L&S Advisors, Inc.
12121 Wilshire Blvd.
Suite 1100
Los Angeles, CA 90025

O 310.893.6060
F 310.893.6070
E info@lsadvisors.com
W lsadvisors.com

L&S Advisors Tactical Market Update

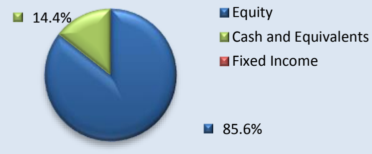
January 2018

Top Sectors

Tactical Equity Opportunities		Tactical Equity Income	
Industrials	25.3%	Industrials	23.8%
Information Technology	24.5%	Information Technology	18.0%
Financials	14.4%	Financials	14.6%
Energy	8.3%	Energy	11.9%
Consumer Discretionary	7.5%	Consumer Discretionary	7.4%

Asset Allocation

Tactical Equity Opportunities



Tactical Equity Income

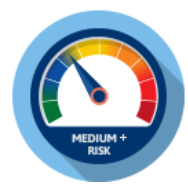
Preliminary Performance

	January	QTD	YTD	12 Mos	3 Yr*	5 yr*	ITD*	ITD
Tactical Equity Opportunities GROSS	5.85%	5.85%	5.85%	23.15%	10.44%	10.26%	8.65%	176.30%
Tactical Equity Opportunities NET	5.61%	5.61%	5.61%	22.03%	9.39%	9.18%	7.58%	144.74%
Tactical Equity Opp. WRAP GROSS	5.80%	5.80%	5.80%	23.29%	10.38%	10.91%	9.02%	188.14%
Tactical Equity Opp. WRAP NET **	5.42%	5.42%	5.42%	21.49%	8.67%	9.11%	6.61%	119.09%
Tactical Equity Income GROSS	5.12%	5.12%	5.12%	20.51%	8.42%	9.27%	9.42%	201.21%
Tactical Equity Income NET	4.92%	4.92%	4.92%	19.55%	7.47%	8.29%	8.38%	167.87%
Tactical Equity Income WRAP GROSS	5.19%	5.19%	5.19%	20.54%	8.30%	9.14%	9.37%	199.45%
Tactical Equity Income WRAP NET **	4.79%	4.79%	4.79%	18.70%	6.59%	7.03%	6.62%	119.40%
Dow Jones Industrial Average	*5.79%*	*5.79%*	*5.79%*	*31.64%*	*15.06%*	*13.54%*	*7.78%*	*150.47%*
S&P 500 TR	*5.73%*	*5.73%*	*5.73%*	*26.41%*	*14.66%*	*15.91%*	*9.47%*	*203.06%*
Barclay's Aggr Bond Index	*-1.21%*	*-1.21%*	*-1.21%*	*2.26%*	*1.20%*	*2.12%*	*4.50%*	*71.53%*

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

Please note Top Sectors, Asset Allocation and Performance information is as of January 31, 2018. 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 – "The Times They Are a-Changing"

General Comments

The market started January as a continuation of last year, with the momentum of the market propelling stocks ever higher. The market has posted 15 consecutive up months in a row. No down months, no volatility, and big gains.

We have always thought that when cocktail party chatter revolved around the easy money made in specific stocks, or the market in general, that is a warning signal that risks are building. Bitcoin anyone?

It really is unclear what changed the psychology as the calendar moved from January to February. Pundits have articulated many reasons for the dramatic declines witnessed in the first week of February, and there is some truth in all of them, but the reality is that there is probably no one easily ascertainable reason why the character and perception of the market has changed.

Interest rates have moved up dramatically both in January, but also since last fall. 10-year U.S. Treasury rates were 2.04% in early September, and they peaked at 2.84% on February 2nd. While 2.8% still represents interest rates that are closer to all-time lows than to worrisome levels, it is important to remember that dramatic interest rate hikes are generally disruptive to markets. On a percentage basis, the 40% market-driven increase in 10-year rates was actually larger than the interest rate percentage hikes that preceded October of 1987.

Early in February, the unemployment report was released for January. That report showed respectable job growth, but it also showed a pick-up in wage inflation. Economists would generally expect a strong economy combined with low unemployment to lead to wage inflation, and the data bore that out. Average hourly earnings rose 2.9%, the highest number since May of 2009. The perception seemed to support the idea that the Fed would be raising interest rates by at least the three times in 2018, and the odds of a fourth interest rate hike rose dramatically. Markets appeared to suspect that the Fed was behind the curve in raising interest rates, and a more aggressive Fed would make for a more difficult environment for stocks and bonds.

Perhaps, too, the sugar-high of lower taxes was wearing off. While companies will report higher earnings, the higher deficits and additional treasury debt financing as a result of a poorly funded corporate tax cut will serve to put additional pressure on interest rates that already seem poised to increase anyway.

Continued on next page…

Insights and Actions Cont.

Over the past six years, more than half of the stock market's gains came from expanding valuations, while less than half of the gains came from higher corporate earnings. At some point, valuations will likely revert toward long-term averages, and higher interest rates put additional pressure on valuation measures.

Certainly, there were other reasons for the markets to correct. Markets simply do not go straight up without pulling back at some point along the way. Investor sentiment had grown overly bullish and complacent, and that is often a signal that the market is due for a correction. Additionally, some high profile companies missed their earnings estimates. Still, so many companies have exceeded estimates and provided solid guidance for the quarter and year to come that we do not see a few misses as an indicator of continued earnings difficulty ahead. Whatever the reasons or reasons, the tone of the market changed as the calendar rolled into February.

The market that had been up for 15 months in a row was now correcting and becoming more volatile. There is an old saying that markets take the stairs up but the elevator down. Over the past several days of early February, the elevator was an express.

We expect the momentum-driven easy-money market of the past will transition into a market that will be less complacent and more volatile. Strong economic growth and solid corporate earnings may be offset by contractions in valuations and fears of higher interest rates. Active managers will have to work for their returns, and we do believe that this is finally a market where active managers will be able to show how they can and do add value.

Data Points and Global Economic Indicators

It is important to remember that there has been no profound change in our data points that might explain the severe correction of the past few days.

There are no signs of credit problems in the economy. There have been no bank failures, no tighter lending standards, no signs of credit stresses. Yes, high yield spreads did widen out somewhat, but actual spread levels remain quite low as compared with history.

Economic growth remains quite robust, and we continue to see growth across all 20 of the G-20 nations. Solid economic growth is not just a U.S. phenomenon but is now a global one. The employment report showed a gain of 200,000 net new jobs, and the unemployment report remained at 4.1%. The biggest issue with these numbers is the implied support for additional rate hikes by the Fed. Our recession indicators continue to suggest that a recession is unlikely in 2018, and perhaps even into 2019. Purchasing Managers Indices, Fed reports, and other economic measures all suggest that economic growth is likely to continue for the foreseeable future.

Other than the increase in interest rates, this correction was not data driven. With that in mind, our Investment Committee decided to leave the Risk Pulse™ unchanged at this time.

Conclusion

Markets go up. Markets go down. Markets correct. That is the price of admission. The biggest declines that typically come with recessions do not seem to be on the horizon. Still, volatility is likely to be higher than it has been, and news of strong economic growth may be met by concerns over potential Fed policy tightenings. Strong earnings growth may be offset by valuation metrics that continue to revert toward long-term averages.

This is likely to be a more difficult environment, but one that is not without opportunity. In fact, this may be an excellent market for active managers to show that we have the ability to add value as compared with a strictly passive approach. Picking the right stocks and the right sectors will be increasingly important and adjusting the portfolio accordingly will lead to better returns for investors. In this regard, the times may be changing for the better.

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 adviser 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 Advisors. 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 January 1, 2016 to December 31, 2016. Upon a 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 performance shown includes that of the Tactical Equity Opportunities ("TEO") Composite, TEO WRAP Composite, Tactical Equity Income ("TEI") Composite and TEI WRAP Composite which contains fully discretionary accounts per that specific strategy. The TEO and TEO WRAP Strategies seek growth through capital appreciation primarily from the tactical and unconstrained investment in risk-appropriate individual equities. The TEI and TEI WRAP Strategies seek income through yield and capital appreciation primarily from the tactical and unconstrained investment in risk-appropriate equities. WRAP strategies are appropriate only for those clients whose account is on a WRAP platform. Composite performance results have been calculated by using time-weighted returns based on the beginning of period values on an adjusted capital basis. Performance results are total return and include the reinvestment of all income. For the periods prior to March 31, 2011 for TEO WRAP and December 31, 2014 for TEI WRAP, net of fee performance reflects the reduction of the highest WRAP fee charged (3.00% annually) and gross of fee performance has been reduced by transaction costs. For all other periods for TEO WRAP and TEI WRAP, net of fee performance reflects the deduction of actual wrap fees charged and gross of fee performance has not been reduced by transaction costs. Other than brokerage commissions, wrap fees include investment management, portfolio monitoring, consulting services, and in some cases, custodial costs. For TEO and TEI non-wrap strategies, net of fee performance reflects the deduction of actual management fees and transaction costs. For TEO and TEI non-wrap strategies, gross of fee performance has been reduced by transaction costs. Valuations and returns are computed and stated in U.S. dollars. Past performance does not guarantee future results and other calculation methods may produce different results. Results include accounts no longer with the firm. The minimum stated account size for the TEO and TEI non-wrap strategies is $2,000,000; however, actual minimums may vary by client. The minimum account size for the TEO WRAP and TEI WRAP strategies is $75,000; however, actual minimums may vary by platform. Inception performance is as of October 31, 2005.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The S&P 500 TR Index is a free-float capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States and is calculated on a total return basis with dividends reinvested. The Barclays Capital Aggregate Bond Index is a market capitalization-weighted index, maintained by Barclays Capital; the index is designed to reflect investment grade bonds traded in the United States. Indexes are not available for direct investment.

The beliefs espoused in this update represent the views of L&S Advisors in connection with the TEO, TEO WRAP, TEI and TEI WRAP investment strategies only. L&S Advisors reserves the right to hold differing views from this update in connection with other investment strategies offered. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the strategies, markets, or issues mentioned. The information contained herein, while not guaranteed as to accuracy or completeness, has been obtained from sources we believe to be reliable. Opinions expressed herein are subject to change without notice.