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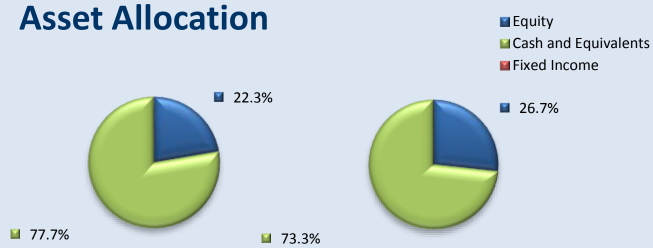
L&S Advisors Tactical Market Update
December 2018

Top Sectors

Tactical Equity Opportunities		Tactical Equity Income	
Health Care	12.2%	Health Care	13.2%
Consumer Discretionary	6.1%	Consumer Discretionary	6.1%
Information Technology	3.0%	Utilities	2.3%
Financials	1.0%	Real Estate	2.1%
Materials	0.1%	Information Technology	2.0%

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	-6.75%	-11.26%	-7.71%	-7.71%	5.06%	3.92%	6.91%	140.92%
Tactical Equity Opportunities NET	-6.75%	-11.46%	-8.53%	-8.53%	4.10%	2.92%	5.87%	111.98%
Tactical Equity Opp. WRAP GROSS	-6.80%	-11.30%	-7.76%	-7.76%	5.03%	4.22%	7.25%	151.23%
Tactical Equity Opp. WRAP NET **	-6.80%	-11.63%	-9.09%	-9.09%	3.44%	2.56%	4.95%	88.93%
Tactical Equity Income GROSS	-6.35%	-9.01%	-6.91%	-6.91%	3.75%	4.33%	7.74%	166.73%
Tactical Equity Income NET	-6.35%	-9.18%	-7.62%	-7.62%	2.89%	3.43%	6.73%	135.86%
Tactical Equity Income WRAP GROSS	-6.39%	-9.01%	-6.74%	-6.74%	3.74%	4.23%	7.70%	165.51%
Tactical Equity Income WRAP NET **	-6.39%	-9.37%	-8.15%	-8.15%	2.13%	2.53%	5.09%	92.30%
Dow Jones Industrial Average	*-8.66%*	*-11.83%*	*-5.63%*	*-5.63%*	*10.21%*	*7.07%*	*6.30%*	*123.44%*
S&P 500 TR	-9.03%	-13.52%	-4.38%	-4.38%	9.26%	8.49%	*7.96%*	*174.08%*
Barclay's Aggr Bond Index	*1.93%*	*1.72%*	*0.01%*	*0.01%*	*2.17%*	*2.66%*	*4.28%*	*73.65%*
					** annualized*	*** net of all WRAP fees or 3% annually*		

Please note Top Sectors, Asset Allocation and Performance information is as of December 31, 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 – "A Trade War is Still a Trade War"

General Comments

Good riddance. Sorry to be so brutally honest, but good riddance to 2018. It is hard to find investors who are looking back on last year longing for more.

One omen that should have been a more important guidepost last year was Trump's announcement in March that the United States was applying tariffs on goods imported from China. There were, however, discussions that tried to portray this potential policy mistake as a trade "skirmish" or "battle" but not a full-fledged trade war. Semantics might help us feel better, but a trade war is still a trade war, and the market dove and soared based on perceived progress on trade negotiations and posturing by the Chinese or tweets from the President.

With worries over trade, it is not surprising that growth in China slowed dramatically. The most recent report shows Chinese growth as weak as it has been since the bottom of the Great Recession. It is impossible to know how much of the Chinese slowdown was due to the trade "skirmish," but it seems coincidental that Chinese growth slowed as the months of the trade "battle" waged on. China is the second largest economy in the world and one of the fastest growing, and a slowing China is likely to have global repercussions.

Growth slowed across Europe, and some nations reported contracting growth. Negative growth was seen in Germany, Italy, Japan, Turkey, Saudi Arabia, and Argentina, with many other nations showing very lethargic progress. With global growth slowing, it is no wonder that foreign stock markets performed much more poorly than domestic markets. China, one of the worst performing markets, fell by more than 27% in 2018. Germany was down more than 20%, and many other markets were down more than 10%. The best performing markets were Brazil and India, although both were down for the year. There was simply no place to hide.

As if the trade "scuffle" was not enough, the policies of the Federal Reserve have been widely criticized as having a negative impact on the market. The Fed increased interest rates in December, its fourth rate hike of the year, and the ninth since rates started higher in December of 2015. Investors had come to the belief that slowing growth overseas would slow growth in the U.S., and that further rate hikes were no longer necessary here at home.

Continued on next page…

See important disclosures on next page.

With the Fed unrelenting in their desire to raise interest rates, and with concerns over the trade "skirmish," it is no surprise that stocks sold off in a violent correction starting in early October. From the late September highs, the S&P has fallen nearly 15%. That number actually camouflages the real carnage felt by investors. As of December 31st, the average stock in the S&P 500 was down nearly 25% from its 52-week high, and 59% of stocks in the index were down more than 20%, what we typically consider a bear market.

We have frequently relied on several indicators to help us determine whether the economy is likely to slide into a recession. While we have no outright signals, several of our indicators are within striking distance of that warning, and that is disconcerting. The yield curve is not inverted, but spreads are incredibly narrow. New single-family home sales have fallen by 24%. For those looking for a recession, it is certainly possible to find support for that conclusion.

On the other hand, there are ample signs that suggest a recession is not on the immediate horizon. The job report for December showed 312,000 new jobs created. This was much stronger than expected. Previous months were revised upward. While the unemployment rate did increase to 3.9% from 3.7%, the cause of that increase was a significant number of people who rejoined the workforce. This increase in the labor force participation rate reflects the desire for people who had withdrawn from the workforce to return, and this is a very good sign of confidence. It reflects wage growth and the shortage of available workers, and is the best reason for an increase in the unemployment rate.

Other indicators, such as consumer confidence and the percentage of banks that are tightening lending standards, do not convey the risks of an immediate recession. Further, it is important to remember that recession indicators typically give investors several months or even several quarters of notice prior to a recession. The notion that a we are on the cusp of a recession seems a bit difficult to defend. We recognize that several companies have guided analysts to expect slower growth, but slower growth is not negative growth.

Conclusion

While the risks of a recession may be higher than they were six or twelve months ago, it is hard to support the notion that the economy will imminently fall into a recession. It is also important to remember that this is not 2008 all over again. Banks are in much stronger financial shape than they were in 2006. While there are some valid concerns about corporate debt levels, those issues are unlikely to create the systemic problems that unfolded during the Great Recession.

Warren Buffet said "be fearful when others are greedy and greedy when others are fearful." Stocks are down significantly from the September highs, and at some point it is going to be more fruitful to consider searching for attractive ideas. Down years are not that uncommon, but multiple down years in a row are fairly rare and have only occurred in the midst of severe recessions, and that is simply not the economic environment we are in.

Further, any progress on settling our trade 'dispute" with China, or additional comments from the Fed that they will consider the data prior to raising interest rates any further would provide markets with a meaningful reason to stop going down. When the market stops considering all news as bad, the potential upside could be substantial.

From all of us at L&S Advisors, we wish you and your family a healthy and happy New Year.

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.