



WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

U.S. stocks were lower on the week as trade tensions between the U.S. and China continued to mount. Other news from last week included the Fed's decision to increase its federal funds rate by 0.25%, making the new range 2.00% to 2.25%. The Fed also increased its forecast for economic growth this year to 3.1%. If the economy continues to grow, wages keep rising, and inflation stays near the Fed's 2% target, we expect continued quarterly increases to the federal funds rate. In addition, the Fed is steadily reducing its bond purchases to shrink its balance sheet. These actions mean monetary policy will slowly reduce the amount of stimulus for the economy.



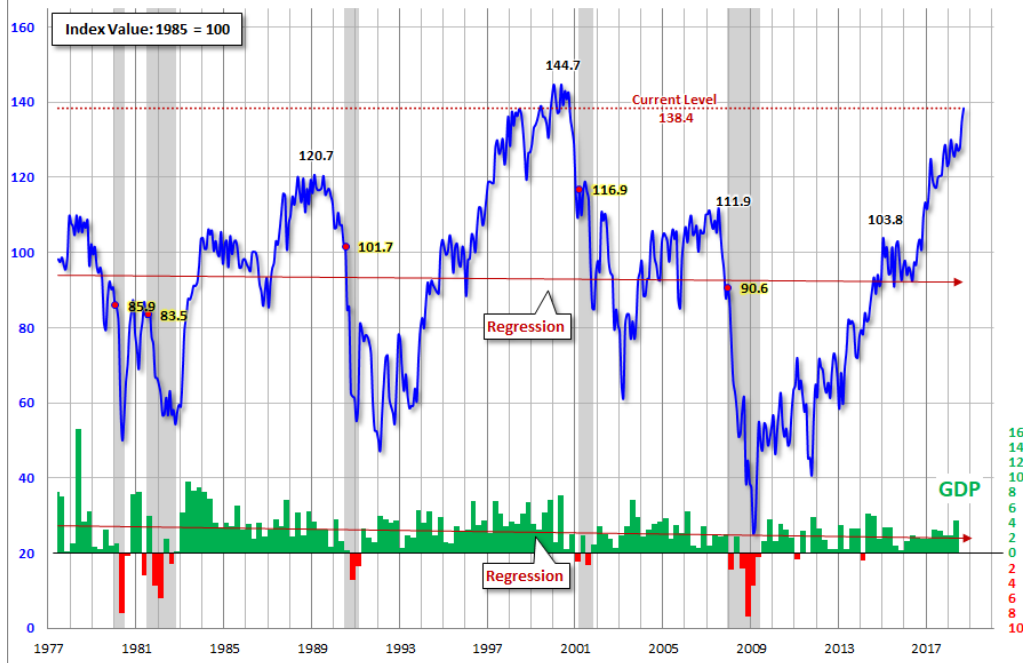
With three-quarters of 2018 in the books, we believe the stock market is in fairly good shape, despite the correction to start the year. Stocks pulled back slightly last week, with much of the market's attention centering on the Fed and the outlook for rate hikes. Key takeaways included the following:

- **The Fed will continue to gradually increase rates** – The Fed hiked interest rates again last week, bringing the federal funds rate to its highest level in 10 years. Relative to hikes in prior years when equity markets reacted sharply and negatively to the Fed tightening, stocks have taken rate hikes much more in stride lately, given the Fed is hiking in response to economic strength. We maintain our view that tight monetary policy is a likely candidate slow-down the extended bull market. However, the equity market's reaction to current policy signals are not yet at a level that is undermining growth.
- **Oil makes a run at the risk list** – Oil prices rose above \$73 per barrel last week, putting them near the highs for the year and just slightly below the highest level since late 2014. This has pushed prices at the pump notably higher. This does contribute to the larger inflation story and market risks as the Fed tends to focus on core consumer prices, which exclude volatile food and energy prices. Rising wages combined with potential upward pricing pressures stemming from tariff impacts and energy costs warrant a close eye on inflation expectations. Inflation has not reached tipping point levels, in fact, it just recently returned to the Fed's target level, but a sustained lift in the consumer price index would begin to limit the Fed's flexibility in taking a gradual approach to rate hikes.
- **A strong quarter has turned 2018 into a strong year** – U.S. stocks posted a 7.2% gain for the third-quarter, the strongest quarter since 2013. Very strong earnings growth and a range of encouraging economic readings (including sub-4% unemployment, multiyear highs in wage growth, and rising consumer confidence) provided the fuel that pushed domestic stocks to outpace global markets in recent months. Moreover, the S&P 500 is now up more than 14% since early February, when stocks fell sharply in reaction to worries that the expansion would come to an end at the hands of rising rates. History suggests that strong third quarters often have a solid encore and over the last 50 years, when the stock market rose by 4% or more in the third quarter, the market rose by an average of 3% in the fourth quarter.

Victoria Capital's Strategy Update

This week the Federal Reserve raised the fed funds rate (the overnight rate that banks lend reserves to one another) indicating that the economy is solid and continuing to grow--accompanied by a very low unemployment rate of 3.9%. According to various analyses of the labor market, there are now more jobs available than people looking for jobs. Kohl's, a well-known retailer plans to hire 90,000 temporary workers for the holiday season. Sales of big rig trucks more than doubled in May, rising to 35,600, or up 110 percent over the same month a year earlier, and the consumer confidence index surged well above expectations. The index now stands at 138.4 (1985=100), up from 134.7 in August as you can see in the chart below.

Conference Board Consumer Confidence Index Recessions Highlighted in Gray, Real GDP Shown Below



As the week came to an end, the debacle over the veracity of Judge Kavanaugh continued to dominate the media while stock markets seemed to be more focused on interest rates than the outcome of the inquiry into the next Supreme Court justice. Last Friday, both the S&P 500 and the Dow Jones Industrial Average hit all-time highs providing further evidence that investors expect continued improvement in the economy.

During the week, several of our equity exchange-traded funds also hit new all-time highs while fixed income funds languished. International funds remained weak although they have experienced a brief relief rally. On balance we expect the third quarter to be favorable for the Target Return portfolios. In the Growth Equity portfolio, we sold a loser and added three new stocks with the potential for outperformance. Once we get into the third quarter earnings' season, we should get a better indication of how the equity markets will fare for the fourth quarter.

Stay Tuned!

Redhawk's Strategy Update

After posting positive results the prior week, the S&P 500 and the Dow got off to a shaky start and ended up slightly negative overall. In contrast, the NASDAQ climbed after declining the previous week. With its 0.4% gain in September, the S&P 500 has now risen for six months in a row. The Dow added nearly 2% in September to record its fourth straight positive month, but the NASDAQ fell slightly, snapping a five-month string of gains.

Healthcare was the top-performing equity sector of the third quarter, posting a 14.5% return, the sector's biggest quarterly gain in more than five years. On a year-to-date basis, healthcare trailed only the information technology and consumer discretionary sectors.

U.S. consumers shrugged off trade and tariff trepidations, as a monthly indicator of consumer confidence climbed to its highest level in 18 years. Across the Atlantic, Brexit concerns sent U.K. consumer confidence further into negative territory.

Redhawk Model Signals

Time Period:				10/1/2018	9/24/2018
Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Health	PSCH	PowerShares S&P SCH Cre ETF		136.89	126.72
Large Growth	QQQ	Powershares QQQ Trust 1		129.21	127.39
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		109.89	108.64
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		107.25	106.00
Bank Loan	RSFYX	RS Floating Rate Y		106.72	105.47
World Large Stock	IOO	iShares Global 100 ETF		105.39	108.51
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		103.61	102.36
High Yield Bond	MSYIX	Morgan Stanley Inst High Yield I		103.54	103.38
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		103.03	103.00
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		102.04	102.01
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		92.71	92.68

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Cash					
Large Blend	VFTSX	Vanguard FTSE Soc Inv		120.09	122.32
Large Growth	BAFWX	Brown Advisory Sustainable Growth I		114.25	112.43
Large Growth	GGEZX	GuideStone Funds Growth Equity Inv		108.21	106.39
Large Value	FWMIX	American Funds Washington Mutual F-3		104.02	109.93
World Large Stock	GGESX	Nationwide Global Equity IS		102.43	94.11

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Options Based	QYLD	Horizons NASDAQ 100 Covered Call ETF		121.04	122.87
High Yield Bond	MSYIX	Morgan Stanley Inst High Yield I		116.11	116.17
High Yield Bond	PHCIX	Virtus Newfleet High Yield Fund Class I		115.03	106.30
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		114.58	114.61
Bank Loan	EIFAX	Eaton Vance FR Av I		114.01	114.04
Bank Loan	RSFYX	RS Floating Rate Y		113.32	113.32
Convertibles	ICVT	iShares Convertible Bond ETF		92.89	92.86
Convertibles	MCNVX	MainStay MacKay Convertible I		90.52	98.49

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		118.90	118.90
Bank Loan	LSFYX	Cohen&Steers Pref S&I I		117.70	117.17
Bank Loan	RSFYX	RS Floating Rate Y		117.35	117.35
High Yield Bond	MSYIX	Morgan Stanley High Yieldd I		116.74	115.96
Muni New York Long	RMUYX	Oppenheimer Rochester Municipals Y		116.26	96.88
High Yield Muni	PHMIX	PIMCO High Yield Muni Bond I		112.88	105.96
Muni National Long	VWAHX	Vanguard High-Yield Tax-Exempt I		112.83	111.39
Muni California Long	FVCAX	Franklin CA High Yield Municipal Adv		111.36	109.80
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		108.23	108.23
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		106.64	106.64
High Yield Muni	HIMYX	Pioneer High Income Muni Y		102.16	100.30
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		100.14	100.14
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		95.45	95.45

Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	Symbol		Action	Redhawk Score	Redhawk Score
Large Blend	IVV	iShares Core S&P 500 ETF		110.40	112.63
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		108.29	110.52
Large Blend	IWB	iShares Russell 1000		107.78	110.01
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		103.54	109.59
Small Blend	IJR	iShares S&P Small Cap Core		103.27	110.75
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		92.96	100.24
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		89.18	89.02
Small Value	IWN	iShares Russell 2000 Value		87.13	95.94

Large Value	VTV	Vanguard Value Idx ETF		84.90	90.81
High Yield Bond	HYG	iShares iBoxx \$HY Corp ETF		84.83	84.67
Foreign Large Blend	SCHF	Schwab International Developed Equity		73.78	78.65
Large Blend	DGRO	iShares Core Div Growth ETF		69.28	71.51
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		45.96	49.77
Small Value	VBR	Vanguard SC Val Idx ETF		44.36	53.17
Small Growth	VBK	Vanguard SC Gr Idx ETF		43.04	49.78
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		37.61	37.09
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		34.64	31.98

Keep	Keep.	
Watch	Watch.	
Replace with another fund.	Replace with another fund.	FUND
Replace with cash.	Replace with cash.	

- **S&P Portfolios:** Kept the World Large Stock sub-category (IOO) on the watch list due to lagging performance. Removed the Health sub-category (PSCH) from the watch list due to improved performance as compared to other sub-categories.
- **Environmental, Social, and Governance Portfolio:** Removed the Large Value sub-category (FWMIX) from the watch list due to improved performance.
- **Growth Stock Portfolio:** No changes.
- **High Income Portfolios:** No changes.
- **Liquid Income Portfolios:** No changes.

Economic Data for this Week

Monday:

1. Institute for Supply Management's manufacturing index.
2. Construction spending, U.S. Census Bureau.

Tuesday:

1. Vehicle sales, U.S. Department of Commerce.

Wednesday:

1. ADP National Employment Report.
2. Institute for Supply Management's nonmanufacturing index.

Thursday:

1. Factory orders, U.S. Census Bureau.

Friday:

1. Jobs and unemployment, U.S. Bureau of Labor Statistics.
2. Trade balance, U.S. Census Bureau.
3. Consumer credit, U.S. Federal Reserve.

We didn't make any change to the models. We are keeping the models 100% invested and will continue to monitor the markets closely.

Portfolio Managers



The Target Return (TR) portfolios consist of a blend of exchange-traded funds

(ETFs) to provide a range of risk and return characteristics that should meet the needs of investors saving for retirement. Each of these portfolios is designed to achieve a long-term target rate of return. By utilizing low cost ETFs and by keeping portfolio turnover low, the ability to produce targeted rates of return is dramatically increased. For investors seeking current income, the TR Income Portfolio (TRIP) has been structured to focus on producing both high current income and growing dividend income. The goal of the Victoria Capital Growth (VCG) portfolio is to provide long-term growth through a diversified portfolio of individual equities. A theme-based investment strategy concentrates investments in common stocks of companies that are expected to grow faster than the overall economy. Owning individual stocks gives greater flexibility to make changes on a stock by stock basis for each client. By applying a bottom-up defensive tactical trading discipline, substantial portfolio reserves can be generated.

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