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THE WEISS REPORT

SMART AND STEADY

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How Important Are The Midterm Elections?

Every day the media thumps its chest over China, South Korea, or whatever crisis du jour. And while some of those issues are very important, others are not. Please see the enclosures for discussion on some of those hot button issues. For now, we would like to discuss a topic that isn't always at the top of every news cast – the midterm elections.

The upcoming midterm elections are unquestionably interesting. With a rash of long standing politicians declining to run for re-election, an inordinate number of seats are up for grabs. Certainly there has already been extensive coverage in the media. Most of the discussion comes from partisans who talk about the election with viewpoints that support their side. We try to avoid as much of this rhetoric as we can.

We have done our own homework and what we find most interesting is how this election compares in a historical context. We have focused our efforts on the midterms held in the last 50 years. We concede that there were many midterms before the 1960s, but it is fairly difficult to find details and context of the 1914 midterms in the William Taft administration!

Since 1962, we have seen the party holding the presidency lose seats in one or both chambers of Congress in 12 of the 14 elections held. It probably is not surprising to see that the party in power tends to take a beating in midterm elections. However there tends to be a more complete story deeper below the surface.

In order to compare today's political environment we looked at the four midterm elections where 40 or more seats changed hands in the House of Representatives. We focus on the House because by design it is the most sensitive to a current public opinion. All 435 seats are up for grabs every two years. When 40 or more seats change, most call it a "wave" election. Let's look at those four midterm's when major change was created:

In 1966, Lyndon Johnson presidency lost 47 seats in the House. Remember, wave elections in the midterm tend to show what direction the national majority is going. We think that voters in 1966 were sensing that the war in Vietnam wasn't a fight that America should be fighting and it showed in the voting.

In 1974, the Gerald Ford presidency lost 48 seats in the House. This was the first national election since President Nixon resigned. We think voters sent a message.

In 1994, the Bill Clinton Presidency lost 54 seats. Republicans gained control of the House for the first time more than 40 years. Many historians have attributed this to an attempt to create national health care in the private forum by the administration in power.

In 2010, the Obama Presidency lost 63 seats. Since this election occurred only eight years ago it is surely fresh in your memory. We collectively lived this election, and we should interpret it as each of us remembers it.

Now that we've gotten a historical perspective – what does it mean for us today? Functionally, the Democrats need only 24 seats to change hands to get a simple majority. Both the media and common sense say that if this were to happen this election cycle it would be a fairly momentous occasion. Yet in context of historical swings, it would be rather paltry.

Additionally, there are senate seats that must be defended. While the senate is very important, the vast majority of senate races are being held where Democrats currently hold the seat. This means that control of the senate is unlikely to be at risk. While the current majority is slim, it would require a true shift in voter opinion to see the Democrats control the senate. There's nothing in the current polls that leads followers to expect such an outcome.

With all of that said, what does that mean for the markets and investments? The answer is "it depends". Realistically, there is only so much that can change with a midterm election. A Republican is still in the White House and that means that there's not much policy the Democrats could put through even if they won control of both the house and senate.

If the Republicans maintain control of both the house and senate, we can expect more of what we've seen the past 18 months. The market has generally been responding well to the current regime's policies, even if the occasional late night tweet can cause temporary chaos.

On the other hand, if the Democrats take control of the house, we would expect to see much more gridlock for the next two years. While gridlock may sound bad, from an economic perspective it provides something very unique – certainty. If we know that no major economic changes are coming from the legislature; that is very important.

Portfolios: Weiss Wealth Management Group uses different allocations for relationships we manage by discretion.

We are still of the mind that investment products, rather than individual stocks, are more advantageous for most clients. When we can find better performance relative to an ETF we will utilize mutual funds. These portfolios were rebalanced in February 2018 and this rebalancing increased exposure to international stocks as well as small cap stocks. These additions were funded by reduction in multi-asset allocations. These portfolios will be up for rebalancing again in August 2018. As we look to the future rebalance, we do not currently see a major allocation shift. We will work to have portfolios rebalanced for their objectives while maintaining the preferred tactical allocations.

Generally speaking, we believe now to be a time to be fully invested rather than sitting on the sideline in cash. While headlines have caused some volatility in the markets, we believe that the underlying economics are strong. We will let the enclosures touch on that a bit more.

We also want to go on record that we see value in the bond market now that interest rates have been raised many times in the last 12 months. We are finding opportunities between 3.25%-3.75% in maturities of 2-4 years. These same issuers yield were around 1% lower last year. This higher yield is now well ahead of current inflation. We think the majority of the interest rate hikes have now been discounted in markets. For our fixed income accounts, we're using this as a buying opportunity after years of relatively low yields.

Enclosure #1 – Our first enclosure discusses whether the tariffs put in place by President Trump will slow, or stop, the growth cycle the markets have been experiencing. It is provided by Nationwide and is very well done. The general take away is that the positives from such tariffs will likely outweigh the negatives. We think it's a good read for all clients.

Enclosure #2 – Our second enclosure is a discussion on the current job market. As many readers may be aware, unemployment numbers have been very good in regards to the overall health of the economy. Brian Wesbury from First Trust Advisors provides a look at how strong the numbers really are.

Enclosure #3 – Our third enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Important Disclosures

This report is not intended as a complete description of the securities, markets or developments referred to herein. It should not be viewed as an offer to buy or sell any of the securities mentioned. Information has been obtained from sources considered reliable, but we do not guarantee that the foregoing report is accurate and complete. Additional information and sources are available upon request.

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Past performance does not guarantee future results. There is no assurance the trends mentioned will continue. No investment strategy, including diversification and asset allocation, can guarantee a profit or protect against loss in a declining market. Dividends are not guaranteed and will fluctuate. This analysis does not include transaction costs and tax considerations. If included these costs would reduce an investor's return.

The authors' opinions are subject to change without notice.

Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

ETF shareholders should be aware that the general level of stock or bond prices may decline, thus affecting the value of an exchange-traded fund. Although exchange-traded funds are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indexes, the funds may not be able to exactly replicate the performance of the indexes because of fund expenses and other factors.

It is not possible to invest directly in an index. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. Past performance may not be indicative of future results.

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Capital market insights

Conversation guide

June 2018

Will Trump's tariffs topple U.S. growth?

Global investors had plenty of reasons to worry over the last month — including fresh doubts about the European Union's future following political turmoil in Italy and protectionist threats from the White House aimed at many large U.S. trading partners.

But equity markets have persisted through this uncertainty. Investors who continue to focus on strong fundamentals during this time are likely to see rewards from the ongoing trend of global economic growth.

The U.S. continues to lead the world's economies through the global business cycle.

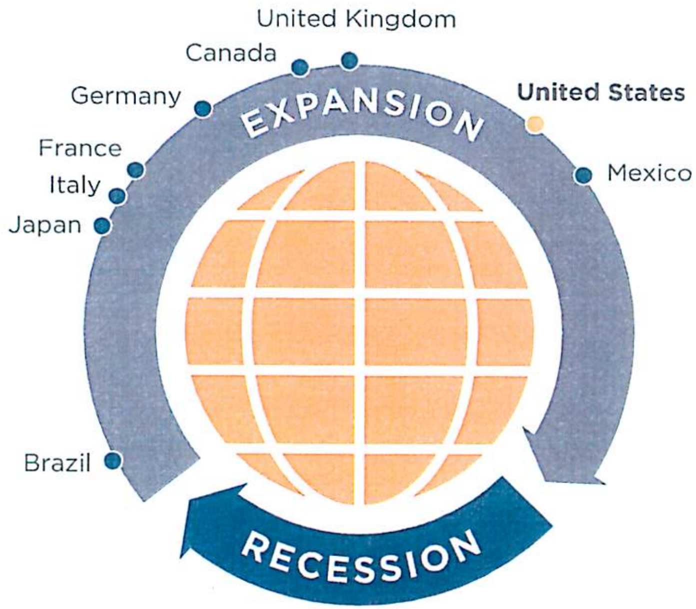
Economic fundamentals point to sustained growth for the U.S.

The fiscal stimulus boost of tax reform and government spending should probably outweigh the negative impact from tariffs.

The U.S. continues to lead the world's economies through the global business cycle.

- Despite some signs of a potential soft patch in Europe, the outlook for global economic growth remains positive with the U.S. driving the current expansion.
  - The OECD estimates global economic growth (as measured by annual change in gross domestic product) will reach 3.8% in 2018; the U.S. is expected to set the pace among other developed economies with a 2.9% annual rate of growth. (See table below.)
- Recent headlines about trade disputes and political transitions in Europe detract from the longer-term story of strong economic fundamentals supporting global growth.
- While it's unlikely that Europe will slip into recession in the coming months, America's leading position in the global economy may mean the U.S. could continue the current trend of strong economic growth.

Chart 1: Global economic cycle, Q2 2018



Source: Nationwide Economics, Q2 2018 Market Insights

Chart 2: Gross domestic product annual percentage change estimates

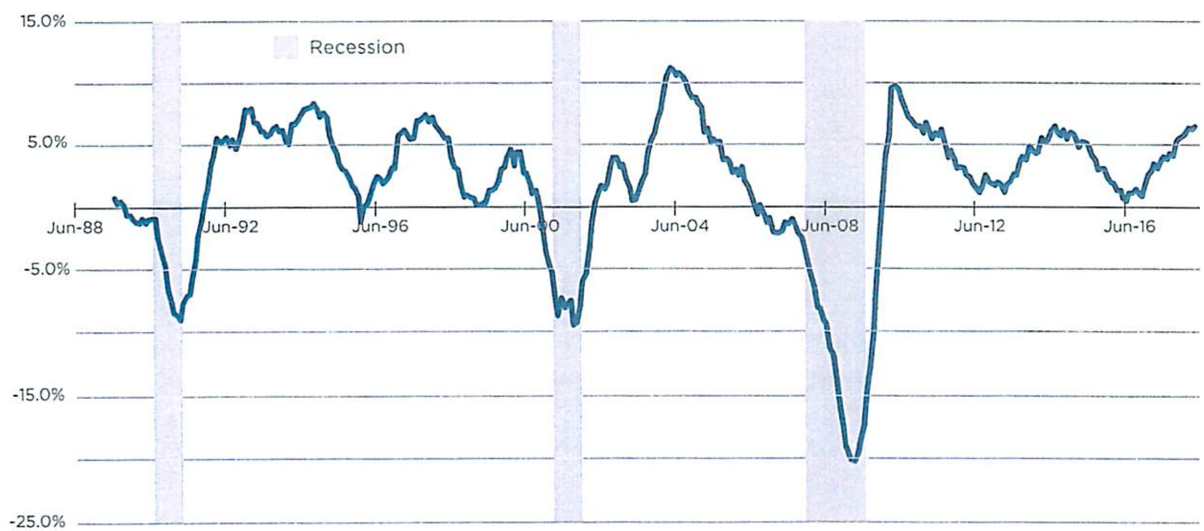
	2017	2018	2019*
World	3.7%	3.8%	3.9%
United States	2.3%	2.9%	2.8%
Euro Area	2.6%	2.2%	2.1%
Japan	1.7%	1.2%	1.2%
Canada	3.0%	2.1%	2.2%
United Kingdom	1.8%	1.4%	1.3%

Source: OECD Economic Outlook, OECD Forum 2018
*Reflects estimates determined by OECD projections

Economic fundamentals point to sustained growth for the U.S.

- The index of leading economic indicators from the Conference Board shows an accelerating pace of activity over the last 12 months (see chart below).
  - This index has turned negative in advance of previous recessions, reflecting a slowdown in general economic activity.
- Strong recent numbers for employment and consumer confidence continue to power the U.S. growth engine through the current period of political uncertainty.
  - The employment reports continue to show a solid and tightening labor market with the unemployment rate hitting an 18-year low.
  - Consumer confidence is at its highest level since the end of the global financial crisis, a reflection of the robust employment climate.
  - Inflation is just starting to rise from its previous lows, although this is more typical in the early stages of an expansion rather than later.

Chart 3: Leading economic indicators (12-month change) June 1988–April 2018

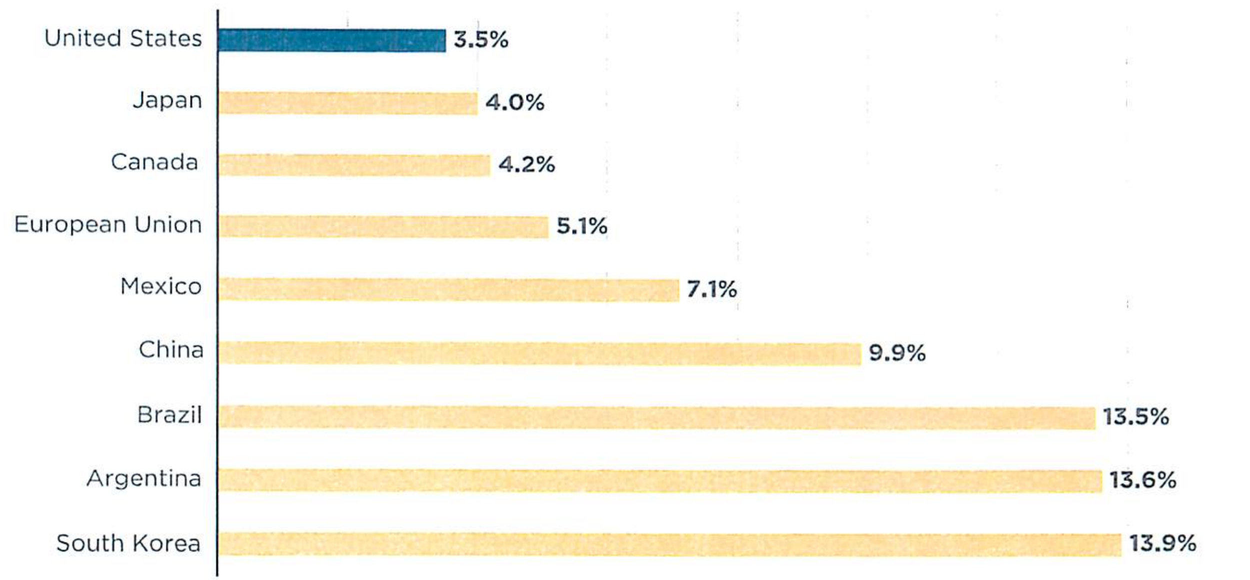


Source: The Conference Board via FactSet

The boost from fiscal stimulus should outweigh the negative impact from tariffs.

- President Trump's escalation of trade disputes between the U.S. and its major trading partners (Canada, Mexico, the European Union, China and Japan) produced negative headlines, but reactions to date have not been unfavorable in the financial markets.
  - Stock markets are at the highest levels since March, even as the White House reaffirmed its intention to raise tariffs on a host of imported goods.
  - U.S. tariffs on imports are, on average, lower than tariffs imposed by America's other trading partners—and in some cases, much less. (See chart below.)
- Tariffs generally stifle economic growth, but even if the proposed tariffs are fully implemented, the potential drag on the U.S. economy would be much less than the expected jolt from tax reform and higher government spending.
- Investors focusing on possible negative impacts from tariffs should bear in mind that trade negotiations are in flux and the outcome is still uncertain; however, the tax reform and government spending packages are in place and already positively affecting the U.S. economy.

Chart 4: Average tariff rates by country



Source: World Trade Organization. World Tariff Profiles 2017.

Key takeaways

The global economic cycle is progressing as expected—the U.S. continues to lead the world through the current cycle of expansion and strong economic fundamentals indicate this trend is likely to remain in place, despite some signs of instability. Tariff and trade threats from President Trump may rattle investors who are worried about the viability of the ongoing expansion, but it's necessary to keep perspective when news headlines start to influence investor sentiment. The momentum of the business cycle may do more to keep economic growth going than vague threats of trade protectionism.

- Maintain your objectivity when news headlines flare up and take a big-picture view of the opportunities in the current economic cycle.
- Emphasize quality companies with strong fundamentals that are well-positioned to withstand periods of uncertainty.

For more help or information, contact your financial advisor.

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First Trust
Monday Morning OUTLOOK

630-517-7756 • www.ftportfolios.com July 9, 2018

Job Market: From Strength to Strength

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Robert Stein, CFA – *Dep. Chief Economist*
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The US labor market is going from strength to strength. Like with corporate earnings, June jobs data beat consensus estimates - up 213,000 - pushing the average monthly gain for the past year to 198,000 per month.

Meanwhile the unemployment rate jumped from 3.8% to 4.0%. Why? Because the civilian labor force grew by 601,000. We hate blowing one month's data point out of proportion, but there is enough concurrent evidence out there to conclude that this gain in the labor force is a bullish sign for the economy. It signals that fewer people are counting on the government for support.

There are two ways to shrink the welfare state. One way is to directly cut welfare benefits. That's a structural change that encourages work no matter where the economy is in the business cycle. The other method is indirect: adopt policies that help the economy grow faster and let private sector opportunity pull people out of the government's welfare system and back into the labor market. Right now, that second method is taking hold.

The number of people getting Food Stamps (SNAP benefits, which stands for the Supplemental Nutrition Assistance Program) fell to 39.6 million in April, down 4.7% from a year ago and the lowest level since about 2010. This isn't because it's harder to get food stamps, it's because the rewards for work are rising.

In the second quarter of 2018, applications for Social Security disability benefits (SSDI) were down 2.3% from the same period a year ago. That's on top of a 6% decline for full-year 2017 from 2016. And last year also saw 1.3% fewer workers collecting disability benefits than in 2016, the biggest annual decline since 1983. This year, that number has continued to decline. In other words, the job market is plenty strong enough to pull workers back into the private sector.

Although average hourly earnings are up a respectable, but not stellar, 2.7% from a year ago, hundreds of companies are paying "one-time" bonuses to their workers, either based on tax reform or as a way for companies to attract workers without raising their long-term costs, particularly in the trucking sector. These bonuses are helping push down both the median duration of unemployment, and already low unemployment rates across education levels, sexes and races.

While unemployment rates by racial/ethnic categories are volatile from month-to-month (and why we prefer to focus on the trend), the black unemployment rate increased from a near record low in June, but the Hispanic jobless rate fell to 4.6%, the lowest for any month since the government started tracking the data in the early 1970s. And for the past 12 months, the average unemployment rate for both blacks and Hispanics fell to the lowest levels ever recorded, dating back to the early 1970s.

None of this means the labor market is perfect. It never is. Back in the late 1990s, the participation rate among prime-age workers (age 25-54) reached a peak of 84.6%. Right now, their participation rate is 82%. But this is a double-edged sword…where some see imperfection, others see room for further growth. Where some see a labor market that can't get any better, others see opportunity.

We fall in the second camp. Extremely low unemployment rates and rising earnings mean that private sector employment is becoming increasingly more attractive than static government programs. And with more workers moving into the private sector, it's not hard to see better times for workers ahead. The tax cut happened just over six months ago. Deregulation is encouraging more business investment. Corporate earnings continue to exceed expectations. The job market looks set for even more strength.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-9 / 2:00 pm	Consumer Credit– May	$12.0 Bil	**$15.5 Bil**		$9.3 Bil
7-11 / 7:30 am	PPI – Jun	+0.2%	**+0.2%**		+0.5%
7:30 am	"Core" PPI – Jun	+0.2%	**+0.3%**		+0.3%
7-12 / 7:30 am	Initial Claims – July 7	225K	**226K**		231K
7:30 am	CPI – Jun	+0.2%	**+0.2%**		+0.2%
7:30 am	"Core" CPI – Jun	+0.2%	**+0.2%**		+0.2%
7-13 / 7:30 am	Import Prices – Jun	+0.1%	**+0.2%**		+0.6%
7:30 am	Export Prices – Jun	+0.2%	**+0.2%**		+0.6%
9:00 am	U. Mich Consumer Sentiment- Jul	98.2	**98.7**		98.2

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JULY 2018

THEMES

Squaring Off: A High-Stakes Global Game

The most powerful bilateral relationship in the world today is between the U.S. and China. China's focus on economic development has achieved huge success and, in more recent years, it has made efforts to broaden global influence as well as diplomatic and political roles. Europe, has struggled over the last decade with far lower average growth and financial market performance relative to the U.S. Many emerging markets are viewing China as their natural economic partner while the more hard-nosed U.S. trade and diplomatic policies of recent months are being viewed as an attempt to either lengthen their global leadership epoch, or to stop an inevitable decline. Globally, it is a time for a firm debate with calm heads.

Corporate Earnings: The Fuel that Powers the Stock Market

Typically, when a company's earnings rise above the market's expectations over time, the price of its shares follows a similar path higher. And when this kind of better-than-expected earnings growth occurs across the majority of publicly traded companies, a bull market is often the result. A similar environment has been in place since the end of the 2008 financial crisis, with notable improvements in both the pace and quality of earnings growth occurring over the past two years. Investing in the future and improving productivity will increase the chances of continued economic expansion while helping the stock market combat rising input costs and higher expectations of today's investors.

Mid-Year Economic Outlook: The Fed's Balancing Act

The year began with two key themes. The first was that the economy had considerable momentum in late 2017, which likely would continue into early 2018. The second was that the outlook would grow more clouded beyond the middle of the year, reflecting the uncertainty around tax cuts, demographic constraints, and tighter Federal Reserve (Fed) policy. We can now add the uncertainty around trade policy to this list of themes as talks on tariffs and a retaliatory backlash threaten to disrupt current trade agreements around the world. The key to our outlook is the Fed's balancing act, as it attempts 'a soft landing,' where growth slows to a long-term sustainable pace.

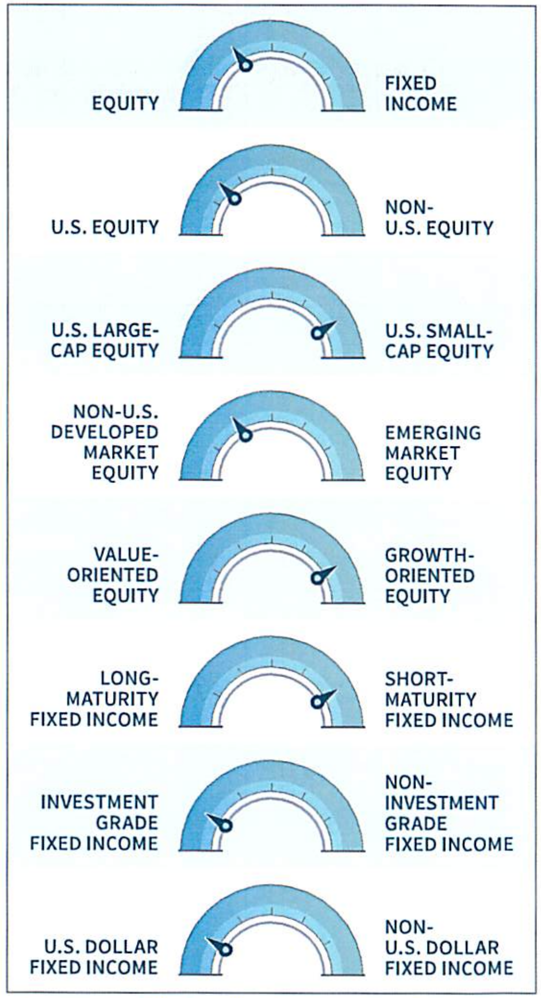
For more information, refer to the full *Investment Strategy Quarterly.*

ECONOMIC SNAPSHOT

ECONOMIC INDICATOR	
FAVORABLE	GROWTH
	EMPLOYMENT
	BUSINESS INVESTMENT
	HOUSING AND CONSTRUCTION
	THE DOLLAR
NEUTRAL	CONSUMER SPENDING
	MANUFACTURING
	INFLATION
	MONETARY POLICY
	LONG-TERM INTEREST RATES
	FISCAL POLICY
	REST OF THE WORLD

From Scott Brown, Ph.D., Chief Economist, Equity Research

TACTICAL OUTLOOK (6-12 months)



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JULY 2018

CAPITAL MARKETS SNAPSHOT

EQUITY	AS OF 6/29/2018*	2Q 2018 RETURN**	12-MONTH RETURN
Dow Jones Industrial Average	24,271.41	1.26%	16.31%
S&P 500 Index	2,718.37	3.43%	14.37%
NASDAQ Composite Index	7,510.30	6.61%	23.60%
MSCI EAFE Index	1,958.64	-1.24%	6.84%
RATES	**AS OF 6/28/2018**	**AS OF 3/31/2018**	**AS OF 6/30/2017**
Fed Funds Target Range	1.75-2.00	1.50 - 1.75	1.00-1.25
3-Month LIBOR	2.33	2.31	1.30
2-Year Treasury	2.52	2.27	1.38
10-Year Treasury	2.84	2.74	2.27
30-Year Mortgage	4.40	4.27	3.88
Prime Rate	5.00	4.75	4.25
COMMODITIES	**AS OF 3/31/2018***	**2Q 2018 RETURN****	**12-MONTH RETURN**
Gold	$1,250.45	-5.54%	0.66%
Crude Oil	$74.15	14.18%	61.27%

*Price Level
**Total Return

SECTOR SNAPSHOT

	SECTOR	S&P WEIGHT
OVERWEIGHT	INFORMATION TECHNOLOGY	26.4%
OVERWEIGHT	FINANCIALS	14.0%
OVERWEIGHT	HEALTH CARE	14.1%
OVERWEIGHT	INDUSTRIALS	9.6%
OVERWEIGHT	ENERGY	6.1%
EQUAL WEIGHT	CONSUMER DISCRETIONARY	13.0%
UNDERWEIGHT	CONSUMER STAPLES	6.8%
UNDERWEIGHT	UTILITIES	2.8%
UNDERWEIGHT	REAL ESTATE	2.7%
UNDERWEIGHT	MATERIALS	2.6%
UNDERWEIGHT	TELECOM	1.9%

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