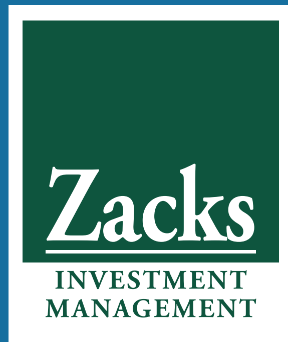
Q3 2018



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October 26, 2018

Mitch Zacks
Senior Portfolio Manager

Mitch's Outlook

The S&P 500 posted impressive performance in Q3, surging +7.7%.[1] While the Health Care, Industrials, and Telecom sectors drove performance, results were largely overshadowed by what happened right after the quarter ended. In the first few weeks of October, selling pressure intensified culminating in a -3.3% single day drop for the S&P 500 on Wednesday, October 10. The biggest names in technology led the way down, with the S&P 500's Technology sector declining -4.8%.[2] The volatility we're seeing will probably stick around for a while, so investors should remain calm and patient.

Commonly cited reasons for the selling pressure are rising interest rates and trade war fears; two well-established risks. I believe the volatility we're seeing today is normal and natural, and not a symptom of a prolonged downturn.

We remain optimistic and believe the likelihood of a recession in the next six months remains low. Real gross domestic product (GDP) increased at an annual rate of +4.2% in Q2 2018 versus +2.2% in Q1 2018.[3] The Institute for Supply Management's manufacturing index hit a 14-year peak in August, and private spending by consumers and businesses continues at impressive levels thanks to the effects of the corporate tax cut and strong underlying economic growth.[4] Hiring remains robust, even as the pool of available workers shrinks.

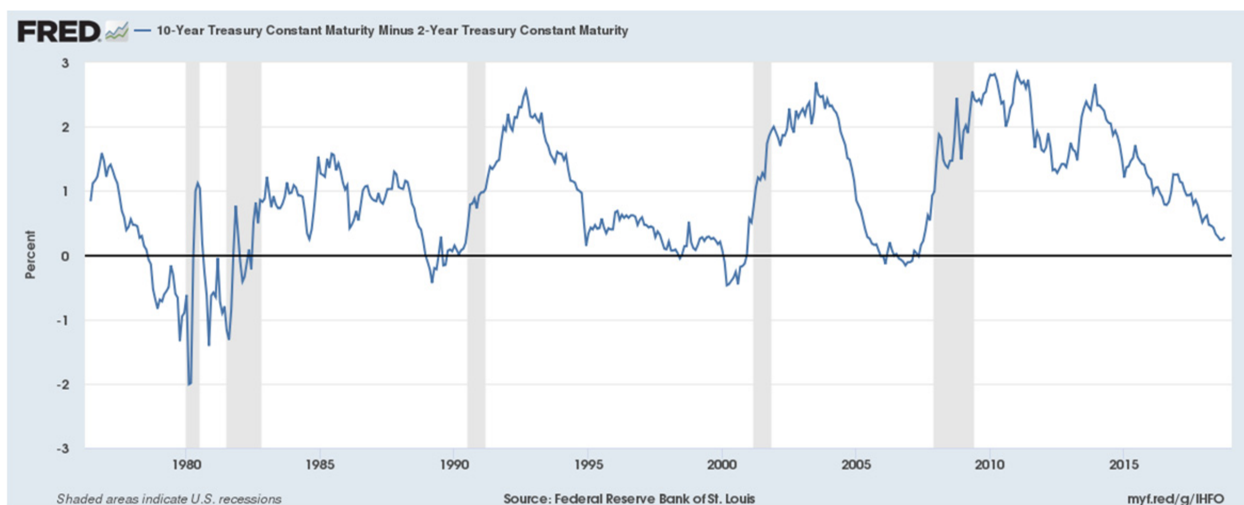
The surge of economic growth so far in 2018 has been a convincing reminder that fiscal stimulus (tax cuts and increased spending) can be a powerful tool for accelerating growth, particularly during a period of low interest rates.

Forecasts for third quarter real GDP average around +3.8%, and fourth quarter forecasts are about +2.8%.[5] Beyond 2018, growth is likely to slow as the impact of corporate tax cuts fade and as the Federal Reserve continues gradual monetary tightening. Still, growth is growth and we believe it should continue through at least the first half of 2019.

Stocks tend to struggle when the cost of borrowing (fed funds rate) is higher than the GDP growth rate; something we may see in 2019. The fed funds rate is currently in the 2% - 2.25% range, with a rate hike expected in December and perhaps two to three more increases next year. If GDP growth falls to around 2 - 2.5% later next year, it could create an uphill battle for stocks.

On the fixed income side, the yield curve continued to flatten during the quarter. The yield spread (difference between 2-Year and 10-Year Treasury Bonds) was at +0.24%, down from +0.33% at the end of June and at the tightest level seen since 2007. During the quarter, the spread dipped to +0.18% before steepening slightly as the quarter ended. If the Fed continues to raise rates as expected, we should see an inverted yield curve by the end of the Fed rate hike cycle.[6] The following chart shows an inverted yield curve has, historically, been a reliable indicator of recessions, so this factor is worth watching closely.

10-Year U.S. Treasury minus 2-Year U.S. Treasury



Source: Federal Reserve Bank of St. Louis

The Fed appears committed to raising rates as the economy continues to show signs of strength. In their September meeting, the Fed removed the term “accommodative” from their monetary policy statement, indicating they have either approached, or are fast approaching, the target neutral rate.[7] It’s also worth noting that the Fed remains the lone major central bank raising interest rates – the European Central Bank is still expected to end its bond purchase program in the near future, though concerns about Italy and a possible contagion may cause them to move more slowly. Inflation remains a concern as impact from U.S.-China tariffs are being felt by consumers in both countries.

On the risk front, apart from the flattening yield curve, an issue that concerns me is the chilling relationship between the United States and China. While the U.S. has made progress with Canada and Mexico on a provisional trade deal (the USMCA), tensions with China continue to escalate.

Diplomacy continues to sour, with the Trump administration now accusing China of interfering in the U.S. midterm elections and China stating that the "Protectionist" U.S. is harming the global economy. In a recent state visit to China, Secretary of State, Mike Pompeo, "exchanged testy words" with Foreign Minister Wang Yi in Beijing in what marks a critical moment for U.S.-China relations. The trade dispute is escalating, military talks are halted, and each side blames the other for a recent close encounter between warships in the South China Sea. Issues between the world's two largest economies appear to be getting worse, and the probability of reaching a new trade deal this year is declining.

If the stock market is an indicator of which country is 'winning,' however, it's the U.S. Through the first three quarters of 2018, the total return of the S&P 500 is +10.6% compared to China's Shenzen, which is down -24.1%. Both countries appear committed to 'digging in,' which increases the probability of economic harm or even, potentially, a full scale political and/or economic confrontation.[8]

U.S. and global equities are feeling some downside volatility, but in my view, that should serve as a reminder that selling pressure and market corrections can occur even when economic conditions appear fundamentally strong. We continue to believe the world economy, as a whole, is in good shape and the next few quarters should continue to bring more growth and potential for higher stock prices.

Mitch

[1] Seeking Alpha, "50 Best Performing S&P 500 Stocks in Q3" (10/1/18)

[2] CNBC, "Dow Plunges More than 800 Points in Worst Drop since February, Amazon and Tech Shares Lead the Rout" (10/10/18)

[3] Bureau of Economic Analysis – Department of Commerce, "Gross Domestic Product, 3rd Quarter 2018 (advance estimate)"

[4] Institute for Supply Management – "September 2018 Manufacturing ISM® Report On Business®" (10/1/18)

[5] Federal Reserve Bank of Atlanta, "Atlanta Fed GDPNow Estimate for 2018: Q3" (10/18)

[6] Federal Reserve Bank of St. Louis, 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity (10/17/18)

[7] Board of Governors of the Federal Reserve System (10/18)

[8] The Wall Street Journal, "The Crisis in U.S.-China Relations" (10/19/18)

All-Cap Core Strategy

In Q3 2018, the Zacks All-Cap Core Strategy returned +6.91% gross and +6.46% net. During the same period, the Russell 3000 Index returned +7.12%. Since inception, the Zacks All-Cap Core Strategy ranks in the top 6% of 617 managers in the Morningstar All Domestic Equity Managers universe.

Growth stocks continue to outperform value stocks by a wide margin in each capitalization category. The Russell 1000 Growth Index (large-caps) has risen +17.09% year-to-date while the Russell 1000 Value Index (large-caps) is up a much lesser +3.92%. Similarly, the Russell 2000 Growth Index (small-caps) has risen +15.76% while the Russell 2000 Value Index (small-caps) is up +7.14%.

In the third quarter, large-cap stocks far outpaced small caps (+7.42% vs. +3.58%). Still, for the year, small-caps are leading (+11.51%), followed by large-caps (+10.49%) and mid-caps (+7.46%). Investors also showed a preference for defensive vs. cyclical stocks in the third quarter, as the Russell 3000 defensive index returned +8.24% vs. the Russell 3000 cyclical index which returned +6.04%.

Stock selection and sector allocation within the newly configured 'Communications Services' sector has been effective in the All-Cap Core Strategy. Stocks in the Russell 3000 Communication Services sector (which now includes Facebook, Netflix, and Google) were up 8.21% for the year through September 30. Advantageously, the All-Cap Core Strategy was under-weight the Communication Services sector by over 2.7% as that sector underperformed the broader Index (+10.57%).

Additionally, the All-Cap Core Strategy was overweight to the Consumer Discretionary sector by over 2.6%, supporting relative returns as the sector posted a +18.40% gain for the year through September 30. Falling unemployment, rising wage growth, and high consumer confidence have boosted discretionary spending on the year. Stocks that added significant value to the portfolio included AmediSys Inc. (+129.8%), Fortinet Inc. (+111.2%), Planet Fitness (+55.85%), and Amazon (+71.27%).

While the U.S. concluded trade negotiations with Mexico and Canada, a brewing trade war with China continues to cast a shadow on the market. Both long rates (10-year yield over 3%) and short rates (2-year yield over 2.8%) are rising and so is the leverage risk in the financial system. Extremely low rates prompted corporations to borrow heavily and increase stock buybacks. While corporations are solidly profitable, as the business cycle matures, companies will have to juggle higher debt payments and potentially decreasing

profitability. A strong U.S. dollar doesn't help large multinational American companies that export to Emerging Markets, which are facing a crisis of economic difficulties, political uncertainties, and currency weakness – all of which are eroding confidence.

The Zacks All-Cap Core management team has navigated through volatile times in the past and we will remain vigilant and disciplined as economic conditions evolve and the trade dispute with China continues.

Dividend Strategy

In Q3 2018, the Zacks Dividend Strategy returned +6.38% gross and +5.93% net, outperforming its benchmark, the Russell 1000 Value Index which returned +5.70%. The dividend yield on the strategy was +3.19% at the end of Q3 2018; higher than the +2.47% yield on the Russell 1000 Value Index. Since inception, the Zacks Dividend Strategy ranks in the top 2% out of 789 managers in the Morningstar Large Cap Value Universe.

U.S. economic and corporate profit growth remained strong during the quarter, supported by positive consumer and business sentiment. A "third estimate" from the Bureau of Economic Analysis showed U.S. GDP expanding by +4.2% in the second quarter. Additionally, a recent Labor Department report showed 7 million unfilled jobs at the end of August, a record. The third quarter also saw the NAFTA issue resolved with a new trade deal, the USMCA, set to replace it.

The economy is not without risks, however. Headwinds persisted as the breadth of tariffs against China, and China's retaliatory efforts, increased. In the U.S., strong economic growth readings in the broad economy and labor markets have seemingly emboldened the Federal Reserve to commit to its gradual path of rate increases. Together, growing worries over China and rising interest rates may have prompted investors to favor more profitable, larger companies (large-caps) during the quarter.

In the 'large value' space, the Health Care, Industrials, and Technology sectors outperformed over the quarter while Consumer Discretionary, Materials, and Energy underperformed. The strategy's overweight to Health Care and Technology and underweight to the Discretionary and Energy sectors supported relative performance. The strategy's underweight to the Industrial sector hampered relative performance.

Favorable fiscal policy, in the form of tax cuts and increased spending, have produced strong U.S. economic growth and supported U.S. stock performance this year. But, the threat of retaliatory global trade actions and the likelihood of interest rate increases continues to hang like a cloud over the markets. The tug-of-war between headwinds and tailwinds is likely to persist. Still, we believe the economy will chart a growth path for the near term and that the strategy will likely continue to produce attractive returns.

Finally, due to the tax-advantaged nature of the dividend payments, as well as a more attractive yield of +3.19% net in Q3 2018, compared to the 10-year US Treasury yield of +3.05%, we believe the strategy remains well-suited for investors seeking moderate growth and income.

Focus Growth Strategy

In Q3 2018, the Zacks Focus Growth Strategy returned +9.00% gross and +8.53% net. During the same period, the Russell 1000 Growth Index returned +9.17%. Year-to-date through September 30, Focus Growth (+17.38% net) has outperformed the Russell 1000 Growth Index (+17.09%). Since inception, the Zacks Focus Growth Strategy ranks in the top 6% of 962 managers in the Morningstar Large Cap Growth universe.

The Federal Reserve raised interest rates for the third time this year in September, but the market was prepared. The Fed has clearly telegraphed their thinking on interest rate policy and economic fundamentals. Additionally, rate hikes were substantiated with strong economic fundamentals surrounding growth, labor markets, and wage and inflation trends. As the Federal Reserve Chairman put it, “a remarkably positive set of economic circumstances” for the U.S. economy.

Market watchers and the business community are eyeing the Fed’s moves closely as rising interest rates flatten the yield curve and potentially tighten lending and borrowing conditions. Given that interest rates remain historically low, however, there could be some runway before higher rates adversely impact the economy.

During Q3 2018, the Technology and the Health Care sectors continued to lead and Focus Growth’s overweight to Technology supported relative returns. Conversely, performance in the quarter was hampered by weightings to Consumer Discretionary, Consumer Staples and the Energy sectors. Underperformance in these sectors dampened relative returns, followed by exposure to the Capital Goods and Materials sectors.

Focus Growth tracked closely with the Russell 1000 Growth for the quarter and continues to outperform for the year. Looking ahead, we believe strong economic data and double-digit corporate earnings growth should support the market, even if volatility persists for some time. The Focus Growth Strategy will continue to target firms with attractive growth potential and prudent valuations.

International Strategy

In Q3 2018, the Zacks International Strategy returned +0.28% gross and -0.16% net. The Developed Market EAFE Index returned +1.42% during the period.

During the quarter, the strategy successfully avoided allocations to the Philippines, Indonesia, Belgium and Chile. The Philippines (EPHE) fell -22.28%, Indonesia (EIDO) was down -17.69%, Belgium (EWK) fell -7.14% and Chile (ECH) moved downward -11.45%.

Among major calls to reduce or remove a country, removing Poland (EPOL), reducing South Korea's (EWY) weight, and removing Spain's (EWP) weight added value. Year-to-date ending September 30, Poland (EPOL) fell by -11.85%, Korea (EWY) was down by -8.89%, and Spain was down by -8.26%.

Among major calls to maintain or increase weight to a country, active allocation decisions in Norway, Thailand, Russia and Japan added significant value to the portfolio. Year-to-date through September 30, Norway (NORW) has returned +15.87%, Thailand (THD) increased +3.77%, Russia (RSX) was up by +1.65%, and Japan (EWJ) returned +1.29%. During the same period, the benchmark EAFE index fell -1.36%.

Significant geo-political and economic developments continue to influence currencies and equity markets worldwide as the "global synchronous" recovery faded during the course of this year. U.S. growth, fueled by tax cuts, led to a surge in GDP growth while Emerging Markets and other developed nations showed signs of slowing. In the first six months of the year, a stronger dollar, coupled with U.S. central bank tightening, sparked liquidity concerns in Emerging Markets. This led to growing current account deficits across the world. Numerous countries ranging from Turkey, Brazil, South Africa, Indonesia and India have seen significant devaluation of their currencies.

In the last few years, there has been a move away from free trade and strong alliances to nationalistic policies and more bilateral trade deals (or no trade deals at all). Rising nationalistic thinking makes a compelling political case to reject global trade or coalitions, even when the long-term economic benefits are extolled by most economists. Italy, governed by a coalition of extreme left and extreme right, is defying the European Union as unemployment and economic conditions haven't improved significantly during the expansion. At the end of the day, a global move away from free trade could be a big risk for all developed economies and consumers. Additionally, such a trend could be especially risky for Emerging Market countries that are heavily reliant on trade.

Headwinds on the global stage may seem stiff. Still, investors should remember that emerging markets have also experienced the largest drawdowns of any region category this year which, arguably, makes valuations attractive relative to the developed world. The same could be said of Europe. What is different now, versus the previous emerging market crisis, is that most countries do not peg their currency to the USD. As such, those currencies and economies can adjust faster.

For investors with long-term growth objectives, global exposure is a key component toward reducing risk via diversification. And, currently in our view, global exposure provides growth potential from economies poised to expand at a faster rate than the U.S. over the long-term.

Market Neutral Strategy

The Zacks Market Neutral Fund's net asset value (NAV) declined slightly in Q3 2018 as the strategy, overall, experienced a quiet quarter with low volatility.

Stocks marched higher during the quarter as the "risk-on" environment inspired investors into equities, particularly in the U.S. Stronger than expected economic data supported prices, though large-caps outperformed small-caps perhaps as investors favored companies with more stable earnings given the brewing trade war and rising interest rates.

The Technology sector, again, contributed positive alpha to the Market Neutral Strategy. The Energy sector positively contributed to performance as the long side benefited from strong performance, even though several short stocks surged dramatically due to the rise in crude oil prices later into the quarter. Capital Goods, Retail, Financials, and REITs were neutral as both the long sides and the short sides paired evenly. The Health Care sector reversed its positive contribution at the beginning of the quarter, and ended up with a minor loss due to underperformance from the short side relative to the long side.

Equity markets continued their upward march making this the longest bull market in history. Still, steady gains tend to impact the Market Neutral Strategy which favors a market with movement on both sides. As volatility took hold at the outset of Q4, and appears likely to continue with midterm elections and rising interest rates, the Market Neutral strategy's positioning will be carefully monitored.

Mid-Cap Core Strategy

The Zacks Mid-Cap Core Strategy returned +5.44% gross and +4.98% net in Q3 2018. The Russell Midcap Index returned +5.0% during the period. Since inception, Zacks Mid-Cap Core Strategy ranks in the top 2% of 313 managers in the Morningstar Mid-Cap Blend universe.

During the quarter, mid-cap stocks underperformed large-caps but outperformed small-cap stocks. U.S. economic and corporate profit growth remained strong, supported by strong consumer and business sentiment. But, headwinds persisted as the scope of tariffs targeting China, and China's retaliatory efforts, increased. In the U.S., strong growth readings in the broad economy, particularly in the labor markets, have seemingly emboldened the Federal Reserve to commit to its gradual path of interest rate increases. Together, growing worries over China and rising interest rates may have prompted investors to favor larger companies (large-caps) as opposed to growth and rate sensitive smaller companies (mid- and small-caps).

In the mid-cap space, the Health Care, Industrials, and Technology sectors outperformed while Financials, Materials, and Energy underperformed. The strategy's overweight to Health Care supported relative performance, while overweight to the underperforming Materials Sector hampered relative performance.

Favorable fiscal policy in the form of tax cuts and increased spending have produced strong U.S. economic growth and supported U.S. stocks throughout the year. But, the threat of retaliatory global trade actions continues to hang over the markets like a cloud, as do the likelihood of interest rate increases. This tug-of-war between headwinds and tailwinds is likely to persist, but we believe the economy will chart a growth path for the near term. If the economy can generate a few more quarters of solid growth, then mid-cap stocks could benefit from investors deflecting risks associated with small-caps, but who wish to pursue higher growth potential than might be seen with large-caps.

Quantitative Strategy

In Q3 2018, the Zacks Quantitative Strategy returned +2.01% gross and +1.57% net. The S&P 500 returned +7.71% during the period.

Over the third quarter, the strategy felt impact from our overweight to small- and mid-cap stocks, which posted modest gains relative to large-caps around the end of the third quarter. Strong economic growth readings and continued improvement in the labor markets supported stocks across all sizes and categories, but it was perhaps concern over rising interest rates and further Fed rate hikes that led large-caps to outperform. Relative underperformance of mid-cap and small-cap stocks also aligned with heightened trade tensions between the two most significant economic powers in the world, casting concern that the expected growth rate going forward could be softened.

The Zacks Quantitative Strategy was overweight Retail, Transportation, Basic Materials and Industrial Products over the course of the quarter, but these sectors reversed their winning trend just near the end of the quarter. Even though the strategy was underweight to the Technology sector, strong performance overall did manage to add nominal gains. The Health Care and Consumer Staples sectors were underweight in the portfolio relative to the benchmark, but these sectors performed relatively well in the third quarter.

Growth stocks continued to outperform their value counterparts, a trend that has existed since the beginning of this year. However, we noticed optimism for growth names appeared to weaken towards the end of the quarter across all categories. But, as noted last quarter, the growth hypothesis continues to be supported by strong U.S. economic data, and we think the shifting trends could just be transitory in nature. As such, we continue to hold onto stocks we believe have larger upside potential.

Small-Cap Core Strategy

The Zacks Small-Cap Core Strategy returned +2.28% gross and +1.83% net in Q3 2018. The Russell 2000 Index returned +3.58% during the period. Since inception, the Zacks Small-Cap Core Strategy ranks in the top 2% out of 551 managers in the Morningstar Small Blend universe.

During the third quarter, small-cap stocks underperformed both large-cap and mid-cap stocks. U.S. economic and corporate profit growth remained strong, supported by strong consumer and business sentiment. But, headwinds persisted as the scope of trade tariffs against China, and China's retaliatory efforts, increased. In the U.S., strong economic growth readings in the broad economy and labor markets have seemingly emboldened the Fed to commit to its gradual path of rate increases. Together, growing worries over China and rising interest rates may have prompted investors to favor more profitable larger companies, as opposed to growth and rate sensitive smaller-cap companies.

In the small-cap space, Health Care and Technology outperformed, while Financials and Energy underperformed. The strategy's underweight to the Energy sector supported relative performance while underweight to Health Care dampened relative performance.

Favorable fiscal policy, in the form of tax cuts and increased spending, have produced strong U.S. economic growth and supported U.S. stocks this year. But, the threat of retaliatory global trade actions continues to hang over the markets like a cloud, as do expected interest rate increases. The tug-of-war between headwinds and tailwinds is likely to persist, but we believe the economy will continue charting a growth path for the near term. If the economy can generate several more quarters of solid growth, and interest rates do not rise dramatically, then growth-sensitive small-cap stocks could continue to see strong gains.

Fixed Income Strategy

Bond yields increased throughout the quarter as the U.S. economy continued to grow at a strong pace. Fixed income returns were relatively flat as taxable bonds outperformed tax-free bonds. Volatility returned toward the end of the quarter as geopolitical concerns returned to the forefront. As we write this commentary, higher interest rates are also causing pressure on the equity markets.

Buoyed by rising employment figures, wage growth, and continued expectations for U.S. economic growth of 3% or higher, the Federal Reserve raised the fed funds target rate by 25 basis points in September. In their commentary, the Fed indicated their preference for one additional rate hike in 2018 and at least two more rate hikes in 2019. They also dropped the term "accommodative" from their monetary policy statement, indicating they have either approached, or are fast approaching, the target neutral rate. The Fed remains the lone major central bank raising interest rates; the European Central Bank is still expected to end its bond purchase program soon, though concerns about Italy and a possible contagion may cause them to take a slower path. Inflation remains a concern as impact from the U.S.-China tariffs are being felt by consumers in both countries.

The 2-Year U.S. Treasury bond ended Q3 with a yield of +2.81%, up from +2.53% at the beginning of the quarter and +1.88% at the start of the year. The 10-Year U.S. Treasury bond ended Q3 with a yield of +3.06%, up from +2.86% at the beginning of the quarter. At current levels, the 2-year bond yield is at the highest level we have seen since the middle of 2008. Similarly, the 5-year bond touched +3.07%, the highest level seen since mid-2009. The 10-year bond remained range bound for most of the third quarter, but the yield moved up sharply toward the end of the quarter. The rising federal budget deficit will cause the U.S. Treasury to issue more debt which will also put upward pressure on yields. Overall, investors are finally able to see a meaningful yield return from bond holdings without sacrificing safety.

The yield curve continued to flatten throughout the quarter. The yield spread, as measured by the difference between the 2-Year and 10-Year Treasury bonds, was at +0.24%, down from +0.33% at the end of June and at tightest level seen since 2007. During the quarter, the spread dipped to +0.18% before steepening slightly as the quarter ended. If the Fed continues to raise rates as expected, we should see an inverted yield curve by the end of the Fed hike cycle.

After peaking at the end of Q2 2018, credit spreads declined sharply due to a strong corporate earnings story and good economic growth. Earnings growth for Q3 remains strong, providing fundamental support for credit markets. Demand remained strong as most of the new issues were oversubscribed. Lower rated bonds outperformed higher grade bonds during the quarter. Shorter duration bonds performed better than long maturity bonds. We remain concerned with the level of debt being taken for M&A deals – the rising leverage level needs the economy to be humming at full speed. With a lot of good news factored in, any bump in the road has the potential of blowing out spreads.

Municipal bonds had a slight negative return as interest rates moved higher throughout the quarter. Longer dated bonds declined more than short maturity bonds. The demand remains strong for high tax bracket investors as they continue to provide a good value on tax-equivalent basis. The muni market yield curve is steeper than the Treasury yield curve, providing attractive yields for investors willing to extend the duration of their portfolio.

Fixed income investments remain an important risk management component for portfolios by providing diversification and stability. We continue to favor corporate and municipal bonds for investors seeking income and diversification. And as always, credit quality remains foremost in our selection method.

DISCLOSURE Past performance is no guarantee of future results. Results for Strategies are shown gross and net of fees. Results for the Strategy reflect the reinvestment of dividends and other earnings. The results portrayed is the performance history of a composite of all discretionary accounts with no material investment restrictions, which are not restrained by investment style, type of security, industry/sector, location, size or market cap; it invests primarily in U.S. common stocks.

Prospective clients and clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the Strategy during the period. Clients of the firm may receive different performance than the composite. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), and client-mandated investment restrictions. Wholesale, retail and institutional clients of the firm may have differing performance due to timing of trades.

Investments in the Strategy are not deposits of any bank, are not guaranteed by any bank, are not insured by FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested. Net of fees performance is based on the maximum fee of 1.75% for a $500,000 account. Lower fees may apply to larger accounts; higher fees may apply to smaller accounts. Separately managed account minimums apply. Inherent in any investment is the potential for loss. Standard management fees are available on request and are described in Part 2A of Form ADV.

The sample portfolio holdings provided represents the top 10 largest equity positions in the Strategy as of 09/30/18 based on the aggregate dollar value for a representative account. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the Strategy, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. All information is provided for informational purposes only and should not be deemed as a recommendation to buy the securities mentioned.

Morningstar Rank:

The Morningstar Universes used for comparative analysis are constructed by Morningstar (median performance) and data is provided to Zacks by Zephyr Style Advisor. The percentile ranking for each Zacks Strategy is based on the gross comparison for Zacks Strategies vs. the indicated universe rounded up to the nearest whole percentile as of 09/30/18. Other managers included in universe by Morningstar may exhibit style drift when compared to Zacks Investment Management portfolio. Neither Zacks Investment Management nor Zacks Investment Research has any affiliation with Morningstar. Neither Zacks Investment Management nor Zacks Investment Research had any influence of the process Morningstar used to determine this ranking.

[1] WE CALL IT PURE INVESTING™

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At Zacks, we believe the "truth in investing" is ...the more of your investable assets allocated to stocks and bonds, the greater your net worth will grow. We call this Pure Investing™

Our competitors want to allocate an ever increasing % of your money to alternatives; hedge funds, fund of funds, commodity funds, options, futures or the hot trend or theme at the time, from tulip bulbs to mortgage backed securities.

These "alternatives" amount to gambling with your money, "mostly for the benefit of others". They do not create long-term value. These are simply zero-sum games with short- term winners and losers.

Why chase alternatives, when you can invest in the real thing? We believe there is a Better Way, benefit from Pure Investing™ at Zacks.

Indexes Presented:

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large company common stocks, mainly blue-chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees or other expenses. An investor cannot invest directly in this Index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 2000 Index is a well-known, unmanaged index of the prices of 2000 small-cap company common stocks, selected by Russell. The Russell 2000 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell Mid Cap Index is a well-known, unmanaged index of the prices of approximately 800 mid-cap company common stocks, selected by Russell. The Russell Mid Cap Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

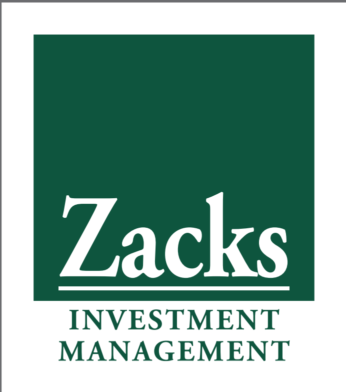
The Russell 1000 Growth Index is a well-known, unmanaged index of the prices of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 1000 Value Index is a well-known, unmanaged index of the price of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 3000 Index is a well-known, unmanaged index of the prices of 3000 broad U.S. equity company common stocks, selected by Russell. The Russell 3000 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The MSCI EAFE is an index from Morgan Stanley Capital International. The MSCI EAFE is a well-known, unmanaged index representing developed nation countries around the world. The MSCI EAFE Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Zacks Investment Management may utilize mutual funds in some client portfolios. Zacks Investment Management is the advisor to these funds and will receive compensation from the funds and their shareholders for advisory services. Additional information is available upon request.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