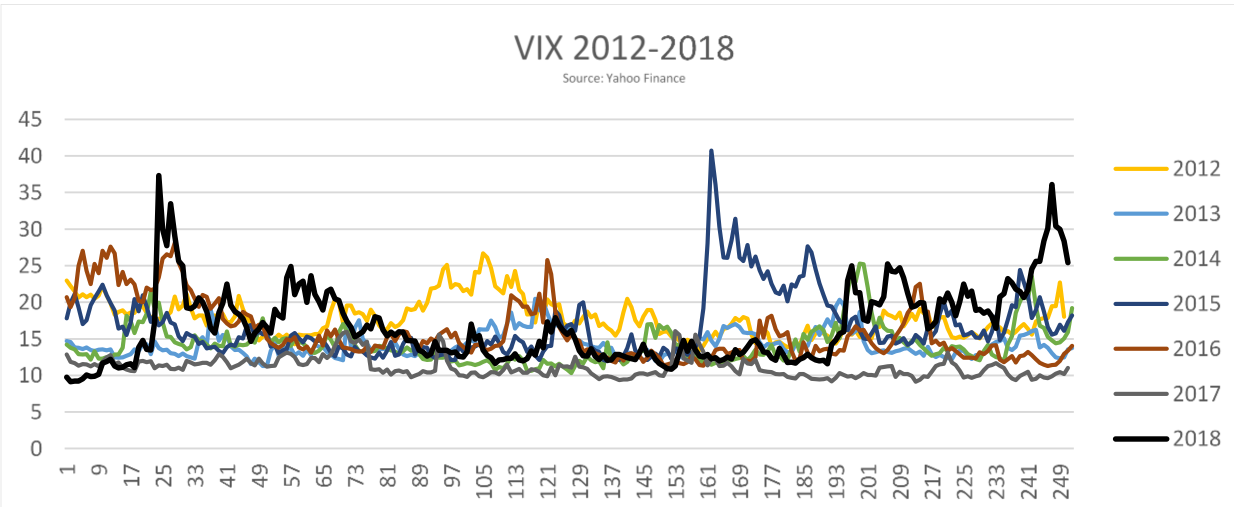
Performance Report – December 2018

Past performance, monthly reviews and investment cases are provided for the following:

- Volatility Strategy
- Conservative Volatility Strategy
- Traditional Asset Strategy
- Comprehensive Portfolio Strategy

2018

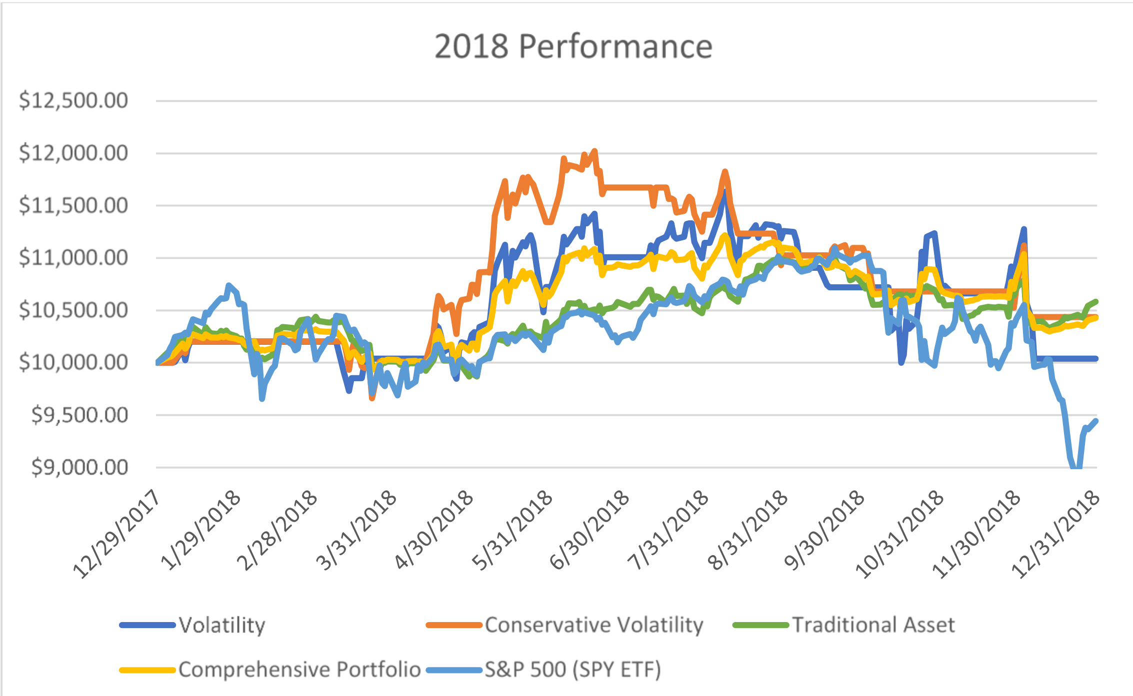
2018 was the year many had been dreading; the low-volatility regime we had seen unfold throughout the recovery from the 2008 Global Financial Crisis and the 2011 Euro Debt Crisis ended abruptly, putting a damper on many short volatility strategies' returns. The S&P 500 followed suit, as it fell -6.24%[1] in 2018 as a result of a large sell-off in Q4.



Since 2012, VIX has trended downwards with spikes occurring rarely. In fact, 2017 was one of the least volatile years markets had ever seen. 2018 began with a bang, as the S&P 500 was up over 6% through mid-January. By the end of January, markets began to leak. Then February 5th occurred. The S&P 500 fell over 4% in a single trading day. Because of the state of extended low-volatility, complacency and after-hours VIX futures rebalancing involving Credit Suisse, XIV (the short volatility product we used to trade) fell over 90% and was terminated. After a few aftershocks related to the February 5th 'Volpocalypse,' it appeared as if low-volatility markets were returning to 2018. The summer trading session was smooth and produced strong returns for market bulls and short volatility strategies.

Q4 2018 told a different story; the S&P 500 Total Return Index fell -13.97% as a result of trade disputes and worries involving China. Stocks were also extremely expensive, which added to the selling. The Shiller CAPE ratio, which is the 10-year moving average Price/Earnings ratio of the S&P 500, fell from 33.31 in January of 2018 to 27.3 by the end of 2018[2]. We hold the stance that investor psychology is a primary variable involved in large market moves, which added to the selling.

The S&P 500 and the current US economy appear to be disconnected; wages are beginning to rise, albeit only slightly, the US remains at full employment and consumer spending is maintaining in its current uptrend. Many argue that the economy lags the stock market by six months, so we may be in for a rough Q1/Q2 2019.



Despite the fact that each of our strategies produced positive returns and beat the S&P 500, this was one of our worst years in terms of absolute performance. 2018 proved to be a very difficult market to trade, as the whipsaw action of up and down movements made it difficult to generate substantial returns. We had solid gains in the two volatility strategies but ended up losing them in the beginning of December.

We were very satisfied with the performance of the Traditional Asset Strategy this year. The strategy trades stocks, bonds and gold with the goal of staying on pace with the S&P 500 during bull markets and avoiding drawdowns when the S&P 500 begins to fall. The strategy worked as predicted; it rose 5.82% in 2018 while the S&P 500 fell -13.97%. As cliché as it is, one of Warren Buffet's most famous adages is "Rule #1: Never lose money. Rule #2: Don't forget rule #1." A 10% drop in portfolio value has a much larger long-term impact than a 10% gain in portfolio value, so we aimed to create a strategy that would shift to more conservative positions in times of increased risk.

So, how did our volatility strategy fare relative to other volatility strategies this year? Our Volatility Strategy returned 0.40% in 2018. Of the strategies we keep tabs on, none finished 2018 positive. Returns of our competitors' volatility strategies are as follows: -8%, -8.7%, -8.3%, and -3.9%. So, while 2018 did not provide outsized absolute returns for our volatility strategy, it performed well compared to its peers.

Overall, 2018 was a solid year for our strategies. Going forward, we expect our strategies to be able to perform whether or not the financial environment stays healthy.

If you have any questions, feel free to reach out to us at bckvolatility@yahoo.com. Cheers to 2019!

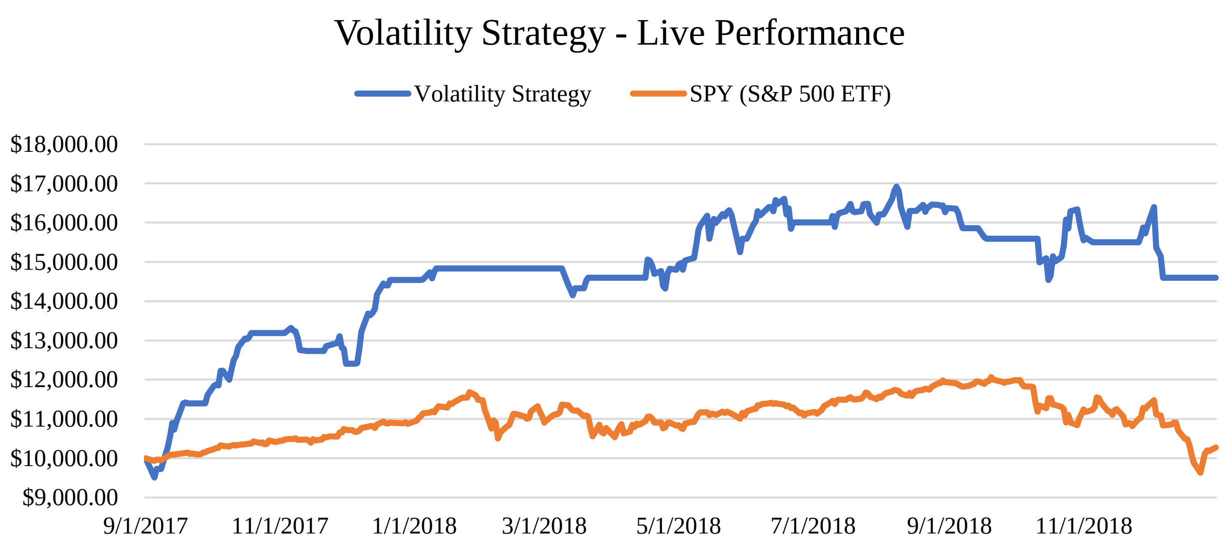
BCK Volatility

Volatility Strategy

Live performance since September 2017

The Volatility Strategy trades the ETNs/ETFs SVXY and VXX. SVXY seeks to track the .5x inverse of the performance of a synthetic 30 day weighted VIX future. VXX, on the other hand, seeks to track the performance of a synthetic 30 day weighted VIX future. These products are volatile, so a forward-looking strategy must focus on risk management above all else. Volatility is more predictable than day-to-day returns of the S&P 500 and this trend will, in all likelihood, continue.

The strategy aims to beat benchmark returns over a complete market cycle. While this is attainable in the volatility industry, maintaining these returns while reducing risk is the challenge. The strategy uses proprietary volatility signals to determine ideal market conditions for long volatility/short volatility trades. These signals are designed to adapt to any market condition, as we strive for performance over a long time horizon.



Live Performance Report - Volatility Strategy

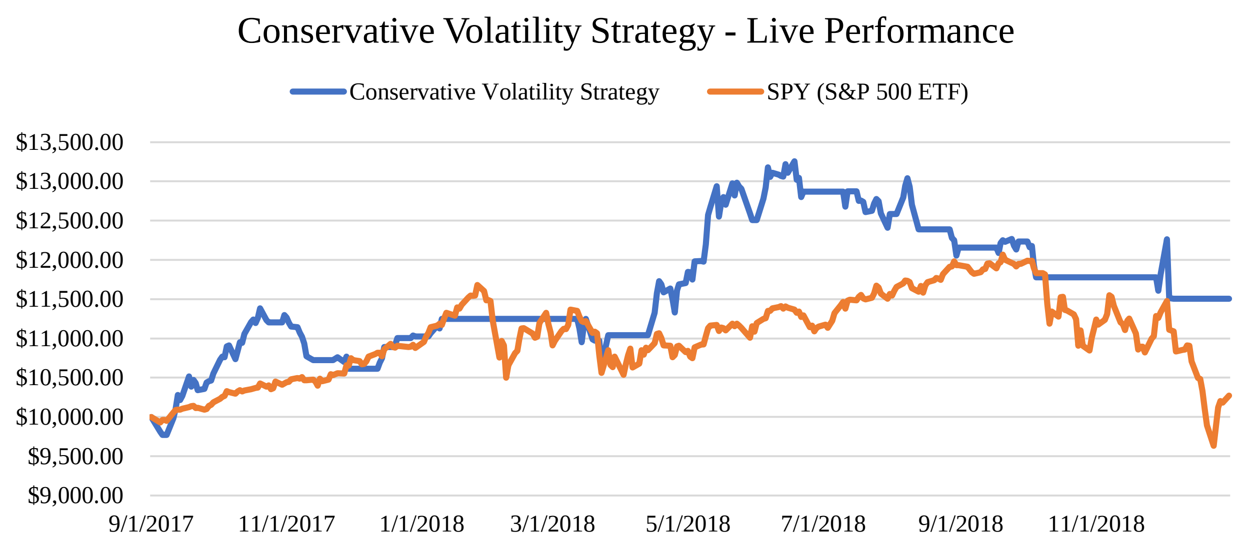
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	16.08%	13.60%	(3.00%)	13.68%	45.42%
2018	2.00%	0.00%	(1.60%)	1.40%	5.35%	2.66%	1.25%	1.00%	(4.78%)	1.18%	1.05%	(8.38%)	0.40%

Conservative Volatility Strategy

Live performance since September 2017

The Conservative Volatility Strategy trades the ETNs/ETFs ZIV and VXZ. ZIV seeks to track the inverse of the performance of a synthetic 4th-7th month weighted VIX future. VXZ, on the other hand, seeks to track the performance of a synthetic 4th-7th month weighted VIX future. These products are less volatile than SVXY and VXX, but still volatile, so a forward-looking strategy must focus on performance and risk management.

Volatility is more predictable than day-to-day returns of the S&P 500 and this trend will, in all likelihood, continue. The strategy aims to beat benchmark returns over a complete market cycle. While this is attainable in the volatility industry, maintaining these returns while reducing risk is the challenge. Our strategy uses volatility signals to determine ideal market conditions for long volatility/short volatility trades. These signals are designed to adapt to any market condition, as we strive for performance over a long time horizon.



Live Performance Report - Conservative Volatility Strategy

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	5.51%	7.08%	(6.06%)	3.89%	10.26%
2018	2.03%	0.00%	(1.86%)	6.01%	6.86%	2.91%	(2.22%)	(3.41%)	0.64%	(3.73%)	0.28%	(2.57%)	4.36%

Past performance is not necessarily indicative of future results and all investments involve risk. All investors should carefully consider the potential risks of a strategy and their own investment objectives before investing in any strategy. No representation is being made that any account will or is likely to achieve results similar to those shown. The information and analysis on this site is provided for informational purposes only. Nothing herein should be interpreted as personalized investment advice. Under no circumstances does this information represent a recommendation to buy, sell or hold any security. None of the information on this site is guaranteed to be correct, and anything written here should be subject to independent verification. You, and you alone, are solely responsible for any investment decisions you make.

Traditional Asset Strategy

Live performance since September 2017

The Traditional Asset Strategy trades the ETNs/ETFs MDY, IEF, and IAU. MDY seeks to track the performance of the S&P Midcap 400. IEF seeks to track the returns of 7-10 year US Treasury Bonds. IAU aims to reflect the returns of the price of gold. These benchmarks can be purchased interchangeably to enhance returns while trading traditional assets.

Volatility is more predictable than day-to-day returns of the S&P 500 and this trend will, in all likelihood, continue. Having said that, there is a strong correlation between equities, bonds, gold, and volatility. Because of this, the Traditional Asset Strategy uses volatility signals to determine ideal market conditions for long equity, long gold, and long bond trades. This strategy aims to beat benchmark returns over a complete market cycle. These signals are designed to adapt to any market condition, as we strive for performance over a long time horizon.

Live Performance Report - Traditional Asset Strategy

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	3.48%	2.55%	2.26%	(0.14%)	8.36%
2018	2.31%	1.75%	(3.76%)	(1.51%)	4.12%	2.80%	0.09%	3.90%	(1.35%)	(2.20%)	1.10%	(1.23%)	5.82%

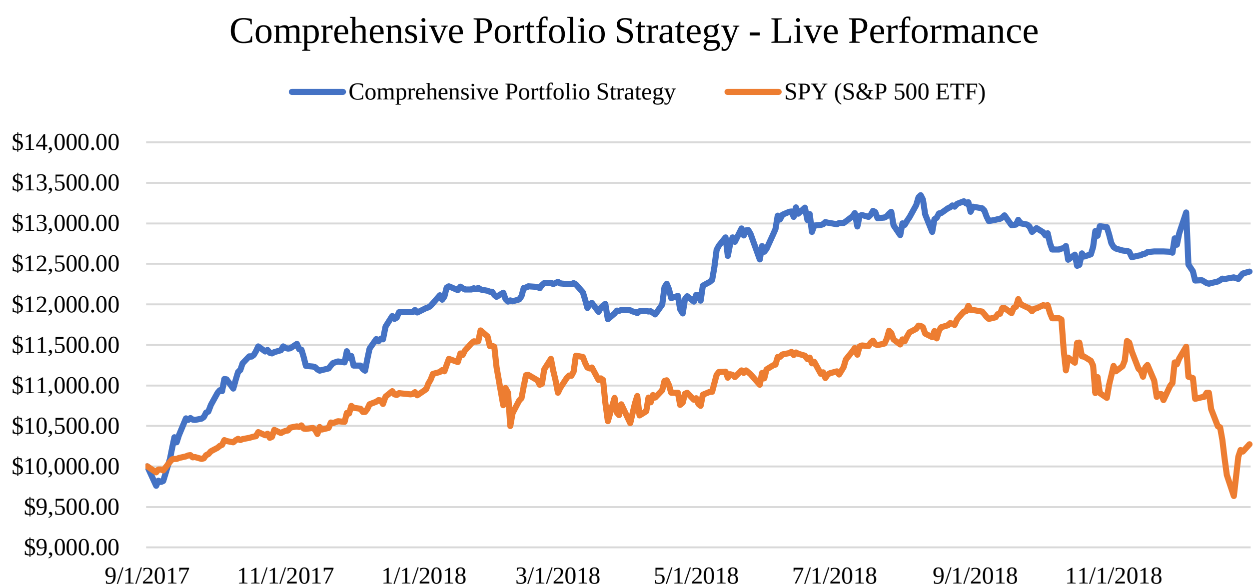
BCK Volatility

Comprehensive Portfolio Strategy

Live performance since September 2017

The Comprehensive Portfolio Strategy combines the Volatility, Traditional Asset, and Conservative Volatility strategies into a single, diversified portfolio. The weightings for each strategy are as follows: 50% allocated to the Traditional Asset Strategy, 30% allocated to the Volatility Strategy, and 20% allocated to the Conservative Volatility Strategy.

The Comprehensive Portfolio Strategy aims to reduce risk by diversifying across strategies. In addition, the strategy aims to beat benchmark returns over a complete market cycle.



Live Performance Report - Comprehensive Portfolio Strategy

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-	-	-	-	-	-	-	-	7.61%	6.70%	(1.02%)	4.69%	18.98%
2018	2.17%	0.88%	(2.70%)	0.85%	5.11%	2.80%	(0.01%)	1.56%	(1.99%)	(1.43%)	0.93%	(3.66%)	4.26%