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WEALTH MANAGEMENT

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MARKETS ARE EFFICIENT, BUT...

At Olivia Wealth Management we fundamentally believe that markets are efficient in the long run (think 10+ years). However, in the short to medium term, anomalies exist that conflict with this hypothesis.

The *efficient market hypothesis* predicts that an investor should not be able to outperform a random basket of securities after adjusting for risk because security prices reflect all publicly available information. Yet factors such as momentum, which are not supposed to exist according to this hypothesis, exist indeed.

In fact, Professor Eugene Fama, the nobel laureate who created the efficient markets hypothesis, recognizes that momentum does exist and sees it as the "premier anomaly" to his hypothesis. He even goes as far as to say it is the biggest challenge to his theory of financial market efficiency.

WHAT IS MOMENTUM?

Momentum, as an investment strategy, seeks to take advantage of market volatility utilizing technical analysis. It is based on the assumption that market trends once established are more likely to continue.

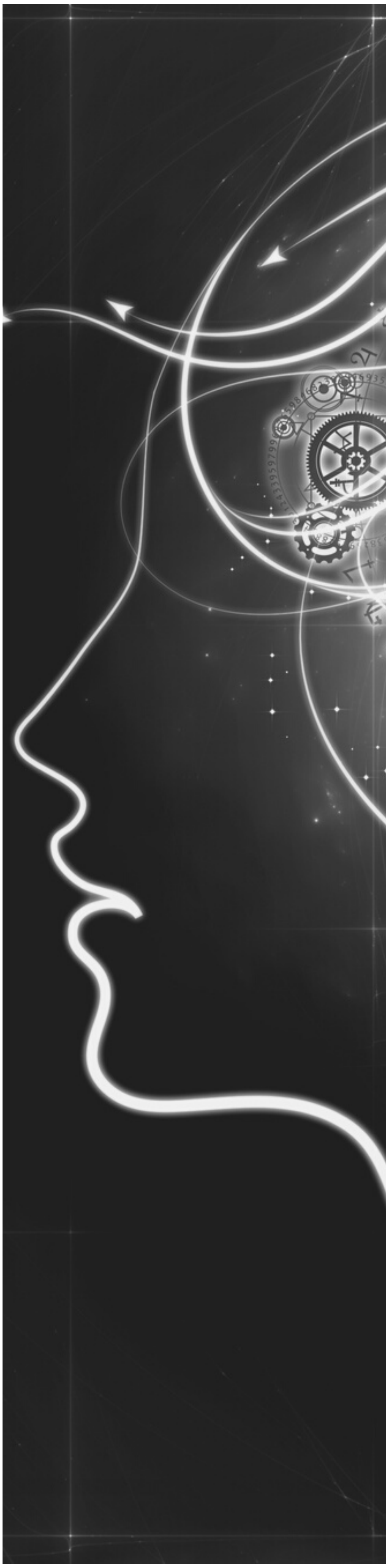
Of course, it's true that market trends will reverse, but this statistically occurs less often than a continuation of the trend.

One of the best explanations of momentum is that it is a behavioral bias in which investors systematically under-react to good news. This under-reaction causes the market to price the news in slowly, leading to a trend of outperformance for the security. This is good news for investors, as behavioral biases tend to be rooted in human nature, making them less likely to change over a period of time.

Given that there is more than one way to measure momentum it is crucial to understand that we measure momentum using a process called **Relative Strength**.

Measuring momentum using relative strength is done by ranking a security by how it performs in **price** and **rate of change** of that price in comparison to other securities (relative momentum), and how it compares to our selected market benchmark (absolute momentum). Absolute momentum is used to limit downside. A purely relative approach leaves you exposed when everything is moving down at the same time.

Although implied, the basis for momentum to exist is that a company or environment will have a good fundamental landscape. When a good fundamental backdrop exists, a market that in general is supporting higher prices as well as showing that demand is in control, it tends to continue upside momentum.



HOW IT WORKS?

We believe markets are efficient in the long run, but also believe that the momentum factor can offer better than average returns as short to midterm vehicles. With this, our main investment strategy balances the two by blending a **Relative Strength** based "sleeve", that we call our **dynamic rotation portfolio**, and a diversified **core** portfolio together. We call this complete strategy the **core + dynamic rotation portfolio**.

The complete portfolios are an adaptive risk management strategy each with the primary objective of pivoting between wealth accumulation strategies (i.e. offense), and wealth preservation strategies (i.e. defense). The methodology used is rules-based, and designed to allocate to the strongest asset class, sector, and individual stock trends within a broad array of investment options.

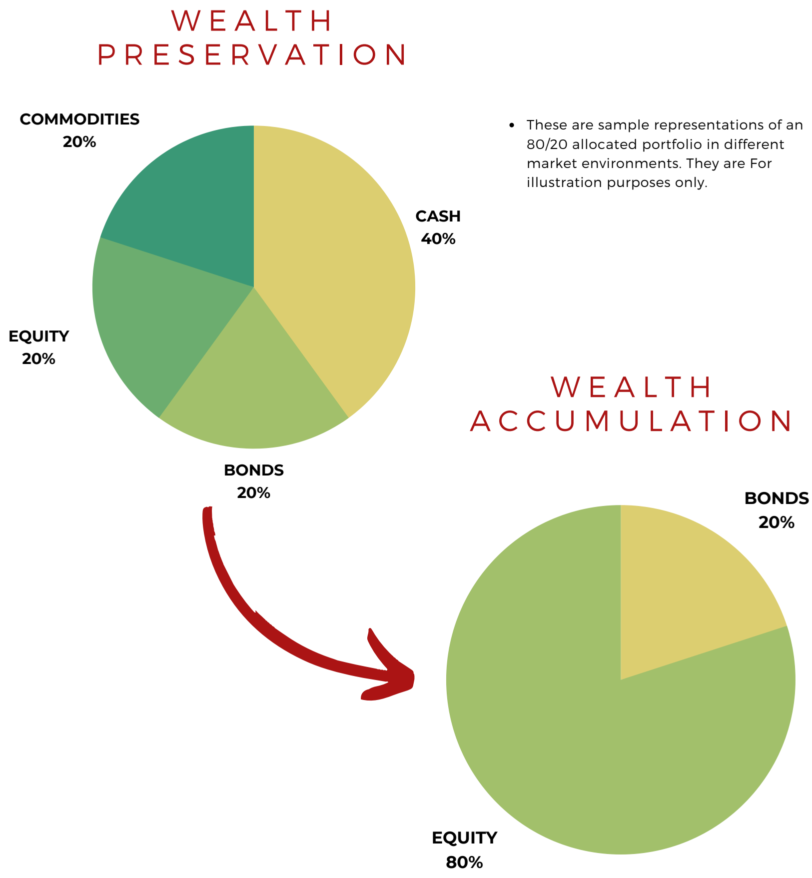
The first step in building the dynamic rotation investment portfolio is to develop a diversified universe of securities. Next, each security must be compared against all other securities in the universe and then compared to our preferred benchmark. The data is then compiled into a matrix and ranked based off of the above factors. The rankings are then used to construct and manage multi-asset class portfolios, "rotating" the allocation toward the strongest ranked areas of the market, but doing so within the guidelines of basic strategic investment boundaries. In this manner, the relative strength methodology can capture powerful investment trends, yet help to mitigate the impact of difficult environments in the stock market.

CORE + DYNAMIC ROTATION PORTFOLIO

AN ADAPTIVE RISK MANAGEMENT STRATEGY

Dynamic Rotation

- Wealth preservation (play defense) in high risk market environments.
- Wealth accumulation (play offense) as positive performance trends exist in the market.



- These are sample representations of an 80/20 allocated portfolio in different market environments. They are For illustration purposes only.

The dynamic rotation methodology is a rules-based strategy that uses technical analysis to aid in investment selection and allows our clients portfolio's to stay nimble to adapt with the ever changing market environment. Coupled with a core asset allocation strategy, the result is an adaptive risk management strategy that uniquely combines fundamental valuation analysis with human behavioral analysis (technical analysis).

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