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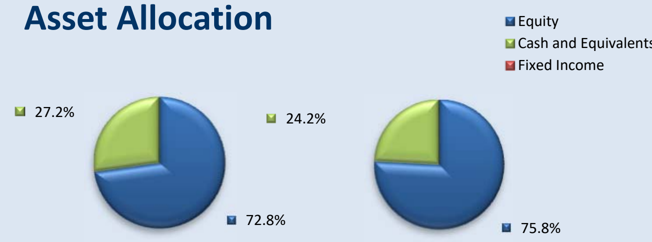
L&S Advisors Tactical Market Update

October 2018

Top Sectors

Tactical Equity Opportunities		Tactical Equity Income	
Indices	29.9%	Indices	30.0%
Health Care	11.7%	Financials	10.7%
Financials	10.7%	Health Care	9.7%
Consumer Discretion	7.1%	Energy	7.8%
Energy	6.3%	Consumer Discretionary	7.1%

Asset Allocation



Tactical Equity Opportunities Tactical Equity Income

Preliminary Performance

	October	QTD	YTD	12 Mos	3 Yr*	5 yr*	ITD*	ITD
Tactical Equity Opportunities GROSS	-5.86%	-5.86%	-2.09%	1.85%	6.88%	5.31%	7.49%	155.58%
Tactical Equity Opportunities NET	-6.07%	-6.07%	-2.96%	0.95%	5.90%	4.30%	6.43%	124.88%
Tactical Equity Opp. WRAP GROSS	-5.85%	-5.85%	-2.09%	1.90%	6.88%	5.69%	7.84%	166.66%
Tactical Equity Opp. WRAP NET **	-6.20%	-6.20%	-3.51%	0.43%	5.27%	4.00%	5.50%	100.53%
Tactical Equity Income GROSS	-4.71%	-4.71%	-2.52%	0.84%	4.93%	6.07%	8.22%	179.32%
Tactical Equity Income NET	-4.89%	-4.89%	-3.26%	0.07%	4.06%	5.15%	7.20%	146.99%
Tactical Equity Income WRAP GROSS	-4.63%	-4.63%	-2.24%	1.21%	4.93%	6.00%	8.19%	178.30%
Tactical Equity Income WRAP NET **	-5.00%	-5.00%	-3.73%	-0.32%	3.30%	4.16%	5.54%	101.56%
Dow Jones Industrial Average	*-5.07%*	*-5.07%*	*1.60%*	*7.44%*	*12.45%*	*10.07%*	*10.89%*	*81.20%*
S&P 500 TR	*-6.84%*	*-6.84%*	*3.01%*	*7.35%*	*11.52%*	*11.34%*	*8.69%*	*195.27%*
Barclay's Aggr Bond Index	*-0.83%*	*-0.83%*	*-2.50%*	*-2.16%*	*1.09%*	*1.94%*	*1.61%*	*9.60%*
					** annualized*	*** net of all WRAP fees or 3% annually*		

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

L&S Risk Pulse™ Score

Caution+ (Increased) 6 out of 10

The composite economic picture is mixed or unclear, indicating confusion in global markets. Valuations are questionable, and volatility must be monitored

L&S Risk Pulse™ Insights – "The Election Cycle that Never Ends"

General Comments

As the final election tallies are still being counted, the results of the election are fairly well-known. Democrats regained control of the House of Representatives while the Republicans kept a solid hold on the Senate. This is pretty much as expected, and we hoped to heave a sigh of relief that the uncertainty surrounding the mid-term election was finally over. That was not to be the case. In his first press conference following the election, Donald Trump asked Mike Pence to be his Veep for the 2020 election. We do not even get a day off before the next campaign begins.

October was a rough month to be sure. U.S. markets corrected, and foreign markets were dragged down along with domestic indices. By late in October, more than 44% of the stock in the S&P 500 were down more than 20% from their 52-week highs. We typically define a bear market as being down 20% from the recent highs, so much of the market was already in a bear market. The market decline (peak to trough) was just over 11%, highlighting how the construction of indices, such as the S&P 500, obscures the damage done to individual stocks.

By late October, U.S. markets had given back all of their gains for the year. Even without positive returns, the US market was the shining star of world's stock markets. The UK was down 11%. Emerging Markets were down 16%. Italy was down 17%. Germany was down 18%, and China was down nearly 25%. There was no place to hide, and any exposure to foreign markets was an albatross on performance.

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Market concerns seemed to focus on a few key factors. First, economic growth has been slowing all year, particularly in international markets, and markets became concerned that the weakness overseas would drag down the domestic economy. As if adding insult to injury, comments from the Fed suggested they would continue to raise interest rates unabated through this year and into next. Market participants worried that if signs of slowing economic growth were prevalent, why was the Fed continuing down the path of raising rates? While the probability of an interest rate hike in December remains quite high, many traders are hoping that the Fed will back down about raising rates so aggressively as the New Year unfolds.

The economic uncertainties created an environment where people started to sell their winners to book some profits. Soon, the most successful names and sectors were down dramatically, and computer trading algorithms pushed prices ever lower. There is an old adage that stocks take the stairs up, but the elevator down, and October was no exception. Hard-earned gains for the year disappeared in a very short period.

Conclusion

October has historically been a difficult month, while November and December are frequently significantly friendlier to investors. Corporate profits are reasonably strong, but it would not surprise us to see slower profit growth as we look ahead to 2019. The positive impact of the tax cuts will not be repeated next year, and higher input costs, caused in part by tariffs, suggest that profit margins may also be peaking. Peaking profits and margins have often made for a more trying environment for investors.

Economic growth has slowed, especially in Europe and China, although it is tough to find developed or emerging economies that are on the precipice of a recession. Still, at the margin, growth is slower today than it was at the start of the year. As we wrote last month, we do think that risks have increased somewhat, although the recent correction does make equity ownership somewhat more palatable.

We do not expect a recession over the next several quarters, but as we saw in October, that does not negate the potential for market corrections. We take some solace in the knowledge that corrections that occur without economic recessions tend to be milder.

With the calendar friendlier, and with companies able to buy back their own shares after a mandated delay following the reporting of quarterly results, we think the markets may be poised for a positive finish to the year. Should there be any thaw in the constant trade war bickering between the U.S. and China, that could even add more fuel to the potential for a year-end rally.

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, 2017. 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.