IARCB2023

# VIRTUE CAPITAL MANAGEMENT & YOU.

*How our RIA firm supports your financial advisor and you.*

VIRTUE CAPITAL MANAGEMENT

FINANCIAL PLANNING | INCOME PLANNING | RETIREMENT PLANNING | WEALTH MANAGEMENT

*866.907.4275 | www.virtuecm.com*

*Investment Advisory services offered though Virtue Capital Management, LLC, an SEC registered investment advisor.*


Our mission is to support the relationships between investors and investment advisors by providing the best service, technology, and investment solutions available and ensuring the security of assets through our preferred custodian, Charles Schwab.
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RIA

## What is a Registered Investment Advisor?

The financial services industry is a rapidly changing professional environment. As the needs and desires of consumers change, firms engaged in managing money are also evolving. A registered investment advisor (RIA) such as Virtue Capital Management manages the assets of individuals, businesses and institutions.

A registered investment adviser, or RIA, is an investment adviser who has registered either at the state level with their state's Securities Commission, or at the federal level with the United States Securities and Exchange Commission. Most RIAs are partnerships or corporations, but individuals can also register as RIAs. RIAs are paid much like mutual fund managers, Virtue Capital Management and our family of investment advisor representatives typically earn their revenue through a management fee comprised of a percentage of assets managed for a client.

The term investment adviser (IA) was first defined in the Investment Advisers Act of 1940, and the original definition is still upheld by the Securities and Exchange Commission (SEC):

An investment adviser is any individual or firm that engages in the business of advising clients, either directly or through publications or writings as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues analyses or reports concerning securities.

IAR

## *What is a Investment Advisor Representative?*

Investment adviser representatives (IARs) are investment advisers who are employed by state or federal registered investment adviser firms. Investment adviser representatives can make recommendations or provide advice on the value, purchase, and sale of securities.

Investment adviser representatives are subject to the same registration requirements and regulatory standards as investment adviser firm proprietors and are only set apart by the fact that they are employees or independent contractors, rather than principals, of these firms. Investment advisers are knowledgeable of most types of investments, including stocks, bonds, exchange traded funds, mutual funds, derivatives, and other less common investment products. Investment advisers may offer other services outside of portfolio management and consultation.

Virtue Capital Management is the Registered Investment Advisor that the Investment Advisor Representative (the advisor you are working with or considering working with) is licensed and registered with.

VIRTUE® CAPITAL MANAGEMENT



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## *Why Consider Working with Virtue Capital Management?*

The old model of a broker calling his clients with stock ideas seems to be dying. In fact, there has been an exodus of client assets leaving this model. There are several reasons for this change including high commission fees and often inadequate diversification.

Many Americans who participate in the stock market do so through mutual funds. As a result, mutual fund assets have been growing steadily for more than 50 years. However, as the amount of money within an individual or group fund increases, the ability to achieve the best results with mutual funds may diminish. This is where RIAs and their investment options are able to provide additional services that mutual funds can't. Some of those services include the following:

• Many clients are looking to have a true financial "quarterback", a resource they can trust for solid advice on their financial game plan. A good RIA will speak to the client in terms of his or her overall investment goals and objectives, and review these with the client on an ongoing basis.

• Clients increasingly want to have more options and easier access to the decision makers on their accounts. When working with your local advisor and Virtue Capital Management, you will have access to the information you need to help you achieve your financial goals. Alternatively, there is no direct access lines to the managers of a mutual fund account. There is no easy way to ask your mutual fund manager questions like, "Why did you choose to buy Wal-Mart?", or "What's a good estimate for what my capital gains could be this year?" Many clients do want this information accessible, either for education or piece of mind.

VIRTUE® CAPITAL MANAGEMENT

# *Broad Investment Choices*

Virtue Capital Management has created an investment approach that emphasizes risk-managed portfolios designed to meet the specific needs and risk tolerance of investors by:

- ***Offering a full spectrum of flexible investment options.***
- ***Focusing on risk management in today's constantly changing markets.***
- ***Evaluating the investment landscape from a unique 21st-century perspective.***

**Classic Portfolio Construction – The Active vs. Passive Divide**

The standard approach to portfolio construction starts with determining a client's goals and risk tolerance and then finds a diversified asset allocation with an expected return and acceptable risk commensurate with the goals and tolerance. The end point is typically an investment plan that outlines how much will be invested and diversified into each asset class.

How is the asset allocation itself determined? In practice, most advisors use what's known as Modern Portfolio Theory (MPT) with portfolio optimizers, at least conceptually. The goal of MPT lies in holding various asset classes that have appealing returns, reasonable risk, and low correlations to each other. The: three factors: expected return, volatility, and correlations (or a full covariance matrix) are the building blocks of MPT.

# *Tactical, Dynamic & Strategic Solutions*

**Broad Investment Options**

Virtue Capital Management has built an investment platform that includes sophisticated and robust risk-managed strategies. Virtue offers a flexible and powerful range of investment options. Virtue's proprietary strategies and separately managed accounts are designed to meet the diverse needs of clients from conservative to moderate to aggressive. We offer both customized wealth management solutions and strategies from specialized money managers (sub-advisors) who pursue a complementary risk-managed philosophy. This broad selection allows for effective long-term strategies customized to each investor's specific risk/reward profile.

**Risk-Managed Mythology**

Virtue's approach is directed toward defending against the significant impact that large drawdowns can have on the long term growth of an investment portfolio. We develop and implement strategies focused on minimizing risk. Some of our strategies emphasize low correlation to broader volatile market activity. This is achieved through hedged equity with the use of protective options, tactical strategies to dynamically adjust to market conditions, and other risk management practices.

**Investment Strategy Diversification**

We believe that diversification across multiple risk controlled strategies helps manage wealth for both performance and protection. While each of our strategies has its own methodology and diversification, many incorporate some form of risk management to guard against large-scale losses. Our strategies encompass conservative, moderate, and growth-oriented performance goals to offer a full spectrum of investment options to meet each investor's tolerance for risk.

# Strategic, Dynamic and Tactical Investment Management

**Strategic/Passive Asset Management** *calls for setting target allocations and then periodically rebalancing the portfolio toward those target goals as investment returns skew the original asset allocation percentages.*

- The concept is closer in philosophy to a "buy and hold" strategy as it generally keeps the holdings while reallocating, rather than an active trading approach.
- Of course, the strategic asset allocation targets may change over time as the client's goals, risk tolerance, and needs change and as the time horizon for major events, such as retirement and college funding grow shorter.
- Strategic investing is a long-term investment approach where the manager is typically 100% invested at all times regardless of what may be happening in the broad market or the sector/style class the strategy invests in.
- Example – A strategic "Large-Cap" asset allocation would generally be invested in large-cap investments even if the broad stock market or large cap itself was underperforming or losing value for an extended period of time.

**Dynamic Asset Management** *is a portfolio management strategy that frequently adjusts the mix of asset classes to suit market conditions.*

- Investing in the best performing asset classes striving to allow investors' portfolios the highest exposure to momentum and to reap returns if the trend continues. Conversely, portfolios that use dynamic asset allocation reduces asset classes that are trending lower to help minimize losses.
- Dynamic asset allocation typically exposes a portfolio to multiple asset classes to help manage risk. Portfolio managers may make investments in equities, fixed income, mutual funds, index funds, currencies and or derivatives depending on the manager's investment methodology. Top-performing asset classes can help offset underperforming assets if the manager makes a bad call.
- Example – Dynamic asset allocation may be invested in let's say four sectors of the stock market in January but at another point during the year may have sold all four of those sectors and replaced them with other sectors or another asset classes depending on the momentum of the sectors and the methodology of the strategy. Dynamic Asset Allocation does have the flexibility to be 100% invested in cash during market corrections, although it may be at a slower pace than Tactical Asset Allocation.

**Tactical Asset Management** *allows active portfolio managers the flexibility to quickly buy or sell different asset classes depending on market conditions.* The goal for this allocation is to participate in market appreciation during bull markets while mitigating the impact of major losses during sustained downward markets. Managers can invest in multiple asset classes and go "offensive/ risk-on" or "defensive/ risk-off" depending on the stock market environment.

- These allocations are set at minimum and maximum acceptable percentages that permit the money manager to take advantage of market conditions within these parameters.
- Thus, a form of market timing is possible, since the money manager can move to the higher end of the range when equities "risk-on" are expected to do better and to the lower end when the economic outlook is bleak.
- Example – Tactical asset allocation may be invested in stocks when they are in an offensive "risk-on" posture or could be invested up to 100% in cash and or fixed income during periods of defense "risk-off" due to high market volatility depending on the methodology of the strategy.

| INVESTMENT MANAGEMENT STYLE | Asset Allocation Style | | Active | Passive |
|---|---|---|---|---|
| | Investment Selection Style | Active | Manager-Based Tactical Asset Allocation (active, active) | Manager-Based Strategic Asset Allocation (passive, active) |
| | | Passive | Indexed-Based Tactical Asset Allocation (active, passive) | Indexed-Based Strategic Asset Allocation (passive, passive) |

Changes within asset classes represent the classic "tactical/passive, dynamic vs. tactical/active" divide: Virtue offers your investment advisor strategic, dynamic as well as tactical investments solutions to choose from within the client's portfolios.

At the intersection of these two dimensions is a combination of four possible "investment management" styles. Depending on whether the manager is tactical or strategic in selecting asset classes and passive or active in implementing those asset classes determines which of the four styles.

In the "traditional" world of portfolio construction, all investment management decisions remained on the right side of the chart. Asset allocation was presumed to be strategic for all, and the only decision was whether to implement that asset allocation with funds (the passive approach) or to try to identify stock-pickers/mutual funds capable of outperforming those indices (the active approach).

On the left side of the chart, though, is the newer rise of "tactical" asset allocation. In the lower left is the index-based tactical approach. If you took a snapshot of the portfolio, you would see a long list of funds; but if you were to take another look at the portfolio in a year, you would find different allocations to those index funds. **The active implementation is not in the use of active managers in lieu of index funds, but the active management of the fund allocations themselves.**

Making tactical decisions amongst asset classes may be driven by absolute or relative valuation measures, top-down macroeconomics, or outright forecasting of exogenous events. Making active decisions within asset classes entails a skillset in security analysis and bottom-up analysis, considering costs and fees, liquidity and trading capabilities, etc.

Investment managers may ultimately choose a blend of how they wish to provide investment options and how they wish to do it. They might make tactical decisions internally but implement with actively managed funds for the security selection. They might be a firm of bottom-up stock-pickers but draw on outside research for macroeconomic input amongst the asset classes. They might focus on being in the "manager search and selection" business and identify managers capable of making the decision amongst or within asset class decisions.

## Powerful Resources

Something extraordinary happens when you have the resources you need to be successful. Your financial advisor works hard to ensure that you are achieving your financial goals. Virtue works hard to ensure that your financial advisor has every resource available to efficiently run their business and manage your accounts. To do so, they need robust technology solutions and access to industry-leading research — again, that's where we come in.

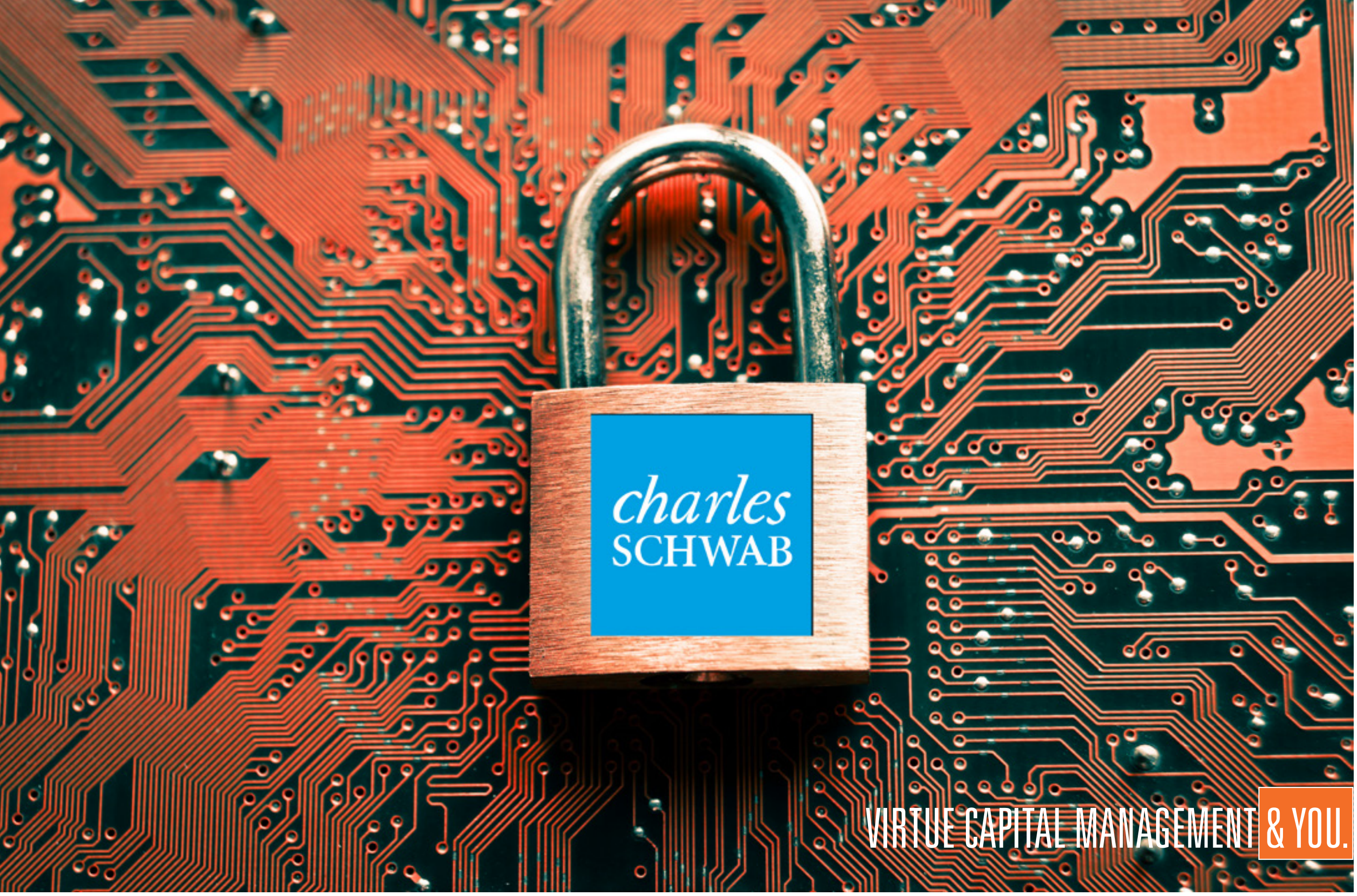
## Unified Managed Account (UMA) Platform

Many of our advisors use multiple asset management strategies, with different fee schedules, all needing performance-reporting features. An UMA platform allows advisors to build a diversified portfolio under a single asset allocation plan that may hold a variety of investments and money managers. UMAs can combine individual securities ownership and account customization with a high degree of investment diversification and operational efficiency, making it possible for investors to consolidate their entire portfolio into a single investment account.

UMAs allow investors to combine the key components of their portfolio in a single, integrated investment structure. We believe a well-designed UMA program should offer asset allocation advice, a variety of investment options, consolidated performance and tax reporting, portfolio rebalancing, and optional features such as tax management.

Unified Managed Accounts are best utilized as an integral part of a disciplined investment strategy. When developing and implementing such a strategy, each investor should consider his or her individual goals, time horizon, and tolerance for risk.

The number and increasing complexity of investment options can make creating and managing a diversified portfolio a difficult process. Finding a way to coordinate and analyze various investment products, their strategies, holdings, account structures, fees, tax statements and performance reports can prove a challenge, even for experts. A carefully constructed UMA program can offer investors the opportunity to simplify their investment lives without compromising the features, diversification benefits, or quality of their investment choices.




# *Asset Security with Charles Schwab*

**Your assets are protected at Schwab.**
We work hard to make Schwab a secure and safe place for your money. Whether you hold securities like stocks, bonds, mutual funds, exchange traded funds, or money market funds in a Schwab brokerage account, or cash deposits in a Schwab Bank account, we have your assets protected. Here are answers to the most common questions about all the ways Schwab works to keep your money safe.

**What part of my assets are protected by FDIC?**
The first thing to remember is your securities—like stocks, bonds, mutual funds, exchange traded funds, or money market funds—held at Schwab are yours. The SEC's Customer Protection Rule safeguards customer assets at brokerage firms by preventing firms from using customer assets to finance their own proprietary businesses.

At Schwab, clients' fully paid securities are segregated from other firm assets and held at third party depository institutions and custodians such as the Depository Trust Company and Bank of New York. There are reporting and auditing requirements in place by government regulators to help ensure all broker-dealers comply with this rule. In the very unlikely event that Schwab should become insolvent, these segregated securities are not available to general creditors and are protected against creditors' claims. If you have a margin account with a current loan balance, Schwab may borrow a portion of the securities pursuant to the loan consent provision of your account agreement. If there is not a current margin loan balance, or it is not a margin account, securities will not be borrowed out of your account. Per regulation, any securities that are borrowed are fully collateralized with cash that is held in reserve for clients.

**For more information visit this link on the Schwab website.**

**IMPORTANT DISCLOSURE INFORMATION**

*Virtue Capital Management, LLC is an SEC registered investment advisor. Reference to registration with the Securities and Exchange Commission ("SEC") does not imply that the SEC has endorsed or approved the qualifications of the firm or its respective representatives to provide any advisory services or that the firm has attained a level of skill or training. Virtue Capital Management only transacts business in states where it is properly registered or is excluded or exempted from registration requirements.*

*Please be advised that investing involves risk and that no particular investment strategy can guarantee against a loss. All investments involve the risk of potential investment losses as well as the potential for investment gains. Prior performance is no guarantee of future results, and there can be no assurance, and clients should not assume, that future performance will be comparable to past performance. No client or potential client should assume that any information presented or made available through this paper should be construed as personalized financial planning or investment advice. Personalized financial planning and investment advice can only be rendered after engagement of the firm for services, execution of the required documentation, and receipt of required disclosures. Please contact the firm for further information.*

*This information should not be relied upon as investment advice, research, or a recommendation by Virtue Capital Management regarding (i) the Funds, (ii) the use or suitability of the model portfolios or (iii) any security in particular. Only an investor and their financial advisor know enough about their circumstances to make an investment decision. Carefully consider the Funds within the model portfolios' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses and, if available, the summary prospectuses, which may be obtained by requesting a copy from your advisor. Read the prospectus carefully before investing. Investing involves risk, including possible loss of principal. Asset allocation and diversification may not protect against market risk, loss of principal or volatility of returns.*

*Actual investment outcomes may vary. Transactions in shares of ETFs will result in brokerage commissions and will generate tax consequences.*
*All regulated investment companies are obliged to distribute portfolio gains to shareholders. Certain traditional mutual funds can also be tax efficient.*

*For a complete description of investment risks, fees and services, review the Virtue Capital Management firm brochure (ADV Part 2A) which is available from your Investment Advisor Representative or by contacting Virtue Capital Management. VCM, your investment advisor representative and Charles Schwab are all independent of each other. Charles Schwab, Inc., member FINRA/SIPC/NFA.*

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