

Market Update and Model Portfolio Reviews 11/30/2017

For the month of November, large cap domestic equities continued their strong bull run up [3.07%](#). This marks the longest positive monthly streak since 2007.

YTD 11/30/17 Net of Fees	% Return Strategy	% Return Benchmark	Relative Over (Under) Performance
Ultra Conservative	5.67%	5.54%	0.13%
Conservative	6.48%	7.25%	-0.77%
Moderate	7.81%	8.96%	-1.15%
Balanced	7.62%	10.68%	-3.06%
Growth and Income	8.58%	12.39%	-3.81%
Growth	10.47%	14.10%	-3.63%
Aggressive	10.94%	15.81%	-4.87%
Ultra Aggressive	13.82%	17.52%	-3.70%

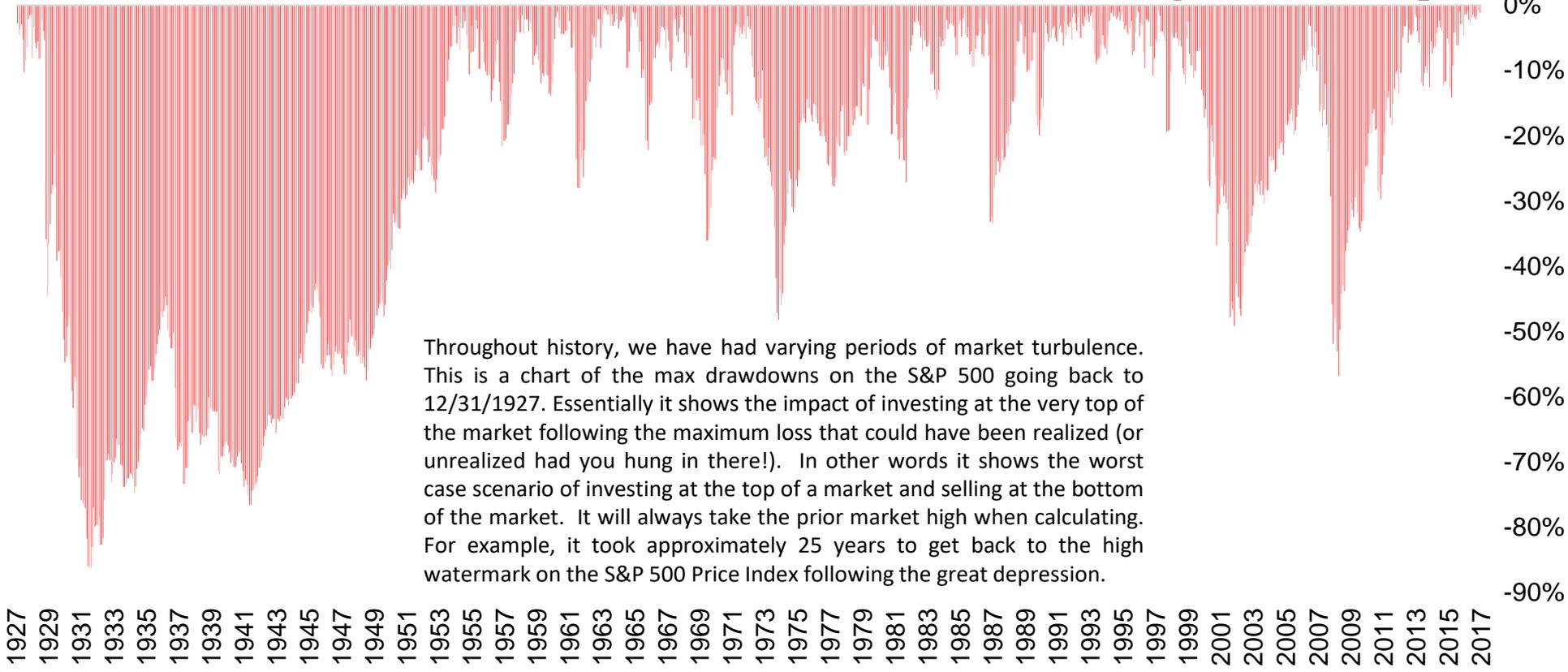
MTD 11/30/17 Net of Fees	% Return Strategy	% Return Benchmark	Relative Over (Under) Performance
Ultra Conservative	0.30%	0.41%	-0.11%
Conservative	0.42%	0.73%	-0.31%
Moderate	0.63%	1.05%	-0.42%
Balanced	0.61%	1.37%	-0.76%
Growth and Income	0.98%	1.69%	-0.72%
Growth	1.27%	2.01%	-0.74%
Aggressive	1.39%	2.33%	-0.94%
Ultra Aggressive	2.01%	2.65%	-0.65%

Month over month, all eight model portfolios yielded positive results net of fees, and all lagged behind their respective benchmarks when accounting for fees. The relative underperformance, when compared to the respective benchmarks, was primarily due to the very strong month over month return in large cap domestic equities. Since the start of 2010, there have been 21 months where large cap domestic equities have been up over 3% month over month, over a total of 95 months. In the model portfolios, positive attribution came from consumer staples stocks (+5.58%), continued strength in mid cap domestic equity allocations (+3.41%), regional bank stocks (+3.32%) and allocating to lower volatility strategy focused on large cap domestic equities (+3.08%). Part of our closed end fund allocations continued to be a drag over the past few months but created attractive entry opportunities and rebalancing to losers from winners.

Yield curve flattening played the course we had anticipated, with the focus of treasury debt issuance in shorter maturities while limiting longer dated treasury issuance. [Guidance from the Treasury also indicates a consistent replacement of this supply for maturing treasuries.](#) We provided a breakdown of the [structure of the Marketable securities outstanding](#) below. Supply at the front end of the curve, coupled with continued anticipation of raising short term rates by Federal reserve policy, has enhanced the effects of the flattening of the yield curve. Investment grade short term floats and long duration have added unintended alpha to the portfolios (a good thing), as the long end of the curve we generally reserve for a modified hedge against market corrections and black swan events. Although it would be technically incorrect to call this a true hedge, as the outcome is not predefined, it has resulted in positive “insurance costs” for the year (generally you pay for portfolio insurance, versus getting paid).

As of October 2017 Treasury Loan Type	Amount (In Millions) Outstanding	% of Marketable Securities	Weighted Average Maturity	Weighted Average Time to maturity	
Bills	\$ 1,855,929	13.00%	1/21/2018	53.0	Days
Notes	\$ 8,830,133	61.86%	3/17/2021	3.3	Years
Bonds	\$ 1,963,704	13.76%	6/1/2039	21.5	Years
TIPS	\$ 1,295,397	9.08%	2/23/2026	8.2	Years
Floating Rate Notes	\$ 317,059	2.22%	11/18/2018	1.0	Years
Federal Financing Bank	\$ 11,457	0.08%	Varies	Varies	
Total	\$ 14,273,678	100.00%			

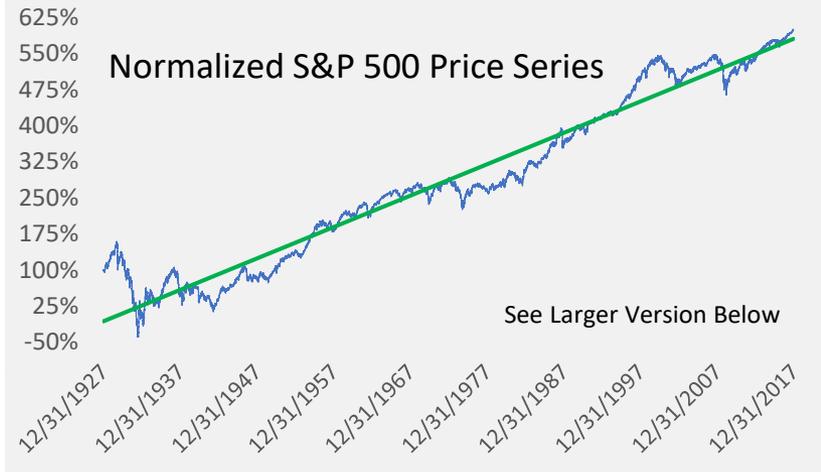
S&P 500 Drawdowns From Prior Peaks: The Risk of Investing at Market Tops



Throughout history, we have had varying periods of market turbulence. This is a chart of the max drawdowns on the S&P 500 going back to 12/31/1927. Essentially it shows the impact of investing at the very top of the market following the maximum loss that could have been realized (or unrealized had you hung in there!). In other words it shows the worst case scenario of investing at the top of a market and selling at the bottom of the market. It will always take the prior market high when calculating. For example, it took approximately 25 years to get back to the high watermark on the S&P 500 Price Index following the great depression.



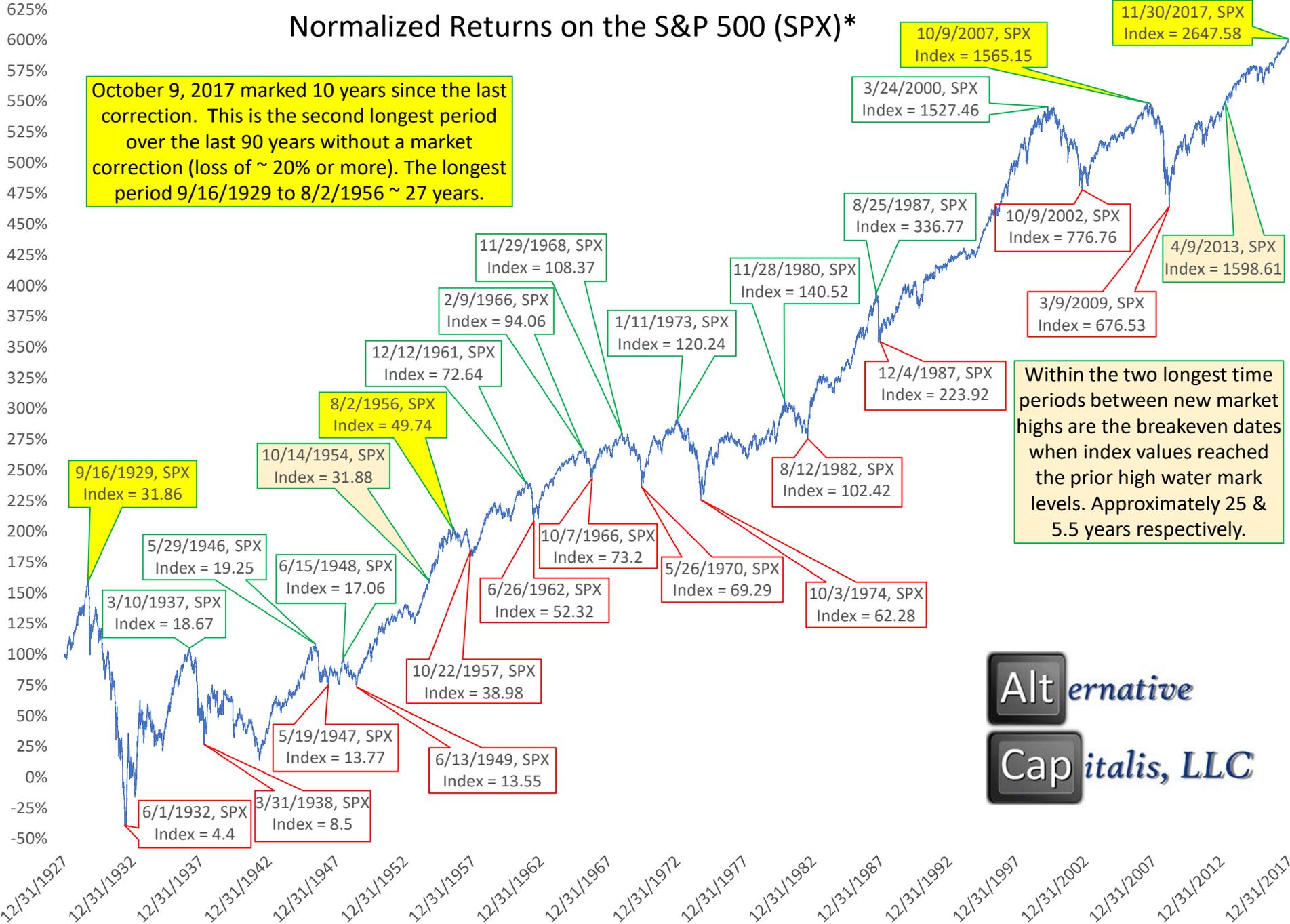
Two price series, same data, transformed so you have the view of relative performance over time. On the left chart is the actual price data of the S&P 500 Price series, whereas the chart on the right takes the natural log of the price to normalize 90 years of data in a view that helps keep changes over long periods more insightful when comparing various time periods.



Normalized Returns on the S&P 500 (SPX)*

October 9, 2017 marked 10 years since the last correction. This is the second longest period over the last 90 years without a market correction (loss of ~ 20% or more). The longest period 9/16/1929 to 8/2/1956 ~ 27 years.

Within the two longest time periods between new market highs are the breakeven dates when index values reached the prior high water mark levels. Approximately 25 & 5.5 years respectively.



*Natural log on S&P 500 Price Series 12/31/1927-11/30/2017. Results would be different if total return index was used.

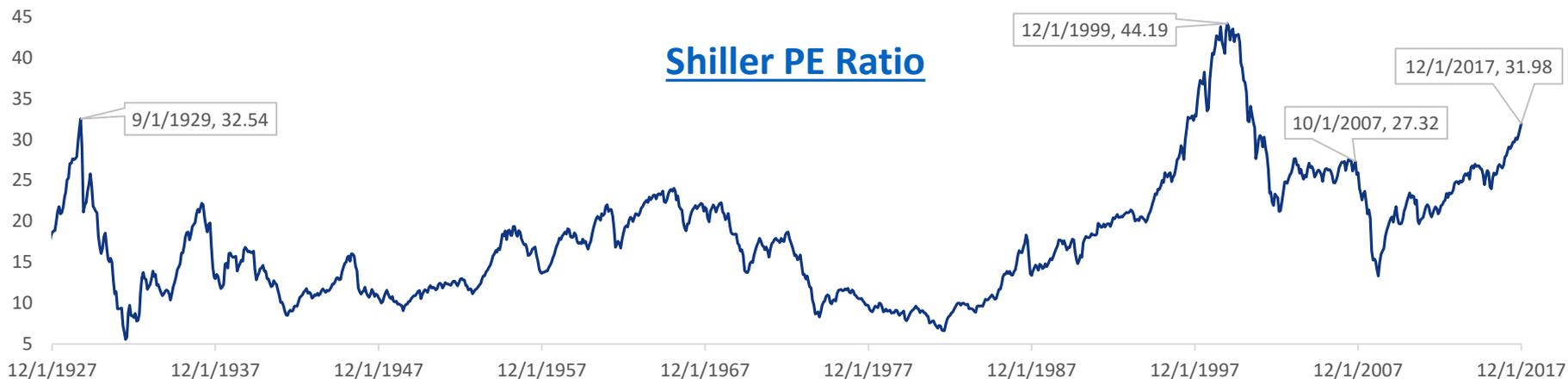


Artificial Intelligence, High Valuations, Tax Changes & Demographics

Demographics: In July, the Social Security Administration provided their annual report on the financial status of the funding levels for benefit payments to retirees (commonly referred to as Social Security income) and those disabled. Although there are changes from their 2016 assumptions, the key theme remains: a [25% cut to retiree benefit payments in year 2035](#) (approximately 17 years from now). This assumes that status quo persists. The board of trustees offers their own research to provide to the public and lawmakers given different changes to current tax law. The [three concepts](#) that are often referenced to maintain full benefits or reduce the cut to future benefit payments are: 1) increase payroll tax rates (FICA); 2) increase the amount of income that is covered for payroll taxes; and 3) a hybrid of the first two. If the board of trustees is right, one of the three fixes will likely have to happen or there will be a cut to benefit payments in the future.

Tax Changes: Taxes for demographics is a bit more subtle than the more immediate future of the House and Senate versions of the proposed tax changes. We spent more time than intended to draw meaningful conclusions regarding the overall impact of changes in household and business well being. In conclusion: "it depends." It is hard to not find bias even if it is produced on a [.org](#) or [.gov](#) platform. One will have to look at how much they believe they will make at the individual level and account for items such as mortgage deductions, state and local tax deductions, student loan interest deductions, and existing and proposed standard deductions amongst countless other factors to determine if there is a net benefit or costs in present value terms. This same if-then approach applies to businesses and the net present value benefit approach. The House and Senate version both add approximately \$1.5 trillion to the public deficit, which continues to test the high World War II [debt to GDP](#) levels.

Artificial Intelligence: Artificial Intelligence will create new jobs and eliminate jobs. No Industry is immune to these effects. The concern is the timing and innovation that corresponds with these changes. The above timeline for the Senate tax changes is 10 years. The above shortfall makeup to Social Security benefits is 17 years. The timeline of jobs transitioning from human to computers is already well underway. Under current tax code and proposed tax changes are incentives to increase capital expenditure (business investment) vs. hiring individuals as you avoid paying payroll taxes if a computer can do the work for you. At the end of 10 years, the tax revenue will need to be increased via growth, tax rate increases or both as provided under the [current plans](#) and law. How do you collect payroll taxes on AI to support shortfalls in Medicare and social security benefits?



High Valuations: U.S. Large Cap Domestic equities still sit at historic highs as a group. Using a basic inflation adjusted [Price to Earnings ratio on the S&P 500 index](#) we sit at the third highest level since the start of the 1900's, slightly lower than the crash before the great depression, well below the euphoric levels of the dot com bubble but well above the most recent financial crises. With corporate tax reform likely getting passed this will provide a lift. The sectors that stand to benefit from the tax cuts are the ones with the highest effective tax cuts (all else equal). Fund flows have reflected a lot of the anticipated benefit in sectors that stand to benefit the most from tax cuts.

Alternative Capitalis, LLC
71 Commercial St, #254
Boston, MA 02109

P. 551-ALT-FIRM (258-3476)
WWW.ALTCAPITALIS.COM
Facebook.com/ALTCAPITALIS
Info@AltCapitalis.com



Model Disclosure

Alternative Capitalis, LLC is a registered investment adviser. Information presented herein is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed. **Model Performance Disclosure:** The performance shown represents only the results of Alternative Capitalis, LLC's model portfolios for the relevant time period and do not represent the results of actual trading of investor assets. Model portfolio performance is the result of the application of the Alternative Capitalis, LLC's proprietary investment process. Model performance has inherent limitations. The results are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment account. Thus, the performance shown does not reflect the impact that material economic and market factors had or might have had on decision making if actual investor money had been managed. Model portfolio performance is shown net of the model advisory fee of 1%, the highest fee charged by Alternative Capitalis, LLC and sample trading costs based on our Custodian's, TD Ameritrade Institutional, trading costs. Performance does not reflect the deduction of other fees or expenses, including but not limited to brokerage fees, custodial fees and fees and expenses charged by mutual funds and other investment companies. Performance results shown include the reinvestment of dividends and interest on cash balances where applicable. The data used to calculate the model performance was obtained from sources deemed reliable and then organized and presented by Alternative Capitalis, LLC. The performance calculations have not been audited by any third party. Actual performance of client portfolios may differ materially due to the timing related to additional client deposits or withdrawals and the actual deployment and investment of a client portfolio, the reinvestment of dividends, the length of time various positions are held, the client's objectives and restrictions, and fees and expenses incurred by any specific individual portfolio. The performance calculations are based on a hypothetical investment of \$100,000 for both the model and benchmarks presented. **Benchmarks:** The *Ultra Aggressive Risk Off* performance results shown are compared to the performance of the performance of a blended ETF (exchange-traded-fund) portfolio comprised of the following two ETF's symbols, SPY & AGG, are described below. The ETF symbol SPY (SPDR® S&P 500® ETF Trust) which seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index (the "Index"). Visit <https://us.spdrs.com/en/etf/spdr-sp-500-etf-SPY> for more information about the ETF. The S&P 500® Index results do not reflect fees and expenses and you typically cannot invest in an index. The ETF symbol AGG (iShares Core U.S. Aggregate Bond ETF). The iShares Core U.S. Aggregate Bond ETF seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. (the "Index"). Visit <https://www.ishares.com/us/products/239458/ishares-core-total-us-bond-market-etf> for more information about the ETF. The index composed of the total U.S. investment-grade bond market results do not reflect fees and expenses and you typically cannot invest in an index. The benchmark is blended representing a weighting of ninety (90%) percent to SPY and ten (10%) to AGG. Unless otherwise indicated, the benchmarks are not rebalanced to maintain their original weighting. Instead, they are comprised of the starting allocation and will shift given the prevailing market environment over the period measured. **Return Comparison:** Explanation of why benchmark was chosen. To benchmark the results, the ETF (exchange-traded-fund) symbol SPY (SPDR® S&P 500® ETF Trust) which seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index (the "Index"). The S&P 500 was chosen as it is generally well recognized as an indicator or representation of the stock market in general and includes a cross section of equity holdings. In addition, the ETF symbol AGG was chosen as a benchmark. The iShares Core U.S. Aggregate Bond ETF seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. The total U.S. investment-grade bond market was chosen as it is generally well recognized as an indicator or representation of the bond market in general and includes a cross section of debt holdings.

The results do not represent actual trading and actual results may significantly differ from the theoretical results presented.