

September 30, 2018



401K PORTFOLIO OCTOBER 2018 UPDATE & NEWSLETTER



TAKE CONTROL OF YOUR FUTURE

October 2018 Newsletter

The S&P 500 gained more than 7% in the third fiscal quarter. This is the strongest fiscal quarter for that index since the end of 2013. All three major indexes are at or near record highs, as investors expect continued corporate earnings strength. Historically, a positive fiscal Q3 has indicated continued Q4 growth – and in midterm election years specifically, the S&P 500 has rallied an average of 7.1% in the fourth quarter following a Q3 gain.

There are NO CHANGES to any **EZTracker** model portfolios. Our equity positions continue to be well balanced and diversified, while we keep a watchful eye on sectors such as small caps and financials. **EZTracker** model portfolios continue to outperform since our June rotation out of international and emerging markets, and we continue to monitor re-entry points.



Portfolio Update on Page 4



Equity markets have so far remained resilient in the face of rising yields and trade tensions, suggesting investors are comfortable with the outlook for corporate earnings and global growth even as borrowing costs rise. This week, Federal Reserve officials raised interest rates for the 3d time this year and reaffirmed further gradual hikes into 2019. The language in the Fed minutes, however, seemed to acknowledge that rates have moved closer to the neutral level, potentially leading to a hiatus for the Fed to assess their effects on the economy. Investors currently expect another 0.25% hike in December and 2-3 more raises in 2019.

This month, Ray Dalio, founder of Bridgewater Associates, the world's largest fund with \$150B in AUM, gave a CNBC interview suggesting investors to be "more defensive" in the current stock market environment. The insightful parts included his comments on where we are in the cycle (he said 7th inning), when investors can expect the next downturn (two years), and China (tariffs are "not that big of a deal"). <https://www.cnbc.com/video/2018/09/11/ray-dalio-bridgewater-financial-crisis-economy-debt.html>.

We expect further global noise that could disrupt markets going forward like troubled Emerging Market currencies, a potentially messy Brexit and continued trade tensions between the US and its global partners. For example, EM's outlook has deteriorated since Q2 and downside risks still remain (**EZTracker** model portfolios all materially reduced EM exposure in June). Although China and other advanced economies are the drivers of the ongoing global expansion, the trade war creates uncertainty – how bad it will get and how deep will it damage the world economy. All this, however, has been relegated to the background as investors continue to focus on the United States, as domestic trends are fundamentally driving the markets. Here are the reasons why:

The Economy: Domestic growth has been strong, running at a 3.2% annual rate in the first half of the year, and inflation is still behaving. Lower inflation means less pressure on the Federal Reserve to raise interest rates;

Corporate Earnings: Profits for the S&P 500 are expected to rise 22% this year, and 10% next year according to CFRA Research. Since stocks typically trade on expectations of future earnings, you would expect valuations to rise as profits rise.

Valuation: The S&P is trading at about 18 times 2018 earnings and about 16 time forward (next year) expected profits;

Sectors: **EZTracker** model portfolios have been based on thorough sector analysis with an eye on large cap growth companies such as the FAANG group of companies (FB, AMZN, AAPL, NFLX, GOOGL) which are described more fully on Page 3;

Fixed Income & Rates: Although investors have shrugged off the increase in rates and the flattening of the yield curve, we continue to monitor these fixed income movements as we believe these trends are long-term bearish indicators (mentioned in previous newsletters) that are currently overshadowed by other strengths and bullish short-term forces.

Help Hotline: We help new subscribers get started, and current subscribers get back on track.

201.503.6445 | contact@eztracker401k.com

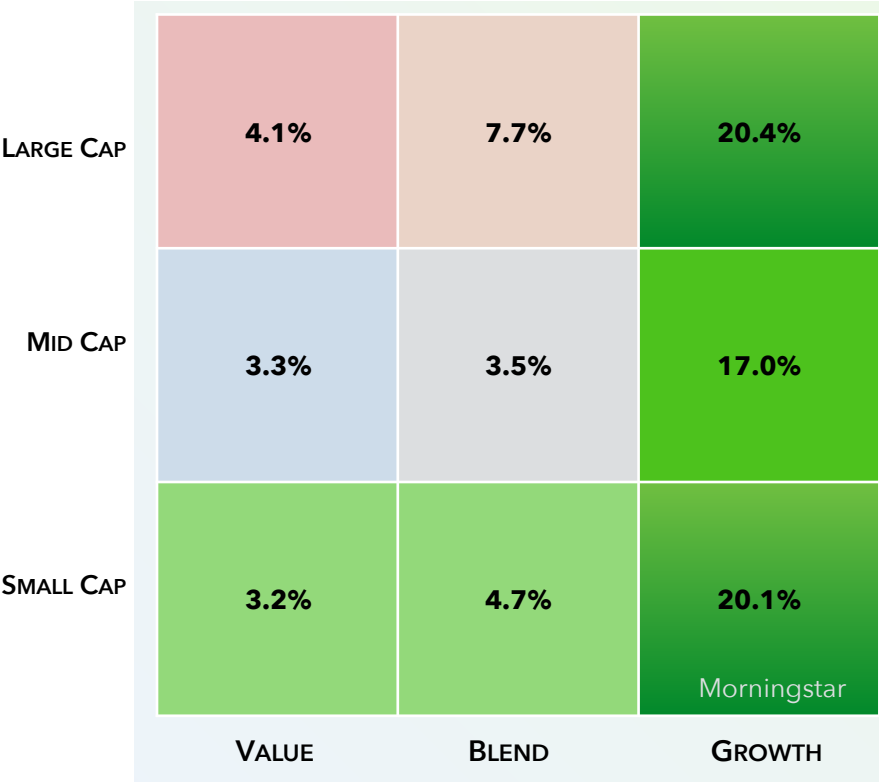
Economic Data

The **University of Michigan Consumer Sentiment** for September continues to suggest a fairly upbeat disposition among consumers. Households viewed their current and future finances more favorably in September, driven by expectations of better income levels. The U-M press release noted the single issue that had a potential negative effect on the economy was tariffs – cited by nearly one-third of all survey respondents. **Non-farm payrolls** rose 201,000 from the prior month, topping the median economist forecast of 190,000 jobs and the **unemployment rate** was unchanged at 3.9%, remaining at its lowest rate since the 1960s.

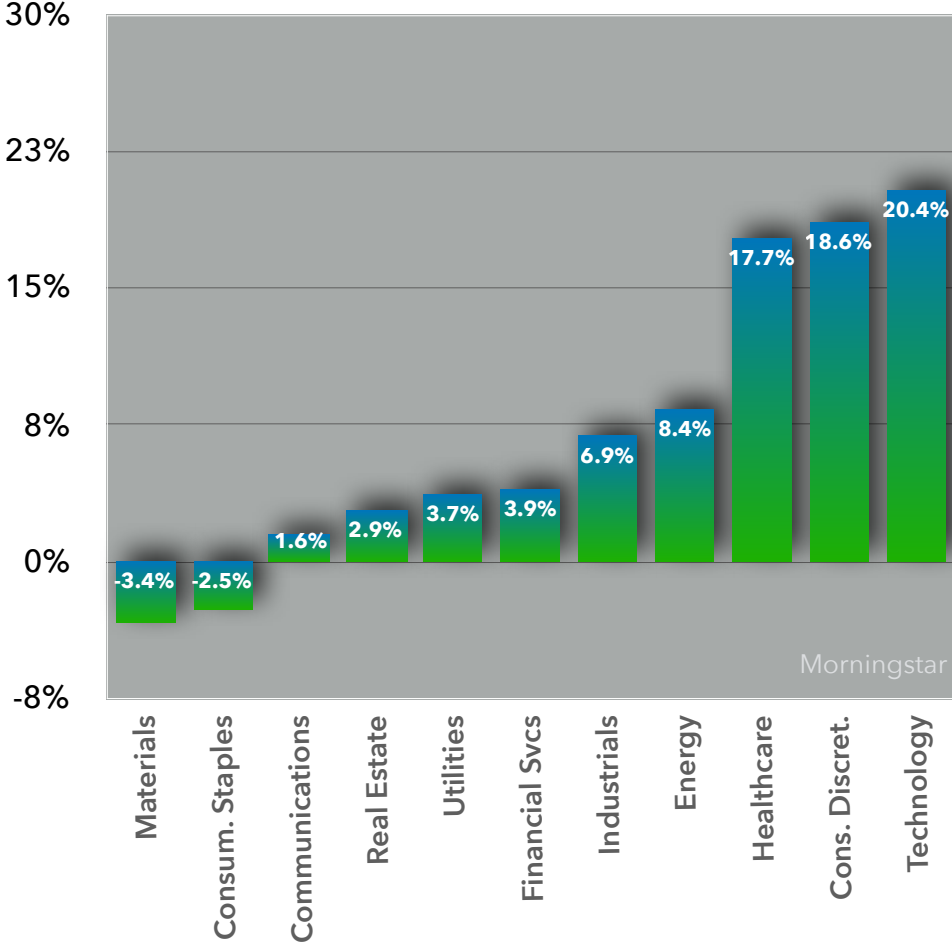
Sector Analysis

10 out of the 11 S&P Sectors posted gains in Q3. The leaders were Healthcare, Tech, Consumer Discretionary and Financials. The sole laggard was Real Estate. This past Friday we saw the launch of the **S&P Communications Services** sector, replacing the Telecommunications Sector and involving a reshuffling of major industry groups including some widely followed and traded names in the market. The new sector will include companies from three different industry groups, Communications, (e.g. Verizon) Technology (e.g. Facebook and Google's parent Alphabet) and Consumer Discretionary. (e.g. Netflix and Disney).

YTD Index Performance: Returns (%)



2018 YTD Sector Performance



In market speak, the acronym FAANG stands for *Facebook, Amazon, Apple, Netflix* and *Google* a collection of tech companies so widely followed by investors that the media came up with an nickname for them as a whole. Each of the companies within FAANG has been known to move markets and transform not just their own industries, but also how we all live. Together, the five companies make up approximately 13% of the S&P index with a collective market cap of nearly \$4 trillion. To look at their magnitude a different way, if FAANG was a country, and its market cap was the country's GDP, FAANG would be the fourth-largest economy in the world. Purchasing individual FAANG equities can be costly, so **EZTracker** relies on mutual funds and ETFs for appropriate exposure, while at the same time diversifying within other names providing protection.

FAANG corporate earnings are due out in early November, and each name has some questions including: public concerns about *Facebook* and *Google's* data-driven and ad-driven business models, *Netflix* and *Amazon's* stratospheric speculative valuations and *Apple's* new iPhone sales expectations.

Because these five companies are so heavily weighted in the markets, investors are looking for these answers as well as strong guidance to spur the markets to even higher levels. **EZTracker's** sector analysis takes into account the strength and growth runway of the FAANG group of companies.

EZTracker provides three model portfolios for Protective Employees; Aggressive, Moderate, and Conservative. Each is designed for different investment needs and styles, as well as level of risk tolerance.

STEP 1: Update Current Investments

Current Subscribers:



Aggressive, Moderate & Conservative Portfolios:
No changes for the coming month

New Subscribers:

Rebalance your 401k using the chart below for the portfolio you want to follow. If you need assistance, call our free help hotline at 201.503.6445.

| EZTracker Model Portfolios | Symbol | Aggressive | Moderate | Conservative | Buy Date |
|--|--------|------------|----------|--------------|----------|
| T.Rowe Price Growth Stock Fund | PRGFX | 10% | 5% | 5% | |
| Fidelity 500 Index Fund-Premium Class | FUSVX | 49% | 40% | 22% | |
| Columbia Mid Cap Index Fund Institutional Class | NMPAX | 16% | 11% | 5% | |
| Dodge & Cox Stock Fund | DODGX | 20% | 14% | 8% | |
| Managed Income Portfolio II Class 1 | | 5% | 15% | 30% | |
| Vanguard Total Bond Market Index Fund Admiral Shares | VBTLX | | 15% | 30% | |
| | | 100% | 100% | 100% | |

Your individual percentages may vary somewhat from those indicated above due to rounding, timing of purchases, and performance every month
(In many cases even though there may be no changes for a particular month you may notice a small change, due to performance/rounding).

STEP 2: Update Future Investment Elections

If you are adding cash to your 401k through payroll deductions, set your Future Contributions identical to your Current Investment in the above **EZTracker** Model Portfolio chart.

All the model portfolios consist of core holdings representing major market segments plus top performers based on current market conditions. Some market conditions may cause us to deviate from the following percentages.



- Aggressive Portfolio:**
95-100% invested in equities. This is a high risk/high reward portfolio.
- Moderate Portfolio:**
70% invested in equities and 30% invested in bonds or Managed Income Portfolio II
- Conservative Portfolio:**
40% invested in equities and 60% invested in bonds or Managed Income Portfolio II. This is our lowest risk portfolio.

Which Portfolio is Right for You: Selecting the right portfolio is an individual decision based on your **willingness** and **ability** to take risk. Only you can decide. Planning your retirement is more important than ever. Your portfolio choice will vary based on age, retirement horizon, savings & expenses, pension & social security income, other investment assets, personality, and other factors. We believe you can take control of your 401k and plan for the retirement you envision. We’ve arranged for advisors at Friedenthal Financial to do a **COMPLIMENTARY RISK ASSESSMENT** for you. Or, you can take this **SHORT QUIZ** on your own that they’ve provided (no personal information is required for the quiz). Your privacy is protected.

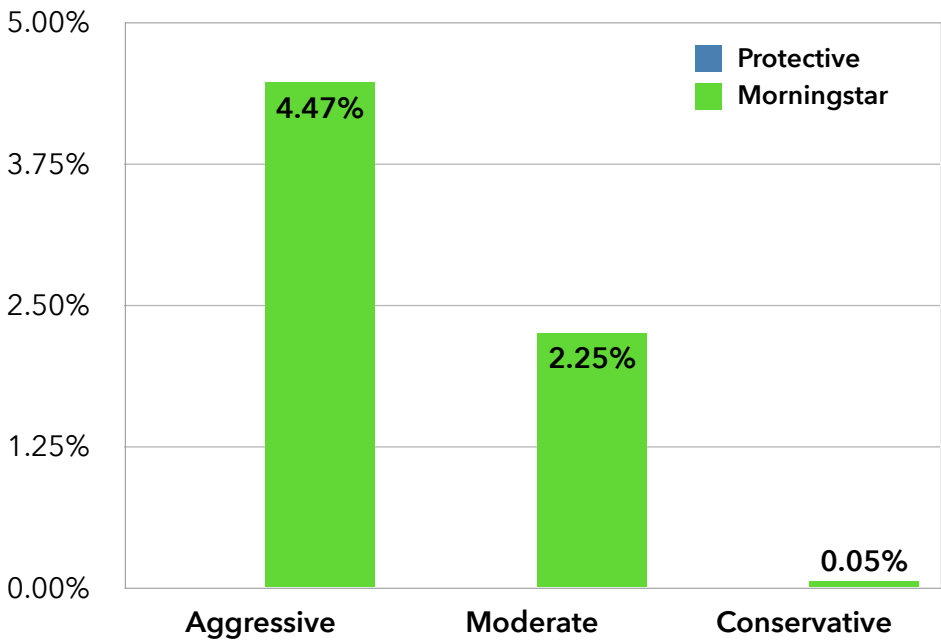
Performance

The **EZTracker** methodology used for **Protective** is the same methodology (investing in the best performing funds) we’ve used since we began publishing in 2002. It has consistently delivered superior long-term results. While past performance is no guarantee of future results, our past performance validates this long-term investing philosophy.

| Current Performance Through Sep 30, 2018 | MTD Sep* | YTD |
|--|--------------|--------------|
| EZTracker Aggressive | | |
| EZTracker Moderate | | |
| EZTracker Conservative | | |
| EZTracker Brokerage | | |
| Morningstar Benchmarks | | |
| Aggressive Target Risk Index | 0.68% | 4.47% |
| Moderate Target Risk Index | 0.25% | 2.25% |
| Conservative Target Risk Index | -0.28% | 0.05% |
| S&P 500 | 1.37% | 8.99% |

* Performance since last newsletter
Portfolio backtested to 12/31/17

Total Return versus Morningstar Benchmarks YTD



Morningstar Target Risk Index

The Morningstar Target Risk Index series serve as benchmarks to help with investment selections. They cover a global set of stocks, bonds and commodities. While not investable indices, they represent challenging benchmarks for long-term investing plans such as the **EZTracker** model portfolios.

Historical Performance

Any investment strategy should be measured one way: Results over time. Not one-week, one-month, or even one-year. While past performance is not a guarantee of future performance, our record has been excellent in delivering long-term returns. As with any long-term investing strategy, you should not expect dramatic short-term results to offset past losses.

Below is the current fund performance for the alternatives in the **Protective Life** 401k plan. The "Tracker Average" is a weighted average of performance over the past year and is a key factor in selecting funds for inclusion in the model portfolios.

| Fund | Fund Symbol | Total Return | | | | | Tracker Average |
|---|-------------|--------------|--------|---------|--------|--------|-----------------|
| | | 1 MO | 3 MO | 6 MO | 12 MO | YTD | |
| JPMorgan Mid Cap Growth Fund Class R5 | JMGFX | -0.85% | 8.39% | 14.12% | 26.68% | 20.03% | 26.37% |
| T.Rowe Price Growth Stock Fund | PRGFX | -0.17% | 4.86% | 11.02% | 22.25% | 15.28% | 20.71% |
| Fidelity 500 Index Fund-Premium Class | FUSVX | 0.57% | 7.71% | 11.40% | 17.87% | 10.54% | 20.48% |
| Dodge & Cox Stock Fund | DODGX | 0.16% | 6.49% | 9.43% | 13.70% | 7.51% | 16.24% |
| Columbia Mid Cap Index Fund Institutional Class | NMPAX | -0.47% | 4.67% | 7.36% | 13.45% | 7.38% | 13.64% |
| DFA U.S. Small Cap Portfolio Institutional Class | DFSTX | -2.73% | 3.00% | 10.21% | 12.65% | 8.53% | 12.62% |
| T.Rowe Price Retirement 2055 Fund | TRRNX | -0.25% | 2.72% | 3.71% | 8.70% | 4.11% | 8.12% |
| T.Rowe Price Retirement 2045 Fund | TRRKX | -0.26% | 2.67% | 3.67% | 8.66% | 4.11% | 8.04% |
| T.Rowe Price Retirement 2035 Fund | TRRJX | -0.20% | 2.55% | 3.42% | 7.91% | 3.69% | 7.46% |
| T.Rowe Price Retirement 2025 Fund | TRRHX | -0.11% | 2.37% | 2.95% | 6.58% | 3.01% | 6.44% |
| T.Rowe Price Retirement 2015 Fund | TRRGX | 0.00% | 2.00% | 2.41% | 4.89% | 2.14% | 5.07% |
| Managed Income Portfolio II Class 1 | | 0.12% | 0.46% | 0.85% | 1.41% | 1.55% | 1.55% |
| JPMorgan U.S. Government Money Market Fund Capital Shares | OGVXX | 0.12% | 0.36% | 0.66% | 0.87% | 1.10% | 1.10% |
| PIMCO Real Return Fund Institutional Class | PRRIX | -0.86% | -0.80% | -0.04% | 0.26% | -1.06% | -0.79% |
| Vanguard Total Bond Market Index Fund Admiral Shares | VBTLX | -0.53% | 0.03% | -0.14% | -1.21% | -1.61% | -1.01% |
| Dodge & Cox International Stock Fund | DODFX | 0.32% | 0.81% | -4.35% | -5.26% | -6.39% | -4.62% |
| DFA Emerging Markets Portfolio Institutional Class | DFEMX | -2.18% | -1.00% | -10.13% | -1.87% | -8.48% | -8.28% |



Questions, Comments, Problems?

Let us know if you have any questions or suggestions. We're just a click away at contact@eztracker401k.com. Or call 201.503.6445. For help or questions about rebalancing or fund-to-fund transfers call 201.503.6571. The information and data contained herein are compiled from sources and procedures believed reliable, but accuracy cannot be guaranteed.

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