ECONOMIC & FINANCIAL MARKET UPDATE – Second Half, 2018

A Quick Review & A Look Ahead

The Financial Market(s) – Return To The Positive

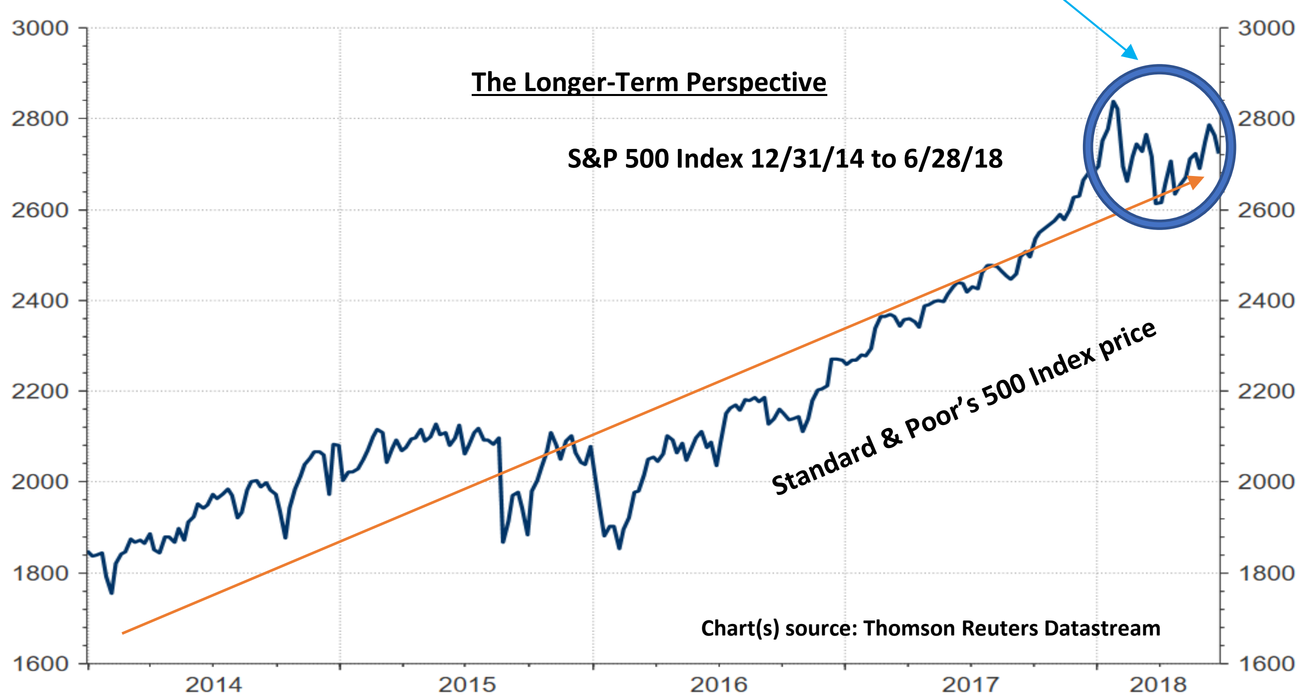
Following the first quarter negative (-1.2%) equity market results (after nine consecutive quarters of positive ones) the S&P 500 again provided investors with positive returns during 2018's second quarter. During this recent ninety-day period the S&P 500 advanced 2.9% and has now returned to positive territory (+ 1.7%) for the year. In addition to the S&P's positive returns, the NASDAQ, the S&P 400 MidCap and 600 Small Cap Indexes are also positive for the year, achieving returns of +8.8%, +2.7% and +8.7% respectively[i]. Only the Dow Jones Industrial Average, among major U.S. equity indexes, has recorded a negative return thus far in 2018.

U.S. Markets

As in the past, we have used the two charts below to keep short and long-term capital market returns in perspective. This is particularly important today because U.S economic fundamentals are not only positive but are actually strengthening. In other words, the economy is "out-performing" the market.

Short-Term Perspective

While recent modest returns may seem unexciting to investors, one should keep in mind ***__that equity market (S&P 500) compound annual total returns__*** (assuming reinvestment of dividends) during the past 3, 5 and 10 years ending 5/31/2018 have been +10.6%, +12.7% and +9.0% respectively*. Very strong returns, particularly when considering that economic fundamentals were not nearly as strong as they are today.



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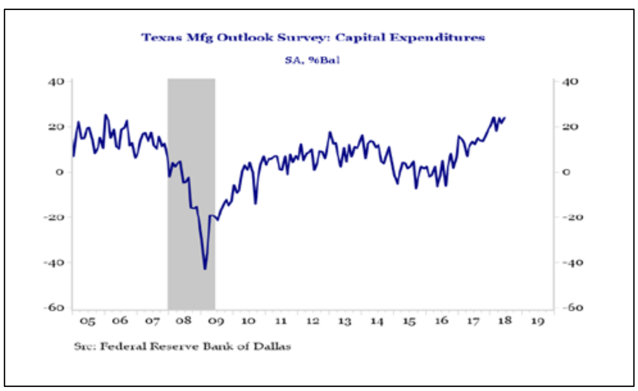
LOOKING AHEAD

We suggested in our 2018 Outlook that we were not “blindly” bullish, however, we did anticipate <u>another year (2018) of moderate stock market gains</u>, but with somewhat higher volatility compared to 2017’s rather benign conditions. This outlook was based upon the expectation of benefits from tax reform, rising corporate profits, moderating government regulation, moderately increasing interest rates, and continued global growth.

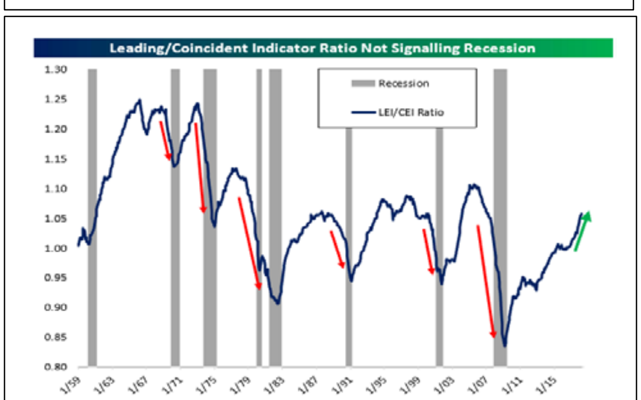
Despite the growing list of issues to be concerned about e.g. tariffs, Fed tightening, the regulation of the technology sector, China, and White House tweets, our outlook has not changed. Economic fundamentals have remained strong, in-fact strengthened, and are the lynch-pin in our outlook.

While first quarter GDP growth at +2.0%[ii] was the slowest since the first quarter of 2017, we anticipate a strong (+4.0%)[iii] rebound in the second quarter and to finish all of 2018 above +3.25%[iv]. Measures of consumer and business confidence are at decades highs, retail sales and key indicators of business investment have all strengthened, unemployment has reached historically low levels, and wage growth is finally picking up. In addition, businesses are beginning to ratchet up their repatriation of overseas assets (cash) which may be used to invest or to share with stockholders through the form of dividend increases and/or stock repurchases. When combined, these improving fundamentals are reflected in growing corporate profits, +20[v]% this year and another +10%[vi] next year and are the engine that drives stock prices and dividend payments. All other things being equal, they also moderate stock valuations. The charts displayed below help to support our perspective.

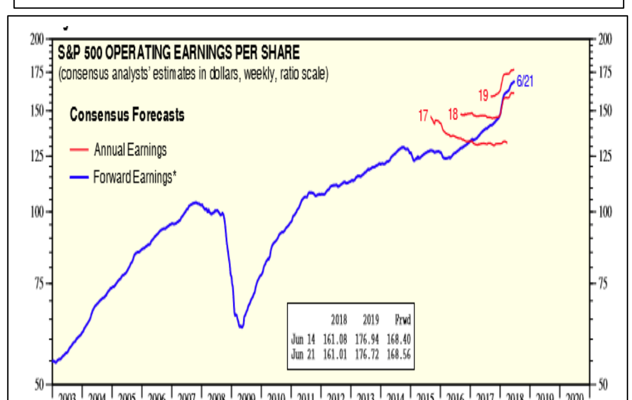
Measures of Economic Strength & Sustainability



Source:Evercore ISI



Source: Bespoke Investment Group



Source: Yardeni Research, Inc.

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The Bottom Line

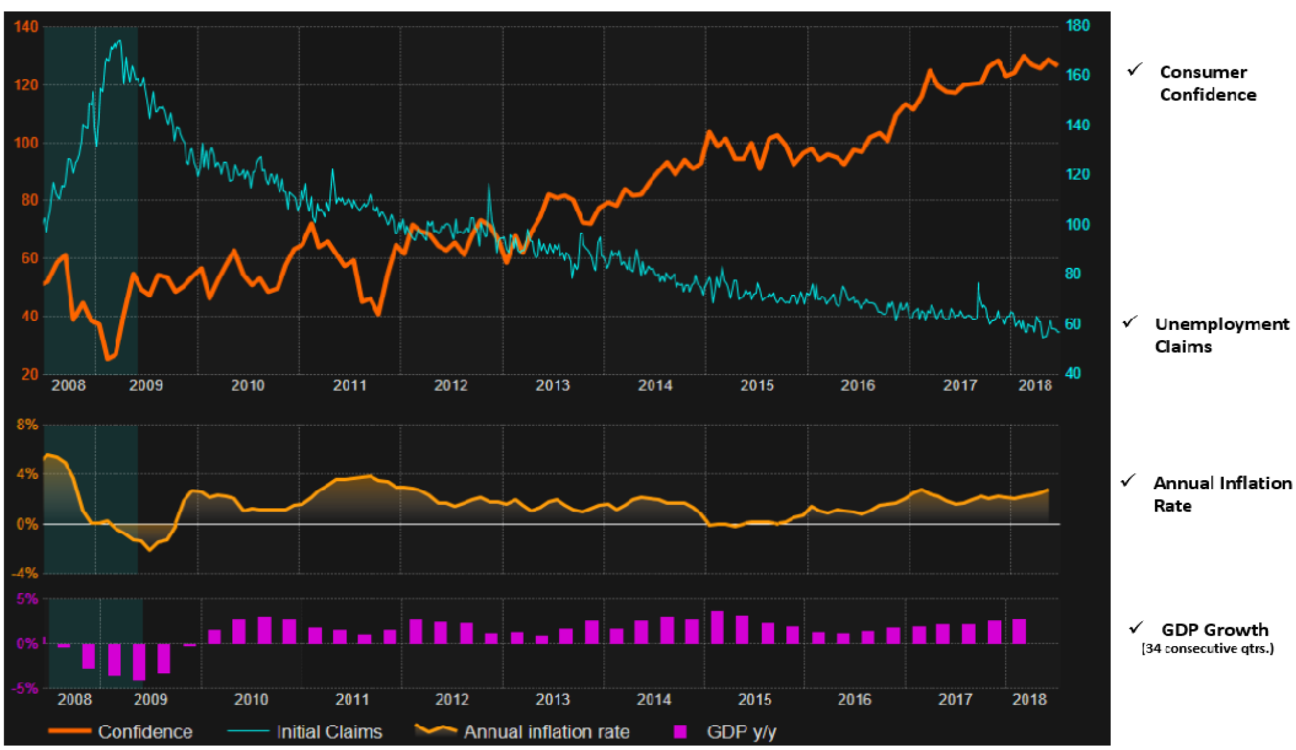
Trade fears have taken center stage again and the wall-of-worry remains quite high, (tariffs, mid-term elections, rising interest rates, the Iran deal, Italy & Spain, the price of oil, etc., etc.). In light of this, investors should be, and we are, quite sensitive to these risks, particularly after more than a nine-year period of positive markets and the significant rise in the value of client assets entrusted to our management.

Although we believe that strong domestic fundamentals, moderate global growth, and the prevailing of cooler heads when tariffs and other geopolitical issues are discussed, will help to remove some of the bricks in the worry wall, we have continued to position portfolios with an eye to reducing volatility. This has been accomplished through further diversification, adding to cash reserves, reducing the maturity of bond portfolios and following our discipline of investing in the highest quality investments.

As previously outlined, factors that will cause a swift change in our current outlook include a change in direction of corporate profits (not likely in the near future), an inversion of the yield curve (short-maturity interest rates exceed those of longer maturity investments), rising crude oil prices, an extended slowdown in European economic growth, and/or a significant change in consumer and business sentiment surveys.

The chart below, which we consider an important “window” on change, and which we have regularly shared, continues to reflect a positive economic and financial market environment. As a result, we recommend “staying the course” within the context of one’s long-term investment objectives as reviewed during each client meeting.

OUR “BIG PICTURE” FUNDAMENTAL INDICATORS REMAIN *POSITIVE*



We appreciate the opportunity to serve you. If you have any questions, or if we may be of assistance in any way, please do not hesitate to contact us. We look forward to meeting with you in the near future.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful. All indices are unmanaged and may not be invested into directly.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Investment advice offered through Stratos Wealth Partners, Ltd., a registered investment advisor.

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[i] FactSet Data Solutions, online data, 6/30/2018
[ii] Bureau of Economic Analysis, GDP Update, 6/28/2018
[iii] Evercore ISI Afternoon Economic Report, 6/28/2018
[iv] The Conference Board, Economic Outlook Update, 6/21/2018
[v] Yardeni Research, Inc., 6/21/2018
[vi] Yardeni Research, Inc., 6/21/2018

*ORION Advisor Services, 6/30/2018