Q4 2019 Quarterly Update

I. Market Summary

The final quarter of 2019 capped the 11th year of the economic expansion with a strongly positive finish for the broad markets. The CBOE Volatility Index trended lower for the quarter, ending down -15% as market participants broadly priced in a resolution to the first stage of a trade agreement between the U.S. and China. The S&P 500 Total Return Index, Dow Jones Industrial Average and NASDAQ performed +9.07%, +6.02% and +12.17% respectively for the quarter. This brings their respective 2019 performances to +31.49%, +22.34% and +35.23%. International stocks also did well for the quarter with the MSCI EAFE Index gaining +7.81% bringing its 2019 performance to +18.44%, lagging the U.S. broad market indices. Yields on the 3-month U.S. treasury bill fell 26.9 bps to end the quarter at 1.556% while the 2-year note declined to 1.571% and the 10-year bond ended the year at 1.919%. Gold increased +3.41% to $1,523.10/ounce by the end of the quarter and WTI crude oil spiked +12.93% to $61.06/barrel.

There were several macro tailwinds moving market sentiment higher in the final quarter of 2019 that is also continuing into 2020. The Fed cut rates for the third time in the year at its October meeting bringing the Fed Funds rate to 1.50% to 1.75%. U.S. unemployment for November also fell to 3.5%, it's lowest point in 50 years. Boris Johnson secured a U.K. election win which cleared a path for Brexit to occur at the end of January 2020, mitigating uncertainties around the Brexit event. This was all led by the strongest tailwind in the form of the U.S. and China agreeing to a "phase one" trade deal effectively pausing the trade war and reducing trade tensions between the world's two largest economies.

Market sentiment continues to remain elevated as we move through Q1 of 2020 and market participants are extending the timeline of a potential recessionary start expecting the 2020 election year to remain generally bullish. The largest headwind currently comes in the form of the potential macroeconomic effects of the Wuhan Coronavirus, which by early February has taken the lives of over 700 people globally and infecting over 35,000, pacing much faster than the SARS epidemic of 2003. Greater than 99% of the cases are still in China which is expected to negatively impact the world's second largest economy over the next several quarters. Our expectation, factoring in that the virus is still expanding rapidly and can continue to escalate, is that history has shown this will likely be a temporary headwind to global growth in 2020.

II. Latest Earnings Metrics[1]

As of the end of the first week of February, 64% of the companies in the S&P 500 have reported their Q4 2019 results. 71% of the companies have reported a positive EPS surprise and 67% of the companies have reported positive revenue surprise. So far for Q4 2019, the blended earnings growth rate of the S&P 500 is 0.7%. The forward 12-month P/E ratio for the S&P 500 is currently at 18.8, fairly elevated above its 5-year average of 16.7 and 10-year average of 15.0. The Information Technology sector contributed the most to the earnings surprises for the quarter. Notably, analysts' bottom-up price target for the S&P 500 is 3,628.30, roughly 9% higher than its current level at the time of this writing.

III. Monetary Policy

After its third rate cut of 2019 at its October meeting, the Fed continued to hold rates steady at the 1.50% to 1.75% level at its December and January meetings. Per Fed Fund Futures data as of 02/07, market participants are pricing a 100% chance that rates will remain at its current level or lower through the March meeting and through the end of the year with an 81.9% chance that the Fed will have at least one rate cut through the end of the December 2020 meeting. On this note, market participants are also pricing in a 46.2% chance of potentially two rate cuts through the end of the year. Our expectation is that the probability of at least one rate cut is very elevated, but a second rate cut remains unlikely unless global growth factors start to slow significantly. The Fed's latest dot plot as of December 2019 implies no rate changes through the end of 2020 with a rate increase in 2021.

IV. Summary

Our investment committee's sentiment is that despite the broad market continuing to achieve newer all-time highs, tailwinds generally outweigh headwinds in 2020. Factors that are contributing to this include the following: an election year, institutions still having dry powder reserves, continuing expanding economic growth and earnings upside surprises, a relatively dovish Fed stance over the last several quarters and trade tensions continuing to alleviate as the U.S. and China work out a broader trade agreement beyond the "phase one" agreement. However, given current market valuations, caution is also to be strongly noted as we saw with the escalating Iran tensions and the continuing impact of the Wuhan Coronavirus, many unpredictable variables can quickly derail markets or economic growth. We're holding a moderately bullish stance as we keep the overall equity allocation of our portfolios higher.

Portfolios Recap

Tactical Long/Short Strategy: +18.44% YTD 2019

The Tactical Long/Short Strategy gained +6.41% net of fees for the fourth quarter. In Q4 we decreased the cash weighting of the Tactical Long Short Strategy in order to better capture the broad market's momentum to the upside as the Fed maintained a loosening stance and a pathway to a partial trade agreement between U.S. and China came to fruition. We're continuing to keep the cash weighting lower to reflect our moderately bullish stance and to effectively capture most of the market's upside momentum through the Q1 earnings season.

Core All Cap Strategy: +29.26% YTD 2019
Core Select Strategy: +24.51% YTD 2019
Global Strategy: +27.78% YTD 2019

For the fourth quarter, the Core All Cap Strategy and Core Select Strategy gained +9.04% and +6.75% respectively net of fees. Despite having a cash allocation, our equity strategies were able to capture the vast majority of the broad market's upside move in 2019 due to their selection of strongly performing companies and their higher weighting to the Information Technology sector. Our investment committee continues to maintain conviction that large cap technology stocks will outperform over the longer term while continuing to focus on the fundamental picture and weeding out short term market noise. Our equity strategies remain nimble as we tactically defend downside moves with our long/short broad market allocation.

The Global Strategy gained +10.82% net of fees for the fourth quarter soundly outperforming the MSCI ACWI Global Benchmark. The MSCI ACWI Global Index increased +8.56% for the quarterly period.

For the above three equity strategies, the investment committee is maintaining higher equity exposure and decreased exposure in short term US treasuries as we weigh the global macro picture going into the first quarter. We're cautiously bullish as we expect market momentum to continue to the upside, but are monitoring potential macro risks on the trade front, global tensions and the effects of the Wuhan Coronavirus. The Core All Cap Strategy, Core Select Strategy and Global Strategy invest excess cash into short-term U.S. treasuries which currently have an annualized yield of approximately 1.51%.

Dynamic ETF Option Strategy (DEOS): +5.56% YTD 2019

For the fourth quarter DEOS gained +0.59% net of fees. The strategy continues to perform in-line as volatility moves lower over the last quarter. The target yield for the strategy remains in the 3-6% band with a generally overlay approach. We are continuing to leg further into short term traditional SPY credit put spreads with a conservative stance as we continue to monitor the macro landscape.

As always, we welcome you to reach out to us any time to discuss your portfolio and any questions.

About Us:

Elite Wealth Management is an investment manager dedicated to providing private labeling solutions for RIA firms as well as Broker Dealers, allowing advisors to focus their time and resources on client needs.

Access Our Strategies:

1) Via SMA, UMA, or TAMP (Adhesion, Folio, Placemark/Envestnet, or Interactive Brokers).
2) Via Strategy Licensing Agreement – We provide trade signals.

Benefits of Private Labeling:

- Cost effective pricing based on AUM.
- Month to month contract – no long term commitment.
- Full control of client accounts via SMA, UMA, or TAMP at the current custodian.
- For an asset based monthly fee, we provide trade signals.

Please contact us to discuss how your firm can benefit from our private labeling services.

Important Disclosures

Elite Wealth Management, LLC ("Elite Wealth Management") is a registered investment adviser with the Securities and Exchange Commission. The firm is defined as Elite Wealth Management and includes assets managed as dual officers. Assets under management include assets managed by Elite Wealth Management officers as dual officers of Lattice Capital Management. Any client and account statistics presented include dual officer relationships. Elite Wealth Management, Inc. ("Elite") is an independent registered investment adviser. Elite claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Elite has been independently verified by Alpha Performance Verification Services for the periods of model inception date through September 30, 2018. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A list of the composition descriptions and or/ or presentations that complies with the GIPS standards is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite and benchmark performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Past performance is not indicative of future results. Valuations are computed and stated in US dollars. Performance shown represents total returns that include income, dividends, realized and unrealized gains and losses. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using a model asset based fee of 1.00%. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, preparing complaint presentations, and a listing of composites are available upon request. The investment management fee for the composite includes an asset based fee of 1.00%. This material (or any portion thereof) may not be copied or distributed without Elite Wealth Management's prior written approval. Statements are current as of the date of the material only. The performance shown of each strategy consisting of all discretionary accounts using each investment strategy. There is a minimum account size required for inclusion in each strategy. For details on the account minimum for each strategy, please view the appropriate strategy fact sheet or presentation. New funds or accounts are added to each strategy upon the first full month of investment and closed funds or accounts are removed from the strategy upon the last full month of investment. Past performance is no guarantee of future results. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided net of 1% management fees basis, reflecting the deduction of investment management fees, as well as brokerage or other commissions. Excessive cash may be invested in short-term U.S. treasury. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses and is not based on actual advisory client assets. Index performance does include the reinvestment of dividends and other distributions. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars. This presentation does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it would be unlawful to make such offer or solicitation. The information provided in this presentation should not be considered a recommendation to purchase or sell a particular security. Any specific securities identified do not represent all of the securities purchased, sold or recommended for advisory clients, and may be only a small percentage of the entire portfolio and may not remain in the portfolio at the time you receive this report. You should not assume that investment decisions we make in the future will be profitable or will equal the investment performance of the past. For a complete list of recommendations made within at least the past year, please

References

1. Factset Earnings Insight