



VESPER U.S. LARGE CAP SHORT-TERM REVERSAL STRATEGY ETF

Vesper U.S. Large Cap Short-Term Reversal Strategy ETF (UTRN) is a rules-based investment strategy that seeks to provide investment results that, before fees and expenses, correspond to the total return performance of the U.S. Large Cap Short-Term Reversal Index (UTRNX). The index seeks to capitalize on the tendency for stocks that have experienced sharp recent sell-offs to experience near-term rebounds.

INVESTMENT THESIS

- Investors may overreact to recent bad news driving the stock price down disproportionately and temporarily.
- Some, but not all, stocks may quickly rebound as investors more accurately assess the company's fundamental value.
- Identifying those stocks with the greatest probability of rebounding may lead to strong potential investment returns.
- Limiting the investment universe to the S&P 500 may help to ensure adequate liquidity and reasonable trading costs.

INVESTORS MAY OVERREACT TO RECENT NEWS

Behavioral finance attempts to explain why stock prices might deviate from the efficient-market hypothesis. The efficient market hypothesis states that a company's stock price should reflect all information that is currently available to the public. According to the efficient market theory, all stocks should be priced fairly at all times. It should be impossible for the general public to buy an undervalued stock, or sell an overvalued stock. The reality is often quite different. Behavioral finance tries to explain this reality and shed light on how emotion and psychology can influence investor decisions and result in "rational" actors displaying unpredictable or "irrational" behavior and reactions. Often market



investors overreact to new information causing larger price decreases in a company's stock price than is warranted relative to the scope of the information.

If investors overreact to this new information, and if that overreaction is consistent it may be possible to construct trading strategies that capitalize on this overreaction.

SHORT-TERM REVERSAL

If investors overreact to news and drive stock prices down past their intrinsic value, one would expect the stock price to eventually reverse.

Research dating back to 1965 has shown that there are indeed short-term reversals following sharp, sudden stock price moves. Dr. DeBodt and Dr. Thailer¹ in their seminal research paper concluded that portfolios consisting of previous stock losers (winners) subsequently outperformed (underperformed). Further research and studies conducted by Dr. Jegadeesh in 1990², Dr. Lehman in 1990 and Doctors Jegadeesh and Titman in 1993³ support the existence of this market anomaly known as "short term reversal."

LIQUIDITY AND TRANSACTIONAL COST CONSIDERATIONS

Historically the primary constraint to executing a successful short-term reversal strategy was higher trading costs and the illiquidity of the underlying stocks could offset the excess returns generated from such a strategy. It could be argued that the strategy's profitability disappears once high high stock turnover costs were factored into total returns, particularly within the small cap arena.

However, additional research conducted by Dr. deGroot, Dr. Huji and Dr. Zhou⁴ show that the potential for excess investment returns from short term reversal strategies still exists when the investment universe is limited to large cap liquid stocks. The short-term reversal methodology used in these research studies generated 30-50 basis points (one basis point = .01 percent) per week in profits after all trading costs were factored in.

While short-term reversal trading strategies do require higher portfolio turnover than a typical "buy and hold" strategy, higher trading costs have only marginally impacted total returns. Another recent study of various market anomalies conducted by Dr. Israel, Dr. Markowitz and Dr. Franzini⁵, concluded that potential excess returns resulting from short-term reversal did not significantly disappear when trading costs were considered.

ALTERNATIVE EXPLANATIONS FOR SHORT TERM REVERSAL

Although profits from short-term reversal trading strategies have been well documented, the causes of this market anomaly are less clear. While investor overreaction may be one explanation, liquidity may be another explanation. In a research paper authored by Professor Miwa⁶, it was suggested that short-term reversal is attributable mainly to price concessions for liquidity providers to absorb intraday uninformed transactions, rather than intraday price reactions to fundamental information.

RETURN IS RETURN

While there are various theories as to the causes of short-term reversal, it is clear that there is the potential to generate excess returns by exploiting this proven market anomaly. Strategies that buy (sell) recent losers (winners) have the potential to generate attractive trading profits and excess returns even after all trading costs are included.

How can investors potentially capitalize on the potential profits from short-term reversal?

INTRODUCING: UTRN

THE U.S. LARGE-CAP SHORT-TERM REVERSAL ETF

The UTRNX index seeks to exploit the potential profits of short-term reversal by investing in the stocks of companies that have experienced sharp, one-week price declines and, according to our proprietary Chow Index, have the best chance of experiencing a rebound.

NOT ALL REVERSALS ARE CREATED EQUAL

Although many stocks may decline due to investor's overreaction to negative news, others may appropriately decline to reflect a company's deteriorating fundamentals and bleak future outlook.

How might investors distinguish between stocks that could be dragged down by overreaction to negative news like global events, war, oil price volatility, trade issues, geopolitical changes and interest rate hikes, and ones that are fundamentally flawed and have the greatest potential for further decline?

INTRODUCING THE CHOW RATIO

To identify those stocks with the greatest potential to rebound, Vesper created the UTRNX index using the proprietary Chow Ratio. This metric identifies stocks with sharp one-week price declines that exhibit "rules based" stability and volatility measures to determine those that have the greatest potential for rebound. In order to limit the effects of illiquidity and associated higher relative trading costs, the Chow Ratio is only applied to stocks in the S&P 500. This limits the portfolio to the largest U.S. stocks and reduces the liquidity risk that could arise with small cap securities.

INVESTMENT PROCESS

- All stocks within the S&P 500 are ranked weekly based on their Chow Ratio
- The 25 stocks with the most favorable Chow Ratios are selected for inclusion in the index
- The index is evaluated and rebalanced on a weekly basis.
- A stock in the index is only removed and replaced at rebalance if its new Chow Ratio is less favorable than the other stocks in the portfolio.
- The index is equal weighted and is provided and calculated by Standard and Poor's

WHY UTRN

- UTRN is based on an investment strategy with strong academic and intuitive underpinnings.
- UTRN uses a proprietary index developed by Dr. Victor Chow's 30 years of research on the market anomaly commonly referred to as "short term reversal"
- The UTRN investment team has over sixty years of collective investment experience and is based on solid quantitative research.
 - Dr. Victor Chow, Ph.D. – Distinguished Professor of Finance at West Virginia University. Dr. Chow has researched and published extensively on finance and portfolio management.
 - John Thompson – Nearly 30 years of experience in institutional asset management and distribution
 - George Elias – Extensive entrepreneurial and private equity investing.

WHERE UTRN FITS IN YOUR PORTFOLIO

- Equity Exposure – UTRN may be appropriate for a portion of your equity allocation
 - May be appropriate for investors seeking large cap exposure and reduced volatility
 - May be appropriate for investors seeking higher returns that can also tolerate high tracking error
 - May be appropriate for investors pursuing unique proprietary investment strategies that seek to generate excess returns above their index benchmark
- Factor Exposure – UTRN may be appropriate for investors seeking exposure to short term reversal stocks that are potentially used as a proxy for value.
- Alternatives – With a unique high turnover, high alpha producing potential, UTRN may be appropriate for an alternative allocation

This information is not meant to be investment advice.
Past performance does not guarantee future results.

Summary

Profits from executing a short-term reversal trading strategy have been well documented. Even after eliminating small-cap stocks and factoring in transaction costs, such strategies can still be profitable.

UTRN seeks to enhance the potential profits of a short term trading strategy by applying a proprietary algorithm that ranks and identifies stocks with the greatest potential to rebound, and by controlling transaction costs and turnover by limiting the investment universe to large cap stocks.



1 De Bondt, Werner F. M. & Thaler, Richard, Does the Stock Market Overreact?, The Journal of Finance, Vol. 40, No. 3, Papers and Proceedings of the Forty-Third Annual Meeting American Finance Association, Dallas, Texas, December 28-30, 1984. (Jul., 1985), pp. 793-805.

2 Jegadeesh, Narasimham, Evidence of Predictable Behavior of Security Returns, Journal of Finance 45, 881-898, 1990

3 Jegadeesh, Narasimham and Titman, Sheridan, Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency, The Journal of Finance, Vol. 48, No. 1. (Mar., 1993), pp. 65-91.

4 de Groot, Wilma, Huij, Joop, and Zhou, Weili, Another look at trading costs and short-term reversal profits

5 Frazzini, Andrea, Israel, Ronan, and Moskowitz, Tobias, J., Trading Costs of Asset Pricing Anomalies, Chicago Booth Paper No. 14-05, Dec. 5, 2012

6 Miwa, Kotaro, Short-term Return Reversals and Intraday Transactions, Quarterly Journal of Finance, Forthcoming

Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Fund's prospectus, which may be obtained by visiting www.utrnetf.com. Read the prospectus carefully before investing.

Exchange Traded Concepts, LLC serves as the investment advisor. The Funds are distributed by SEI Investments Distribution Co. (1 Freedom Valley Drive, Oaks, PA, 19456), which is not affiliated with Exchange Traded Concepts, LLC or any of its affiliates.

Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

Investing involves risk, including the possible loss of principal.

The Fund seeks to track the performance of stocks selected for the Index utilizing a methodology that relies on a proprietary algorithm. No assurance can be given that stocks of companies chosen for the index will outperform stocks of other companies. Moreover, there is no guarantee that the Index methodology will generate or produce the intended results, and stocks of companies selected for the Index may underperform stocks that have been excluded from the Index.

The Fund's return may not match or achieve a high degree of correlation with the return of the Index, to the extent the Fund's investments are concentrated in or have significant exposure to a particular issuer, industry group or group of industries than if the Fund's investment were more broadly diversified. Issuer-specific events, including changes in the financial condition of an issuer, can have a negative impact on the value of the Fund. The Fund is not actively managed and therefore the Fund may not sell shares of an equity security unless that security is removed from the Index or the selling of shares is otherwise required upon rebalancing of the index.

Diversification may not protect against market risk.

The Fund may trade all or a significant portion of the securities in its portfolio in connection with the weekly rebalances and reconstitutions of its Index. A high portfolio turnover rate increases transaction costs, which may increase the Fund's expenses. Frequent trading may also cause adverse tax consequences for investors in the Fund due to an increase in short-term capital gains.