

3RD QUARTER 2018 - ADVISORY COMMENTARY

THE U.S. MARKETS SAW STRONG GAINS THROUGH THE THIRD QUARTER. THIS TYPE OF MARKET ACTION OCCURRING LATE IN THE ECONOMIC CYCLE COULD BE SEEN AS A CLASSIC "MELT UP" SCENARIO, GIVEN HOW MANY ECONOMIC & SENTIMENT METRICS SAW STEADY UPWARD MOVES OVER THE PAST THREE MONTHS.

ONE NOTE OF CAUTION SHOULD BE DIRECTED TOWARDS THE CONSUMER SENTIMENT NUMBERS THAT HIT HIGHS OVER THE QUARTER. THESE GENERALLY LOFTY LEVELS HAVE NOT BEEN SEEN SINCE JUST BEFORE THE MARKET TOPS OF 2000 AND 2008. HISTORY MAY NOT BE REPEATING ITSELF, BUT IT SURE SEEMS TO RHYME A BIT.

INTERNATIONAL MARKETS CONTINUED TO SHOW FURTHER WEAKNESS, LED MAINLY BY CHINA. THE TROUBLES IN ARGENTINA, TURKEY AND MANY OTHER SMALL AND EMERGING ECONOMIES' MARKETS SLOWED SLIGHTLY BUT CONTINUED THEIR SLOW MARCH LOWER. WE EXITED OUR SMALL REMAINING EMERGING MARKET EQUITY POSITION IN MID-JULY.

THE U.S. FEDERAL RESERVE IS CONTINUING TO ROLL ASSETS OFF THEIR BALANCE SHEET. THE PACE OF THIS REDUCTION WILL INCREASE FROM \$40 BILLION PER MONTH UP TO \$50 BILLION PER MONTH IN OCTOBER. THIS WILL LIKELY BE AN INCREASING HEADWIND FOR THE CREDIT MARKETS, AND THEREBY ALSO POTENTIALLY THE EQUITY MARKETS, AS THE FED EXCHANGES THEIR TREASURY AND MORTGAGE BOND ASSETS FOR DOLLARS ON THE OPEN MARKET. THIS PROCESS IS ADDING TO THE DOLLAR SHORTAGE PRESSURE THAT'S BEING FELT AROUND THE WORLD.

TRADE SKIRMISHES CONTINUED TO FLARE UP BETWEEN THE U.S. AND CHINA. THE U.S., MEXICO AND CANADA CAME TO A FORMAL AGREEMENT AT THE END OF SEPTEMBER THAT AMENDED THE NAFTA PROTOCOL STRONGLY IN FAVOR OF THE U.S. ONE NOTE THAT WAS NOT WIDELY REPORTED WAS THE INCLUSION OF A CLAUSE THAT ALLOWS THE U.S. TO VETO ANY FUTURE BILATERAL TRADE AGREEMENTS MADE WITH CHINA BY CANADA OR MEXICO. THIS ITEM MAY BE THE BIGGEST NET GAIN TO THE U.S.' BARGAINING POSITION, AS IT DENIES CHINA AN OUTLET TO WORK AROUND THE NEW TRADE FRAMEWORK AND SIGN DEALS THAT ATTEMPT TO SIDESTEP IT. THE NEXT FEW QUARTERS SHALL LIKELY BE VERY TELLING IN HOW DESPERATE CHINA SEES ITS FUTURE TRADE SITUATION SHAPING UP. ITS RESPONSE COULD EITHER END THE FIGHT OR TAKE IT TO THE NEXT LEVEL.

SINCERELY,



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3RD QUARTER 2018 - MARKET UPDATE

EQUITY MARKETS

- S&P 500 INDEX TR **+7.71%**
- DOW JONES INDUSTRIAL AVERAGE TR **+9.63%**
- NASDAQ COMPOSITE INDEX **+7.14%**
- RUSSELL 3000 INDEX TR **+7.12%**
- CBOE SPX MARKET VOLATILITY INDEX **-24.67%**

FIXED INCOME MARKETS

- BARCLAYS U.S. AGGREGATE BOND INDEX **+0.02%**
- BARCLAYS U.S. TREASURY BOND INDEX **-0.59%**

ALTERNATIVE INVESTMENTS, COMMODITIES & CURRENCIES

- S&P GSCI TOTAL RETURN INDEX **+1.34%**
- GSCI WEST TEXAS INTERMEDIATE EXCESS RETURN **+2.07%**
- U.S. DOLLAR INDEX **+0.59%**
- GOLD SPOT **-5.05%**
- DOW JONES COMPOSITE REIT INDEX TR **+0.93%**
- CBOE BUYWRITE MONTHLY INDEX **+4.91%**

ANCHORED GROWTH BENCHMARK **+5.02%**

(70% RUSSELL 3000, 25% BARCLAYS U.S. AGGREGATE BOND INDEX, 5% CASH)

FOUNDATION TOTAL RETURN BENCHMARK **+3.62%**

(50% RUSSELL 3000, 40% BARCLAYS U.S. AGGREGATE BOND INDEX, 10% CASH)

INFLATION-PLUS INCOME BENCHMARK **+0.30%**

(40% BARCLAYS U.S. AGGREGATE BOND INDEX, 40% BARCLAYS U.S. TREASURY SHORT INDEX, 20% CASH)

*SOURCE: KWANTL.COM (10/9/18). INDEXES ARE UNMANAGED AND CANNOT BE INVESTED INTO DIRECTLY. UNMANAGED INDEX RETURNS DO NOT REFLECT FEES, EXPENSES, OR SALES CHARGES. INDEX PERFORMANCE IS NOT INDICATIVE OF THE PERFORMANCE OF ANY INVESTMENT. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.



THE OPINIONS VOICED IN THIS MATERIAL ARE FOR GENERAL INFORMATION ONLY AND ARE NOT INTENDED TO PROVIDE SPECIFIC ADVICE OR RECOMMENDATIONS FOR ANY INDIVIDUAL.

THE ECONOMIC FORECASTS MAY NOT DEVELOP AS PREDICTED AND THERE CAN BE NO GUARANTEE THAT STRATEGIES PROMOTED WILL BE SUCCESSFUL.

PRECIOUS METAL INVESTING INVOLVES GREATER FLUCTUATION AND POTENTIAL FOR LOSSES.

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 Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

The NASDAQ Global Market Composite consists of 1,450 stocks that meet NASDAQ's strict financial and liquidity requirements, and corporate governance standards. The Global Market Composite is less exclusive than the Global Select Market Composite.

The Russell 3000 Index is a market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S.

The CBOE SPX Market Volatility Index shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

The Barclays US Treasury Bond Index measures the performance of U.S. Treasury securities that have a remaining maturity of at least seven years and less than 10 years.

The S&P GSCI is recognized as a leading measure of general price movements and inflation in the world economy. The index – representing market beta – is world-production weighted. It is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes.

The GSCI West Texas Intermediate Excess Return Index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract plus the Treasury Bill rate of interest that could be earned on funds committed to the trading of the underlying contracts.

The U.S. Dollar Index is a measure of the value of the U.S. dollar relative to majority of its most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

Gold Spot refers to the price paid for current delivery of 1 ounce of physical gold.

The Dow Jones Composite REIT Index contains all publicly traded U.S. REITs in the S&P Dow Jones Indices U.S. stock universe that are classified into one of three subcategories—equity, mortgage or hybrid—as defined by the REIT/RESI Industry Classification Hierarchy.

The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index.



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