Equity Risk Management Strategy

Portfolio Manager Commentary

As of 09/30/2018

3Q 2018 Overview

The longest bull market in history pushed U.S. equity markets to a new all-time high during the third quarter. Shrugging off a potential trade war with China, Federal Reserve interest rate normalization, looming mid-term elections, turmoil in emerging markets, and numerous other daunting headlines, the S&P 500 Index rose 9.0%, while the Dow Jones Industrial Average and NASDAQ rose 7.0% and 16.6%, respectively.

Offsetting the negative headlines was a solid fundamental backdrop for positive equity returns. The U.S. economy, which grew at a 4.2% pace during the second quarter, is projected to grow more than 3% during the third quarter. Expectations for corporate earnings continue to be revised upward, buoyed by tax cuts and robust consumer spending.

Allocation Review

The objective of the Equity Risk Management Strategy (ERMS) is to reliably capture broad market performance when fundamental and technical indicators are favorable and to reduce equity exposure when either or both are those indicators show evidence of deterioration. **The ERMS was fully invested throughout the third quarter, as both fundamental and technical conditions remained favorable.**

Forward 12-month earnings estimates for the S&P 500 have risen for 19 consecutive months, ending the third quarter at a new all-time high of $172.40. The Dow Jones Industrial Average finished the quarter modestly below the all-time high of 26,743.50 reached on September 21.

Outlook

Historically, the fourth quarter has been the strongest of the year for equity markets. However, as the calendar flips investors will find no shortage of potential threats that are likely to weigh on sentiment and increase volatility.

We learned long ago that what is most important for stock prices is the directional change of earnings growth, not the magnitude. We expect corporate earnings and economic growth to decelerate in the coming year from the disruption that comes with realigning trade agreements, the effect of higher interest rates, and other cyclical forces. However, as investors remain glued to the latest headlines, forecasts, and predictions of what might lie ahead, our focus at EquityCompass will remain on the evidence.

Objective

Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to potentially provide downside risk

Portfolio Management Team

Bernard J. Kavanagh III, CMT®
Senior Portfolio Manager

Tim McCann
Senior Portfolio Manager

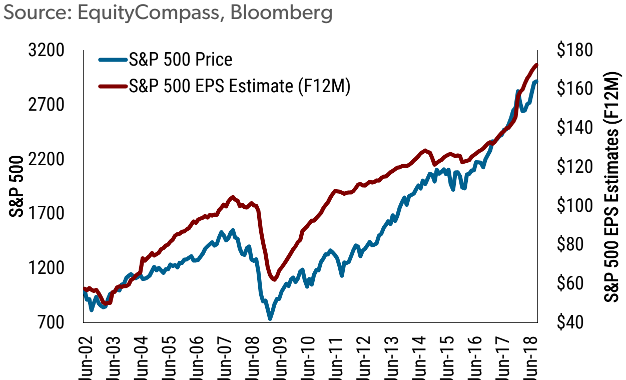
About EquityCompass

EquityCompass is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. and Europe. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets over $4.2 billion as of September 30, 2018.*

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

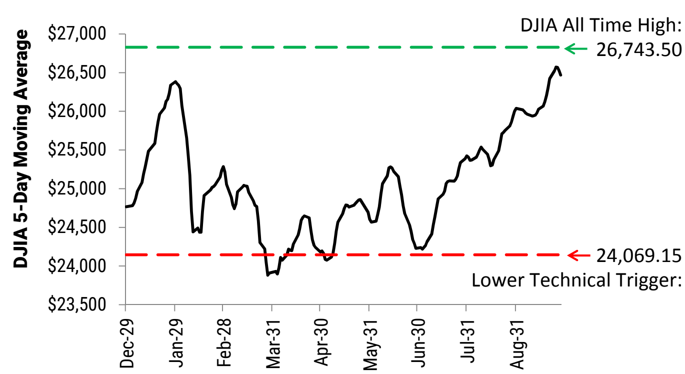
S&P 500 Earnings Estimates (Forward 12-Months)

6/28/2002—9/30/2018 | Based on EquityCompass Bottom-Up Estimates | Source: EquityCompass, Bloomberg



DJIA 5-Day Moving Average (YTD)

12/ 31/17—9/30/18 | Source: EquityCompass, Bloomberg



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The information contained herein has been prepared from sources believed to be reliable but is not guaranteed and is not a complete summary or statement of all available data nor is it considered an offer to buy or sell any securities referred to herein. EquityCompass Strategies is a research and investment advisory unit of Choice Financial Partners, Inc., a wholly owned subsidiary and affiliated SEC registered investment adviser of Stifel Financial Corp. Affiliates of EquityCompass Strategies may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. Any projections, targets, or estimates in this report are forward looking statements and are based on EquityCompass Strategies' research, analysis, and assumptions made by the Adviser.

Any investment involves risks, including the risk of a loss of principal. The Equity Risk Management Strategy invests primarily in ETFs, which are subject to the risk that the values will fluctuate with the value of the underlying investments or indices the ETFs are tracking. ***Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Inverse ETFs are considered risky and are not suitable for all investors. Typically, these products have one-day investment objectives, and investors should monitor such funds on a daily basis. Inverse ETFs are constructed by using various derivatives for the purpose of profiting from a decline in the value of an underlying benchmark. Investing in inverse ETFs is similar to holding various short positions, or using a combination of advanced investment strategies to profit from falling prices. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.*** Short selling incurs significant risk. Theoretically, securities sold short have unlimited risk.

The S&P 500 index is a broad market index that tracks the performance of 500 stocks from major industries of the U.S. economy. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques, strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Indices are unmanaged, do not reflect fees and expenses, and it is not possible to invest directly in an index. Diversification (or asset allocation) does not ensure a profit or protect against loss.

*Total assets combines both Assets Under Management and Assets Under Advisement as of September 30, 2018. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets. **Past performance does not guarantee future performance or investment results.**