

## Year-End 2018

### Fed flip-flops disrupt global markets in Q4; pivot sparks strong start to 2019

Looking back on 2018, it will go down as the “the year that nobody made money.” Of 94 Morningstar Mutual Fund categories, 86% were negative for the year. And of the 13 that were positive, 7 of them were municipal bond funds (excluding single state municipal bond funds). Volatility was a mirror image of extremes from 2017. Investors endured two 10%+ corrections in 2018, key stock market indexes (Nasdaq, Russell 2000, S&P 400) hit bear market territory (-20%) in December, while at the same time seeing the markets twice set new all-time highs, along with a record setting bull market run in Q3, and the Dow posting its all-time single-day point gain in December.

Ever since the financial crisis, the Fed has been adamant about transparency and guidance. While transparency remains high, the Fed’s guidance and comments have been erratic this year sending mixed messages to the market. Fear of more interest rate hikes sparked the first correction in January-February and then Powell’s comments in early October that the Fed was “a long way from neutral” caught the market by surprise, sparked the Q4 market sell-off and interest rates spiked to their highest levels of the year. He walked back the comment in late November saying the Fed was “close to neutral,” which sparked a strong rally. But when the Fed’s statement following its fourth rate hike of the year in December wasn’t soft enough and said the Fed was on “auto-pilot,” stocks got routed again on their way to the worst December since 1931. But again it was Powell’s and the Fed’s comments December 26, that clearly pivoted saying that the Fed was on “no set path” and would be “patient” with future rate hikes dependent on economic performance. It was a powerful message that calmed the global markets and stocks surged to year-end to close on a positive note.

For most of 2018 and heading into 2019, the markets have been mainly concerned about three issues:

- Fed Policy Mistake: raising interest rates too much
- US-China Trade Negotiations
- Slowing Global Growth

With the Fed moving to a “neutral” stance, one of those concerns has been removed for the foreseeable future. US-China trade negotiations are progressing well to start 2019 and the markets have responded strongly as a result. The major global market indexes have posted double-digit gains ending January from the Christmas Eve lows. Slowing Global Growth remains a concern, as does the looming Brexit deal and the ongoing Russian Investigation results. US corporate earnings growth in 2019 is slowing to mid-single digits from 20%+ in 2018, but still growing. Meanwhile, the US economy is still strong albeit growing at slower pace as well. We anticipate that bouts of volatility will remain a factor throughout 2019, but we are cautiously optimistic and will be maintaining a disciplined approach.

### Market Quicktakes...

- Volatility gripped the financial markets in December, dragging stocks fully into a correction (10%+) from their all-time highs and some indexes (Nasdaq, Russell 2000 and S&P 400) into bear market territory
- The Fed’s flip-flops on policy and communication in Q4 was the main catalyst but continued trade and global economic slow down worries contributed
- 2018 was the first annual loss for US stocks since 2015 and the worst December since 1931; Santa paid a late-visit to Wall Street to end the year on a positive note
- Foreign stocks were hit hard as well; the MSCI EAFE index and MSCI Emerging Markets index both hit bear-market territory in December but finished off the lows
- The Fed raised rates for the 4th time in 2018 at its December FOMC meeting as expected but comments after unnerved the markets
- 2019 off to best start for US stocks since 1991; double-digit gains through February fueled by Fed pivot and encouraging US-China trade negotiations; foreign stocks strong too

### Key WAM | STA Investment Strategies...

- Continue to employ well-diversified investment portfolios across all WAM | STA Managed Account Objectives
- Staying steadfast through volatility while sentiment improves and markets stabilize/recover
- Maintain overweight US Stock Exposure relative to Foreign Stocks; US economic growth is slowing but remains strong; while valuations are attractive, foreign economic growth struggles to stay positive
- Fed’s pivot to being “patient” on December 26th restored confidence in the global markets and sparked the year-end rally that has continued into 2019. Despite Fed’s new tone, we continue to employ diversified bond allocations, interest rate hedging strategies and quality for defense
- Geopolitical, global trade, economic slowdown and volatility risks remain in forecast, but we are cautiously optimistic

### Market Snapshot 12-31-18

	2-28-19	2018
Dow Jones Industrials	+11.1%	-5.6%
S&P 500	+11.1%	-6.2%
Nasdaq	+13.5%	-3.9%
Russell 2000	+16.8%	-12.2%
S&P 400	+14.9%	-12.5%
MSCI World All-Cap	+11.2%	-11.2%
MSCI EAFE	+8.9%	-16.1%
MSCI Emerging Markets	+8.8%	-16.6%
Barclays Agg Bond Index	+1.0%	+0.1%

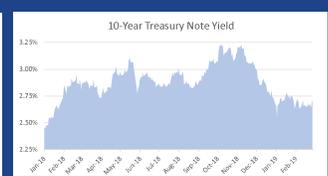
US Stocks (2-28-19)



Foreign Stocks (2-28-19)



US Bonds (2-28-19)



# Core and Strategic WAM Investment Holdings 12-31-18

Investment Holding Changes since last Managed Account Insight are **Bold** in (Account Notes); N/C: No Change

## US Stock Allocations

- AB Bridgeway Large-Cap Growth Instl** - Disciplined Active Management investing in quality Large-Cap Growth companies for upside participation and mitigate downside risk. (N/C Total Return, SAB, Capital Growth and STA)
- Vanguard Equity Income Admiral** - Multi-Manager Active Management (Wellington Management and Vanguard Quantitative Equity Group) investing in Large Cap Value companies with above-average dividend yields. (N/C Total Return, SAB, Capital Growth and STA)
- Carillon Scout Mid Cap Instl/ Thrivent Mid Cap Stock Instl** - Actively Managed Mid Cap Blend Strategies seeking long-term capital growth investing in attractively valued, high-quality Mid Cap stocks. (Carillon Scout Mid Cap used in Total Return and SAB N/C; Thrivent Mid Cap Stock used in Capital Growth and STA N/C)
- Vanguard Strategic Small Cap Equity Admiral** - Actively Managed Quantitative Blend Strategy seeking Small Cap Stocks with improving fundamentals and attractive valuations. (N/C Total Return, SAB, Capital Growth and STA)
- Vanguard Total Stock Market Index Admiral** - Core Passively Managed market capitalization-weighted exposure to Large-, Mid-, and Small-Cap stocks. (N/C Total Return, SAB, Capital Growth and STA)

## Sector/Specialty Stock Allocations

- DoubleLine Shiller Enhanced CAPE Instl** - Actively Managed, Disciplined Value, Sector Rotation Strategy based on Yale Professor Robert Shiller's Enhanced CAPE Ratio. (N/C STA)
- Health Care Sector SPDR** - A Passively Managed Index ETF (exchange traded fund) investing in the S&P 500 Health Care Sector. (N/C STA)
- Rydex Internet Inv** - Passively Managed Index exposure to Internet Technology growth stocks. (N/C STA)
- Rydex Nasdaq 100 Inv** - Passively Managed Index exposure to Nasdaq 100 growth stocks. (N/C Capital Growth)

## Foreign Stock Allocations

- American Funds EuroPacific Growth F2** - Actively Managed Foreign Large-Cap Growth Strategy investing primarily in Developed European and Pacific Basin countries as well as exposure to Emerging Markets. (N/C Total Return, SAB, Capital Growth and STA)
- American Beacon International Equity Instl** - Actively Managed Foreign Large-Cap Value Strategy sub-advised by three distinct Managers (Causeway, Lazard and Templeton) investing primarily in Developed Foreign Markets. (N/C Capital Growth and STA)

## Bond Allocations

- DoubleLine Total Return Bond Instl** - Actively Managed Core Intermediate-Term Bond run by Jeff Gundlach primarily focused on Mortgage Backed Securities. (N/C Capital Guardian, Total Return; **Increased** in SAB, Capital Growth)
- PIMCO Total Return Bond Instl** - Actively Managed Core Intermediate-Term Bond focused on total return and a globally diversified portfolio run by an experienced Team. (**Reduced** Capital Guardian; N/C Total Return, SAB, Capital Growth)
- Vanguard Total Bond Market Index Admiral** - Core Passively Managed exposure to the Total US Bond Market. (N/C Capital Guardian)
- Lord Abbett Short Duration Income Instl** - Actively Managed Short-Term Bond seeking high current income and preservation of capital investing a diversified variety of short maturity debt. (N/C Capital Guardian, Total Return, SAB)
- Hartford Floating Rate Instl** - Actively Managed exposure to less-than-investment grade, floating rate Bank Loans, which historically have offered reduced interest rate risk. (N/C Capital Guardian, Total Return, SAB)
- Vanguard Short-Term Inflation Protected Securities Index Admiral** - Passively Managed exposure to Short-Term TIPS providing inflation protection and low duration exposure to help hedge against rising interest rates. (**Increased** in Capital Guardian, Total Return; N/C SAB, Capital Growth)
- T. Rowe Price Ultra Short-Term Bond Instl** - Actively Managed exposure to very short-term bonds with low duration to help hedge against rising interest rates. (**Increased** in Capital Guardian, Total Return, SAB, Capital Growth)
- Western Asset Total Return Unconstrained Instl** - Actively Managed and Unconstrained Non-Traditional Bond exposure with flexibility to invest globally and be short duration up to -3 years. (**Reduced** in Capital Guardian, Total Return, SAB; **Sold** in Capital Growth)

## WAM Managed Account Objectives

### Capital Guardian

Suited for conservative investors seeking preservation of capital and income, with low volatility. Modest capital appreciation is a secondary objective. Seeks approximately a 100% bond/cash weighting over time; up to 5% may be invested in alternative assets.

### Total Return

Suited for Conservative to Moderate investors seeking preservation of capital, income and modest capital appreciation with below-market volatility. Seeks approximately a 40% stock to 60% bond/cash weighting over time; up to 15% may be invested in alternative assets.

### Strategic Asset Balanced

Suited for Moderate investors seeking capital appreciation and modest income potential with below- to moderate-market volatility, Strategic Asset Balanced seeks to target approximately a 60% stock to 40% bond/cash weighting over time; up to 15% may be invested in alternative assets.

### Capital Growth

Suited for Moderate to Aggressive investors seeking capital appreciation. Capital Growth seeks to maintain an 80% stock to 20% bond/cash weighting over time; up to 15% may be invested in alternative assets.

### Select Trading Account

Suited for Aggressive investors with long-term investment time horizons, seeking above-average capital appreciation and are comfortable with volatility. Investing predominantly in equity (domestic & foreign) and specialized sector mutual funds, the Sector Trading Account strives to strategically and tactically allocate assets to maximize return potential given the current market and economic environment. STA has the flexibility to tactically invest in all asset classes at any given time, including fixed income. Up to 20% may be invested in alternative assets.

\*Allocations and Holdings represent WAM Managed Accounts \$25,000+. Allocations and Holdings in Accounts less than \$25,000 may differ from those shown.

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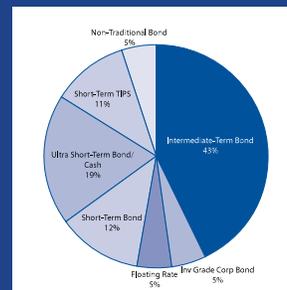
### Important Disclosures:

- 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.
- Total Return, Strategic Asset Balanced, Capital Growth and Sector Trading managed accounts may involve investing in small and medium sized companies, international securities, high-yield securities, and funds that invest in a specific sector. All of which may increase the risk and volatility of the respective managed account.
- Capital Guardian, Total Return, Strategic Asset Balanced, Capital Growth and Sector Trading managed accounts may involve investing in hedge fund type open-ended mutual funds that have the ability to be both long and short the market using various hedging strategies, 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. Capital Guardian managed account invests approximately 100% in bond funds and cash equivalents to achieve its investment objectives.
- Each of our 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. Total Return, Strategic Asset Balanced, and Capital Growth charge a maximum of 2.5% annually, while STA charges 1.5% and Capital Guardian 1.0%. TD Ameritrade charges \$75 per year for custodial fees. Each mutual fund invested in charges their own respective internal management and fund operating expenses. See each prospectus for details.

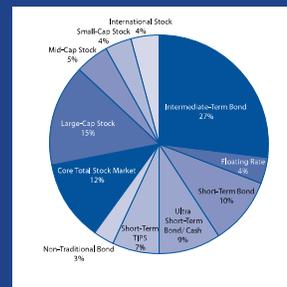
## WAM Account Allocations 12-31-18

12-31-18

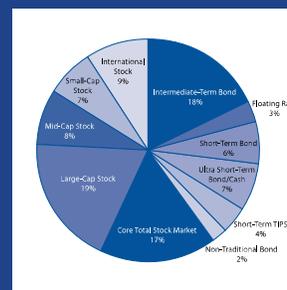
### Capital Guardian



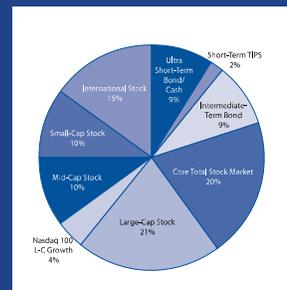
### Total Return



### Strategic Asset Balanced (SAB)



### Capital Growth



### Select Trading Account (STA)

