MOTLEY FOOL SUPERNOVA

2017 Tactical Playbook

Brought to you by the *Motley Fool Supernova* team, with an introduction by *Supernova* Mission Leader Matt Argersinger

Supernova Mission Leader
Matthew Argersinger

Greetings, fellow Fools, my name is Matthew Argersinger. I'm a portfolio manager in *Motley Fool Supernova*'s Odyssey 1 mission, and I'm extremely excited to reveal our ***Supernova* 2017 Tactical Playbook**.

The playbook includes the five areas my portfolio team strongly believes EVERY investor needs to be laser-focused on in 2017:

1. Upping portfolio allocations to health care and finance
2. Taking advantage of 2017's NEW political climate
3. Targeting emerging opportunities in the small-cap space
4. Defensively positioning your portfolio for turbulence ahead
5. Strategically selling winners to diversify to new trends

In each area, you'll receive information on the tactic my team has identified, the stocks we're watching, and how *Supernova* is uniquely built to help you take advantage of them.

But before I dive into these tactics, I want to answer a few questions I'm most commonly asked about *Supernova*.

And I want to give you the details on a new groundbreaking solution we're **announcing for the first time ever today**! It's the result of months of tireless work, and it gives you the opportunity to start building your very own *Supernova* portfolio in *less than 30 days*!

Why do I need a portfolio?

As you're well aware, the *foundation* of all investing is simply buying great companies.

Of course, you've likely *also* realized the complications that arise once you've started investing…

- What do you do with your winners? At what point should you sell some of your winners to diversify?
- How do you handle risk?
- How do you handle concentration in a single industry? If you're more comfortable investing in a single sector like technology, how do you diversify among the best ideas in *other* industries?
- How do you allocate between new picks? Should a new idea be 1% of your portfolio, or even closer to 10%?
- How do you structure your portfolio to position yourself to take advantage of macro, political, and even interest rate uncertainty?
- What's your strategy for providing income from your portfolio?
- How do you optimally handle tax efficiency?

These questions are what drove David Gardner to design and build *Supernova* five years ago. Its mission is simple:

To build portfolios filled with today's most innovative companies. And to help investors like you effectively manage their portfolio by always knowing ***when*** **to buy,** ***how much*** **to buy, and when to** ***sell***.

Why now?

Today, we're announcing the creation of your "**2017 Supernova Flight Plan**."

Flights plans are created to solve a single problem: While portfolios are a powerful solution, they can take *years* to build properly.

Our goal was to create an innovative, accelerated program so you can start building your very own *Supernova* portfolio faster and more easily than anything we've ever put together. Thanks to a "2017 Supernova Flight Plan," you can start building the portfolio of your dreams from the "ground floor" up in less than 30 days!

Flight plans begin with your identifying which style of portfolio best fits your unique needs as an investor. You can get started in either of the two different approaches we've built.

- If you're an investor nearing and even in retirement, our **Phoenix portfolio strategy** was constructed to model growing wealth and the transition to generating income…
- While if you're an investor still in your prime earning years, our **Odyssey portfolio strategy** was built to help model a portfolio growing for decades to come.

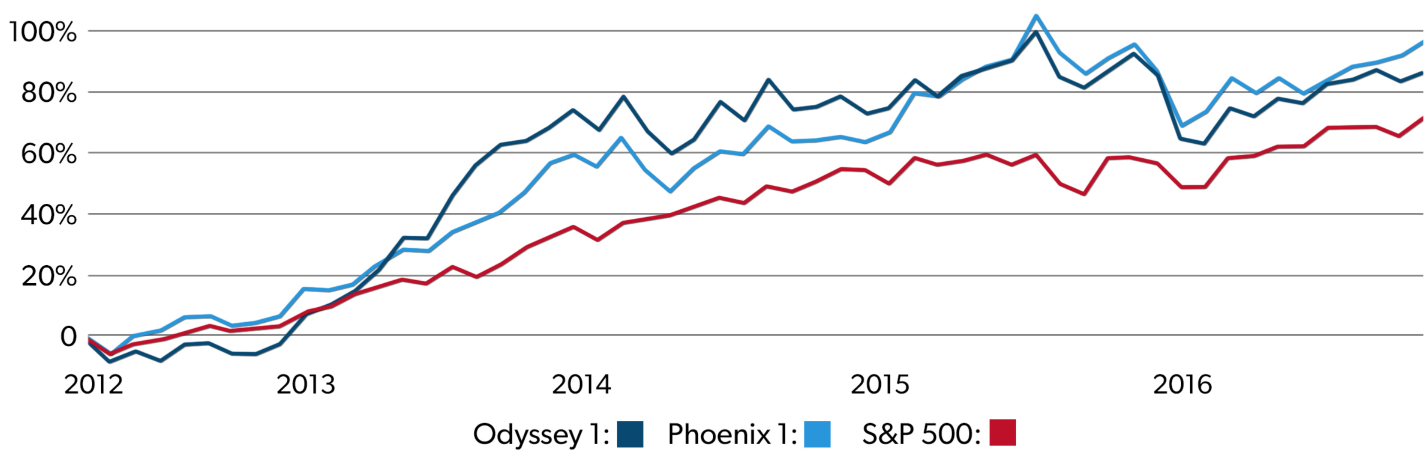
Our "2017 Supernova Flight Plan" then begins issuing step-by-step guidance, showing you *exactly* how to build the foundation of your portfolio, all at your own pace.

We believe flight plans will allow you to harness the best of our strategy that has beaten the market over the past five years, *while also* positioning you to take advantage of our favorite opportunities in 2017 and beyond.

Why our strategy?

Why do I believe *Supernova* is the best portfolio service in the world?

- **The ultimate David Gardner solution:** First and foremost, *Supernova* is the only place you'll find all of David Gardner's investments in a comprehensive portfolio solution.
- **Simple yet powerful:** It has all the benefits of portfolio management in the jargon-free, commonsense approach you'll find in all Motley Fool products.
- **Built for your unique needs:** We've built *Supernova* with different portfolios tailored for modeling prime working years AND retirement. No matter where you're at in life, we've designed *Supernova* to work for you.
- **Market-beating:** Since we began *Supernova* five years ago, the two portfolios we first launched are outpacing the market. With the introduction of the "2017 Supernova Flight Plan," we're building our most innovative solution yet, designed to ensure you can take advantage of our favorite opportunities in 2017 and beyond.



- **Lower volatility:** *Supernova* is designed to ensure proper risk management through diversification. Our portfolio approach in both Odyssey and Phoenix has led to significantly lower volatility than buying David's recommendations in *Stock Advisor* or *Rule Breakers* without portfolio guidance.

Here's to making 2017 your best year yet,

Matthew Argersinger
Mission Leader, *Motley Fool Supernova*

2017's 5 Most Powerful Portfolio Tactics

The most important *strategy* we employ is simple and will never change. We're always on the lookout for the best companies in the world.

Having worked alongside David for nearly a decade, I'm as convinced as ever he's the best investor in the world at uncovering certain unique qualities in companies that allow them to be the leaders of tomorrow.

However, even with that simple strategy as the bedrock of *Supernova*, tactics are important.

Consider that as I write this, the Dow is hovering near 20,000 and we're in year seven of a bull market. If you want a portfolio built for you — these are critical facts to take in. While valuations on stocks are by no means insane, they're *certainly* getting expensive.

As we enter 2017, for the first time in nearly a decade prime interest rates are once again on the rise. Political uncertainty is at a high. Business regulation could be set to change.

All these factors affect the *tactics* of how I'm building a portfolio, how I'm balancing risk, and how I'm seeing certain companies gain advantages that simply didn't exist years ago.

On the next page, you'll find my top five portfolio tactics I'll be employing in my *Supernova* portfolio during 2017.

2017 Portfolio Tactic #1

Look for opportunities in financials and health care

The tactic: Up portfolio allocations to health care and finance

Across 2015 and 2016, we've seen tremendous rallies in some of our favorite long-term technology holdings. That's been great news from a returns perspective. In the portfolio I manage, we have one tech company that's grown *tenfold* and several others that have more than doubled.

Yet as 2017 approaches, my portfolio team's focus has shifted outside the technology sector. We see big opportunities emerging in the **financials** and **health care** spaces.

There are two reasons these industries have become the focus of our research and we intend to allocate more capital to them in 2017.

The first is balancing risk. Our goal in *Supernova* is giving members explicit guidance on how to build a diversified portfolio across the best and most innovative David Gardner stock picks.

So as a portfolio manager, I look at our past success in technology and want to make sure we don't become over-allocated to the space, that we're spreading out our positions and keeping a laserlike focus on risk management. And part of that focus is ensuring we're keeping high enough allocations to companies and trends in a variety of industries.

Second, sweeping political and business changes have changed the investment landscape in 2017. I want to ensure our portfolio is positioned to capture outperformance from stocks that can benefit from emerging trends like potentially changing business regulation and a new interest rate environment.

As we turn the corner to 2017, what's catching my eye in banking? For the first time in nearly a decade, there are plenty of signs we're entering a period of rising interest rates that should benefit the banking industry, thanks to higher interest margins. Then there's also potential for more business-friendly regulations that look ready to benefit *both* banking and health care significantly.

Stocks we're watching

In health care, this new regulation environment looks poised to create a new wave of winners within the space. Increased deregulation could mean the FDA can make faster decisions and companies with *truly* innovative drugs and medical devices will see greater success.

And thanks to the potential for lessened regulation, many investors have rushed into biotech stocks in recent months. As a portfolio manager, I'm constantly assessing risk management across our portfolio companies, and I just don't feel confident in achieving a high enough success rate in the space.

Also, we've selected our favorite biotech company — **Celgene** (Nasdaq: CELG) — and have already added it to the portfolio. So, we're looking at targeted plays outside where the Wall Street herd is already crowding in.

Allow me to share two "watch list" stocks my team is currently researching as portfolio candidates.

Currently, I'm focused on a company named **Illumina** (Nasdaq: ILMN). It's a leader in genomic sequencing, and I think it could be a leading "picks and shovels" play for the 21st century of health care. Simply put, it has all the makings of a company that will benefit from more favorable regulations and better drug development.

Second, **NuVasive** (Nasdaq: NUVA) has attracted a lot of our recent research. It's a medical device company that's pioneered radically different — and in the eyes of our portfolio team, *better* — procedures for spinal surgery. It has a massive market in front of it, and we believe key roadblocks that have held the company back from its true potential will be lifted in the coming years.

Left:Illumina's MyGenome Chromosone viewer. With the benefits of more favorable regulations and better drug development, Illunina could be a leading play for 21st century health care.

How *Supernova* helps you take action

The portfolio structure of *Supernova* allows members to quickly build up positions across emerging opportunities like health care and financials in 2017.

Once my portfolio team has come to a decision on how to best take advantage of opportunities in each industry, we can begin issuing specific guidance.

For example, we may sell some of our lowest-conviction ideas in technology to fund a series of smaller buys across financials and health care.

Then at strategic times across 2017, we can advise to add to existing positions — with precise allocation guidance — in the companies we have increased confidence in.

Supernova is designed to give you precise guidance on how to get exposure to the trends and opportunities we see developing, all while managing the risk of our portfolios.

2017 Portfolio Tactic #2

The time to invest in America is NOW

The tactic: Take advantage of 2017's new political climate

Across the past eight years, one of the most dominant investing trends has been the growth in large multinational companies.

Prime examples include companies like **Apple**, **Nike**, **Procter & Gamble**, and even upstarts like **Facebook**.

These companies might be based in America, but you wouldn't always know it from their global sales footprint. To see this trend in action, look no further than Apple. In 2008, 56% of sales came from the United States.

Today? The company sees *only 33%* of sales from the United States.

Make no mistake, these companies have been smart to target overseas markets with huge sales growth. However, their multinational footprint and assets have given them some key advantages over their stateside peers. Favorable tax treatment and other benefits have boosted their margins and allowed their shares to trade at a premium.

With the political climate in the next four-plus years swinging to dramatically more U.S.-centric policies that could benefit companies with more profits and assets based in the United States, my portfolio team is taking action.

Apple store in Shanghai. Currently, Apple collects 67% of its sales outside the United States.

Stocks we're watching

To see how we're planning on taking advantage of this tactic, look no further than an investment decision between **Under Armour** and **Nike**.

Nike is the quintessential multinational company, with a majority of sales outside the United States and a complicated global supply chain.

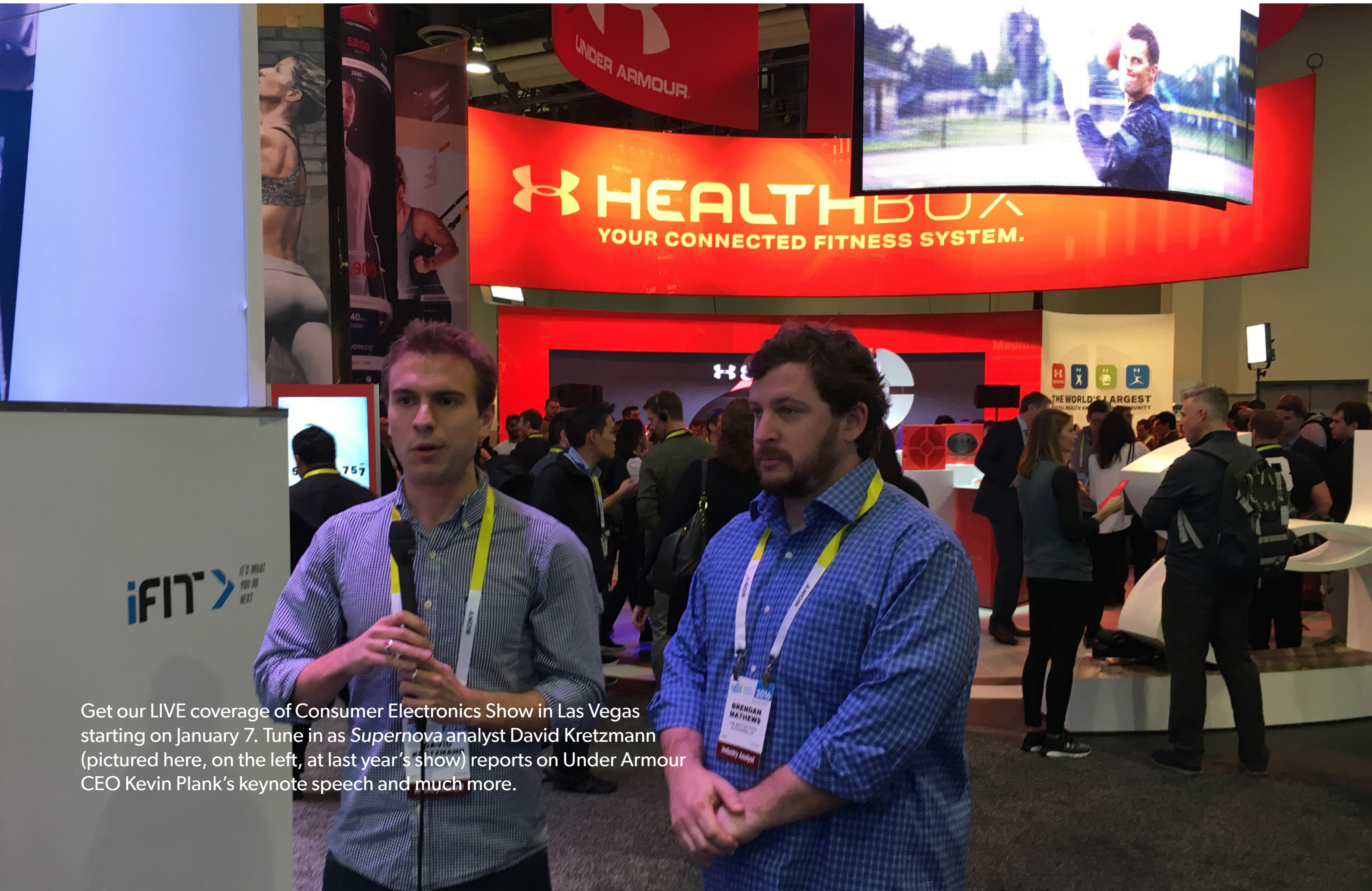
Meanwhile, Under Armour was founded just two decades ago and still sees 82% of sales in the United States.

The impact of where each company's sales come from is dramatic. Under Armour pays an effective tax rate of **nearly 39.9%**. Meanwhile, because so many of Nike's global sales are taxed at significantly lower rates overseas, its effective tax rate is just **18.7%**.

The end result? Higher taxes significantly reduce Under Armour's profitability. If Under Armour had the same effective tax rate as Nike, its profits would instantly skyrocket by 35%!

As you can see, multinational firms have traded with the advantage of significantly higher margins and at a premium over their American peers.

We believe that under a new administration in 2017 and beyond, new polices will **close this gap**. If you believe Under Armour could see taxes on a more level playing field, there's a strong reason to believe it will outperform Nike over the next four years.



Get our LIVE coverage of Consumer Electronics Show in Las Vegas starting on January 7. Tune in as *Supernova* analyst David Kretzmann (pictured here, on the left, at last year's show) reports on Under Armour CEO Kevin Plank's keynote speech and much more.

How *Supernova* helps you take action

If you look at *Stock Advisor*'s recommendations, you'll see both Nike and Under Armour listed as "buys." Our analysts have evaluated both companies and feel they can beat the market.

However, a portfolio service like *Supernova* goes a level deeper to allow you to take full advantage of the tactic we listed above.

Because of our portfolio structure, we can give *explicit* guidance on how to increase allocation to these companies to take advantage of this tactic and position your portfolio for 2017.

And recently we did just that. Our latest buy alert took advantage of what we believe is a mispricing in Under Armour's shares, and we increased our allocation to the company to 2.7%.

2017 Portfolio Tactic #3

Small and mid caps are your friends

The tactic: Small-cap stocks are rebounding, and opportunities in the space are everywhere

Looking at David Gardner's winners across time, you can see the value of *thinking small*. Companies like **Marvel**, **Priceline**, **Netflix**, and even **Amazon** were first picked by David when they were under-the-radar small caps.

Each was smaller than stocks you'll find in "market indexes" like the S&P 500.

As I've touched on earlier, across 2014 and 2015 investors in spaces like large technology companies have done very well. We were fortunate to have been invested in the right place during that time.

However, that situation looks to be changing. Small-cap stocks have outperformed in recent months, and my portfolio team has suddenly found our "watch list" filled with small- and mid-cap stocks.

David Gardner first recommended Priceline in *Stock Advisor* back in 2004 when it was around $24 dollars per share… and now it's up over 6,000%!

We believe MercadoLibre's dominant market position and relatively small market cap could lead investors to triple-digit returns in the coming years.

Stocks we're watching

Right now, the fifth most heavily weighted stock in the portfolio I manage is a company you won't find in most indexes that track "the market."

Its name is **MercadoLibre** (Nasdaq: MELI), it's smaller than 463 of the stocks in the S&P 500, and it's based in Buenos Aires.

MercadoLibre is one of David's favorite stock ideas today, and my team sees quite a few similarities between it and David's most legendary stock picks in their early days.

For that reason, we *purposefully target* being more heavily weighted to a stock most investors have little or no exposure to.

Weighting a portfolio more heavily to David's best ideas — often stocks with long runways for growth — is what's allowed us to beat the market over the past five years. We believe it will always be the basis for our outperformance.

With *plenty* of small-cap opportunities on our radar in 2017, we hope to announce several new buys in the space.

How *Supernova* helps you take action

My belief is simple: **If you want to beat the market**, you need a strategy for homing in on the opportunities larger institutions must ignore.

While the small-cap space is rich with opportunity and has long shown itself to be where many of David Gardner's biggest winners come from, it also comes with unique challenges.

Supernova's specific allocation guidance gives you the exact percentage we recommend investors allocate to each small-cap idea. Our portfolio approach works tirelessly to ensure you can retain the upside of many of David's best ideas in the space, while not concentrating too much allocation in any single idea.

In addition, with many small-cap companies being lightly followed, *Supernova* gives you the benefit of a portfolio team that's focused on making the call of when to buy, sell, or even add to a position on every small cap we recommend.

2017 Portfolio Tactic #4

Double down on competitive advantage

The tactic: Defensively position your portfolio for turbulence ahead

There's an old Warren Buffett quote that goes, "Only when the tide goes out do you discover who's been swimming naked."

There's a simple point to Buffett's quote. When the market is in a long rally, it's far easier to get away with a portfolio built on speculative companies and ones that lack great competitive advantages.

However, it's during *trying times* that those same speculative bets and poorly run companies fail. During market downturns, you see the *truly exceptional* businesses thrive, setting themselves up for even greater success in the future.

So, it's a good time to issue a reminder of what the broader market picture looks like as we enter 2017:

- The Dow is approaching 20,000…
- And the long bull market we're in is now roaring past seven years.

Given that we're going into a new year full of uncertainty in macroeconomic conditions, the worldwide political system, and even in regulations and the business environment…

I'm inclined to take the advice of Mr. Buffett and double down on ensuring our portfolio is stocked full of companies with fortresslike competitive advantages.

Many investors have been ditching shares of Starbucks recently. We think this sell-off is an ideal buying opportunity.

Stocks we're watching

One of our more recent buys was **Starbucks** (Nasdaq: SBUX). Through several business cycles, the coffee powerhouse has shown it has a proven formula that can weather bad times and has a durable competitive advantage.

So, when the opportunity presented itself after a recent sell-off, we increased our allocation to this exceptional company.

How *Supernova* helps you take action

Supernova's portfolio structure allows us to quickly give members exact guidance on how to take advantage of an idea like investing in more durable competitive advantages.

As an example, I recently tasked my portfolio team with doubling down on companies with stronger competitive advantages. The result? On our recent quarterly portfolio alignment we share with *Supernova* members, my team recommended members trim positions in three different companies we feel have weaker competitive advantages.

And we continue allocating to our best ideas. Across four separate positions on Starbucks — which have raised its allocation to 5.6% of our portfolio — we've seen a gain of 78.8%. Not bad for a company with such an incredible competitive advantage.

We'll be on the hunt for more opportunities like this in 2017.

2017 Portfolio Tactic #5

Don’t be afraid to sell your winners

The tactic: Use strategic sales of winners to fund diversification

One of the most unique strategies in David Gardner’s investment approach is that he lets his winners run.

That is, while many investors quickly sell out winners to “lock in gains,” David believes that the “winners keep on winning,” and his track record is rich with companies that he’s kept as active buy recommendations in long time frames.

David has *continually* recommended some of his greatest winners, like Netflix, Priceline, Amazon, **NVIDIA**, and **Baidu**, for more than a decade straight.

Within *Supernova*, we practice David’s core philosophy, but our portfolio approach allows us to sell *partial* stakes in past winners to fund future buys.

Stocks we're watching

Let's look at one difficult sell decision we made in recent years to help manage risk in *Supernova* members' portfolios.

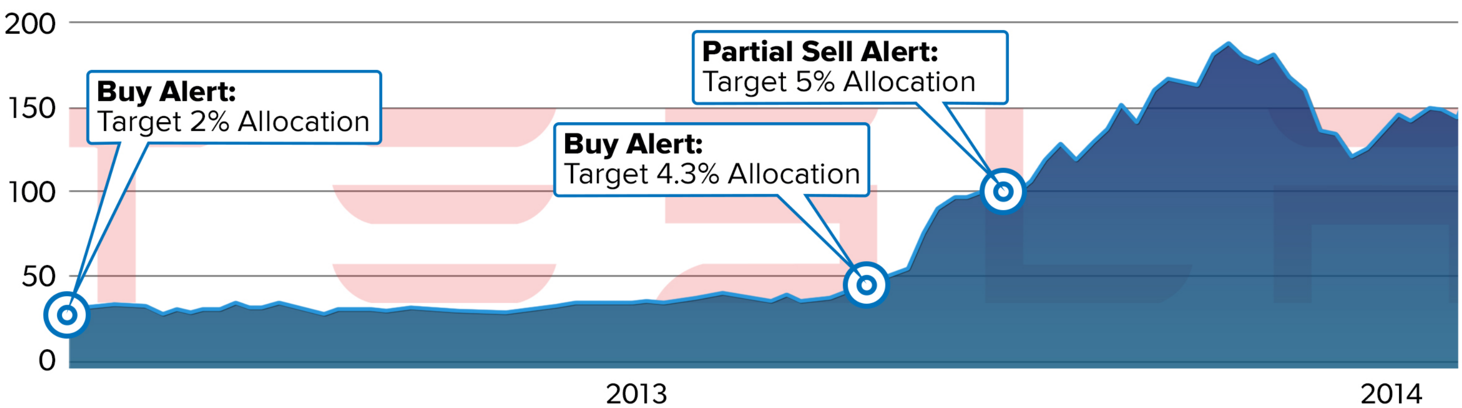
In May 2012, we recommended investors target a 2% allocation of **Tesla** (Nasdaq: TSLA) when the stock was trading at $30.57. We loved the potential in the company but were mindful of the risks investing in an unproven automaker.

By April 2013, confident that Tesla's performance was topping our expectations, we increased our position slightly, to 4.3%

However, after that purchase, the company went on a massive two-month run. While we *still wanted members to own Tesla*, we believed the risk of a growing position had become too great. In June 2013, we recommended selling a *partial* stake in Tesla, leaving investors with a 5% allocation.

We used the proceeds from our partial sale of Tesla to help fund buys of several innovative companies. In the process, we diversified the portfolio and gave members exposure to several different industries and trends.

For example, during this time we were increasing our allocation to **BofI** (Nasdaq: BOFI). Across five different purchases of BofI between 2012 and 2015, we've achieved a 103% return and gotten exposure to one of the fastest-growing businesses in the financial industry.



How *Supernova* helps you take action

One of the most important advantages of a portfolio service like *Supernova* is the continuing ongoing guidance on all portfolio companies, including winners.

We've believed Tesla is a "buy" since we first bought a position in the company in May 2012. However, thanks to our portfolio approach, we can give *more detailed* guidance that allows investors to better balance the upside of our best ideas against *unnecessary* risk from being overallocated to a single idea.

We tell you *exactly* how many shares to sell from your winners, and then give you guidance on exactly what to buy with those proceeds.

David Gardner owns shares of Amazon.com, Apple, Baidu, Bofl Holding, Facebook, MercadoLibre, Netflix, NuVasive, Priceline Group, Starbucks, Tesla Motors, and Under Armour (C Shares). David Kretzmann owns shares of Amazon.com, Baidu, Bofl Holding, Facebook, MercadoLibre, Netflix, Nike, Priceline Group, Starbucks, Tesla Motors, and Under Armour (C Shares). Matthew Argersinger owns shares of Amazon.com, Apple, Baidu, Bofl Holding, MercadoLibre, Netflix, Starbucks, Tesla Motors, and Under Armour (C Shares). Matthew Argersinger has the following options: long January 2017 $17.5 calls on Bofl Holding, short January 2017 $17.5 puts on Bofl Holding, and short January 2017 $25 calls on Bofl Holding. Rick Munarriz owns shares of Apple and Netflix. Simon Erickson owns shares of Amazon.com, Apple, Baidu, Bofl Holding, Celgene, Facebook, Illumina, MercadoLibre, Netflix, Starbucks, Tesla Motors, and Under Armour (C Shares). Tom Gardner owns shares of Baidu, Facebook, Netflix, Starbucks, and Tesla Motors. The Motley Fool owns shares of and recommends Amazon.com, Apple, Baidu, Bofl Holding, Celgene, Facebook, Illumina, MercadoLibre, Netflix, Nike, Nvidia, Priceline Group, Starbucks, Tesla Motors, and Under Armour (C Shares). The Motley Fool has the following options: long January 2018 $90 calls on Apple and short January 2018 $95 calls on Apple. The Motley Fool recommends NuVasive.

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