Core Balanced Portfolio—Tax Advantaged

Portfolio Manager Commentary

As of 09/30/2018

EquityCompass

3Q 2018 Overview

The Core Balanced Portfolio—Tax Advantaged (MCBAL) advanced in the third quarter consistent with recent outperformance of its blended benchmark. Despite continued uncertainty on trade tariffs, U.S. midterm elections, and emerging market debt, the market has advanced off of second quarter lows. The Dow Jones Industrial Average now sits in the middle 50% of its range between all-time highs and its 10% correction level. We are, from a technical perspective, at the crossroads of a few major geopolitical events that have potential long term implications on market returns. As such, the spread between high yield BAA debt and the 10-Year U.S. Treasury has narrowed along with the 2-Year/10-Year Treasury spread. Despite these geopolitical risks, the market has rallied through the quarter due to deferred consumption from transitory fiscal stimulus. Real GDP growth and personal consumption have been strong along with the labor market which will continue to boost private investment and business expectations.

MCBAL advanced 3.22% (2.90% net) versus the benchmark performance of 2.46%. The portfolio was supported by strong outperformance in Health Care and Consumer Discretionary which accounted for almost half of the portfolio performance within its U.S. equity allocation. The bottom two performing sectors were Consumer Staples and Energy which detracted 32 basis points from overall performance. MCBAL benefitted from positive gains in eight of the 11 sectors. Large cap stocks also contributed to outperformance this quarter with small- and mid-cap stocks falling off late. Consistent with our target of equally-weighted positions, the S&P 500 Equal Weight Index underperformed the S&P 500 Cap Weighted Index by 229 basis points this quarter. This narrow leadership headwind continues to be a drag on the Core Portfolios. Although stocks advanced this quarter, bonds have declined for three straight quarters.

Portfolio Outlook

Despite a volatile political backdrop, equity fundamentals have improved this year at the fastest rate since 2010. Earnings estimates sit at an all-time high of $172.40 as of quarter end. Our 1-year forward earnings number is up 3.1% this quarter with Energy, Health Care, and Industrials leading the way. From a technical perspective, the market continues to swing between worry and indifference on trade talks. The U.S. mid-term elections pose a potential threat to the market if the Republican Party loses majority in both the House and the Senate as it may cause policy gridlock. Additionally, if the dollar continues to strengthen above 2018 highs, we could see considerable weakness in overseas assets. Finally, from a technical perspective we have seen the market improve off its 10% correction level as we narrowly escaped a defensive position at the end of the second quarter. MCBAL has been fully invested since May and neither of our indicators suggests a defensive position at this time.

Objective

Seeks to effectively capture market returns while minimizing volatility; allocates the fixed income component to municipal bonds appropriate for tax-sensitive investors

Portfolio Management Team

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.

	Total Returns			Annualized Returns				Calendar-Year Returns							
	3-Mos	6-Mos	YTD	1-yr	3-yr	5-yr	Incp.	2010	2011	2012	2013	2014	2015	2016	2017
Gross %	3.22	5.67	3.87	7.29	9.20	7.72	8.62	10.96	2.10	13.02	17.80	8.71	1.17	4.40	15.39
Net %	2.90	4.98	2.84	5.87	7.70	6.21	7.09	9.43	0.61	11.35	16.09	7.12	-0.26	2.91	13.82
Benchmark %	2.46	4.13	3.30	6.81	8.32	7.01	7.30	8.96	1.76	10.46	14.00	7.49	0.84	5.26	13.27

Inception –January 2010
Benchmark = 32% Russell 3000 Index, 8% MSCI World ex-USA Index, 40% Barclays Municipal Bond Index, 20% HFRI Equity Hedge Index
The performance returns presented have been calculated based on the performance of separately managed accounts invested in the strategy in the Stifel Opportunity Program. The returns were calculated by Stifel, in accordance with their calculation procedures. In this instance, EquityCompass is a model provider only and does not have discretion over implementing portfolio decisions.

DISCLOSURES

On September 21, 2018, the name of the Tactical Total Core—Municipal Portfolio was changed to Core Balanced Portfolio—Tax Advantaged. 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. There is no assurance that any securities discussed herein will remain in any account's portfolio at the time you receive this report or that securities sold have not been repurchased. Data represented in this report have been provided by EquityCompass Strategies and Bloomberg. 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. For more information about Stifel's investment advisory programs, including applicable fee schedules, please contact your Financial Advisor to request a copy of the Stifel ADV Part 2A or equivalent disclosure brochure. 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. All investments involve risks, including the risk of a possible loss of principal. Rebalancing may have tax consequences, which should be discussed with your tax advisor. The specific securities identified and described herein do not represent all of the securities purchased, sold, or recommended to advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. A complete list of all recommendations made by the firm is available upon request. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. In addition, duration risk measures a debt security's price sensitivity to interest rate changes. Bonds with higher duration carry more risks and have higher price volatility than bonds with lower duration. Therefore, if interest rates are very low at the time of purchase of the bonds, when interest rates eventually do rise, the price of such lower interest rate bonds will decrease and anyone needing to sell such bonds at that time, rather than holding them to maturity, could realize a loss, and may trade for less than their net asset value. When investing in real estate, it is important to note that property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies.

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. 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. 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. Typically, these products have one-day investment objectives, and investors should monitor such funds on a daily basis. 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.

Closed-end funds are subject to market risk, and the amount you receive upon sale may be more or less than the amount you paid. Investors should consider a fund's investment objective, risks, charges, and expenses carefully before investing. The Dow Jones Industrial Average (DJIA) is an unmanaged, price-weighted index that consists of 30 blue chip U.S. stocks selected for their history of successful growth and interest among investors. The price-weighted arithmetic average is calculated with the divisor adjusted to reflect stock splits and occasional stock switches in the index. The S&P 500 Equal Weight Index has the same constituents as the capitalization weighted S&P 500 Index, but each company in this index is allocated a fixed weight. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The MSCI World ex USA All Cap Index captures large, mid, small and micro cap representation across 22 of 23 Developed Markets countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country. HFRI Equity Hedge (Total) Index (HFRIEHI) is a fund-weighted index of strategies that maintain positions both long and short in primarily equity and equity derivative securities. 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. The Barclays Municipal Bond Index is an unmanaged index that is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass Strategies. Indices are unmanaged, do not reflect fees and expenses, and it is not possible to invest directly in an index.

*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.**