MARKET UPDATE | FEBRUARY 8, 2018

Recent Volatility Has Been Within Expectations and May Continue

SUMMARY

- Volatility has increased across global risk assets and bond markets.
- Last year's low volatility environment was abnormal and we may just be reverting to volatility levels similar to historical averages.
- Fundamentals do not appear to have changed, but markets may be starting to reprice based on concerns we have had for some time.
- The Freedom Wealth Alliance Investment Committee is monitoring the global markets for potential opportunities and risks that may arise throughout this volatile period.

Volatility has recently picked up across global risk assets (equities, commodities, credit). The S&P 500 Index[1] experienced a 10% correction from its January highs on an intra-day basis. Bond markets have also experienced volatility as interest rates moved higher and bond prices fell. It should be reiterated that volatility is *normal* and should *be expected* when investing. 2017 was one of the least volatile U.S. equity markets in history, but recent volatility may be reverting to average historical levels. Investors should reaffirm that their risk tolerance matches their current investment risk and refrain from allowing emotions to drive investment decisions.

We believe the recent market sell-off has been driven by a combination of factors, including profit taking from last year's strong rally in risk assets, U.S. equity valuation concerns, rising interest rates, higher inflation potential, technical selling pressure, the ease of liquidating low-cost passive index investments and generally too much bullishness overall. The market may just be starting to reprice some of the market and economic concerns we have had for some time. In our opinion, investors should be prepared for elevated volatility going forward.

In our recent FWA Quarterly Investment Commentary dated January 8, 2018, and in our Insights & Opinions piece "Why the U.S. Equity Market Appear Overvalued" dated January 22, 2018, we described our concerns regarding the potential overvaluation of the U.S. equity market, longer-term structural issues in the U.S. economy and how we have positioned our portfolios to try to address these issues. Although equity markets have declined from their January highs, the fundamentals have not changed, in our view. Valuations are still a concern, albeit now slightly less so, the global economy continues to expand, and longer-term U.S. economic issues remain.

The Freedom Wealth Alliance Investment Committee continues to pay close attention to the global markets and our managed portfolios. Throughout this volatile period, we have been keeping an eye out for investment opportunities while being mindful of the risks taken across our portfolios.

FWA INVESTMENT COMMITTEE

Eric Kulwicki, CFA
Senior Portfolio Manager
As the Senior Portfolio Manager, Eric leads the Freedom Wealth Alliance Investment Committee to determine investment strategy, drive research and construct multi-asset portfolios with a focus on managing risk for clients.

Kurt Rozman
President
Kurt is the President of Freedom Wealth Alliance, a full service and fast growing financial services firm founded in the Midwest. Kurt has spent over 25 years of his professional career managing a variety of tactical investment strategies for clients.

Shawn Hittman
Financial Advisor
Shawn has been conducting in-depth analysis of the financial markets and building model portfolios for nearly 20 years. Shawn advises on macroeconomic trends and assesses where potential values and risks exist in the markets.

SOURCES

1. S&P Dow Jones Indices, LLC. S&P 500 Index Total Return data. Retrieved from *https://us.spindices.com/indices/equity/sp-500.*

DEFINITIONS

S&P 500® Index: The S&P 500® Index is a market cap-weighted stock market index of 500 companies across a number of industries. The index is often used as a broad representation of the common stocks of the largest publicly-traded companies in the United States.

Risk Assets: Risk assets generally refer to assets that carry a perceived high degree of risk and price volatility. Risk assets can include stocks, lower quality bonds, highly interest rate-sensitive bonds, commodities, currencies and certain alternative strategies.

Conservative Assets: Conservative assets generally refer to assets that carry a perceived low degree of risk and price volatility. Conservative assets can include cash securities and higher quality, less interest rate-sensitive bonds.

Tactical Investing: Tactical or active investing is an investment strategy where investment decisions are driven by opinions based on gathered information. There are a number of different tactical investment styles, including, but not limited to, valuation-sensitive and momentum-driven styles. Tactical investing styles may also differ based on investment time horizons from days, weeks, months or years.

Passive Investing: Passive investing is an investment strategy that generally refers to buy and hold investing. This investment style does not attempt to make changes to portfolio allocations or investments based on opinions and information gathering.

Fundamental Analysis: Fundamental analysis refers to making investment decisions based on gathered information, including, but not limited to, economic, sector, industry, company and security research in an attempt to forecast future investment performance.

Technical Analysis: Technical analysis generally refers to analyzing an investment's price performance over a specified time period in an attempt to predict future potential performance of that investment. Technical analysis is often utilized in momentum-driven investment styles and may not incorporate fundamental analysis when making investment decisions.

Drawdown: A market drawdown refers to the investment performance from peak-to-trough over a specified time period.

Duration: Duration is a measure of the sensitivity of a bond's price to a change in interest rates. Generally, the higher the duration of a bond or portfolio, the higher the sensitivity of that bond or portfolio to changes in interest rates.

Credit Risk: Credit risk refers to the risk of default on debt, where the borrower fails to pay and the lender may lose a portion or all of the principal lent to the borrower. Generally, the higher the credit risk, the higher the yield and volatility of the security relative to other securities that are believed to have lower credit risk.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security.

Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

The term "portfolios" used in this piece is in reference to the Freedom Wealth Alliance model portfolios. Any reference to performance is based on estimated, unaudited, gross of fee performance of the model portfolios. Client accounts assigned a Freedom Wealth Alliance model portfolio may have positioning and performance that differs from the firm's model portfolios at any given time.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential illiquidity of the investment in a falling market.

Asset management does not ensure a profit or protect against loss. 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.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

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This research material has been prepared by Freedom Wealth Alliance.