

How the ActiveAlts Contrarian ETF (SQZZ) Selects Stocks for Its Portfolio
Looking at Future Growth in Overly Shorted Stocks

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The Active Alts Contrarian ETF (Nasdaq: SQZZ) is a first-of-its kind actively managed ETF that seeks capital appreciation by investing in companies with solid fundamentals that have significant short positions that we believe are subject to a short squeeze.

A good example to demonstrate how we use these criteria to go about our stock selection is BlackBerry (BB). As of December 15, it was our largest position, even though it was up over 50% since the beginning of the year. That climb was more than double the performance of the S&P 500. The best reason we have for holding onto the stock is our belief that the rebound is just getting started. Here's why:

Currently, only a small group of savvy investors are paying attention to what we believe is a major turnaround at BB, under the leadership of new CEO and software heavyweight Jonathan Chen. He is best known for the phenomenal turnaround of Sybase, converting a "very, very dead company" into a \$6 billion sale to SAP AG.

BB's shares still have a significant 8.9% short interest. BlackBerry's stock has suffered since 2008, when the superior features of its cell phone industry rivals, Apple (AAPL) and Samsung (SSNLF) devastated its sales. But that was another BB.

Today's BB is a leading cybersecurity software and services company with powerful cybersecurity products. These software products are forecast by the company to grow to 80% of revenue in the next fiscal year. BB, as shown below, has been recognized for its leading edge in security for self-driving cars where there is grave potential danger from hacking. Delphi Automotive is using BlackBerry cybersecurity technology for its automated driving technology. Ford Motor (F) and India's giant Tata Motors (TTM) have also signed deals with BB. CEO Chen will be a key note speaker this January at the Detroit auto show, where he promises to unveil a BlackBerry product that "will help shape and secure the future of connected and self-driving cars."

There's good reason for the recognition of BB's cybersecurity products. The highly respected Gartner Group recently rated BlackBerry number one against 14 well-known competitors (i.e. Samsung and IBM) for "high security mobile management" in the six areas it examined, including high security for government and commercial use as well as shared data and shared devices.

Another reason BlackBerry is a great fit for our portfolio is that it has no debt. In fact, it is sitting on \$2 billion in cash, which can be used for strategic future acquisitions, according to Chen. Finally, an even more compelling reason for SQZZ to hold onto BlackBerry is that we believe many investors shorting this stock may be forced to close out their short positions by a short squeeze. A short squeeze is a situation in which a heavily shorted stock moves sharply higher, forcing even more short sellers to cover.

Upward pressure on the stock may be triggered by a positive development that suggests the stock may be embarking on a turnaround.

Blackberry is an old-fashioned company growth story

Because cybersecurity is one of the biggest threats facing governments, consumers and businesses, BlackBerry has an edge with its ahead-of-the-curve software and its secure, proprietary network. Beyond self-driving cars, companies serious about protecting their data, such as the Chinese retailing giant, Alibaba (BABA), which is bigger than Amazon or Walmart, are adopting BBM, the BlackBerry proprietary messenger software, to enable customers to buy online securely.

Telecoms also have adopted BBM Messenger

Large and small companies with cutting-edge technology are striking strategic relationships with BlackBerry to integrate its secure software to improve their own products' safety and superiority. Telecom companies have empowered customers to use the BlackBerry proprietary messenger service on other devices. Pre-iPhone and Android, BBM was the dominant messaging service for governments and businesses around the globe. It then lost market share as consumers moved to other smart phones. The movement back to BBM is propelled by its security. BBM Messenger can be downloaded onto Android and iPhones, which makes it available to anybody, free of charge.

What makes Blackberry so secure?

Messages and email sent via BlackBerry Enterprise Server are encrypted using an end-to-end protocol that is completely independent of the public certificate authority system. In contrast, hackers using legitimate certificates and phone system access can intercept mail sent to IOS and Android devices.

Solid and growing loyal customer base

BlackBerry says governments comprise 20% of its current customer base. They include government agencies in Canada, Australia and the United States. The State of Washington with funding from the Department of Homeland Security has a BBM custom-designed emergency response system. With the recent proliferation of data breaches (let's not forget Equifax, the NSA, AOL), more businesses and governments appear to be gravitating to BlackBerry's superior cybersecurity-backed products.

Solid fundamentals: cheap, no debt and a lot of cash for value investors

BlackBerry has a P/E ratio of only 10.78, which is way below the market—the current S&P 500 P/E ratio is 25. In the second quarter of BB's fiscal year 2018, ended August 31, 2017, BlackBerry enjoyed a record gross margin of 76%, the highest it's ever been. This should lead to a higher stock multiple going forward. Additionally, adjusted EBIDTA was \$50 million in the second quarter of fiscal year 2018, making it the 14th consecutive quarter with positive cash flow. Thus, it appears BB is in a great position to propel growth by investing heavily in research and development, strategic acquisitions and marketing campaigns heralding its superior technology.

Disclosure: BlackBerry is the largest position in SQZZ with a holding of 5.13 percent of the portfolio, as of December 11, 2017 and is subject to change.

For more information, view the fact sheet:

<http://activealts.com/downloads/SQZZ-FS-v6.pdf>

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting the Fund's website at www.activealts.com Please read the prospectus carefully before you invest.

There is no guarantee that the Fund will achieve its investment objective. An investment in the Fund is subject to risk, including the possible loss of principal amount invested. The Fund may invest in (or short) ETFs, ETNs and ETPs. In addition to the risks associated with such vehicles, investments, or reference assets in the case of ETNs, lack of liquidity can result in its value being more volatile than the underlying portfolio investment. Other Fund risks include market risk, equity risk, short sales and leverage risk, large cap risk, early closing risk, liquidity risk and trading risk. Short sales involve leverage because the Fund borrows securities and then sells them, effectively leveraging its assets. The use of leverage may magnify gains or losses for the Fund. See prospectus for specific risks and details.

It is possible to lose money by investing in the Fund. The Fund may invest in other investment companies, and will fluctuate in response to the performance of the acquired funds; therefore, there may be certain additional risk expenses and tax results that would not arise if you invested directly in the securities of the acquired funds.

The Fund may invest in unaffiliated and affiliated money market funds; therefore, the Advisor is subject to conflicts of interest in allocating the Fund's assets among the underlying funds, as it will receive more revenue from affiliated funds than from unaffiliated funds.

The Fund invests in foreign companies, which may be subject to greater risks than investing in domestic companies. Investing in the securities of small and medium capitalization companies generally involves greater risk than investing in larger, more established companies.

The Fund's investment strategy seeks to invest in stocks in which a significant amount of market participants have taken short positions, when the market participants believe the value of these stocks will decline in the future. If these market participants are correct, the value of stocks in which the Fund invests will decrease, and the Fund will lose money on its investments.

Due to the practice of lending securities, the Fund may lose the opportunity to sell some of its securities at a desirable price.

The Fund's portfolio is actively managed, and will likely have a higher portfolio turnover rate than non-actively managed portfolios; and it will likely experience short-term capital gains, taxed at shareholders' ordinary income tax rates.

Shares of Exchange Traded Funds (ETFs) are not individually redeemable and owners of the shares may acquire those shares from the ETF and tender those shares for redemption to the ETF in Creation Units only, see the ETF prospectus for additional information regarding Creation Units. Investors may purchase or sell ETF shares throughout the day through any brokerage account, which will result in typical brokerage commissions.

The activity of short sellers covering their positions has the potential to add upward momentum to share price increases.

The Fund is distributed by Foreside Fund Services, LLC.