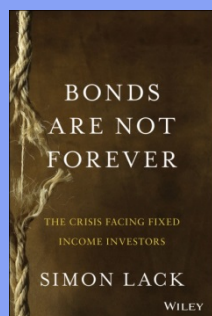




June, 2014

In Pursuit of Value

SL Advisors, LLC is a registered investment advisor offering separately managed accounts to individuals, family offices and institutions.



How To Invest Like A Woman

Sometimes when discussing investing with women, or with a married couple, I'll note that studies show women are better investors than men. It's always an entertaining moment; men are usually more surprised than women to discover this, and married couples often agree (perhaps because of experience or maybe in the interests of matrimonial harmony). The reasons relate to men's greater tolerance for risk (not just limited to Finance). As a result, research has shown that investment results for portfolios managed by men have a wider range of outcomes. Women are less likely to be the very top performers, but also less likely to blow themselves up. Women are also found to be more focused on longer term results and less concerned about the market's near term direction.

Behavioral Finance studies this and other areas where humans do not behave as "rational economic agents". Although the issue is not new, I was reminded of it by a recent [article](#) in the Financial Times. Academic studies over the past fifteen years or so find that men tend to be overconfident and trade more frequently compared with the fairer sex. This is another factor in favor of women's outperformance; less active trading generally produces better results. These conclusions are supported both by psychological studies as well as analysis of brokerage accounts divided by gender, although there's probably an element of self-selection at work. Investors are more likely to be men, so the women that do manage their family's portfolio are most likely more interested in it and have done more research.

Overconfidence is an especially debilitating feature. It's a seemingly masculine trait to be confident about many things, including forecasts about the future. Expressing doubt somehow seems kinda wimpy. Before the GPS, a couple navigating by car through an unfamiliar neighborhood neatly captured the way men and women handle uncertainty. Men never ask for directions because we're never lost (simply not where we'd like to be, as I always asserted). Women are less burdened with misplaced confidence at such times and are therefore more willing to seek help. An additional interesting comparison of male/female directional sense is that studies of lab rats have found that females rely on familiar visual landmarks while males have a better developed sense of spatial direction. Neither one is necessarily better, but you can appreciate, if I know I'm driving east through a town we've never visited, why my wife rolls her eyes with exasperation. GPS is a marriage saver.



Risk Intelligence has a [website](#) offering a free RQ Test that measures how good you are at assessing risk (i.e. are you overconfident?). The true/false questions invite you to state your level of confidence in your answer, since overconfident forecasts (of equity returns or anything else) manifest themselves through highly certain, incorrect answers to such questions. As Mark Twain is believed to have said, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." Henry and I both tested with above average ability to assess risks, but since we expected to anyway, that probably confirms the value of such testing.

The course material for the CFA exams includes material on behavioral finance and the human biases that distort traditional economic models of decision making. It doesn't explore gender-based differences, but it does present structure around the familiar real-life situations described above to the extent that they relate to Finance. It's a fascinating area, and has applicability to how we invest.

*SL Advisors, LLC
focuses on
identifying securities
that are trading at a
discount to intrinsic
value.*

Since my partner Henry and I are presumably burdened with the overconfidence typical of most men, we try to incorporate more finely calibrated degrees of confidence in our investment selections. This is most apparent in sizing. Highly confident investing can be binary (i.e. you either love a stock or hate it, resulting in a full-sized position or none at all). It also means usually moving slowly, researching an idea and allowing the increased understanding of a company to translate into a steadily increasing position if appropriate, or not, depending on what the work reveals. It's helped us limit our losses where we've been wrong (such as with shipping stocks in 2011-12, or JC Penney 2012-13, both of which at one stage looked to be highly compelling) but has also provided the basis to commit heavily after considerable research, such as on the theme of investing in the general partners of MLPs to profit from the shale-related energy infrastructure development. Behavioral Finance can be interpreted to teach that, for men, being in touch with your feminine side makes you a better investor. We know we'll make more mistakes in the future, and hopefully an appreciation of some insights from behavioral finance will ensure that such mis-steps are not be catastrophic.

The Future of Finance

I was invited to speak at the 67th CFA Institute Annual Conference in Seattle in May, on (what else?) hedge funds. *The Hedge Fund Mirage* continues to resonate.

There were many interesting speakers, including Sheila Bair (formerly head of the FDIC) and Bill Sharpe, creator of the eponymous Sharpe Ratio used to measure the risk adjusted return of investments. But what also caught my attention was a recent initiative by the CFA to think about where Finance is headed and how both the organization and its members can "contribute to a better future". This is a big topic, and one certainly deserving of greater attention from the financial services industry. May was "Putting Investors First Month". Of course virtually every investment firm claims to put clients first, and not only in May either. However, poor advice to invest inappropriately in high fee or illiquid (or both) products continues to be far too prevalent. Often when we meet a new client it's because they're dissatisfied with the conflict of interest, or principal-agent problem that occurs so frequently. We often come across examples of advice provided at a prior firm that was not clearly in the clients' best interests. If bankers, brokers and financial advisers invested in the same things they recommend on the same terms as their clients, the subsequent alignment of interests would serve their clients better.

In recent months I've commented to friends in the industry that I have enough examples of poorly rendered advice to fill half a book, and I'm routinely provided with additional material as a result. There probably is value in a book that shines light on things that, while not illegal are not pro-client. I may have more to say on this in the months ahead.

The CFA Institute is well positioned to play a leadership role in striving for higher standards among investment professionals. It has nothing to sell, beyond membership in the CFA itself, and the CFA curriculum includes sections on Ethics which charterholders are subsequently expected to uphold in their professional lives. The bi-monthly CFA magazine publishes details on "Code Violations" by members including sanctions that can extend to loss of CFA membership (an unthinkable consequence for anyone who, like Henry and me, has succeeded in passing all three six-hour exams and met the other criteria to be a CFA charterholder). While in Seattle I met the woman responsible for dealing with such violations (happily in a social setting, and I don't plan to meet her again in anything but).

Too often it seems that advice and trade recommendations need only meet the test of (1) legality, and (2) client acquiescence. It seems to us that a higher standard is needed, one that asks if the proposed course of action is actually good for the client. We look forward to seeing what impact the CFA's multi-year initiative has on the financial services industry, and perhaps to playing a small role ourselves.

SL Advisors runs a variety of strategies focused on generating attractive risk-adjusted returns using public equities in long-only and long-short format. Contact us for more information, or go to our website: www.sl-advisors.com

Returns for each strategy shown at right are from a single continuously managed account. The Hedged Dividend Capture, Deep Value and MLP Strategies have all been independently verified and attested to by Marcum, LLP. Documentation available on request.

| Hedged Dividend Capture Strategy Monthly Returns (%) | | | | | | | Since Inception | | | | 18% | Index | | 0% |
|--|------|------|------|-------|------|------|-----------------|------|------|-----|------|-------|------|----|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | |
| 2011 | | | | | | | | | | 0.4 | 0.2 | 3.5 | 4.2 | |
| Index | | | | | | | | | | 0.6 | -0.2 | 0.2 | 0.6 | |
| 2012 | -3.5 | -2.1 | 1.1 | 1.6 | 1.2 | 2.1 | 1.1 | -1.3 | 0.4 | 0.8 | 0.5 | -0.7 | 1.0 | |
| Index | 0.4 | -0.8 | -1.2 | -1.5 | -0.4 | -1.5 | -0.1 | -0.1 | -0.3 | 0.2 | 0.5 | 0.1 | -4.7 | |
| 2013 | 2.8 | 3.4 | 4.1 | 0.9 | -2.8 | 1.1 | 1.4 | -3.2 | -0.5 | 3.2 | -0.8 | -0.4 | 9.3 | |
| Index | 0.4 | 0.2 | 0.0 | 0.5 | 0.2 | -0.6 | 0.6 | -1.6 | -0.1 | 1.4 | 0.6 | 0.3 | 1.8 | |
| 2014 | -1.7 | 0.1 | 1.9 | 2.5 | 0.1 | | | | | | | | 2.9 | |
| Index | 0.7 | 0.7 | 0.6 | 0.6 | -1.7 | | | | | | | | 0.9 | |

The Index is the HFRX Equity Market Neutral Index. Returns are net of fees. Past performance is not indicative of future returns.

| High Dividend Low Beta Strategy (%) | | | | | | | Since Inception | | | | 59% | Index | | 80% |
|-------------------------------------|------|-----|-----|-------|------|------|-----------------|------|------|------|------|-------|------|-----|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | |
| 2011 | | | | | | | | | | 5.9 | 0.1 | 4.0 | 10.3 | |
| Index | | | | | | | | | | 10.9 | -0.2 | 1.0 | 11.8 | |
| 2012 | -1.3 | 0.1 | 2.8 | 1.3 | -1.8 | 4.2 | 1.8 | -0.2 | 1.7 | -0.1 | 0.8 | -0.2 | 9.1 | |
| Index | 4.5 | 4.3 | 3.3 | -0.6 | -6.0 | 4.1 | 1.4 | 2.3 | 2.6 | -1.8 | 0.6 | 0.9 | 16.0 | |
| 2013 | 5.4 | 4.1 | 6.0 | 1.9 | -1.6 | -0.4 | 4.0 | -4.6 | 1.1 | 5.5 | 0.7 | 0.8 | 25.7 | |
| Index | 5.2 | 1.4 | 3.8 | 1.9 | 2.3 | -1.3 | 5.1 | -2.9 | 3.1 | 4.6 | 3.0 | 2.5 | 32.3 | |
| 2014 | -3.5 | 2.5 | 2.0 | 2.9 | 1.3 | | | | | | | | 5.2 | |
| Index | -3.5 | 4.6 | 0.8 | 0.7 | 2.3 | | | | | | | | 5.0 | |

The Index is the S&P 500 including dividends. Returns are net of fees. Past performance is not indicative of future returns

| Deep Value Strategy Monthly Returns (%) | | | | | | | Since Inception | | | | 173% | Index | | 132% |
|---|------|-----|-----|-------|------|------|-----------------|------|------|------|------|-------|------|------|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | |
| 2009 | | | | | | | 8.5 | 1.0 | 11.3 | 0.4 | 3.5 | 9.8 | 39.3 | |
| Index | | | | | | | 7.6 | 3.6 | 3.7 | -1.9 | 6.0 | 1.9 | 22.6 | |
| 2010 | -1.1 | 3.8 | 6.6 | 3.5 | -5.6 | -4.5 | 5.2 | 7.0 | 7.8 | 1.2 | 1.0 | 2.7 | 30.2 | |
| Index | -3.6 | 3.1 | 6.0 | 1.6 | -8.0 | -5.2 | 7.0 | -4.5 | 8.9 | 3.8 | 0.0 | 6.7 | 15.1 | |
| 2011 | 0.2 | 2.2 | 1.9 | 2.5 | -2.3 | -2.9 | 0.6 | -5.2 | -9.2 | 12.3 | -0.5 | -0.6 | -2.3 | |
| Index | 2.4 | 3.4 | 0.0 | 3.0 | -1.1 | -1.7 | -2.0 | -5.4 | -7.0 | 10.9 | -0.2 | 1.0 | 2.1 | |
| 2012 | 4.4 | 5.2 | 0.9 | 2.0 | -8.8 | 3.8 | 0.7 | 3.6 | 3.3 | -0.9 | -2.6 | 1.0 | 12.4 | |
| Index | 4.5 | 4.3 | 3.3 | -0.6 | -6.0 | 4.1 | 1.4 | 2.3 | 2.6 | -1.8 | 0.6 | 0.9 | 16.0 | |
| 2013 | 6.4 | 0.6 | 4.3 | 1.6 | 2.1 | -1.6 | 4.3 | -1.2 | 1.7 | 3.1 | 2.0 | 5.1 | 31.9 | |
| Index | 5.2 | 1.4 | 3.8 | 1.9 | 2.3 | -1.3 | 5.1 | -2.9 | 3.1 | 4.6 | 3.0 | 2.5 | 32.3 | |
| 2014 | -4.7 | 5.2 | 0.3 | 2.3 | 1.3 | | | | | | | | 4.0 | |
| Index | -3.5 | 4.6 | 0.8 | 0.7 | 2.3 | | | | | | | | 5.0 | |

Returns do not include cash balances prior to November 2009. YTD returns are unannualized compounded returns. The Index is the S&P 500 including dividends. Returns are net of fees. Past performance is not indicative of future returns.

| MLP Strategy Monthly Returns (%) | | | | | | | Since Inception | | | | 202% | Index | | 153% |
|----------------------------------|------|------|------|-------|------|-------|-----------------|------|-------|------|-------|-------|-------|------|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | |
| 2008 | -0.7 | 3.0 | -0.8 | 1.9 | 4.2 | -10.7 | -2.0 | 0.6 | -14.9 | -1.1 | -25.4 | 7.4 | -36.1 | |
| Index | -0.6 | -0.5 | -6.3 | 7.3 | 1.0 | -4.9 | -1.7 | 1.7 | -17.2 | -0.1 | -17.1 | -3.7 | -36.9 | |
| 2009 | 15.4 | -2.1 | 5.0 | 5.8 | 9.9 | -1.1 | 10.1 | 0.1 | 1.0 | 2.3 | 6.2 | 5.0 | 73.3 | |
| Index | 15.3 | -4.2 | 0.7 | 11.0 | 9.3 | -1.7 | 12.4 | -3.2 | 4.8 | 2.9 | 6.4 | 6.6 | 76.4 | |
| 2010 | 0.7 | 5.4 | 2.0 | 2.4 | -0.5 | 5.1 | 5.8 | -1.6 | 5.0 | 2.0 | 3.2 | 2.7 | 37.2 | |
| Index | 0.6 | 4.6 | 2.9 | 3.4 | -5.4 | 5.6 | 7.5 | -2.5 | 6.1 | 5.4 | 1.9 | 1.7 | 35.9 | |
| 2011 | 1.2 | 5.1 | 0.0 | 2.6 | -4.3 | 1.8 | -3.0 | -0.3 | -3.4 | 9.1 | 0.2 | 6.8 | 15.8 | |
| Index | 3.0 | 3.5 | -0.6 | 3.3 | -5.0 | 1.1 | -1.9 | -1.1 | -4.1 | 10.3 | -0.2 | 5.8 | 13.9 | |
| 2012 | 1.7 | 5.2 | -3.7 | 0.9 | -7.1 | 3.1 | 5.9 | 3.2 | 2.3 | -0.7 | 0.4 | -3.2 | 7.4 | |
| Index | 1.9 | 4.2 | -4.0 | 2.2 | -7.5 | 3.3 | 5.1 | 1.6 | 2.0 | 0.5 | -0.8 | -3.1 | 4.8 | |
| 2013 | 12.9 | 1.7 | 5.8 | -0.5 | -1.2 | 2.6 | 0.3 | -0.4 | 1.2 | 2.4 | 4.0 | 3.4 | 36.6 | |
| Index | 12.6 | 0.9 | 5.4 | 0.9 | -2.0 | 3.1 | -0.5 | -2.5 | 2.3 | 2.7 | 0.9 | 1.6 | 27.6 | |
| 2014 | 1.5 | 2.6 | 3.8 | 2.5 | 5.6 | | | | | | | | 17.0 | |
| Index | 0.6 | -0.2 | 1.5 | 4.3 | 3.4 | | | | | | | | 9.8 | |

Returns do not include cash balances prior to May 2010. The Index is the Alerian MLP Index, AMZX. Returns are net of fees. Past performance is not indicative of future returns.

| Low Beta Long-Short Monthly Returns (%) | | | | | | | Since Inception | | | | 100% | Index | | | 0% |
|---|------|------|------|-------|------|------|-----------------|------|------|------|------|-------|-------|--|----|
| | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | YTD | | |
| 2011 | | | -3.5 | 19.4 | 6.5 | 4.5 | 0.0 | 9.1 | -1.1 | 6.7 | 1.9 | 1.5 | 52.6 | | |
| Index | | | -0.9 | 0.5 | -1.4 | -1.6 | -0.1 | -3.5 | -3.0 | 0.8 | -0.9 | -0.4 | -10.0 | | |
| 2012 | -5.1 | -1.6 | 5.7 | 3.3 | 1.1 | 2.4 | 3.2 | -2.2 | 2.1 | 0.7 | 0.2 | -1.3 | 8.6 | | |
| Index | 1.7 | 1.4 | 0.0 | 0.1 | -1.7 | -0.3 | 0.5 | 0.5 | 0.4 | -0.5 | 0.4 | 0.9 | 3.5 | | |
| 2013 | 7.9 | 6.2 | 6.5 | 3.2 | -2.1 | -0.7 | 4.0 | -2.1 | 0.3 | 0.4 | -2.8 | 2.0 | 24.5 | | |
| Index | 2.0 | 0.4 | 0.7 | 0.6 | 0.7 | -1.3 | 1.0 | -0.9 | 1.0 | 1.2 | 0.6 | 0.4 | 6.5 | | |
| 2014 | -5.6 | -0.6 | 1.2 | 3.0 | -1.0 | | | | | | | | -3.1 | | |
| Index | -0.1 | 1.6 | -0.2 | -0.7 | 0.5 | | | | | | | | 1.0 | | |

The Index is the HFRX Global Hedge Fund Index. Returns are net of fees. Past performance is not indicative of future returns.

SL Advisors offers separately managed accounts for individuals, family offices and institutions across various investment strategies. Client assets are held with Charles Schwab, the largest provider of custody services in the U.S. with client assets of \$1.89 trillion (as of September 30, 2012). Client portfolios are completely transparent via Schwab's extensive website which provides real-time access to accounts and all supporting information. Detailed monthly statements are mailed directly to clients from Schwab.

SL Advisors Hedged Dividend Capture Strategy

An alternative to bonds, this strategy utilizes stocks of stable companies with high dividend yields to generate income with capital appreciation by investing in a diverse, unleveraged, hedged portfolio of U.S. equities. Companies are selected that possess a history of steady earnings growth, attractive dividend yields and are less volatile than the overall market. The long positions are hedged with a short S&P500 position with the objective of making the portfolio beta neutral while still maintaining a net long equity exposure. Historically this strategy has exhibited monthly swings comparable to corporate bonds, and given the relative attractiveness of equities compared with investment grade bonds it has a more attractive return outlook. This strategy may be considered as a substitute for a portion of an investor's fixed income allocation.

SL Advisors High Dividend Low Beta Strategy

This is the long-only version of our Hedged Dividend Capture Strategy (Long/Short), which has been actively managed and deployed since October 2011. Academic research has shown the Capital Asset Pricing Model (CAPM) fails to explain risk-adjusted returns. Over long periods of time, high beta stocks tend to under-perform and low beta stocks tend to outperform, on a risk-adjusted basis, which is inconsistent with predicted performance by the CAPM. This strategy allows investors to take advantage of this persistent anomaly.

SL Advisors Deep Value Equity Strategy

A portfolio of undervalued stocks of high quality businesses that aims to outperform the S&P500. Investments are in listed U.S. equities trading significantly below the intrinsic value of the underlying enterprise. Potential investments are identified both qualitatively and quantitatively following which detailed research is performed to assess fundamental value. Desired characteristics of businesses include pricing power, low leverage, low costs of production, and attractive valuation. Valuation is defined to us foremost as the net present value of cash one can extract from proportional ownership of the business, then relatively using peer multiples and finally liquidation value. The portfolio is reassessed constantly and all holdings are rated for return potential and risk against their peer group to rebalance into the most attractive opportunities. This strategy is part of the equity allocation for balanced accounts for individuals, and is also appropriate as an alpha seeking equity strategy for institutional accounts.

SL Advisors MLP Strategy

This portfolio consists of 10-15 investments in Master Limited Partnerships (MLPs) to receive a healthy and growing tax deferred income stream. MLPs are publicly traded interests in energy infrastructure and related assets. They represent direct proportional ownership stakes in the underlying assets rather than securities in a corporation. Historically they have paid regular distributions which have grown with the U.S. economy, and as such they can be suitable for investors seeking income generating investments with a tolerance for equity market exposure. The strategy engages in low turnover so as to minimize transaction costs and benefit from the income tax deferral features of the asset class. MLPs are appropriate for high net worth investors comfortable with receiving a K-1 for each investment rather than a 1099. SL Advisors does not provide tax advice.

SL Advisors Low Beta Long-Short Strategy

Low Beta Long-Short is more concentrated than Hedged Dividend Capture ("DivCap") with added leverage and is not restricted to dividend paying stocks. It includes our best ideas from DivCap weighted according to conviction rather than diversified, equal weight allocations. It is managed to be beta neutral and returns are driven very largely by individual stock selection. Interactive Brokers is custodian for assets in this strategy only.

***Bonds Are Not Forever; The Crisis Facing Fixed Income Investors
is now available at [Amazon.com](http://www.amazon.com).***

Our blog, *In Pursuit of Value*, is at: <http://www.sl-advisors.com/blog/>

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