for the period. However, missing the ten worst days would have had an even larger impact. An investor who sidestepped those declines would have more than doubled the return on capital from investment in the S&P 500 stocks. This is partly because of the asymmetric nature of returns. If an investor sustains a 50% loss of capital, it takes a 100% return on the remaining capital just to return to the break-even point. This underscores the importance of a strategy designed to avoid market declines in the first place.**

The above graph is for demonstration purposes only. It is not meant to demonstrate whether L&S was positioned in S&P 500 stocks or cash/cash equivalents on any of the days noted.

Investing differently

Believing downside protection is key, we maintain a close watch on the macroeconomic, cyclical, political, and demographic forces and trends that define the investment environment. When our indicators signal that the potential for loss is elevated, we seek to avoid market corrections by moving capital to cash. When our indicators signal that the tradeoff between risk and return is advantageous to investors, we pursue the best investment opportunities in the most compelling industries and companies.

This "long/cash" approach is ingrained in every portfolio we manage.

We believe our clients have benefited from this approach in the form of long-term returns with significantly lower exposure to volatility and downturns in the market.

Two cases in point

Some stock investors lost more than half of their value when global equity markets imploded in the mortgage and banking crisis from late 2007 through early 2009. In 2011, some investors suffered a near 20% loss in a short five-month period as a result of the European Sovereign Debt crisis.

In both cases, investors in our Tactical Equity Opportunities strategy experienced less than 40% of the decline of the broad equity market from the peak to the trough of the downturn.

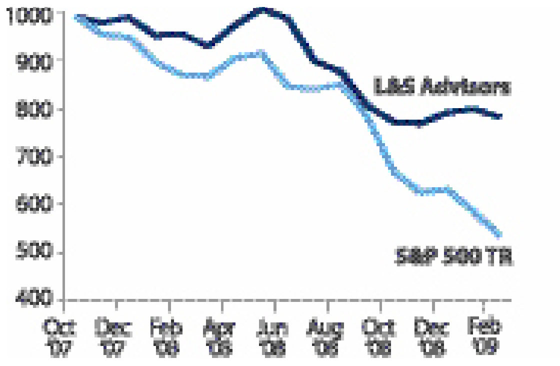
This was a result of our focus: we seek to limit exposure to these types of volatile, down-market threats by employing capital preservation strategies at every stage of our investment process.

We believe our approach has resulted in attractive, long-term, risk-reward outcomes relative to both the broad stock market and other market disciplines.

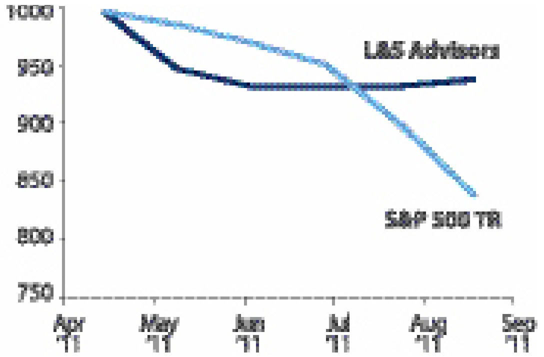
In the exhibit at right: Graphs represent growth of $1000. L&S Advisors refers to the L&S Advisors Tactical Equity Opportunities strategy composite. S&P 500 TR refers to the Standard & Poor's 500 Stock Total Return Index.

Anatomy of Bear Markets

The Mortgage and Banking Crisis 2007-2009



The European Sovereign Debt Crisis 2011



Always managing what matters

We believe that experience brings conviction, and conviction enables the decisive, purposeful changes of course needed to move away from the crowd when conditions warrant.

The leadership team at L&S Advisors is attuned to risk management having delivered returns for investors through a variety of environments and eras spanning more than three decades. Our team has navigated periods of high interest rates and low, spans of runaway inflation, and threats of debilitating stagnation. We have steered through booming, sustained rallies and out of punishing bear markets.

Throughout, L&S Advisors has managed what we believe matters remaining true to a vision that seeks to deliver exacting value in the form of stable, attractive returns while steadfastly protecting capital above all else.

Our investment team manages from an uncompromising approach, expressed in bold, confident moves, designed to protect and sustain long term growth. While we seek to enable our clients to participate meaningfully in rallies and market advances, we will not run with the crowd. We will avoid crowded trades and investment trends unsupported by fundamental strengths.

We manage our clients' investments, first and foremost, by managing risk. We have learned that investment objectives are best realized through caution and balance, by identifying and avoiding risks, and aligning capital opportunistically with sound investments.

Investment opportunities change in fundamentally different ways over both the long and short term. Our capable and proven investment team has a record of recognizing and navigating change in various forms and magnitudes. We know the set of opportunities available to our clients will continue to shift in ways both subtle and profound. We remain ever vigilant to that change, alert to the need to preserve capital, and ready to identify and seize opportunity. In this way, we seek to deliver attractive risk-adjusted returns.

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A History of Opportunistic, Risk-managed Investing

Investing with L&S Advisors

For more than three decades, the investment leadership of L&S Advisors has been working diligently and effectively on behalf of investors seeking investments and developing strategies to protect capital from loss and to participate in the growth and success of great companies.

Under the leadership of Chief Investment Officer Rick Scott and Chief Executive Officer Sy Lippman, the L&S Advisors team works to apply its independence, experience, expertise, and discipline to provide investors with a different kind of client experience. The strength of our investment experience, our insights and our quantitative and fundamental approach have resulted in attractive long-term relative performance for our investors.

The interests of our principals and employees are strongly aligned with those of our clients. Investment management is our only business and a significant percentage of our personal investment capital is invested alongside that of our clients. We maintain an uncompromising commitment to protect capital from bubbles, recessions, illiquidity as a result of credit risk, and economic deleveraging.

We invite you to learn more about how our long-cash tactical strategies provide a different type of strategy and choice for investors.

For more information, please call us today at (310) 893-6060 or visit our website at lsadvisors.com.

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Disclosure

L&S Advisors, Inc. ("L&S") is a privately owned corporation headquartered in Los Angeles, CA. L&S was originally founded in 1979 and dissolved in 1996. The two founders, Sy Lippman and Ralph R. Scott, continued managing portfolios together and reformed the corporation in May 2006. The firm registered as an investment adviser with the U.S. Securities and Exchange Commission in June 2006. L&S performance results prior to the reformation of the firm were achieved by the portfolio managers at a prior entity and have been linked to the performance history of L&S Advisors. The firm is defined as all accounts exclusively managed by L&S from 10/31/2005, as well as accounts managed in conjunction with other, external advisors via the Wells Fargo DMA investment program for the periods 05/02/2014, through the present time.

L&S claims compliance with the Global Investment Performance Standards (GIPS®). L&S has been independently verified by Ashland Partners & Company LLP for the periods October 31, 2005 through December 31, 2015 and ACA Performance Services for the periods January 1, 2016 to December 31, 2016. Upon a request to Sy Lippman at slippman@lsadvisors.com, L&S can provide the L&S Advisors GIPS Annual Disclosure Presentation which provides a GIPS compliant presentation as well as a list of all composite descriptions.

L&S performance shown includes that of the Tactical Equity Opportunities ("TEO") Composite, TEO WRAP Composite, Tactical Equity Income ("TEI") Composite and TEI WRAP Composite which contains fully discretionary accounts per that specific strategy. The TEO and TEO WRAP Strategies seek growth through capital appreciation primarily from the tactical and unconstrained investment in risk-appropriate individual equities. The TEI and TEI WRAP Strategies seek income through yield and capital appreciation primarily from the tactical and unconstrained investment in risk-appropriate equities. WRAP strategies are appropriate only for those clients whose account is on a WRAP platform. Composite performance results have been calculated by using time-weighted returns based on the beginning of period values on an adjusted capital basis. Performance results are total return and include the reinvestment of all income. For the periods prior to March 31, 2011 for TEO WRAP and December 31, 2014 for TEI WRAP, net of fee performance reflects the reduction of the highest WRAP fee charged (3.00% annually) and gross of fee performance has been reduced by transaction costs. For all other periods for TEO WRAP and TEI WRAP, net of fee performance reflects the deduction of actual wrap fees charged and gross of fee performance has not been reduced by transaction costs. Other than brokerage commissions, wrap fees include investment management, portfolio monitoring, consulting services, and in some cases, custodial costs. For TEO and TEI non-wrap strategies, net of fee performance reflects the deduction of actual management fees and transaction costs. For TEO and TEI non-wrap strategies, gross of fee performance has been reduced by transaction costs. Cash flows equal to or greater than 10% of an account's market value will cause the portfolio to be re-valued. Valuations and returns are computed and stated in U.S. dollars. Past performance does not guarantee future results and other calculation methods may produce different results. Results include accounts no longer with the firm. The minimum stated account size for the TEO and TEI non-wrap strategies is $2,000,000; however, actual minimums may vary by client. The minimum account size for the TEO WRAP and TEI WRAP strategies is $75,000; however, actual minimums may vary by platform. Inception performance is as of October 31, 2005.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The S&P 500 TR Index is a free-float capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States and is calculated on a total return basis with dividends reinvested. The Barclays Capital Aggregate Bond Index is a market capitalization-weighted index, maintained by Barclays Capital; the index is designed to reflect investment grade bonds traded in the United States. Indexes are not available for direct investment.