PORTFOLIO COMPASS

A Snapshot of LPL Financial Research's Views on the Economy, Equities and Fixed Income

January 2018

Laura Mossakowski
Laura Mossakowski, LLC
2555 Continental Court, Suite 4
Green Bay, WI 54311
920-321-0327
Laura@LauraMossakowski.com
www.LauraMossakowski.com

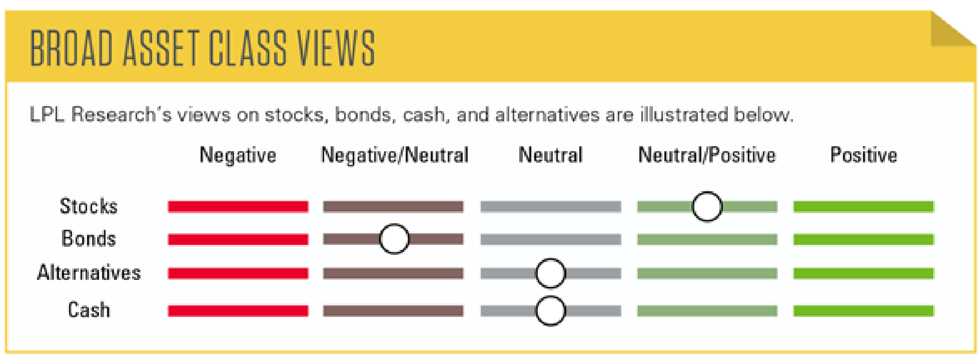
Portfolio Compass | January 2018

COMPASS CHANGES

- Increased short-term municipal bonds view to neutral/positive.

INVESTMENT TAKEAWAYS

- Our recently raised 2018 earnings forecast for S&P 500 Index companies is $147.50 per share. Assuming a trailing 12-month price-to-earnings ratio (PE) of 19-20, we believe the S&P 500 would be fairly valued in the range of 2,850-2,900 by year-end 2018.
- We expect value to benefit from a more favorable interest rate environment for financials in 2018 and see a small cap boost from tax reform. Favored sectors are financials, industrials, and technology.
- Strong growth and attractive valuations to help emerging markets (EM) offset tighter global monetary policy.
- As noted in our *Outlook 2018*, rising levels of growth and inflation may put pressure on high-quality fixed income. For fixed income allocations, we emphasize a blend of high-quality intermediate bonds, with a preference for investment-grade corporates and mortgage-backed securities (MBS) over Treasuries, and a small allocation to less interest rate-sensitive sectors, such as bank loans or high-yield bonds, for suitable investors.
- Expected gradual Federal Reserve (Fed) rate hikes and moderate economic growth are supportive of bonds near term, though rising interest rates may be a headwind longer term.
- Balance sheet normalization isn't likely to impact Treasuries or MBS prices near term, but it is worth monitoring over time.
- From a technical perspective, the S&P 500 price continues to operate above its 200-day moving average, increasing the likelihood of a sustained long-term bullish trend.



Please click here for the full Portfolio Compass publication.

**As noted in our Outlook 2018: Return of the Business Cycle, we expect the S&P 500 Index total return to be 8-10%, driven by 2.5% GDP growth, 8-10% S&P 500 earnings growth, and a target price-to-earnings ratio (PE) of 19.*

IMPORTANT DISCLOSURES

All performance referenced is historical and is no guarantee of future results.

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.

Stock and Pooled Investment Risks

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.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

The prices of small and mid cap stocks are generally more volatile than large cap stocks.

Bond and Debt Equity Risks

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.

Alternative Risks

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Managed futures strategies use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Futures and forward trading is speculative, includes a high degree of risk that the anticipated market outcome may not occur, and may not be suitable for all investors.

DEFINITIONS

The simple moving average is an arithmetic moving average that is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods. Short-term averages respond quickly to changes in the price of the underlying, while long-term averages are slow to react.

The Beige Book is a commonly used name for the Federal Reserve's (Fed) report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the Federal Open Market Committee (FOMC) meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

Technical analysis is a methodology for evaluating securities based on statistics generated by market activity, such as past prices, volume and momentum, and is not intended to be used as the sole mechanism for trading decisions. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns and trends. Technical analysis carries inherent risk, chief amongst which is that past performance is not indicative of future results. Technical analysis should be used in conjunction with Fundamental analysis within the decision making process and shall include but not be limited to the following considerations: investment thesis, suitability, expected time horizon, and operational factors, such as trading costs are examples.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive (negative) Alpha indicates the portfolio has performed better (worse) than its Beta would predict.

Beta measures a portfolio's volatility relative to its benchmark. A Beta greater than 1 suggests the portfolio has historically been more volatile than its benchmark. A Beta less than 1 suggests the portfolio has historically been less volatile than its benchmark.

Idiosyncratic risk can be thought of as the factors that affect an asset such as a stock and its underlying company at the microeconomic level. Idiosyncratic risk has little or no correlation with market risk, and can therefore be substantially mitigated or eliminated from a portfolio by using adequate diversification.

INDEX DEFINITIONS

All indexes are unmanaged and cannot be invested into directly.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major *industries.*

The Bloomberg Barclays U.S. Municipal Bond Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

This research material has been prepared by LPL Financial LLC.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial LLC is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit

Tracking #1-688829 (Exp. 01/19)

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Laura Mossakowski is a Registered Representative with and Securities are offered through LPL Financial, member FINRA/SIPC. Insurance products offered through LPL Financial or its licensed affiliates.

Laura Mossakowski, LLC is not a registered Broker/Dealer and is not affiliated with LPL Financial

Not FDIC/NCUA Insured	**Not Bank/Credit Union Guaranteed**	**May Lose Value**
Not Insured by any Federal Government Agency		**Not a Bank Deposit**