# OCTOBER 2018 UPDATE

We provide composite returns for Growth, Growth & Income (a combination of "Growth & Income" and "Moderate Balanced" accounts), Conservative Balanced, Retirement Income (a combination of "Retirement Income" and "High Monthly Payout" accounts), Closed-End Income and ETF Options Income. We present net-of-fee results in the following table. (SSB composites are in boldface.) For the sake of comparison, we also include returns for various indexes and blended benchmarks that we believe are commensurate in risk to our strategies, as well as passively managed funds-of-funds from Vanguard.

| Salzinger Sheaff Brock | YTD 2018 | 1 Yr | Three Yrs | Five Yrs |
|---|---|---|---|---|
| **Growth** | **7.7%** | **12.9%** | **13.8%** | **10.1%** |
| *Benchmark (90% Lipper Multi-cap Core/10% Lipper General Bond Fund)* | *2.4%* | *6.9%* | *11.7%* | *7.8%* |
| **Growth & Income** | **6.4%** | **11.1%** | **12.1%** | **8.9%** |
| *Benchmark (75% Lipper Multi-cap Core/25% Lipper General Bond Fund)* | *1.9%* | *5.8%* | *10.4%* | *7.1%* |
| **Conservative Balanced** | **4.7%** | **8.3%** | **10.0%** | **7.3%** |
| **Closed-End Income** | **1.6%** | **2.3%** | **11.6%** | **N/A** |
| **ETF Option Income** | **4.3%** | **6.8%** | **N/A** | **N/A** |
| *Benchmark (60% Lipper Multi-cap Core/40% Lipper General Bond Fund)* | *1.5%* | *4.7%* | *9.0%* | *6.3%* |
| **Retirement Income** | **3.5%** | **6.5%** | **8.9%** | **6.3%** |
| *Benchmark (50% Lipper Multi-cap Core/50% Lipper General Bond Fund)* | *1.2%* | *4.0%* | *8.1%* | *5.7%* |
| **Index** | | | | |
| S&P 500 | 10.6% | 17.9% | 17.3% | 14.0% |
| Russell 3000 && | 10.6% | 17.6% | 17.1% | 13.5% |
| Russell 2000 ## | 11.5% | 15.2% | 17.1% | 11.1% |
| MSCI EAFE @@ | -1.4% | 2.7% | 9.2% | 4.4% |
| MSCI Emerging Markets | -7.7% | -0.8% | 12.4% | 3.6% |
| Barclays Aggregate Bond | -1.6% | -1.2% | 1.3% | 2.2% |
| **Mutual Fund/ETF Comparisons** | | | | |
| Vanguard LifeStrategy Growth & | 3.8% | 8.7% | 11.7% | 8.7% |
| Vanguard LifeStrategy Moderate Growth # | 2.7% | 6.4% | 9.2% | 7.2% |
| Vanguard LifeStrategy Conservative Gr @ | 1.5% | 4.2% | 6.7% | 5.6% |
| Vanguard LifeStrategy Income ^ | 0.3% | 1.9% | 4.2% | 4.1% |

*YTD through 9/30/2018. PLEASE SEE IMPORTANT DISCLAIMER ON BACK.* Note: *&&A good measure of the broad market, ##Small-cap stocks. @@Developed market foreign stocks. Style Comparisons: & A comparison for Salzinger Sheaff Brock, LLC (SSB) Growth. # A comparison for SSB Growth & Income. @ A comparison for Conservative Balanced. ^A comparison for SSB Retirement Income. Composites include all fully discretionary accounts including those accounts no longer with the firm. Returns are presented net of management fees and all trading expenses, and the reinvestment of all income. Net returns are net of model fees and are derived by deducting the highest applicable fee rate of 0.96% from the gross returns each quarter. Fees are described in SSB's ADV Part 2A. The securities mentioned in this report can be, and often are, owned by clients and employees SBIA.* ***Past performance is not indicative or a guarantee of future results and investors may experience a loss.*** *(continued on back)*

Within each of these monthly updates, we include performances of our composites and various benchmarks as of the end of the previous month. This time, that means the end of September. Thus, the stated performances do not reflect the downturn and volatility that blasted the stock market in the first half of October.

Over the past couple of weeks, the large-cap segment of the U.S. market has coughed up about 60% of its gains for the year, while mid-cap and small-cap stocks have lost even greater percentages of their gains. Many small and mid-cap value funds and ETFs have fallen so much that they are now down for the year. As for funds and ETFs of the growth style, they have lost more than value over the past three or four weeks, so what were big gains for the year a month ago for growth are now much more muted. Meanwhile, international stock markets continue to get hammered, with most funds and ETFs for overseas equities down close to double digits, or even more, especially for emerging market equities.

Understandably, the first big question on the minds of most investors now is, are we in a new bear market, or is this just a temporary blip in an upward trajectory?

As we ponder this question, let's first consider a few factors leading us to a sanguine, if vigilant, view on the U.S. equity market:

One, the U.S. economy is strong and profitable. Sales growth within the S&P 500 is expected to have been 7.3% in the third quarter. Corporate earnings are very strong. So far early here in the fourth quarter, earnings growth within the S&P 500 is 19.1%, one of the strongest rates of the past many years. Profit margins are near record highs, partially because of lower corporate tax rates.

Two, the forward 12-month P/E ratio for the S&P 500 is 15.7, which is in the average range historically. In fact, a market P/E in the range of 14 to 16, with an inflation rate of around 2%, is historically among the best backdrops for equities for which one can hope.

Three, though the yield curve flattened considerably in the first three quarters of the year, it has recently steepened as long-term rates have increased. Inversion, which would be a bad sign for equities, is likely not imminent.

Four, investors are certainly not euphoric about equities. For example, net flows for equity mutual funds from January through August were negative to the tune of $98 billion; looking at flows into U.S. equity funds alone, the outflow was more than $150 billion. Though equity ETFs achieved positive issuance on the order of $172 billion, this marked a decrease of about $125 billion versus the same period last year. Meanwhile, bond funds achieved aggregate net inflows of more than $113 billion. So, while fund and ETF investors combined are slightly decreasing their equity holdings, bond funds are still in

*Continued on back*

heavy demand. This is a recipe not for a bear market in equities, but potentially in bonds.

On the other hand, strength in the U.S. dollar is an issue to be concerned about. Also, rising costs of some raw materials are a concern.

The biggest negative, however, is the Federal Reserve Board seems intent on increasing the rates under its control once more this year and three times in 2019. At the same time, Wall Street analysts and big investors are looking toward next year, when the rate of earnings growth is likely to decelerate against the strong performance this year. The combination of rising short-term rates and decelerating earnings growth has historically been a difficult one for the stock market. The reverse (declining rates and accelerating earnings growth) would be much better.

My hope is that instead of sticking come what may to its current plans for multiple hikes next year, the Fed will be data dependent, and will say so. If the Fed were to broadcast some flexibility, I believe the stock market would regain its footing quickly and strongly.

Considering everything I believe to be most relevant to the market's direction, my view is that it's unlikely that we are now in a bear market, which I would define as an extended period of lower lows culminating in a decline of at least 15% or so more than we've already fallen.

However, because of the combination of Fed policy and decelerating profits growth we are likely to see in 2019, I expect the market to be rocky and total returns to be modest over the next 12 months. High-quality fixed income is unattractive, so I still favor equity products, though with other investments, especially shorter-term high-yield bond funds, for diversification.

Does this approach seem rational to you? To get started in any of our strategies, please call us at 866-575-5700, or send an email to info@salzingersheaffbrock.com. We look forward to hearing from you!

8801 River Crossing Blvd.
Suite 100
Indianapolis, Indiana 46240

salzingersheaffbrock.com
866-575-5700

Thank you for your continued interest in Salzinger Sheaff Brock (SSB), the only source of actual personalized money management by me,

Mark Salzinger
Chief Investment Officer and Portfolio Manager