ELITE WEALTH MANAGEMENT

December 2017

Monthly U.S. and Global Market Outlook

I. Market Performance

Markets advance to new all-time highs marking the strongest start to the year since 2006. All three major U.S. indices climb to record highs within the first week of the New Year, with the S&P 500 passing 2,700 and the Dow topping 25,000. As of January 5th, the S&P 500 rose 2.60%, the Dow Jones gained 2.33%, and the NASDAQ advanced 3.38%.

The mixture of positive earnings and tax reform news has fueled the markets and supported the continuing upward growth trend. As of year-end the S&P 500, Dow Jones and NASDAQ finished up 21.83%, 25.08% and 28.24% respectively. For a second year in a row, all sectors are expected to report year-over-year revenue growth along with the highest profit margins in over a decade.

So far for Q4 with only 4% of companies reporting, 78% of companies reported positive EPS and 94% of companies reported positive sales surprises. The Q4 blended earnings growth estimate is 10.5% led by technology, financials and energy sectors. The S&P 500 earnings growth is set to reach nearly 11.8% while sales growth is 5.6%.[1] The S&P 500 companies that bring the most value to the table are the ones with the highest global exposure. We are noticing year-over-year record growth and higher earnings expectations with global companies. Depending on how priced in the tax bill is, we could expect anywhere from 6-13% growth in the broad market this year.

II. Economic Indicators

Overall, macroeconomic indicators paint a solid picture of modest growth for 2018. The U.S. economy is forecasted to grow at a higher and faster pace than 2017. Manufacturing, retail and home sales contribute to the pro-growth trend. Other macroeconomic data points including labor, prices and consumer confidence all point towards a bullish year ahead. November jobs report added 228,000 jobs to the economy, while December produced 148,000 jobs falling short of the 190,000 expectation.[2] In aggregate, the U.S. has averaged around 170,000 new jobs per month in 2017 with an annual growth rate of 1.4%. The slowdown in the December jobs report is not a concern as other indicators show the economy is operating at its highest point in years. The labor market is tightening with the unemployment rate at a 17-year low. Housing sales reached a 10-year high with a 27% increase year-over-year.

We expect the current rate of expansion to continue throughout 2018. The GDP outlook for 2018 is between 2.5-3.0%. Both PPI and CPI data reflect rising prices on goods and services supported by increased demand, higher wages and improved consumer sentiment. As of January 5th, Gold closed at $1,320.62 per ounce, oil rose to $62.44 a barrel and natural gas leveled around 2.80 MMBtu.[2]

III. Trumponomics

On December 22nd, President Trump signed in the first material tax reform bill that will alter the tax code all together. The Tax Cuts and Jobs Act is structured to provide tax relief and simplify the code with hopes to stimulate the economy. The bill is designed to pave the way for sustainable economic prosperity and enhance employment. In addition, the bill provides a massive tax break for corporations, slashing the corporate tax rate to 20%. The mixture of higher earnings and lower tax rates should positively contribute to valuation measures and boost the economy. Lower taxes also provide companies the opportunity to reinvest capital, increase R&D budgets and this also stimulates M&A activity. Now that the tax bill has been passed, we are anticipating the administration will shift their attention to infrastructure matters.

IV. Monetary Policy

During the last FOMC meeting on December 13th, the Fed increased interest rates to the target range of 1.25% to 1.50%. This marked the 3rd rate hike in 2017. The Fed also outlined their goal of three additional rate hikes in 2018. Depending on the size and timing of these rate hikes, the Federal Fund target rate could reach the 2.00%-2.25% range later this year. The next FOMC meeting is scheduled to take place January 30th-31st. The current expectation is that rates will remain unchanged during the first meeting, but there is a higher probability for an increase once Powell transitions to become Fed Chair in February. Fed Fund Futures edged higher to a 67.5% probability for a March rate hike.

V. Global Outlook

Global economic expansion forecast for 2018 continues to rise. China’s 2018 GDP growth increased to 6.7% amid global expansion and increased demand. A few factors that support the bullish stance include the all-time high equity prices and valuations, fundamentals and positive earnings estimates. A few uncertainties that remain on our radar include; new Fed leadership, geopolitical tension and under the radar global financial instability. The ECB and the BOJ monetary policy meeting outcomes left rates unchanged again. The probability that the ECB and the BOJ will adjust their monetary policy this early in the year remains low despite strengthened economic data. The next BOJ and ECB meeting is scheduled for January 22nd-23rd and January 25th respectively.

VI. Our Focus

As the overall global economic condition strengthens, the likelihood of a recession in the near-term remains low. Our investment team is primarily focused on identifying value-oriented holdings that provide an edge to our equity strategies. We are focused on selecting international equity leaders to increase our global exposure. In addition to this we are placing a heavier emphasis on our M&A research and the technology sector. We are following the developments surrounding financial technology products and services, artificial intelligence and machine learning.

<u>Portfolios Recap</u>

Dynamic Futures Option Strategy (DFOS): <u>17.88% YTD</u>
Dynamic Option Strategy (DOS): <u>9.46% YTD</u>
Dynamic ETF Option Strategy (DEOS): <u>8.72% YTD</u>

For the month of December, DFOS returned 1.40% net of fees. DOS returned 1.16% net of fees. DEOS returned 0.43% net of fees.

All three options strategies continued to capitalize on collapsing yields due to lowered market volatility. On the back of its underperformance in November, we shifted the DFOS yields to allow it better upside participation but also able to recapture alpha once yields decline. With the lack of scheduled event risk on the near-term horizon and current market tailwinds, we're positioning the strategy to be a little less defensive by raising the selected strikes but continuing to be strategic to better mitigate against the eventual downturn that follows the market hitting all-time highs.

Tactical Long/Short Strategy: <u>18.71% YTD</u>
Tactical ETF Strategy: <u>15.07% YTD</u>

For the month of December, both of our tactical strategies closely followed the broad market and finished off with a strong year. The S&P 500 yielded 1.11% for the month while Tactical Long/Short returned 0.63% and Tactical ETF gained 0.35% net of fees. This is the sixth consecutive month of gains for both strategies. As always, we continuously seek out value-oriented ETFs that meet our investment criteria in order to enhance our portfolio quality and overall returns.

Core Strategy: <u>23.45% YTD</u>
Equity Opportunity Strategy: <u>21.54% YTD</u>

The Core Strategy returned 0.47% net of fees for the month of December. The Equity Opportunity Strategy gained 0.33% net of fees for December. As of year-end, both Core and Equity Opportunity outperformed the S&P 500 for the year. Our allocations in technology, services and consumer goods played in our favor after the strong earnings season. This is the sixth consecutive month of solid performance where our equity strategies have trumped standard benchmarks.

As always, we welcome you to reach out to us anytime to discuss your portfolio.

Fariba Ronnasi, *Principal*

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.

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. 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 contact us at (425) 828-4300 or info@elitewm.com. Please Note: it should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.

The performance shown is compared to several indexes shown herein. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. The number and types of securities found in the index can differ greatly from that of the accounts held in the strategy shown. Investments cannot be made directly in an index. "Standard & Poor's®", "S&P®", "S&P 500® Index", and "Standard & Poor's 500®" are trademarks of McGraw-Hill, Inc., and have been licensed for use by Elite Wealth Management. The Products mentioned are not sponsored, endorsed, sold, or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the Products.

All reasonable efforts were used to gather and provide accurate and complete information; there is no warranty or representation of accuracy or completeness. All index performance information has been obtained from third parties and should not be relied upon as complete or accurate. Indices are based on total return (including re-investment of dividends if applicable). Indices are shown for comparison purposes only. An investor cannot invest directly in an index. Indices are unmanaged, and do not charge fees or expenses.

Risk Disclosure: All investments include a risk of loss that clients should be prepared to bear. The principal risks of the Elite Wealth Management strategies are disclosed in the publicly available Form ADV Part 2A.

Elite Wealth Management Option Strategies Risk Disclosure Statement: Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options in your account. If you are interested in margin lending (a loan to purchase securities that is secured or collateralized by securities in your account) or option trading, please Click Here to read the Options Disclosure Document titled "Characteristics and Risks of Standardized Options", or call the Interactive Brokers, LLC ("IB") office @ 1-877-442-2757 for a current copy, before considering any option transaction.

Exchange Traded Funds (ETFs) are subject to market risk, including the possible loss of principal. The value of the portfolio will fluctuate with the value of the underlying securities. ETFs trade like a stock, and there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. ETFs may trade for less than their net asset value.

References

1. Factset Earnings Insight December 2017.
2. Trading Economics
3. International Monetary Fund, OECD.