



Mitchell Appel
President
Value Line Funds

Dear Fellow Shareholder,

Thank you for choosing Value Line Funds as a part of your diversified investment portfolio. For over half a century, Value Line Funds has championed sound investment principles and helped thousands of investors accomplish their financial goals with our actively managed family of mutual funds.

We hope you enjoy this edition of the **VLFAlert** and thank you for your continued support.

Volatility is Not Risk: Why the Difference is Critical to Long-Term Results

2017 lulled many equity investors into a comfort zone based on historically low volatility. 2018 has been more volatile—with tighter monetary policy and geopolitical and trade policy uncertainty among the drivers of the increase. But volatility levels in 2018 are actually historically normal—even with the bouts of volatility anticipated ahead of the November mid-term elections. But volatility is not risk. And recognizing the difference can be critical to your long-term investment returns.

Defining Our Terms

Volatility is simply the measure of the up and down movements of the market. For example, since 1950, when the Value Line Funds were first established, the average maximum drawdown in the broad U.S. equity market during midterm election years has been -17%, with weakness tending to be concentrated in the pre-election days. However, the good news is that there has been a consistent tendency historically for post-drawdown rallies, averaging +32% in the subsequent year.¹ Volatility? Yes! Uncertainty? Yes! But volatility is only risk if you act during down times—that is, only if you sell. To which the often-invoked quip may well be the most prudent answer: “Don’t just do something, sit there.”

Risk, on the other hand, is the probability of a permanent loss. You might think of risk as the possibility of having to lower your quality of life in the future.

“Volatility is not synonymous of risk but—for those who truly understand it—of wealth.”

- Francois Rochon*

Recognizing the Difference

Volatility is independent of risk. Too many investors let an investment’s short-term price movements, or perceptions of short-term price movements, drive their buying and selling decisions. Too often volatility is regarded as something to be

avoided. But since short-term price moves are unknowable and independent of underlying fundamentals and value, such volatility should not be a determinant.

And ALL investments have risk of some kind, including cash and CDs. One just needs to pick the risks that are best to take based on your individual tolerance level, time horizon and financial needs and goals.

As famed investor and Berkshire Hathaway CEO Warren Buffet wrote:

“Stock prices will always be far more *volatile* than cash-equivalent holdings. *Over the long term*, however, currency-denominated instruments are *riskier* investments — far riskier investments — than widely-diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions. **That lesson has not customarily been taught in business schools, where volatility is almost universally used as a proxy for risk. Though this pedagogic assumption makes for easy teaching, it is dead wrong: Volatility is far from synonymous with risk.** Popular formulas that equate the two terms lead students, investors and CEOs astray.”²

**“Volatility is our friend.
Volatility has nothing to do with risk.”**

- Mohnish Pabrai*

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It's a Matter of Time, Not Timing

Most experienced investors do not fear volatility, only unrecoverable loss. But most losses, as measured by a day, a week, a quarter or a year, are recoverable over time. Declines in principal value have historically been temporary. Of course, there are true risks. A company could go totally out of business. An innovation could transform an industry so profoundly to make a once "blue chip" company a relic. A geopolitical event could happen to negate all assumptions. But these occurrences are rare. For the vast majority of investors, maintaining a long-term perspective is the real key to attaining gains over their investing lifetime. Historically, since World War II, the longer you hold stocks, the narrower the range of returns.³ In other words, even if volatility is a concern, it decreases the longer you hold stocks. It's the old adage: what matters is time in the market, not market timing.

"You can't overlook the volatility, but you don't let it push you around in the market."

*- Boone Pickens**

How the Value Line Funds Can Help You Maintain a Long-Term Perspective

Patience, focus and disciplined strategies. These have been the by-words of the Value Line Funds and our experienced team of portfolio managers since the inception of the first Value Line Fund in 1950. We firmly believe that long-term holdings are the best answer to periodic market declines. Our consistent emphasis is on best serving the long-term interests of our shareholders. The Value Line Funds include a wide range of

solutions designed to meet a broad array of investment goals. Whether you are looking for income or long-term capital appreciation, whether you choose to invest in equities, taxable or tax-exempt fixed income or a hybrid fund of multiple asset classes, you can rely on the solid fundamentals of Value Line Funds.

Value Line Funds Include:
Equity Funds
Premier Growth Fund
Larger Companies Focused Fund
Mid Cap Focused Fund
Small Cap Opportunities Fund
Hybrid Funds
Asset Allocation Fund
Capital Appreciation Fund
Fixed Income Funds
Tax Exempt Fund
Core Bond Fund

Value Line Funds' Automatic Investing Plan

Looking for an easy and convenient way to invest with Value Line Funds? Consider enrolling in the Valu-Matic[®] Investment Program. For as little as \$25 per month you can purchase shares of any Value Line Fund and the money is automatically deducted from your checking account. Please call 800.243.2729 for more information.

Check out our News & Updates at vlfunds.com for the latest on the Value Line Funds.

For more mutual fund information, call today: 800.243.2729 or visit our website at www.vlfunds.com

¹Charles Schwab; Bloomberg, July 2018. Past performance is no guarantee of future results.

²Berkshire Hathaway, 2014 Annual Report.

³Abacus Wealth Partners, April 2018.

*Francois Rochon is the President of Canada's Giverny Capital. Mohnish Pabrai is an American businessman, investor, and philanthropist, currently the managing partner of Pabral Investment Funds, a family of hedge funds. Boone Pickens is an American business magnate and financier, who currently chairs the hedge fund BP Capital Management.

Past performance is no guarantee of future results. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund's prospectus, which can be obtained from your investment representative or by calling 800.243.2729. Please read it carefully before you invest or send money.

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