

July 2017

# PINNACLE QUARTERLY

## The Market

Impressive Resiliency or Too Much  
Complacency?

The Investment Team

July 2017

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Vision Wealth Planning, LLC exists to meet the wealth management goals of individuals and families. To accomplish this objective, we combine sophisticated financial planning with expert investment management solutions that are always tied together to ensure the highest probability of successful financial outcomes. As a Registered Investment Advisory firm, we offer unbiased advice and operate on your behalf as a fiduciary.



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# MARKET

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The second quarter saw financial markets deliver further gains, which was a continuation of the animal spirits that were unleashed in the wake of the U.S. election. Both stocks and bonds rose during the quarter with the S&P 500 making its latest record high in mid-June. Outside of the U.S., international stocks have picked up steam, and are outperforming for the first time in several years. Commodities were the exception, as they were dragged down by crude oil prices that tumbled again. By the end of the quarter, stocks had drifted ever so slightly off their highs, but remained firmly in positive territory on the year. Meanwhile, interest rates were beginning to creep higher again.

## Where's the Hangover?

Earlier this year, we wrote about how we've been anticipating a market hangover from the euphoria that started late last year. A hangover was evident in some areas of the market like bonds, gold, and other safe havens that rallied. But so far, equities have been a bastion of strength, as the S&P 500 Index hasn't had a drawdown of even 3% this year. While the broad market has remained relatively calm, it has masked a dramatic difference in performance between so-called "growth" sectors (like Technology and Health Care) that have led by a wide margin and "value" sectors (like Financials and Energy), which have trailed. It has been a stark reversal from what occurred immediately following the election, when value sectors soared into the end of the year. In other words, so far, the hangover may have taken the form of an internal rotation within the market, as opposed to a decline in the index itself.

While the market's resiliency is impressive, the potential for a hangover has not completely gone away. Contrary to expectations from just a few months ago, very little progress has been made on the political front. From a market standpoint, a big reason that stocks rallied immediately following the election was the result of investors quickly anticipating the likelihood of several business-friendly pieces of legislation being easily passed with a Republican controlled White House and Congress. However, priorities of the administration that have been discussed (health care reform, fiscal stimulus, and infrastructure spending) are all on hold at the moment.

For now, investors seem to be recalibrating their expectations, but not abandoning hope that these items will still get done. However, if it becomes more apparent that some of it may not be achievable after all, it could cause a sudden setback in the market. Indeed, there are reasons to believe that the market may be overly complacent about the possibility of major political disappointments. For instance, measures of market volatility sank to multi-year lows during the quarter, which is often a contrary signal that things are 'too quiet.' If a correction does materialize, it may be an

opportunity to nudge portfolio equity weightings a little higher, as we don't believe this would halt the economy in its tracks. Growth may continue along at a more sluggish pace, but the market outlook doesn't depend solely on assistance from Washington.

## Economic Rebound

On the economic front, after another weak performance in the first quarter with GDP growth of only 1.4% (revised up from only 0.7% initially), all indications are that a rebound occurred in the second quarter. In fact, a forecasting model produced by the Atlanta Federal Reserve Bank suggests growth climbed back to 2.6%. Looking ahead, the economy should continue to be supported through the remainder of the year thanks in part to a recent improvement in overall financial conditions caused by a fall in both interest rates and oil prices during the quarter. Along with ongoing steady gains in the labor market, this should help to lift consumer spending over the second half of the year.

Perhaps more importantly, while the overall trend in growth still has not meaningfully accelerated, corporate earnings have recovered significantly. The growth rate in earnings jumped to nearly 15% in the first quarter from a year earlier—the third consecutive quarter of gains after the earnings recession that occurred in 2015-16. Corporate America has displayed a remarkable ability to grow earnings (thanks largely to rapid technological innovation that has helped lower costs), even though revenue growth has been restrained by low GDP growth. If any progress is made on corporate tax reform along the lines of what has been proposed, that could give another boost to earnings and help prolong the cycle.

## Shifting Sands with Central Banks

The U.S. Federal Reserve continued its campaign of gradual interest rate increases by hiking rates a quarter point for a third time in June. The bigger news came from their announcement that later this year, they intend to reduce the size of their massive \$4.5 trillion

balance sheet. Just as large-scale asset purchases had never been attempted before, reversing them is also untested, and therefore the possibility for unintended consequences causing volatility certainly exists. So far, market participants have taken the Fed at their word that they'll continue to proceed cautiously in removing the punch bowl. But business cycles have historically ended due to the Fed becoming overly restrictive, so investors will need to be on guard despite assurances from central bankers.

Another big change during the quarter came from the European Central Bank, which began to lay the groundwork for an announcement regarding the winding down of their own monetary accommodation. If true, it would be a significant development in that another major central bank would be joining the Fed in reigning in the monetary support that markets have become accustomed to. However, for the time being, overall stimulus will continue to increase, even if the ECB decides to taper their asset purchases next year. For the next several quarters at least, both the ECB and the Bank of Japan will be providing plenty of liquidity to global markets, despite the Fed moving further down the path of tightening. All told, it does not appear that the actions of global central banks will translate into a restrictive posture for the next 12 months or so. Beyond that, it could be a different story.

## Portfolio Positioning

Overall, portfolio volatility is being kept close to neutral. While there is still plenty to be encouraged about, late in an expansion with elevated market valuation is not the time to be taking unnecessary risk. However, there are areas of relative value to take advantage of within asset classes. For instance, within the U.S. equity allocation, we continue to carry a tilt towards cyclical sectors like Financials and Homebuilders, while remaining underweight in defensive and late cycle sectors like Utilities and Materials.

In addition, we increased our allocation to international equities to a modest overweight during the quarter. There have been notable improvements in many global markets this year, such as an uptick in economic growth, a reduction in political risk, and rising earnings growth. When combined with more attractive valuation, it may finally be time for international stocks to play catch up after several years of underperformance.

Within fixed income, we are carrying an underweighted position to interest-rate sensitivity through a reduction in the highest quality bonds that are the most exposed to potential losses if rates rise. We are also positioned to be overweight to credit-sensitive areas and very short-maturity bonds, both of which should defend much better in a rising rate environment.

In commodities, we continue to carry an overweighted position to gold, relative to the broad commodity index which has significantly outperformed this year. However, with liquidity possibly peaking due to central bank tightening, it may be a candidate to be reduced in the second half.

## Conclusion

The second quarter was another positive one for financial markets. Longer-term, we continue to believe that stocks are in the midst of a cyclical bull market that began in February 2016, and should be able to proceed as long as the business cycle remains intact. Of course there are potential risks to guard against that could cause a correction at any time, including Fed tightening, lack of progress on business-friendly legislation, and overvaluation. But there still seems to be a healthy dose of skepticism which has prevented many participants from fully embracing this move in the market, suggesting that outside of short-term pullbacks, there is more room to run before this bull finally tires.

# Pinnacle's Three Dynamic Strategies

## PRIME SERIES

Pinnacle's Prime Series offers investors an array of actively managed portfolios that are globally diversified and designed to provide market-like returns with less risk. Our Prime Series is comprised of five distinct options that include conservative portfolios that prioritize stability and income, moderate portfolios seeking a balance of stability and growth, and growth portfolios designed for appreciation and growth.

The Prime Series portfolios are managed by our experienced investment team to pursue value anywhere in the world—in any asset class—and evaluate opportu-

nities using both qualitative judgment and quantitative tools. Our over-arching strategy is based on long-term economic themes where we build our portfolios in line with the strengths and weaknesses in the market. Our investment team evaluates the qualitative and quantitative data and adjusts our portfolios accordingly. These portfolios have been managed by our investment team since 2002 through all market cycles and have a GIPS verified track-record. The Prime Series should appeal to clients who want an active, tactical management strategy that blends the best of qualitative judgment and quantitative tools.

## MARKET SERIES

Pinnacle's Market Series provides an investor with a globally diversified portfolio that is primarily managed with strategic asset allocation and complimented with tactical management in a smaller portion of the portfolio. The strategic holdings are low cost and efficient, and the satellite portion provides a way for the portfolio to increase return potential when markets are cheap, and dampen risk when markets are expensive or volatility increases.

The series offers three portfolios to investors: Conservative, Moderate, and Appreciation. The strategic allo-

cation comprises 70% of the portfolio and is diversified across twelve asset classes that are systematically rebalanced to retain targeted allocations. The tactical allocation comprises 30% of the portfolio and consists of U.S. stocks and fixed income securities. The tactical satellite includes the flexibility to move between stocks, bonds, or cash, and rotates between them depending on market valuations and technical conditions. By combining both strategic and tactical strategies, the Market Series offers the benefits of both passive and active management.

## QUANTITATIVE SERIES

The Pinnacle Quantitative Portfolio provides investors with an actively managed portfolio that uses a 'Core and Satellite' approach to combine tactical asset management and quantitative analysis. The Core strategy invests approximately 60% of the portfolio in our Dynamic Moderate Growth model, which strikes a balanced approach between capital appreciation and income. The Satellite strategy comprises about 40% of the portfolio and uses sophisticated quantitative analysis that leverages value and momentum data as it rotates equity sectors, bonds, and cash to balance growth and risk.

Our proprietary quantitative model evaluates current market conditions based on a set of valuation and technical indicators, and rotates the allocation between ten U.S. equity sectors and bonds or cash. This portfolio will appeal to clients who are looking for a heavily rules-based approach to investing and are willing to make aggressive allocation changes depending on market conditions.



Start Date	End Date	Dynamic Conservative	Dynamic Conservative Growth	Dynamic Moderate Growth	Dynamic Appreciation	Dynamic Ultra Appreciation*
12/31/2016	6/30/2017	3.25%	5.04%	6.01%	7.08%	8.78%
12/31/2015	12/31/2016	1.86%	3.36%	4.22%	4.95%	4.95%
12/31/2014	12/31/2015	-0.51%	-0.04%	-0.22%	-0.40%	-0.29%
12/31/2013	12/31/2014	3.11%	3.71%	4.20%	3.62%	3.79%
12/31/2012	12/31/2013	3.72%	10.41%	14.50%	18.59%	24.43%
12/31/2011	12/31/2012	5.14%	6.72%	7.64%	9.10%	11.80%
12/31/2010	12/31/2011	4.38%	3.77%	2.47%	1.18%	-2.27%
12/31/2009	12/31/2010	5.91%	8.83%	11.49%	11.81%	11.48%
12/31/2008	12/31/2009	9.63%	11.31%	19.17%	24.10%	32.02%
12/31/2007	12/31/2008	-9.48%	-12.21%	-16.61%	-23.54%	-27.34%
12/31/2006	12/31/2007	6.11%	7.02%	8.15%	8.38%	8.93%
12/31/2005	12/31/2006	9.44%	9.43%	11.14%	13.14%	14.66%
12/31/2004	12/31/2005	4.28%	4.95%	5.60%	6.25%	6.98%
12/31/2003	12/31/2004	7.13%	9.41%	10.08%	11.23%	8.42%
12/31/2002	12/31/2003	10.72%	18.45%	21.47%	25.53%	n/a
10/31/2002	12/31/2002	1.63%	0.71%	0.52%	0.46%	n/a
Total Return		88.43%	134.77%	174.19%	194.36%	148.82%
Annualized Return		4.41%	5.99%	7.12%	7.64%	7.26%
<b>Trailing Returns</b>						
Trailing-Three-Month		1.30%	1.93%	2.25%	2.59%	2.98%
Trailing-One-Year		2.11%	5.87%	8.12%	10.32%	13.15%
Trailing-Three-Year - Annualized		1.73%	3.03%	3.56%	3.92%	4.45%
Trailing-Five-Year - Annualized		2.81%	5.15%	6.42%	7.52%	9.41%
Trailing-Ten-Year - Annualized		2.81%	4.16%	5.12%	5.10%	5.76%
<b>Rolling 36-Month Returns</b>						
Best 36 Months - Annualized		8.36%	12.18%	14.83%	17.60%	19.74%
Worst 36 Months - Annualized		0.04%	-1.43%	-2.97%	-6.23%	-7.90%

## Disclosure

Pinnacle Advisory Group, Inc. ("Pinnacle") is a registered investment adviser under the SEC Investment Advisers Act of 1940. The performance of all Dynamic Prime Series strategies includes all client groups with asset values over \$200,000 and no material restriction on implementation of the firm's investment strategy. Performance for periods beginning 1/1/16 includes all client groups that do not exceed our cash limits, non-model limits, and contain no material restrictions on implementation of the investment strategy. The stated returns include all dividends being reinvested and are net of all fees. The inception date for Dynamic Prime Ultra Appreciation is 6/30/2004.

## Model portfolio assets under management as of 12/31/2016

Dynamic Conservative:	\$ 17,840,000.00
Dynamic Conservative Growth:	\$ 219,010,000.00
Dynamic Moderate Growth:	\$ 867,890,000.00
Dynamic Appreciation:	\$ 188,890,000.00
Dynamic Ultra Appreciation:	\$ 14,920,000.00

Date - 6/1/2017

## Dynamic Market Series

## Dynamic Quant Series

Start Date	End Date	Dynamic Market Conservative	Dynamic Market Moderate	Dynamic Market Appreciation	Dynamic Quant
12/31/2016	6/30/2017	4.82%	5.69%	6.59%	8.67%
12/31/2015	12/31/2016	5.98%	7.27%	8.42%	4.42%
12/31/2014	12/31/2015	-2.64%	-2.98%	-3.10%	-4.74%
12/31/2013	12/31/2014	5.73%	6.18%	6.64%	9.24%
12/31/2012	12/31/2013	10.88%	15.31%	19.77%	21.71%
12/31/2011	12/31/2012	10.86%	12.12%	13.63%	11.61%
12/31/2010	12/31/2011	0.23%	-1.24%	-2.30%	-1.48%
12/31/2009	12/31/2010	11.91%	13.75%	15.14%	12.14%
12/31/2008	12/31/2009	21.90%	24.68%	27.35%	24.67%
12/31/2007	12/31/2008	-13.23%	-19.23%	-25.05%	-12.86%
12/31/2006	12/31/2007	7.04%	7.05%	7.13%	8.95%
12/31/2005	12/31/2006	10.08%	11.77%	13.73%	12.22%
12/31/2004	12/31/2005	5.62%	6.85%	7.94%	7.63%
12/31/2003	12/31/2004	9.72%	11.07%	12.54%	13.48%
12/31/2002	12/31/2003	18.70%	22.34%	26.12%	23.10%
10/31/2002	12/31/2002	2.10%	1.92%	1.67%	0.93%
Total Return		175.99%	202.41%	231.20%	257.30%
Annualized Return		7.17%	7.84%	8.51%	9.07%
<b>Trailing Returns</b>					
Trailing-Three-Month		1.94%	2.15%	2.40%	2.96%
Trailing-One-Year		6.91%	9.30%	11.81%	15.17%
Trailing-Three-Year - Annualized		2.78%	3.38%	4.02%	3.94%
Trailing-Five-Year - Annualized		5.92%	7.35%	8.79%	8.47%
Trailing-Ten-Year - Annualized		5.54%	5.71%	5.83%	7.01%
<b>Rolling 36-Month Returns</b>					
Best 36 Months - Annualized		16.25%	18.76%	21.26%	17.31%
Worst 36 Months - Annualized		-2.72%	-5.60%	-8.46%	-1.79%

### Disclosure

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## Disclosure Dynamic Prime Series

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### Model Portfolio Assets under management as of 12/31/16.

Dynamic Conservative: \$17,840,000

Dynamic Conservative Growth: \$219,010,000

Dynamic Moderate Growth: \$867,890,000

Dynamic Appreciation: \$188,890,000

Dynamic Ultra Appreciation: \$14,920,000

### **Indexes**

S&P/BGCantor 0-3 Month U.S. Treasury Bill Index - A broad, comprehensive, market-value weighted index that seeks to measure the performance of the U.S. Treasury Bill market. The index includes the reinvestment of all cash distributions.

Barclays Capital U.S. Aggregate Bond Index - An unmanaged, intermediate term, market-capitalization weighted index used to represent investment grade bonds being traded in the U.S. The index includes treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in U.S. The index includes the reinvestment of all cash distributions.

S&P 500 Total Return Index - An unmanaged, capitalization-weighted index composed of 500 widely held common stocks listed on the NYSE. This index provides a broad snapshot of the overall U.S. equity market. The index selects its companies based upon their market size, liquidity, and sector. The index includes the reinvestment of all cash distributions.

MSCI Daily TR Net USA USD Index - An unmanaged, capitalization-weighted index reflecting the full breadth of investment opportunities within the US equity markets. The index includes large, mid, small and micro capitalization companies, covering approximately 99.5% of the capitalization of the US equity market. The index includes the reinvestment of all cash distributions.

Dow Jones Industrial Average Total Return Index - An unmanaged, price-weighted index of 30 widely held stocks traded on the NYSE. The 30 stocks in the Dow Jones Industrial Average are all major factors in their industries and their stocks are widely held by individuals and institutional investors. The index includes the reinvestment of all cash distributions.

Russell 2000 Total Return Index - An unmanaged, market-capitalization weighted index that measures the performance of the 2,000 smallest market capitalization companies in the Russell 3000 index. The index includes the reinvestment of all cash distributions.

NASDAQ Composite Total Return Index - An unmanaged, market-capitalization weighted index. The security types eligible for the index include domestic or foreign common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests, and tracking stocks. The index includes the reinvestment of all cash distributions.

MSCI Daily Total Return Net EAFE USD Index - An unmanaged, market capitalization weighted index composed of stocks from 21 developed markets, but excluding those from the U.S. and Canada. The countries included in the index are located in Europe, Australia, Asia, and the Far East. The index includes the reinvestment of all cash distributions. The index reinvests dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI Daily Total Return Net Emerging Markets USD Index - An unmanaged, market capitalization weighted index composed of stocks from 26 emerging markets. The countries included in the index are located in Europe, South America, Africa, and Asia. The index includes the reinvestment of all cash distributions. The index reinvests dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Bloomberg Commodity Index Total Return - A rolling index, rebalanced annually, composed of futures contracts on 19 physical commodities. It is designed to be a highly liquid and diversified benchmark for the commodity futures market. The index includes the reinvestment of all cash distributions.

iPath® Bloomberg Commodity Index Total Return ETN - An investable vehicle designed to provide exposure to the Bloomberg Commodity Index Total Return. The vehicle's inception date is 6/30/2006.

Commodity Blended Benchmark - Comprised of 100% Bloomberg Commodity Total Return Index from 10/31/2002 to 6/30/2006 and 100% iPATH Bloomberg Commodity Index Total Return ETN from 6/30/2006 to present.

CPI Index - This index measures changes in the price level of a market basket of consumer goods and services purchased by households. The index is published by the Bureau of Labor Statistics.

## Prime Series Benchmarks

DC Blended Benchmark - Comprised of 21% S&P 500 Total Return Index / 6% MSCI Daily Total Return Net EAFE USD Index / 3% Commodity Blended Benchmark / 63% Barclays Capital U.S. Aggregate Bond Index / 7% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index from 10/31/2002 to 8/31/2009, and 14% S&P 500 Total Return Index / 4% MSCI Daily Total Return Net EAFE USD Index / 2% Commodity Blended Benchmark / 72% Barclays Capital U.S. Aggregate Bond Index / 8% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index from 8/31/2009 to present. The benchmark is rebalanced monthly.

DCG Benchmark - 33% S&P 500 Total Return Index / 9% MSCI Daily Total Return Net EAFE USD Index / 3% Commodity Blended Benchmark / 49% Barclays Capital U.S. Aggregate Bond Index / 6% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DMG Benchmark - 44% S&P 500 Total Return Index / 12% MSCI Daily Total Return Net EAFE USD Index / 4% Commodity Blended Benchmark / 36% Barclays Capital U.S. Aggregate Bond Index / 4% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DA Benchmark - 55% S&P 500 Total Return Index / 15% MSCI Daily Total Return Net EAFE USD Index / 5% Commodity Blended Benchmark / 23% Barclays Capital U.S. Aggregate Bond Index / 2% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DUA Benchmark - 72% S&P 500 Total Return Index / 20% MSCI Daily Total Return Net EAFE USD Index / 6% Commodity Blended Benchmark / 2% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

Date – 6/1/2017

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## Disclosure

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**The Dynamic Market Series and Dynamic Quant Series strategies have less than three years of performance as model portfolios at Pinnacle Advisory Group and all performance data cited in this report is based on back- - tested data and not actual performance.**

## Market Series Benchmarks

DMC Benchmark - - 33% S&P 500 Total Return Index / 9% MSCI Daily Total Return Net EAFE USD Index / 3% Commodity Blended Benchmark / 49% Barclays Capital U.S. Aggregate Bond Index / 6% S&P/BGCantor 0- -3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DMM Benchmark - - 44% S&P 500 Total Return Index / 12% MSCI Daily Total Return Net EAFE USD Index / 4% Commodity Blended Benchmark / 36% Barclays Capital U.S. Aggregate Bond Index / 4% S&P/BGCantor 0- -3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DMA Benchmark - - 55% S&P 500 Total Return Index / 15% MSCI Daily Total Return Net EAFE USD Index / 5% Commodity Blended Benchmark / 23% Barclays Capital U.S. Aggregate Bond Index / 2% S&P/BGCantor 0- -3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

## Disclosure – Dynamic Market Series Model Performance – Back-tested data

Pinnacle Advisory Group, Inc. ("Pinnacle") is a registered investment adviser under the SEC Investment Advisers Act of 1940.

The Dynamic Market series of portfolios are designed to capture market returns across full investment cycles while seeking to protect or improve returns at market peaks and troughs. The performance cited within this report is based on back- -tested data of hypothetical portfolios relative to each model and may not be relied upon for investment purposes and are not meant to represent actual, current, or future performance. This report is unaudited and does not replicate actual returns for any client.

This is a hypothetical model presentation and may only be used in a one-on-one presentation for specified individual clients. This should not be further disseminated without compliance approval. Perspectives, opinions, and testing data may change without notice. Please contact a Pinnacle investment professional for additional information. Past performance is not indicative of future return. All information is believed to be correct but accuracy cannot be guaranteed.

The Market series of portfolios are structured with a 70% Core portfolio and 30% Dynamic portfolio. The core portfolio owns a static diversified 11-asset class portfolio of equity and fixed income securities. The satellite portfolio owns a quantitatively derived (based on a set of valuation and technical indicators) mix of equities and fixed income to protect against market extremes. Back tested results represent the period of October 2002 to the most recent month-end date. Results should be evaluated over a complete market cycle, which includes both bull market and bear market returns.

The Dynamic Market Conservative (DMC) portfolio performance is measured against a five-asset class benchmark, rebalanced monthly, consisting of 45% equities and alternatives (33% S&P 500 Total Return Index, 9% MSCI Daily Total Return Net EAFE USD Index, 3% Commodity Blended Benchmark\*) and 55% fixed income (49% Barclays Capital U.S. Aggregate Bond Index, 6% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

The Dynamic Market Moderate (DMM) portfolio performance is measured against a five-asset class benchmark, rebalanced monthly, consisting of 60% equities and alternatives (44% S&P 500 Total Return Index, 12% MSCI Daily Total Return Net EAFE USD Index, 4% Commodity Blended Benchmark\*) and 40% fixed income (36% Barclays Capital U.S. Aggregate Bond Index, 4% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

The Dynamic Market Appreciation (DMA) portfolio performance is measured against a five-asset class benchmark, rebalanced monthly, consisting of 75% equities and alternatives (55% S&P 500 Total Return Index, 15% MSCI Daily Total Return Net EAFE USD Index, 5% Commodity Blended Benchmark\*) and 25% fixed income (23% Barclays Capital U.S. Aggregate Bond Index, 2% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

Portfolio holdings are assumed to be rebalanced when holdings diverge from model weightings by more than 1%. No taxes or transaction costs are included in the analysis. All returns are net of maximum investment management fees, but are gross of all other costs, expenses and commissions associated with client account trading and custodial services. Any comments regarding an individual security are presented at the client's request, may only be used for client reference, and are not reflective of composite or individual portfolio ownership. Pinnacle may or may not have held or currently hold a specific security. The position may or may not have been profitable and may or may not be profitable in the future. Any positive comments regarding specific securities may no longer be applicable and should not be relied upon for investment purposes. No security is profitable all of the time and there is always the possibility of selling it at a loss. Investments are subject to change without notice.

Decisions and information provided were based on available research at the time and as these are not realized returns, specific action or lack of action is not known for certainty. Material economic and market factors may have changed and certain investment restrictions may have affected performance. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, and international accounting difference risks which may be more excessive in emerging markets. Returns do include the reinvestment of gains, dividends and other income. Individual client returns may be materially negatively affected due to expenses and commissions associated with client account trading and custodial services.

\*Comprised of 100% Bloomberg Commodity Total Return Index from 10/31/2002 to 6/30/2006 and 100% iPATH® Bloomberg Commodity Index Total Return ETN from 6/30/2006 to present.

Date: 1/31/17

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## Disclosure – Dynamic Quant Series Model Performance – Back-tested data

### Quant Series Benchmarks

DQ Benchmark - - 27.5% S&P 500 Total Return Index / 37.5 MSCI Daily TR Net USA USD Index / 7.5% MSCI Daily Total Return Net EAFE USD Index / 2.5% Commodity Blended Benchmark / 22.5% Barclays Capital U.S. Aggregate Bond Index / 2.5% S&P/BGCantor 0- -3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

The Quantitative series of portfolios represent hypothetical model portfolio results that are designed to capture market returns across full market cycles, and also to protect or improve returns at market peaks and troughs. Back tested and model presentations may not be relied upon for investment purposes and are not meant to represent actual current or future performance. This report is unaudited and does not replicate actual returns for any client.

This is a hypothetical model presentation and may only be used in a one- -on- -one presentation for specified individual clients. This should not be further disseminated without compliance approval. Perspectives, opinions, and testing data may change without notice. Please contact a Pinnacle investment professional for additional information. Past performance is not indicative of future return. All information is believed to be correct but accuracy cannot be guaranteed.

**The Dynamic Quantitative (DQ)** portfolio uses Pinnacle's Dynamic Moderate Growth (DMG) portfolio as the chassis (see Dynamic Prime Series as described in investment policy statement for description of the DMG portfolio), and then adds on a purely quantitative allocation of the portfolio. The DMG's actively managed portfolio is 62.5% of the total portfolio, while the quantitative allocation makes up 37.5%. The Quantitative allocation rotates between ten U.S. equity sectors and fixed income, depending on how the quantitative model evaluates current market conditions based on a set of valuation and technical indicators. Back tested results represent the period of October 2002 to the most recent month- -end date. Results should be evaluated over a complete market cycle, which includes both bull market and bear market returns.

**The Dynamic Quantitative (DQ)** portfolio performance is measured against a six asset class benchmark, rebalanced monthly, consisting of 75% equities and alternatives (37.5% MSCI US, 27.5% S&P 500 Total Return Index, 7.5% MSCI Daily Total Return Net EAFE USD Index, 2.5% Commodity Blended Benchmark\*) and 25% fixed income (22.5% Barclays Capital U.S. Aggregate Bond Index, 2.5% S&P/BGCantor 0- -3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

Portfolio holdings are assumed to be rebalanced when holdings diverge from model weightings by more than 1%. No taxes or transaction costs are included in the analysis. All returns are net of maximum investment management fees, but are gross of all other costs, expenses and commissions associated with client account trading and custodial services. Any comments regarding an individual security are presented at the client's request, may only be used for client reference, and are not reflective of composite or individual portfolio ownership. Pinnacle may or may not have held or currently hold a specific security. The position may or may not have been profitable and may or may not be profitable in the future. Any positive comments regarding specific securities may no longer be applicable and should not be relied upon for investment purposes. No security is profitable all of the time and there is always the possibility of selling it at a loss. Investments are subject to change without notice.

Decisions and information provided were based on available research at the time and as these are not realized returns, specific action or lack of action is not known for certainty. Material economic and market factors may have changed and certain investment restrictions may have affected performance. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, and international accounting difference risks which may be more excessive in emerging markets. Returns do include the reinvestment of gains, dividends and other income. Individual client returns may be materially negatively affected due to expenses and commissions associated with client account trading and custodial services.

\*Comprised of 100% Bloomberg Commodity Total Return Index from 10/31/2002 to 6/30/2006 and 100% iPATH® Bloomberg Commodity Index Total Return ETN from 6/30/2006 to present."

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