



WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

U.S. stocks were lower on the week, and volatility returned with plenty of news and economic releases for the market to digest. Investors initially celebrated the agreement of the revised NAFTA deal, now called the U.S.-Mexico-Canada Agreement (USMCA), but enthusiasm quickly faded as the more important trade worries with China appeared to intensify. Yields on the 10-year Treasury note climbed to their highest level in seven years, and bonds sold off on the back of strong economic data. The latest jobs report pointed to continued strength in the U.S. labor market, reinforcing the Fed's path for raising rates. Technology and small-cap stocks led the losses as investors feared that higher rates will slow down the economy. Strong earnings and economic growth justify a rising rate environment, and stocks can still perform well despite the increased volatility.



Last week, the 10-year Treasury yield edged above 3.2% for the first time in seven years and rates on investment-grade corporate and municipal bonds also rose to their highest levels in several years. The uptick in bond yields sparked market concern that the good economic news would lead the Federal Reserve to tighten more aggressively than the markets had anticipated. If inflation remains at or near 2%, the Fed can continue to slowly hike short-term rates without cutting off the solid economic growth that is supporting the current bull market in stocks.

This week ended with the release of the September jobs report, which showed the winning streak in the labor market continued through the third quarter. The economy created 134,000 jobs last month and it's estimated that the economy lost 35,000 jobs due to Hurricane Florence. Accounting for the temporary loss of jobs from the hurricane, the labor market is still well on track to support economic growth at 3% for the year. The report also showed the unemployment rate dropped to 3.7% and average hourly wages increased 2.8%, just short of the post-recession record of 2.9% in August. A sustained pickup in wages indicates a tightening labor market and provides support for the Fed to continue to raise rates slowly.

The current investment climate of low unemployment and low inflation means the Fed can slowly raise rates without reducing economic activity. The upside is that rates are rising for all the right reasons. The concern is that inflation will increase more than currently anticipated and that the Fed will overtighten and slow economic growth. Though this is a risk, inflation is still quite moderate, and a spike in consumer or producer prices are not expected anytime soon. Instead, the solid economic backdrop and robust corporate earnings are very supportive of a continuation in the bull market.

Victoria Capital's Strategy Update

Equity markets hit all-time highs early in the first week of October partially due to the surprise agreement with the U.S. and Canada on trade thus creating a “NAFTA II” among the three major Western Hemisphere partners. The week was characterized by an unending stream of strong economic data such as unemployment falling to 3.7%--the lowest rate since 1969. By the end of the week, however, interest rates were at new highs as bond market participants envisioned additional rate increases by the Federal Reserve. Stock market investors decided to take profits in sectors that have outperformed so far this year—namely technology.

As a reminder: the S&P 500 index rose 7.2% during the last three months-- the best quarterly gain since the fourth of quarter 2013 and some pullback was likely. Given that most active domestic stock managers have underperformed their indexed brethren this year, we will likely see increased volatility for the next three months as these managers try to re-position their portfolios to maximize returns for the year.

The middle of next week marks the beginning of third quarter corporate earnings reports. We expect earnings to come in above expectations that could prompt equity markets to respond favorably. Even though we are at new highs and this is a record bull market in length, don’t underestimate the ability of this secular bull market to keep charging. Bob Farrell, retired Merrill Lynch’s legendary market strategist, quotes Don Guyon: “The market itself determines the relative importance of all factors more accurately than any speculator can hope to interpret them.” Nothing has really changed since then. Investors and traders can buy and sell based on their own interpretation of daily news events, but market action itself determines the most true and accurate interpretation. So... if an investor, or trader, is not in “sync” with the stock market, they are going to suffer losses! Bottom line is that when the stock market speaks (going up), if you want to make money (stay invested), you had better listen.

Looking at short-term market volatility is more important than looking at reward. The few who do look at risk as an opportunity (read the educated, the Street savvy, the WEALTHY) make their money at the expense of the majority who fall for the pitch about getting rich quick. Investing is a get rich SLOWLY process. You must put your money at risk in the stock market—that’s where long term growth happens. Just stay Invested!

No changes were made to either the Growth Equity portfolio or the Target Return portfolios this week.

We look forward to your participation in our Manager Call next Wednesday!!

Redhawk's Strategy Update

Stocks started out the week with strong gains but dropped sharply on Thursday and Friday, with information technology stocks weighing on the broader market. The NASDAQ and the Russell 2000 Index trailed the S&P 500 and the Dow by wide margins. Concerns about inflation and the pace of interest-rate increases weighed on bond prices, as the yield of the 10-year U.S. Treasury bond surged above 3.20%, the highest level in more than 7 years. As recently as September 6, the yield was below 2.90%.

As U.S. equities declined on Thursday and Friday, investors’ expectations of short-term stock market volatility surged, rising a cumulative 30% over two days. The CBOE Volatility Index climbed to its highest level in more than three months, although it was at a modest level relative to its historical average. Prices of crude oil rose to their highest levels in about four years on Monday and Wednesday but ended up little changed overall for the week. Prices tumbled about 3% on Thursday, the sharpest daily decline in two months.

Redhawk Model Signals

Time Period:				10/8/2018	10/1/2018
Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Large Growth	QQQ	Powershares QQQ Trust 1		120.63	129.21
Mid-Cap Growth	QQQ	Powershares QQQ Trust 1		113.61	125.88

Health	PSCX	Powershares S&P 500 Core ETF		112.64	136.89
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		109.97	109.89
World Large Stock	IOO	iShares Global 100 ETF		108.98	105.39
High Yield Bond	MSYIX	Morgan Stanley Inst High Yield I		106.47	103.54
Bank Loan	RSFYX	RS Floating Rate Y		105.88	106.72
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		102.75	103.61
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		102.32	103.03
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		98.58	102.04
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		87.57	92.71
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		81.14	107.25

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Cash					
Large Growth	GGEZX	GuideStone Funds Growth Equity Inv	FTQGX		
Large Growth	FTQGX	Fidelity Focused Stock		122.13	
Large Blend	VFTSX	Vanguard FTSE Soc Inv		116.69	120.09
Large Value	FWMIX	American Funds Washington Mutual F-3		107.98	104.02
World Large Stock	GGESX	Nationwide Global Equity IS		106.93	102.43
Large Growth	BAFWX	Brown Advisory Sustainable Growth I		104.57	114.25

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Options Based	QYLD	Horizons NASDAQ 100 Covered Call ETF		121.04	121.04
High Yield Bond	MSYIX	Morgan Stanley Inst High Yield I		117.52	116.11
Bank Loan	EIFAX	Eaton Vance FR Av I		113.78	114.01
Bank Loan	RSFYX	RS Floating Rate Y		112.18	113.32
Convertibles	ICVT	iShares Convertible Bond ETF		106.52	92.89
High Yield Bond	PHCIX	Virtus Newfleet High Yield Fund Class I		102.61	115.03
Convertibles	MCNVX	MainStay MacKay Convertible I		101.97	90.52
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		88.16	114.58

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		118.67	118.90
High Yield Bond	MSYIX	Morgan Stanley High Yield I		117.37	116.74
Bank Loan	RSFYX	RS Floating Rate Y		116.20	117.35
High Yield Muni	HIMYX	Pioneer High Income Muni Y		115.75	102.16
Muni New York Long	RMUYX	Oppenheimer Rochester Municipals Y		115.64	116.26
Muni National Long	VWAHX	Vanguard High-Yield Tax-Exempt I		111.12	112.83
Muni California Long	FVCAX	Franklin CA High Yield Municipal Adv		111.00	111.36
High Yield Muni	PHMIX	PIMCO High Yield Muni Bond I		108.12	112.88
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		107.49	108.23
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		103.16	106.64
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		98.67	100.14
Bank Loan	LSFYX	Cohen&Steers Pref S&I I		91.28	117.70
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		90.28	95.45

Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	Symbol		Action	Redhawk Score	Redhawk Score
Large Value	VTV	Vanguard Value Idx ETF		113.34	84.90
Large Blend	IVV	iShares Core S&P 500 ETF		111.62	110.40
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		110.75	108.29
Large Blend	IWB	iShares Russell 1000		109.03	107.78
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		105.91	103.54
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		99.96	92.96
Large Blend	DGRO	iShares Core Div Growth ETF		99.89	69.28
High Yield Bond	HYG	iShares iBoxx \$HY Corp ETF		92.84	84.83
Foreign Large Blend	SCHF	Schwab International Developed Equity		92.75	73.78
Small Blend	IJR	iShares S&P Small Cap Core		88.42	103.27
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		88.06	89.18
Small Value	IWN	iShares Russell 2000 Value		83.00	87.13
Small Value	VBR	Vanguard SC Val Idx ETF		71.08	44.36
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		67.18	37.61
Small Growth	VBK	Vanguard SC Gr Idx ETF		34.28	43.04

Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		33.99	34.64
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		26.66	45.96

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. Placed the Health sub-category (PSCH) on the watch list due to improved performance from other sub-categories.

Environmental, Social, and Governance Portfolio: Replaced the Large Growth sub-category (GGEZX), because it scored below a 70, with FTQGZ.

Growth Stock Portfolio: No changes.

High Income Portfolios: No changes.

Liquid Income Portfolios: No changes.

Economic Data for this Week

Monday:

1. No major reports scheduled.

Tuesday:

1. No major reports scheduled.

Wednesday:

1. Producer Price Index, U.S. Bureau of Labor Statistics.
2. Wholesale inventories, U.S. Census Bureau.

Thursday:

1. Consumer Price Index, U.S. Bureau of Labor Statistics.
2. Federal budget, U.S. Department of the Treasury.

Friday:

1. University of Michigan Index of Consumer Sentiment, preliminary result.
2. Export and import prices, U.S. Bureau of Labor Statistics.

We made one minor change to the RESG model and we are keeping all models 100% invested. We will continue to monitor the markets and volatility 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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