WHITE PAPER | 2018

THE UGLY TRUTH ABOUT BUY AND HOLD

BY DON SCHREIBER, JR.

BULL BEAR
INVESTMENT INTELLIGENCE BROUGHT TO YOU BY

WBI®

THE UGLY TRUTH ABOUT BUY AND HOLD

THE GENESIS OF BUY AND HOLD THEORY

Over the past 35-40 years, the industry and media have told investors to invest passively, or to buy and hold. We believe this approach is flawed and hurts rather than helps people invest successfully. The passive, buy and hold concept was developed in response to the damage inflicted on investors and the mutual fund industry in the 1970s. The 1973-74 bear market caused many investors, who still had lingering memories of the Depression, to bail on their mutual fund and stock positions. Hard hit by massive liquidations, many mutual fund companies went bankrupt, and the survivors looked for new approaches to help keep investors invested through future bear market cycles.

Academics went back to the drawing board, and they developed the concept of buy and hold to help investors understand that they would likely sacrifice bull market returns if they tried to miss the bear market losses by moving to cash. Buy and hold theorists suggest that investors cannot successfully time the markets, and by trying to avoid the down days, investors will miss the few powerful up days that provide most of the return. They believe the positive returns generated during bull market uptrends will always be sufficient to allow investors to not only recover lost capital but to generate returns high enough to help them achieve their financial goals. But the devil is in the details, and as it turns out, investors who follow the "buy and hold" mantra also expose their capital to the markets' biggest losing days, which have an even worse effect on return.

BEST AND WORST QUARTER ANALYSIS

The prevailing conventional investment wisdom suggests you would diminish performance dramatically by attempting to avoid losses, but our analysis in Chart 1 shows that if you can avoid the worst market declines you can also miss the best gains and still enhance return. Chart 1 also shows that since 1950, $100,000 invested in the Dow Jones Industrial Average (DJIA) Index on a buy and hold basis would have grown to $12,351,581. However, by missing both the 10 best and worst quarters, the return would have improved to $17,250,082. Of course, missing the 10 worst quarters while capturing the returns from the 10 best quarters would have produced the best result. We believe the important takeaway is that preventing large losses is dramatically more important than chasing returns.

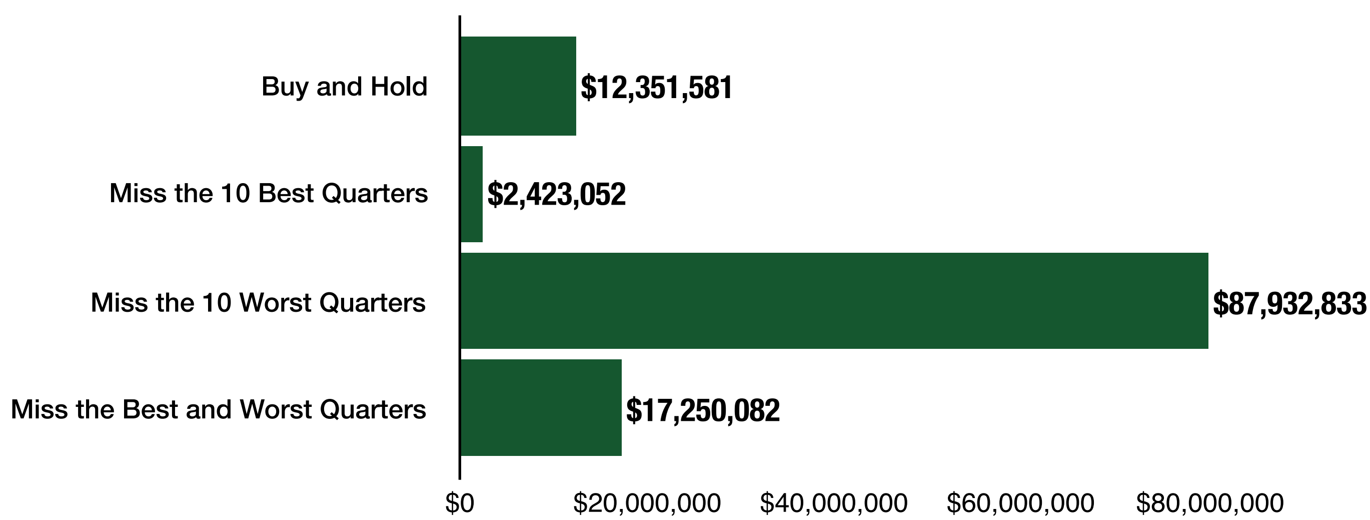
THE HUMAN EQUATION: WHY INVESTORS CAN FAIL WHEN THEY BUY AND HOLD

We know today, after three decades of experience, that investors generally do not buy and hold. The assumption they will is flawed. We believe individual investors are genetically predisposed to lose the buy and hold battle. When we invest, we all fight the "human factor", our survival instincts and emotions. These instincts were honed hunting for food to survive. We no longer hunt for survival; instead, we work and invest our savings to provide the things we need when we can no longer work. Money in today's society is important to our basic survival, so when account values fall due to declining markets, our survival instincts kick in triggering a fear response.

Dow Jones Industrial Average 1950-2017

Hypothetical $100,000 Invested

Chart 1



Source: Bloomberg, 2018. Indices are unmanaged and may not be invested in directly. Past performance is not indicative of future results.

Individuals' risk tolerances may vary, but fear will eventually trigger the need to "fight or flee". It is impossible to "fight the market" so the only remaining course of action is to flee, which can often translate into selling low after money has already been lost. Not only do investors sell at or near market bottoms, but they also sit on the sidelines, missing the powerful relief rallies that would have helped them recover lost capital. Human greed causes investors to stay optimistic too long, believing that bull market trends won't end, just as fear makes people stay overly pessimistic after losing capital, causing them to miss buying stocks when they are cheap.

The flow chart clearly shows that investors sold low in the depths of the 2008 bear market and on into 2009. The market bottomed in March 2009 with the S&P 500 down 57%. Most investors sat on the sidelines over the next 3 years as a significant bull market relief rally lifted prices to all-time highs. In 2013, investors decided to jump back in the market for fear they would miss out. They bought high — not low — and set themselves up for another sell-low cycle.

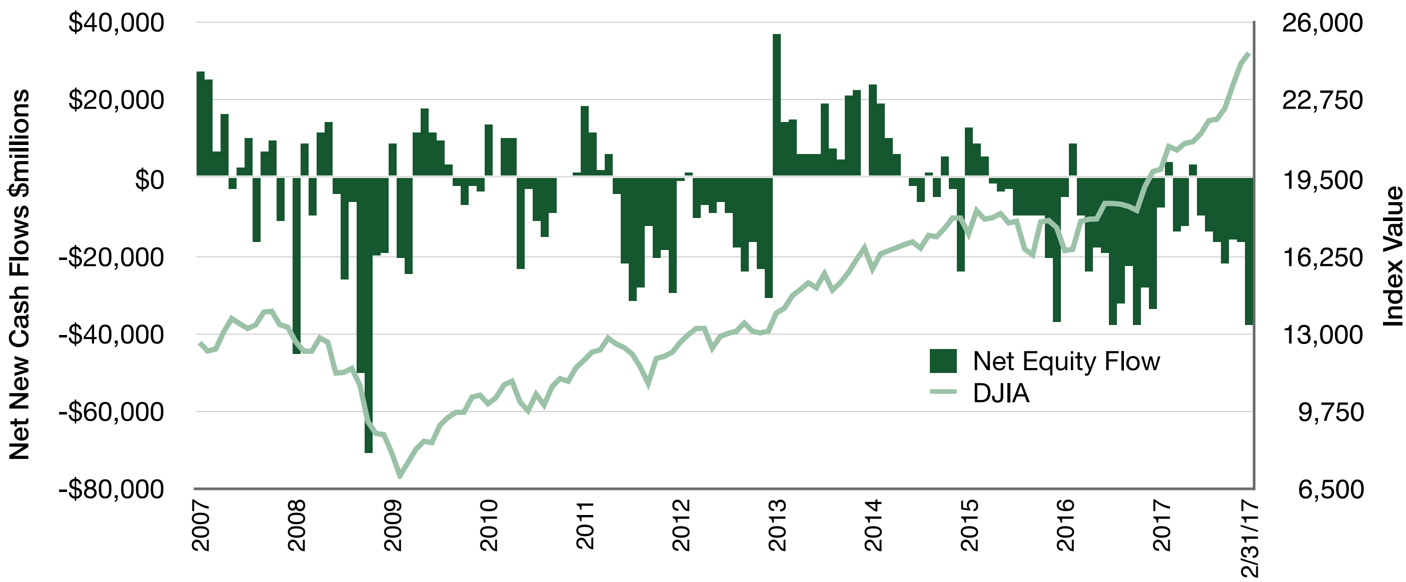
INVESTORS NEED A BETTER WAY TO INVEST

Bear markets are born when stocks become overvalued as fundamentals weaken and as bull market prices continue to rise. We believe increasing volatility is a key indicator that the end of the bull market is near. After stocks bottom, value reappears. Because WBI raises cash when volatility increases, with cash to deploy, WBI's active — not passive — process attempts to buy low by getting reinvested in order to participate in the relief rallies that can be very powerful.

Fund Flows Indicate Investors Did Not Buy and Hold

Monthly Fund Flows in Declines & Recoveries 2007-2017

Chart 2



Source: Investment Company Institute, 2018. Indices are unmanaged and may not be invested in directly.
Past performance is not indicative of future results.

FUND FLOWS INDICATE INVESTORS DID NOT BUY AND HOLD

Investor behavior is illustrated in Chart 2. The Investment Company Institute (ICI) mutual fund flow data over the past ten years indicates that investors do not stay invested, and they also fail to get back to fully invested quickly enough to catch the powerful market relief rallies that tend to occur within six months of the markets' bottom. As the markets bottomed on March 9, 2009, the vast majority of investors had already moved to cash and were reluctant to believe that the risk of losing more capital had abated, so they continued selling. WBI believes a better investment approach to help investors be successful is to try to avoid big declines and big losses by actively managing the risk to capital.

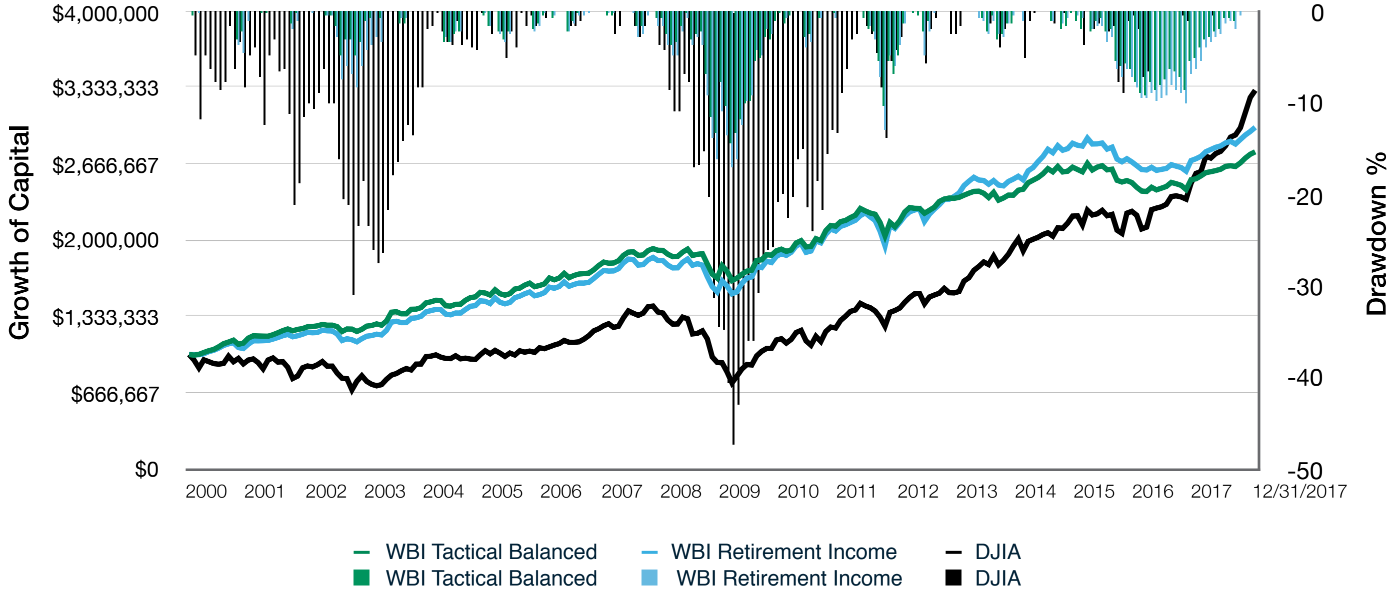
Chart 3, on the next page, shows the effect of $1,000,000 hypothetically invested since 2000, showing the results of bear market losses through drawdowns, and the benefit of risk management over both bull and bear market cycles. It's easy to see investors did not fare well relative to buy and hold.

It is time to stop the madness of believing that passive allocations with low-cost index products are the solution. We feel chasing index returns only looks like a good strategy during bull market runs. Unfortunately, this approach can also quickly turn into a disaster as investors' capital is fully exposed to bear market losses. It is a critical time for older investors that cannot afford possible looming bear market losses and the capital destruction that comes with it. We believe preserving capital is the most important factor in helping investors be more successful, and it has been WBI's first priority for over three decades. ■

Drawdowns vs. Growth of Capital 2000-2017

Chart 3

Hypothetical Initial Investment $1,000,000



Source: Morningstar, Net of Fee, 2018. Indices are unmanaged and may not be invested in directly. Past performance is not indicative of future results.

Performance shown is composite performance which, prior to 8/25/14, only included accounts invested in a model allocated to individual securities. When an Affiliated ETF is launched, a new model reflecting accounts invested in the full suite of Affiliated ETFs is included in the Composite. Models implemented through Affiliated ETFs were added on 8/25/14 (the initial 10 ETFs), 7/25/16 (11 ETFs) and 1/06/17 (12 ETFs). The model implemented through individual securities and the models implemented through Affiliated ETFs are substantially similar. The Affiliated ETFs do not have performance history of comparable duration; therefore, models implemented through Affiliated ETFs could have performed better or worse over the same period and does not indicate future performance.

Don Schreiber, Jr.

Founder, Chief Executive Officer, and Co-Portfolio Manager

Mr. Don Schreiber, Jr. has led WBI since founding the firm in 1984. Fiduciary responsibility and global business building strategy are at the forefront of his leadership.

Mr. Schreiber has focused company resources on developing WBI's proprietary time-tested investment approach, seeking to provide wealth-building investment strategies with low volatility, low correlation, and an optimal blend of bear market capital preservation and bull market return. Mr. Schreiber continues to push the envelope of investing across the firm's separately managed accounts and exchange-traded funds – as shown in the evolution of WBI's SMA product into a tactical and tax-efficient SMA (the Enhanced SMA®). Additionally, upon WBI's 30-year anniversary, the company reached a historic milestone with the launch of 10 actively managed exchange-traded funds and setting an industry record by raising $1 billion in assets in one day.

Considered an expert in his field, Mr. Schreiber is often called upon by the press to provide his perspective on investments, markets, economics, and financial planning. Mr. Schreiber makes recurring appearances on CNBC and Fox Business, and his views are also frequently published in print. Mr. Schreiber co-hosts a successful podcast series, Bull | Bear Radio. In addition, he is a Top Contributor on Financial Advisor IQ's ThinkTank.

Mr. Schreiber is co-author of "All About Dividend Investing", published by McGraw-Hill in 2011 and the author of "Building a World Class Financial Services Business: How to Transform Your Sales Practice into a Business Worth Millions", released by Dearborn Publishing in 2001.

Mr. Schreiber earned a Bachelor of Science in Business Finance from Susquehanna University and is a Certified Financial Planner (CFP®).

IMPORTANT INFORMATION

The views presented are those of Don Schreiber, Jr. and should not be construed as investment advice.

Past performance does not guarantee future results. This is not an offer to buy or sell any security. No security or strategy, including those referred to directly or indirectly, is suitable for all accounts or profitable all the time. WBI Enhanced SMA® accounts are subject to investment risk, including the possible loss of principal. The ETFs in WBI Enhanced SMA accounts may invest in other ETFs, mutual funds, and Exchange-Traded Notes (ETNs) which will subject the account to related additional expenses of each, and the risk of owning the underlying securities held by each. Investment risks may include but are not limited to: market, economic, political, interest rate, currency exchange, leverage, liquidity, credit quality, model, portfolio turnover, trading, REIT, high yield stocks, nondiversification, concentration, commodities, options, new fund, and client specific restrictions. WBI's Passive ETFs are not actively managed and WBI does not attempt to take defensive positions in declining markets. You should not assume that any discussion or information provided here serves as a substitute for personalized investment advice from WBI or any other investment professional. If you have questions regarding the applicability of specific issues discussed to your individual situation, please consult with WBI or your chosen professional advisor. This information is compiled from sources believed to be reliable, accuracy cannot be guaranteed. WBI's advisory operations, services, and fees are in the Form ADV, available upon request.

WBI has an inherent conflict of interest in investing in or recommending Affiliated ETFs as follows: 1) WBI and affiliates receive management fees from Affiliated ETFs. To avoid receiving two layers of management fees in situations where clients invest in Affiliated ETFs through SMA and Platform accounts, WBI will either: (i) waive the management fee at the account level; or (ii) credit the management fees paid by the Affiliated ETFs to WBI and its affiliates with respect to an account's investments in Affiliated ETFs against the account-level advisory fees the account owes WBI, and 2) WBI's affiliated broker-dealer, Millington Securities, Inc., receives commissions and other compensation (including order flow payment) for transactions effected on behalf of Affiliated ETFs. Trades WBI places through Millington will be subject to WBI's duty of best execution and applicable law.

Net of Fee Performance (NFP) is net of WBI's investment management fees and includes reinvestment of dividends and other earnings. Both NFP and Gross of Fee Performance (GFP) were restated effective February 28, 2017, to reflect the exclusion of management fees paid by the Affiliated ETFs to WBI held through the WBI Enhanced SMA® accounts which resulted in understating GFP, and as a result, NFP. Additional information is available upon request.

Benchmark performance does not include deductions of transaction and custodial charges or investment management fees, which would likely reduce performance results. Because the strategy involves active management of a potentially wide range of assets, no widely recognized benchmark is likely to represent performance of any managed account. WBI managed accounts may own assets and follow investment strategies which cause them to differ materially from the composition and performance of the benchmarks shown. Indices are unmanaged and may not be invested in directly.

The Dow Jones Industrial Average Index (DJIA) is comprised of 30 large, publicly owned, U.S. based companies.

[1]**Average Investor:** The "Average Investor" return (also known as dollar-weighted return) measures how the average investor fared in a strategy over a period of time. "Average Investor" return incorporates the impact of cash inflows and outflows from purchases and sales as well as the growth in strategy assets. A strategy's published "Total Return" (whether the strategy involves indexed products or actively-managed products) reflects a buy and hold strategy. But, not all investors buy and hold. Investors move their money in and out of strategies as they search for the best return. In contrast to total returns, "Average Investor" returns account for all cash flows into and out of the strategy to measure how the average investor performed over time. "Average Investor" return is calculated in a similar manner as internal rate of return. "Average Investor" return measures the compound growth rate in the value of all dollars invested in the strategy over the evaluation period. "Average Investor" return is the growth rate that will link the beginning total net assets plus all intermediate cash flows to the ending total net assets. Cash flow information for the "Average Investor" return calculations is obtained from the Investment Company Institute.

ICI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any ICI data contained herein. This report is not approved, endorsed, reviewed, or produced by ICI.

WBI's Tactical Balanced and Retirement Income Strategies are two of six separately managed account strategies currently offered by WBI. Other strategies may have different results.

WBI®

800.772.5810 | WBIINVESTMENTS.COM

TAME THE BEAR. RUN WITH THE BULL.®