January 2018

The **ACM Dynamic Opportunity Fund** (ADOIX) returned +4.26% in January versus +3.41% for the HFRX Equity Hedge Index, and +3.34% for the Morningstar Long/Short Equity category. The Fund outperformed both its benchmark as well as its peer category. January was a difficult month for any hedged equity strategy to outperform the broader market since there was very little volatility and few pullbacks during the month. Any cash balance acted as a drag on performance.

Leading stocks came mostly from technology and financials. Laggards came mostly from semiconductor-related technology stocks as well as derivative hedge positions. At the end of 2017, we commented that the resumption of the "reflation trade" had caused many former leading stocks to lag in December. But as we anticipated, many of these stocks came back strong in January and led the market once again.

Our **dynamic hedge model** entered the month of January at 100% net long, and pretty much stayed there all month. It was only the second month since the Fund's inception that the hedge model averaged 99% long for the month. As the chart below shows, the stock rally got very extended which raised the odds of a more severe pullback sooner rather than later.

Past performance does not guarantee future results. Relative Strength Index (RSI) - RSI is plotted on a vertical scale from 0 to 100. Values above 70 are considered overbought and values below 30, oversoldThe relative strength index is a technical indicator used in the analysis of financial markets. It is ended to chart the current and historical strength or weakness of a stock or market based on the closing prices of a recent trading period. The blue line above represents the 50-day moving average of the S&P 500. The red line above represents the 200-day moving average of the S&P 500.

In our year-end 2017 letter, we stated that "*the market is certainly overdue for a pullback greater in magnitude than the -3% variety seen in 2017*". We monitor our hedge model on a daily basis and are prepared to make adjustments to the portfolio when and if said correction surfaces.

Given that: 1) the economy is currently firing on all cylinders; 2) recent corporate tax cuts are just beginning to get priced into earnings estimates; and 3) the huge repatriation balances haven't even started to reach our shores – we think the odds are fairly high that stocks should have a good year ahead. Volatility is a normal part of the investment landscape, and the first serious correction in 2 years likely won't mark the top for this bull market.

Additionally, we have had years of quantitative easing (QE) from the Fed, the European Central Bank, the Bank of Japan, and several other global central banks. As the specter of deflation fades and the goal of a little inflation becomes reality, these central banks are likely to end their QE and allow monetary policy to become less accommodative (as the Fed has already done). This will almost certainly add to the volatility picture in the near- to intermediate-term.

The nice thing about our dynamic hedge model is that it affords us the ability to <u>participate</u> in the bull market for as long as it lasts, and layer in hedges and seeks to <u>protect</u> those gains when said model flashes the appropriate signals. There is no need to *guess* ahead of time how long this cycle could last, or try to anticipate the peak for this market cycle.

Thank you for your continued support.

Sincerely,

Jordan L. Kahn, CFA
Chief Investment Officer

<u>Sources</u>: *Standard & Poor's, Morningstar, HFR*

<u>Defined Terms</u>: S&P 500 Index- The S&P 500 index is an unmanaged composite of large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. HFRX Equity Hedge Index– tracks strategies that maintain positions both long and short in primarily equity and equity driven securities. Morningstar Long/Short Equity Category- A composite of returns produced by Morningstar which can be used to compare the returns of other mutual funds in the same category. Long– the holder of the position owns the security and will profit if the price of the security goes up. Short- Short selling is the sale of a security that is not owned by the seller, or that the seller has borrowed. Short selling is motivated by the belief that a security's price will decline, enabling it to be bought back at a lower price to make a profit. Derivative hedge – transaction that limits investment risk with the use of derivatives such as option contracts. Reflation Trade- A fiscal or monetary policy designed to expand a country's output and curb the effects of deflation.

Investors are not able to invest directly in the indices referenced and unmanaged index returns do not reflect any fees, expenses or sales charges.

For current performance information, please visit our performance page http://acm-funds.com/performance/

There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.

ETF's are subject to specific risks, depending on the nature of the underlying strategy of the fund. These risks could include liquidity risk, sector risk, as well as risks associated with fixed income securities, real estate investments, and commodities, to name a few. Investments in foreign securities could subject the Fund to greater risks including, currency fluctuation, economic conditions, and different governmental and accounting standards.

Investors should carefully consider the investment objectives, risks, charges and expenses of the ACM Dynamic Opportunity Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-844-798-3833. The prospectus should be read carefully before investing. The ACM Dynamic Opportunity Fund is distributed by Northern Lights Distributors, LLC, member."http://www.finra.org/" FINRA. "http://www.sipc.org/" SIPC. Northern Lights Distributors, LLC and Ascendant Capital Management, LLC are not affiliated.

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