

Freedom portfolio positioning in a more volatile market

Amid signs the United States is transitioning to the latter stage of the economic cycle, asset allocation shifts are intended to mitigate risk.

While it can be challenging to attribute market behavior to any specific factor, recent volatility can be considered typical as the markets anticipate the United States transitioning into the latter stage of the economic cycle. In this and all stages of the cycle, the Asset Management Services (AMS) Investment Committee (IC) positions Freedom portfolios in an attempt to maximize return potential while considering the amount of downside risk a client can accept.

TRANSITIONING TO LATE-CYCLE GROWTH

The period of economic growth that began shortly after the financial crisis of 2008 has been one of the longest in U.S. history – and it's still going. Yet, more than 10 years into an unprecedented bull market, we do see indications the United States is transitioning to the latter stage of the economic cycle, in which growth begins to slow: extremely high valuations for growth-oriented stocks, an emphasis on stocks with high potential rather than solid fundamentals, relatively little difference between yields for high-quality and low-quality bonds, and a Federal Reserve committed to raising short-term interest rates.

With that as a backdrop, understand that markets tend to be forward-looking and highly dependent upon change from their current state. So, while economic growth has been stronger in 2018 than in 2017, the markets have begun to anticipate the likelihood that 2019 will not keep pace. Overall, economic data supports continued growth in 2019, albeit slower growth – perhaps by as much as half – than in 2018. This

KEY TAKEAWAYS

The United States is transitioning to the latter stage of the economic cycle, in which growth will start to slow.

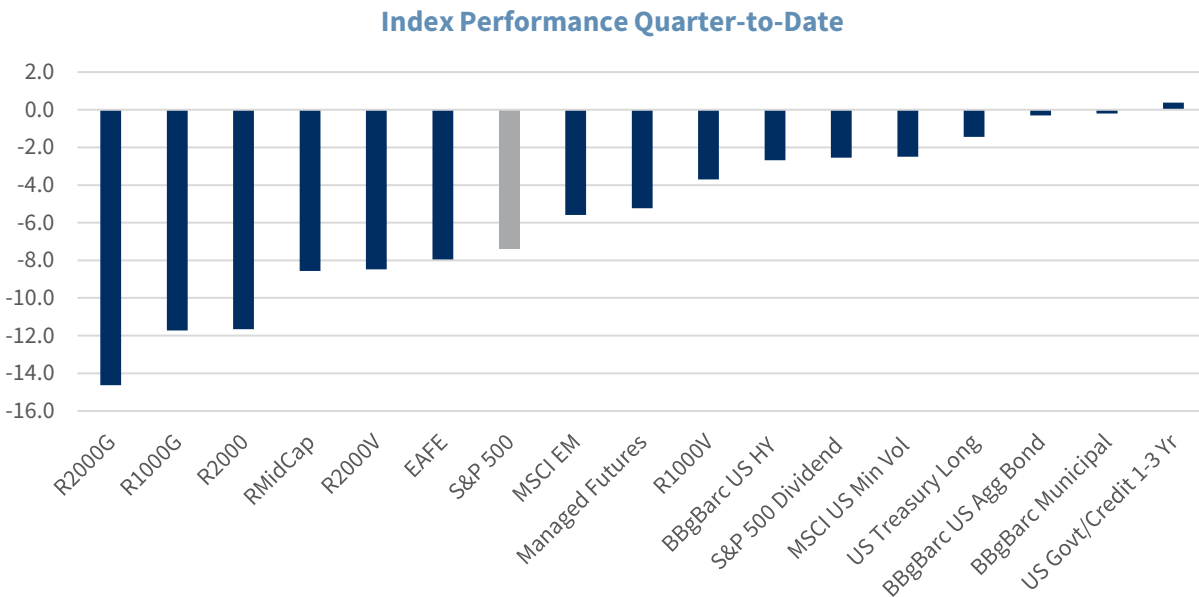
The markets tend to be forward-looking and dependent upon change, with volatility in late 2018 occurring in anticipation of slower growth in 2019, even as economic indicators and market fundamentals remain positive.

Freedom portfolios have a bit less equity and a bit more high-quality fixed income than normal. In 2017, the AMS Investment Committee began shifting toward asset classes with attractive fundamentals and the potential to mitigate risk in an equity downturn.

All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful. Asset allocation and diversification does not ensure a profit or protect against a loss.

change from great to good is what U.S. markets appear to be digesting somewhat uncomfortably, even as economic indicators and market fundamentals remain solid.

As the chart below shows, U.S. equities declined in the first 50 days of the fourth quarter, with small caps declining more than large caps, and growth stocks declining more than value stocks. Fitting of a minor downturn, larger declines came in areas of the market that were considered expensive. More defensive asset classes – U.S. dividend-yielding and low-volatility equities – fared better. Fixed income did not provide as much downside protection as it has historically, though short-term bonds responded positively to rising interest rates.



Data in the chart as of 11/19/2018

FREEDOM PORTFOLIO POSITIONING

Arguably the most important element in constructing Freedom portfolios is asset allocation – the mix of asset classes that serves to mitigate risk and minimize volatility. Many factors must be considered in determining the appropriate allocation for each portfolio objective, be it Conservative or Balanced or Growth. Our goal is to attempt to maximize return for each objective’s risk budget – the amount of risk the client is willing and able to accept.

While each objective has an allocation target, we occasionally decide to overweight or underweight individual asset classes. For equities, our investment process prefers asset classes with attractive fundamentals, good quality and profitability, and positive sentiment. Fixed income weightings are more straightforward, especially for high-quality U.S. bonds where investors can earn the same yield as low-quality bonds of the same duration.

Currently, Freedom portfolios own a little less equity than normal and a little more high-quality fixed income, based on where the United States is in the economic cycle. In 2017, the AMS IC started to shift toward asset classes with attractive fundamentals and the potential to mitigate risk in an equity downturn.

The charts and tables presented herein are for illustrative purposes only and should not be considered as the sole basis for your investment decision. All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful. Asset allocation and diversification does not ensure a profit or protect against a loss. Illustrated peer groups may be subject to specific risks in addition to broad market risks. Peer groups are not available for direct investment. Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

Money was moved from U.S. small- to mid-cap equity into international developed markets equity based on concern for extended small-cap valuations and the potential for increased downside risk in late-cycle markets. International developed markets equity – representing established economies such as those in the Eurozone and Japan – offered the opportunity for more upside potential with less downside risk.

Money also was reallocated from traditional U.S. large caps to more defensive large-cap positions, referred to as minimum volatility or managed volatility. The AMS IC believes this improved the quality of the U.S. equity positions in Freedom portfolios and reduced the potential for downside capture.

In 2018, the AMS IC continued reducing high-yield bond exposure and increasing exposure to high-quality U.S. short duration bonds, believing the flattening of the yield curve made short-term more attractive as interest rates rose. It also continued to move U.S. equity into low-volatility positions.

Asset class	Relative to AMS IC policy	Rationale
U.S. small-cap equity	Underweight	Extremely high valuations for U.S. small-cap at the end of 2017 prompted the AMS IC to seek more attractive opportunities
International developed markets equity	Overweight	Valuations for international developed markets equity were most attractive among all asset classes in the AMS model. The United Kingdom's withdrawal from the European Union and Italy's debt bear watching.
U.S. high-quality bonds	Overweight	High-yield bond spreads have shrunk the past few years. When investors are not compensated for the risk of junk bond, it is time to go another direction. Some portfolios are now void of high-yield exposure.
U.S. defensive equity	Overweight	Defensive equity can include stock portfolios managed to be low in volatility or those lower in downside risk, such as dividend-oriented strategies.

LOOKING AHEAD

The Federal Reserve is likely to increase its short-term lending rate in December and twice more in 2019, but is nearing its consensus target range of 2.75% – 3.25%. That means the increases could be nearly done, and bond yields and prices should start to stabilize as this becomes more apparent to the market. Concern comes from the belief that rising rates tend to create a headwind for the economy and may lead to a slowdown – not a recession, but a slowdown.

This deceleration is what the markets are concerned about now, even as economic data remains positive and market fundamentals remain solid. Markets, unfortunately, tend to decline more than they should. On the other hand, the recent drawdown in the equity markets has helped to level the playing field, so to speak, with regard to valuations. The AMS IC will continue to monitor these market fundamentals and other data.

Keep in mind, most changes to Freedom portfolios over the past year were in anticipation of more volatility and downside potential. Any additional changes would occur in an attempt to earn the best possible return for the amount of downside risk the committee is willing to tolerate, in alignment with portfolio objectives and client goals.

All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful. Asset allocation and diversification does not ensure a profit or protect against a loss. Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

DISCLOSURES

The contents of this white paper reflect the thoughts and opinions of Raymond James Asset Management Services and are subject to change without notice. These materials are for information purposes only and should not be construed as a recommendation regarding any security outside of a managed account. This report does not purport to be a complete description of the securities, markets or developments discussed.

It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investors; you may incur a profit or a loss. Past performance is no guarantee of future results. There is no assurance that any investment strategy will be successful.

Any charts and tables presented herein are for illustrative purposes only and should not be considered as the sole basis for an investment decision. There can be no assurance that the future performance of any specific investment or investment strategy made reference to be profitable or equal any corresponding indicated historical performance level(s). This information should not be construed as a recommendation.

Indices and peer groups are not available for direct investment. Asset allocation and diversification do not ensure a profit or protect against a loss. Strategies discussed are subject to change at any time by Asset Management Services due to market conditions or opportunities.

- Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default or principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks.
- There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Short-term bonds with maturities of three years or less will generally have lower yields than long term bonds which are more susceptible to interest rate risk.
- Please note these portfolios may be subject to state, local, and/or alternative minimum taxes. You should discuss any tax or legal matters with the appropriate professional.
- International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic instability.
- Investing in emerging markets can be riskier than investing in well-established foreign markets. Emerging and developing markets may be less liquid and more volatile because they tend to reflect economic structures that are generally less diverse and mature and political systems that may be less stable than those in more developed countries.
- Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.
- Stocks of smaller or newer or mid-sized companies may be more likely to realize more substantial growth as well as suffer more significant losses than larger or more established issuers.
- These portfolios may be subject to international, small-cap and sector-focus exposures as well. Accounts may have over weighted sector and issuer positions, and may result in greater volatility and risk.
- Companies in the technology industry are subject to fierce competition, and their products and services may be subject to rapid obsolescence

DEFINITIONS

R2000G: The term Russell 2000 Growth Index refers to a composite of small cap companies located in the United States that also exhibit a growth probability. The Russell 2000 Growth Index is published and maintained by FTSE Russell.

R1000G: The term Russell 1000 Growth Index refers to a composite that includes large and mid-cap companies located in the United States that also exhibit a growth probability. The Russell 1000 Growth is published and maintained by FTSE Russell.

R2000: The Russell 2000 index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

RMidCap: The Russell Midcap Index is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between \$2 and \$10 billion. The 800 companies in the Russell Midcap Index are the same 800 of the 1,000 companies that comprise Russell 1000 Index.

R2000V: The term Russell 2000 Value Index refers to a composite of small cap companies located in the United States that also exhibit a value probability. The Russell 2000 Value is published and maintained by FTSE Russell.

EAFE: The EAFE Index is a stock index that serves as a performance benchmark for the major international equity markets as represented by 21 major MSCI indices from Europe, Australia and the Middle East. The EAFE Index is the oldest international stock index and is commonly called the MSCI EAFE Index.

S&P500: The S&P 500 Index (formerly Standard & Poor's 500 Index) is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The index is widely regarded as the best single gauge of large-cap U.S. equities.

MSCI EM: The MSCI Emerging Markets Index stands for Morgan Stanley Capital International (MSCI), and is an index used to measure equity market performance in global emerging markets.

Managed Futures: Managed futures refers to an investment where a portfolio of futures contracts is actively managed by professionals. Managed futures are considered an alternative investment and are often used by funds and institutional investors to provide both portfolio and market diversification. Managed futures provide this portfolio diversification by offering exposure to asset classes to help mitigate portfolio risk in a way that is not possible in direct equity investments like stocks and bonds. The performance of managed futures tends to be weakly or inversely correlated with traditional stock and bond markets.

R1000V: The term Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability. The Russell 1000 Value is published and maintained by FTSE Russell.

BBarc US HY: The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations.

S&P 500 Dividend: The S&P 500 Dividend Aristocrats Index is a list of companies in the S&P 500 with a track record of increasing dividends for at least 25 consecutive years. It tracks the performance of well-known, mainly large-cap, blue-chip companies. Standard & Poor's will remove companies from the index when they fail to increase dividend payments from the previous year. The index is rebalanced annually in January.

MSCI US Min Vol: The index aims to reflect the performance characteristics of a minimum variance strategy applied to the US large and mid cap equity universe. The index is calculated by optimizing the MSCI USA Index, its parent index, for the lowest absolute risk (within a given set of constraints). Historically, the index has shown lower beta and volatility characteristics relative to the MSCI USA Index.

US Treasury Long: The Treasury index is an index based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. Financial institutions often use the U.S. Treasury index as a basis for mortgage notes they write. This index basis shows the rate of return investors could likely receive from another bank.

BBarc US Agg Bond: The Barclays Capital U.S. Aggregate Bond Index is the most common index used to track the performance of investment grade bonds in the U.S.

Bloomberg Barclays Municipal Bond Index: A rules-based, market-value weighted index that is engineered for the long-term tax-exempt bond market. Bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch. The bonds must be fixed rate, have a dated-date after December 31, 1990, have an outstanding par value of at least \$7 million, and be issued as part of a transaction of at least \$75 million. The four main sectors of the index are: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with an Aaa/AAA rating), and prefunded bonds. Remarketed issues, taxable municipal bonds, floating rate bonds, and derivatives, are excluded from the benchmark.

US Govt/Credit 1-3 Yr: The Bloomberg Barclays US Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the US Aggregate Index. It includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

Page 5 of 5

**NOT Deposits • NOT Insured by FDIC or any other government agency •
NOT GUARANTEED by the bank • Subject to risk and may lose value**

RAYMOND JAMES®

**INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 877.909.6444**

© 2018 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC
© 2018 Raymond James Financial Services, Inc., member FINRA/SIPC

Raymond James® is a registered trademark of Raymond James Financial, Inc.
AMS18-2343420 Expires 12/10/2019