

## Mid-Year 2018

### Earnings and economy drive market recovery in Q2

Despite a seemingly endless supply of potentially market moving headlines, 2017 not only provided above-average stock returns globally for investors, it did so with one of the lowest measures of market volatility on record. That streak looked to continue for 2018 with strong gains in January as the market hit New All-Time Highs, but things quickly turned in February on fears of rising interest rates. Following a turbulent First Quarter, which saw volatility spike and the first 10% correction since 2016, the US market spent the Second Quarter in recovery mode repairing the damage and investor confidence. Despite troubling headline news like trade tariffs and geopolitical storms, the US markets grinded higher on strong corporate earnings and economic growth and volatility gradually subsided. It was less of a positive story overseas as foreign markets slid in Q2. Nonetheless, we remained steadfast in our investment strategies across all risk-objectives as many of the catalysts for economic and corporate earnings growth persist.

Q2 was again led by growth companies, namely technology, as the Nasdaq Composite fully recovered from the Q1 set back to push to New All-Time Highs in June. Nasdaq jumped 6.3% in Q2 to finish up 8.8% at the mid-way point of 2018. However, the biggest story in Q2 was the resurgence of small-cap stocks, posting a Q2 gain of 7.4% and finished up 7.0% at mid-year, hitting New All-Time Highs in June. Strong corporate earnings fueled the broad recovery; S&P 500 earnings grew 24.8% in Q1, according to Factset, and early estimates are 20%+ for Q2. Meanwhile, pro-growth policies are boosting the US economy with Q2 GDP forecasts pointing to 4.0%+ annualized growth and continued low-employment.

Q2 brought sharp distinctions between the US and foreign markets. The synchronization of global economies was a leading theme last year and heading into 2018, with many institutions recommending overweight allocations in foreign stocks. During Q2, divergence in relative economic strength was revealed in foreign market performance as well as currency valuations. The benchmark MSCI EAFE index slipped 2.2% in Q2 and is now down 4.5% for the year.

Interest rates remained in the spotlight in Q2, whipsawed by market expectations about the Fed raising interest rates, geopolitical concerns, as well as low foreign sovereign rates. US interest rates spiked to 2.95% for the 10-year Treasury Note in Q1, a four-year high; however, they continued higher in early Q2 and the 10-year hit a high of 3.11%, as the market recalibrated its Fed expectations for a fourth rate hike in 2018. In a defensive move across each of our Accounts with bond exposure, we increased our hedge against rising rates in May with the purchase of an Institutional Ultra Short-Term Bond fund run by T. Rowe Price. We remain cautiously optimistic and will continue to weigh risks and reward going forward.

#### Market Quicktakes...

- US stocks rally in Q2 to finish mostly in positive territory for the year fueled by strong earnings, economic and jobs growth, despite elevated trade tariff banter
- Small-caps and tech-heavy Nasdaq led Q2 with strong gains of 7.4% and 6.3%, respectively
- Foreign stocks tumbled in Q2 on economic softness, trade war concerns, and strong US\$; Developed foreign markets slid 2.3%, as measured by MSCI EAFE index, while MSCI Emerging Markets index fell 8.7%
- Geopolitics and global trade concerns continue to weigh on the markets, adding to uncertainty and volatility
- The Fed raised rates for the second time in 2018 at its June FOMC meeting, upgraded its US economic projection and put a fourth rate hike on the table; 10-year T-note yield closed Q2 at 2.85%, up 11 basis points from the end of Q1, but off from the 3.11% high hit in May

#### Key eSAM Investment Strategies...

- Continue to employ well-diversified investment portfolios across all eSAM Managed Account Objectives
- Overweight US Stock Exposure relative to Foreign Stocks; while we have increased foreign exposure in stair-steps since May 2015, we remain underweight our long-term Target Weight by 25%
- Pro-Growth policies boosting US economy
- Within diversified US Stock allocations, we remain modestly overweight Small Cap Stocks given insulation from tariff risk and stronger US dollar
- Fed normalization policy and strong economy point to risk of higher interest rates going forward; we continue to employ bond allocation interest rate hedging strategies for defense, including the addition of an Ultra Short-Term Bond position in May for our Capital Foundation, Conservative, Moderate and Moderate-Aggressive Accounts
- Despite geopolitical and global trade risks, which add to uncertainty and volatility, we remain cautiously optimistic

#### Market Snapshot 6-30-18

	Q2%	YTD %
Dow Jones Industrials	+0.7%	-1.8%
S&P 500	+2.9%	+1.7%
Nasdaq	+6.3%	+8.8%
Russell 2000	+7.4%	+7.0%
S&P 400	+3.9%	+2.7%
MSCI EAFE	-2.3%	-4.5%
MSCI Emerging Markets	-8.7%	-7.7%
MSCI World All-Cap	+1.3%	-0.3%
Barclays Aggregate Bond Index	-0.2%	-1.6%

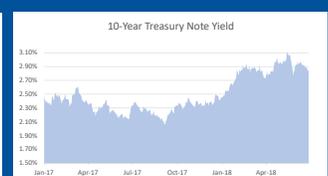
#### US Stocks



#### Foreign Stocks



#### US Bonds



## US Stock Allocations

- **SPDR® Portfolio Large Cap ETF** - Core Passive US Large-Cap Stock ETF seeking total return performance\* of its SSGA Large Cap Index Benchmark. (*Conservative, Moderate, Moderate-Aggressive and Aggressive*)
- **SPDR® Portfolio Mid Cap ETF** - Core Passive US Mid-Cap Stock ETF seeking total return performance\* of its small- and mid-cap S&P 1000 Index Benchmark. (*Conservative, Moderate, Moderate-Aggressive and Aggressive*)
- **SPDR® Portfolio Small Cap ETF** - Core Passive US Small-Cap Stock ETF seeking total return performance\* of its SSGA Small Cap Index Benchmark. (*Conservative, Moderate, Moderate-Aggressive and Aggressive*)

## Sector/Specialty Stock Allocations

- **iShares Edge MSCI USA Quality Factor ETF** - Actively Managed, Disciplined Value, Sector Rotation Strategy based on Yale (*Conservative, Moderate, Moderate-Aggressive and Aggressive*)
- **iShares Edge MSCI USA Momentum Factor ETF** - Passively Managed Index exposure to Internet Technology growth stocks. (*Aggressive*)

## Foreign Stock Allocations

- **SPDR® Portfolio Developed World ex-US ETF** - Core Passive Developed Foreign Stock ETF seeking total return performance\* of its S&P® Developed Ex-U.S. BMI Index. (*Conservative, Moderate, Moderate-Aggressive and Aggressive*)
- **SPDR® MSCI EAFE StrategicFactors ETF** - Actively Managed Foreign Large-Cap Value Strategy sub-advised by three distinct Managers (Causeway, Lazard and Templeton) investing primarily in Developed Foreign Markets. (*Moderate-Aggressive and Aggressive*)

## Bond Allocations

- **SPDR® Portfolio Aggregate Bond ETF** - Core Passive Intermediate-Term Bond ETF seeking total return performance\* of its Bloomberg Barclays U.S. Aggregate Bond Index. (*Capital Foundation, Conservative, Moderate, Mod-Aggressive*)
- **WisdomTree Barclays Yield Enhanced US Aggregate Bond ETF** - Re-weights sub-components of BB US Aggregate Bond Index to enhance yield seeking total return performance\* of its Bloomberg Barclays U.S. Aggregate Enhanced Yield Index. (*Capital Foundation, Conservative, Moderate, Moderate-Aggressive*)
- **SPDR® Portfolio Intermediate Term Corporate Bond ETF** - Passive Intermediate-Term Corporate Bond ETF seeking total return performance\* of its Bloomberg Barclays Intermediate US Corporate Index. (*Capital Guardian, Total Return, SAB, Capital Growth*)
- **SPDR® ICE BofAML Crossover Corporate Bond ETF** - Passive exposure to corporate debt rated at levels where the lower end of investment grade debt and the higher end of high yield debt meet seeking total return performance\* of its ICE BofAML US Diversified Crossover Corporate Index. (*Capital Guardian*)
- **SPDR® Portfolio Short Term Corporate Bond ETF** - Passive Short-Term Corporate Bond ETF seeking total return performance\* of its U.S. 1-3 Year Corporate Bond Index. (*Capital Foundation, Conservative, Moderate, Moderate-Aggressive*)
- **JPMorgan Ultra-Short Income ETF** - Actively Managed exposure to investment grade, US dollar denominated debt and seeks to maintain duration of 1-year or less while seeking total return performance\* of its ICE BofAML 3-Month US Treasury Bill Index. (*Capital Foundation, Conservative, Moderate, Moderate-Aggressive*)
- **iShares Floating Rate Bond ETF** - Passive exposure to US dollar denominated, investment grade floating rate bonds seeking total return performance\* of its Bloomberg Barclays US Floating Rate Note < 5 Years Index. (*Capital Foundation*)
- **iShares 0-5 Year TIPS Bond ETF** - Passive exposure to short-term U.S. TIPS (Treasury Inflation Protected Securities) seeking total return performance\* of its Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS) 0-5 Years Index. (*Capital Foundation*)

\*Before fees and expenses

**Special Note:** eSAM Accounts invest in No Transaction Fee Exchange Traded Funds (NTF ETFs); however, an ETF we purchased in our Conservative, Moderate, Moderate-Aggressive, and Aggressive eSAM Accounts (USMV - iShares Edge MSCI Minimum Volatility USA) was errantly identified as such on TD Ameritrade Institutional's NTF List. In April, we replaced USMV with QUAL - iShares Edge MSCI USA Quality Factor, an NTF ETF, at No Cost to Clients. In April, we reimbursed All Clients these Transaction Fees in the form of a Management Fee Reversal identified as "MGMT Fee Reversal Wealth Asset Managers" on Clients' April 2018 Month-End TDA Statements, and apologize for the oversight. Multiple entries reflect multiple transaction fee reimbursements. Additionally, consistent with the Securities Exchange Act of 1934 Section 31, SELL transactions on ETFs (like closed-end funds and individual stocks) are subject to a fee collected by TD Ameritrade Institutional and remitted to the SEC in the current rate amount of \$0.000231 per \$1.00 of transaction proceeds (rounded to the nearest penny). The SEC Section 31 fee is shown on Client TD Ameritrade confirms as "Reg Fee."

## eSAM Managed Account Objectives

### Capital Foundation

Suited for conservative investors seeking preservation of capital and income, with low volatility. Modest capital appreciation is a secondary objective. Seeks to target approximately a 100% bond/cash weighting over time.

### Conservative

Suited for Conservative to Moderate investors seeking preservation of capital, income and modest capital appreciation with below-market volatility. Seeks to target approximately a 40% stock to 60% bond/cash weighting over time; Asset Allocation will tactically range from 30% - 50% Stocks, given changing market conditions.

### Moderate

Suited for Moderate investors seeking capital appreciation and modest income potential with moderate market volatility. Seeks to target approximately a 60% stock to 40% bond/cash weighting over time; Asset Allocation will tactically range from 50% - 70% Stocks, given changing market conditions.

### Moderate-Aggressive

Suited for Moderate to Aggressive investors with long-term investment time horizons, seeking capital appreciation. Seeks to target approximately a 80% stock to 20% bond/cash weighting over time; Asset Allocation will tactically range from 70% - 90% Stocks, given changing market conditions.

### Aggressive

Suited for Aggressive investors with long-term investment time horizons, seeking above-average capital appreciation and are comfortable with volatility. Seeks to target approximately a 100% Stock weighting over time; Asset Allocation will tactically range from 80% - 100% Stocks, given changing market conditions.

Pursuant to the SEC Brochure Rule 204-3, the Investment Advisors Act of 1940, advisors are required to offer a copy of their ADV, Part II to every advisory client on an annual basis. Please send a written request if you are interested in receiving an updated copy of Nelson Securities, Inc.'s Form ADV, Part II. Securities offered through Nelson Securities, Inc., a registered investment advisor/broker Dealer and member FINRA/SIPC

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### Important Disclosures:

• PAST PERFORMANCE IS NO GUARANTEE FOR FUTURE RESULTS

• Returns and Statistics, including allocation percentages, represent a composite of each managed account objective. Individual accounts may vary slightly from those represented above due to account size and other account-specific circumstances.

• eSAM Conservative, Moderate, Moderate-Aggressive and Aggressive managed accounts may involve investing in small and medium sized companies, international securities, high-yield securities, and ETFs that invest in a specific sector. All of which may increase the risk and volatility of the respective managed account.

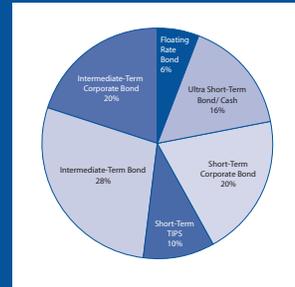
• There are risks associated with an investment in a bond fund including interest rate risk, credit risk, and inflation risk. Changes in interest rates may affect a bond's price as they are inversely related. eSAM Capital Foundation managed account invests 100% in bond ETFs and cash equivalents to achieve its investment objectives.

• Each of our eSAM managed accounts have annual management fees charged by Nelson Securities, Inc./ Wealth Asset Managers based on the assets under management (AUM), as stated in the Investment Management Agreement. eSAM Capital Foundation, Conservative, Moderate, Moderate-Aggressive and Aggressive charge a maximum of 1.0% annually. eSAM managed accounts invest in No Transaction Fee (NTF) Exchange Traded Funds (ETFs). Each ETF invested in charges their own respective internal management and operating expenses. See each prospectus for details.

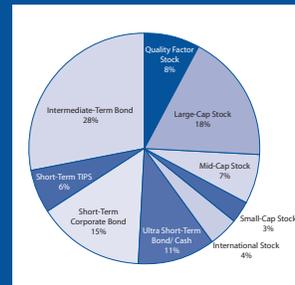
## eSAM Account Allocations

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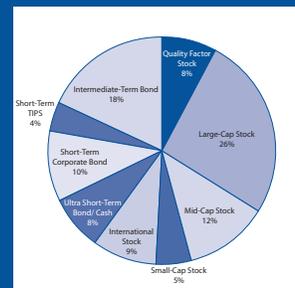
### Capital Foundation



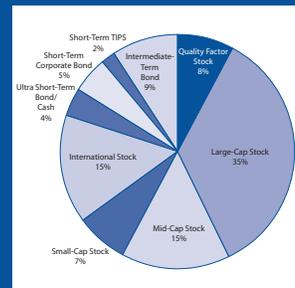
### Conservative



### Moderate



### Moderate-Aggressive



### Aggressive

