2018 GURU PORTFOLIO PERFORMANCE REPORT

REVIEW AND ANALYSIS OF VALIDEA'S GURU-BASED MODEL PORTFOLIOS

GURU PORTFOLIO PERFORMANCE REPORT

REVIEW AND ANALYSIS OF VALIDEA'S GURU-BASED MODEL PORTFOLIOS

2018 MARKET OVERVIEW

The very beginning of 2018 promised to be more of the same from 2017, as stocks initially propelled themselves higher on tax cuts and a business-friendly environment in Washington. But the year has been a surprising disappointment for many. Instead of continuing on their steady upward trajectory, stocks had a turbulent 2018, rocked by rising interest rates, economic slowdowns in China and elsewhere, and trade tensions and political uncertainty at home. The markets whipsawed, rising to a record in January, then correcting through the spring only to rebound to more record highs and then finish off the year in a downward spiral.

At year-end, just about any type of investment, from stocks to bonds and commodities, were down for the year. That's even worse than the financial crisis, when at least government bonds held their own. Historically low interest rates in the last decade and the Fed's efforts to pump liquidity into the system helped lift stocks and enabled companies to borrow money to buy back their own shares and expand. But now that the Fed is lifting rates and backing off its easy money policy. The party in stocks seems to be ending.

Uncertainty, a lot of it connected to policy decisions in Washington, exacerbated the volatility in stocks for the year. At first, it was an escalating tariff conflict with China and trade tensions with Canadian, Mexican and European trade partners. Then it was President Donald Trump's criticisms of Federal Reserve rate hikes. Towards the end of December, it was a government shutdown and the prospect of a Democrat-controlled House of Representatives causing uncertainty.

It was enough to push the S&P into a bear market as of Christmas Eve, meaning it was down at least 20% from its most recent high. And the S&P 500 hid a lot of the pain across various segments of the market, where losses were deeper and more damaging.

On a price return basis, the S&P 500 ended the year down X, the Russell 2000 was down and the Nasdaq Composite was down. Those returns look stellar compared to the returns of focused portfolios, including most run on Validea.

Since launching the model portfolios on Validea.com in 2003, we've seen our share of painful years. 2007 & 2008 proved to be particularly difficult, but that might be expected given we were in a financial crisis and one of the deepest bear markets in history. 2011 and 2015 were also difficult years as value stocks, small caps and international stocks struggled and market leadership narrowed into large cap growth names, leaving most others behind. Still, in each of those years we had winning strategies in the Validea rotation. If value wasn't working, we saw our growth or momentum portfolios produce relative outperformance. Not so this year. This is the first calendar year where all of the strategies on the web site trailed the broader market. So in some ways, 2018 is the most disappointing year we have had in that none of our portfolios were able to generate excess performance over the market.

There are a few lessons we can draw from this.

First is, just because something hasn't happened that doesn't mean it can't happen. This is particularly true in investing. Just because our entire model portfolio lineup hadn't experienced a year like this in the past, it doesn't mean that it could never happen. While we have a diverse group of fundamental investment strategies, they are not some type of magic bullet that guarantees short term success over the market.

The second lesson is when investing in the market, investors always need to think long term. When we say long term, we aren't taking 2 or 3 years. We are taking probably at least 8 years but maybe even 10 years or longer. Since the financial crisis, value stocks have gone through one of the longer periods of underperformance relative to growth in the past few decades. An investor who was following our Graham, Greenblatt or other value strategies would be struggling right now, but our belief, which is based on the historical cyclicality of value and growth stocks, is value will have its day in the sun again. But the exact turn and timing is never knowable. An investor that looks at a year or two and makes judgements about a strategy is destined to be consistently changing course only to find themselves hurting their returns.

Lastly, the fact that none of our models outperformed shouldn't have investors wondering if our strategies don't work anymore. On the surface, that may seem like a legitimate question. But it's really a naïve one because any investment strategy that has the potential to outperform the market over time has to look different from the market by definition. The more difference there are between two portfolios - say a focused portfolio of 10 or 20 stocks selecting small, mid and large caps vs. a large, market cap weighted index like the S&P or an index like the Russell 2000 - the more potential deviation there can be from the index (both to the up and downside).

We'll look back on 2018 and remember that even a diverse set of sound fundamental strategies can all struggle simultaneously, but we believe we'll also look back on 2018 and remember how the underperformance set the stage for stronger future returns going forward. That's the one thing with stocks and good investment strategies, short term (and even long term) pain is often required for long term gain.

Continue reading to see some of the performance highlights from 2018. (Returns are without dividends and most of the portfolio performance in this report refers to Validea's 10-stock monthly rebalanced portfolios.)

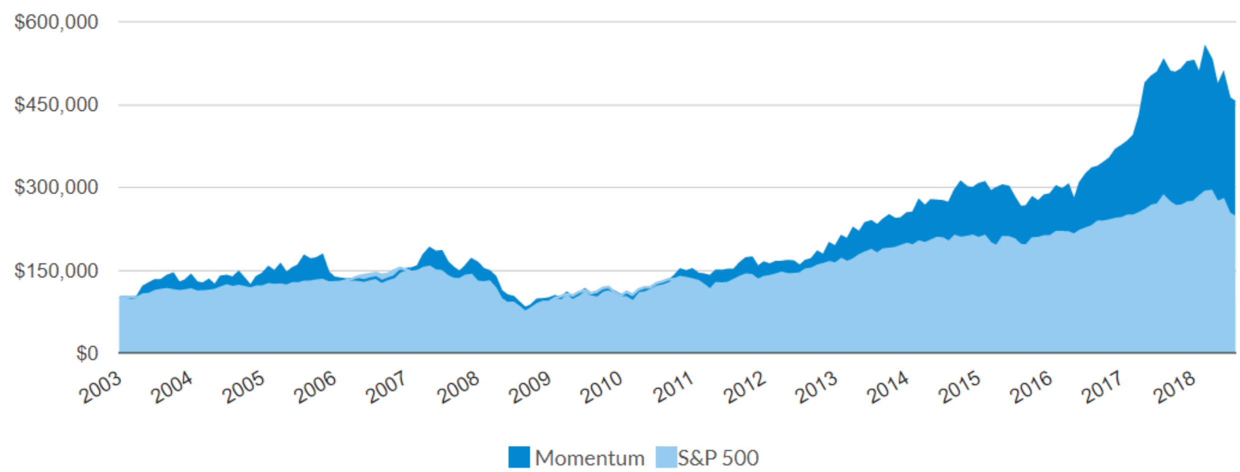
BEST PERFORMERS

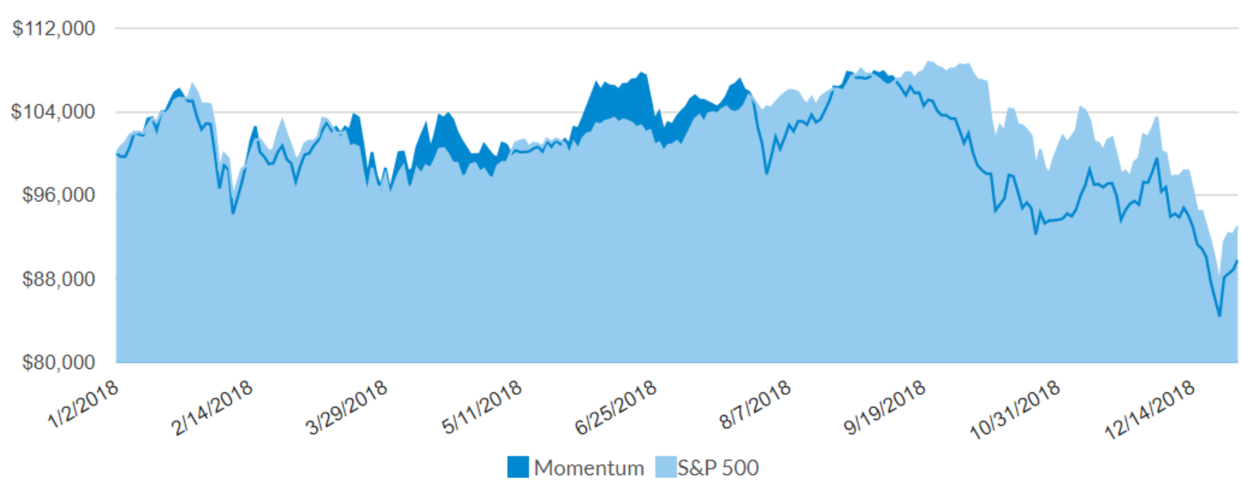
Even though value stocks never got out of the gate in 2018, growth and momentum stocks were having a halfway decent year through the year, but starting in October, those stocks started to show weakness as well. Still, for the full year it was Validea's Momentum Investor model that came out as the top performer in what was a tough year across the board for all of our models. For the year, the 10-stock monthly rebalanced model lost 9.2% compared to the S&P 500's loss of 6.2%. When you look at the 2018 in returns in the context of the portfolio's last five years, the returns don't look so bad at all. Starting in 2013, the model returned 51.5%, 15.2%, 2.4%, 15%, 57.2% and then -9.2% in 2018. The model has substantial outperformaed over the past five calendar years and the 3% it trailed in 2018 doesn't look all that bad when you take a long term view. As a refresher, Validea's Momentum model looks for stocks exhibiting earnings growth and consistency and strong price momentum.

Top Momentum Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	DATE REMOVED	START PRICE	END PRICE	RETURN
ATHM	AUTOHOME INC (ADR)	4/6/2018	6/1/2018	$88.21	$113.61	^ 28.79%
CACC	CREDIT ACCEPTANCE CORP.	3/9/2018	11/16/2018	$339.58	$422.10	^ 24.30%
SBCF	SEACOAST BANKING CORPORATION OF FLORIDA	5/4/2018	8/24/2018	$27.54	$31.42	^ 14.09%

Momentum Investor Since Inception and 2018 Performance Charts





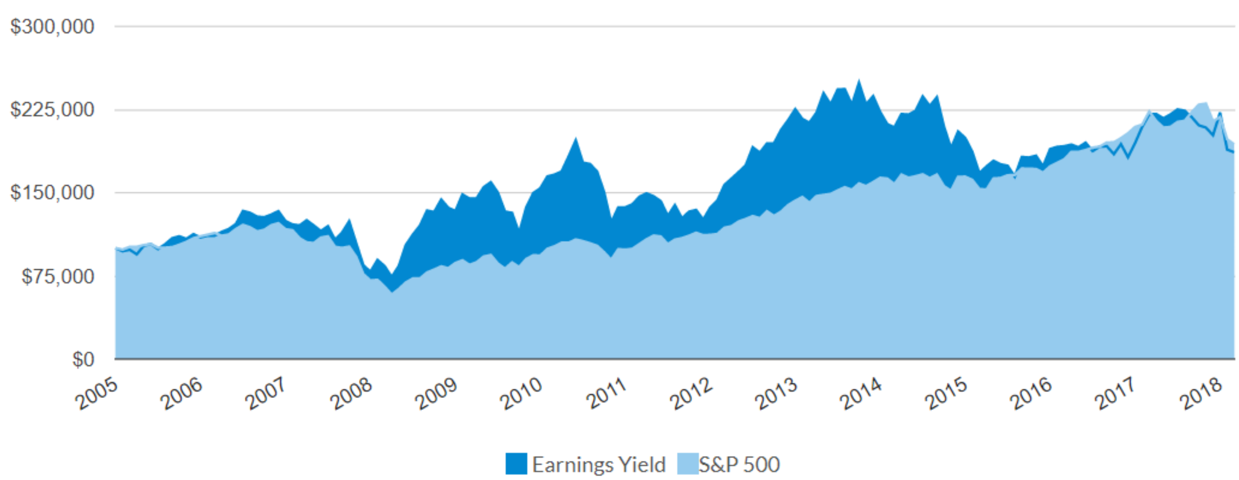
Coming in at the #2 spot was Validea's Earnings Yield model, which is based on Joel Greenblatt's Magic Formula. Despite the struggle in value stocks during the year, this quality + value model portfolio actually held up quite well. The portfolio lost 9.8% for the year compared to a 6.2% decline for the S&P 500. The Earnings Yield model looks for stocks that have a high earnings yield, which is the inverse of the P/E ratio, and a high return on invested capital. The model is an attempt to join together the value style of investing of Ben Graham with the high quality approach of Warren Buffett.

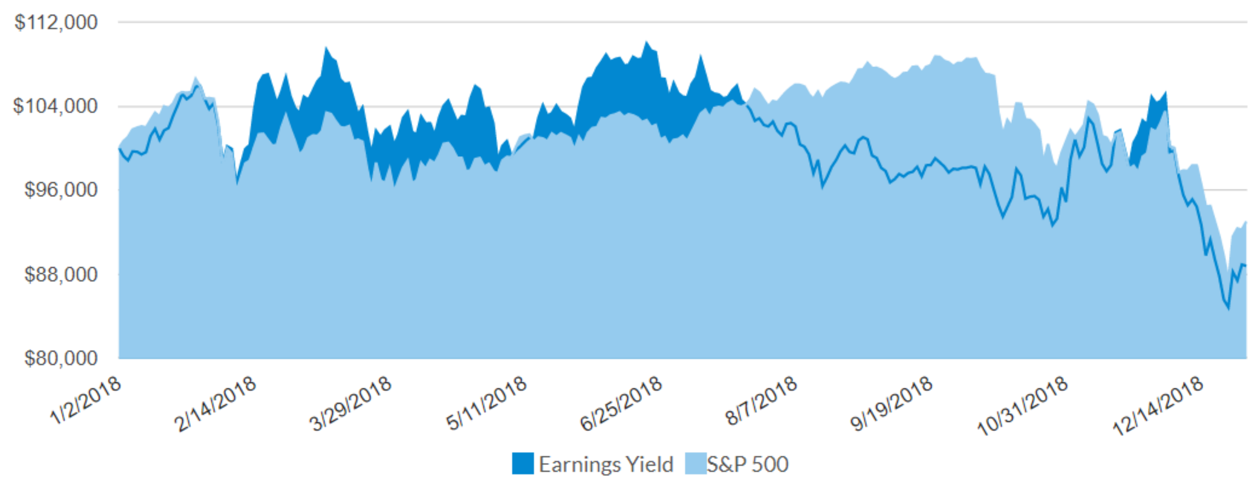
In sharp contrast to the Momentum Investor model above, the last five years haven't been good for the Earnings Yield strategy and many of our value models. As the chart below shows, the S&P has continued its steady march higher and the Earnings Yield model is flat to down. As a result, the portfolio's long-term return is now slightly below the S&P 500. While difficult to accept, we also know that the strategy has been tested over a long period of time in Greenblatt's book, and the struggles of value stocks and strategies sets the stage for strong mean reversion for these types of focused portfolios once value eventually turns the corner. The portfolio was helped by a few big winners during the year, including HP Inc (up over 88%) and retailer J Jill (up over 58%).

Top Earning Yield Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	DATE REMOVED	START PRICE	END PRICE	RETURN
HPQ	HP INC	3/11/2016	12/14/2018	$11.70	$22.01	^ 88.12%
JILL	J.JILL INC	5/4/2018	6/1/2018	$5.09	$8.07	^ 58.55%
INVA	INNOVIVA INC	5/4/2018	12/14/2018	$14.50	$16.81	^ 15.93%

Earnings Yield Investor Since Inception and 2018 Performance Charts





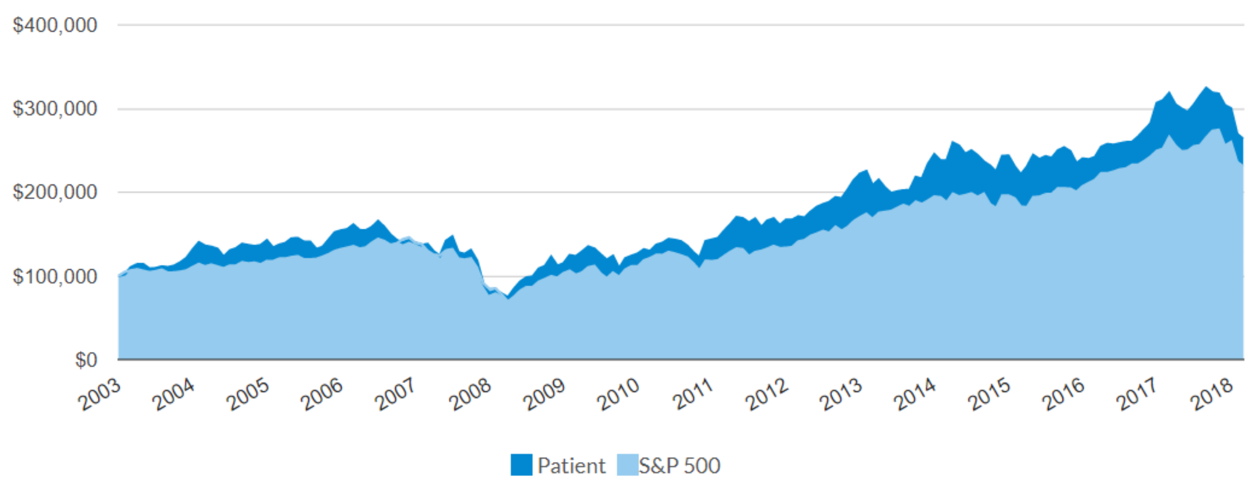
BEST VALUE MODELS

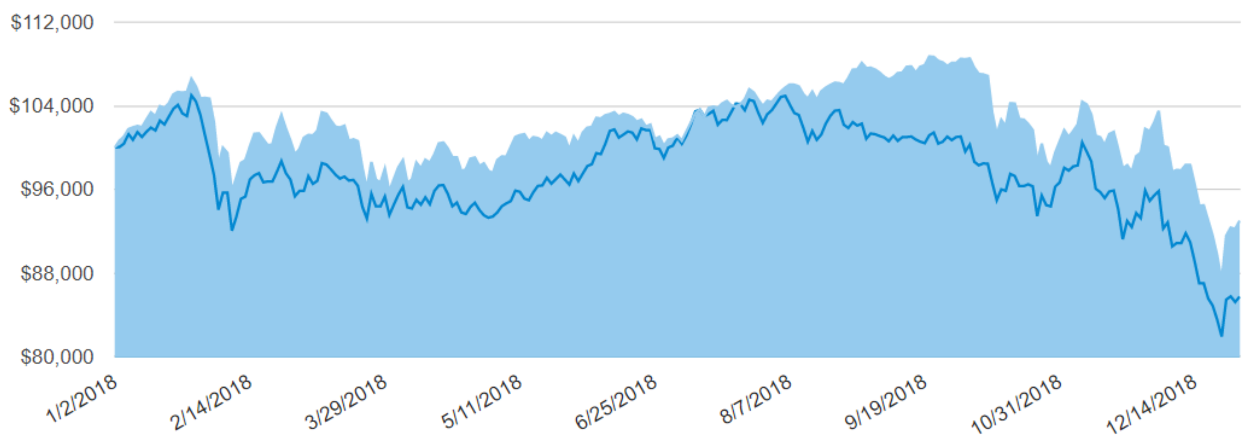
In fourth place for the year was our Patient Investor model, which is based on Warren Buffett's methodology outlined in the book, "Buffettology". The model looks for large cap firms with consistent earnings, high long-term profitability via return on equity and capital, low debt, cash flow, and attractive valuations. Interestingly enough, in 2018, it was announced that Berkshire Hathaway had amassed a significant stake in Apple (AAPL) and our Buffett-inspired model was giving Apple a 100% score well before that actual stake by Buffett was reported. The portfolio benefited from stocks that were added a year or even longer ago. Unlike some of our other monthly rebalanced portfolios on Validea, the Buffett 10-stock model tends to have a lower degree of turnover, as the criteria in terms of long-term earnings growth is a hard hurdle to pass and as a result, the movement of portfolio positions isn't as high as some of our other models. Berkshire as a stock returned about 2% for the year, so our model failed to keep pace with the performance of Buffett himself, as the Validea model was down around 13% for the full year.

<u>Top Patient Investor Portfolio Performers</u>

TICKER	COMPANY	DATE ADDED	DATE REMOVED	START PRICE	END PRICE	RETURN
ROST	ROSS STORES, INC.	10/26/2012	6/29/2018	$30.46	$84.75	^ 178.23%
CACC	CREDIT ACCEPTANCE CORP.	3/10/2017	Open	$197.47	$395.03	^ 100.05%
AAPL	APPLE INC.	2/13/2015	7/27/2018	$127.08	$190.98	^ 50.28%

<u>Patient Investor Since Inception and 2018 Performance Charts</u>





BEST GROWTH MODEL

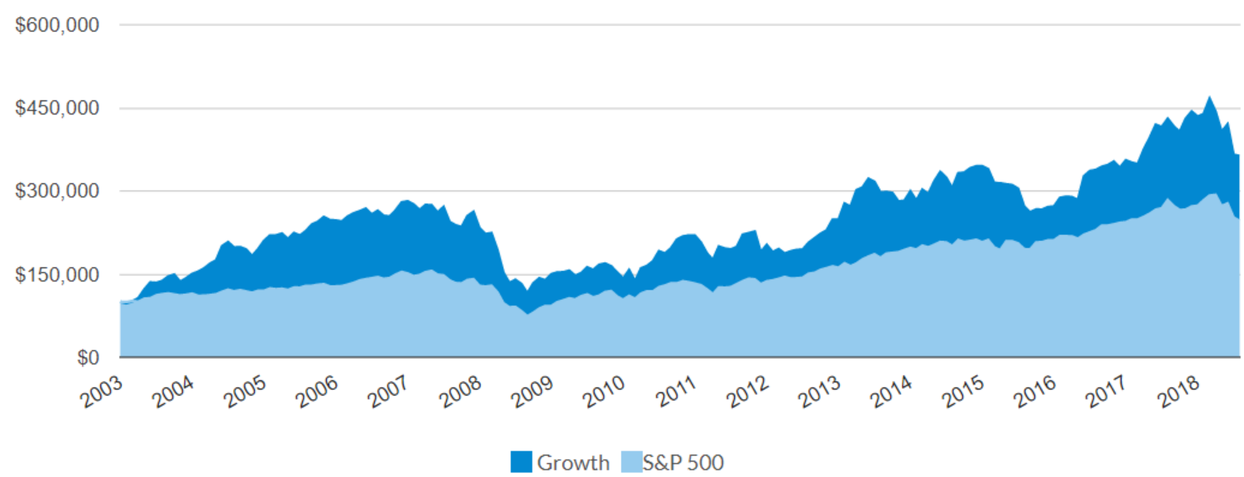
Validea's Martin Zweig-inspired Growth Investor Portfolio came through in the #3 spot in 2018. Zweig, author of the book "Winning on Wall Street," didn't like to overpay for growth stocks, so he would look at names that had relatively modest multiples and low debt-to-equity ratios compared to industry averages.

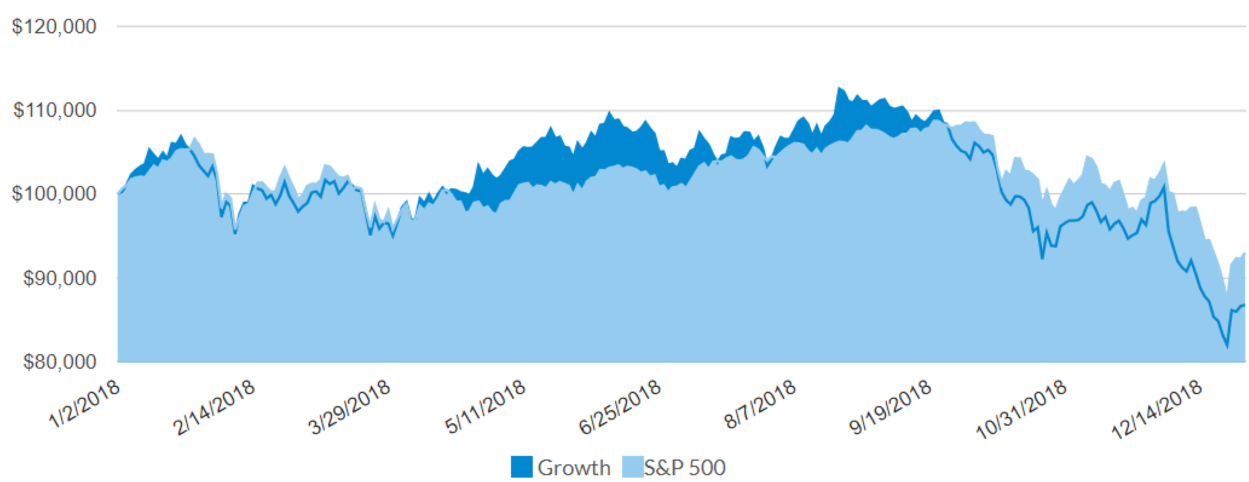
Since inception, the 10-stock portfolio has an annualized return of 8.6% compared to 5.9% for the S&P 500 and has beaten the market in 10 out of 15 years, which is a respectable winning percentage on a calendar year basis. Similar to the Momentum model approach, the portfolio had a lead over the market through the first half of the year but as stocks deteriorated and weakness spread across all areas, including growth names, this model pulled back along with everything else.

Top Growth Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	DATE REMOVED	START PRICE	END PRICE	RETURN
ATHM	AUTOHOME INC (ADR)	4/6/2018	6/1/2018	$88.21	$113.61	^ 28.79%
UNH	UNITEDHEALTH GROUP INC	2/9/2018	7/27/2018	$220.96	$255.95	^ 15.84%
SBCF	SEACOAST BANKING CORPORATION OF FLORIDA	5/4/2018	8/24/2018	$27.54	$31.42	^ 14.09%

Growth Investor Since Inception and 2018 Performance Charts





MOST CONSISTENT PERFORMER

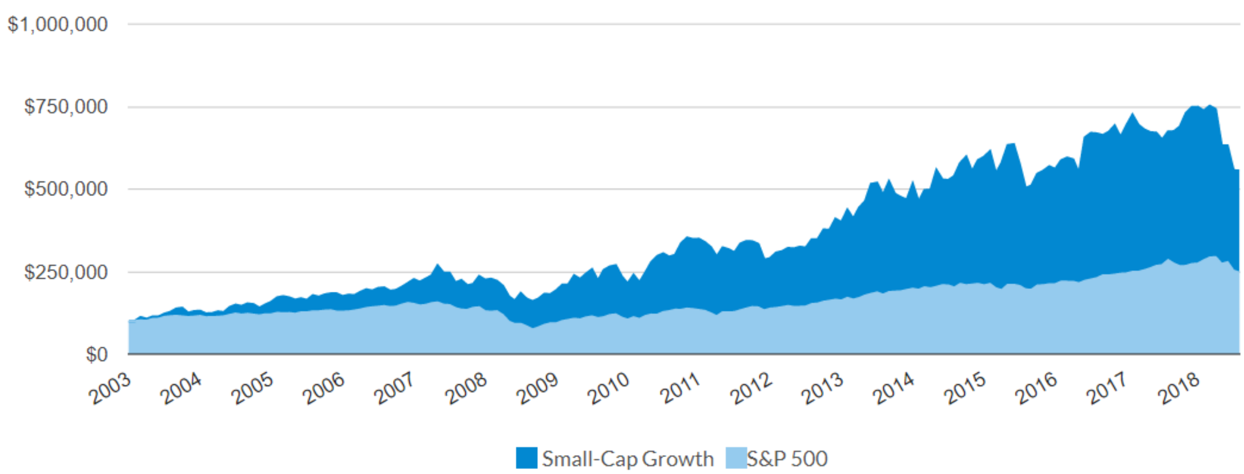
Coming into this year, the Motley Fool-inspired Small-Cap Growth Investor Portfolio was the best performer and one of the most consistent. The strategy stumbled last year (in 2017) and underperformed again in 2018, but the long-term performance record and the degree of consistent market outperformance still ranks it as one of the best on the Validea site. It is up 11.6% annually since its 2003 inception, beating the 5.9% annual gain in the S&P 500 in the same time frame. This model tracks the book of David and Tom Gardner, the cofounders of the Motley Fool. It looks for stocks of fast-growing companies with good fundamentals. But for this year, the portfolio was down 14.3% after being up nearly 20% at one point during the year. The model was able to sniff out some winning positions, especially earlier in the year.

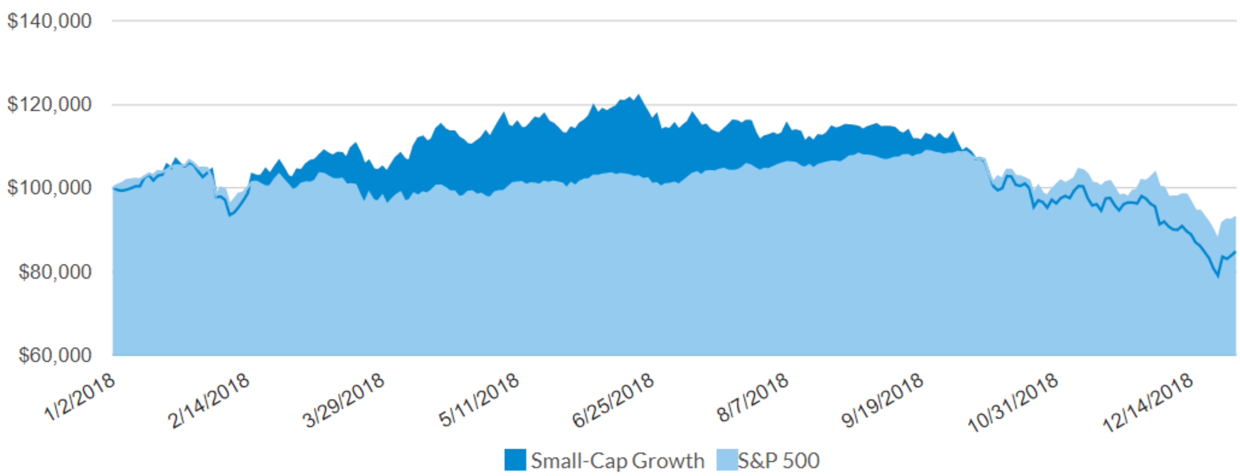
As a refresher, this quantitative model is built of "The Motley Fool Investment Guide". The formula looks for stocks of small, fast-growing companies with solid fundamentals, including healthy profit margins, low debt, ample cash flow, respectable R&D budgets and tight inventory controls. A key indicator of a strong stock, according to this model, is an earnings growth rate that is greater than the stock's price/ earnings ratio (also known as the P/E/G ratio).

Top Small-Cap Growth Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	DATE REMOVED	START PRICE	END PRICE	RETURN
WTI	W&T OFFSHORE, INC.	4/6/2018	6/1/2018	$4.33	$6.72	^ 55.20%
JOUT	JOHNSON OUTDOORS INC.	3/9/2018	9/21/2018	$67.18	$95.54	^ 42.21%
NOAH	NOAH HOLDINGS LIMITED (ADR)	4/6/2018	5/4/2018	$47.78	$54.50	^ 14.06%

Small-Cap Growth Investor Since Inception and 2018 Performance Charts





2018 TOP CONSENSUS STRATEGIES

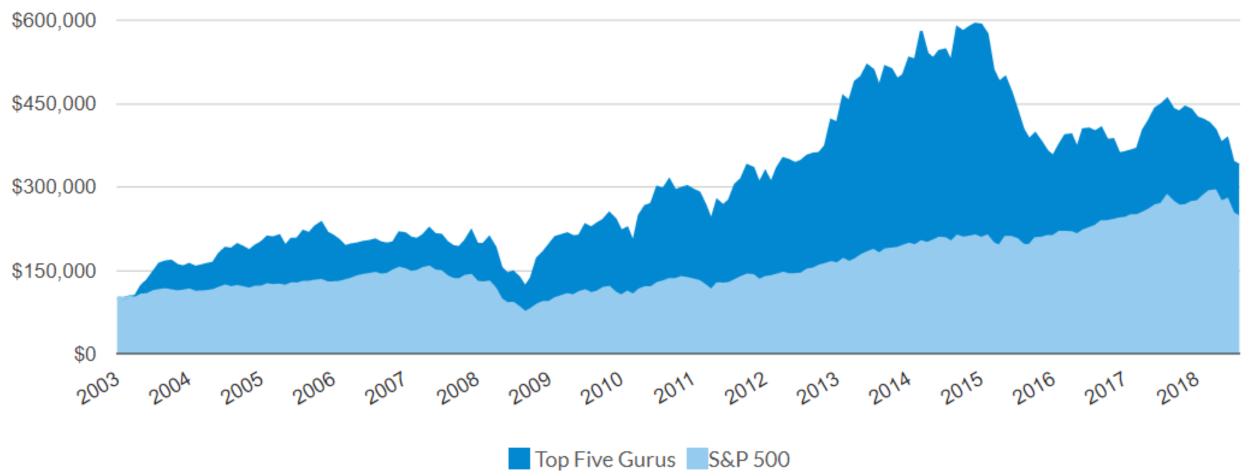
Validea's Top Five Gurus

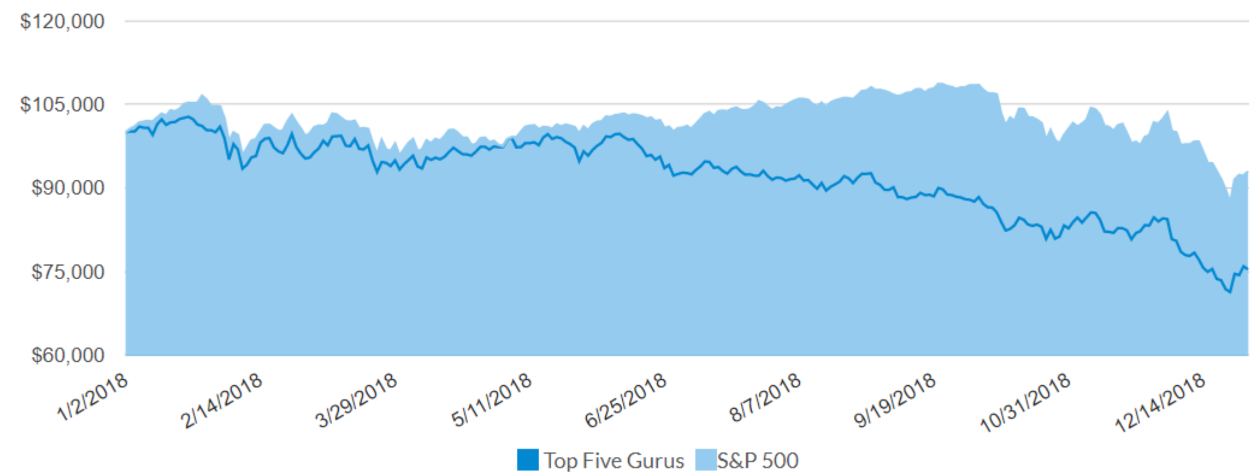
The Consensus portfolios run on Validea both got walloped in 2018, but the long term returns of the strategies are still respectable. The Top Five Gurus model holds the top two stocks across five different models. Our goal with this approach is to limit the strategy specific risk that a standalone guru model, like a value or growth method may be susceptible to. But as the performance shows, even a blended model can fall out of favor. This is why it's very important to any investor who is using our system to understand that in the short run our strategies are risky. But over long periods of time, if you follow one or many of our portfolios with discipline and a commitment, you can put the odds of outperforming in your favor. For the year, the Top Five Gurus model fell by 23%, so it was a pretty wide degree of underperformance. The model's value orientation over the past five years has hurt the long term returns as well, but as market regimes change, we think it will bode well for strategies like the Top Five Gurus model.

Top Five Gurus Portfolio Performers

TICKER	COMPANY	DATE ADDED	DATE REMOVED	START PRICE	END PRICE	RETURN
BBL	BHP GROUP PLC (ADR)	9/22/2017	9/21/2018	$36.36	$44.04	^ 21.12%
NHTC	NATURAL HEALTH TRENDS CORP.	3/9/2018	5/4/2018	$18.36	$21.14	^ 15.14%
UNH	UNITEDHEALTH GROUP INC	2/9/2018	5/4/2018	$220.96	$235.90	^ 6.76%

Top Five Gurus Since Inception and 2018 Performance Charts





To view the 2018 model portfolio results, as well as the full historical record of all of Validea's strategies, please click here to view our model portfolios.