MACRO MUSINGS
October 24, 2018

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THIRD QUARTER 2018 REVIEW

SUMMARY

- Despite the recent bout of market volatility, MACROCAST™ continues to indicate a low probability of a recessionary bear market.
- The recent market decline is neither large nor unusual, even for a strong bull market. Historically, the market averages more than three declines of 5% or more each year. We believe, that despite the recent volatility, the market is poised to advance higher in the coming months.
- Our review of asset class performance shows strength in technology stocks, growth over value, and continued weakness in bonds.

THE MESSAGE FROM MACROCAST™

As a reminder, MACROCAST^{TM} is Corbett Road's proprietary investment model. MACROCAST^{TM} measures the attractiveness of risk assets by looking at the **VITALS** of the market**—V**aluation, **I**nflation, **T**echnical Analysis, **A**ggregate Economy, **L**iquidity, and **S**entiment. By looking at multiple factors, we can better gauge market conditions and the probability of a major market decline.

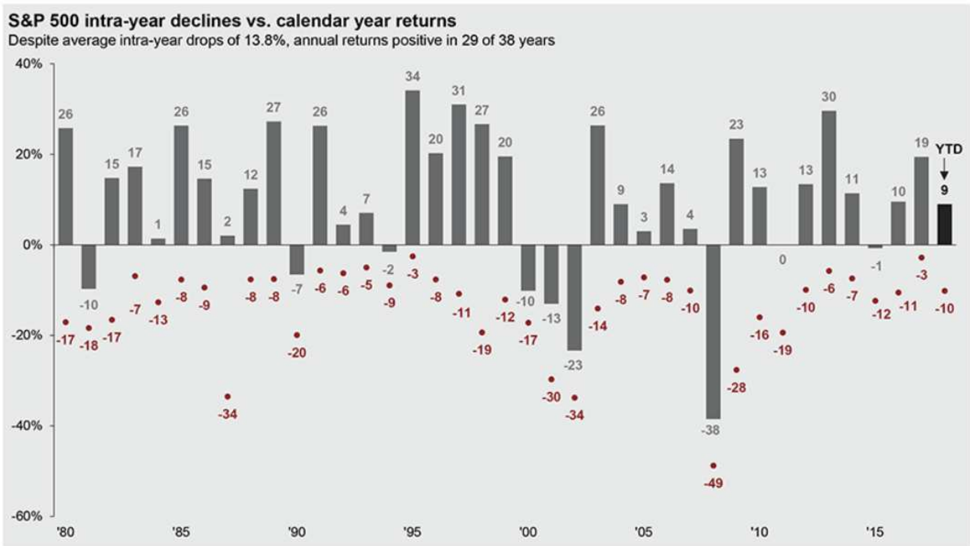
The strongest readings in MACROCAST^{TM} continue to be in the **Aggregate Economy** category, which focuses on leading indicators of economic activity. Most of the indicators we track in this group remain strong and suggest economic growth will continue.

The **Sentiment** category was postive as well. Sentiment declined in some areas thanks to the recent market sell off, and stocks tend to perform better when sentiment is weaker.

Technicals are the most mixed category, as the volatility in October caused the market to trade just below its 200 day moving average (200 dma). The market is considered in an uptrend if it trades above the 200 dma and in a downtrend if it is below. Keep in mind that the 200 dma has not been a good sell signal recently. Trend followers have been "whipsawed" the past several years, selling out of the market after a decline, and buying back at higher prices after prices rose back above the trendline.

DESPITE THE RECENT VOLATILITY, WE EXPECT HIGHER PRICES GOING FORWARD

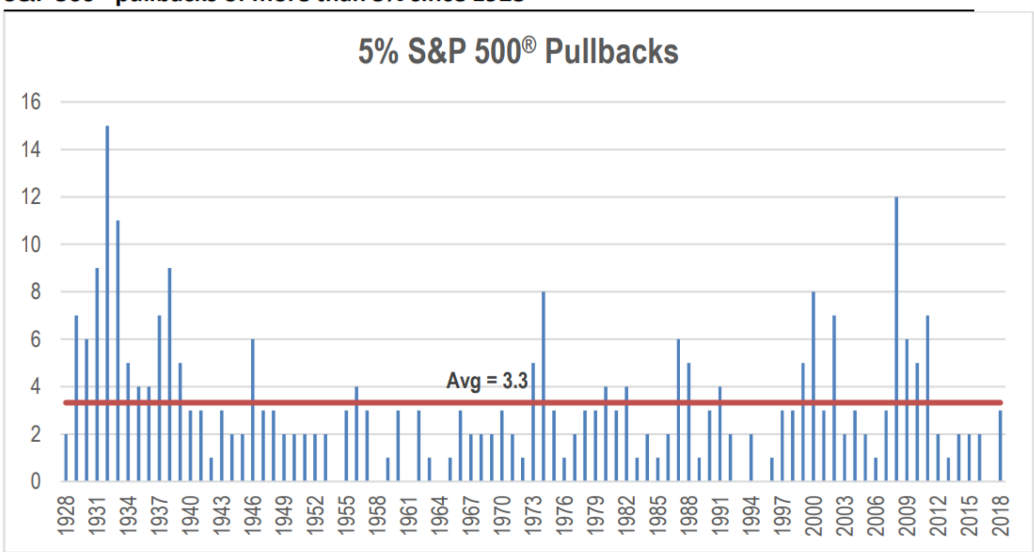
We view the most recent decline as a healthy pullback hat occurs almost every year, even during bull markets. The following chart from JP Morgan illustrates this:



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough

The 10% decline for 2018 occurred from January to February. The peak-to-trough decline in October is around 7%. It is also important to note that it is not uncommon for the market to experience multiple declines of 5% or more during the year (as reflected in the following chart).

S&P 500® pullbacks of more than 5% since 1928



Source: Richard Bernstein Advisors LLC, Bloomberg

While it is difficult to predict what will happen over the next few weeks, we believe the market will resolve higher in the coming months as a result of strong momentum going into October, with the following two studies as the most encouraging:

The market was up 6 months in a row. Before October, the market generated positive returns for six consecutive months. This has occurred 21 times in the past—most recently in the 6 months ending in September 2017. A year later, the market was higher 85% of the time (data from Schaffer's Investment Research):

S&P 500 After 6-Month Winning Streak

	1-Month Return	3-Month Return	6-Month Return	12-Month Return
No. of Returns	21	21	21	21
Average Return	0.53%	3.10%	6.11%	12.47%
Median Return	1.87%	3.32%	6.69%	10.55%
Percent Positive	66.7%	81.0%	81.0%	85.7%
Std. Deviation	3.15%	5.96%	6.58%	11.24%

S&P 500 Anytime Since 1950

	1-Month Return	3-Month Return	6-Month Return	12-Month Return
No. of Returns	824	822	819	813
Average Return	0.71%	2.15%	4.35%	8.88%
Median Return	0.92%	2.50%	4.82%	10.25%
Percent Positive	60.3%	65.7%	69.7%	73.6%
Std. Deviation	4.10%	7.19%	10.69%	15.78%

A new multiyear high in the market after going at least 6 months without one. At the end of August, the market hit a new all-time high after going at least 6 months since the previous record. According to Nautilus Research, this has occurred 24 times since 1926. In all 24 instances, the market was higher a year later by an average of 14%.

ASSET CLASS REVIEW THROUGH Q3: US STOCKS LEAD AGAIN

As we mentioned in the previous section, the market has been very volatile since the end of the third quarter. So, while the numbers in the table below have shifted mostly lower, the key takeaways from asset class performance remain the same.

Asset Class Performance YTD 2018, Q3, and September - Total Return (%)

US Related

ETF	Description	September	Q3	YTD 2018
SPY	S&P 500	0.59	7.65	10.37
DIA	Dow 30	1.96	9.52	8.52
QQQ	Nasdaq 100	-0.28	8.43	19.95
IJH	S&P Midcap 400	-1.08	3.78	7.37
IJR	S&P Smallcap 600	-3.08	4.87	14.64
IWB	Russell 1000	0.38	7.37	10.28
IWM	Russell 2000	-2.32	3.57	11.51
IWV	Russell 3000	0.17	7.06	10.30
IVW	S&P 500 Growth	0.79	9.25	16.97
IJK	Midcap 400 Growth	-1.24	3.93	8.71
IJT	Smallcap 600 Growth	-3.36	6.92	19.17
IVE	S&P 500 Value	0.41	5.80	3.26
IJJ	Midcap 400 Value	-0.95	3.67	5.85
IJS	Smallcap 600 Value	-3.05	2.61	9.83
DVY	DJ Dividend	-0.38	2.95	3.79
RSP	S&P 500 Equalweight	0.17	5.30	7.06
FXB	British Pound	0.56	-1.30	-3.64
FXE	Euro	-0.04	-0.80	-3.85
FXY	Yen	-2.25	-2.68	-1.16
XLY	Cons Disc	0.53	7.57	19.80
XLP	Cons Stap	0.99	5.40	-3.26
XLE	Energy	2.44	0.42	7.01
XLF	Financials	-2.22	4.18	0.05
XLV	Health Care	2.95	14.45	16.36
XLI	Industrials	2.17	9.98	4.94
XLB	Materials	-1.79	0.23	-3.02
XLK	Technology	-0.02	8.80	18.99
IYZ	Telecom	0.77	8.48	3.19
XLU	Utilities	-0.65	2.23	2.52

Global

ETF	Description	September	Q3	YTD 2018
EWA	Australia	-1.65	-2.17	-2.66
EWZ	Brazil	3.94	5.24	-15.26
EWC	Canada	-0.07	0.95	-2.13
ASHR	China	2.47	-4.45	-18.30
EWQ	France	1.19	2.85	2.64
EWG	Germany	-1.62	-0.80	-7.76
EWH	Hong Kong	-0.95	-1.20	-4.41
PIN	India	-9.00	-2.60	-9.28
EWI	Italy	2.07	-4.26	-6.59
EWJ	Japan	3.45	4.01	1.29
EWW	Mexico	1.77	8.68	5.28
EWP	Spain	-0.37	-2.44	-8.26
RSX	Russia	7.64	1.51	1.65
EWU	UK	1.64	-1.90	-2.48
EFA	EAFE	0.97	1.52	-1.36
EEM	Emerging Mkts	-0.58	-0.95	-8.31
IOO	Global 100	0.43	6.46	6.89
EEB	BRIC	0.08	-1.88	-5.20
DBC	Commodities	3.39	1.64	8.19
USO	Oil	5.51	3.05	29.23
UNG	Nat. Gas	3.67	4.77	6.48
GLD	Gold	-0.66	-4.96	-8.81
SLV	Silver	0.59	-9.37	-14.13
SHY	1-3 Yr Treasuries	-0.14	0.14	0.16
IEF	7-10 Yr Treasuries	-1.20	-0.73	-2.76
TLT	20+ Yr Treasuries	-2.86	-3.00	-5.92
AGG	Aggregate Bond	-0.62	-0.08	-1.73
BND	Total Bond Market	-0.55	0.08	-1.73
TIP	T.I.P.S.	-0.97	-0.86	-0.91

Source: bespokepremium.com

Here are the most interesting findings on Asset Class performance through the first nine months of 2018:

1. ***USA back on top.*** After underperforming international stocks in 2017, the S&P 500 is handily outperforming both developed international and emerging markets.
2. ***Tech & Growth Stocks are the best performing sector and style.*** Technology stocks are among the best performers year to date. Growth stocks, which are categorized by above average earnings growth, have strongly outperformed value stocks, although the difference has diminished since the end of the 3rd quarter.
3. ***Bonds still struggling.*** Another thing that has not changed since the end of Q3 is bond underperformance. The aggregate bond index is set to finish negative for only the third time in 40 years. One thing to note, however, is that despite the decline of 1% this month, equities have sold off much more. This demonstrates the benefit of diversifying with bonds as they tend to exhibit much less volatility in a market decline.

A Look Ahead: Outlook 2018

We will publish our next edition of Macro Musings in early December, which will cover our firm's outlook for 2019. Thank you for reading our latest thoughts and analysis.

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