FREEDOM WEALTH ALLIANCE

Increased Market Volatility May Be Due to Slowing Growth

SUMMARY

- Recent weakness in the U.S. equity market may be a result of investors lowering growth expectations going forward.
- Investors should reconfirm their risk tolerance in a changing economic enviornment.
- Due to the recent decline, equity valuations have improved, providing potential buying opportunities for longer-term investors.

Recently, the U.S. equity market has experienced an accelerated selloff, resulting in the S&P 500 Index falling roughly 10%[1] from its September highs. In our previous quarterly investment commentaries, we have highlighted the potential for the equity markets to start pricing in slower economic and corporate earnings growth. We also highlighted our concerns around stretched valuations, global trade, rising interest rates and the upcoming November midterm elections. The markets may now be pricing in these very concerns resulting in lower equity prices.

Over the last two years, the U.S. economy has benefited from strong consumer and business sentiment coupled with economic stimulus from the tax cuts that went into effect earlier this year. This may have helped push U.S. GDP growth to over 4%[2], and corporate earnings growth to over 20%[3] in Q2. We do not believe recent growth numbers are sustainable and therefore the market would eventually start pricing in lower growth going forward. The recent market selloff may be confirming that view.

It does not appear that the U.S. is entering a recession or that earnings growth is expected to be negative in the near term. Price volatility is normal, particularly in the later stages of an economic cycle, which we believe we are currently in. Investors should set their expectations that heightened volatility may continue. We caution investors not to allow their short-term emotions to also become volatile, often resulting in investment mistakes that may detract from reaching long-term objectives.

The Freedom Wealth Alliance (FWA) Investment Committee believes that due to the recent market pullback, increased value appears to be returning to the markets. These dislocations across asset classes may prove to be a good time for rebalancing. While volatility could persist, we continue to take advantage of these opportunities in our FWA-managed portfolios as they become available.

We believe now is a good time to re-evaluate one’s risk tolerance and investment style preference. Investors often ignore this simple risk tolerance exercise until times of extreme volatility cause them to question their investment strategy. Heightened emotions and fear can make this the worst time to make the necessary adjustments. It is important not to allow emotions to drive investment decisions. Professional guidance from a trusted advisor can be invaluable in times of uncertainty. FWA financial advisors have the tools experience and to help clients understand and define their risk tolerance, along with selecting an investment strategy that best fits their long-term objectives.

FWA INVESTMENT COMMITTEE

Eric Kulwicki, CFA
Senior Portfolio Manager
As the Senior Portfolio Manager, Eric leads the Freedom Wealth Alliance Investment Committee to determine investment strategy, drive research and construct multi-asset portfolios with a focus on managing risk for clients.

Kurt Rozman
President
Kurt is the President of Freedom Wealth Alliance, a full service and fast growing financial services firm founded in the Midwest. Kurt has spent over 25 years of his professional career managing a variety of tactical investment strategies for clients.

Shawn Hittman
Financial Advisor
Shawn has been conducting in-depth analysis of the financial markets and building model portfolios for nearly 20 years. Shawn advises on macroeconomic trends and assesses where potential values and risks exist in the markets.

SOURCES

1. S&P Dow Jones Indices, LLC. S&P 500 Index Total Return data. Retrieved from https://us.spindices.com/indices/equity/sp-500.
2. U.S. Bureau of Economic Analysis. Gross Domestic Product: Second Quarter 2018 (Second Estimate); August 29, 2018.
3. "Earnings Insight". FactSet. September 21, 2018.

DEFINITIONS

S&P 500® Index: The S&P 500® Index is a market cap-weighted stock market index of 500 companies across a number of industries. The index is often used as a broad representation of the common stocks of the largest publicly-traded companies in the United States.

Risk Assets: Risk assets generally refer to assets that carry a perceived high degree of risk and price volatility. Risk assets can include stocks, lower quality bonds, highly interest rate-sensitive bonds, commodities, currencies and certain alternative strategies.

Conservative Assets: Conservative assets generally refer to assets that carry a perceived low degree of risk and price volatility. Conservative assets can include cash securities and higher quality, less interest rate-sensitive bonds.

Tactical Investing: Tactical or active investing is an investment strategy where investment decisions are driven by opinions based on gathered information. There are a number of different tactical investment styles, including, but not limited to, valuation-sensitive and momentum-driven styles. Tactical investing styles may also differ based on investment time horizons from days, weeks, months or years.

Passive Investing: Passive investing is an investment strategy that generally refers to buy and hold investing. This investment style does not attempt to make changes to portfolio allocations or investments based on opinions and information gathering.

Fundamental Analysis: Fundamental analysis refers to making investment decisions based on gathered information, including, but not limited to, economic, sector, industry, company and security research in an attempt to forecast future investment performance.

Technical Analysis: Technical analysis generally refers to analyzing an investment's price performance over a specified time period in an attempt to predict future potential performance of that investment. Technical analysis is often utilized in momentum-driven investment styles and may not incorporate fundamental analysis when making investment decisions.

Drawdown: A market drawdown refers to the investment performance from peak-to-trough over a specified time period.

Duration: Duration is a measure of the sensitivity of a bond's price to a change in interest rates. Generally, the higher the duration of a bond or portfolio, the higher the sensitivity of that bond or portfolio to changes in interest rates.

Credit Risk: Credit risk refers to the risk of default on debt, where the borrower fails to pay and the lender may lose a portion or all of the principal lent to the borrower. Generally, the higher the credit risk, the higher the yield and volatility of the security relative to other securities that are believed to have lower credit risk.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security.

Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

The term "portfolios" used in this piece is in reference to the Freedom Wealth Alliance model portfolios. Any reference to performance is based on estimated, unaudited, gross of fee performance of the model portfolios. Client accounts assigned a Freedom Wealth Alliance model portfolio may have positioning and performance that differs from the firm's model portfolios at any given time.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond and bond mutual fund values and yields will decline as interest rates rise and bonds are subject to availability and change in price. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

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Asset management does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

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This research material has been prepared by Freedom Wealth Alliance.