



WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

High volatility was the main theme last week with trade uncertainty and worries about a flattening yield curve. Stocks finished lower, but bonds had their best weekly performance since May as investors fled for safety. Last week started on a strong note after the U.S. and China agreed at the G20 summit to ceasefire and not to impose any additional tariffs for 90 days as they negotiate an agreement. The initial optimism later turned sour as investors realized that no substantive agreement was reached, and a quick resolution is far from guaranteed. Adding to the uncertainty was news that a Chinese tech company's CFO was arrested in Canada on allegations of violating U.S. trade sanctions further complicated matters.



The other key issue that concerned investors was the U.S. Treasury curve as the 3-year rates exceeded 5-year rates, raising fears of an inverted yield curve and the belief that it's signaling a downturn ahead. While we are not ignoring the risks, we think that such predictions are premature. A more reliable measure to monitor is 2-year rates compared to 10-year rates. This yield curve is flatter, but it is not inverted. Finally, the action-packed week ended with an OPEC agreement to cut oil production and Novembers' job report which showed slowing job gains, but strong enough to

maintain record low unemployment rate without signs of an overheating economy.

When it comes to the market, there are always two sides to the story. Trade, interest rates, and jobs were all front and center last week, with each issue offering two sides of the story. The outcome was wide market swings, including:

- A Monday rally on hopes of a trade deal.
- An 800-point drop in the Dow on Tuesday on yield curve worries.
- A 689-point swing from the low to the high on Thursday.

Last week, four key issues were in focus:

1. **The yield curve inverted** – A portion of the yield curve inverted last week as 3-year yields rose above 5-year yields, the first time since 2007. When short rates exceed long rates, this can be interpreted as a sign of economic weakness and stocks sold off in response. We think the yield curve is a credible indicator and its warning signals should not be dismissed. When short-term rates rise, that's an indicator that Fed policy is getting tighter and when longer-term rates fall, that can be a signal of expectations for waning future growth. The fact that the 3-year rate is slightly above the 5-year rate is more of a kink than an inversion of the curve. Historically, this narrow segment of the curve has inverted many times without an ensuing recession. A more reliable yield curve measure is the difference between 2-year rates and 10-year rates, as these are more representative of Fed rate moves and long-term growth expectations. This measure has flattened, but it has not inverted.
2. **Tariffs and trade concerns** - Markets rallied on Monday as investors found some comfort in the verbal ceasefire on tariffs between the U.S. and China that came from an agreement at the G20 meeting. That excitement wore off quickly as concerns rose that a more lasting agreement may not emerge quickly. The tariff truce has a 90-day shelf life, so the G20 agreement between President Trump and Chinese President Xi Jinping is more of an agreement to potentially agree in the future. This signals that both sides are seemingly open to negotiation, raising the potential for a longer-term trade deal to be reached between the world's two largest economies. Nevertheless, trade concerns will remain a source of market anxiety into 2019. We believe that an all-out trade war will be avoided, and recent global trade activity suggests the latest tension has not had a

dramatically-negative impact on growth.

3. Job growth continues - The U.S. economy added 155,000 new jobs in November, a bit below the consensus expectation and slower than the 200,000 average over the past six months. Unemployment held steady at a very low 3.7%. The deceleration in monthly hiring may feed into the worries that the economy is weakening.

The unemployment rate is at a 49-year low, which is beginning to yield progress by way of stronger wage growth, up 3.1% over the past year. A healthy labor market means a recession is unlikely in the coming year, but as wage growth firms further, it could lead to inflation, which would require more Fed rate hikes instead of fewer.

4. Stock market pullback - The 800-point decline last Tuesday raised the anxiety level in the markets as it raised the question of whether this pullback is the beginning of the end for the bull market. Volatility has made a dramatic return recently after several years of below-average market fluctuations, with 2018 enduring two separate 10% corrections, the first calendar year to do so during this nearly decade-long expansion. Periods such as this require a dose of perspective. U.S. stocks fell 4.6% last week, but just gave back the prior week's gains, when the S&P 500 rose 4.9%, which was the best week for the market since 2011. While the market endured a 10.2% drop this fall, stocks are:

- Still higher than the late-October lows.
- Less than 10% below the all-time high.
- Up 25% over the past two years and 63% over the past five years.

The path ahead for the market is not up to chance and we expect the still-positive fundamental backdrop to provide support against worrisome headlines. We don't think this is a signal to a prolonged, severe downturn, but we haven't seen the last of these market swings.

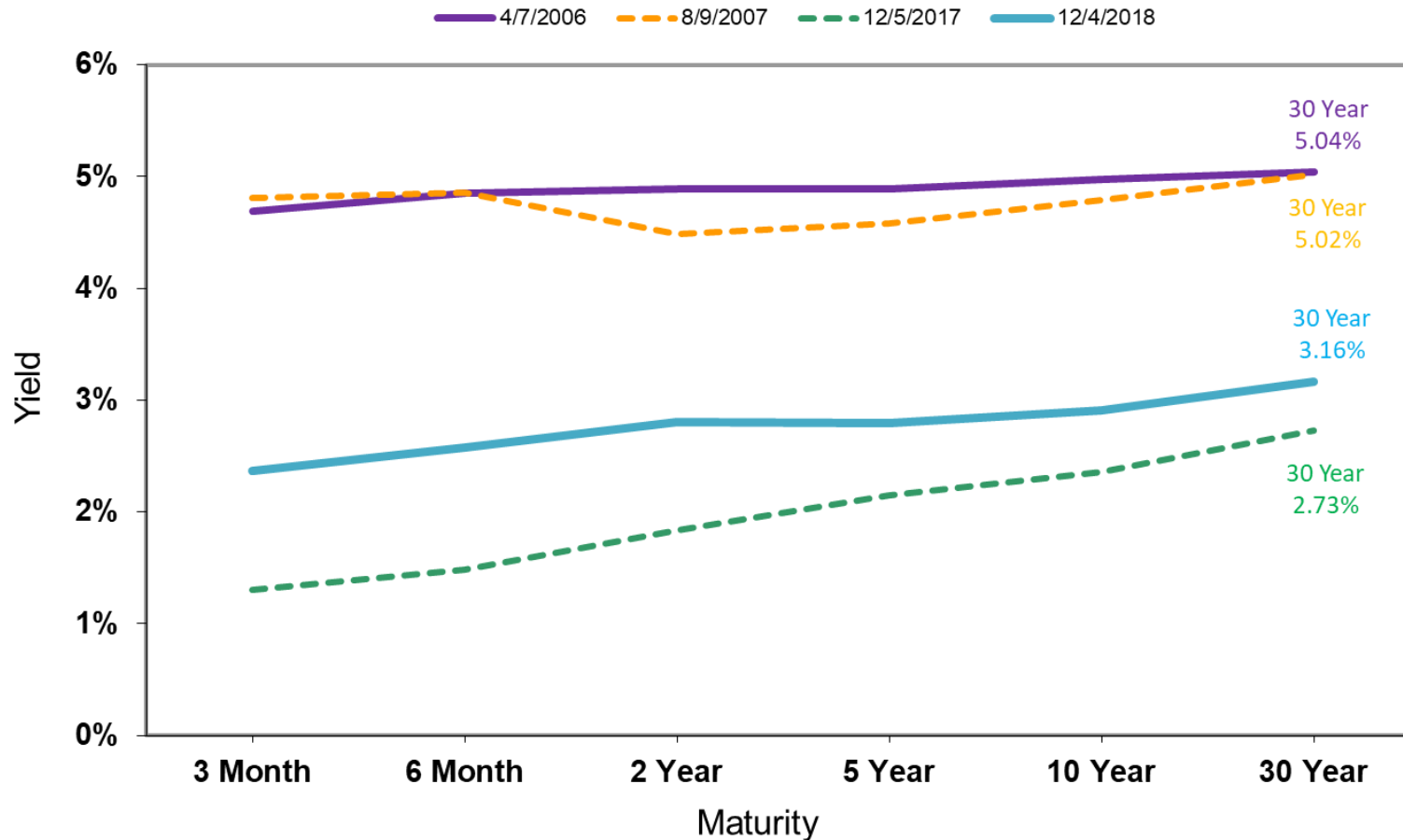
Victoria Capital's Strategy Update

Equity markets continued in turmoil this week as investors considered the implications of the 10% U.S. tariffs that are being imposed on Chinese imports and the uncertainty surrounding when and if a second 15% tariff will be imposed

next year. Even though oil prices rallied nearly 10% for the week, bad news on housing starts and auto sales encouraged investors to think that a recession was coming sooner than later. This concern was reinforced by news from the bond market that there was a short-term yield curve inversion that usually signals a coming economic downturn.

A yield curve is simply a plot of the yields on various U.S. government securities of different maturities. Historically, when the short maturity yields i.e., 3-month to 1 year rose above the yields on 10- or 30-year maturities it was considered an inverted yield curve. The implication is a signal that the Fed is raising rates to slow the economy. Given the current low level of interest rates, we don't see a yield curve as giving a meaningful indication that Fed policy is driving us toward a recession.

Historical U.S. Treasury Yield Curves



Board of Governors of the Federal Reserve System

The exhibit above presents yield curves at various points in time. The current yield curve is above the near record lows of 2017 but still well below the actual yield curve inversion of August 2007. There would have to be a major upward move in interest rates to threaten a Fed policy that would precipitate a recession. The current thought is "Two more rate hikes and the Fed is done." More importantly, good news on the global trade front could alter the bond market's expectations rather dramatically, resulting in a steeper yield curve and ultimately a stronger economy.

During the past week, we sold securities that violated sell disciplines in the Growth Equity portfolio and are awaiting an opportunity to invest in new equities that meet our investment criteria. We have made no changes in the Target Return

Redhawk's Strategy Update

Stocks have been unable to maintain consistent direction for more than a few days at a time since the S&P 500 hit a record high on September 20. Since then, the market has recorded three steep declines followed by three partial or full recoveries. Overall, the index is down about 10% from its record and nearly 2% below its year-end 2017 level.

The sell-off has been deeper in many overseas equity markets than in the United States. Germany's main benchmark fell into a bear market on Thursday when it dropped 20% below its level of late January. Other markets that have recently entered bear territory include China, Italy, and South Korea.

The 155,000 new jobs that the U.S. economy generated last month fell short of most economists' expectations, but Friday's labor market report was solid in other respects. The unemployment rate remained near a 50-year low of 3.7% while wages climbed at an annual rate of 3.1%. The British House of Commons is scheduled to vote Tuesday on whether to accept the Brexit agreement that Prime Minister Theresa May recently negotiated with the European Union. The outcome is expected to have significant implications for British politics, the global economy, and world financial markets.

Redhawk Model Signals

Time Period:				12/10/2018	12/3/2018
Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Utilities	PSCU	Invesco S&P SmallCap Utilities ETF		126.07	118.25
Global Real Estate	JERIX	Janus Henderson Global Real Estate I		101.20	107.90
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		100.66	100.75
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		96.78	96.87
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		96.40	96.32
Bank Loan	RSFYX	RS Floating Rate Y		92.31	92.23
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		89.11	89.03
Bank Loan	LFRIX	Lord Abbett Floating Rate I		86.04	85.96
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		85.74	85.83
Large Value	DGRO	iShares Core Dividend Growth ETF		83.34	105.34

Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		67.57	67.49
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Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Large Growth	FTQGX	Fidelity Focused Stock	AMGIX		
Large Growth	BAFWX	Brown Advisory Sustainable Growth I	PKAIX		
Large Value	AMGIX	American Century Income and Growth I		122.96	
Large Value	PKAIX	PIMCO RAE US Instl		116.10	
Global Real Estate	CSSPX	Cohen & Steers Global Realty I		101.20	107.90
Intermediate Term Bond	CGBIX	Calvert Imp Green Bond I		96.39	90.41
Large Blend	VFTSX	Vanguard FTSE Soc Inv		77.91	99.24
Large Blend	ESG	FlexShares STOXX US ESG Impact ETF		58.88	80.21

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	RSFYX	RS Floating Rate Y		114.39	114.33
Bank Loan	EIFAX	Eaton Vance FR Av I		114.17	114.14
Bank Loan	HFHYX	Hartford Floating Rate High Inc Y		110.51	110.48
Real Estate (REITs)	USRT	iShares Core US REIT ETF		107.18	107.42
Ultrashort-term Bond	FLRN	SPDR Blmbg Barclays Inv Grd Flt Rt ETF		105.75	105.48
Ultrashort-term Bond	FLTR	VanEck Vectors Investment Grd Fl Rt ETF		105.67	105.67
Bank Loan	LFRIX	Lord Abbett Floating Rate I		105.13	105.07
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		87.08	88.30

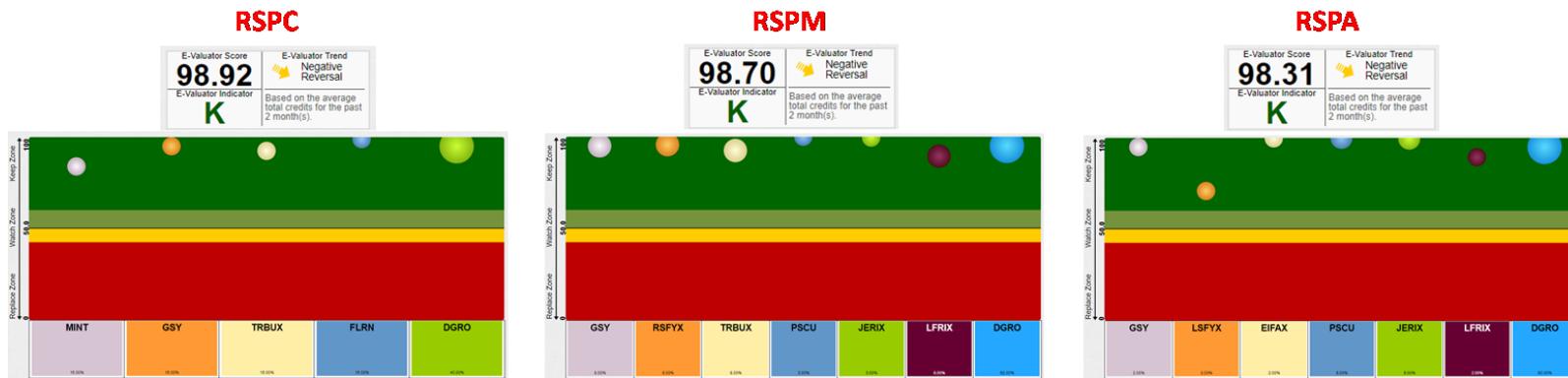
Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		118.85	118.85
Bank Loan	RSFYX	RS Floating Rate Y		116.86	116.86
High Yield Muni	HIMYX	Pioneer High Income Muni Y		114.26	114.26
Bank Loan	LFRIX	Lord Abbett Floating Rate I		109.93	109.93
Muni Single State Short	LTBYX	Oppenheimer Rochester® LtdTerm NY MunisY		109.12	109.12
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		107.97	107.97
High Yield Muni	PHMIX	PIMCO High Yield Muni Bond I		106.42	106.42
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		103.01	103.01
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		99.38	99.38
Muni National Short	PSDIX	PIMCO Short-Duration Muni Income Inst		96.87	96.87
Bank Loan	LSFYX	Cohen&Steers Pref S&I I		91.22	91.22
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		90.59	90.59
Muni National Short	MEAR	iShares Short Maturity Municipal Bd ETF		88.69	88.69

Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	Symbol		Action	Redhawk Score	Redhawk Score
Large Value	DGRO	iShares Core Div Growth ETF		83.34	105.34
Large Value	VTV	Vanguard Value Idx ETF		81.52	103.52
Diversified Emerging Markets	SPEM	SPDR Portfolio Emerging Markets ETF		78.88	89.29
High Yield Bond	HYG	iShares iBoxx \$HY Corp ETF		76.62	75.70
Large Blend	IVV	iShares Core S&P 500 ETF		72.84	94.17
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		71.97	93.30
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		71.73	99.41
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		71.72	70.80
Large Blend	IWB	iShares Russell 1000		70.25	91.58
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		69.05	96.89
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		67.62	66.90
Foreign Large Blend	SCHF	Schwab International Developed Equity		65.68	81.05
Small Blend	IJR	iShares S&P Small Cap Core		49.16	84.43
Small Value	IWN	iShares Russell 2000 Value		45.24	79.45
Small Blend	VB	Vanguard Small-Cap ETF		39.75	75.02
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		34.43	28.19
Large Value	VYM	Vanguard High Dividend Yield ETF		34.35	56.35
Small Value	VBR	Vanguard SC Val Idx ETF		33.59	67.80
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		-18.39	11.64
Small Growth	VBK	Vanguard SC Gr Idx ETF		-24.62	11.37

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

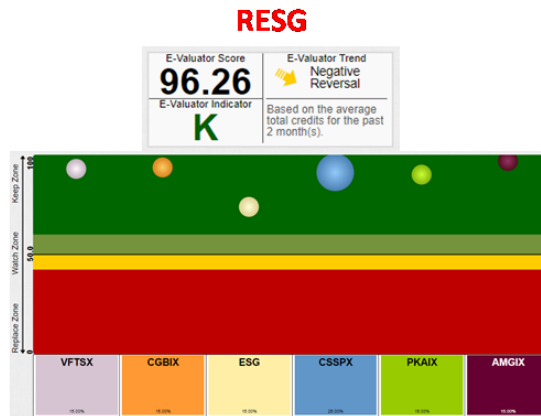
S&P Portfolios: No changes.

S&P Portfolio Bubble Reports as of 10/31/2018



Environmental, Social, and Governance Portfolio: Replaced the Large Growth sub-category (BAFWX) with the Large Value sub-category (PKAIX). Replaced the Large Growth sub-category (FTQGX) with the Large Value sub-category (AMGIX).

Portfolio Bubble Reports as of 10/31/2018



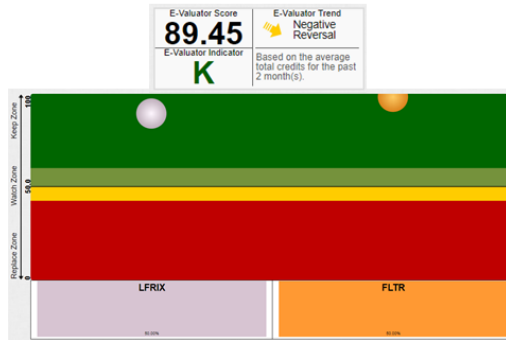
Growth Stock Portfolio: No changes.

High Dividend Stock Portfolio: Replaced Energy Transfer Partners LP (ETP) with MGM Growth Properties, LLC (MGP) due to lagging performance.

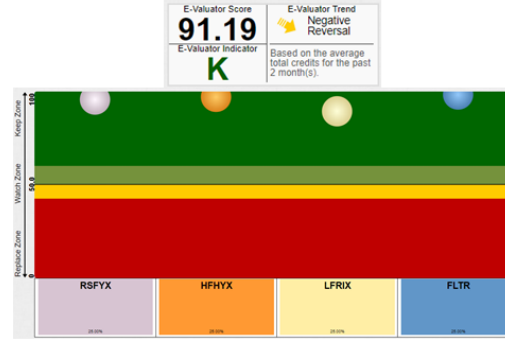
High Income Portfolios: No changes.

High Income Portfolio Bubble Reports as of 10/31/2018

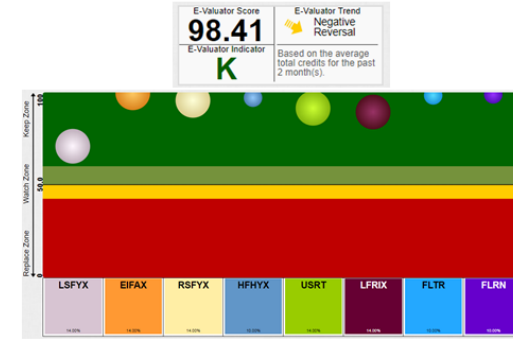
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RHY



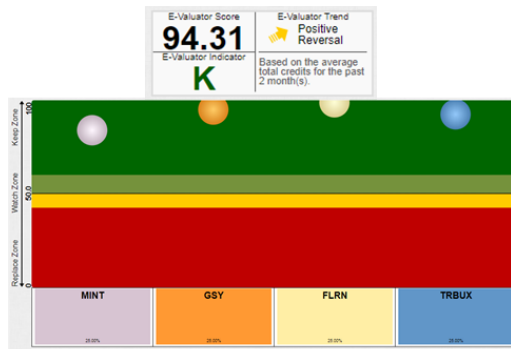
RTHI



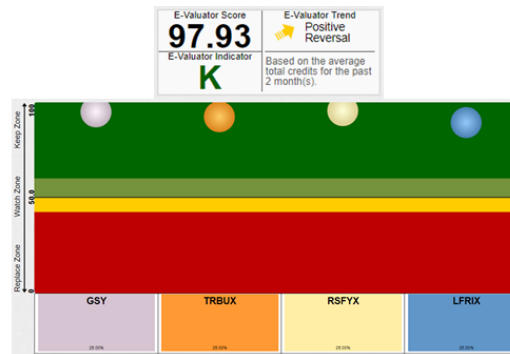
Liquid Income Portfolios: No changes.

Liquid Income Portfolio Bubble Reports as of 10/31/2018

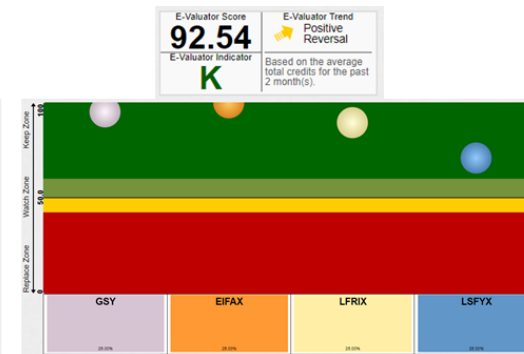
LINCC



LINCM



LINCA



LINCB



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Economic Data for this Week

Monday:

1. Job Openings and Labor Turnover Survey, U.S. Bureau of Labor Statistics.

Tuesday:

1. Producer Price Index, U.S. Bureau of Labor Statistics.

Wednesday:

1. Consumer Price Index, U.S. Bureau of Labor Statistics.
2. Federal budget, U.S. Department of the Treasury.
3. ADP National Employment Report, ADP.

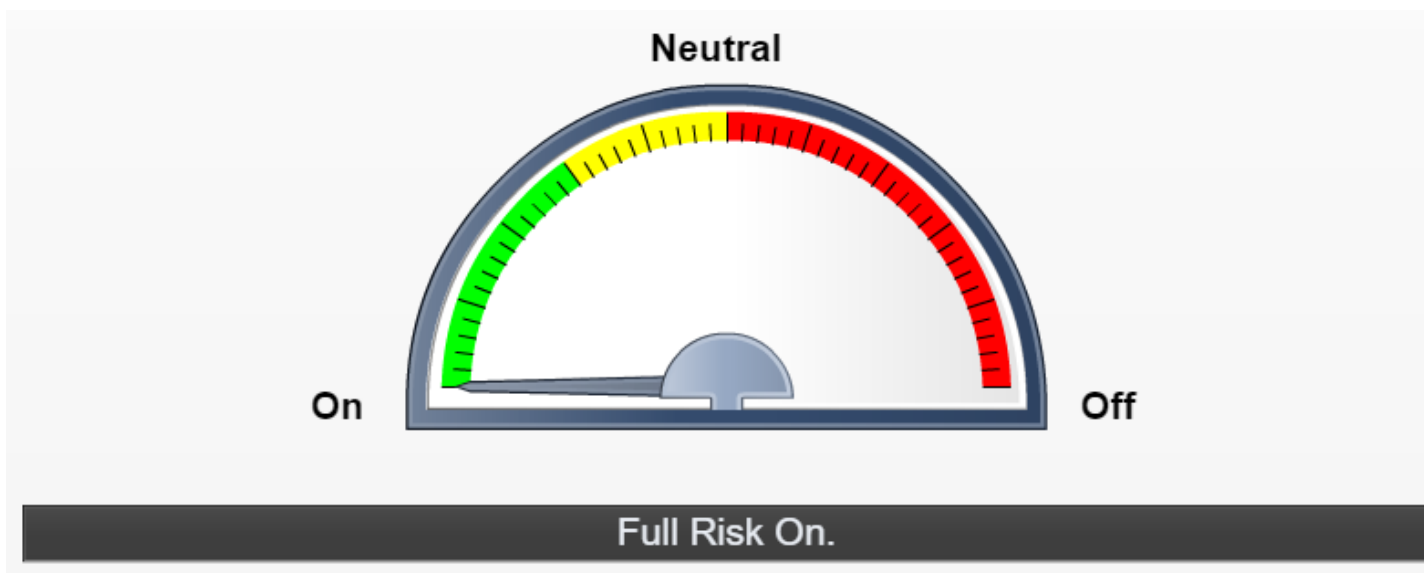
Thursday:

1. Export and import prices, U.S. Bureau of Labor Statistics.

Friday:

1. Retail sales, U.S. Census Bureau.
2. Business inventories, U.S. Census Bureau.
3. Industrial production and capacity utilization, U.S. Federal Reserve.

Our signals remain with the “risk on” reading and we will continue to monitor the markets closely as we anticipate sustained volatility.



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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