Capital Market Outlook

Chief Investment Office

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MACRO STRATEGY

Government debt and deficits are the topic of much discussion, often raising concerns about the economic consequences of too much deficit spending. Updates by the Congressional Budget Office (CBO) since the passing of the Tax Cut and Jobs Act in 2017 have raised the outlook for U.S. nominal gross domestic product (GDP) growth by $7 trillion over the coming decade substantially reducing projected deficits and raising tax revenues well above the levels estimated when the law was passed.

GLOBAL MARKET VIEW

After a strong recovery in January, we expect global equities to consolidate for the time being. Further gains in the near term will likely be driven by slightly higher valuations as uncertainty around U.S./China trade levels off.

THOUGHT OF THE WEEK

As growth slows in the eurozone and political populism gains traction across the continent, at risk are large-cap U.S. corporate earnings. Although cyclical reflationary policies seem to be falling into place that should limit the profits downside to U.S. firms, given the region's uninspiring growth record, we are warily watching Europe.

PORTFOLIO CONSIDERATIONS

We continue to emphasize a higher-quality portfolio positioning overall; in terms of asset allocation this is represented by higher U.S. and large capitalization exposure than our longer-term strategic allocations and higher-quality fixed income relative to high yield and emerging market debt.

MACRO STRATEGY

THE FISCAL BOGEYMAN

Chief Investment Office Macro Strategy Team

Fears of government deficits and debt have been a ubiquitous feature of the American political discourse since the days of the founding fathers. Indeed, the idea of a perpetual central-government debt was a significant bone of contention between Alexander Hamilton, the first secretary of treasury, and Thomas Jefferson, the first secretary of state, that contributed to the creation of political parties and the bipartisan nature of the U.S. political system. Chronicles of the debates in the early days of the republic make it clear that the bitter animosities of today's political scene are nothing new.

Hamilton's views were heavily influenced by the British experience, which served as his model for a large marketable pool of government debt and a private central bank like the Bank of England, already a century old and established to help finance the government's wars with France. In his quest to build a strong central government, Hamilton recognized the importance of access to finance. He is regarded as the creator of the Federalist Party, which generally supported more centralized government power.

On the other side was the Jeffersonian Republican party, which was deeply suspicious of finance and government power, argued against a central bank like the Bank of England, and believed government debt was an evil to be avoided, if possible. The debate over a U.S. central bank continued until 1913, when the Federal Reserve System was finally established.

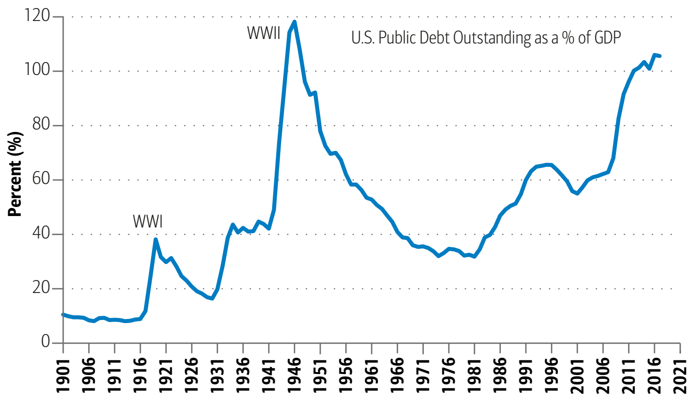
Without a central bank, and with a low tax base largely based on tariffs, government debt generally mushroomed only in wartime and languished afterward until the Great Depression and Second World War. The creation of entitlement programs, like Social Security, and massive defense expenditures in the 1940s solidified dependence on income taxes and heavy government borrowing. Since then, entitlements like health care and Social Security have been growing much faster than the overall economy, bringing debt and deficit concerns to the fore (Exhibit 1).

Interestingly, the only time the government debt seriously threatened economic stability was in the immediate aftermath

Data as of 02/19/2019 and subject to change.

of the Revolutionary War, when the institutions were still yet to be created to pay it back. Also, the "continentals" printed as money during the war generally became worthless. Aside from that experience, the U.S. has enjoyed the longest period of domestic monetary stability without hyperinflation of any major economy on the planet, well over two centuries. This relative monetary stability helps explain how the U.S. became the highest productivity economy in the world, as well as the wealthiest.

Exhibit 1: U.S. Debt and Deficits Were Highest During World War II.



Sources: U.S. Treasury/Haver Analytics. Data as March 6, 2018.

While the U.S. success to date provides a solid base for continued growth in government debt, it is still important to ponder what the limits are before government debt might become unsustainable and create economic stagnation or high inflation. Certain considerations help in this sense. First, the size of government deficits and debt relative to the size of the economy reached their highest levels of the past 120 years during World War II. Deficits more than six times as big as the deficits of recent years (25% of GDP compared to 4%) were routine during World War II. By the end of the war, the cumulative debt was over 100% of GDP. The Federal Reserve (the Fed) purchased the debt as needed to keep interest rates at very low levels. These actions illustrate how government debt, central banks and the money supply are intertwined just as they were back in Alexander Hamilton's day. Hamilton understood these relations and wanted a modern financial apparatus to help finance the newly evolving merchant and industrial economy in the early days of the republic. In contrast, Jefferson's and Madison's views were rooted more in the rural, agrarian culture they favored. There was also a creditor-debtor tension in their competing views.

In any event, the mechanics of interaction between a changing supply of government debt, central-bank policy and the balance of payments between the U.S. and the rest of the world helps to understand when there might be too much debt and why we have not really seen any symptoms of a serious debt problem since the Revolutionary War. Importantly, U.S. government debt forms the basis for the U.S. money supply. The Fed buys Treasury securities when it wants to expand the money supply. Over the course of the past 70 years, aside from the recent period of quantitative easing (QE), the normal growth in this central-bank demand for government debt has been around 6% a year, roughly in line with the growth rate in the cash flows through the economy and nominal GDP. This implies that once the Fed normalizes its balance sheet, the natural growth in Treasury debt demand for money-supply purposes is expected to be in the $120 to $180 billion range. Let's call it about $150 billion of new debt demand each year for the Fed's balance sheet. This is "monetized" debt that is never paid off and is essentially interest-free since the Fed refunds most of the interest payments to the Treasury.

Assuming nominal GDP growth of about 5% to 6% per year and a fixed ratio of government debt to GDP over time implies a fiscal deficit of 5% or 6% of GDP in addition to the Fed's monetary requirement. Since the level of nominal GDP is roughly equal to the level of government debt outstanding, just over $20 trillion, 5% of GDP is about $1 trillion. A deficit of $1 trillion plus the monetary-base requirement of about $150 billion implies that a deficit of $1,150 billion would keep the ratio of outstanding non-Fed-held government debt to GDP constant around current levels, which currently show no signs of strain on the economy. Furthermore, CBO projections for the fiscal deficit for the next ten years are mostly well below 5% of GDP.

Finally, the level of interest rates also influences the sustainability of government debt, as we often see in emerging markets. Rates far higher than GDP growth are usually a sign of serious debt problems. Fortunately, U.S. rates are usually in the ballpark of nominal GDP growth, and in recent decades have been even lower, allowing for higher levels of sustainable debt.

Another aspect for gauging the sustainable level of government debt is who owns it, domestic or foreign investors. People often express concern, for example, that large Chinese or Japanese holdings of Treasury securities make the U.S. vulnerable to sudden selling by these foreign holders. Like concern about the size of the debt, concern about foreign holding falls in the class of chronic worries that never turn into real world problems. Several factors explain why.

First, the flipside of the U.S. trade-deficit fueled outflow of dollars is foreign use of those dollars to invest in the U.S. The premier reserve currency status of the U.S. dollar causes external demand for greenbacks to grow several percentage points a year, matching the size of the trade imbalance. This demand for dollars from foreign countries and investors helps explain why the U.S. can run trade deficits on a perpetual basis without ever facing a day of reckoning. In total, foreigners have accumulated about $3 trillion more of assets in the U.S. than

U.S. investors have accrued abroad. That is, the U.S. balance sheet with the rest of the world is insolvent to the tune of just over $3 trillion. However, like other exaggerations of impending debt problems, this factor is often hyped in scary stories about the U.S. being the world's biggest debtor.

What these stories never mention is the astounding fact that the income flows from U.S. assets held abroad exceed the income flows from the U.S. to foreign investors despite their larger holdings.[1] This phenomenon highlights a major reason why the big U.S. deficits and debt don't cause the kind of negative consequences alarmists are constantly warning about: A substantial share of foreign investment in the U.S. takes the form of U.S. Treasury holdings.

As mentioned above, the U.S. economy has the longest, most stable economic, political and monetary track record of any major economy in the world. As a result, foreign investors living in less stable environments seek U.S. Treasuries as a lower-risk investment compared to those in their own countries, where there is often a history of less political and monetary stability. Thus, foreign investors generally buy more low-yielding, higher-quality investments, while U.S. investors tend to go abroad for higher yielding, riskier investments. The higher yield on a smaller amount of riskier investments abroad typically generates more income for U.S. investors than the larger amount of lower yielding U.S. assets held by foreigners.[1]

Part of the U.S. "exorbitant privilege" is a positive net-income flow despite its net-debtor status. The U.S. essentially gets paid to be the world's largest debtor nation.

In addition, U.S. Treasury debt is issued in dollars, and the U.S. central bank can print as many dollars as it needs to balance economic forces like interest rates and inflation. Other countries, as we saw in Turkey and Argentina in 2018, for example, often borrow dollars but don't enjoy the "exorbitant privilege" of being able to print greenbacks to pay back their debt. As a result, they sometimes don't have enough dollars to repay their debt, precipitating financial crises.

Putting it all together, the U.S. has avoided the negative consequences of excessive government borrowing for some basic fundamental reasons. The growth of government debt has largely been within the parameters set by the size and growth rate of the economy that generates the tax revenues to finance the government. In addition, the U.S. enjoys wider latitude to borrow beyond the limits constraining most other countries. Thanks to its more stable monetary history and premier reserve-currency status, there is a substantial external demand for U.S. government debt that adds to the fiscal capacity of our economy. Comparing the limits set by these factors with CBO projections for future fiscal deficits suggests the U.S. government will be able to finance future deficits without the severe side effects seen in many other countries with big deficits.

[1] Source: Haver Analytics as of February 2019.

GLOBAL MARKET VIEW

THE DRIVERS OF FUTURE STOCK RETURNS

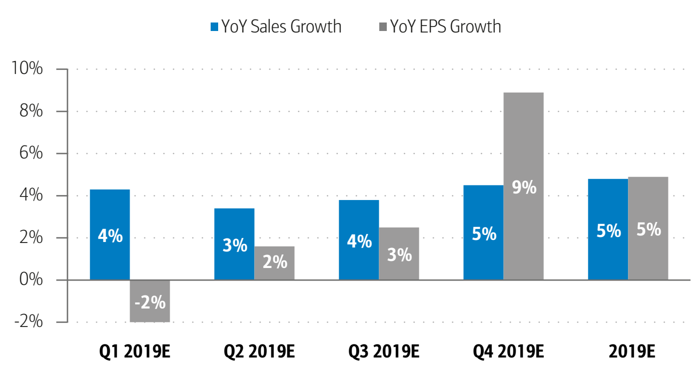
Niladri Mukherjee, Head of CIO Portfolio Strategy

Global equities have enjoyed a nice bounce off the lows in late December. Whereas the latter part of 2018 saw risk after risk being piled on, finally breaking investor sentiment, in January investors were comforted by the Fed pivoting to a more dovish stance than they had earlier indicated. The most oversold segments of the market, such as small caps and cyclicals sectors like energy and industrials, have led the recovery this year as fears of a U.S. recession have partially receded.[2] With the S&P 500 higher by 10% for the year but still 6% below the highs in September, the likely trajectory for equities is one of consolidation while waiting for confirmation that the business and profit cycle has legs.

THE YIN AND YANG OF PROFITS AND MULTIPLES

Corporate profits are expected to be less supportive for the markets in the near term, if consensus numbers are to be believed. For the S&P 500, profit forecasts for Q1 have been steadily cut, with analysts now expecting a decline of 2% year over year (YoY), which if it comes to pass would be the first YoY decline since Q2 2016. For 2019, the consensus forecast for earnings implied a YoY growth rate of just 5%, down from roughly 10% on September 30 (Exhibit 2).

Exhibit 2: S&P 500: Sales and Earnings Estimates for 2019.



E=Estimates. Source: FactSet. Data as of February 13, 2019.

[2] Source: Bloomberg as of February 13, 2019.

The primary culprit for these downgrades is that analysts are yet to be convinced that growth is on a stable track, especially outside the U.S. While China's slowdown in its manufacturing sector and consumer spending is being cautiously watched, the European Commission reduced the region's growth estimates last week to 1.3% for this year from their prior forecast of 1.9%, with sizeable cuts for larger member states like Germany and Italy. This economic uncertainty is filtering through to lower profit expectations for international stocks, with analysts now cutting their European earnings per share (EPS) growth estimate from 10% in October to 7%.

Meanwhile, valuations for U.S. equities, which had cratered to less than 14x in December on a forward price to earnings (PE) basis, have recovered to 16x, in line with their histroic average. For global equities, the forward PE has also risen from 12.4x to 14x. This recent recovery in stock prices and valuation multiples can be attributed to more dovish central banks and lower bond yields globally. Given the headwinds from earnings, for the markets to move higher, valuations may need to continue to do the heavy lifting, at least in the near term.

NEAR TERM: STOCK RETURNS CONTINGENT ON MULTIPLE EXPANSION

The escalating trade war between the U.S. and China has had a larger than originally anticipated impact on the global economy. Trade, industrial data, business sentiment and spending, and lately consumer confidence have progressively deteriorated as the White House imposed tariffs on Chinese imports. We are cautiously optimistic on the prospect for a deal or at least a ceasefire with promise to keep negotiating, as both President Trump and President Xi are likely averse to further damage to the economy and asset prices. The market is beginning to sniff out some good news as well, as evidenced by the 13% bounce in Chinese stocks this year and the near 3% rise in its currency since the end of November, according to Bloomberg.

To be sure, a deal can mean everything or nothing when it comes to the substance of what is agreed upon. The most likely outcome in our view is that China agrees to lower tariffs on key American exports such as cars and agricultural products first while thornier issues like intellectual property protection and forced technology transfer are likely to be moved to an extended timeline for further discussions.

With global central banks again standing on the side of the markets, a scenario of renewed trade growth should create the space for multiples to expand. In the near term, emerging markets are likely to see the biggest potential benefit from this as may stocks in Europe, where countries are more dependent on global trade and where we have seen persistent weakness in export data from Germany, as an example.

MEDIUM TERM: THE FOG NEEDS TO CLEAR ON THE ECONOMY AND PROFITS

It is interesting to note that earnings growth forecasts for the S&P 500 for the first three quarters of this year are now below the corresponding revenue growth estimates. This negative growth gap between earnings and revenues is unusual in an economic expansion and suggests that analysts may have over-corrected earnings estimates and believe that margins may drop.

Given this low bar for earnings, for the next three quarters, we think positive surprises are more likely now. This could bring some support for equities, but for a sustained rally, investors will need confirmation that the economic expansion and profit cycle is durable at least through early 2020. The Fed remaining patient and positive developments on the U.S./China trade relationship are prerequisites for this to happen, and still remain our base case. Overall, we expect S&P 500 earnings to grow 5% in 2019, supported by top line growth, moderating unit labor costs and share buybacks. However, given that almost 40% of S&P 500 revenues are outside the U.S., the possibility of a recession in Europe and further material weakness in China are key risks to our estimates.

Emerging market equities have been outperforming global equities since last fall, but in the medium term their fortunes will depend on how effective China's monetary and fiscal accommodation are in keeping GDP growth above the 6% levels. Meanwhile, a sustainable rally in European equities will only come when growth metrics revive in major economies like Germany, in our view. Improving trade will help, but significant expansion of fiscal stimulus across the region may be needed to begin to stop the downward spiral. This may seem impossible given that Brussels has just forced Italy to adhere to strict budgetary limits, but there are early signs that some countries are either itching to or beginning to loosen the fiscal purse strings. For example, in Germany, Annegret Kramp-Karrenbauer, Angela Merkel's successor as the new leader of the party has called for tax cuts to head off the economic slowdown.

Exhibit 3: Future Drivers of Stock Returns.

Current trend indicated as Positive (+), Negative (-) or Uncertain (=)

Global Equities	Near Team (3–6 months) Valuation expected drivers	Medium Term (6–12 months) Growth and profit expected drivers
U.S.	• US-China trade outcome (=) • Dovish central banks (+) • Washington budget standoff (-)	• Global trade revives (-) • Consumer spending (+) • Manufacturing improves (-) • Business confidence & capex (=) • Productivity and labor force participation rises to keep inflation tame (+)
Europe	• Brexit (-) • US-China trade outcome (=) • Political risk – France, Parliamentary elections (-) • Dovish central banks (+)	• Global trade revives (-) • Germany, Italy, France economic activity stabilizes (-) • Fiscal stimulus (+) • Easing of political risk (-)
Emerging Markets	• US-China trade outcome (=) • Dovish central banks (+) • Dollar weakness (+)	• China manages to keep growth above 6% i.e. no hard landing (=) • Global trade revives (-) • U.S. dollar weakens (+)

Source: Chief Investment Office as of February 15, 2019.

CONCLUSION

After a strong recovery in January, we expect global equities to consolidate for the time being. Further gains in the near term will likely be driven by slightly higher valuations as uncertainty around U.S./China trade levels off. Thereafter, a sustained rally in the medium term will depend on improving economic activity and stabilization of profit growth.

We recommend investors consider remaining within their strategic asset allocations. We believe this is not the environment to be too aggressive given the cloudy backdrop for growth and profits, or too defensive given the newfound dovish stance by the major central banks. A slight pro-risk tilt in our view is appropriate favoring the U.S. and emerging market equities, which are more likely to sustain further upside if the U.S. economy can grow in the 2% to 2.5% levels, and Chinese growth stabilizes, which is our base case. It is too early to get optimistic on European equities, until signs of growth stabilization come through, likely as a result of fiscal stimulus and structural reforms.

THOUGHT OF THE WEEK

WARILY WATCHING EUROPE

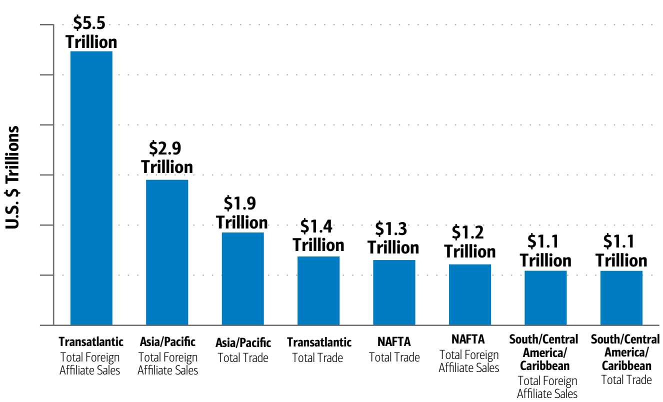
Joseph P. Quinlan, Head of CIO Market Strategy

U.S.-China trade tensions have become increasingly problematic for U.S. corporations, but a larger threat to U.S. earnings could be building across the Atlantic.

We are warily watching Europe because:

- No commercial artery in the world is as large as the investment artery forged between the United States and Europe. Total transatlantic foreign affiliate sales were estimated at $5.5 trillion in 2017, easily ranking as the top artery in the world (Exhibit 4).

Exhibit 4: America's Major Commercial Arteries.



NAFTA represents U.S. trade and sales linkages with U.S. and Canada, excluding trade and affiliate sales ties between Mexico and Canada.
Source: Bureau of Economic Analysis.
Foreign Affiliate Sales: Estimates for 2017. Total Trade: Data for goods & services, 2017.

- According to the latest figures from the Bureau of Economic Analysis, U.S. foreign assets in Europe totaled $15.6 trillion in 2016, representing roughly 62% of the global total.
- U.S. majority-owned foreign affiliate sales on a global basis (goods and services) totaled an estimated $6.2 trillion in 2017, according to our estimates, with U.S. foreign affiliate sales in Europe accounting for roughly half of the global total. Sales of U.S. affiliates in Europe were roughly 75% larger than the comparable figures for the entire Asian region.
- In 2017, U.S. affiliate income in Europe rose to a record $265 billion, and by another 6% in 2018 by our estimate, to a record $281 billion. Putting that number into perspective, U.S. affiliate income in Europe—$211 billion in the first nine months of 2018—was about three times more than the affiliate income of Latin America ($71 billion) and Asia ($69 billion), respectively. U.S. income in Europe accounts for 55% of the global total.

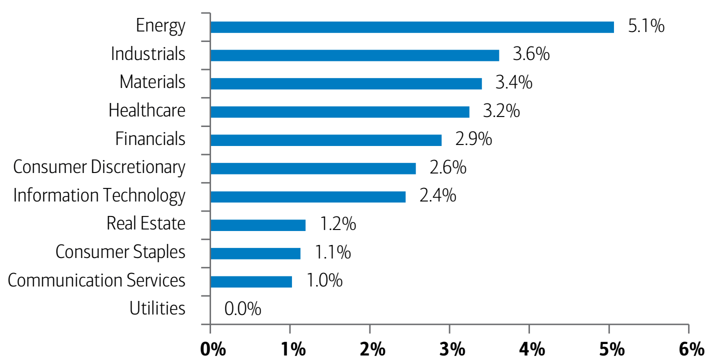
Europe matters, in other words. As growth slows in the eurozone, as the U.K. bumbles towards Brexit, and political populism gains traction across the continent, at risk are large-cap U.S. corporate earnings. The good news: the European Central Bank (ECB) is on hold; and fiscal austerity has given way to spending across most of Europe. Although cyclical reflationary policies seem to be falling into place that should limit the profits downside to U.S. firms. That said, however, given the region's uninspiring growth record, we are warily watching Europe.

MARKETS IN REVIEW

Equities

	Current	Total Return in USD (%) WTD	MTD	YTD
DJIA	25,883.25	3.2	3.8	11.4
NASDAQ	7,472.41	2.4	2.7	12.7
S&P 500	2,775.60	2.6	2.8	11.0
S&P 400 Mid Cap	1,914.01	3.4	4.4	15.3
Russell 2000	1,569.25	4.2	4.7	16.5
MSCI World	2,072.62	2.3	2.0	9.9
MSCI EAFE	1,855.25	2.0	0.6	7.2
MSCI Emerging Markets	1,036.73	-0.5	-1.8	6.8

S&P 500 Sector Returns



Fixed Income[1]

	Current	Total Return in USD (%) WTD	MTD	YTD
Corporate & Government	3.13	-0.1	0.1	1.3
Agencies	2.74	-0.1	0.0	0.4
Municipals	2.55	0.0	0.3	1.0
U.S. Investment Grade Credit	3.19	-0.1	0.0	1.1
International	3.91	0.0	0.3	2.6
High Yield	6.74	0.6	0.9	5.4
	Current	**Prior Week End**	**Prior Month End**	**2018 Year End**
90 Day Yield	2.36	2.37	2.35	2.36
2 Year Yield	2.52	2.47	2.46	2.49
10 Year Yield	2.66	2.64	2.63	2.69
30 Year Yield	2.99	2.98	3.00	3.02

Commodities & Currencies

Commodities	Current	Total Return in USD (%) WTD	MTD	YTD
Bloomberg Commodity	169.07	1.2	0.4	5.9
WTI Crude $/Barrel[2]	55.59	5.4	3.3	22.4
Gold Spot $/Ounce[2]	1,321.55	0.5	0.0	3.0
Currencies	**Current**	**Prior Week End**	**Prior Month End**	**2018 Year End**
EUR/USD	1.13	1.13	1.14	1.15
USD/JPY	110.47	109.73	108.89	109.69
USD/CNH	6.77	6.78	6.71	6.87

Source: Bloomberg, Factset.Total Returns from the period of 02/11/19 to 02/15/19. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 02/15/19 close.
Past performance is no guarantee of future results.

Asset Class Weightings (as of 01/08/19)

	Under-weight		Neutral		Over-weight
Global Equities	•	•	•	●	•
U.S. Large Cap Growth	•	•	•	●	•
U.S. Large Cap Value	•	•	•	●	•
U.S. Small Cap Growth	•	•	•	●	•
U.S. Small Cap Value	•	•	●	•	•
International Developed	•	●	•	•	•
Emerging Markets	•	•	•	●	•
Global Fixed Income	•	●	•	•	•
U.S. Governments	•	●	•	•	•
U.S. Mortgages	•	●	•	•	•
U.S. Corporates	•	•	●	•	•
High Yield	•	●	•	•	•
U.S. Investment Grade Tax Exempt	•	•	●	•	•
U.S. High Yield Tax Exempt	•	●	•	•	•
International Fixed Income	●	•	•	•	•
Alternative Investments*	see CIO Asset Class Views				
Hedge Funds					
Private Equity					
Real Assets					
Cash					

* Many products that pursue Alternative Investment strategies, specifically Private Equity and Hedge Funds, are available only to pre-qualified clients.

Economic and Market Forecasts (as of 02/18/19)

	Q2 2018A	Q3 2018A	Q4 2018A	Q1 2019E	2018A	2019E
Real global GDP (% y/y annualized)	–	–	–	–	3.8*	3.5
Real U.S. GDP (% q/q annualized)	4.2	3.4	1.5*	1.5	2.8*	2.2
CPI inflation (% y/y)	2.7	2.6	2.2	1.5	2.4	1.6
Core CPI inflation (% y/y)	2.2	2.2	2.2	2.2	2.1	2.3
Unemployment rate(%)	3.9	3.8	3.8	3.9	3.9	3.7
Fed funds rate, end period (%)	1.88	2.13	2.38	2.38	2.38	2.88
10-year Treasury, end period (%)	2.86	3.06	2.68	3.00	2.68	3.00
S&P 500, end period	2718	2914	2507	–	2507	2900
S&P earnings ($/share)	41	43	40*	–	162*	170
U.S. dollar/euro, end period	1.17	1.16	1.15	1.16	1.15	1.25
Japanese yen/U.S. dollar, end period	111	114	110	106	110	101
Oil ($/barrel, avg. of period, WTI**)	68	69	59	58	65	59

The forecasts in the table above are the base line view from BofAML Global Research team. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts.

Past performance is no guarantee of future results. There can be no assurance that the forecasts will be achieved. Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

A = Actual. E/* = Estimate. S&P 500 represents a fair value estimate for 2019. **West Texas Intermediate
Sources: BofA Merrill Lynch Global Research; GWIM ISC as of February 18, 2019.

INDEX DEFINITIONS

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.

Indexes are all based in dollars.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

IMPORTANT DISCLOSURES

This material was prepared by the Chief Investment Office (CIO) and is not a publication of BofA Merrill Lynch Global Research. The views expressed are those of the CIO only and are subject to change. This information should not be construed as investment advice. It is presented for information purposes only and is not intended to be either a specific offer by any Merrill Lynch or U.S. Trust entity to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available.

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Investing involves risk, including the possible loss of principal. No investment program is risk-free, and a systematic investing plan does not ensure a profit or protect against a loss in declining markets. Any investment plan should be subject to periodic review for changes in your individual circumstances, including changes in market conditions and your financial ability to continue purchases.

Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance.

It is not possible to invest directly in an index.

Asset allocation, diversification, dollar cost averaging and rebalancing do not ensure a profit or protect against loss in declining markets. Dollar cost averaging involves continual investment in securities regardless of fluctuating price levels; you should consider your willingness to continue purchasing during periods of high or low price levels.

Past performance is no guarantee of future results.

Stocks of small-cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

Companies may reduce or eliminate dividend payment to shareholders. Historically, dividends make up a large percentage of stocks' total return.

Investing in fixed-income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and share price fluctuations due to changes in interest rates. When interest rates go up, bond prices typically drop, and vice versa. Income from investing in municipal bonds is generally exempt from Federal and state taxes for residents of the issuing state. While the interest income is tax-exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the Federal Alternative Minimum Tax (AMT).

Investments focused in a certain industry may pose additional risks due to lack of diversification, industry volatility, economic turmoil, susceptibility to economic, political or regulatory risks and other sector concentration risks.

Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risks related to renting properties, such as rental defaults.

Nonfinancial assets, such as closely-held businesses, real estate, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not suitable for all investors. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

Investments in tangible assets are highly volatile and are speculative. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors.

Alternative Investments such as private equity funds, can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk.

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The investments discussed have varying degrees of risk. Some of the risks involved with equities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Bonds are subject to interest rate, inflation and credit risks. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Income from investing in municipal bonds is generally exempt from federal and state taxes for residents of the issuing state. While the interest income is tax exempt, any capital gains distributed are taxable to the investor. Income for some investors may be subject to the federal alternative minimum tax (AMT).

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