



**SWAN** GLOBAL  
INVESTMENTS

ISSUE 32

# THE GOOD, THE BAD, AND THE UGLY

2019 Year Review

# ABOUT THE GOOD, THE BAD, AND THE UGLY

The Good, the Bad, and the Ugly is Swan Global Investment’s yearly report and commentary on the markets, product performance, and more.

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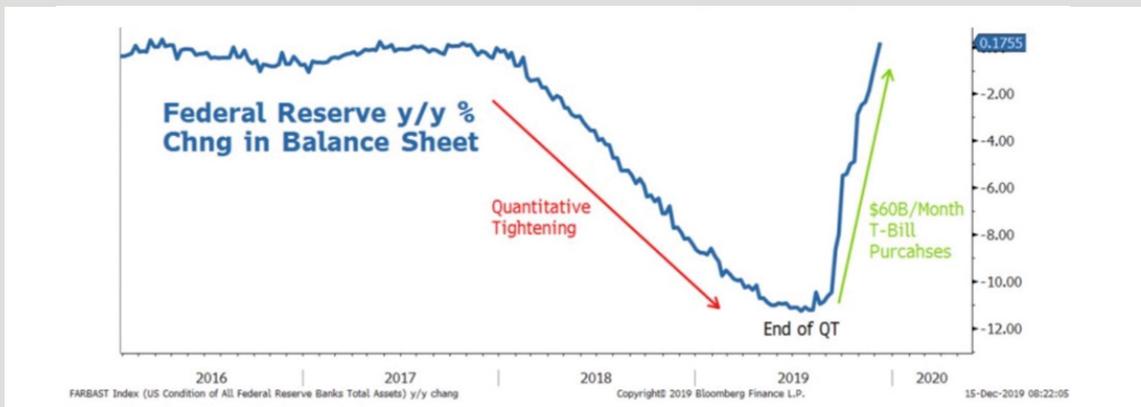


## FROM THE DESK OF RANDY SWAN

2019 was a great year for almost all asset classes, but the real question is whether the positive returns were based upon economic fundamentals or central bank intervention. Most investors would agree that fundamentals are the long-term driver of asset growth. However, based upon the performance of the last several years you have to ask whether anything matters other than the central banks incessant need to prevent any type of slowdown in the economy. Certainly, there are numerous economic indicators that could support the statement that “this is the greatest economy we have ever had.” That said, it is Swan’s view that the only thing that really matters is how we are going to get out of the problem of spending and promising beyond our means and then doubling down on bad policies instead of admitting we have a problem.

Sadly, I now think the problem is more rampant than the politicians who cannot say no to spending. The central banks are now complicit in this. Some would describe the Fed as both the arsonist and the firefighter. Financial writer Michael Krieger explains Quantitative Easing “is a wealth extraction mechanism. If QE didn’t exist the entire planet would be completely different today.” He continues to make the point how not many people in the world understand how power and money work, making it difficult to have constructive discussions about it. Without the implementation of QE ten years ago, a complete overhaul of the economy would’ve been necessary, and we would have been “forced to engage in real debates about policy and the kind of world we want to live in.” QE supported and rewarded vested and corrupt interests of those in power, and thus “QE prevented the natural restructuring that should occur when something big breaks.” Instead, it has embedded the “biggest scoundrels” in positions of power and kept them in power while everyone else is going deeper into debt. Those printing the money know QE is a sham, and they know who’s to gain and who’s not to gain, and they don’t want the general population to know<sup>1</sup>.

Is the Fed’s Balance Sheet Reversal the Primary Driver of Rally in Risk Assets?



Source: Bloomberg Morgan Stanley Research



<sup>1</sup>@LibertyBlitz (Michael Krieger) “QE is a wealth extraction...” Twitter, 6 Nov 2019, <https://twitter.com/LibertyBlitz/status/1192149889347506176>

## THE GOOD

Many of the world's equity asset classes produced returns in excess of 20% in 2019. Most of the DRS strategies had capture ratios in the 40-55% range, with a few even higher. The combination of these two factors resulted in 2019 returns that were higher than the long-term average for all of the DRS strategies Swan manages (see page 13 for a strategy performance summary for 2019).

The DRS U.S. Large Cap Growth strategy had a great year returning over 23.4% versus the S&P 500 Index return of 31.5%, for an upside capture of about 74%. The U.S. Large Cap Growth strategy uses slightly out-of-the-money (OTM) hedges and long call spreads to seek to provide more upside. The tradeoff, however, is a little more downside in flat or declining markets. The U.S. Large Cap Growth strategy can be described as "growth while seeking capital preservation" whereas the traditional, flagship DRS U.S. Large Cap approach is better described as "seeking capital preservation with growth."

ETF Total Returns (2008 - 2019, as of 12/31/2019)

ETF	Asset Class	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2008-19 Cumulative	2008-19 Annualized
SPY	US Large Caps	-36.9%	26.4%	15.1%	1.9%	16.0%	32.2%	13.5%	1.2%	12.0%	21.7%	-4.5%	31.2%	181.3%	9.0%
VNQ	US REITs	-39.4%	28.0%	28.4%	8.6%	17.6%	2.3%	30.4%	2.4%	8.6%	4.9%	-6.0%	28.9%	139.8%	7.6%
MDY	US Mid Caps	-36.5%	37.6%	26.3%	-1.8%	15.0%	35.2%	9.4%	-2.5%	20.5%	15.9%	-11.3%	25.8%	180.2%	9.0%
IWM	US Small Caps	-34.2%	28.5%	26.9%	-4.4%	16.7%	38.7%	5.0%	-4.5%	21.6%	14.6%	-11.1%	25.4%	158.8%	8.2%
EFA	EAFE Stocks	-41.0%	27.0%	8.2%	-12.2%	18.8%	21.4%	-6.2%	-1.0%	1.4%	25.1%	-13.8%	22.0%	27.0%	2.0%
EEM	EM Stocks	-48.9%	69.0%	16.5%	-18.8%	19.1%	-3.7%	-3.9%	-16.2%	10.9%	37.3%	-15.3%	18.2%	15.1%	1.2%
GLD	Gold	4.9%	24.0%	29.3%	9.6%	6.6%	-28.3%	-2.2%	-10.7%	8.0%	12.8%	-1.9%	17.9%	73.3%	4.7%
LQD	Investment Grade Bonds	2.5%	7.9%	9.3%	9.7%	10.6%	-2.0%	8.2%	-1.3%	6.2%	7.1%	-3.8%	17.4%	97.2%	5.8%
PFF	Preferred Stocks	-23.9%	37.6%	13.8%	-2.0%	17.8%	-1.0%	14.1%	4.3%	1.3%	8.1%	-4.7%	15.9%	96.0%	5.8%
EMB	EM Bonds (USD)	-2.1%	15.4%	10.8%	7.7%	16.9%	-7.8%	6.1%	1.0%	9.3%	10.3%	-5.5%	15.5%	104.8%	6.2%
TLT	Long Duration Treasuries	34.0%	-22.1%	9.0%	34.0%	2.6%	-13.4%	27.3%	-1.8%	1.2%	9.2%	-1.6%	14.1%	110.2%	6.4%
HYG	High Yield Bonds	-17.5%	27.4%	11.9%	6.8%	11.7%	5.8%	1.9%	-5.0%	13.4%	6.1%	-2.0%	14.1%	93.0%	5.6%
DBC	Commodities	-31.8%	16.3%	11.9%	-2.6%	3.5%	-7.6%	-28.1%	-27.6%	18.6%	4.9%	-11.6%	11.8%	-47.1%	-5.2%
BND	US Total Bond Market	5.2%	2.9%	5.3%	7.7%	3.9%	-2.1%	5.8%	0.6%	2.5%	3.6%	-0.1%	8.8%	53.4%	3.6%
TIP	TIPS	-0.5%	7.5%	6.1%	13.3%	6.4%	-8.5%	3.6%	-1.8%	4.7%	2.9%	-1.4%	8.3%	46.6%	3.2%
BIL	US Cash	1.5%	0.3%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.1%	0.7%	1.7%	2.2%	6.2%	0.5%
Highest Return		TLT	EEM	GLD	TLT	EEM	IWM	VNQ	PFF	IWM	EEM	BIL	SPY	SPY	SPY
Lowest Return		EEM	TLT	TIP	EEM	TLT	GLD	DBC	DBC	TLT	TIP	EEM	BIL	DBC	DBC
% of Asset Classes Positive		31%	94%	94%	56%	94%	38%	69%	31%	100%	100%	6%	100%	94%	94%

Source: Charlie Bilello, YCharts

In addition, the U.S. Small Cap DRS had a good year with over 55% upside capture relative to the Russell 2000 index. This was the result of slightly higher income, no basis risk for the underlying equity holding, good intra-year re-hedges/positioning, and reasonable hedge purchase costs.

Another "good" is the fact that our annual re-hedges of all DRS strategy variations were completed near market highs and at what appears to be attractive prices. Locking in returns from prior years is always a good thing in light of a 11-year bull market. Given the valuations and perceived market risk, we believe it is both compelling and contrarian to hedge your downside exposure. Our relative performance versus the S&P 500 has lagged in recent years as the actions of the central banks keep inflating the market and avoiding natural market cycles, and the inevitable reset to market fundamentals. That said, we have never wavered in our belief that hedging is the best defense against major market sell-offs and achieving long-term consistency. We believe that a multi-asset DRS approach is a better choice than a traditional diversified portfolio, especially given the low yield environment and high-risk market valuations.



## THE BAD

The flagship U.S. Large Cap strategy received additional hedging as markets rose throughout 2019. These intra-year adjustments were implemented in order to guard against market reversals. Combined with the normal costs of hedging and the fact the market was up over 30% for the year, the hedge portion of the strategy dragged on performance a little more than it normally would. We believe these defensive maneuvers were appropriate given the quick and large nature of the market move after 2018's volatility. Given our primary goal of seeking to avoid large losses, we believe the minor extra costs were justified given the current extreme market conditions.

The flagship U.S. Large Cap strategy's equal weighted value tilt was another "bad." Equal-weight underperformed by over 3% in 2019, most of it coming in the 4th quarter as technology led the markets higher. The gap between value and growth was even wider, with the Russell 1000 Value underperforming Growth by almost 10% in 2019. This is just another indicator of how frothy and ridiculous things get when markets top out. The top five stocks by market capitalization currently represent over 18% of the S&P 500. By way of comparison, the five largest stocks were 16.5% of the S&P 500 in 1999 during the "irrational exuberance" phase.

The DRS Emerging Markets strategy had a poor year relative to the MSCI EM index. This was due to relatively high cost of the re-hedge from late 2018, when markets were selling off. As markets regained their footing in early 2019, the hedge lost a good portion of its value. Income was also negative given the choppiness of emerging markets throughout the year as the trade war ebbed and flowed. The good news is that going into 2020, market conditions were much more sanguine so the cost of the hedge at the end of 2019 was much more in-line with historical norms.

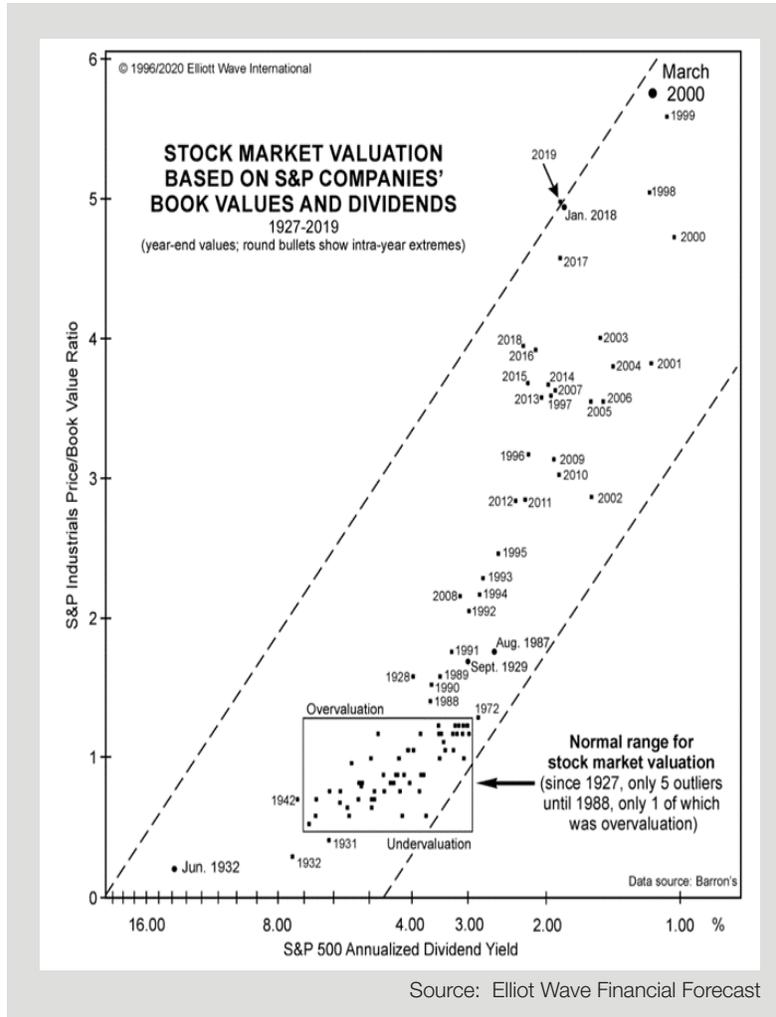
## THE UGLY

Politics is getting uglier and uglier by the day with no end in sight. There does not seem to be any common ground between our two political parties and that gap seems to be getting bigger. The U.S. budget deficit jumped above \$1 trillion in 2019, for the first time since 2012. The fact that no one wants to talk about this or other real problems indicates there is no easy solution. Moreover, the longer the problem is avoided, the worse it gets.

Wall Street is often blamed for the rising disparity in incomes and wealth between the haves and have-nots, but I think the blame is misplaced. The central banks and policy makers are the true villains in this story. Wall Street and the so-called 1% have certainly benefitted from the Fed's willingness to light the fire and later show up with the fire truck. However, responsibility for this situation should be placed on central bankers/governments.



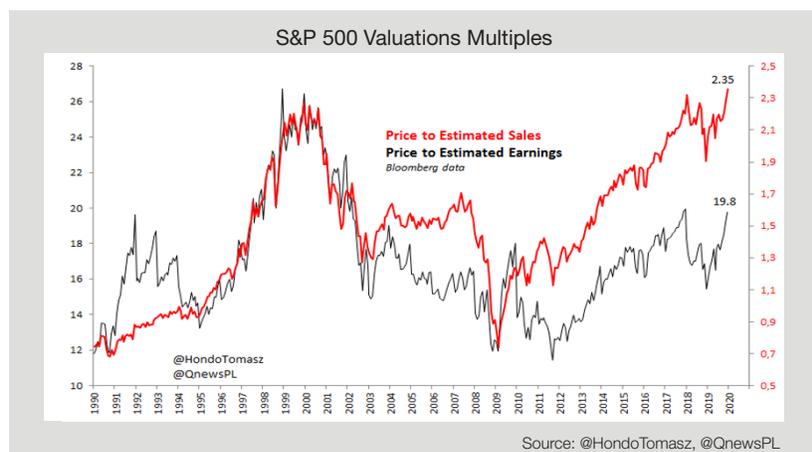
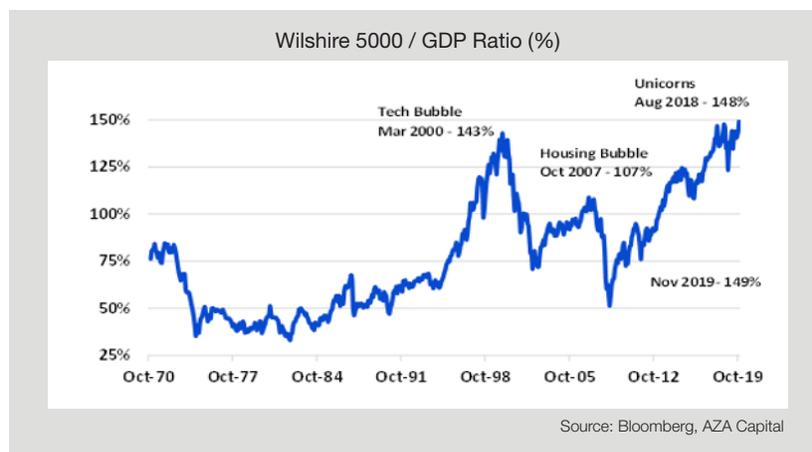
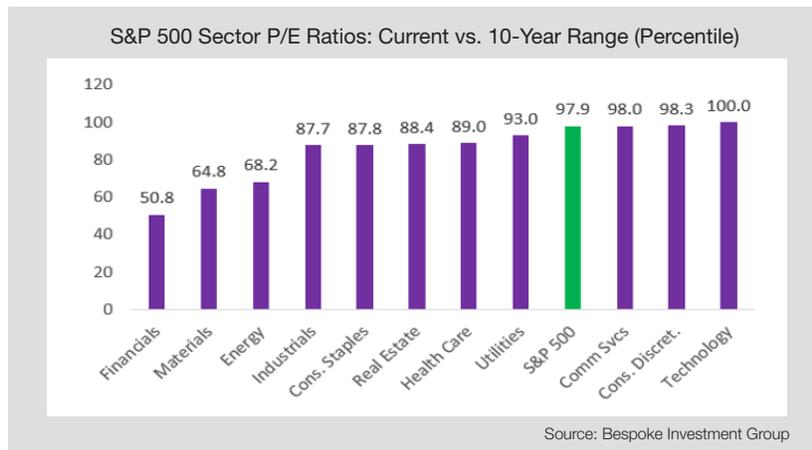
Valuations are extreme but consistent with the narrative the Elliott Wave Financial Forecast writers have put forth regularly. We have quoted them and shown a valuation graphic in the past to show how valuations went off the rails in the late '80s and have only gotten worse. The chart below shows the stock market valuation based upon companies' book values and dividends.



Viewing the markets from this perspective is not the only way to see how overvalued the market has become. By almost on any metric, the markets are at unforeseen or record-breaking levels.



### Market Valuation Measures



## UPDATE ON THE DRS OPTION PREMIUM PROGRAM

Option premium was net positive for 2019 across all DRS variations except for emerging markets but still lower than our historical average. We've seen some fundamental changes in the market over the past five to ten years across all markets. Some of these changes have led to noticeable headwinds to collecting option premium, such as:

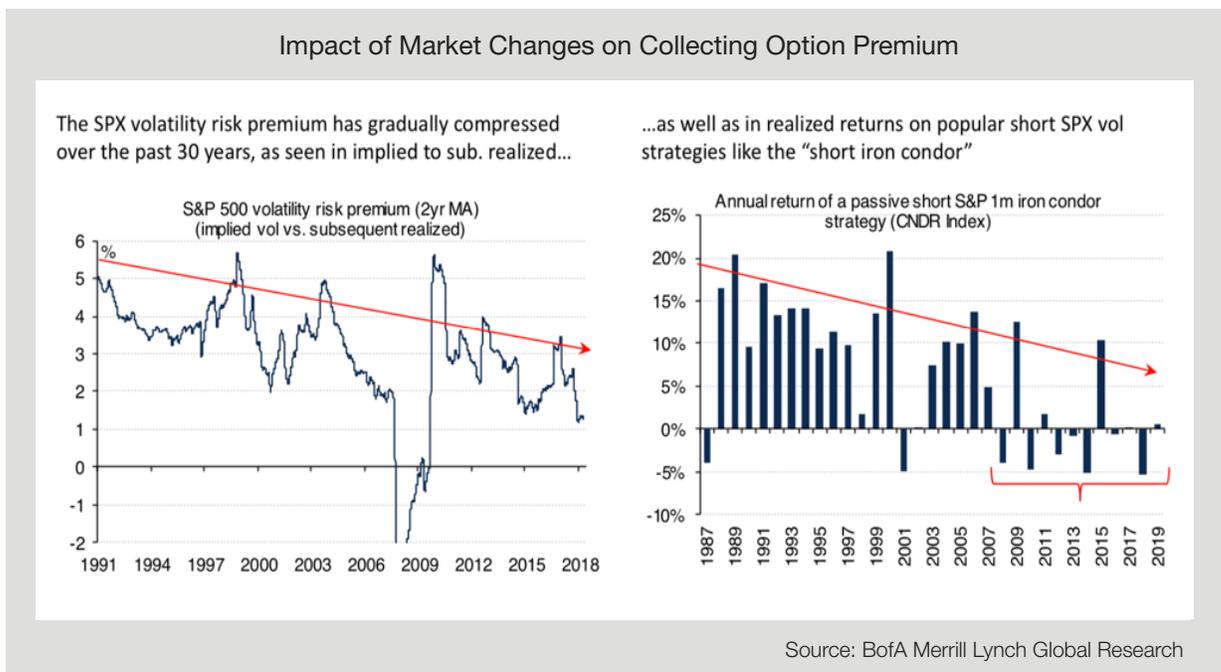
1. Increased participation/competition due to low yields
2. An extended Fed-driven bull market, coupled with more frequent volatility spikes
3. Fundamental structural changes in the markets

For example, volatility spikes from an increase in volatility products and high-frequency trading (HFT) can increase the tail risk of short premium trades. When losses do occur they impact a bigger portion of the gains, thus lowering returns and the overall expected value of an option premium program.

Fundamentally, the Portfolio Team and I still believe that the long-term viability of selling premium still exists, but these changes have required us to be more patient and flexible in implementing the option premium program. We're sure there are a lot of people (i.e., savers) who would like to go back to the days of earning 4-8% in money markets and CDs (the 1990s) or even the 3-4% usually earned during 2000-2008. Of course, that world does not exist anymore.

Many different factors have altered how markets react and move, but their combined impact has created an extreme market environment, suppressed the VRP (volatility risk premia), elevated the risk potential, and lowered the expected value of VRP related trades.

In spite of these challenges, the bottom line is that an expected positive return is still positive and beneficial to the strategy. Of course, in a lower return environment the income is less likely to pay for a substantial part of the hedging costs. However, we are confident that our hedging will prove effective and cost efficient during the next bear market and should provide better returns or risk-adjusted returns.



We also believe that Swan's option premium component has proven itself through both bull and bear markets and through changing environments that affect the risk premia. Swan's approach to risk management is an "active systematic" premium selling program that seeks to overcome the shortfalls of blindly selling premium utilized by passively-managed funds and indices. Given Swan's ability to adapt and improve, we still believe we can achieve a reasonable return that benefits investors.

What are some of the features of the "active systematic" approach in our option premium program? Identifying a higher probability of regime shift is an important part of the process. Swan is aware of and understands the full market cycle nature of both the markets and volatility risk premia and therefore:

- Closely analyzes and studies the factors, cycles, market conditions, and participants
- Daily tracks risks premia on all assets and examines risk/reward of DRS option premium trades
- Constantly researches and seeks for other alternate methods and ways to improve trade implementation
- Regularly reviews and discusses market conditions/cycles and results

In summary, we believe market conditions and volatility regime/events have the biggest impact on option premium component returns. In the current environment less risk must be taken in order to improve volatility and overall results. What works today might not work as well a year or two from now and vice versa. Markets are always evolving so the risks are always evolving. Because of this, Swan must remain nimble and adaptive, increasing risk when the reward is higher probability and lowering risk when it is not. We are always striving to produce the most cost-effective and beneficial trades possible in whatever market environments we may face.



## THEMES FOR 2020 AND THE WAY FORWARD

### 1. The topping process continues as we enter 2020. U.S. markets are making new highs almost daily.

Most international markets have not experienced the same growth as the U.S. markets, or they topped out years or even decades ago.

Country	Benchmark	Current Value (in S&P 500 terms)	Gain since Nov 26, 1990
United States	S&P 500	3,168	+901%
Hong Kong	Hang Seng Comp.	2,926	+824%
Germany	DAX 30	2,913	+820%
Canada	S&P/tsk Comp.	1,717	+444%
France	CAC 40	1,160	+268%
United Kingdom	FTSE 100	1,072	+238%
Japan	Nikkei 225	315	+1%

Source: Jeff Desjardins; Data has been transformed to match the scale of the S&P 500, and is as of December 13, 2019

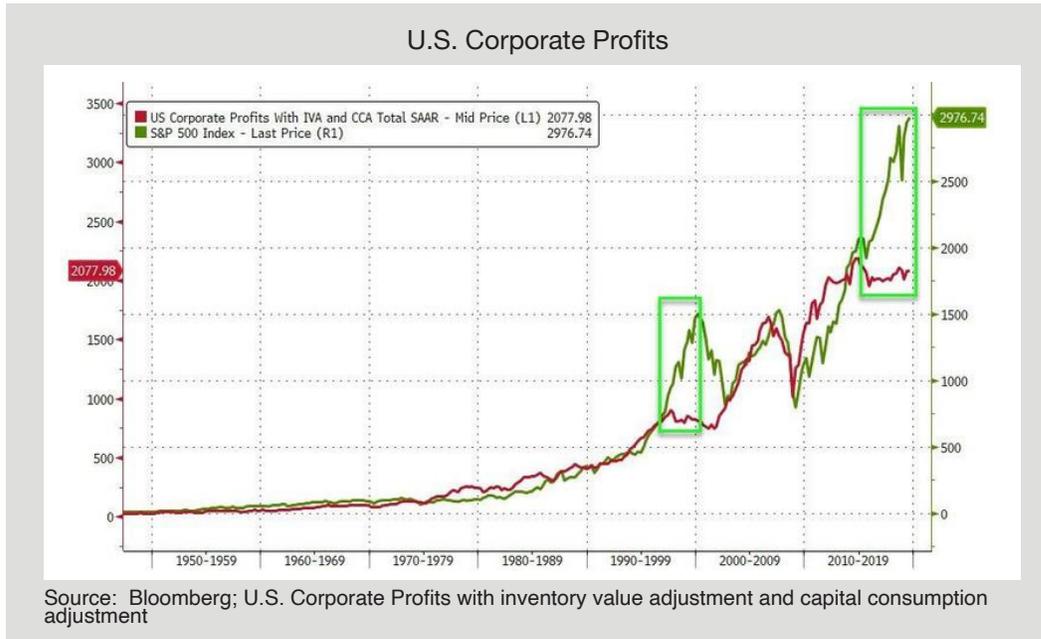
### 2. The U.S. is still an attractive market from a relative viewpoint.

Less regulation, lower taxes, some economic indicators strong, and a still developing but more advantageous trade policy give U.S. markets an advantage. For example, Trump's tax cuts reduced the U.S. tax burden to the third lowest in the OECD (from 26.8% in 2017 to 24.3% in 2018). Everything else being equal, it is more beneficial to the economy to have lower taxes and less regulation, but these won't solve our debt-fueled spending and worsening demographic problems. Technology may also help but can't close the gap. With the USCMA trade deal recently passed by the U.S. Senate, some bipartisan trade improvements have been made, but we are still withholding judgment on deals with China.

### 3. Recent market activity seems to anticipate ongoing Fed intervention of further rate cuts and expanding Fed balance sheet.

The Fed's repo position is now being labeled the "new QE" or "QE 4". Fundamentals seem to have slowed considerably with a decline in earnings for the S&P 500 in 2019, diverging from the upward momentum of the stock market.





We are not sure about the sustainability of the Fed-driven market. We can't predict how and when this ends, but feel comfortable to say it will end badly. The original Fed intervention during the 1987 crash foreshadowed things to come over the next 30+ years. The Federal Reserve and other central banks have used anything and everything at their disposal to keep the proverbial party going. You could say the initial interference was a gateway drug for more extreme measures of today. The quick reversal of the raising of rates in 2018 is proof that that we are all debt addicts now. Neither political party is doing anything to reduce spending and it is only getting worse.

As a result of the uncontrollable spending, we are all waiting for the day of reckoning. Of course, no one knows the day or the hour. We tend to agree with views like financial writer John Rubino, who in a recent interview, said the world is moving towards a debt reset and past the point of no return. Rubino points out that the monetary masters "tried to fix the financial system but could not do it." Furthermore, he states, "If you think you are beyond the point of no return financially as an individual, you borrow as much money as you can, and then go bankrupt." Now we see that "Governments in the world are starting to do that now or behaving that way... There is nothing they can do to fix the system. In the U.S. they tried to fix the system and scale back and they found out that it is impossible" (Source: Greg Hunter, USAWatchdog).

#### 4. As Ernest Hemingway once wrote about going bankrupt, it happens gradually, then suddenly.

As the U.S. teeters toward a Japan-like existence (1% return since Nov 1990 and perpetually negative interest rates), it is difficult to know the winners and losers of this potential event which is why you need to be thinking outside of the box. Will the day of reckoning be in 2020? There are plenty of warning signs, but given an election year and the Fed's interventionist policies, who knows. Always invested, always hedged is the only rational solution.



## SWAN UPDATES & EVENTS

Our mission is to partner with and empower advisors to be successful in serving their clients, while preserving and growing their practices. Advisors and investors face a redefined investment landscape that challenges traditional portfolio construction: Bond portfolios are pressured by historically low interest rates and heightened credit risks coinciding with potential global economic slowdown, while equity portfolios face an extended bull market and the risk of future recession with stretched valuations and investor complacency.

### Built for Success in a Non-Traditional World

To accommodate a range of investor objectives and risk tolerances, the Defined Risk Strategy is available in a suite of structures and asset classes to help investors build globally diversified, hedged portfolios.



### Thought Leadership

#### ***Know What You Own: Understanding the Diversity of Options Strategies***

This white paper describes different types of option strategies and how and when they will provide value. It is important to understand the risks in your portfolio because some of these currently better performing strategies might not work as well in a bear market. [Read it here.](#)

#### ***Bleak Future of Bonds: How Bond Risks Threaten Traditional Portfolio Construction***

This white paper covers the numerous risks facing treasuries, corporates, and high yield/collateral loan obligations. These risks challenge the dual role bonds have historically provided investors: capital preservation and income. Will they be up to the task going forward? We think not. [Read it here.](#)

### Events

Built for independent, growth-oriented advisors, we are launching the Advisor Workshop series to help you differentiate and grow your business. We will cover topics on personalizing risk tolerance and portfolio assessment at scale, attracting prospects in a crowded marketplace, standing out and creating a referable story, and building unique portfolios to attract and retain clients. To see if we're coming to your city, visit [theadvisorworkshop.com](http://theadvisorworkshop.com).



# SWAN DRS PRODUCT PERFORMANCE SUMMARY

AS OF: DECEMBER-31-2019

	DRS Products				Benchmark		
	Core Equity	Hedge	Option Premium	Total Portfolio (Net)	Benchmark	Return	Over/Under Performance
<b>YTD 2019</b>							
S&P 500 DRS Select Composite (1)	25.41%	-9.50%	0.80%	13.94%	S&P 500	31.49%	-17.55%
S&P 500 DRS Institutional Composite (2)	25.44%	-10.44%	0.99%	12.52%	S&P 500	31.49%	-18.97%
DRS Emerging Markets Composite (3)	16.01%	-8.04%	-1.47%	4.08%	MSCI EM Index (Gross)	18.90%	-14.82%
DRS Foreign Developed Markets Composite (4)	19.31%	-7.42%	0.40%	9.81%	MSCI EAFE Index (Gross)	22.66%	-12.85%
DRS U.S. Small Cap Composite (5)	22.74%	-7.89%	1.99%	14.26%	Russell 2000 Index (Gross)	25.53%	-11.26%
DRS Growth Composite (6)	32.59%	-6.46%	0.52%	23.38%	S&P 500	31.49%	-8.11%
DRS Gold (7)	19.00%	-6.93%	0.54%	10.25%	SPDR Gold Shares (GLD)	17.86%	-7.60%
DRS Real Estate (7)	25.93%	-8.77%	0.91%	14.79%	iShares US Real Estate (IYR)	28.18%	-13.38%
DRS Fixed Income (7)	13.35%	-2.65%	-0.09%	9.16%	iShares 20+ Yr Treasury Bond (TLT)	14.12%	-4.96%

Source: Swan Global Investments and Morningstar

Performance is net-of-fees; total portfolio return includes all expenses. The core equity, hedge, and income components do not sum to the Total Portfolio (Net) return due to fees and differences resulting from geometrically smoothing component returns.

1. The Defined Risk Strategy Select Composite demonstrates the performance of non-qualified assets managed by Swan Global Investments, LLC since inception. It includes discretionary individual accounts whose account holders seek the upside potential of owning stock, and the desire to eliminate most of the risk associated with owning stock. The Composite relies on LEAPS and other options to manage this risk. Individual accounts own S&P 500 exchange traded funds and LEAPS associated with the exchange traded funds as well as multiple other option spreads that represent other indices that are widely traded. The Defined Risk Strategy was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

2. DRS Institutional Composite includes high net-worth, non-qualified accounts that utilize cash-settled, index-based options held at custodians that allow participation in Clearing Member Trade Agreement (CMTA) trades. The Composite relies on LEAPS and other options to manage risk. This composite owns S&P 500 exchange traded funds (ETF) and LEAPS associated with the ETFs as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

3. Emerging Markets DRS Composite demonstrates the performance of mutual fund accounts invested in the DRS Emerging Markets strategy. DRS emerging markets accounts seek the upside potential of owning stock and the desire to eliminate most of the risk associated with owning stock. The Composite relies on LEAPS and other options to manage this risk. The Funds invest in exchange traded fund(s) (ETF) that own emerging markets equities and LEAPS associated with the ETFs as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

4. Foreign Developed Markets DRS Composite demonstrates the performance of research and development account(s) and mutual fund accounts invested in the DRS Foreign Developed Markets strategy. DRS Foreign Developed Markets accounts seek the upside potential of owning stock and the desire to eliminate most of the risk associated with owning stock. The Composite relies on LEAPS and other options to manage this risk. The Funds invest in exchange traded funds (ETF) that own foreign developed markets equities and LEAPS associated with the ETF as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

5. U.S. Small Cap DRS Composite demonstrates the performance of research and development account(s) and mutual fund accounts invested in the DRS U.S. Small Cap strategy. DRS U.S. Small Cap accounts seek the upside potential of owning stock and the desire to eliminate most of the risk associated with owning stock. The Composite relies on LEAPS and other options to manage this risk. The Funds invest in exchange traded funds (ETF) that own U.S. small cap equities and LEAPS associated with the ETF as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

6. The DRS Growth Composite includes qualified and non-qualified separately managed accounts and mutual fund accounts invested in S&P 500 equities. DRS Growth Composite accounts seek the upside potential of owning stock and the desire to eliminate most of the risk associated with owning stock. The Composite relies on LEAPS and other options to manage this risk. The accounts invest in exchange traded funds (ETF) that own U.S. Large Cap equities and LEAPS associated with the ETF as well as multiple other option spreads that represent other indices that are widely traded. The DRS was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. ETFs and options are the primary components of the strategy.

7. Research and Development account. No fees are being charged in the R&D accounts but performance reflects a 1% management fee being charged monthly in arrears for illustrative purposes.



## Annualized Returns as of December 31, 2019

Composite	One Year	Three Year	Five Year	Ten Year	Since Inception
DRS Select Composite	13.94%	5.22%	4.39%	5.34%	8.08%
S&P 500	31.49%	15.27%	11.70%	13.56%	7.94%
DRS Institutional Composite	12.52%	4.52%	3.41%	5.11%	7.98%
S&P 500	31.49%	15.27%	11.70%	13.56%	7.94%
DRS Emerging Markets Composite	4.08%	4.20%	1.16%	N/A	1.14%
MSCI EM (Emerging Markets)	18.90%	11.99%	6.01%	N/A	6.03%
DRS Foreign Developed Markets Composite	9.81%	3.87%	N/A	N/A	1.45%
MSCI EAFE	22.66%	10.11%	N/A	N/A	7.16%
DRS U.S. Small Cap Composite	14.26%	3.60%	N/A	N/A	4.00%
Russell 2000	25.53%	8.59%	N/A	N/A	8.78%
Defined Risk Growth Composite	23.38%	9.04%	N/A	N/A	7.00%
S&P 500	31.49%	15.27%	N/A	N/A	12.01%



## IMPORTANT NOTES & DISCLOSURES

Performance results are presented in U.S. dollars, net of management fees, and include reinvestment of dividends and capital gains. Fees may vary based on account size, custodial relationship and other factors. No current or prospective client should assume future performance of any specific investment strategy will be profitable or equal to past performance. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may cause client portfolio performance results to differ from the composite. Different types of investments involve different degrees of risk; we make no assurance that a specific investment will be suitable or profitable for a client's portfolio.

Historical performance results for market indices and categories do not reflect the deduction of transaction fees, custodial charges, or management fees, the incurrence of which would have the effect of diminishing historical performance. All Swan products utilize the Defined Risk Strategy ("DRS"), but may vary by asset class, regulatory offering type, etc. Accordingly, all Swan DRS product offerings will have different performance results, and comparing results among the Swan products and composites may be of limited use. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. Swan Global Investments, LLC ("Swan") is an independent Investment Advisor headquartered in Durango, Colorado registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. Being an SEC-registered advisor implies no special qualification or training. Swan Global Investments, LLC is affiliated with Swan Capital Management, LLC, Swan Global Management, LLC, Swan Wealth Advisors, LLC, and Swan Wealth Management, LLC.

There are ten DRS Composites offered: 1) The DRS Select Composite which includes non-qualified accounts; 2) The DRS IRA Composite which includes qualified accounts; 3) The DRS Composite which combines the DRS Select and DRS IRA Composites; 4) The DRS Institutional Composite which includes high net-worth, non-qualified accounts that utilize cash-settled, index-based options held at custodians that allow participation in Clearing Member Trade Agreement (CMTA) trades; 5) The Defined Risk Fund Composite which includes mutual fund accounts invested in the S&P 500; 6) The DRS Emerging Markets Composite which includes mutual fund accounts invested in emerging markets; 7) The DRS Foreign Developed Composite which includes all research and development account(s), and mutual fund accounts invested in foreign developed markets; 8) The DRS U.S. Small Cap Composite which includes all research and development account(s), and mutual fund accounts invested in U.S. small cap issues; 9) The DRS Growth Composite which includes all research and development account(s), and mutual fund accounts invested in the S&P 500 equities; and 10) The DRS U.S. Large Cap Prime Composite, which includes all research and development account(s) invested in U.S. large cap equities.

Additional information regarding Swan's policies and procedures for calculating and reporting performance returns is available upon request. Swan claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with GIPS standard. Swan investment performance has been independently verified from its inception on July 1, 1997 through December 31, 2018. A copy of the verification report is available upon request by calling 970.382.8901 or emailing [operations@swanglobalinvestments.com](mailto:operations@swanglobalinvestments.com). Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate performance in compliance with GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.



The Defined Risk Strategy Select Composite demonstrates the performance of all non-qualified assets managed by Swan Global Investments, LLC since inception. It includes discretionary individual accounts whose account holders seek the upside potential of owning stock, and the desire to eliminate most of the risk associated with owning stock. The composite relies on LEAPS and other options to manage this risk. Individual accounts own S&P 500 exchange-traded funds, LEAPS associated with the ETFs, as well as option strategies based on other widely traded indices. The Defined Risk Strategy Select Composite includes all nonqualified discretionary accounts which are solely invested in the Defined Risk Strategy. The Defined Risk Strategy was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. Stock and options are the primary components of the strategy.

The performance benchmark used for the Defined Risk Strategy Select, Defined Risk Strategy Growth Composite, and Prime Composites is the S&P 500 Index comprised of 500 large-capitalization stocks, and which does not charge fees.

The performance benchmark for the DRS Institutional Composite is the S&P 500.

The performance benchmark for the DRS Emerging Markets Composite is the MSCI (Morgan Stanley Capital International) Emerging Markets Index, which is designed to measure equity market performance in global emerging markets.

The performance benchmark for the DRS Foreign Developed Markets Composite is the MSCI (Morgan Stanley Capital International) EAFE index, which comprises the MSCI country indexes capturing large and mid-cap equities across developed markets, excluding the U.S. and Canada.

The performance benchmark for the DRS U.S. Small Cap Composite is the Russell 2000 Index, which is designed to measure the equity market performance of U.S. small-cap to mid-cap companies.

One cannot invest directly in an index.

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## ABOUT SWAN GLOBAL INVESTMENTS

### Investing Redefined

Since 1997, our hedging and options strategies have been redefining investing to directly address the biggest threat long-term investors face: market risk.

Market risk is too big a threat to investors to be dealt with passively. So we hedge it.

Our simple, yet innovative investment philosophy is the foundation of our Defined Risk Strategy, a rules-based, multi-asset hedged equity strategy, with a track record of seeking to generate consistent returns while defining, or limiting, downside risk to improve investment outcomes and managing risk for irreplaceable capital through full market cycles (bull and bear).

Swan Global Investments is an asset manager headquartered in Durango, Colorado, with offices in Puerto Rico, Tampa, Florida, and Dallas, Texas.

