BEAR MARKET ROAD MAP

No one likes bear markets, but they are inevitable and a key part of financial market cycles. Understanding how they function is critical to successful long-term investing.

Bull and bear markets can be defined in many ways. The most widely used definition for a bull market is a rise of at least 20%, and a bear market is typically defined as a decline of 20% or more. While one trends up and the other trends down, bear markets are not simply the opposite of a bull market. Bear markets are totally unique from any other market climate. Understanding these differences can be the first step to protecting precious investment capital and continuing to generate positive returns during the inevitable bear.

Most recent Bear Market:
S&P 500 INDEX: 2/1/2007 - 3/31/2009

KEY POINTS

- Bear markets deliver more powerful short-term rallies than bull markets.
- Day-to-day volatility doubles in bear markets.
- Flexible, tactical management is a key component to successfully managing bear markets.

1 Bear Markets Deliver Powerful Rallies

Most investors associate large rallies with bull markets, and large declines with bear markets. While true, it may come as a surprise to learn that bear markets also deliver many of the most powerful rallies on record.

The most recent bear market of 10/9/2007-3/9/2009 is a good representation of a typical bear market experience. While the S&P 500 index declined more than 50% from October 2007 to March 2009 it was not a straight down decline. The index experienced three powerful multi-month rallies of +12%, +18% and +24%.

KEY POINTS

- The largest short term rallies on record occur in bear markets, not bull
- Bear markets bring faster paced declines than bull markets.
- Time frames become compressed as a bear market matures.

2008 Bear Market Path:

S&P 500 INDEX: 10/9/2007 - 3/9/2009

START DATE	END DATE	% CHANGE	LENGTH
10/9/2007	3/10/2008	-18.64%	6 Months
3/10/2008	5/16/2008	+11.94%	6 Weeks
5/16/2008	7/15/2008	-14.76%	2 Months
7/15/2008	8/28/2008	+7.06%	5 Weeks
8/28/2008	10/27/2008	-34.73%	2 Months
10/27/2008	11/4/2008	+18.47%	6 Days
11/4/2008	11/20/2008	-25.19%	12 Days
11/20/2008	1/6/2009	+24.22%	6 Weeks
1/9/2009	3/9/2009	-24.02%	2 Months

2 Expect Indecision As Daily Volatility Doubles in Bear Markets

Bull markets are characterized by day after day of small gains that eventually turn into weeks and months of positive returns. In bear markets, the pace of trading is much more erratic. Economic data and news headlines have outsized impact on daily, even hourly market prices. Emotions run high as the fear of loss is a more powerful motivator than the feeling of greed in bull markets.

This contributes to something we call "Volatility Clustering", a condition where large single day advances and large single day declines tend to occur within days of each other. This phenomenon of large daily price reversals is a defining characteristic of bear markets.

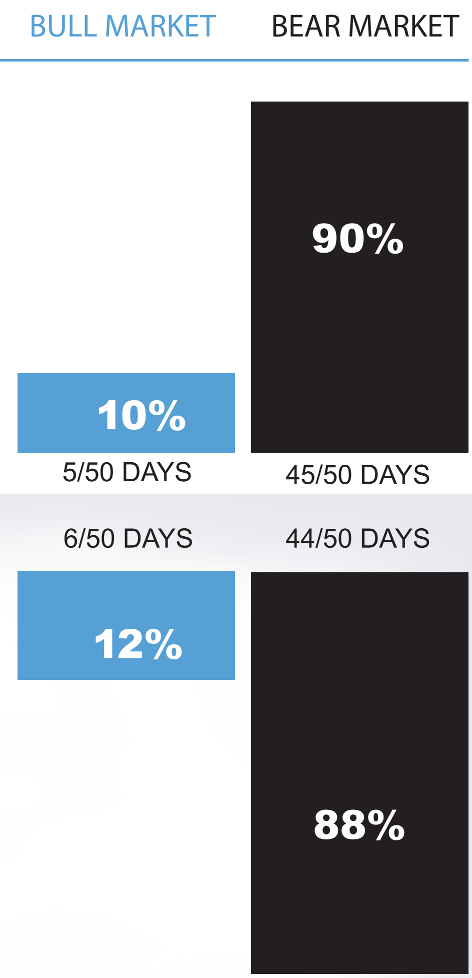
The S&P 500 Index study below illustrates this concept of bear market Volatility Clustering. Since 1980 90% of the fifty largest one day percentage gains occurred during bear markets, not bull. And 88% of the fifty largest single day declines also occurred during bear markets.

Where Do The Largest Days Occur: Bull or Bear?
S&P 500 INDEX: 1980 - 2015

Top 50 Largest One Day Gains

Just 5 out of 50 of the largest single day advances occur in bull markets[1]

45 out of 50 of the largest single day advances occur in bear markets[1]



Top 50 Largest One Day Declines

Just 6 out of 50 of the largest single day declines occur in bull markets[1]

44 out of 50 of the largest single day declines occur in bear markets[1]

Data Source: Bloomberg, L.P., Anchor Capital Management Group, Inc.
[1]Bear Market: Defined as periods when the S&P 500 Index price remains below its 200 day moving average.

3 Ignoring Bear Markets Can Be Costly

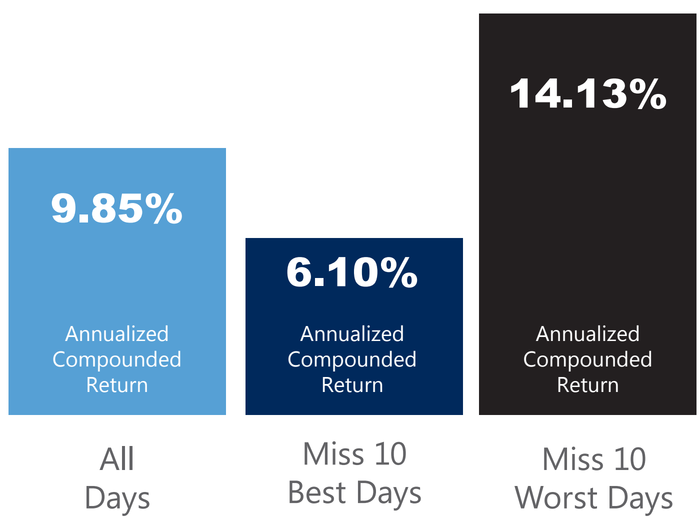
A common myth among investors is the belief that one must remain fully invested at all times in order to achieve one's investment goals. The "10 Best Days" study is often relied upon as evidence. The premise of the study is that large market rallies occur at random times throughout the year, and if an investor were to miss just the 10 best days of the year by being out of the market, one's overall returns diminish significantly.

Put simply, investors have been led to believe that one must suffer through every day of a bear market because they can't afford to miss the random 10 best days of the year.

As we have learned from Volatility Clustering, the largest one day moves are in fact <u>not random.</u> While it is true that missing the 10 best days each year does diminish overall returns, avoiding the 10 worst days in any year actually improves returns, when compared to remaining fully invested at all times.

20 Year Best and Worst Days Study:
S&P 500 INDEX: 1995 - 2014

History shows that avoiding the largest market declines may have a much larger impact on investor returns than missing the largest rallies.



Data Source: Bloomberg, L.P., Anchor Capital Management Group, Inc. Third party information in this document was obtained from sources that Anchor considers to be reliable; however, no representation is made as to, and no responsibility, warranty or liability is accepted for, the accuracy or completeness of such information. The information and opinions expressed in this report are for informational purposes only. Any recommendation or opinion made in this document may not be suitable for all investors. The information contained herein does not constitute and should not be construed as investment advice, an offering of investment advisory services or an offer to sell or a solicitation to buy any security. Please see additional disclosures at the end of this document.

Conclusion

Bear markets are unique. They are filled with confusion and high volatility, producing dizzying declines followed by powerful multi-month rallies. Bear markets can wreak havoc in investor portfolios. The last three bear markets in the US averaged losses of more than 50%, with even larger declines abroad.

In bear markets, the volume of conflicting market commentary becomes deafening, and the larger than normal price swings result in emotional investor decision making. For those without a game plan, a bear market can destroy years of wealth accumulation.

While bear markets should be respected, they need not be feared.

Bear markets simply require a different investment approach than bull market investing. Understanding how bear markets function is a key component to the Anchor Capital risk management process. Our investment methodology seeks to not only protect and preserve capital from the destructive forces of a bear market, but pursue profits as well.

For information on Anchor Capital investment strategies please contact your advisor or Anchor Capital at 800.290.8633 or visit www.anchor-capital.com.

About Anchor Capital

Anchor Capital is a SEC registered investment adviser located in Aliso Viejo, California with over $800 million dollars in assets under management[2]. We specialize in liquid, long-short alternative investment strategies designed to diversify traditional stock and bond portfolios, seeking lower correlation and less overall risk when compared to traditional benchmarks.

Our investment team has a combined 40 years of experience in the research and execution of quantitative trading disciplines, risk management, and alternative investment strategies.

[2]Assets under management as of 12/31/2017

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INDEX INFORMATION

The S&P 500 Composite Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard & Poor's chooses the member companies for the S&P based on market size, liquidity, and industry group representation. Included are the common stocks of industrial, financial, utility, and transportation companies. The historical performance results of the S&P (and those of or all indices) do not reflect the deduction of transaction and custodial charges, nor the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results.

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