

Research Opportunity Portfolio

Portfolio Manager Commentary

As of 09/30/2018



Q3 2018 Overview

► **Portfolio manager Tom Mulroy provides his current insight on the equity market and management of the Research Opportunity Portfolio.**

Q1: The S&P 500 Total Return was a robust 7.71% in the third quarter of 2018. What is your assessment of the overall market and is this sustainable?

The third quarter saw a fantastic run in the market. That being said, it was wholly unsustainable as evidenced by the return in October. A great year for earnings growth, 2018 has primarily been driven by tax cuts and stock buybacks. Regardless, returns have been muted due to multiple compression—at the start of the year the market was trading at roughly 18x earnings, now it is trading at 16x.

Q2: What opportunities are you seeing in the market right now and how is Research Opportunity positioning itself to take advantage?

Within the portfolio, we are positioning to more traditionally defensive sectors. Currently, we are overweight in Consumer Staples, Consumer Discretionary, Financials, and Energy.

Q3: Research Opportunity returned 2.04% (1.73% net) in the third quarter, to what do you attribute that performance and how should investors view their portfolios?

The return in the S&P 500 was largely dominated by a few companies. We began the transition to more defensive sectors, and as a result we missed some of the return. That being said, looking forward, 2019 looks to be a much tougher year to navigate than the current year.

Q4: Looking out, what themes do you see playing out in the fourth quarter of 2018 and beyond?

We are currently in the tenth year of an economic recovery which should make investors a bit unsettled. Companies are beginning to lower guidance for 2019 which is giving the markets pause as they digest potential lower earnings in 2019. We believe 2019 will be a tough year for corporate earnings and just a tougher market to navigate in general.

Objective

An opportunistic investment approach based on insights from fundamental equity research

Portfolio Management Team



Thomas P. Mulroy
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	10-yr	Incp.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross %	2.04	6.43	4.65	11.21	11.89	5.65	9.38	7.05	-42.01	38.20	14.32	3.43	20.38	35.48	-2.01	-2.78	6.12	19.07
Net %	1.73	5.75	3.63	9.71	10.20	4.02	7.65	5.41	-42.99	35.89	12.45	1.81	18.45	33.38	-3.60	-4.32	4.40	17.25
Benchmark %	7.71	11.41	10.56	17.91	17.31	13.95	11.97	9.15	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83

Inception – January 2006; Benchmark = S&P 500 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.

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This material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such.

Securities discussed in this material were selected because they had dividend increases or decreases in the most recent period and not based on any measurement of performance of the underlying security. 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. Changes in market conditions or a company's financial condition may impact a company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk. Rebalancing may have tax consequences, which should be discussed with your tax advisor.

Actual performance for a client may differ due to such factors as timing, economic and market conditions, cash flows, and client constraints. Performance information has been provided by Morningstar Direct.

*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.

The performance and statistics shown in this profile are calculated based on composite performance beginning January 1, 2006 and ending with the date shown on this profile. Performance is based upon the asset-weighted performance of all client accounts invested in this strategy (accounts having investment restrictions may be removed from the composite for performance calculation purposes) and is shown on a gross and net of fee basis. Gross of fees means that the figures do not reflect any deductions for investment management fees, trading costs, taxes, or any other costs associated with a managed account. Net of fees means that the figures reflect deductions for investment management fees and trading costs, but do not reflect taxes. As depicted in the benchmark index performance herein, market returns were generally consistent with strategy returns, although some disparities exist from time to time. Significant disruptions in market or economic conditions may impact the results portrayed. 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.

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 and is generally considered representative of the U.S. large capitalization market. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

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More information on the Opportunity Program is included in the Stifel Consulting Services Disclosure Brochure and Part 2A of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Opportunity Program is appropriate for their needs. **Past performance does not guarantee future performance or investment results.**

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