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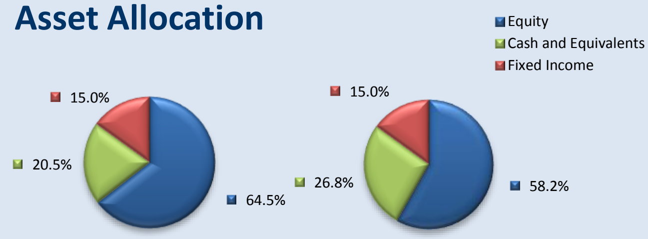
L&S Advisors Tactical Market Update
June 2018

Top Sectors

Tactical Equity Opportunities		Tactical Equity Income	
Fixed Income ETF	15.0%	Fixed Income ETF	15.0%
Energy	14.2%	Energy	13.9%
Information Technology	13.6%	Information Technology	9.5%
Health Care	9.3%	Financials	7.2%
Financials	7.7%	Health Care	6.8%

Asset Allocation



Tactical Equity Opportunities   Tactical Equity Income

Preliminary Performance

	June	QTD	YTD	12 Mos	3 Yr*	5 yr*	ITD*	ITD
Tactical Equity Opportunities GROSS	-1.73%	-0.88%	-1.34%	11.70%	6.64%	7.78%	7.75%	157.54%
Tactical Equity Opportunities NET	-1.73%	-1.10%	-1.78%	10.70%	5.64%	6.74%	6.71%	127.61%
Tactical Equity Opp. WRAP GROSS	-1.80%	-0.89%	-1.41%	11.72%	6.58%	8.19%	8.11%	168.52%
Tactical Equity Opp. WRAP NET **	-1.80%	-1.25%	-2.12%	10.11%	4.95%	6.44%	5.77%	103.42%
Tactical Equity Income GROSS	-1.29%	-0.24%	-1.86%	9.46%	5.06%	6.75%	8.50%	181.19%
Tactical Equity Income NET	-1.29%	-0.43%	-2.24%	8.61%	4.16%	5.80%	7.49%	149.59%
Tactical Equity Income WRAP GROSS	-1.28%	-0.26%	-1.69%	9.93%	5.00%	6.64%	8.46%	179.87%
Tactical Equity Income WRAP NET **	-1.28%	-0.64%	-2.44%	8.26%	3.36%	4.76%	5.80%	104.26%
Dow Jones Industrial Average	*-0.59%*	*0.70%*	*-1.81%*	*13.69%*	*11.27%*	*10.24%*	*6.89%*	*132.48%*
S&P 500 TR	*0.62%*	*3.43%*	*2.65%*	*14.37%*	*11.93%*	*13.42%*	*8.89%*	*194.24%*
Barclay's Aggr Bond Index	*-0.13%*	*-0.17%*	*-1.70%*	*-0.42%*	*1.81%*	*2.40%*	*4.31%*	*70.68%*
					** annualized*	*** net of all WRAP fees or 3% annually*		

Please note Top Sectors, Asset Allocation and Performance information is as of June 30, 2018. Annualized and cumulative ITD returns are as of inception on October 31, 2005.

L&S Risk Pulse™ Score

Caution (unchanged) 5 out of 10

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 a high level for a majority of stocks.

L&S Risk Pulse™ Insights – "If the economy is so good, why are markets behaving poorly?"

General Comments

Following an enthusiastic rally in January, stock markets have had trouble making forward progress over the first half of the year, and returns for the first half have been somewhat disappointing. There is a myriad of crosscurrents that have been affecting markets, and it has been difficult to maintain conviction. Some data, including the strength of the economy, is excellent. Other data is less positive, and some data could be viewed as negative. With such conflicting signals, it is no wonder that markets have struggled to post any meaningful gains.

On the positive side is the strength of the economy. Following modest growth in the first quarter, we expect the economy to have rebounded in the second quarter, and we anticipate a significantly stronger GDP report later this month. In conjunction with the strong economy, we have seen excellent corporate profit growth. Solid gains in profits have led to strength in employment, with the unemployment rate down to 4%, and the broader measure that includes part-time employees who are seeking full-time work, down to 7.8%. Both numbers are about as low as they have been since the turn of the century. Strong profit growth and good employment trends have led to increased confidence, and every measure of confidence, whether it measures consumers, CEOs, or small businesses, are well above the levels prevalent before the start of the Great Recession.

We have repeatedly reported on our two best recession indicators, and here too the news is quite positive. While the Fed has been raising interest rates, short-term rates are not higher than longer-term rates. We call this phenomenon an "inverted yield curve," and it has been an excellent indicator that a recession is on the intermediate horizon. We also consider the 12-month percent change in the Leading Economic Indicators. When this series turns negative, it has also been an excellent predictor of an upcoming recession. Neither of these indicators is flashing a recession signal at this time. Additionally, there are other data points that could confirm an upcoming recession. Prior to previous recessions, new single family home sales have weakened, but so far weakness in this indicator is not present. Initial unemployment claims typically pick-up prior to the start of a recession, but here too the numbers have been quite solid. Typically, the Fed Funds rate exceeds the rate of inflation prior to the start of a recession, but that has not occurred so far in this cycle. Consumer confidence has usually peaked before the start of the recession, but as we discussed above, consumer confidence remains robust. Banks also start to tighten their lending standards prior to an onset of a recession, but we do not see signs of tighter lending standards.

No matter what indicators we look at, we can find no indicator that suggests a recession is around the corner. That does not preclude a policy mistake, and it does not suggest that some external shock can quickly change the outlook. It does add to the positive data that reinforces the idea that this economic expansion still has some legs.

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See important disclosures on next page.

L&S Risk Pulse™ Analysis Cont.

On the other hand:
After solid gains in January, the market stumbled and has been unable to make new highs. If the economic news is so good, we can't help but ponder why the market is struggling? Why too are bank stocks unable to lead the market? A strong economy with rising interest rates should be a good environment for banks and other financial intermediaries, yet the financials have been one of the poorer performers this year. Is the market trying to tell us that we are missing an important ingredient in our analysis? Are the banks sending the same message?

Commodity prices have recently been selling off, and that increases our concern. If the economy is so strong, why are copper prices at 52-week lows? Copper prices are often cited as a good economic indicator because copper is required to manufacture all electrical systems. Its ability to predict the economy has earned copper the moniker "Dr. Copper." With copper and other commodity prices selling off, the message would normally be that the economy is slowing. Yet our other economic indicators suggest the economy is quite robust. Why is there such a discrepancy between indicators that would normally be aligned? This causes us some consternation.

We are concerned that the potential for a trade war is just the kind of policy mistake that could end our expansion. Whether it is a trade war, a negotiation, a battle or a skirmish, we continue to believe that there are no winners in a trade dispute. Yes, the economic effect has been calculated to have a modest impact on economic growth, but we are now seeing secondary effects, and the law of unintended consequences is likely to assure that there are no winners.

As the cost of stainless steel goes up, so too will the price of kitchen appliances. Is that good for the manufacturers that make these goods? Further, we are seeing companies being forced to consider moving production overseas to avoid the impact of retaliatory tariffs from other countries. This is not just motorcycle manufacturers like Harley Davidson and Polaris Industries, but American-as-apple-pie General Motors has also indicated it might need to move production overseas to avoid retaliatory tariffs. Jobs moving overseas is not what we think the President was anticipating when he made the decision to utilize tariffs to reduce the trade deficit. While the actual damage done by our tariffs and others retaliatory tariffs may remain modest, the repercussions for American business, including the added uncertainty, should not be underestimated.

Conclusion
It is important to reinforce the idea that the largest market declines come when the economy is in a recession, and we do not see a recession through the end of this year, and into 2019. However, markets may struggle even when the economy is doing well. We see many indicators that are exceedingly positive, some that are troublesome, and a small number that are downright worrisome. These crosscurrents have led to a market that is struggling to find some direction.

Markets will need to dissect the impact of the Administration's trade policy, and will need to get more comfortable with the outcome of the mid-term election. Once some of the uncertainties are diminished or eliminated, we would expect that the solid economic fundamentals will again rule the day. We continue to expect that stocks will outperform bonds this year, and that stock prices are likely to end the year higher than they are now.

Disclosure