



# In Pursuit of Value

May, 2017

## Dunning-Kruger and Investing

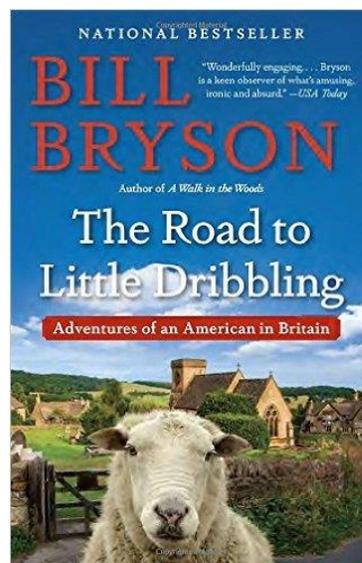
*The Road to Little Dribbling: Adventures of an American in Britain* is Bill Bryson's latest in a lifetime of writing about his observations traveling across America, Britain and Australia. I've found his descriptions of adapting to life in the UK particularly entertaining since he and I migrated across the Atlantic in opposite directions. I can imagine us comparing notes on our life choices over an adult beverage one day.

Bryson has become a bit more of a curmudgeon of late, with even less tolerance for life's instances of trivial stupidity. He's a bit like the late Andy Rooney who used to conclude *60 Minutes* every Sunday. The targets of Bryson's grousing include incorrect punctuation everywhere and the UK public transport system (on this he has many sympathizers). In describing one interaction with a cognitively challenged bureaucrat, Bryson refers to the [Dunning-Kruger effect](#). Dunning-Kruger (D-K) is a condition in which someone with weak mental capacity mistakenly thinks they are on the other end of the IQ scale. I was immediately struck by the immense satisfaction to be gained by dismissively classifying almost any stupid behavior as an example of D-K. In short, some people are too stupid to know how stupid they are, and while that's obvious to the rest of us, a pair of psychologists has helpfully formalized a diagnosis. The investment business is blessed with more examples than many industries, and dinner with ones' peers might be enlivened by identifying instances of D-K behavior. In 2000 Dunning and Kruger were awarded the satirical [Ig Nobel Prize](#) in Psychology for their work.

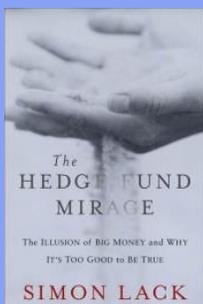
We'll return to D-K representatives shortly, but since most newsletters touch on Master Limited Partnerships (MLPs), few will know that travel writer Bill Bryson is tangentially connected with this sector. In 2004 at JPMorgan we met Gabriel Hammond and soon invested in his firm, Alerian Capital Management. Gabriel had a vision for bringing retail investors to MLPs, and part of that included creating an index. While seemingly obvious, it hadn't been done and the result was both the most widely used MLP benchmark as well as a money management firm (SteelPath) that was eventually sold to Oppenheimer Funds.

Having helped make MLPs more accessible to retail investors, Gabriel moved on to apply his talents and part of his recent wealth to launching [Broad Green Pictures](#), a movie production company. In this he was joined by his younger brother Daniel, who had worked at Alerian in the early days. Among their relatively prolific output is [A Walk in the Woods](#), based on Bill Bryson's book of his hike along the Appalachian Trail. It's an engaging story and probably Bryson's best seller. The movie starred Robert Redford and Nick Nolte, and if you like Bryson's writing you'll enjoy the movie. The career path that goes from Alerian to Hollywood is eclectic indeed, but Gabe Hammond is not your typical finance guy.

Returning to Dunning-Kruger nominees, regular readers might expect the managers of taxable MLP funds to figure prominently on any list. After all, years ago I distinctly remember watching MLP manager Jerry Swank pour withering criticism on the Alerian ETF (AMLP) with its 35% Federal corporate tax drag. Logically, few buyers



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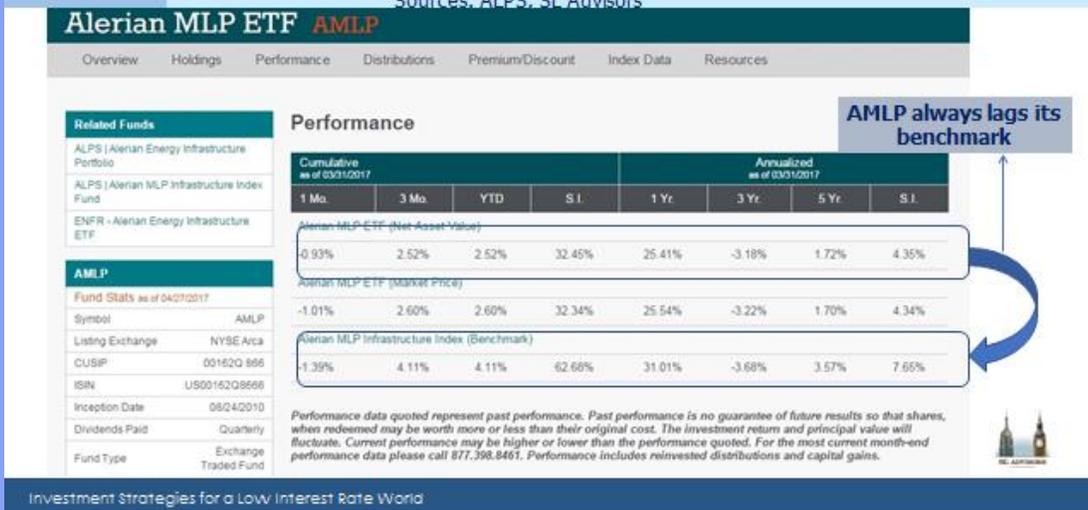
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## Dunning-Kruger in Action?

The AMLP MLP ETF consistently misses its benchmark

Sources: ALPS, SL Advisors



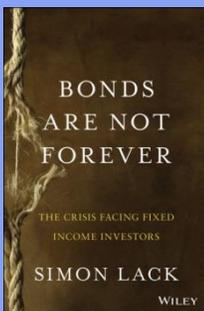
### Investment Strategies for a Low Interest Rate World

should exist for a security that sets out to provide only 65% of the sector's return, but not every investor reads that much. As we've noted before (see [Some MLP Investors Get Taxed Twice](#)) \$53BN of retail money is apparently quite undemanding. In Alerian's early years they spent considerable time and money researching ways to provide retail investors MLP exposure without K-1s. They ultimately concluded there was no way to avoid the 35% tax drag, and like others before them reasoned few investors would desire such an inefficient vehicle. But later they decided to try anyway, and AMLP was the result. Many investors remain seemingly oblivious to the substantial drag on returns the taxable structure creates, although the results are hidden in plain sight as the screenshot from their website shows. Jerry Swank soon changed his mind too and started his own tax-inefficient fund (Mainstay Cushing, CSHAX). But Jerry misses the D-K list because correctly underestimating some retail investors eventually made him wealthy when he sold his business to New York Life.



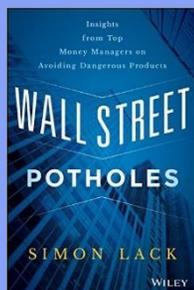
Some of the more strident environmentalists might be D-K candidates. Driving to a demonstration against an oil pipeline requires a stunning ignorance of how a modern society functions. Cleaning up the local environment after the environmental protesters against Energy Transfer's Dakota Access Pipeline had left required the Army Corps of Engineers to [deploy](#) 835 dumpsters. While protecting the environment is in everyone's interests, some of its more ardent defenders seem to feature D-K behavior quite prominently.

The hedge fund community contains a rich source of D-K candidates. There's a case for including most hedge fund consultants. But it's hard to beat publicly betting with Warren Buffett that hedge funds would outperform the S&P500 over ten years, as one industry professional did in 2007. Even the 2008 financial crisis didn't provide enough of a head start to compensate for subsequent years of fee-drenched mediocrity. We won't name the poor fellow but he's easily found via Google or in Berkshire Hathaway's 2016 annual letter. Few hedge fund managers today would publicly aim so high. Their goals are more modest – generally low single digits with not much volatility. Business success for a D-K patient is surely only possible with similarly afflicted clients, a point that many investors might ponder.



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A book written by Wall Street insiders that reveals how unsuspecting individual investors are often steered towards high-fee investment products that deliver poor



results.

Everyone who relies on others for financial advice should read this book so they can ask the tough questions that will help them achieve better investment results at less cost.

## Performance Tables

### Midstream Energy Infrastructure

#### (General Partner Focused)

MLP Strategy (K-1s)							Since Inception 170%				Index		97%
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
<b>2008</b>	<b>-0.6</b>	<b>3.1</b>	<b>-0.7</b>	<b>2.0</b>	<b>4.2</b>	<b>-10.6</b>	<b>-1.9</b>	<b>0.7</b>	<b>-14.9</b>	<b>-1.0</b>	<b>-22.0</b>	<b>2.9</b>	<b>-35.5</b>
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
<b>2009</b>	<b>15.5</b>	<b>-2.0</b>	<b>5.1</b>	<b>5.9</b>	<b>10.0</b>	<b>-1.0</b>	<b>10.2</b>	<b>0.2</b>	<b>1.1</b>	<b>2.3</b>	<b>6.3</b>	<b>5.1</b>	<b>75.0</b>
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
<b>2010</b>	<b>0.8</b>	<b>5.5</b>	<b>2.1</b>	<b>2.5</b>	<b>-4.4</b>	<b>5.2</b>	<b>5.9</b>	<b>-1.5</b>	<b>5.1</b>	<b>2.1</b>	<b>3.3</b>	<b>2.8</b>	<b>33.0</b>
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
<b>2011</b>	<b>1.3</b>	<b>5.2</b>	<b>0.1</b>	<b>2.7</b>	<b>-4.2</b>	<b>1.9</b>	<b>-2.4</b>	<b>-0.2</b>	<b>-3.3</b>	<b>9.2</b>	<b>0.2</b>	<b>6.9</b>	<b>17.6</b>
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
<b>2012</b>	<b>1.7</b>	<b>5.3</b>	<b>-3.6</b>	<b>0.9</b>	<b>-7.0</b>	<b>3.3</b>	<b>5.8</b>	<b>3.2</b>	<b>2.3</b>	<b>-0.8</b>	<b>0.3</b>	<b>-3.0</b>	<b>7.8</b>
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
<b>2013</b>	<b>12.9</b>	<b>1.8</b>	<b>5.8</b>	<b>-0.5</b>	<b>-1.1</b>	<b>2.7</b>	<b>0.3</b>	<b>-0.3</b>	<b>1.4</b>	<b>2.4</b>	<b>4.1</b>	<b>3.5</b>	<b>37.3</b>
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
<b>2014</b>	<b>1.5</b>	<b>2.6</b>	<b>3.9</b>	<b>2.4</b>	<b>5.6</b>	<b>9.6</b>	<b>-4.0</b>	<b>7.5</b>	<b>-1.5</b>	<b>-4.0</b>	<b>0.4</b>	<b>-3.0</b>	<b>21.9</b>
Index	0.6	-0.2	1.5	4.3	3.4	5.9	-3.5	8.2	-1.6	-4.6	-2.6	-5.6	4.8
<b>2015</b>	<b>-3.0</b>	<b>5.8</b>	<b>-0.9</b>	<b>4.9</b>	<b>-2.5</b>	<b>-4.8</b>	<b>-4.9</b>	<b>-6.1</b>	<b>-17.4</b>	<b>6.1</b>	<b>-8.2</b>	<b>-14.3</b>	<b>-39.0</b>
Index	-3.1	2.1	-4.2	6.2	-3.6	-8.3	-3.2	-5.0	-15.3	9.7	-8.1	-3.6	-32.6
<b>2016</b>	<b>-11.9</b>	<b>1.0</b>	<b>8.5</b>	<b>14.8</b>	<b>4.5</b>	<b>4.8</b>	<b>1.0</b>	<b>3.5</b>	<b>5.6</b>	<b>-6.8</b>	<b>7.4</b>	<b>5.1</b>	<b>40.8</b>
Index	-11.1	-0.5	8.3	11.0	2.5	5.1	0.6	-1.3	1.9	-4.5	2.3	4.4	18.3
<b>2017</b>	<b>0.7</b>	<b>0.2</b>	<b>0.9</b>	<b>-2.8</b>									<b>-1.1</b>
Index	4.9	0.4	-1.3	-1.3									2.6

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

Energy Infrastructure Strategy (1099s)							Since Inception				2%	Index		-8%
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD	
<b>2013</b>								<b>1.2</b>	<b>0.8</b>	<b>4.2</b>	<b>-0.3</b>	<b>6.2</b>	<b>12.5</b>	
Index								-0.5	2.3	2.7	0.9	1.6	5.3	
<b>2014</b>	<b>0.9</b>	<b>1.6</b>	<b>0.1</b>	<b>4.3</b>	<b>5.0</b>	<b>10.1</b>	<b>-2.6</b>	<b>6.7</b>	<b>-4.1</b>	<b>-2.2</b>	<b>-2.8</b>	<b>-1.1</b>	<b>16.1</b>	
Index	0.6	-0.2	1.5	4.3	3.4	5.9	-3.5	8.2	-1.6	-4.6	-2.6	-5.6	4.8	
<b>2015</b>	<b>-6.7</b>	<b>5.7</b>	<b>1.8</b>	<b>4.2</b>	<b>-5.3</b>	<b>-2.0</b>	<b>-6.8</b>	<b>-10.2</b>	<b>-15.5</b>	<b>5.4</b>	<b>-12.8</b>	<b>-18.3</b>	<b>-48.3</b>	
Index	-3.1	2.1	-4.2	6.2	-3.6	-8.3	-3.2	-5.0	-15.3	9.7	-8.1	-3.6	-32.6	
<b>2016</b>	<b>-4.5</b>	<b>-0.7</b>	<b>10.8</b>	<b>12.2</b>	<b>5.7</b>	<b>6.9</b>	<b>0.1</b>	<b>6.1</b>	<b>10.6</b>	<b>-5.4</b>	<b>6.2</b>	<b>2.1</b>	<b>60.5</b>	
Index	-11.1	-0.5	8.3	11.0	2.5	5.1	0.6	-1.3	1.9	-4.5	2.3	4.4	18.3	
<b>2017</b>	<b>-1.6</b>	<b>-1.0</b>	<b>0.8</b>	<b>-3.7</b>									<b>-5.4</b>	
Index	4.9	0.4	-1.3	-1.3									2.6	

The Index is the Alerian MLP Index, AMZX. August 2013 was a partial month. Past performance is not indicative of future returns

**Performance Tables (Continued)**  
**Low Volatility Strategies**

Low Vol Long Only							Since Inception				82%	Index			78%
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD		
<b>2012</b>								<b>0.2</b>	<b>1.9</b>	<b>0.0</b>	<b>1.0</b>	<b>-0.2</b>	<b>2.9</b>		
<i>Index</i>							-0.9	1.7	-0.1	-0.2	-0.5	0.0			
<b>2013</b>	<b>5.8</b>	<b>4.0</b>	<b>5.7</b>	<b>1.9</b>	<b>-2.0</b>	<b>0.2</b>	<b>4.1</b>	<b>-4.3</b>	<b>1.0</b>	<b>5.4</b>	<b>0.8</b>	<b>1.1</b>	<b>25.9</b>		
<i>Index</i>	5.0	2.7	4.9	3.8	-3.4	0.6	4.2	-4.8	2.0	4.6	1.2	1.1	23.6		
<b>2014</b>	<b>-3.5</b>	<b>2.7</b>	<b>2.0</b>	<b>2.8</b>	<b>1.4</b>	<b>0.9</b>	<b>-2.5</b>	<b>5.1</b>	<b>-0.8</b>	<b>2.2</b>	<b>2.5</b>	<b>-0.1</b>	<b>13.3</b>		
<i>Index</i>	-2.5	3.7	2.1	1.9	1.0	2.2	-3.8	3.8	-0.9	4.9	3.2	0.9	17.5		
<b>2015</b>	<b>-1.4</b>	<b>2.9</b>	<b>1.8</b>	<b>-1.2</b>	<b>-0.6</b>	<b>-2.2</b>	<b>2.7</b>	<b>-4.4</b>	<b>-1.0</b>	<b>6.0</b>	<b>-2.1</b>	<b>-0.4</b>	<b>-0.2</b>		
<i>Index</i>	-0.4	1.5	-0.3	-2.0	0.9	-1.8	4.3	-4.9	-0.4	6.8	1.1	-0.1	4.3		
<b>2016</b>	<b>1.5</b>	<b>1.6</b>	<b>5.4</b>	<b>0.1</b>	<b>2.4</b>	<b>7.5</b>	<b>-0.7</b>	<b>-2.0</b>	<b>0.5</b>	<b>-2.4</b>	<b>1.4</b>	<b>2.7</b>	<b>19.1</b>		
<i>Index</i>	-1.7	1.0	6.0	-0.7	1.7	5.7	0.3	-1.9	-1.0	-2.2	0.5	2.6	10.4		
<b>2017</b>	<b>0.8</b>	<b>3.7</b>	<b>0.5</b>	<b>-0.4</b>									<b>4.7</b>		
<i>Index</i>	0.7	4.5	-0.1	1.1									6.4		

The Index is the S&P 500 Low Volatility Index including dividends. Past performance is not indicative of future returns

Low Vol Hedged						Since Inception				41%	Index 2%		
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
<b>2011</b>										<b>0.3</b>	<b>0.3</b>	<b>3.6</b>	<b>4.3</b>
<i>Index</i>										0.6	-0.2	0.2	0.6
<b>2012</b>	<b>-3.5</b>	<b>-2.0</b>	<b>1.2</b>	<b>1.7</b>	<b>1.2</b>	<b>2.2</b>	<b>1.1</b>	<b>-1.3</b>	<b>0.5</b>	<b>0.8</b>	<b>0.6</b>	<b>-0.6</b>	<b>1.8</b>
<i>Index</i>	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
<b>2013</b>	<b>2.9</b>	<b>3.5</b>	<b>4.1</b>	<b>0.9</b>	<b>-2.8</b>	<b>1.1</b>	<b>1.4</b>	<b>-3.0</b>	<b>-0.4</b>	<b>3.2</b>	<b>-0.7</b>	<b>-0.4</b>	<b>10.0</b>
<i>Index</i>	0.4	0.2	0.0	0.5	0.2	-0.6	0.6	-1.6	-0.1	1.4	0.6	0.2	1.7
<b>2014</b>	<b>-1.6</b>	<b>0.0</b>	<b>1.9</b>	<b>2.4</b>	<b>0.3</b>	<b>0.0</b>	<b>-2.2</b>	<b>3.1</b>	<b>0.2</b>	<b>0.9</b>	<b>1.2</b>	<b>0.3</b>	<b>6.7</b>
<i>Index</i>	0.7	0.7	0.6	0.6	-1.8	0.4	0.2	0.9	0.3	1.0	-0.1	0.0	3.6
<b>2015</b>	<b>-0.1</b>	<b>-0.1</b>	<b>2.8</b>	<b>-2.0</b>	<b>-1.1</b>	<b>-1.0</b>	<b>2.0</b>	<b>-1.2</b>	<b>1.0</b>	<b>1.6</b>	<b>-1.9</b>	<b>1.5</b>	<b>1.3</b>
<i>Index</i>	0.1	0.5	1.0	-1.5	-0.4	1.1	1.4	0.2	2.0	1.1	-0.5	0.3	5.5
<b>2016</b>	<b>3.6</b>	<b>1.4</b>	<b>2.2</b>	<b>-0.6</b>	<b>1.2</b>	<b>7.5</b>	<b>-2.7</b>	<b>-2.5</b>	<b>-0.1</b>	<b>-1.4</b>	<b>-0.9</b>	<b>2.3</b>	<b>9.9</b>
<i>Index</i>	-0.2	-1.5	-0.8	-1.9	0.4	-1.0	1.2	-0.4	0.4	-0.1	0.0	-1.1	-5.1
<b>2017</b>	<b>-0.4</b>	<b>2.3</b>	<b>0.5</b>	<b>-0.9</b>									<b>1.5</b>
<i>Index</i>	0.7	0.0	0.7	-0.3									1.2

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

Low Vol Best Ideas							Since Inception				117%	Index			-1%
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD		
<b>2011</b>			<b>-3.6</b>	<b>19.4</b>	<b>6.5</b>	<b>4.6</b>	<b>0.1</b>	<b>9.2</b>	<b>-1.0</b>	<b>6.8</b>	<b>2.0</b>	<b>1.6</b>	<b>53.6</b>		
<i>Index</i>			-0.9	0.5	-1.4	-1.6	-0.1	-3.5	-3.0	0.8	-0.9	-0.4	-10.0		
<b>2012</b>	<b>-4.9</b>	<b>-1.5</b>	<b>5.8</b>	<b>3.4</b>	<b>1.2</b>	<b>2.5</b>	<b>3.3</b>	<b>-2.1</b>	<b>0.0</b>	<b>3.1</b>	<b>0.3</b>	<b>-1.2</b>	<b>9.8</b>		
<i>Index</i>	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		
<b>2013</b>	<b>7.9</b>	<b>6.6</b>	<b>6.6</b>	<b>3.3</b>	<b>-2.0</b>	<b>-0.6</b>	<b>3.9</b>	<b>-2.0</b>	<b>0.4</b>	<b>0.4</b>	<b>-2.7</b>	<b>2.1</b>	<b>25.7</b>		
<i>Index</i>	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		
<b>2014</b>	<b>-5.6</b>	<b>-0.5</b>	<b>1.3</b>	<b>2.9</b>	<b>-1.0</b>	<b>3.5</b>	<b>-0.7</b>	<b>5.2</b>	<b>-0.5</b>	<b>-0.9</b>	<b>2.3</b>	<b>1.5</b>	<b>7.4</b>		
<i>Index</i>	-0.1	1.6	-0.2	-0.7	0.5	0.9	-0.9	1.1	-0.8	-1.3	0.3	-0.8	-0.4		
<b>2015</b>	<b>-1.2</b>	<b>0.0</b>	<b>2.1</b>	<b>-1.2</b>	<b>-2.9</b>	<b>-2.8</b>	<b>0.3</b>	<b>-0.4</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-6.6</b>	<b>-0.2</b>	<b>-17.7</b>		
<i>Index</i>	-0.3	2.0	0.3	0.2	0.3	-1.3	0.0	-2.2	-2.1	1.5	-0.7	-1.3	-3.6		
<b>2016</b>	<b>2.1</b>	<b>3.5</b>	<b>2.9</b>	<b>1.2</b>	<b>2.1</b>	<b>7.4</b>	<b>-1.5</b>	<b>-0.1</b>	<b>-3.2</b>	<b>0.4</b>	<b>-1.5</b>	<b>2.6</b>	<b>16.5</b>		
<i>Index</i>	-2.8	-0.3	1.8	-0.1	0.5	0.2	1.5	0.2	0.6	-0.6	0.9	0.9	2.5		
<b>2017</b>	<b>0.4</b>	<b>1.7</b>	<b>-1.1</b>	<b>-1.7</b>									<b>-0.7</b>		
<i>Index</i>	0.5	1.2	0.0	-0.2									1.4		

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

*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](http://www.sl-advisors.com)*

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 for independent registered investment advisors in the U.S. with client assets of \$1.1 trillion (as of December 31, 2014). 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 MLP Strategy**

This portfolio consists of approximately 15 investments in Master Limited Partnerships (MLPs) and publicly traded companies in energy infrastructure and related assets to receive a healthy and growing tax deferred income stream. MLPs are publicly traded interests primarily invested 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 steadily grown, and as such they can be suitable for investors seeking income generating investments with a tolerance for equity market exposure.

#### **SL Energy Infrastructure Strategy**

This strategy seeks to achieve its investment objective by primarily investing in the equity securities of the general partners of master limited partnerships ("MLPs") and the parent companies of general partners of MLPs (collectively, "GPs"). It holds some of the same names that are in the MLP Strategy but only invests in securities that generate 1099s for tax-reporting. As such, it may be appropriate for tax-deferred, tax-exempt and non-U.S. investors.

#### **SL Advisors Low Vol Long Only Strategy**

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. 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 out-perform, on a risk-adjusted basis, which is inconsistent with predicted performance by the CAPM. This strategy attempts to take advantage of this persistent anomaly.

#### **SL Advisors Low Vol Hedged Strategy**

An alternative to bonds, this strategy combines the Low Vol Long Only Strategy 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 we believe 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 Low Vol Best Ideas Strategy**

Low Beta Long-Short is more concentrated than Low Vol Hedged with added leverage and is not restricted to dividend paying stocks. It includes our best ideas from Low Vol 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.

***The Hedge Fund Mirage; The Illusion of Big Money and Why It's Too Good To Be True***

***Bonds Are Not Forever; The Crisis Facing Fixed Income Investors***

***and***

***Wall Street Potholes: Insights from Top Money Managers on Avoiding Dangerous Products***

**are all available at [Amazon.com](http://Amazon.com).**

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

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## DISCLOSURES

### **MLP Strategy**

Returns for the MLP Strategy reflect the performance of the composite of all discretionary accounts invested in this strategy. The returns shown reflect the deduction of an annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the Alerian MLP index is shown for comparison purposes only. The Alerian MLP is a float-adjusted, capitalization-weighted index, which tracks 50 large- and mid-cap energy Master Limited Partnerships (MLPs), capturing 75% of available market capitalization. This index tracks securities which most closely correlate to the securities in which the MLP strategy invests. You cannot invest directly in an index. Past performance is no guarantee of future results.

### **Energy Infrastructure Strategy**

The Energy Infrastructure Strategy seeks to invest in the General Partners (GPs) of Master Limited Partnerships (MLPs) and other energy infrastructure businesses solely through C-corps rather than partnerships. Consequently, the tax reporting consists of 1099s rather than the K-1s common with MLPs. Returns for the Energy Infrastructure Strategy reflect the performance of a composite comprised of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of an annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the Alerian MLP Index is shown for comparison purposes only. The Alerian MLP Index is a float-adjusted, market-capitalization weighted index of publicly traded MLPs. This index best reflects the universe of stocks from which the Energy Infrastructure Strategy seeks to invest. You cannot invest directly in an index. Past performance is no guarantee of future results.

### **Low Vol Long Only Strategy**

The objective of this strategy is to: (1) generate equity market returns over full market cycle with lower volatility (2) outperform S&P500 during periods of significant stock market underperformance (3) generate higher dividend income than the S&P500. Returns for the Low Vol Long Only Strategy reflect the performance of a composite comprised of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of a 1% annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the S&P 500 Low Volatility index is shown for comparison purposes only. The S&P 500 Low Volatility index measures performance of the 100 least volatile stocks in the S&P500. The index benchmarks low volatility or low variance strategies for the U.S Stocks market. This index tracks securities which most closely correlate to the securities in which the Low Vol Long Only strategy invests. Past performance is no guarantee of future results. You cannot invest directly in an index.

### **Low Vol Hedged Strategy**

Returns for the Low Vol Hedged Strategy reflects the performance of the composite of all discretionary accounts invested in this strategy. The returns shown reflect the deduction of an annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. As stated above, part of the objective of the Low Vol Hedged Strategy is to outperform the HFRX EM Neutral Index. The performance of the HFRX EM Neutral Index and the DJ Corporate Bond Index are shown for comparison purposes only. The HFRX EM Neutral Index consists of hedge funds that employ quantitative techniques to construct portfolios which are intended to be uncorrelated with equity markets. The DJ Corporate Bond Index is an equally weighted index of investment-grade corporate bonds. HFRX EM Neutral Index is presented as it is a reasonable comparison for Low Vol Hedged which seeks to generate returns while remaining uncorrelated with equities. The DJ Corporate Bond Index is presented as the manager believes Low Vol Hedged can be an acceptable substitute for corporate bonds given its income generating objective. index You cannot invest directly in an index. Past performance is no guarantee of future results.

### **Low Vol Best Ideas**

The objective of this strategy is to deliver absolute returns that are uncorrelated to traditional asset classes. It aims to generate capital appreciation while remaining Beta neutral by maintaining a net long position in low beta equities hedged with the S&P500 (using SPY) to deliver uncorrelated returns. It deploys gross leverage of typically < 2:1 and targets volatility similar to the S&P500. Returns for the Low Vol Best Ideas Strategy reflect the performance of a composite comprised of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of a 1% annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. The performance of the HFRX Global Hedge Fund Index is shown for comparison purposes only. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies. The Strategies are asset weighted based on the distribution of assets in the hedge fund industry. HFRX Global Hedge Fund Index is presented as it is a reasonable comparison for Low Vol Best Ideas which seeks to generate absolute returns while remaining uncorrelated with equities. You cannot invest directly in an index. Past performance is no guarantee of future results.