Black Swan Risks on the Horizon

BlackSwan ETF
(NYSE: SWAN)

Amplify ETFs

It's easy to look back at previous market selloffs and wonder how market participants did not see all the warning signs of an imminent selloff. But the very nature of black swan events makes them difficult, if not impossible, to predict. Below are a handful of events that sparked selloffs in the equity markets that few could have predicted.

Black Swan Events Over the Last 30 Years:

1987: Black Monday
1997: Asian Financial Crisis
2000: Dot-com Bubble
2001: 9/11 Terrorist Attacks
2008: Financial Crisis
2010: Flash Crash

We cannot always predict the potential black swan events that are capable of impacting the market. What we can do is identify some of the potential threats to continued market prominence. Remember, we need to take these with a grain of salt and understand that while these could happen, we are not indicating that any of these scenarios are going to imminently deliver a bear market. We launched the BlackSwan ETF (SWAN) to provide investors a simple solution that seeks to buffer against significant losses while also retaining the potential for upside participation.

AMPLIFY BLACKSWAN GROWTH & TREASURY CORE ETF (SWAN)

SWAN seeks investment results that correspond to the S-Network BlackSwan Core Total Return Index (the Index). The Index's investment strategy seeks uncapped exposure to the S&P 500, while buffering against the possibility of significant losses. Approximately 90% of the ETF will be invested in U.S. Treasury securities, while approximately 10% will be invested in S&P 500 long-term (LEAP) options in the form of in-the-money calls. The index is not designed to provide investment results that correspond with the returns of the S&P 500.

The Fund is not a money market fund. Investing involves risk, including the possible loss of principal. You could lose money by investing in the Fund. There can be no assurance that the Fund's investment objective will be achieved.

Current Scenarios with Potential Black Swan Risk:

- Trade war
- Inverted yield curve
- End of bull market
- Economic recession
- Eurozone political issues
- Policy shift on technology platform companies

Scenario 1: U.S. - China Trade War

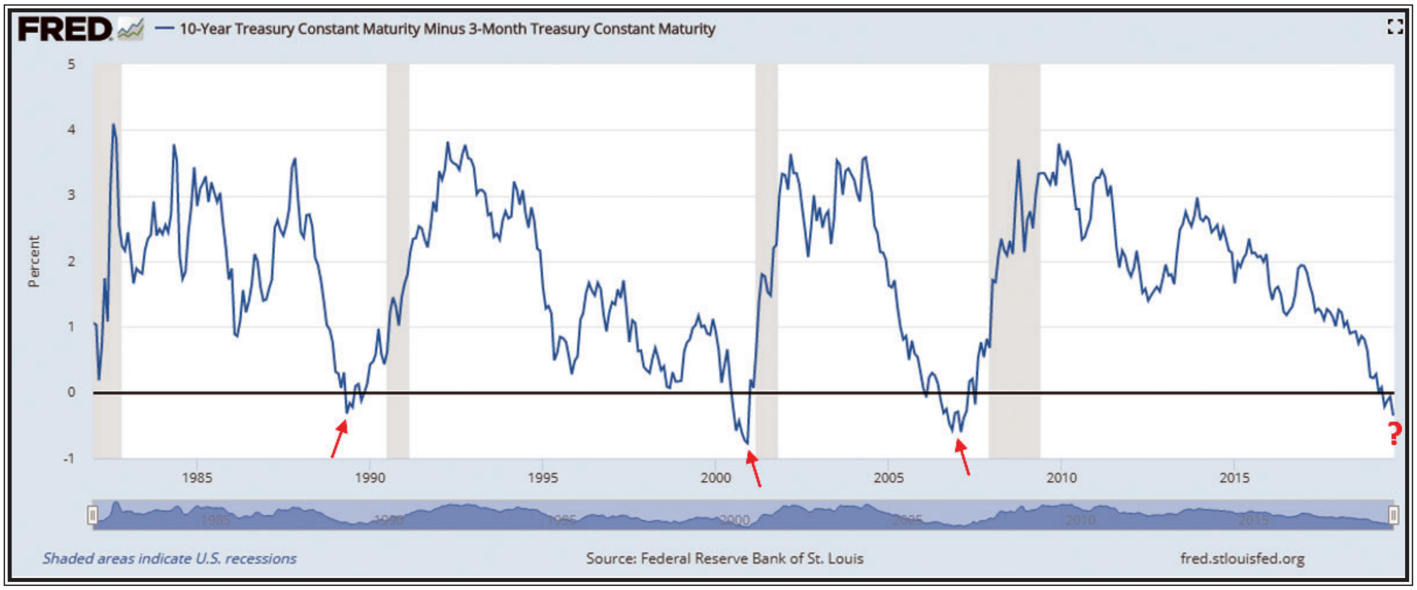
We have seen markets move rapidly on trade war news. The market performance in the fourth quarter of 2018 was a prime example of the downside that can happen. Currently, it appears China is playing the waiting game because Trump has more pressure to make a deal than them if he wants to point to the win during his reelection campaign. If Trump emerges as a clear favorite next election cycle, we could see escalation of the Trade War cause uncertainty and concern in the markets. If there is a deal, we could see markets rally exuberantly.

Source: Hidden Levers; The figures noted are for illustrative purposes only, and do not indicate actual results.

Why the BlackSwan ETF (SWAN)?
With polarized scenarios, SWAN makes sense to participate in the upside but potentially reduce downside exposure.

Scenario 2: Inverted Yield Curve

Inverted yield curves are widely accepted as one of the strongest indicators of an impending recession. There are several variants that people watch, but the most common is the 10-year versus the 3-month Treasury Yield. Can the Fed properly manage the yield curve and economic dynamics of today's low inflation market and negative interest rates worldwide to prevent the current inversion from leading to a recession?

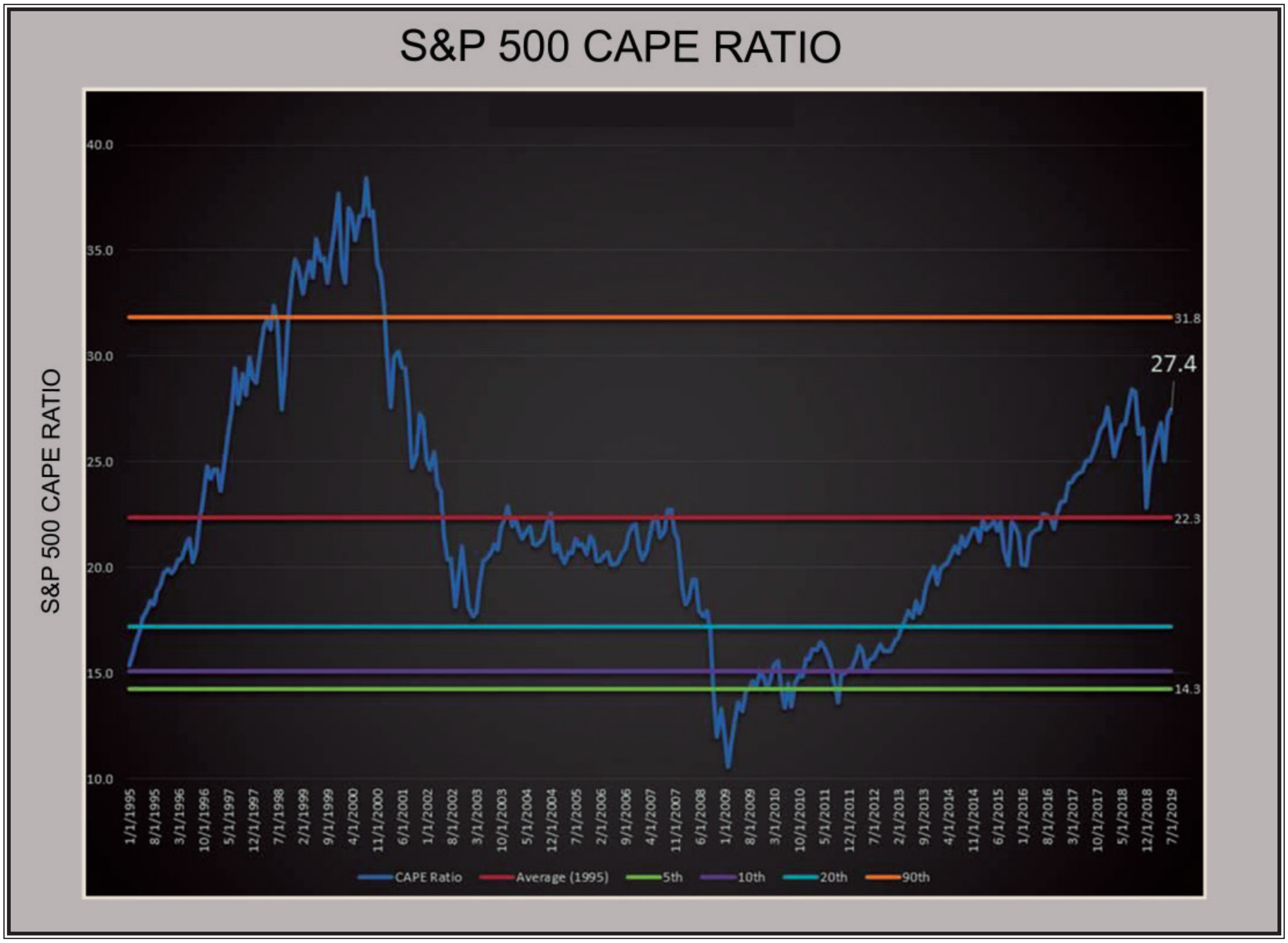


Why the BlackSwan ETF (SWAN)?

If the Fed properly manages the Fed Funds Rate, the equity market could continue to do well, and SWAN is positioned to participate in continued equity upside with the allocation to S&P 500 options. If the Fed cannot prevent a recession, SWAN may be positioned to buffer against significant losses with its allocation to Treasuries.

Scenario 3: End of Bull Market

We are 10 years into the bull market. Can this persist? Looking at the valuation of the S&P 500 Index as measured by the cyclically-adjusted price/earnings ("CAPE") ratio, it does appear stretched relative to the average CAPE ratio going back to 1995.



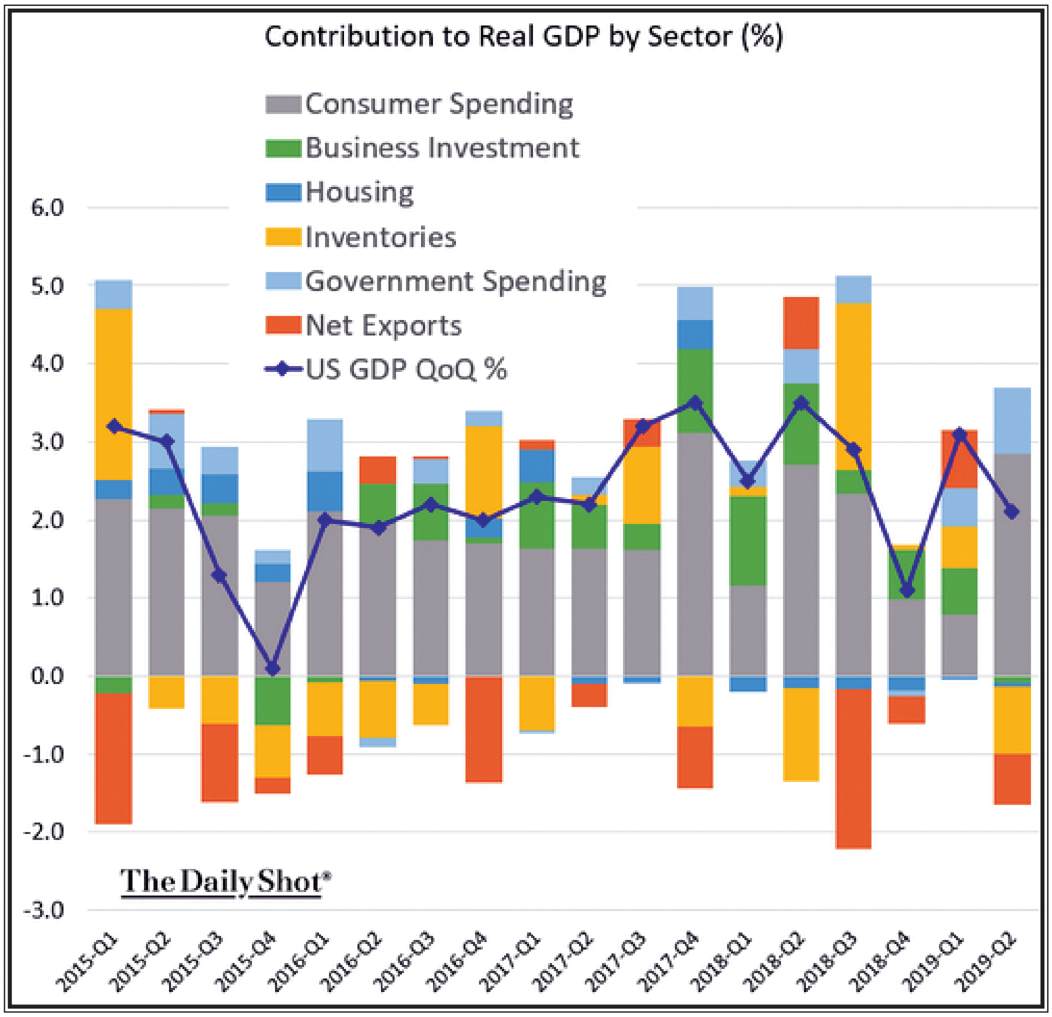
Source: Bloomberg, ARGI Financial

Why the BlackSwan ETF (SWAN)?

SWAN seeks to provide upside equity participation with a controlled exposure on the downside. Combined with the historical "flight to safety" aspect of U.S. Treasuries, this product seeks to reduce volatility while providing equity upside. If the bull market pulls back due to a correction a la 1998 or December 2018, we could see a reduction in experienced volatility.

Scenario 4: Economic Recession

There is a pathway to an economic slowdown in the U.S. where consumers start spending less, causing business hiring to slow. This could cause the job market to lose momentum and further reduce consumer spending, thus creating a downward spiral.



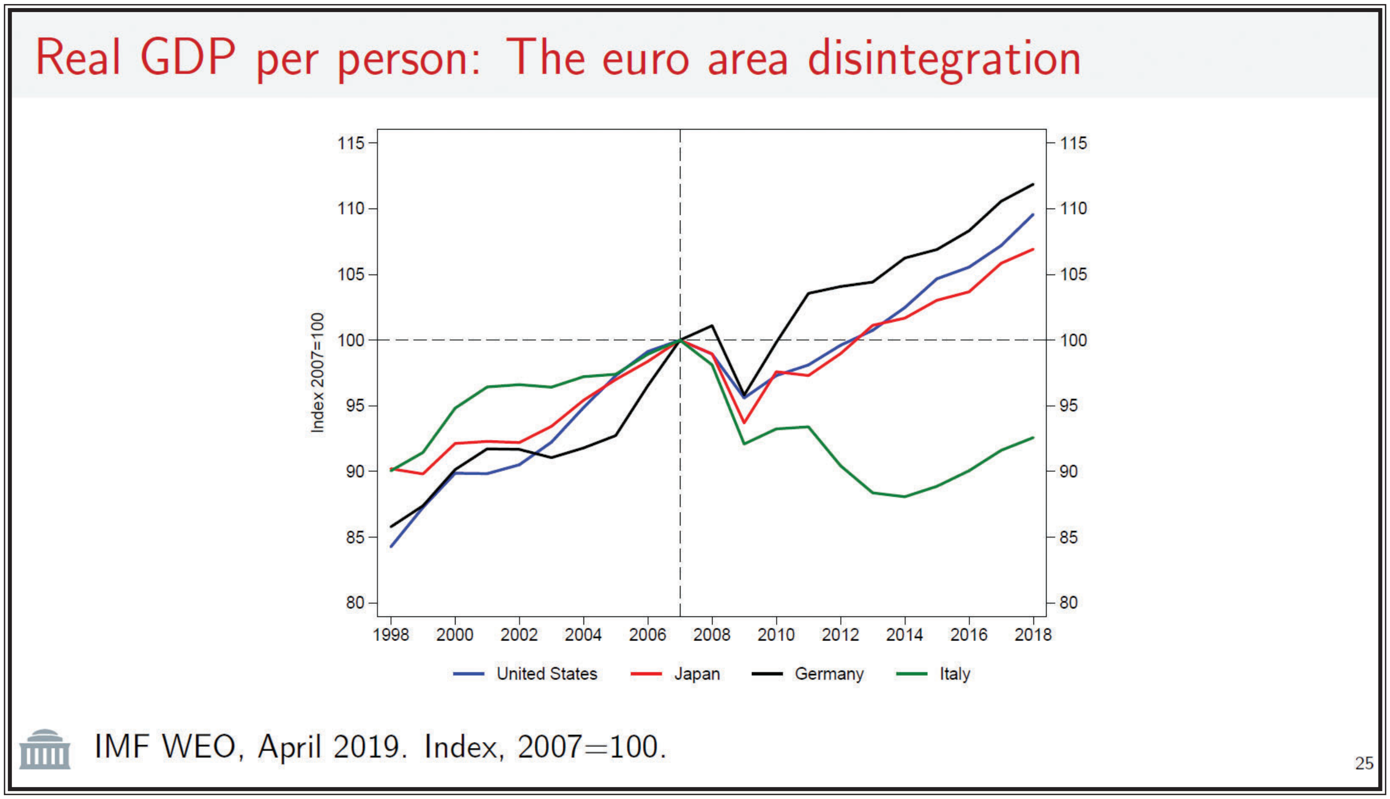
Source: WSJ.com | The Daily Shot

Why the BlackSwan ETF (SWAN)?

The Fed is likely to ease and inflation expectations should be low, potentially causing the treasuries within SWAN to rise in value and buffer the downside from the S&P 500 exposure. If the cycle continues, the S&P 500 options within SWAN should hover around 10% allocation, depending on the value of the options at the entry point, with Treasuries seeking to buffer that downside.

Scenario 5: Eurozone Political Issues

Eurozone political issues and structure could lead to a worldwide recession. Their economy is flawed in that some countries are doing very well (Germany) and some are doing very poorly (Italy). See below. There is a transfer of wealth between nations and more countries could begin leaving the Eurozone to pursue their own interests via management of monetary system and policy. As these risks escalate, bond yields in the less successful countries could rise significantly and there could be disruption in the world economy due to the uncertainty of the Euro.



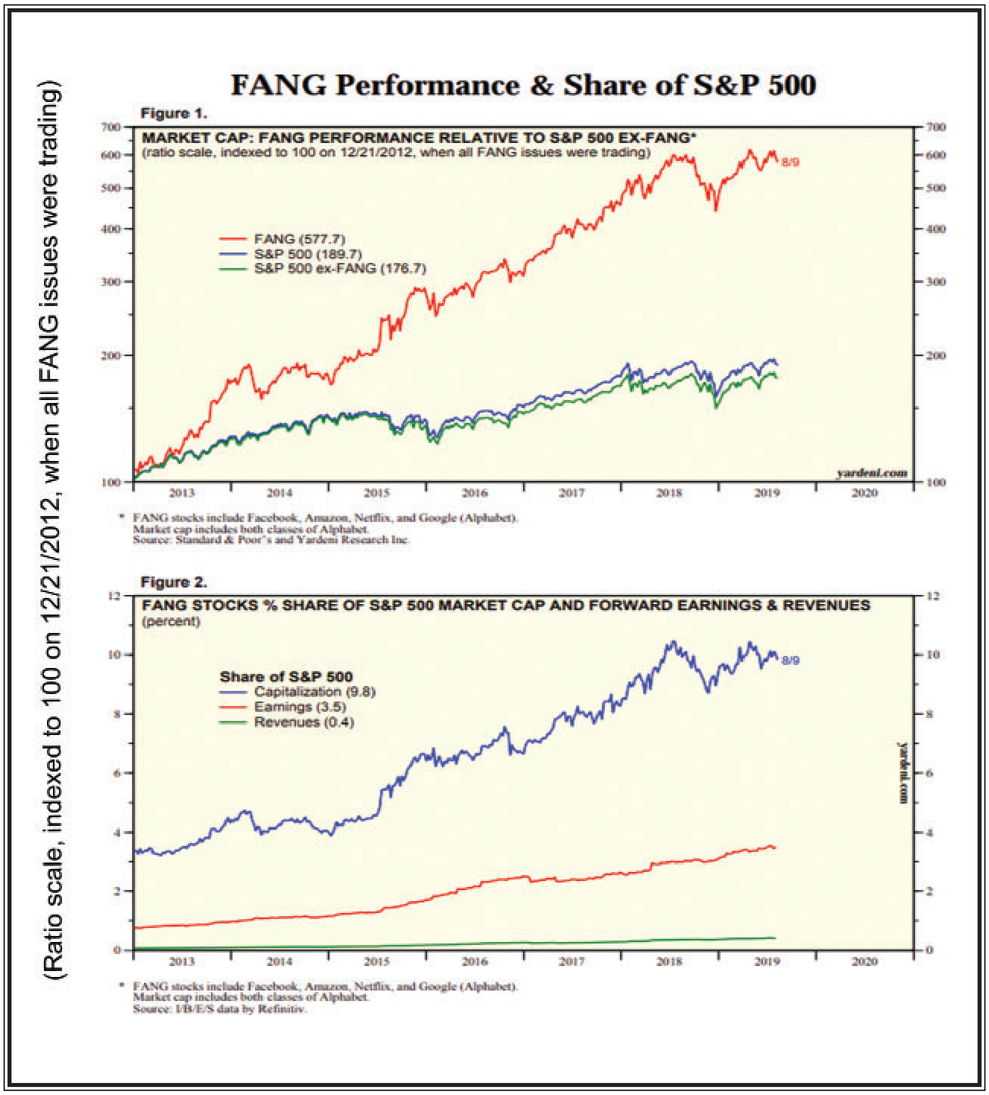
Source: International Monetary Fund (IMF), World Economic Outlook (WEO)

Why the BlackSwan ETF (SWAN)?

The dollar is the world's reserve currency and if the Euro breaks up, that will be strengthened in our opinion. We would expect there to be a flight to safety during the uncertain times, pushing U.S. Treasury yields lower and bond values up, which could buffer the downside of the market participation component in the event of a global slowdown in uncertain times.

Scenario 6: Policy Shift on Technology Platform Companies

So-called “FANG” stocks (large technology firms) have driven S&P 500 returns in recent years. There is momentum in the U.S. from the Democrats and Eurozone politicians to come down on and regulate FANG stocks. These companies could face significant headwinds, potentially causing a correction in the S&P 500.



Source: Industry Indicators: FANGs, Dr. Edward Yardeni

Why the BlackSwan ETF (SWAN)?

With SWAN’s allocation to S&P 500 options, it has indirect exposure to the contribution of FANG stocks in the S&P 500, but also seeks to buffer against major corrections. We don’t know if the political risks will occur, but if they do, SWAN’s option exposure functionality could limit downside equity participation to the exposure invested in the S&P 500 options.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice. Diversification does not assure a profit or protect against a loss in a declining market.

The Fund is not a money market fund.

Carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in Amplify Funds statutory and summary prospectus, which may be obtained by calling 855-267-3837, or by visiting AmplifyETFs.com. Read the prospectus carefully before investing.

The Fund's return may not match or achieve a high degree of correlation with the return of the underlying Index. To the extent the Fund utilizes a sampling approach, it may experience tracking error to a greater extent than if the Fund had sought to replicate the Index. The use of derivative instruments, such as options contracts, can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. Investing in options, including LEAP Options, and other instruments with option-type elements may increase the volatility and/or transaction expenses of the Fund. An option may expire without value, resulting in a loss of the Fund's initial investment and may be less liquid and more volatile than an investment in the underlying securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund.

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund.

The S-Network BlackSwan Core Total Return Index (Ticker: SWANXT) holds U.S. Treasury securities and SPY LEAP Options. On each rebalancing date, the Index targets 90% of its index market capitalization in U.S. Treasury securities and 10% targets of its index market capitalization in SPY LEAP Options. The weighting of U.S. Treasury securities is determined by the option reconstitution schedule. The S-Network BlackSwan Core Total Return Index is a trademark of the Index Provider and has been licensed for use for certain purposes by the Adviser. The Index Provider is not affiliated with the Trust, the Adviser, either Sub-Adviser or the Distributor. The Fund is entitled to use the Index pursuant to a sub-licensing agreement with the Adviser. **It is not possible to directly invest in an index.**

An "in-the-money" call option contract is an option contract with a strike price that is below the current price of the underlying reference asset.

The Standard & Poor's 500 Index - S&P 500 is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value.

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