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L&S Advisors Tactical Market Update
June 2016

Top Sectors

Tactical Equity Opportunities		Tactical Equity Income	
Health Care	21.2%	Health Care	19.2%
Information Technology	12.9%	Energy	14.0%
Energy	11.4%	Bond Funds	10.4%
Bond Funds	10.3%	Consumer Staples	7.1%
Industrials	7.0%	Industrials	7.1%

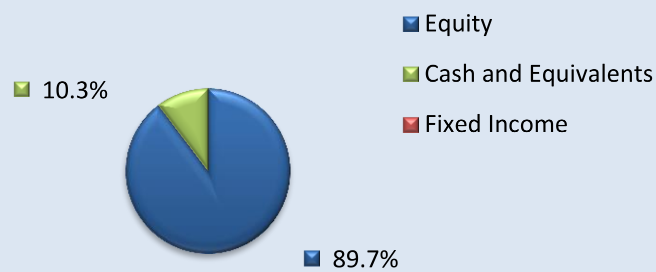
Preliminary Performance (net of fees)

	June	YTD	ITD*	ITD
Tactical Equity Opportunities	0.04%	-1.58%	5.97%	85.67%
Tactical Equity Opp. WRAP **	0.00%	-2.12%	4.93%	67.12%
Tactical Equity Income	0.23%	-0.40%	7.51%	116.51%
Tactical Equity Income WRAP **	0.19%	-0.95%	5.60%	78.81%
Dow Jones Industrial Average	*0.80%*	*2.90%*	*5.20%*	*71.74%*
S&P 500 TR	*0.26%*	*3.84%*	*7.59.%*	*118.21%*
Barclay's Aggr Bond Index	*1.89%*	*5.60%*	*5.21%*	*71.96%*

** annualized*
*** net of all WRAP fees or 3% annually*

Asset Allocation

Tactical Equity Opportunities



Tactical Equity Income

Please note all Top Sectors, Asset Allocation and Performance information are as of June 30, 2016 and subject to change at any time. Annualized and cumulative ITD returns are as of inception on October 31, 2005.

Insights and Actions – "If It's Not Brexit, Then Don't Fix It"

General Comments

Vladimir Lenin once said "There are decades where nothing happens; and there are weeks where decades happen." Lenin could have been referring to the last week of June. The British voted to leave the European Union (EU), and markets were wholly unprepared for that event. Markets sold off dramatically as the British Prime Minister resigned, and political uncertainty seemed to reign supreme. After a couple of days of selling, which brought the market into short-term over-sold territory, the market rebounded strongly. While political uncertainty on both sides of the Atlantic remains elevated, the reality is that Britain's divorce from the EU will likely take two years or more, and it is certainly conceivable that it may never actually happen.

The first half of the year proved to be very volatile as an early sell-off ended in mid-February. Markets bounced back in March and April, and have been marking time since then. The S&P 500 managed to eek out a small gain for the period. Despite modest gains, the market has still been reeling from the earlier sell-off, and the average stock was down nearly 14% below its 52-week high, even as the S&P 500 ended the quarter not very far from its all-time highs. The market is reflecting not only the political uncertainty, but also questions about whether interest rates in this country would be increased further. While the surveys from the Fed indicate their desire to raise rates again, the market does not expect any additional interest rate increases for the remainder of this year.

Data Points and Global Economic Indicators

Data points can best be described as bipolar and inconsistent. Recent employment reports have been exceptionally weak, even as June's report was a pleasant reprieve. The Leading Economic Indicator is still positive year over year, but it is well below average, and some people see this as a sign that a recession could be on the horizon. Likewise, the shape of the yield curve is still positively sloped, yet the difference between short-term and long-term interest rates remains perilously small. Sovereign Credit Default Swaps (CDS) increased, and are somewhat above average. Bank and insurance company CDS prices are also above average, probably reflecting concerns over the slow rate of global growth.

On the other hand, the manufacturing purchasing managers index as well as the non-manufacturing (the service economy) index improved smartly. Retail sales remained strong, as did housing sales. The Philly Fed reported improving conditions even as the Empire state showed weakness. We wonder how these two Fed reports could differ so strongly? Consumer confidence improved modestly, and the architecture billing index continues to be solid.

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Insights and Actions Cont.

Asset Allocation

We ended the quarter fairly fully invested, with only 6.4% in cash in the Tactical Equity Opportunities strategy and 10.3% in the Tactical Equity Income strategy. We continue to hold a 10% positon in long treasuries, and a 10% position in gold and precious metals mining stocks. Both the treasuries and the gold have proven to be excellent hedges against the recent volatility. The remaining 71-72% is invested in equities, with only very modest exposure to small and mid-cap equities.

Sector Allocation

We maintain significant over-weighted positons in energy, healthcare, telecommunications and utilities. We suspect that energy sector earnings estimates have been revised down too much, and we are positioned for some potential positive earnings surprises. We continue to be enthusiastic about the prospects for new drug therapies, and that combined with the aging of America gives us comfort in our heavy exposure to healthcare stocks. The telecommunication and utility exposure is driven by our perspective that these issues are bond substitutes, and with interest rates so low, we find the dividend yields very attractive. We acknowledge that utilities are getting somewhat expensive, and we will continue to watch for signs that the group may be topping.

Conclusion

Our take is that there is enough weakness for the Risk Pulse to remain elevated. This is not just based on political uncertainty, but from indicators showing renewed weakness in Europe and Japan, and some worries about European banks and other pockets of weakness. Despite this weakness, we do not anticipate a recession over the next several quarters. Our base case is that slow growth is likely to continue. The turmoil, however, is not over. In fact, we may very well be at the start of a protracted period of volatility. Rather than head for the hills, we want to view the current situation as an investment opportunity, anticipating the right sectors and actively managing our portfolios could potentially lead to above market performance. Our game plan at this point is to be, as always, opportunistic, tactical and active as needed. This should create an edge as we enter a traditionally slow summer season laced with domestic and geopolitical craziness.