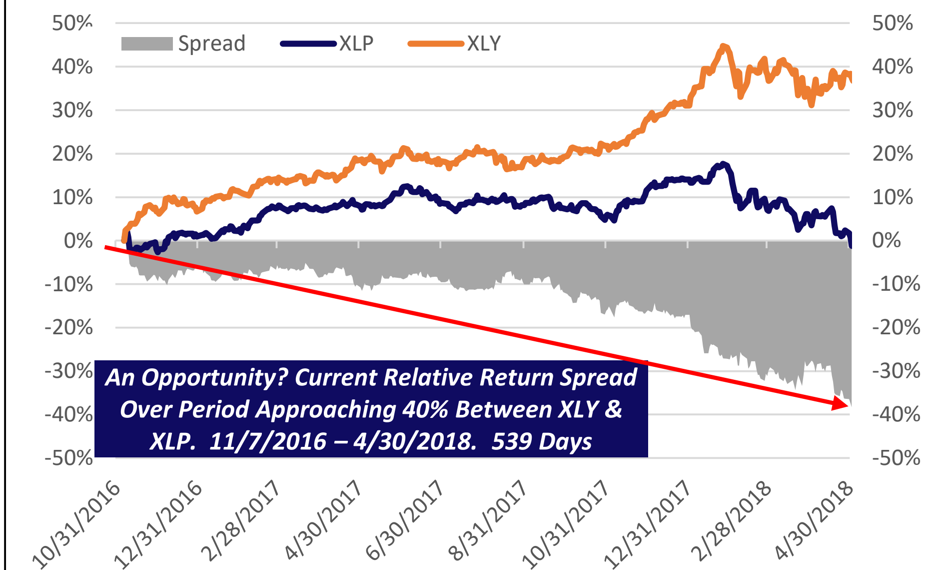
Market Update and Model Portfolio Reviews 4/30/2018

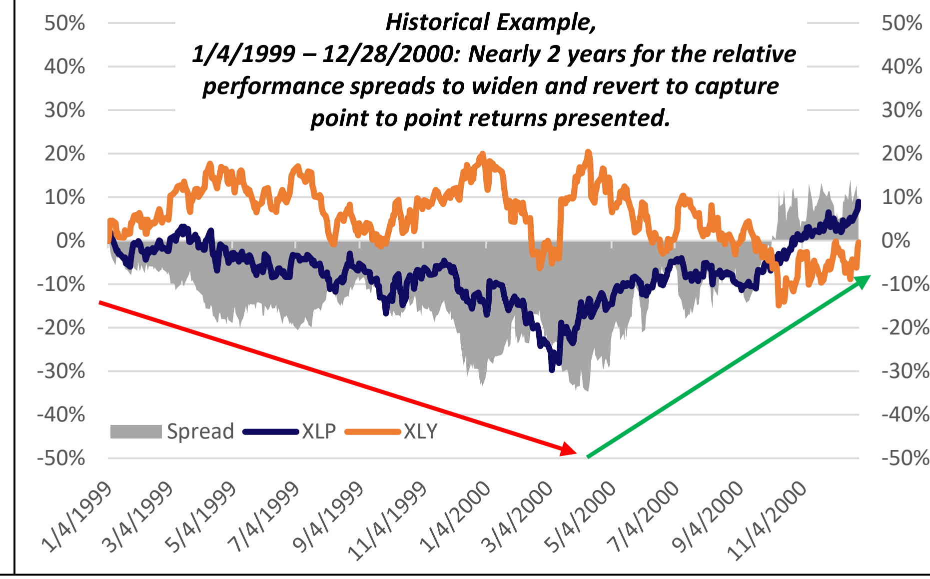
For the month of April, investment grade domestic bonds* were down -0.74% and down -2.19% on the year. Month over month, large cap domestic equities** finished up 0.38% and down on the year by -0.38%. The Energy Sector led the way this month, up 9.36% off the back of increasing oil prices. WTI (oil) increased 5.69% over the month and up 13.4% on the year. National retail gas prices also continue to move higher as people at the pump, on average, are paying 11.3% more than at the start of the year. Treasury yields also continued to move higher across the yield curve over the month and year, hurting traditional bond investors. This continued rise in rates has made the dollar more attractive via foreign buyers of Treasuries, bidding up the price of the dollar. On a trade weighted basis, the dollar was up when compared to larger currency pairs by 3.27%, or broadly by 3.63%, over the past three months. The correlation over historical time periods between the price of oil and the dollar index tends to be negative. This means the direction of the price of oil does not follow the price of the dollar index when comparing to the larger currency pairs, historically. It is not uncommon to have the short term positive correlations that we have seen so far this year, but historically they tend to break down. In other words, we would expect to see either the price of oil or the dollar (compared to the above currency baskets) to stop moving in sync as we move forward. Consumer Staples continued the pain trade down another -4.32% on the month and off by -11.13% on the year. We have measured a large divergence in total return between the Consumer Discretionary and Consumer Staples Sectors relative to their historical returns, and our view is that there is an opportunity to take advantage of the relative spread. More to follow below or on next page.

YTD 4/30/18 Net of Fees	% Return Strategy	% Return Benchmark	Relative Over (Under) Performance
Ultra Conservative	-0.97%	-2.42%	1.45%
Conservative	-1.02%	-2.23%	1.21%
Moderate	-1.10%	-2.04%	0.94%
Balanced	-1.10%	-1.85%	0.75%
Growth and Income	-1.38%	-1.66%	0.28%
Growth	-1.39%	-1.47%	0.08%
Aggressive	-1.46%	-1.28%	-0.18%
Ultra Aggressive	-2.00%	-1.09%	-0.91%

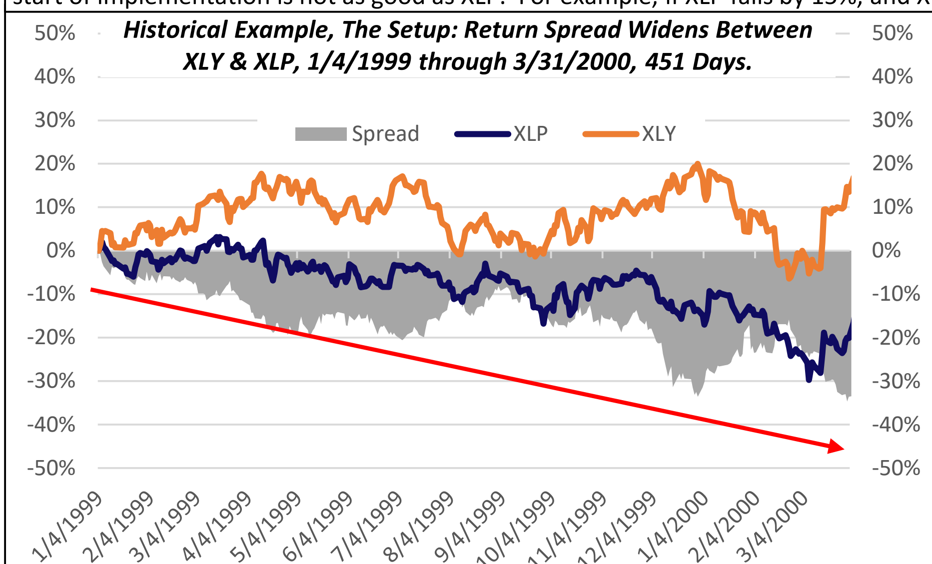
MTD 4/30/18 Net of Fees	% Return Strategy	% Return Benchmark	Relative Over (Under) Performance
Ultra Conservative	-0.47%	-0.75%	0.28%
Conservative	-0.45%	-0.61%	0.16%
Moderate	-0.42%	-0.46%	0.04%
Balanced	-0.43%	-0.32%	-0.11%
Growth and Income	-0.53%	-0.17%	-0.36%
Growth	-0.40%	-0.02%	-0.38%
Aggressive	-0.41%	0.12%	-0.53%
Ultra Aggressive	-0.41%	0.27%	-0.68%

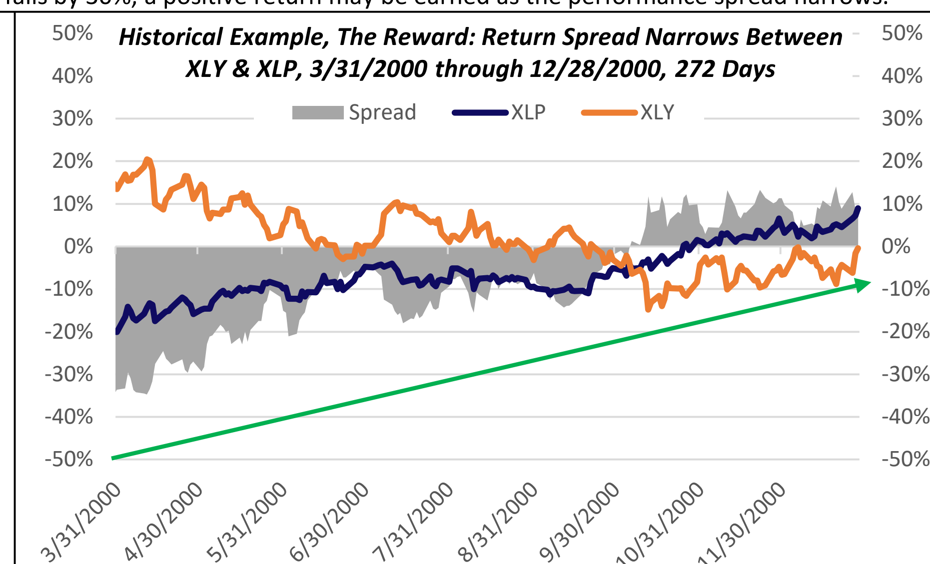
Year to date, six of the eight model portfolios outperformed their benchmarks, while the models and benchmarks are all negative over this period. Month over month, relative model performance to the benchmark was mixed with Balanced to Ultra Aggressive underperforming and Ultra Conservative to Moderate models outperforming. Our unhedged UK stock exposures led the way (although hedged outperformed given the strengthening of the dollar over the pound this month) up 4.32%, while our detractors came in the form of both duration and unhedged dollar fixed income exposures. Our floating rate interest exposures continued to perform well this month. We are exiting the equity buy-write strategy given our view of better opportunities to add to the Consumer Staples sector (the buy-write strategy entailed owning all of the stocks in the S&P 500 and writing, aka "selling," call options that were "at the money" and would repeat this process monthly). We exited our floating rate bank loan exposures (these are below investment grade investments, i.e. junk rated) at the start of the month given the strong return to start the first quarter, but more so because we are finding capacity limitations in the space. Investor fund flows continue to be directed to the floating rate bank loan space as demand for floating rate bond exposures have increased due to rising interest rates. This demand for floating rate bank loans is not pairing well with the current supply of issuances outstanding. In our view, this imbalance between supply and demand is eroding the benefit of a higher/rising coupon rate. The reset rates on the floating rates are rising and if you are holding these bonds directly to maturity they can be attractive, but not so much if you are in a pooled investment vehicle where the investment manager is forced to buy or sell bonds based on investor fund flows and not on fundamentals. As we looked across the landscape of open end fund manager (Mutual Funds, ETFs, etc.) mandates and compared their current and historical overlaps relative to mandated benchmarks, we found that many funds and managers are edging up against their non benchmark holdings allowance to meet the supply/demand imbalance. Instead, we reallocated from the bank loan space into short term Treasuries (just under 1 year to maturity) because the risk/reward dynamic has become far more attractive in our view. See the chart to below or on the next page for a visual explanation.





We have measured a large divergence in total return between the [Consumer Discretionary] and [Consumer Staples] sectors relative to their historical returns. We believe there is an opportunity to earn a return on this relative spread (divergence in relative returns) between the two sectors by accessing exposure to long Consumer Staples stocks of the S&P 500 Index and by shorting the Consumer Discretionary stocks of the S&P 500 Index. Our exposure of choice is to be long the XLP ETF and short the XLY ETF, although the short exposure to XLY ETF will come through purchasing long put options on XLY. If the delta is implemented correctly (meaning, a ratio of shares of XLP to buy and XLY puts to buy) and the performance spread narrows, then the overall price direction for both exposures can be up or down, as long as the relative performance of XLY from the start of implementation is not as good as XLP. For example, if XLP falls by 15%, and XLY falls by 30%, a positive return may be earned as the performance spread narrows.

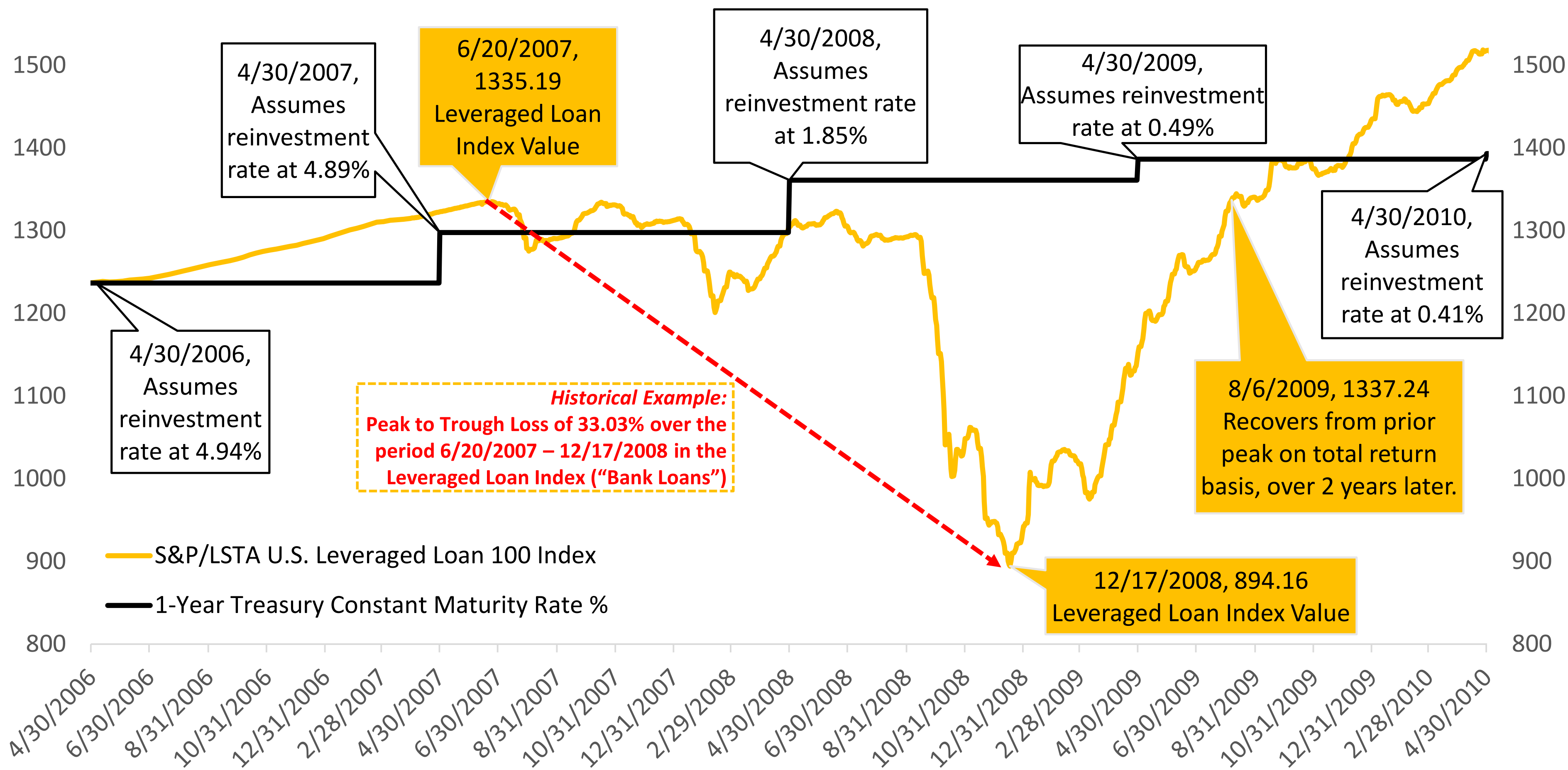




Symbol XLP stands for the [Consumer Staples Select Sector SPDR® Fund], Symbol XLY stands for the [Consumer Discretionary Select Sector SPDR® Fund]. Alternative Capitalis, LLC has not been endorsed and is not affiliated with State Street Global Advisors. State Street Global Advisors does not endorse the use of this information presented herein nor endorse Alternative Capitalis, LLC. [DISCLOSURE] (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. Periods Measured 1/4/1999 – 12/28/2000 and 11/7/2016 – 4/30/2018. Past results are not indicative of future performance. **The results do not represent actual trading and actual results may significantly differ from the theoretical results presented.**

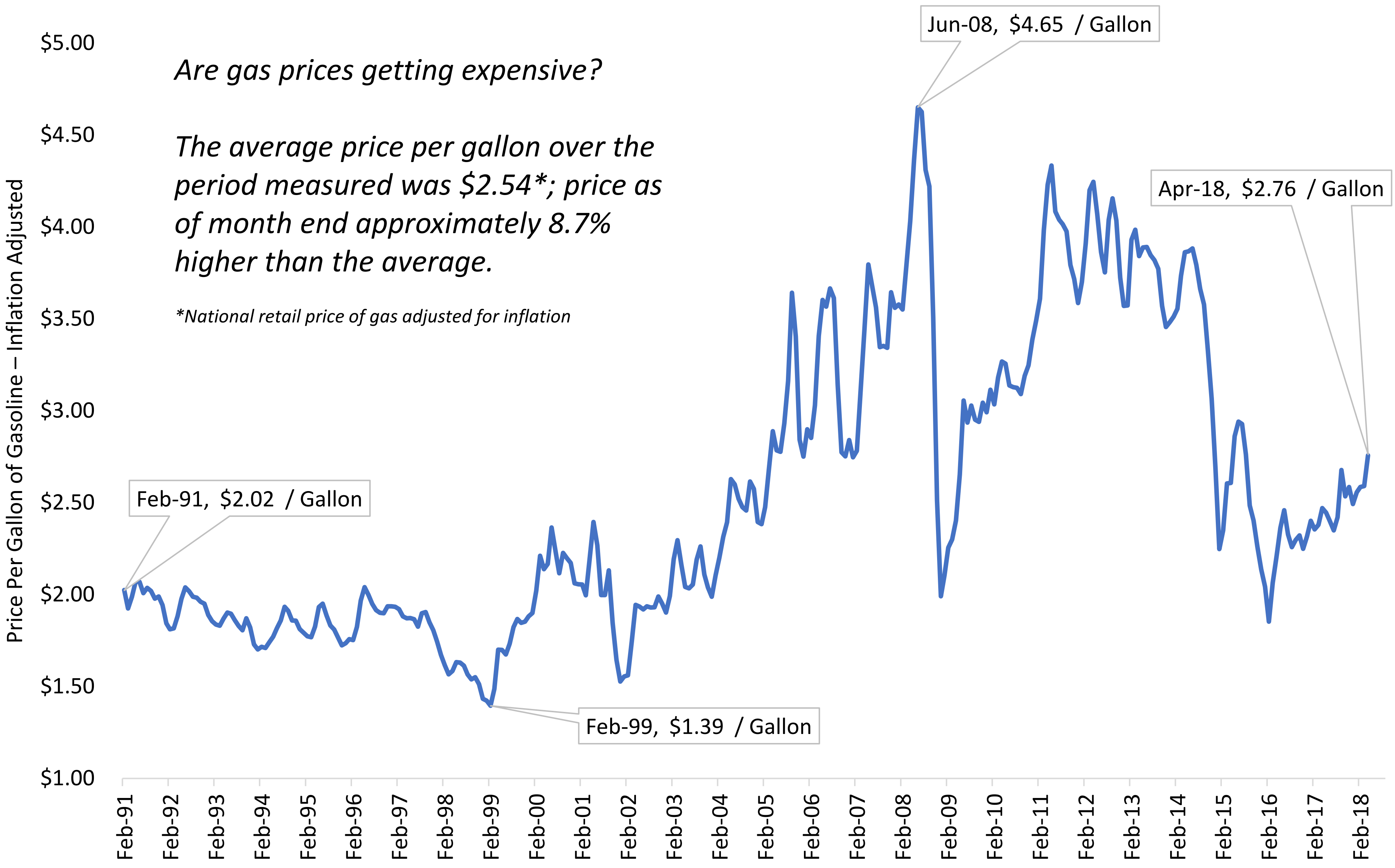
The Leveraged Bank Loan Index suffered a peak to trough loss of 33.03% during the period of 6/20/2007 – 12/17/2008 and recovered on a total return basis from its prior peak by 8/9/2009. Our view, considering higher short term Treasury rates, is that the risk/reward dynamic makes it more favorable to own short term Treasuries (1 year or less to maturity) over Floating Rate Bank Loans. Investors, by nature, will favor floating rate loans in a rising rate environment to avoid interest rate risk (duration risk). As the above chart illustrates, there is still credit risk in bank loans. The last time 1 year Treasury rates were this high was in September of 2008. At the end of March 2018, 1 year Treasury rates were at 2.09%, compared to a 3.54% trailing twelve month yield (not yield to maturity) on BKLN (the PowerShares Senior Loan Portfolio that tracks the S&P/LSTA U.S. Leveraged Loan 100 Index, shown below). This is not a perfect comparison for presenting yields, but this long into a business cycle, we believe the risk/reward between the two asset classes makes a case for giving up some yield generated from Floating Rate Bank Loans and having a known outcome a year later with Treasuries held to maturity. In the chart, the black line represents a hypothetical investment in a one year to maturity Treasury security. The black line assumes that the rate of return of the Treasury is realized by immediately reinvesting a previously matured 1 year Treasury on April 30th for each of the years presented.

Floating Rate Bank Loan Risk: Why Short Term Treasuries May be a Viable Alternative



Period measured over 4/30/2006 to 4/30/2010 for the S&P/LSTA U.S. Leveraged Loan 100 Index (total return), & 1-Year Treasury Constant Maturity Rate %. DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. Views and opinions are of Alternative Capitalis, LLC and are not intended as investment advice. Board of Governors of the Federal Reserve System (US), 1-Year Treasury Constant Maturity Rate [DGS1], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS1. ***The results do not represent actual trading and actual results may significantly differ from the theoretical results presented.***

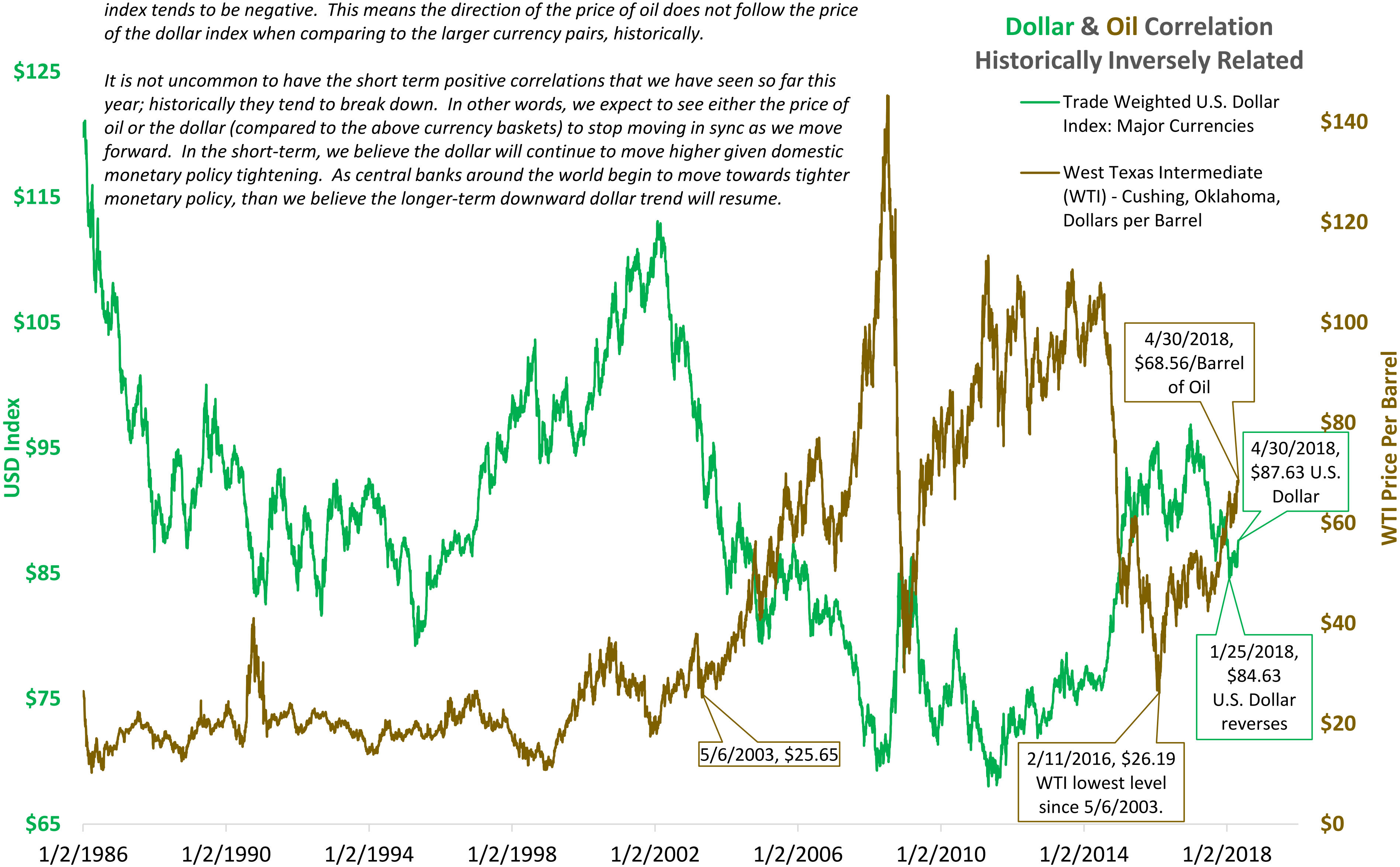
National Retail Gas Prices - Inflation Adjusted



Period measured over 2/28/1991 to 4/30/2018 for the U.S. Regular All Formulations Retail Gasoline Prices Dollars per Gallon, & Consumer Price Index for All Urban Consumers: All Items. DISCLOSURE (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. Views and opinions are of Alternative Capitalis, LLC and are not intended as investment advice. U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL

As domestic interest rates move higher, the dollar has become more attractive to foreign buyers of Treasuries, bidding up the price of the dollar. On a trade weighted basis, the dollar was up (when compared to larger currency pairs) by [3.27%](), or broadly by [3.63%](), over the past three months. The correlation over historical time periods between the price of oil and the dollar index tends to be negative. This means the direction of the price of oil does not follow the price of the dollar index when comparing to the larger currency pairs, historically.

It is not uncommon to have the short term positive correlations that we have seen so far this year; historically they tend to break down. In other words, we expect to see either the price of oil or the dollar (compared to the above currency baskets) to stop moving in sync as we move forward. In the short-term, we believe the dollar will continue to move higher given domestic monetary policy tightening. As central banks around the world begin to move towards tighter monetary policy, than we believe the longer-term downward dollar trend will resume.



Period measured over 1/2/1986 to 4/30/2018 for the [Trade Weighted U.S. Dollar Index]() (1), & [West Texas Intermediate]() (2). [DISCLOSURE]() (Click links for sources. If in print, sources available upon request). Calculations & Definitions available upon request. Views and opinions are of Alternative Capitalis, LLC and are not intended as investment advice.
1. Board of Governors of the Federal Reserve System (US), Trade Weighted U.S. Dollar Index: Major Currencies [DTWEXM], retrieved from FRED, Federal Reserve Bank of St. Louis;
2. U.S. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO], retrieved from FRED, Federal Reserve Bank of St. Louis;

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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 1.25%, the highest fee charged by Alternative Capitalis, LLC. This reflects a change from Alternative Capitalis, LLC highest fee charged to a client(s) account from 1% to 1.25% annually. April 1, 2018 model performance to most recent date presented adjusts for the higher 1.25% annual fee. Model portfolio performance is shown net of the 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 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 benchmarks used are investible ETFs and their performance calculation is inclusive of the highest fee charged to a client(s) account, 1.25% annually. This will reduce the total return of the investable benchmark by the annualized rate of 1.25%. 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 a percentage (%) to SPY and percentage (%) to AGG based on the respective model weights below. Unless otherwise indicated, the benchmarks are not rebalanced to maintain their original weighting over the period measured. Instead, they are comprised of the starting allocation and will shift given the prevailing market environment over the period measured. **Return Comparison:** 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. For each respective model benchmark the performance measurement weightings are as follows to SPY / AGG %: 20/80, 30/70, 40/60, 50/50, 60/40, 70/30, 80/20, 90/10 % respectively for Ultra Conservative, Conservative, Moderate, Balanced, Growth & Income, Growth, Aggressive, Ultra Aggressive. **OPTIONS TRADING RISK DISCLOSURE**: Options Trading – Both the purchase and writing (selling) of options contracts –involves a significant degree of risk not suitable for all investors. Investors should carefully consider the inherent risks and financial obligations associated with options trading as further detailed in the Options Clearing Corporate booklet "Characteristics and Risks of Standardized Options."

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