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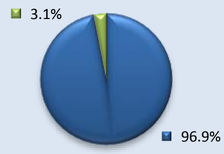
L&S Advisors Tactical Market Update
December 2017

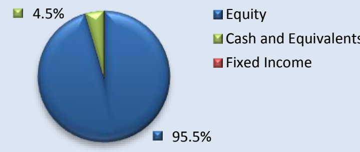
Top Sectors

Tactical Equity Opportunities		Tactical Equity Income	
Information Technology	26.8%	Industrials	23.2%
Industrials	24.7%	Information Technology	22.8%
Energy	13.9%	Energy	15.6%
Financials	12.6%	Financials	12.8%
Materials	9.3%	Consumer Discretionary	7.1%

Asset Allocation



Tactical Equity Opportunities



Tactical Equity Income

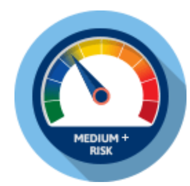
Preliminary Performance

	December	QTD	YTD	12 Mos	3 Yr*	5 yr*	ITD*	ITD
Tactical Equity Opportunities GROSS	1.69%	6.82%	20.54%	20.54%	7.73%	10.26%	8.21%	161.04%
Tactical Equity Opportunities NET	1.69%	6.58%	19.44%	19.44%	6.69%	9.18%	7.15%	131.74%
Tactical Equity Opp. WRAP GROSS	1.75%	6.88%	20.76%	20.76%	7.73%	10.97%	8.58%	172.36%
Tactical Equity Opp. WRAP NET **	1.75%	6.49%	18.96%	18.96%	6.04%	9.15%	6.20%	107.82%
Tactical Equity Income GROSS	1.52%	6.41%	16.58%	16.58%	6.66%	9.15%	9.04%	186.53%
Tactical Equity Income NET	1.52%	6.20%	15.60%	15.60%	5.72%	8.16%	8.01%	155.32%
Tactical Equity Income WRAP GROSS	1.56%	6.56%	16.56%	16.56%	6.53%	9.01%	8.98%	184.69%
Tactical Equity Income WRAP NET **	1.56%	6.15%	14.76%	14.76%	4.84%	6.93%	6.26%	109.37%
Dow Jones Industrial Average	*1.84%*	*10.33%*	*25.08%*	*25.08%*	*11.52%*	*13.53%*	*7.34%*	*136.77%*
S&P 500 TR	*1.11%*	*6.64%*	*21.83%*	*21.83%*	*11.41%*	*15.79%*	*9.04%*	*186.65%*
Barclay's Aggr Bond Index	*0.48%*	*0.41%*	*3.73%*	*3.73%*	*2.36%*	*2.21%*	*4.64%*	*73.63%*

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

Please note Top Sectors, Asset Allocation and Performance information is as of December 31, 2017. Annualized and cumulative ITD returns are as of inception on October 31, 2005.

L&S Risk Pulse™ Score



Medium +

Core economic indicators are healthy, but markets indicate potential near-term volatility and/or mild correction. Valuations are trending high.

L&S Risk Pulse™ Insights – "Bidding Adieu to 2017"

General Comments

In many ways we mourn the passing of 2017. Despite the political sturm and drang, the year was a very good one for investors. Stock market gains were unrelenting as there were no down months in the year, something that has never happened before (our data goes back to 1926). Growth outperformed value, and large cap stocks outperformed small and mid-cap stocks. Interest rates and inflation remained well-contained, and nearly every asset generated positive returns for the year.

Data Points and Global Economic Indicators

For the first time since the end of the Great Recession, we are witnessing synchronized global growth. As of the last report, fully all 20 of the Group of 20 nations have economies that are growing. Strong economic growth is the first pillar we look for, and provides an excellent environment for equity market gains to continue.

Secondly, we look for economic growth to lead to stronger corporate earnings, and results through the past year have shown solid gains in revenues and earnings, and many corporations have provided positive outlooks for the coming quarters. Further, the recent tax plan passed by congress at the end of the year provides for reduced corporate tax rates, which should lead to additional gains in corporate earnings. Estimates, including the benefits of lower tax rates, call for S&P 500 earnings to grow by more than 20% in 2018. Earnings growth of this magnitude should lead to higher stock prices over the coming year.

The third pillar we look for is an increase in both individual and corporate confidence, and here again the news is quite positive. Consumer confidence, CEO confidence, and small business confidence have all increased dramatically over the past year. Both small business and CEO confidence are responding to the very pro-business stance of the current administration. Consumer confidence is likely responding to the outlook for continued economic growth, combined with the very strong employment gains with the unemployment rate down to a low 4.1%. Further improvements in the unemployment rate are likely to support continued strength in consumer confidence as the year progresses.

Continued on next page…

See important disclosures on next page.

Insights and Actions Cont.

Taken together, strong economic growth, solid gains in corporate earnings, and the confidence to invest provide an excellent backdrop for further gains in the equity market in the coming quarters.

We would be remiss to end this discussion without touching on some potential problems that could also rear their ugly head. We worry about the potential for a trade war, especially as the US is threatening to put tariffs on steel and other commodities imported from China. We worry about the potential for the Fed to make a policy mistake as they have indicated their determination to raise interest rates three times in the coming year. We worry about the potential for inflation to begin to re-appear, which could push interest rates much higher than most investors anticipate. We also worry about valuations. While we acknowledge that valuations are a poor short-term indicator, more than 75% of the gains in the market over the past 6 years have come from stretched valuations as compared with only 25% of the gains based on improved corporate earnings. At some point, a reversion to more average valuation metrics is likely. Finally, we worry about investor sentiment, which has gotten materially more bullish over the past couple of months. It is generally the case that retail investors are nervous near market bottoms, and euphoric at market tops. The lack of skepticism is something that causes us some concern.

We spend significant resources looking for signs that risks are building, even as those signs may not be visible at this time. We evaluate data from may resources, including Fed reports, purchasing manager's reports, credit statistics, investor sentiment, market action, and many others. Deterioration of credit market indicators, in particular, were prevalent prior to the beginning of the Great Recession, and we remain vigilant to the idea that risks may be building, even as the outward appearance is one of sustainable growth.

Conclusion

Our read of the data does not give us reason to be raising concern. If anything, the recent read of the data suggests the global economy may be strengthening. That does not prevent the market from having a temporary correction, and it does not guaranty that growth in corporate earnings will lead to a commensurate increase in stock prices. The data remains positive, and so does our bias.

While we acknowledge that the stock market may be overdue for a correction, we must also be cognizant of the fact that the most painful bear markets are almost always accompanied by recessions. In this regard, the data is very positive. Our best indicators for projecting when the next recession might begin continue to suggest that the likelihood of a recession starting in 2018 remains fairly remote.

Overall, we expect a reasonably positive year for investors in the year ahead.

From all of us at L&S Advisors, we send our most heartfelt wishes to you and your family for a New Year that brings good health, fine friends, much happiness, and abundant prosperity.