Risk Management Transcends Everything

L&S ADVISORS

A Deeper Dive Into Our

Risk Pulse™

Autumn 2018

12121 Wilshire Blvd., Suite 1100

Los Angeles, CA 90025

310.893.6060

www.LSAdvisors.com

This page intentionally left blank

L&S RISK PULSE™

At L&S Advisors, we believe that:

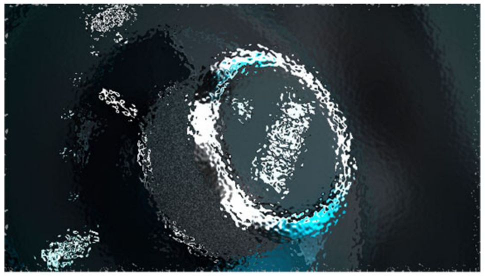
- *"Risk Management Transcends Everything"*
- We need to be aware that when risk increases are occurring, it may remain under the surface of investor awareness.
- We must be cognizant of those data points that have tipped us off to increased risks in the past.
- We devised the Risk Pulse™ to help us determine when risks were increasing.
- Risk management tools are utilized by all of our portfolio managers who may raise cash, or construct a portfolio that has less overall risk.

L&S ADVISORS

When risks rise, we will look to reduce exposure to risky assets!

L&S RISK PULSE™ COMPOSITION

- Purchasing Managers Indices for
  - USA, China, Germany, Spain, Italy, France, Japan, Eurozone, Emerging Markets, Global (42)
- Federal Reserve Surveys from
  - Philadelphia, Atlanta, New York, Chicago, Kansas City (34)
- Employment Statistics (42)
- Credit Markets (23)
- Economic Indicators 26)
- Retail Sales (35)
- Housing (5)
- Consumer (11)
- Market Sentiment, Investor Confidence, Valuation & Profits (19)
- Commodity Prices (11)



We seek to assemble the mosaic of risk…

L&S RISK PULSE™ WORKSHEET

Importance	Timing	Low, Falling	Low	Med	High	High Rising	Pos/Neg	%Ch 5D	%Ch 1M	%Ch 3M	%Ch 6M	Ticker	Description	Source	Price	Frequency	Last Date
PURCHASING MANAGER SURVEYS																	
USA																	
H	P					X	1	######	3.40	5.20	6.30	NAPMPMI	ISM Manufacturing PMI SA	nstitute for Supply Managemer	60.8	Monthly	9/30/2017
H	P	P			X		1	######	8.10	4.20	8.30	NAPMNMI	ISM Non-Manufacturing NMI	nstitute for Supply Managemer	59.8	Monthly	9/30/2017
H	P					X	1	######	######	######	#####	.PMI%CH	ISM PMI Annual Percent Change	ISM Annual Percent Change	#N/A N/A	Monthly	9/30/2017
H	P				P	X	1	######	7.10	1.70	0.20	NAPMNEWO	ISM Manufacturing Report on Business New Orders SA	Institute for Supply Managemen	64.6	Monthly	9/30/2017
H	P				P	X	1	######	2.00	-0.30	8.00	NAPMPROD	ISM Manufacturing Report on Business Production SA	Institute for Supply Managemen	62.2	Monthly	9/30/2017
H	P				X	P	1	######	-5.40	7.10	7.10	NAPMINV	ISM Manufacturing Report on Business Inventories NSA	Institute for Supply Managemen	52.5	Monthly	9/30/2017
H	P					X	1	######	12.80	13.00	15.20	NAPMSUPL	ISM Manufacturing Report on Business Supplier Deliveries SA	Institute for Supply Managemen	64.4	Monthly	9/30/2017
H	P					X	1	######	0.70	5.40	2.40	NAPMEMPL	ISM Manufacturing Report on Business Employment SA	Institute for Supply Managemen	60.3	Monthly	9/30/2017

Indicator Description

Bloomberg Ticker

Indicator Source

% Change over 5D, 1M, 3M, 6M

Indicator Most Recent Reading

1=high numbers are good; -1 = low numbers are good

Frequency of Indicator

L&S read of this indicator at the current time

Last Report Date

Importance is Low, Medium or High

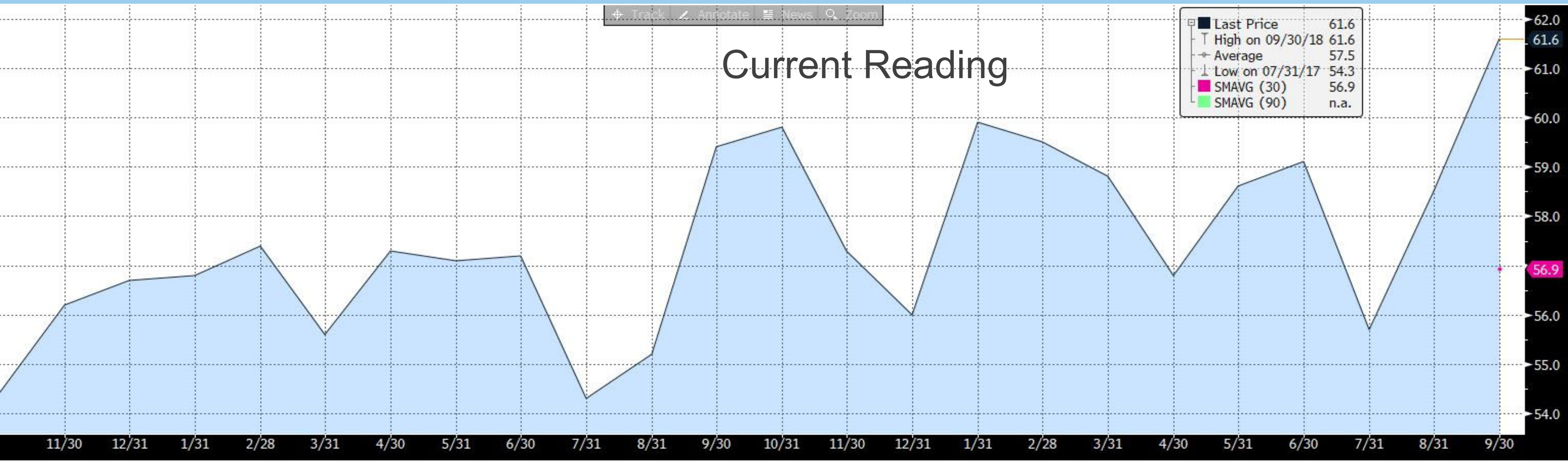
Timing is Lagging, Coincident, or Predictive

L&S ADVISORS

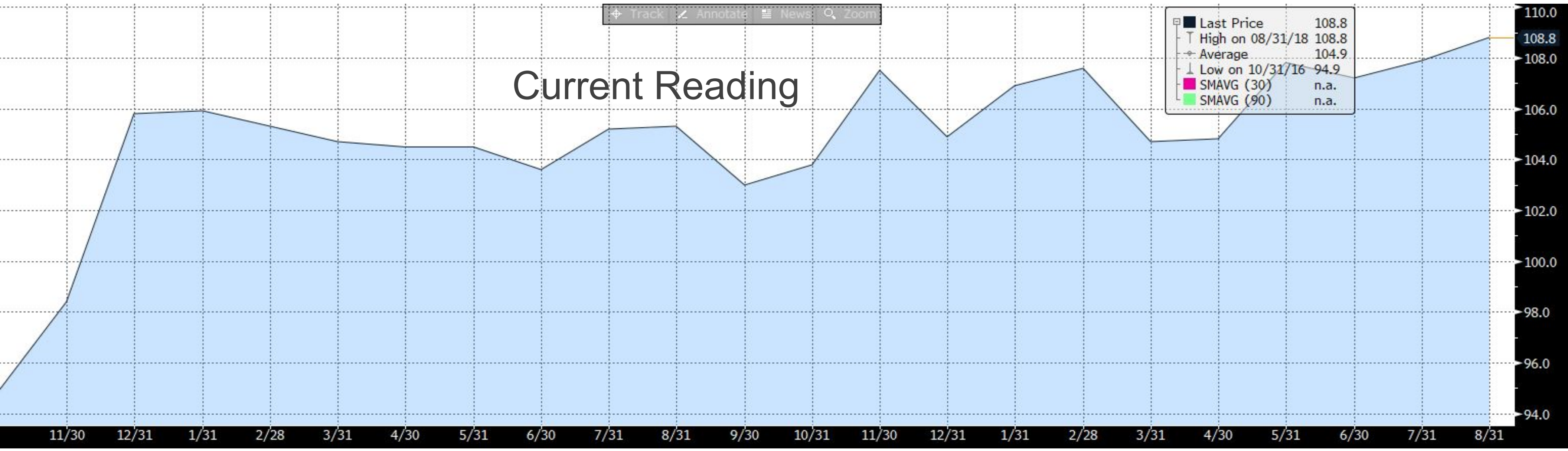
LARGEST US BANKS CREDIT DEFAULT SWAP COSTS

HIGH YIELD CORPORATE BOND SPREADS

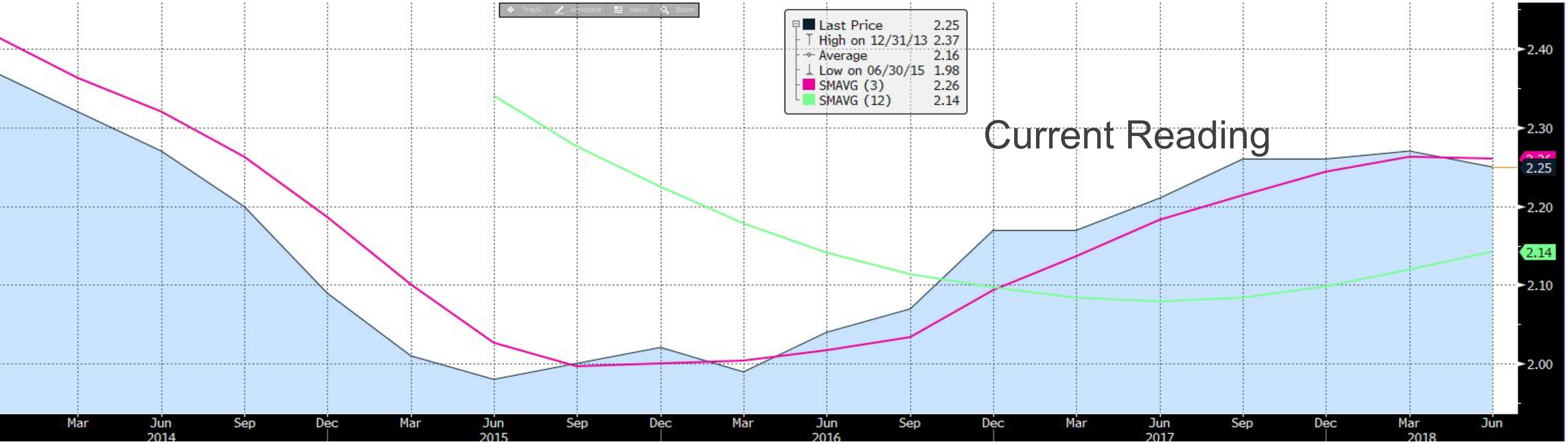
US ISM NON-MANUFACTURING PURCHASING MANAGERS INDEX

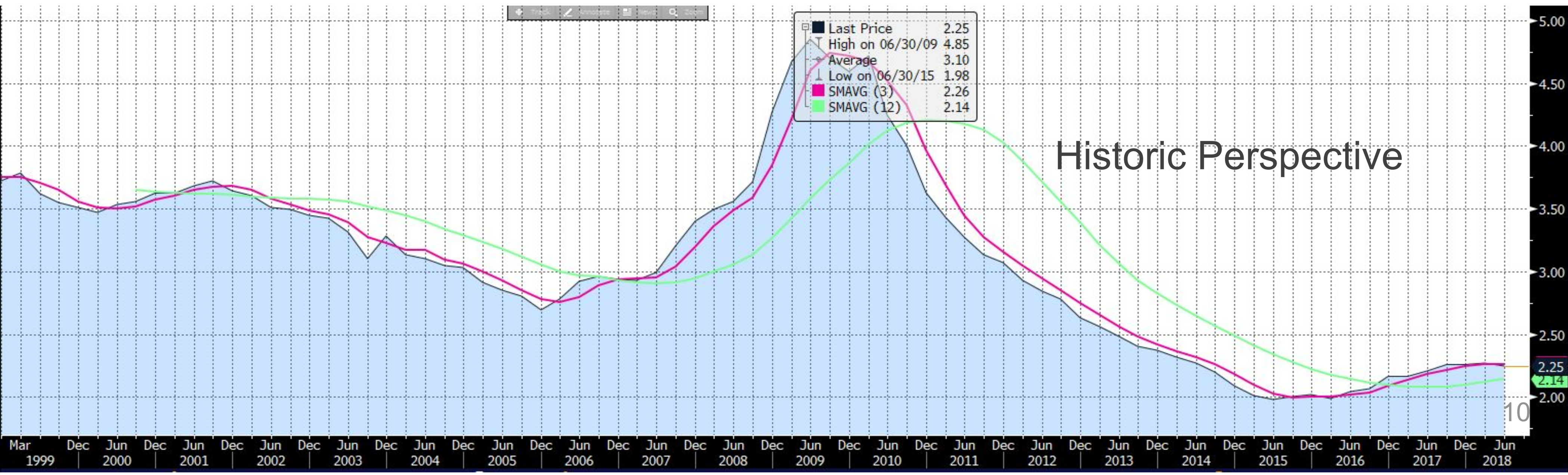


NFIB SMALL BUSINESS OPTIMISM

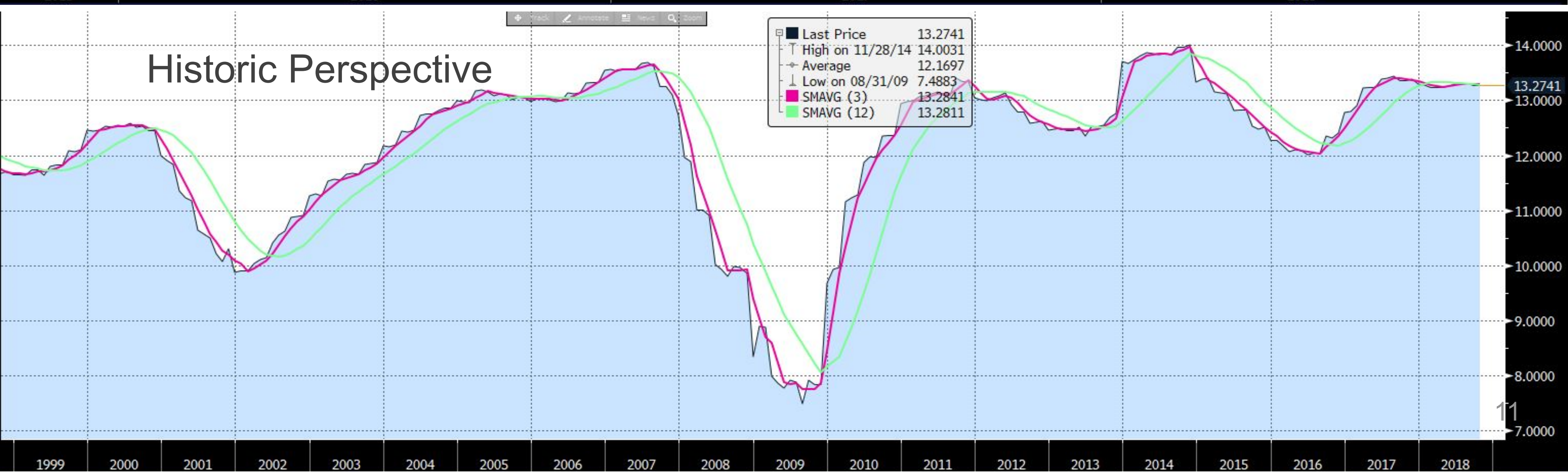


CONSUMER LOAN DELINQUENCY RATES



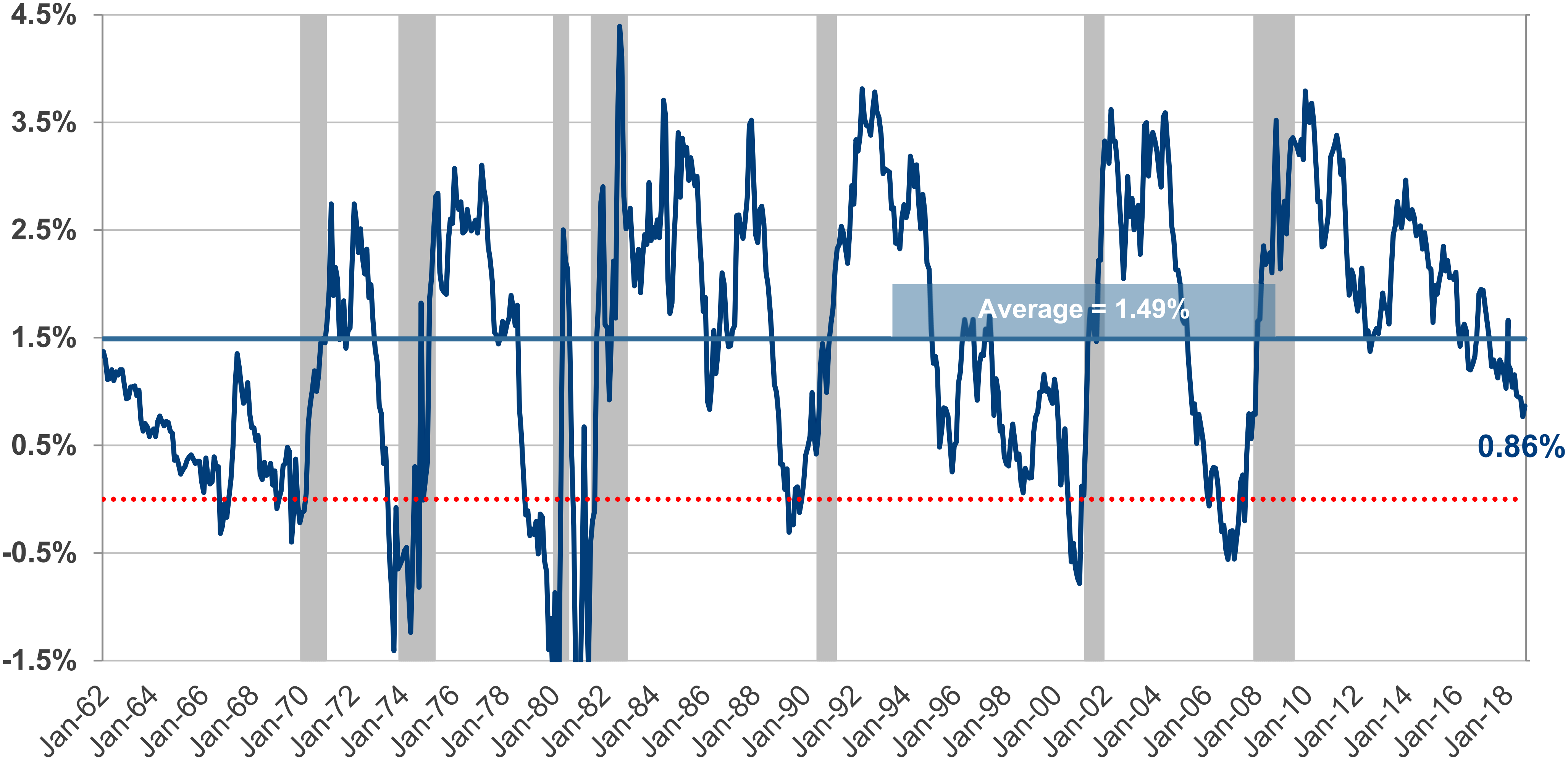


S&P 500 OPERATING MARGINS



FED TOO TIGHT? POLICY MISTAKE?

When the Yield Curve Is Negatively Sloped (10 Year Rates Minus 3-Month Rates)

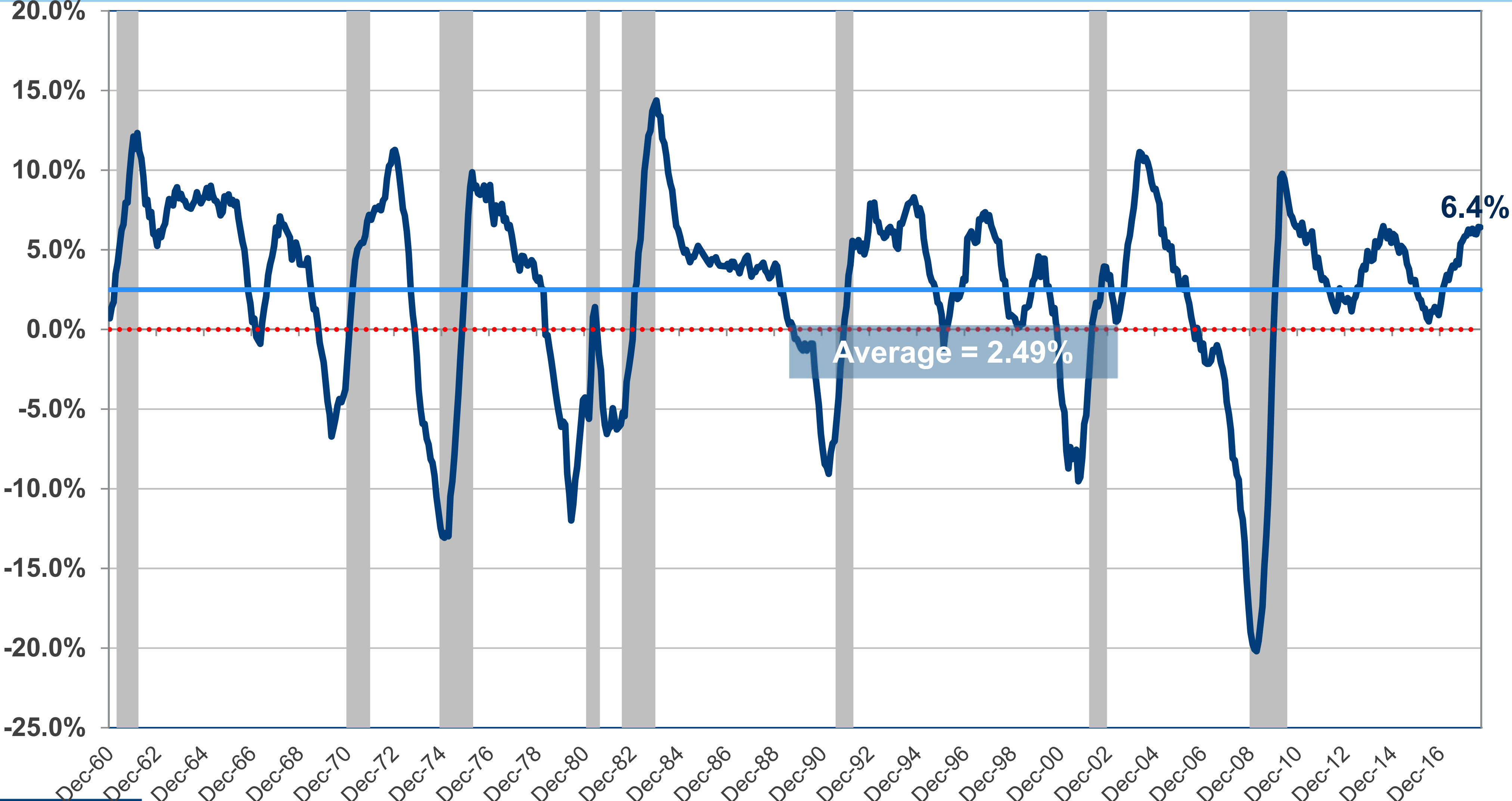


L&S ADVISORS

Source: Bloomberg, Data Systems

THE PROBABILITY OF A RECESSION IS LOW

Annual Change In Leading Economic Indicators (LEI) continues to expand.



Source: Bloomberg, Data Systems

L&S ADVISORS

ECONOMIC SIGNALS THAT TYPICALLY PROCEED RECESSIONS

Indicator	Recession Signal	Yes	No
Interest Rates	Short-term rates above long-term rates		
Leading Economic Indicators	Annual Percent Changes is Negative		
New Single Family Home Sales	Peak and starts decline before the recession		
Initial Unemployment Claims	Trough and start rising before the recession		
Fed Funds Rate	Above the inflation rate before the recession		
Consumer Confidence	Peak and starts decline before the recession		
Bank Lending Standards	Trough and start rising before the recession		

L&S ADVISORS

CURRENT RISK PULSE

Currently Caution (5 out of 10)

- Medium+ (4) – Core economic indicators are healthy, but markets indicate potential near-term volatility and/or mild correction. Valuations are trending high.

Caution (5) – Long-term macroeconomic conditions are strong, but at least several core economic indicators show weakness with noteworthy but outlying risk that requires monitoring. Valuations are approaching high for a majority of stocks.

- Caution+ (6) – The composite economic picture is mixed or unclear, indicating confusion in global markets. Valuations are questionable and volatility must be monitored.

L&S ADVISORS

Risk Management Transcends Everything

L&S ADVISORS

Who We Are

About L&S Advisors

- L&S Advisors is an **independent, fee-only** Registered Investment Advisor (RIA) **owned by its employees**.
- L&S **focus is on risk management and capital preservation.**
- Our two founders, Sy Lippman and Rick Scott, each bring more than **40 years of investment management experience**.
- Our other portfolio managers, Bennett Gross, Craig Weston, and Ken Malamed, **each bring more than 30 years of investment management experience**.
- L&S is a **Fiduciary** to our clients.
- A significant percentage of **our family capital is in the same strategies** as that of our clients.
- L&S claims compliance with the Global Investment Performance Standards (GIPS®).

DISCLOSURE

Disclosure

L&S Advisors, Inc. ("L&S") is a privately owned corporation headquartered in Los Angeles, CA. L&S was originally founded in 1979 and dissolved in 1996. The two founders, Sy Lippman and Ralph R. Scott, continued managing portfolios together and reformed the corporation in May 2006. The firm registered as an investment advisor with the U.S. Securities and Exchange commission in June 2006. L&S performance results prior to the reformation of the firm were achieved by the portfolio managers at a prior entity and have been linked to the performance history of L&S. The firm is defined as all accounts exclusively managed by L&S from 10/31/2005, as well as accounts managed in conjunction with other, external advisors via the Wells Fargo DMA investment program for the periods 05/02/2014, through the present time.

L&S claims compliance with the Global Investment Performance Standards (GIPS®) . L&S has been independently verified by Ashland Partners & Company LLP for the periods October 31, 2005 through December 31, 2015, and ACA Performance Services for the periods from January 1, 2016 to December 31, 2017. Upon request to Sy Lippman at slippman@LSAdvisors.com, L&S can provide the L&S Advisors GIPS Annual Disclosure Presentation which provides a GIPS compliant presentation as well as a list of all composite descriptions.

L&S is a registered investment adviser with the U.S. Securities and Exchange Commission ("SEC") and is notice filed in various states. Any reference to or use of the terms "registered investment adviser" or "registered," does not imply that L&S or any person associated with L&S has achieved a certain level of skill or training. L&S may only transact business or render personalized investment advice in those states and international jurisdictions where we are registered, notice filed, or where we qualify for an exemption or exclusion from registration requirements. Information in this newsletter is provided for informational purposes only and should not be construed as a solicitation to effect, or attempt to effect, either transactions in securities or the rendering of personalized investment advice. Any communications with prospective clients residing in states or international jurisdictions where L&S and its advisory affiliates are not registered or licensed shall be limited so as not to trigger registration or licensing requirements. Opinions expressed herein are subject to change without notice. L&S has exercised reasonable professional care in preparing this information, which has been obtained from sources we believe to be reliable; however, L&S has not independently verified, or attested to, the accuracy or authenticity of the information. L&S shall not be liable to customers or anyone else for the inaccuracy or non-authenticity of the information or for any errors of omission in content regardless of the cause of such inaccuracy, non-authenticity, error, or omission, except to the extent arising from the sole gross negligence of L&S. In no event shall L&S be liable for consequential damages.

The S&P 500 index is a free-float market capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested and is not available for direct investment. The composition of L&S' strategies generally differs significantly from the securities that comprise the index due to L&S' active investment process and other variables. L&S does not, and makes no attempt to, mirror performance of the index in the aggregate, and the volatility of L&S' strategies may be materially different from that of the referenced indices.

L&S' current disclosure statement as set forth in ADV 2 of Form ADV as well as our Privacy Notice is available for your review upon request.

L&S

ADVISORS