ABL Money Management Update

Alan B. Lancz & Associates, Inc.   Registered Investment Advisor
2400 N. Reynolds Rd. / Toledo, Ohio 43615 / 419-536-5200 / Fax 419-536-5401 / E-mail: abl@ablonline.com

TIME FOR A PAUSE

Unlike 2007 when every sector and nearly every asset class was overvalued, the current market environment still enjoys selective long-term opportunities. Investors are not going to see Apple and Facebook come close to double in value from current valuations like we have experienced over the past two years. We have been selectively raising some cash in both the technology and consumer discretionary sectors which have been up approximately 20% YTD. Instead of chasing those momentum stocks so in favor we have been adding to depressed industrials, special situations, and most recently financials into their weakness. **It is fortunate for investors that seek to control risk (rather than just ride the momentum) that there are so many quality companies that are still at attractive valuations.** This was not the case in 2007 when we warned investors it was time to take profits. Record highs last week in the D.J.I.A., not seen since last January, shows that the market is broadening out. This is a positive for the long-term health of the stock market and gives us more confidence to buy the quality underperformers. We would rather concentrate on the best risk adjusted opportunities than rely on the momentum led star performers continuing to outperform from current lofty valuations. After September 21, 2018 investors will see major changes in the U.S. sectors, which were put into place last Friday. The next page details our current recommendations including the changes we originally discussed with our cautious social media comments from earlier this summer. By the way, our cautious comments on Facebook and the rest of social media after Mark Zuckerberg's Capitol Hill visit was early as our insights typically seem to be. Not only did Wall Street think Mr. Zuckerberg performed quite well, but its stock rebounded, breaking through to new highs over $217 a share, up over 35% from the time of his April 2018 testimony. **It was this price surge, with the insight that this privacy issue was not going away anytime soon, which became the catalyst to our cautious comments.**

On our Sound Investing asset allocation front, including 401(k)'s with low cost mutual funds and ETF's, we have been avoiding bonds, particularly long-term. It is better to stay short-term with interest rates on the rise. In a more contrarian move, we are also reducing risk in equities by allocating more toward value and taking excess profits on growth. The performance divergence between growth and value is at historic highs, currently 13%, which tells us some profit taking is warranted.

SECTOR PERFORMANCE SUMMARY

	9/1 – 9/30/2018	YTD
S & P 500	0.43%	8.99%
Consumer Discretionary	0.97%	19.47%
Consumer Staples	0.62%	-5.53%
Energy	2.43%	5.16%
Financials	-2.37%	-1.24%
Healthcare	2.80%	15.17%
Technology	-0.39%	19.52%
Materials	-2.28%	-4.17%
Industrials	2.06%	3.33%
Real Estate	-3.17%	-0.98%
Communications (new/Telecom)	4.26%	0.76%
Utilities	-0.90%	-0.03%

Sector Strategy

LanczGlobal Sector Allocation

▲ Increasing sector exposure
▼ Decreasing sector exposure

S&P 500 Weight	LanczGlobal Weight	Sector/Commentary 09/25/2018
14.6%	16.9%	**Healthcare** - Our largest over weighted sector, this sector's YTD 14.4% is only surpassed by tech and consumer discretionary. We like the defensive characteristics of this sector even though many of our summer purchases are above our respective buy limits.
20.8%	20.8% ▼	**Technology** - Best performing sector led by FAANG, which some components are now in communications. While slightly down for September, YTD is still up 18.9%. We have locked in gains on social media in particular.
5.9%	6.6%	**Energy** - Our overweighting is from outperformance after accumulating positions in Occidental Petroleum 15 months ago when it was at its lows, and Schlumberger Ltd. more recently into its recent bout of underperformance.
13.8%	13.8% ▲	**Financials** - LanczGlobal has gone to equal weight from underweight as this underperforming sector will begin to catch up as rates trend higher. Many of our recent recommendations were industry leaders trading near new lows.
2.7%	2.0%	**Basic Materials** - One of our most significant underweights, LanczGlobal expects continued underperformance in this sector.
9.8%	10.3%	**Communications** - The old telecom sector was the top performing sector for September, catching up from its underperformance as we discussed when we upgraded the sector. This sector now has Alphabet, Netflix, and Facebook, with telecoms much less of a factor.
2.8%	2.8%	**Utilities** - This sector's near break-even performance turns out to be the best of the sectors, still in the red YTD. Higher interest rates will be a headwind.
10.2%	11.0% ▲	**Industrials** - Purchases into weakness over the past month has pushed us to an overweight from equal weighting, led by long-term holdings in railroads and more recently select depressed airlines.
10.1%	10.1% ▼	**Consumer Discretionary** - The only sector that has kept pace with tech's outperformance with an 18% YTD gain. We have reduced exposure to equal weight.
6.7%	6.0% ▲	**Consumer Staples** - Going from significant underweight to slightly. Severe underperformance has created opportunities. Our first purchases were TreeHouse Foods Inc. and Hormel Foods Corp. Now that they have both advanced we would accumulate others like Kraft Heinz Co. (KHC) near new lows.
2.7%	0.7%	**Real Estate** - Our most significant underweighting, we have been selling and locking in substantial profits with no bargains to find that meet our valuation discipline.

Valuation Trend

▲ Accumulate - especially on weakness
▼ Profit Taking - especially into further strength

Underweight	Slight Underweight	Equal Weight	Slight Overweight	Overweight
Basic Materials	Consumer Staples ▲	Technology ▼	Industrials ▲	Healthcare
Real Estate	-	Consumer Discretionary ▼	-	-
-	-	Financials ▲	-	-
-	-	Communications	-	-
-	-	Utilities	-	-

MARKET UPDATE | 3rd QUARTER 2018

EQUITY INDICES	3rd QUARTER	YTD (9/30/18)	1-YR (9/30/18)
S & P 500	7.2%	9.0%	15.7%
D.J.I.A.	9.6%	8.8%	20.8%
NASDAQ	7.1%	16.6%	23.9%
Russell 2000	3.6%	11.5%	15.2%
International Stocks (*MSCI* EAFE NR USD)	1.4%	-1.4%	2.7%
Emerging Mkt Stocks (*MSCI EM PR USD*)	-2.0%	-9.5%	-3.1%
China (CSI 300)	-6.5%	-10.4%	-4.9%
Germany (DAX)	-0.5%	-5.2%	-4.5%
Japan (NIKKEI 225)	8.1%	6.0%	18.5%
India (SENSEX)	-7.8%	-8.2%	-8.1%

*Global Indices returns exclude dividends and are in local currency except where noted otherwise

U.S. EQUITY SECTORS	3rd QUARTER	YTD (9/30/18)	1-YR (9/30/18)
S&P 500 Utilities	1.5%	0.0%	-0.6%
S&P 500 Communications	8.4%	0.8%	13.5%
S&P 500 Consumer Staples	4.9%	-5.5%	-0.1%
S&P 500 Materials	-0.2%	-4.2%	2.0%
S&P 500 Industrials	9.5%	3.3%	9.0%
S&P 500 Energy	-0.1%	5.2%	10.7%
S&P 500 Information Technology	8.5%	19.5%	29.9%
S&P 500 Consumer Discretionary	7.8%	19.5%	30.8%
S&P 500 Health Care	14.0%	15.2%	16.4%
S&P 500 Financials	3.9%	-1.2%	6.8%

FIXED INCOME AND ALTERNATIVE INVESTMENTS BENCHMARKS	3rd QUARTER	YTD (9/30/18)	1-YR (9/30/18)
Real Estate (*DJ US REIT*)	0.0%	-1.0%	1.3%
Interm-Term Bond (*Lehman Interm. Gov/Credit*)	-0.3%	-1.4%	-1.9%
High Yield Bond (*BofA/ML Hi Yld Mst II*)	2.4%	2.5%	2.9%
Muni Bond (*S&P 7-12 Yr Muni*)	-0.2%	-0.4%	0.4%
Short-Term Bond (*Barclarys 1-3Yr Gov/Credit*)	0.1%	0.0%	-0.3%
Commodities (*Bloomberg Commodity*)	-1.9%	0.3%	5.6%
Master Limited Partnerships (*S&P MLP*)	4.4%	1.5%	-0.7%

Sources: Fidelity. Performance is for 3rd quarter and 12 months ending 9/30/18. Performance includes dividends, except where noted otherwise.