



VERACITY
CAPITAL

QUARTERLY COMMENTARY

Q4 2018

VERACITY CAPITAL, LLC. | 2019

Advisory services offered through F3Logic, LLC, a registered investment advisor. Veracity Capital and F3Logic, LLC are separate and unrelated entities

SUMMARY

Q4 2018 QUARTERLY COMMENTARY

- Global stocks were crushed in the fourth quarter of 2018.
- From a relative strength perspective, our asset allocation models rank the asset classes in order from strongest to weakest as follows:
 - Equities: US Large Value, US Large Growth, International Emerging, International Developed, Small Cap Stocks
 - Fixed Income: Treasuries, Investment-Grade Corporate Bonds, High Yield Corporate bonds
- Our asset allocation changes reflect the above through an overweight to value over growth, large cap over small cap, domestic over international, emerging markets over international developed, and Treasuries over high yield.
- Bonds are in a positive trend, so risk mitigation strategies have shifted into Treasuries and intermediate-term bonds.
- From a valuation perspective, US markets remain highly valued according to historically reliable measures of fair value. This implies below average returns over the next 10-12 years.
- Fed policy remained tight through the 4th quarter. We experienced short-term yield curve inversions and expect the Fed to move dovish in 2019.
- Economic growth remains positive in the US, although growth has slowed considerably since peaking in the 2nd quarter. We expect growth to continue to decelerate through at least the first half of 2019.
- Market sentiment shifted negative for risk assets in the fourth quarter. Credit spreads widened considerably, equity markets broke into negative trends, and defensive assets and factors rallied.
- We ended the quarter with 4 of the 4 components of our framework flashing red.
- The current playbook is defensive and favors low volatility equities, Treasury bonds, cash, and risk mitigation strategies.

INVESTMENT FRAMEWORK

Q4 2018 QUARTERLY COMMENTARY

INTERMARKET TRENDS

Are asset classes in positive or negative trends? How are asset classes trending relative to each other?



FEDERAL RESERVE ACTIVITY

Expansionary or Restrictive?

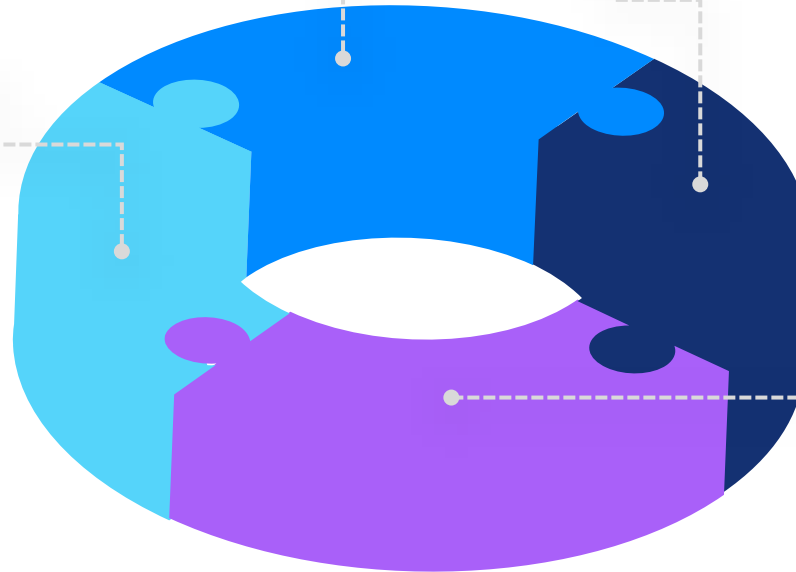
VALUATIONS

How expensive are assets?
Where do they stand relative to historical prices?



ECONOMIC ACTIVITY

Is the economy growing or shrinking?



VALUATIONS

Q4 2018 QUARTERLY COMMENTARY

Valuations inform us about the overall **long-term sentiment of market participants**.

- *When markets are highly valued relative to intrinsic value, expectations are for robust growth.*
- *Low valued markets are more indicative of pessimistic sentiment.*

Market valuations are long-term indicators and signal more about the secular cycle and **little about short-term cycles**.

- *When market values are high, returns are expected to be low.*
- *Returns are expected to be high when markets are below their intrinsic value.*

We use historically accurate measures of market valuation, meaning that these measures have high inverse correlations to forward returns over a 7-15 year period of time.

Primary Indicators Used:

Market Cap To Gdp, Cape, Hussman Margin
Adjusted Cape, Tobin's Q



Our indicator is green when valuations are below average and in the bottom quartile of historical observations.



The indicator is yellow when valuations are in the middle two quartiles, whether they are below average or above average.



Our indicator switches to red when valuations are in the top quartile of historical observations and above average.

FEDERAL RESERVE POLICY

Q4 2018 QUARTERLY COMMENTARY

Whether the federal reserve is tightening or easing policy has a **meaningful impact on the business cycle.**

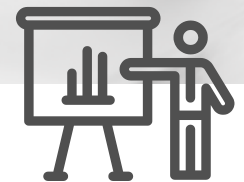
Easing

When the Fed is easing, they are buying bonds in the open market and reducing interest rates. The effect is a steepening yield curve, easy credit conditions (typically), and increases in debt or liquidity. This can be positive for risky assets and supports asset owners. This behavior is typical during a recession and its purpose is to ignite growth and asset price inflation.

Tightening

A tightening Fed is one in which monetary policy is characterized by increasing Federal Funds rates and a flattening yield curve. The Fed can even sell bonds in the open market to reduce its balance sheet. This is indicative of a time period where growth and inflation are accelerating.

Primary Indicators Used: Fed Funds rate, the yield curve, and the Fed's balance sheet



The Federal Reserve indicator switches to green when the Fed is easing policy by reducing rates or buying bonds.



The indicator is yellow during times where it has stopped tightening but not started easing or when policy has been easy but the Fed has communicated future tightening.





Our indicator is red when the Fed has been tightening by increasing interest rates at least three times without a subsequent decrease or lengthy pause in policy.


ECONOMIC GROWTH

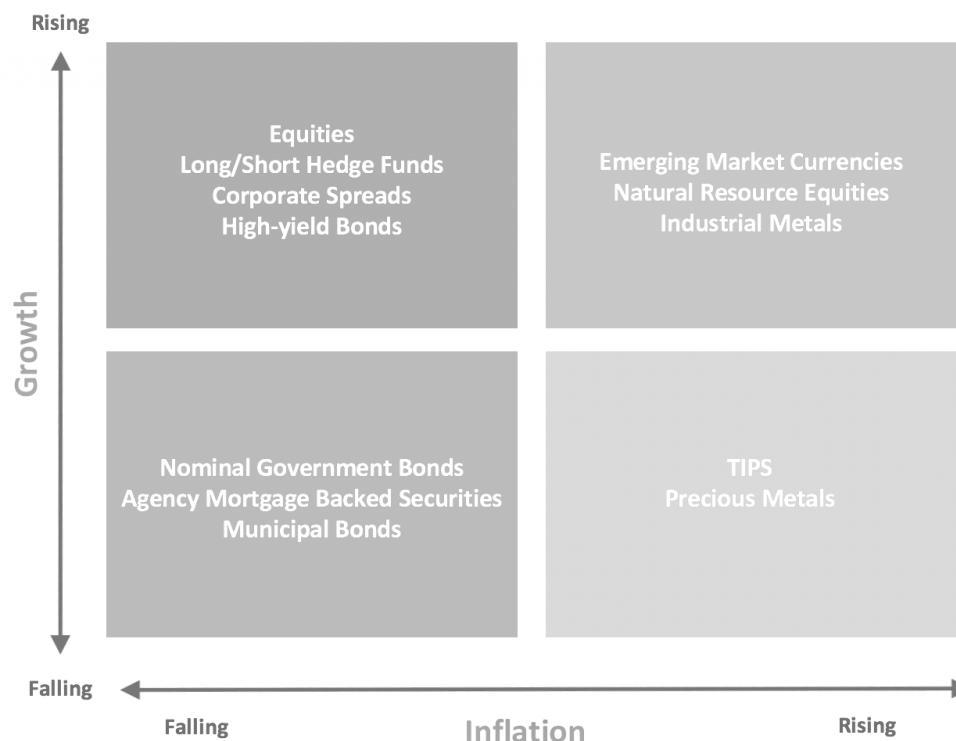
Q4 2018 QUARTERLY COMMENTARY

Whether growth and inflation are growing or slowing is of critical importance to our framework. We look at leading economic indicators, GDP, and inflation inputs to determine our outlook for growth and inflation.

 When growth is accelerating but inflation is decelerating, our indicator is green and our outlook is positive. This disinflationary environment is indicative of an early business cycle and can be positive for risk assets.

 When growth and inflation are accelerating, our economic component is yellow and our outlook is cautiously optimistic. Moderate inflation and stable growth are indicative of a healthy environment but wage inflation can also signal a late business cycle environment.

 Inflation accelerating and growth decelerating is a stagflationary backdrop that turns our economic growth indicator red, giving us a pessimistic stance. This also switches red when deflation surfaces and inflation and growth are both decelerating together.



INTERMARKET TRENDS

Q4 2018 QUARTERLY COMMENTARY

Market trends are important to our framework. We look at broad markets relative to important moving averages to determine long-term trends.

We also compare offensive assets with defensive assets to determine the underlying trends as well. This helps us observe and react to the current risk preferences of market participants.



This is green when the broad market indices* are in long-term positive trends and intermarket relationships between stocks and bonds, stocks and gold, and high yield bonds relative to Treasuries confirm price trends.



There are times when market trends or intermarket relationships are negative or positive without confirmation and our indicator would be yellow in this instance.



When the broad market indices and intermarket relationships are in negative trends, this component switches to red within our framework.

Q4 RECAP

Q4 2018 QUARTERLY COMMENTARY

Links	Symbol	Name	Close	Chg	% Chg	Date
	\$VIX	\$VIX - Volatility Index - New Methodology	20.18	4.23	26.52	01-09
	\$HSI	\$HSI - Hang Seng	25875.45	-327.12	-1.25	01-08
	\$MSEMF	\$MSEMF - Emerging Markets	975.51	-19.99	-2.01	01-08
	\$SPDAUDP	\$SPDAUDP - Dividend Aristocrats	1097.84	-75.16	-6.41	01-09
	\$SSEC	\$SSEC - Shanghai Stock Exchange	2526.46	-190.05	-7.00	01-08
	\$MSEAFE	\$MSEAFE - MSCI EAFE	1762.37	-147.77	-7.74	01-08
	\$MSWORLD	\$MSWORLD - MSCI World ex USA	1756.52	-153.38	-8.03	01-08
	\$EIK	\$EIK - Large Growth	164.52	-15.59	-8.66	01-09
	\$EIN	\$EIN - Large Value	98.90	-9.48	-8.75	01-09
	\$FDB	\$FDB - Mid Growth	204.04	-19.86	-8.87	01-09
	\$FHB	\$FHB - Mid Value	145.32	-14.59	-9.12	01-09
	\$DAX	\$DAX - German DAX Composite	10803.98	-1143.18	-9.57	01-08
	\$INDU	\$INDU - Dow Jones Industrial Average	23887.57	-2543.00	-9.62	01-09
	\$CAC	\$CAC - French CAC 40 Index	4773.27	-526.98	-9.94	01-08
	\$WLSH	\$WLSH - Wilshire 5000 Composite	26729.52	-3005.39	-10.11	01-09
	\$RUA	\$RUA - Russell 3000 Index	1523.29	-174.54	-10.28	01-09
	\$SPX	\$SPX - S&P 500	2583.52	-296.82	-10.31	01-09
	\$HKJ	\$HKJ - Small Cap Growth	177.65	-20.70	-10.43	01-09
	\$NDX	\$NDX - Nasdaq 100 Index	6588.72	-782.89	-10.62	01-09
	\$RUT	\$RUT - Russell 2000 Small Cap Index	1433.82	-188.04	-11.59	01-09
	\$HKK	\$HKK - Small Value	131.49	-18.99	-12.62	01-09
	\$STRAN	\$STRAN - Dow Jones Transportation Average	9510.97	-1485.11	-13.51	01-09
	\$NIKK	\$NIKK - Tokyo Nikkei Average	20204.04	-3617.46	-15.19	01-08

Symbol	Name	Close	Chg	% Chg	Date
\$YC3MO	\$YC3MO - 3mo - 10yr yield curve	0.27	-0.73	-73.00	01-08
\$YC2YR	\$YC2YR - 2-10 yield curve	0.15	-0.20	-57.14	01-08
\$UST5Y	\$UST5Y - 5 year yield	2.58	-0.49	-15.96	01-08
\$UST10Y	\$UST10Y - 10 year yield	2.73	-0.50	-15.48	01-08
\$UST20Y	\$UST20Y - 20 year yield	2.88	-0.46	-13.77	01-08
\$UST30Y	\$UST30Y - 30 year yield	3.00	-0.40	-11.76	01-08
\$UST2Y	\$UST2Y - 2 year yield	2.58	-0.30	-10.42	01-08
\$UST3M	\$UST3M - 3 month yield	2.46	0.23	10.31	01-08

Symbol	Name	Close	Chg	% Chg	Date
\$WTIC	\$WTIC - Crude oil	49.78	-24.51	-32.99	01-08
\$CRB	\$CRB - Reuters/Jefferies CRB Index	175.96	-23.80	-11.91	01-08
\$COPPER	\$COPPER - Copper - Continuous Contract (EOD)	2.66	-0.11	-4.01	01-08
\$GOLD	\$GOLD - Gold - Continuous Contract (EOD)	1285.90	97.30	8.19	01-08

The fourth quarter saw major declines in stock markets in the US and international. Over the last three months (as of 1.8.19), the Wilshire 5000 index was down -10.11%. That comes after a pretty substantial rally to end 2018 and start 2019. The MSCI World ex-US index is down -8.03% over the same time period. Over the last year, Emerging markets were the worst performer, dropping -19% on a year over year basis (as of 1.8.19). The MSCI World, ex-US is down -16.11% year over year. Within the emerging markets, the Shanghai index was the notable laggard, down -25.90% year over year.

The Morningstar large cap growth index is actually up 0.64% year over year. Large cap growth was the clear winner from a style perspective. However, growth got hit pretty hard over the last three months with the Morningstar large cap growth index down -8.66%.

Small caps have been hit pretty hard over the last three months. The Russell 2000 index is down -11.59% through 1.8.19 on a trailing 3 month basis. We reduced exposure to small caps prior to last quarter due to relative weakness.

The Yield curve flattened considerably. Over the last 3 months, the difference between the 10 year and 2 year treasury yields has shrunk to 0.15%. The yield on the 10 year note has fallen 50 basis points causing bonds to rally. The 10 year yield is still up 24 basis points year over year.

Oil is down -33% over the last three months. It is down over -19% year over year. Growth and inflation slowed considerably over the last three months, hurting commodity prices in general.

VALUATIONS

Q4 2018 QUARTERLY COMMENTARY



The US market is among the most highly valued in its history. The Buffett indicator, or ratio of Market capitalization to GDP, is still in the top quintile of historical observations. On a forward looking basis this means that expected average annual returns for the S&P 500 over the next 10 years are expected to be roughly zero.

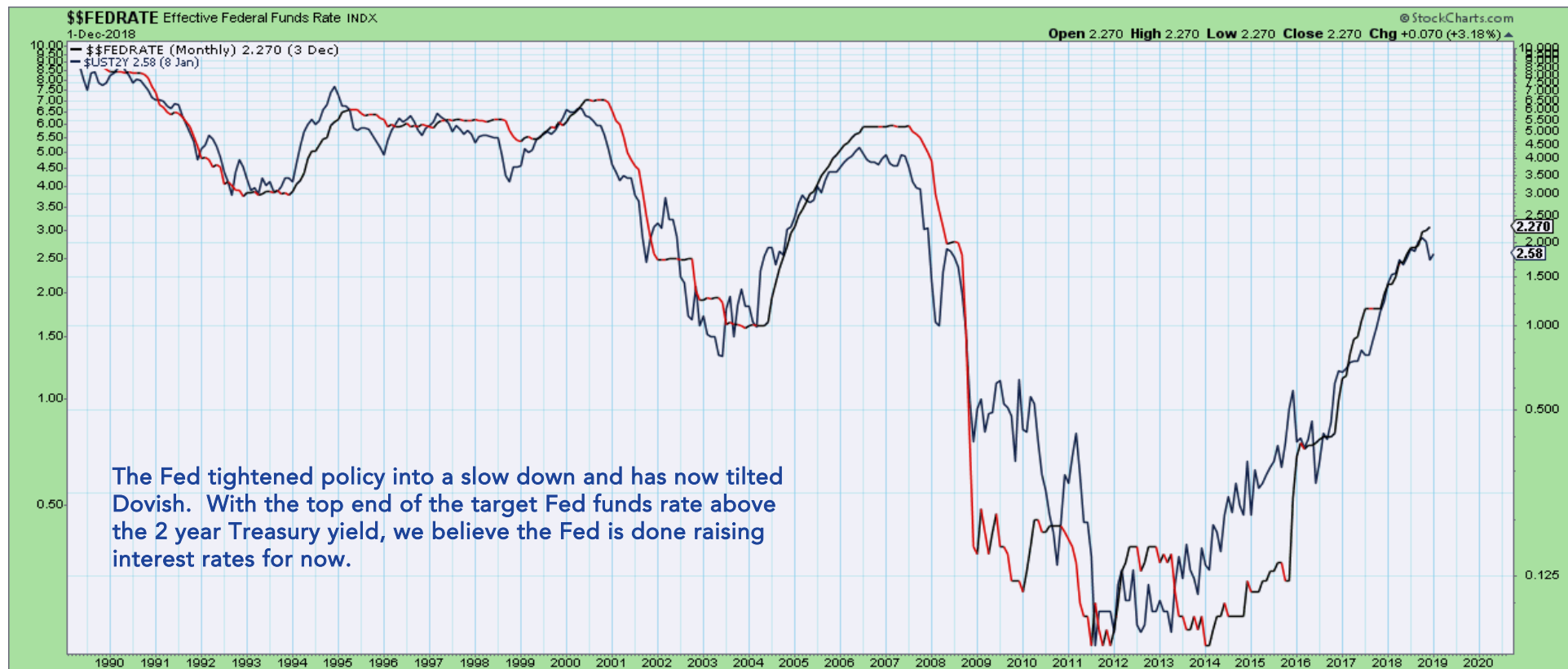
Valuations are one of the best measures of long-term or secular sentiment that we know. In fact, this is one of the primary indications we use to understand where we are within the long-term cycle. Markets and the related economies tend to start new upward cycles from low valuations and end those upward cycles at high valuations. The reason is that mean reversion is a phenomenon observed in prices and human behavior. Fear, greed, pessimism, and euphoria can all be seen graphically by observing long-term valuations.

Prior to the equity market correction, the Buffett indicator had registered its highest level ever. Currently, valuations are below the peak during the technology bubble, but still above the peaks in 1968 and 2006.

Valuations, in our opinion, present a major obstacle to stock market performance going forward. We believe the best we can hope for is a gradual reset where growth and productivity surge so that prices don't have to plunge.

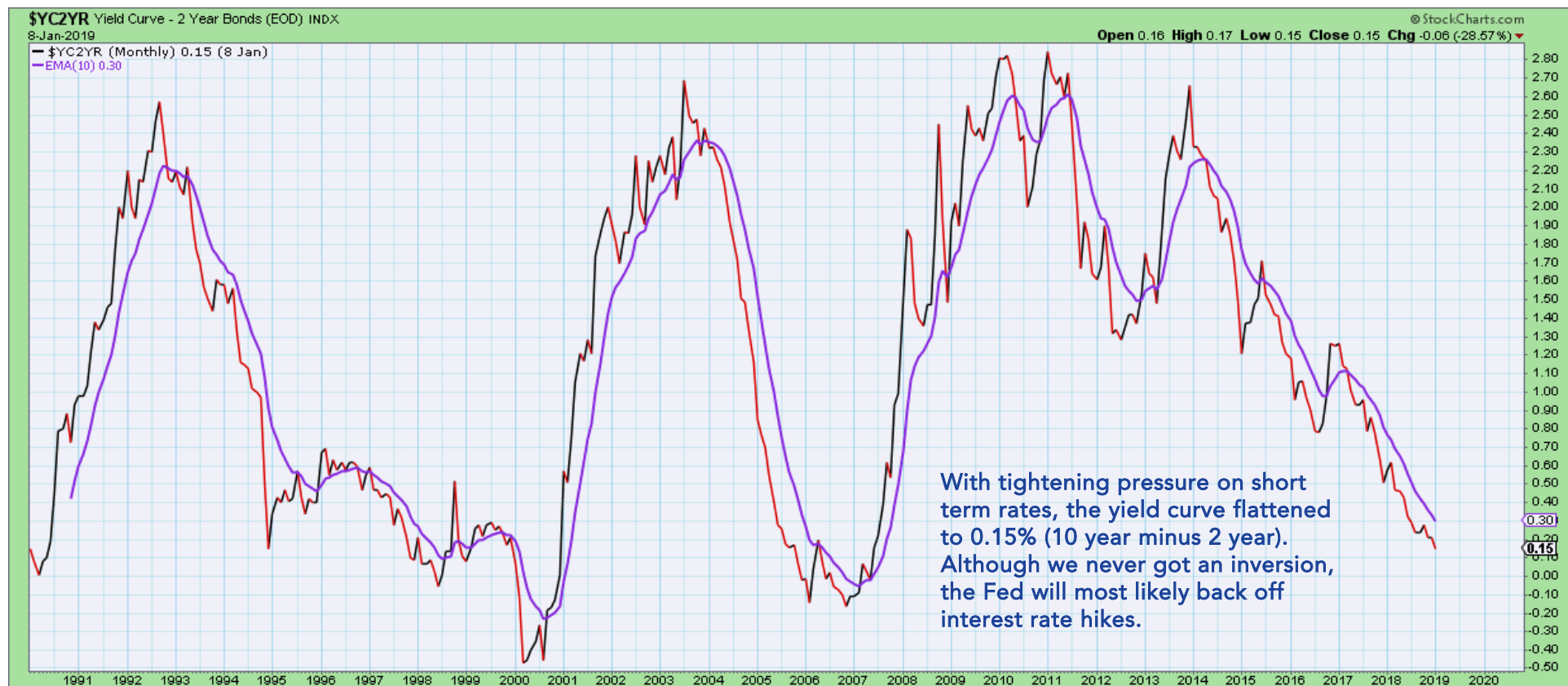
FED POLICY

Q4 2018 QUARTERLY COMMENTARY



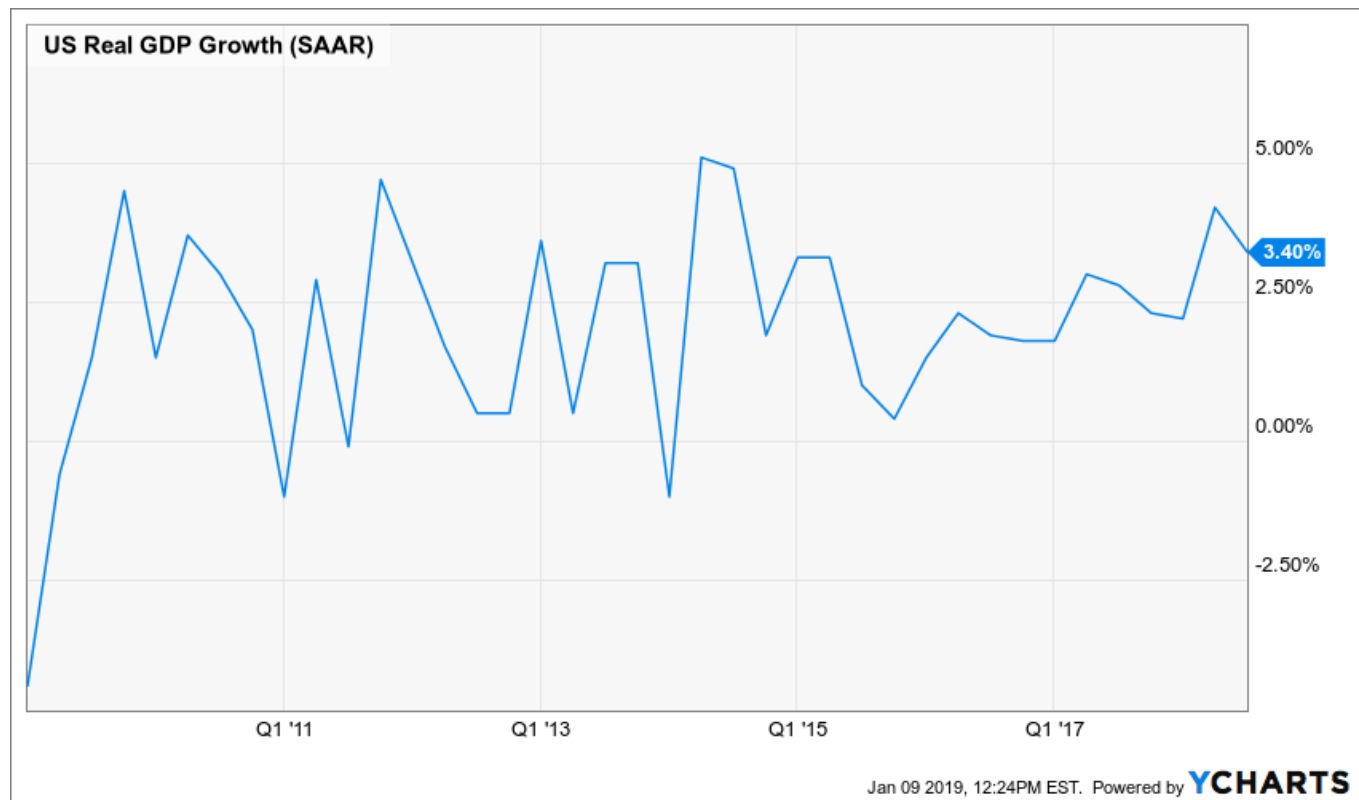
FED POLICY

Q4 2018 QUARTERLY COMMENTARY



ECONOMIC GROWTH

Q4 2018 QUARTERLY COMMENTARY



Real GDP slowed to 3.4% growth year over year. This is down from the peak in the second quarter of over 4%. We expect growth to continue to slow from here with 4th quarter GDP probably printing between 1.5% and 2%.

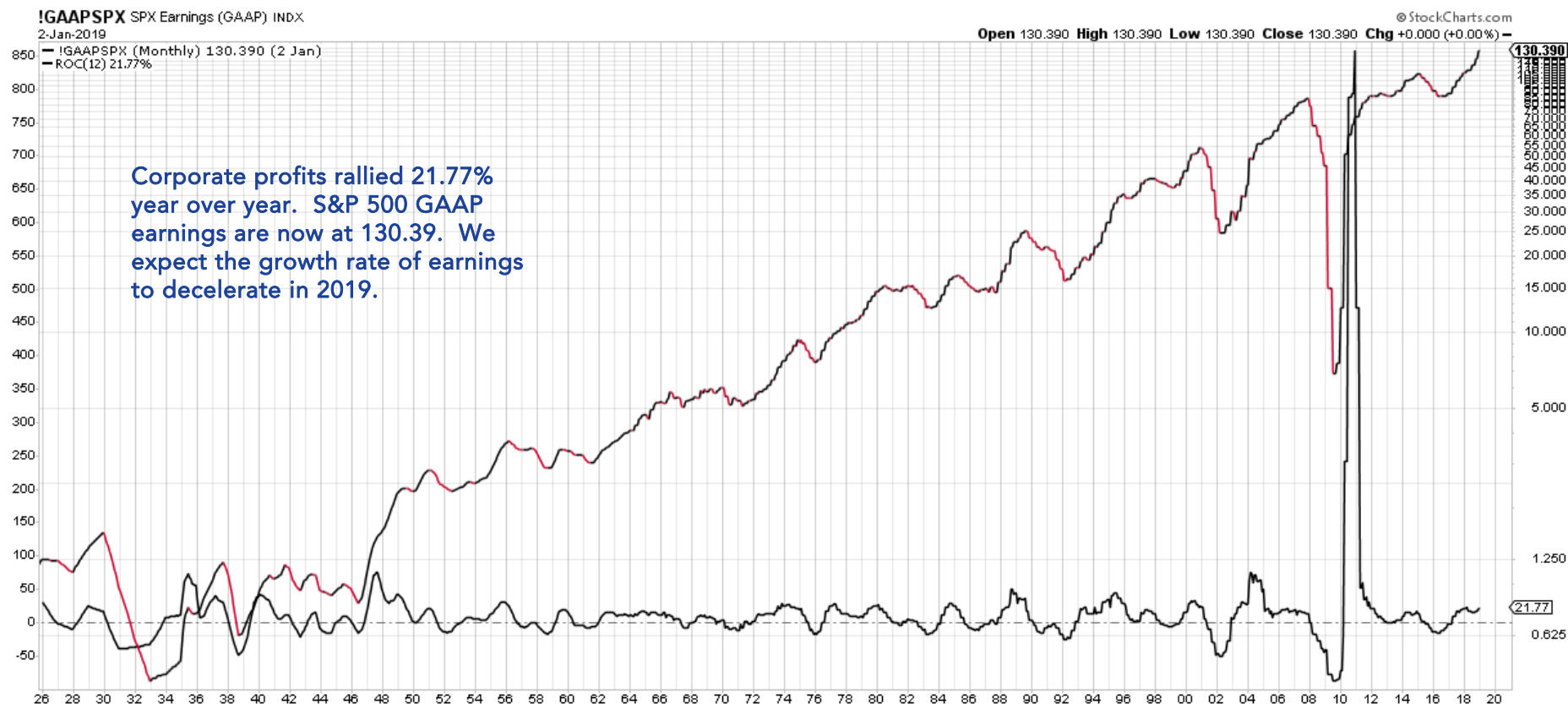
ECONOMIC GROWTH

Q4 2018 QUARTERLY COMMENTARY



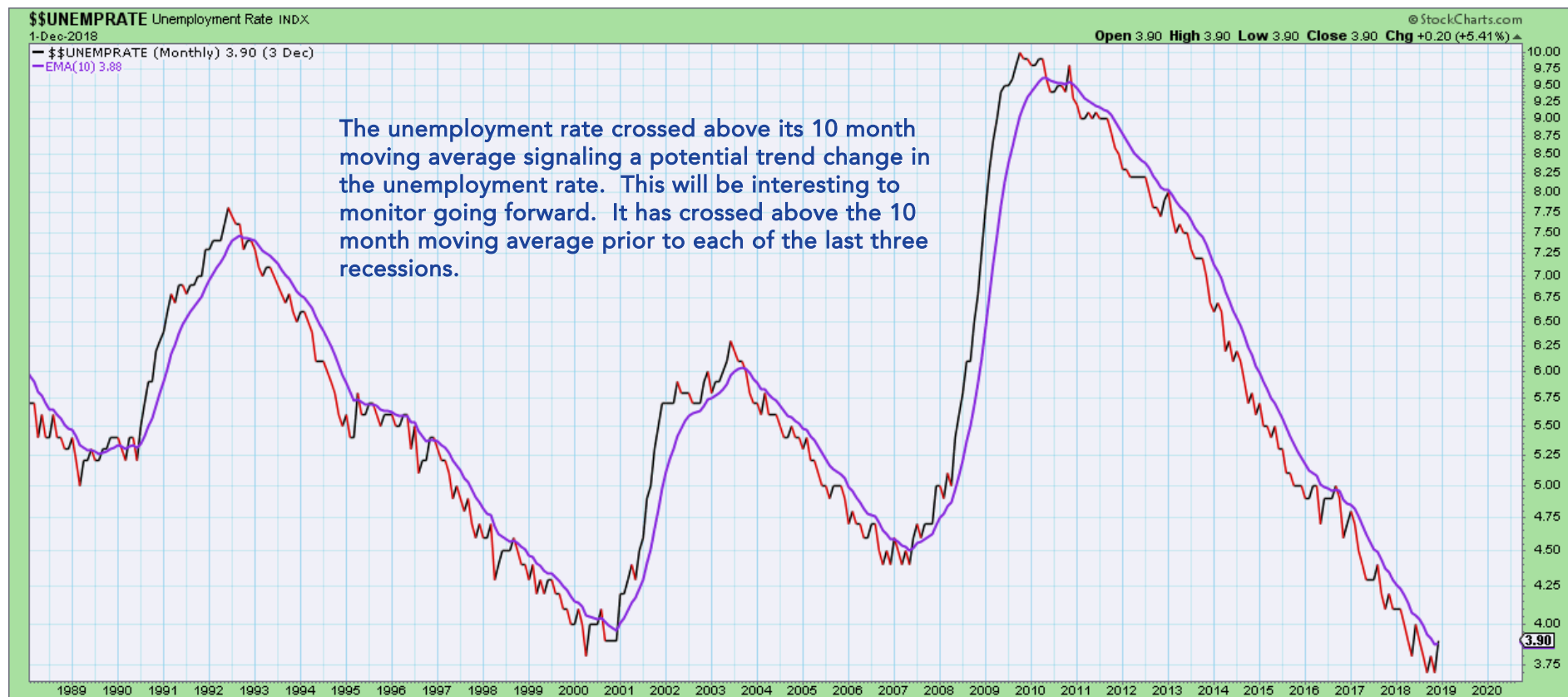
ECONOMIC GROWTH

Q4 2018 QUARTERLY COMMENTARY



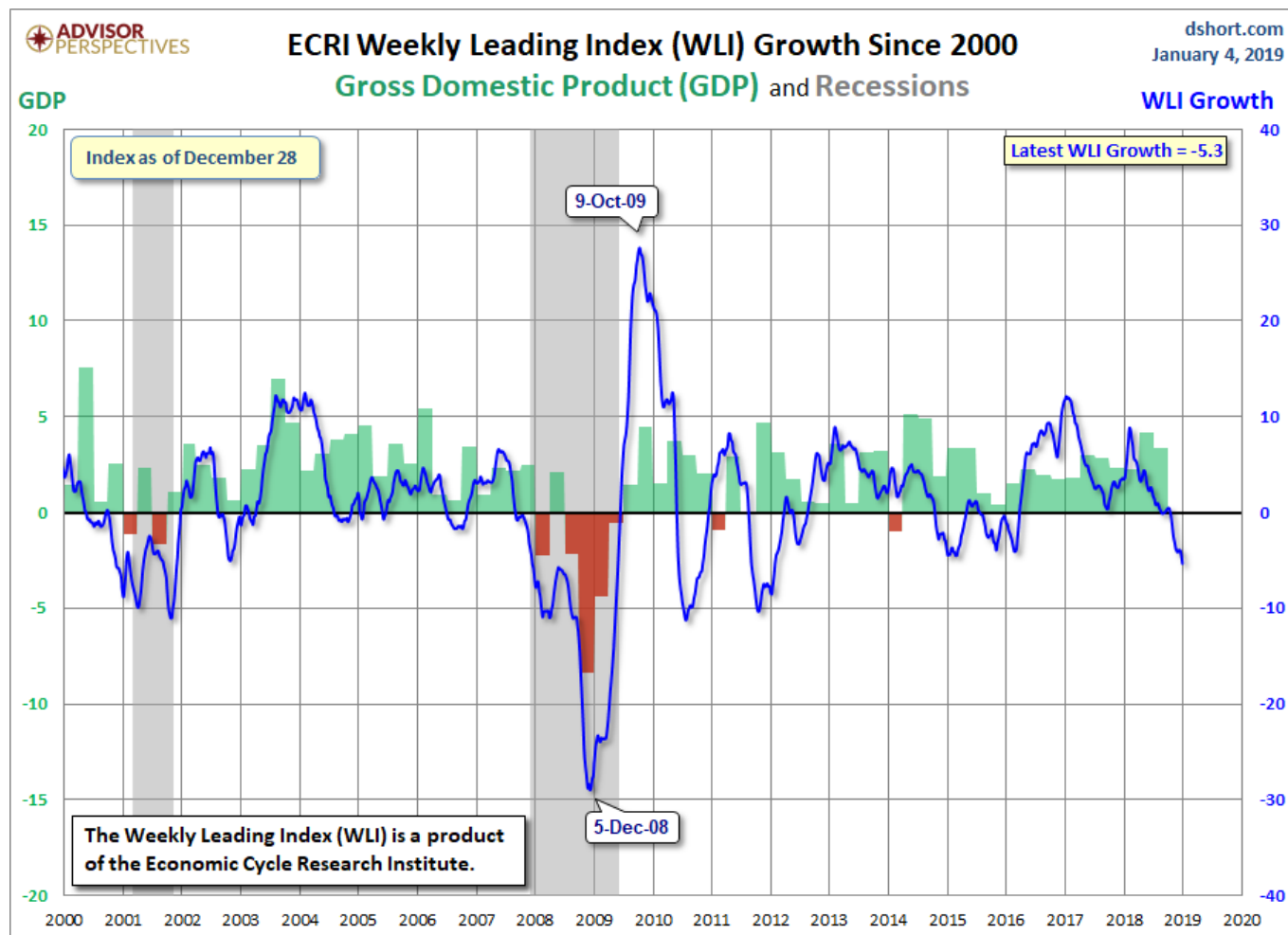
ECONOMIC GROWTH

Q4 2018 QUARTERLY COMMENTARY



ECONOMIC GROWTH

Q4 2018 QUARTERLY COMMENTARY



ECRI Weekly Leading Index is down -5.3% year over year. We believe that growth will continue to slow through the first half of 2019. The ECRI WLI year over year growth rate is now below the low point of the 2015-2016 global contraction.

MARKET SENTIMENT

Q4 2018 QUARTERLY COMMENTARY



Stocks are in a negative trend relative to bonds. This relationship shifted drastically in favor of defense in the fourth quarter.

MARKET SENTIMENT

Q4 2018 QUARTERLY COMMENTARY



US stocks are still in a positive trend relative to international equities. This trend was in favor of the US market since the end of 2017.

MARKET SENTIMENT

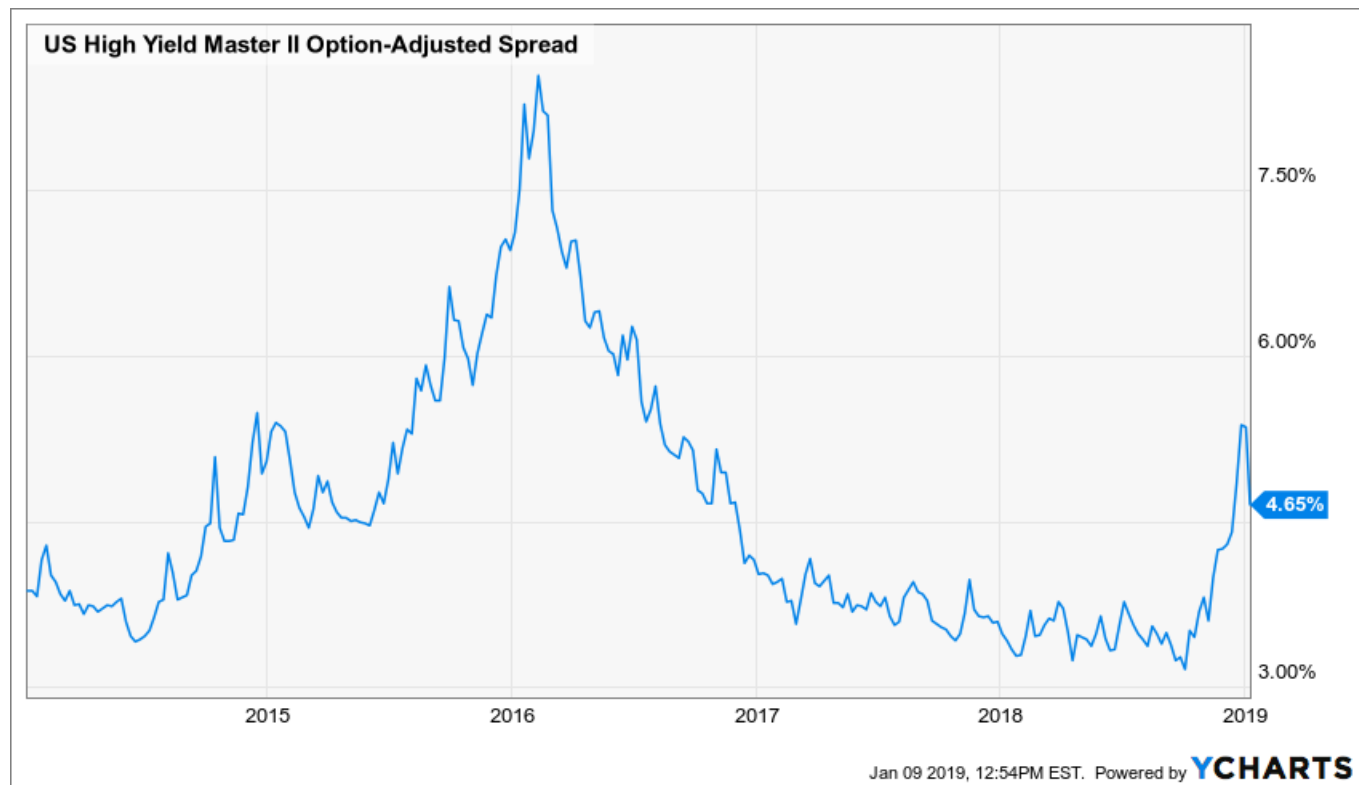
Q4 2018 QUARTERLY COMMENTARY



Emerging markets are strong relative to international developed. This is a relatively new trend. It will be interesting to see how long this continues. Emerging markets could be an awesome opportunity relative to developed if growth comes back.

MARKET SENTIMENT

Q4 2018 QUARTERLY COMMENTARY



Credit spreads widened considerably in the fourth quarter. This illustrates a major shift in market psychology from a “risk-on” posture to a “risk-off” positioning. If credit spreads continue to widen, we expect further weakness in risk assets.

MARKET SENTIMENT

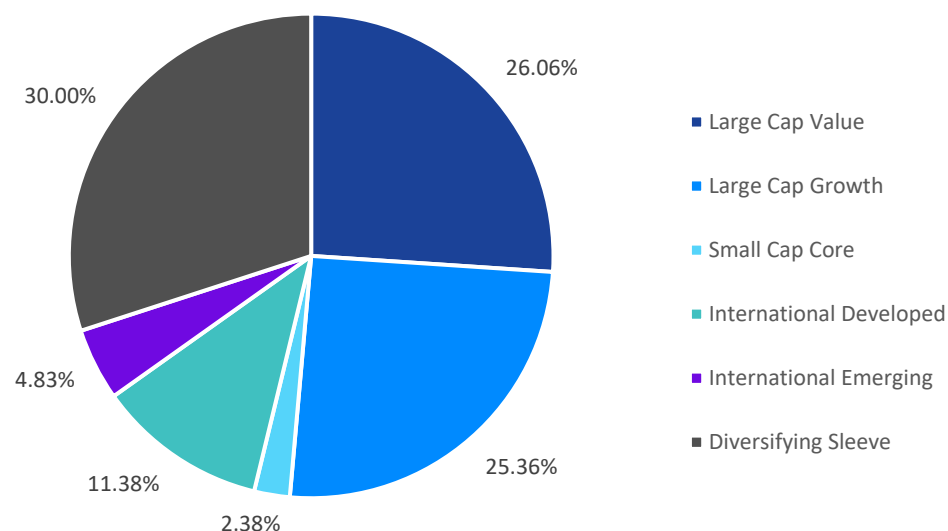
Q4 2018 QUARTERLY COMMENTARY



The US Dollar remains in a positive trend despite its recent pullback. If the dollar weakens from here, we should expect a pick up in inflation expectations.

Q1 2019 AGGRESSIVE MODEL

Q4 2018 QUARTERLY COMMENTARY



This investment strategy aggressively seeks long-term capital appreciation by investing in a broadly diversified global portfolio. It is designed for investors who want to maximize capital appreciation over a long-term investment horizon and have the resources to withstand the volatility inherent in equity investing. The strategy does not seek to provide current income.

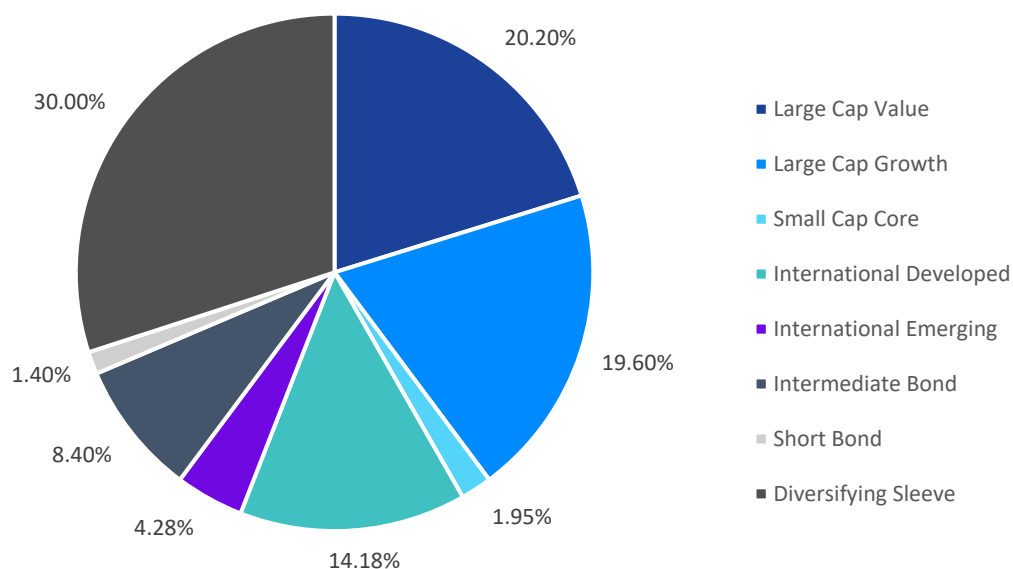
Equity: 70-90%

Fixed: 0-20%

Alternatives: 10%

Q1 2019 GROWTH MODEL

Q4 2018 QUARTERLY COMMENTARY



This investment strategy aggressively seeks to provide an allocation which is heavily weighted to equity securities with a modest investment in fixed-income securities for portfolio diversification. It is designed for investors with a desire for portfolio appreciation with modest current income as a secondary objective. Investors should have a long-term investment time horizon and be willing to take on risk in pursuit of better returns.

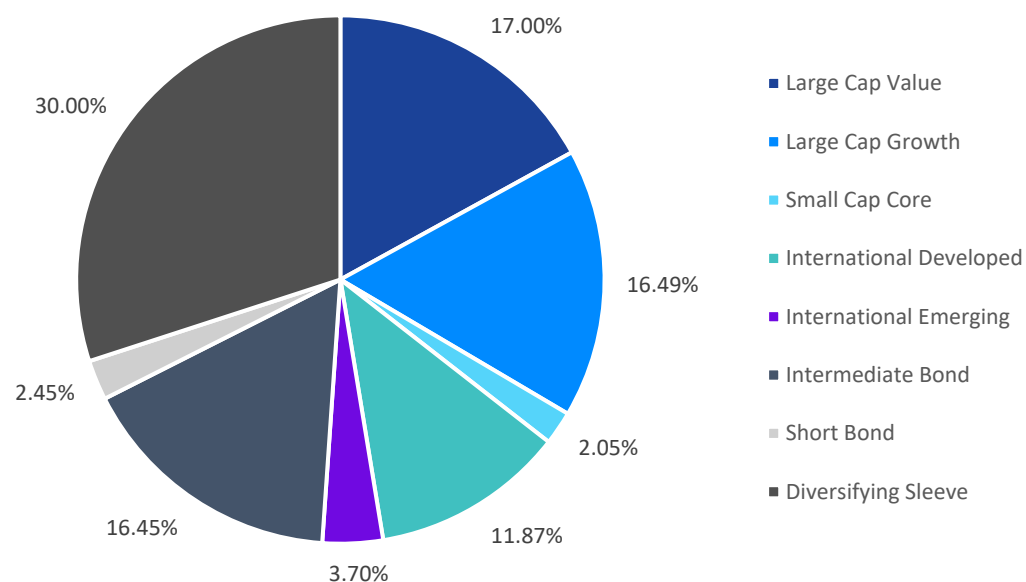
Equity: 60-80%

Fixed: 10-30%

Alternatives: 10%

Q1 2019 MODERATE MODEL

Q4 2018 QUARTERLY COMMENTARY



This investment strategy includes both equity and fixed income securities, with a greater weighting to equities. It is designed for investors with a need for both portfolio appreciation and current income. Investors should have a mid- to long-term investment time horizon and be willing to take on some risk in pursuit of better returns.

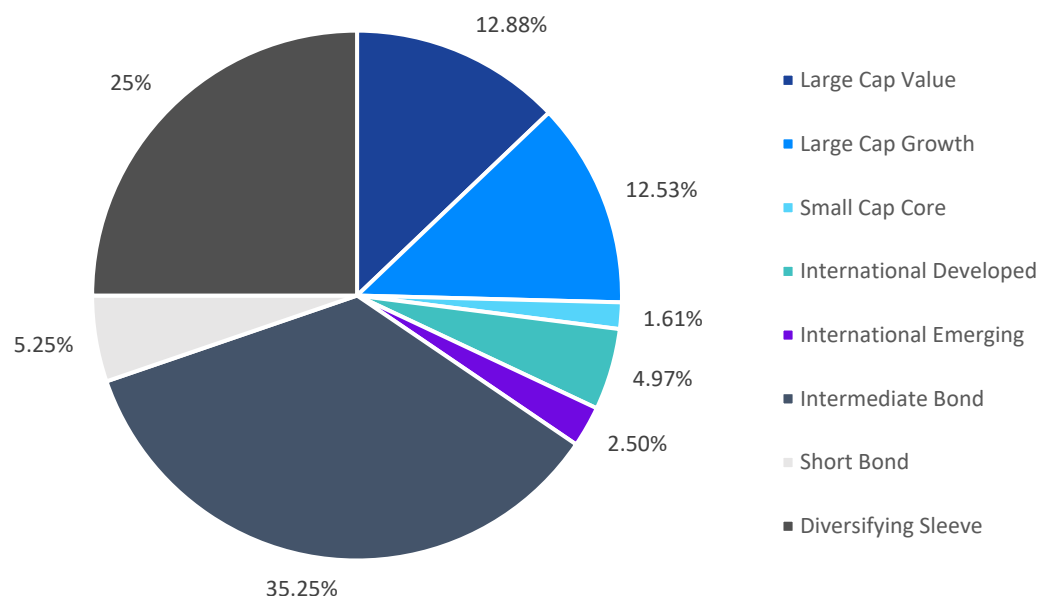
Equity: 51-71%

Fixed: 19-39%

Alternatives: 10%

Q1 2019 CONSERVATIVE MODEL

Q4 2018 QUARTERLY COMMENTARY



This investment strategy seeks to provide portfolio growth with current income by investing in a combination of both equity and fixed income securities in similar weights. This strategy is designed for investors who desire capital appreciation balanced with income and portfolio stability.

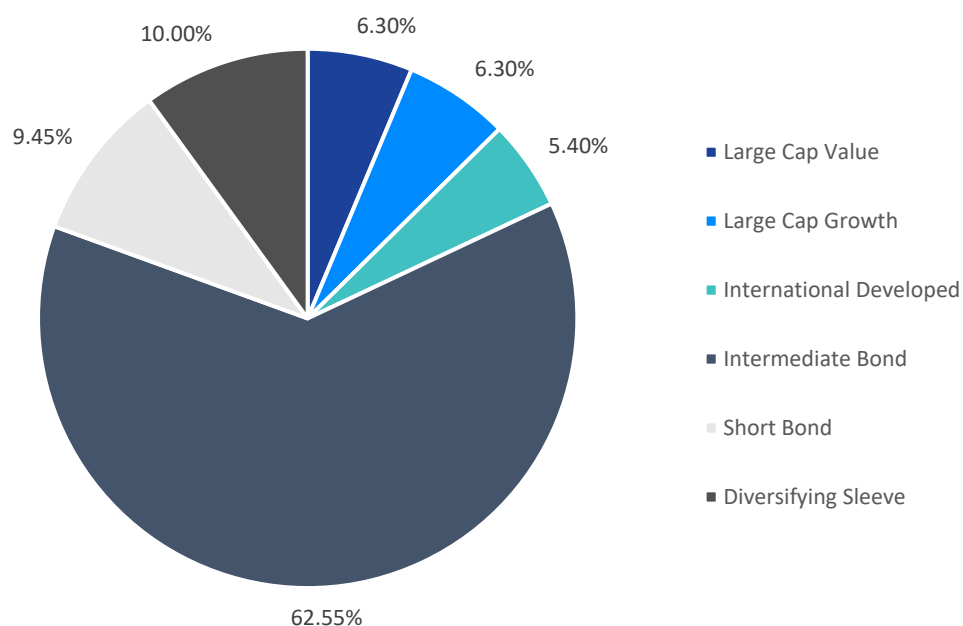
Equity: 34.5-51.17%

Fixed: 40.5-57.17%

Alternatives: 8.33%

Q1 2019 CAPITAL PRESERVATION MODEL

Q4 2018 QUARTERLY COMMENTARY



This investment strategy seeks to provide principal protection by investing primarily in fixed-income securities. This strategy is designed for investors with little or no tolerance for principal volatility and who are willing to accept lower returns in exchange for increased stability.

Equity: 18-25%
Fixed: 72-79%
Alternatives: 3.33%



DISCLOSURES

Advisory services offered through F3Logic, LLC, a registered investment advisor. Veracity Capital and F3Logic, LLC are separate and unrelated entities



DISCLOSURE

APPENDIX

Advisory services offered through F3Logic, LLC, a registered investment advisor. Veracity Capital, WealthShield, and F3Logic, LLC are separate and unrelated entities.

WealthShield, LLC ("WS") is a registered investment adviser. Registration does not imply a certain level of skill or training. More information about WS including its advisory services and fee schedule can be found in Form ADV Part 2 which is available upon request. WS provides non-discretionary advisory services to other registered investment advisers and investment adviser representatives and does not provide advice to underlying clients of the firms and representatives to which it provides advisory services.

This is WS's current assessment of the market and may be changed without notice. The visuals shown are for illustrative purposes only and do not guarantee success or certain level of performance. This material contains projections, forecasts, estimates, beliefs and similar information ("forward looking information"). Forward looking information is subject to inherent uncertainties and qualifications and is based on numerous assumptions, in each case whether or not identified herein. This information may be taken, in part, from external sources. We believe these external sources to be reliable, but no warranty is made as to accuracy.

This material is not financial advice or an offer to sell any product. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. Economic factors, market conditions and investment strategies will affect the performance of any portfolio, and there are no assurances that it will match or outperform any benchmark. Investing in non-traditional and international investments involves additional risks that are not generally associated with investing in domestic equities.

Benchmarks: The index / indices used by WS have not been selected to represent an appropriate benchmark to compare an investor's performance, but rather are disclosed to allow for comparison of the investor's performance to that of certain well-known and widely recognized indices. Indices are not available for direct investment, are unmanaged and do not incur fees or expenses. Detailed information regarding the indices is available upon request. The volatility of the indices may be materially different than that of the portfolio.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. Not FDIC insured. All investment strategies have the potential for profit or loss.

Historical data may use proxies to represent investments and asset classes. These proxies may have holdings and performance that vary from the investments or asset classes over time. Proxies include but are not limited to:

Asset Class	Proxy	Asset Class	Proxy
Large Cap Value Equity	S&P 500 Dividend Aristocrats TR USD	Short Bond	BBgBarc US Aggregate 1-3 Yr TR USD
Large Cap Growth Equity	DJ US TSM Large Cap Growth TR USD	Pacer Wealthshield Index	WealthShield Sector TR USD
Small Cap Equity	Russell 2000 TR USD	Managed Futures	SG Trend Index
International Developed Equity	MSCI EAFE NR USD	Dividend Growth Strategies	S&P 500 Dividend Aristocrats TR USD
International Emerging Equity	FTSE Emerging TR USD	M&A	Credit Suisse Merg Arbtrg Liquid TR USD
Intermediate/Aggregate Bond	BBgBarc US Agg Bond TR USD	Commodities	Bloomberg Commodity TR USD
International Bond	BBgBarc Gbl Agg Ex USD TR Hdq USD	REITs	S&P United States REIT TR USD