Summer 2018

Investment Strategy

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Executive Summary:

Integra Capital Advisors Update - Updates on our team members and activities.

No-Load Insurance - We have identified a source for no-load insurance in the categories of life, long-term care and annuities to help our clients who need insurance spend less.

What's Up With International Equities - So far in 2018 international markets have been laggards. We examine the likely causes, but make the case not to abandon them totally just yet.

U.S. Small Companies Lead the Way - Contrary to international market's struggles, domestic smaller companies are the leaders in 2018. Read Why.

Integra Capital Advisors Update

Greetings from the Integra Capital Advisors team to you and your family. We hope your summer is going well. It has now been almost a year since our Naples Area office team joined the firm. Overall, the transition has gone well and we continue to work on becoming integrated in terms of processes and procedures.

The leader of the Naples area office is Brad Campbell. Brad is now a part-owner of Integra Capital Advisors and fills the Chief Investment Officer (CIO) role. He, Geoff Niebaum and Tom Breiter act as the firm's Investment Committee and work together on investment research and portfolio design. Geoff Niebaum has now been with Integra Capital for 11 years. The Naples area office is rounded out with Financial Advisors John Michael Hinkson and Robert Frailey.

In the main office in Bradenton, Christina Sherman has just celebrated her two-year anniversary with the firm. Christina is the Operations Manager for both office locations. In addition, we have John Zimnik (with CFP, CLU and ChFC designations) as our on staff Financial Planner and Financial Advisor. Andrew Gipson joined us in May and will serve as part of our planning and advisory team as a Junior Advisor and assisting Christina with operations.

David Keel joined us in January as a Financial Advisor in the Jacksonville area. David is an experienced advisor working with high net worth investors in his area. You can read our team members personal bios on our website's team page under the "About" tab.

The intent in building the team is not only to grow our business, but to be able to provide you help across the full spectrum of your potential need for financial advice. This includes goals-based financial planning, detailed retirement income plans, investment management (including access to private market opportunities), as well as peripheral advice on taxes, insurance and estate planning. Of course, we may refer you to tax, insurance and estate planning professionals for detailed advice in these areas. If we have not already engaged with you in the financial planning or retirement income planning process and you think these services may provide a benefit, make sure to give us a call.

No-Load Insurance

Related to the idea of insurance as mentioned above, we are excited about our new membership with DPL Financial Partners. Through our due diligence effort we identified DPL as a valued business asset for our clients who may need various insurance policies (life, annuities, long-term care, etc.). DPL offers insurance on a true no-load (no commission) basis which may provide significant savings to our clients compared to traditional agent-sold insurance products. We will share more information in the near future, but don't hesitate to call to discuss your insurance needs, whether it be for new policies or potential replacement of an existing policy where we may be able to save you quite a bit on policy premiums. Two of our team members, Brad Campbell and John Zimnik, hold the Chartered Life Underwriter (CLU) designation, so we have experienced team members to help you with insurance questions.

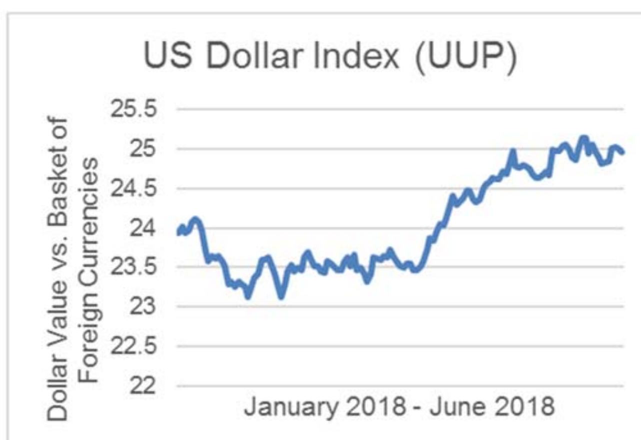
Chief Investment Officer, Brad Campbell, has prepared some information on recent market trends and we are pleased to present it below:

The International Equity Quandary

As noted in our Winter 2018 investment strategy commentary, international equities, and in particular, emerging markets equities were the best performing global asset class in calendar year 2017. International stocks have lagged U.S. stocks since the Great Recession up until the last calendar year

Despite significant gains in 2017, international stocks, and specifically emerging market stocks have underperformed the U.S. stock market since January despite more attractive valuations compared to U.S. stocks. So, what has caused developed and emerging international stocks to underperform U.S. stocks so far in 2018?

There are two main culprits to the reversal in fortunes of international equities, and the emerging markets in particular. First, the value of the U.S. dollar has risen suddenly and dramatically this year. This has had a negative impact on emerging market-based companies. U.S. inputs to emerging market company products have become more expensive and made typical price advantages less competitive, therefore resulting in lower corporate profits. Oil is priced in U.S. dollars globally, so as the price of oil has risen along with the value of the dollar, this important input into many production and distribution processes has hurt emerging market-based company performance. The international consumers must also pay more for U.S. imports undercutting disposable income available to spend on goods and services.

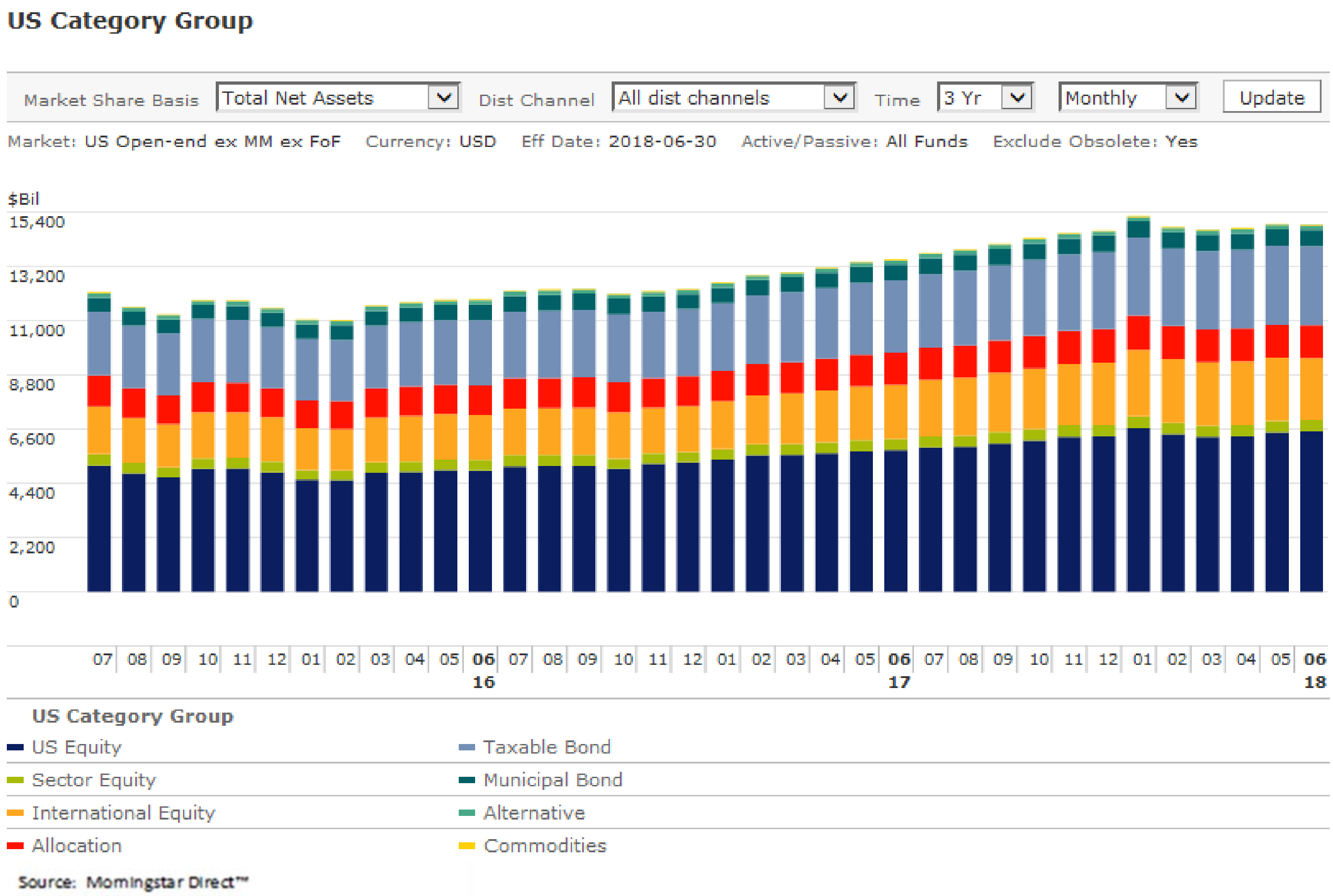


Source: Morningstar Direct™

Second, the largest emerging market and international economy, namely China, is in the midst of ongoing trade negotiations (a nice way to say mini trade war) with the U.S. that have included the imposition of tariffs on products exported from China to the U.S. The administrations tariff imposition has also impacted trade with the European Union, Canada and Mexico. International economies, especially emerging markets, are highly dependent on the export of products and services outside their borders, and particularly to the vast U.S. consumer market. Over the past several years China has been working to transform their economy to a more consumer-driven economy much like that of the U.S. (70% of U.S. GDP is consumer spending) rather than an export driven economy so that their economic health would be less dependent on external forces. China has not yet accomplished this goal and, in fact, remains dependent on exports, particularly to the U.S.

Nevertheless, we have noted the continuation of asset flows, largely from institutional investors, into international equity and out of U.S. equity likely due to the more attractive valuations mentioned previously. The Morningstar chart below illustrates this flow of funds.

Flow Funds as of June 30, 2018



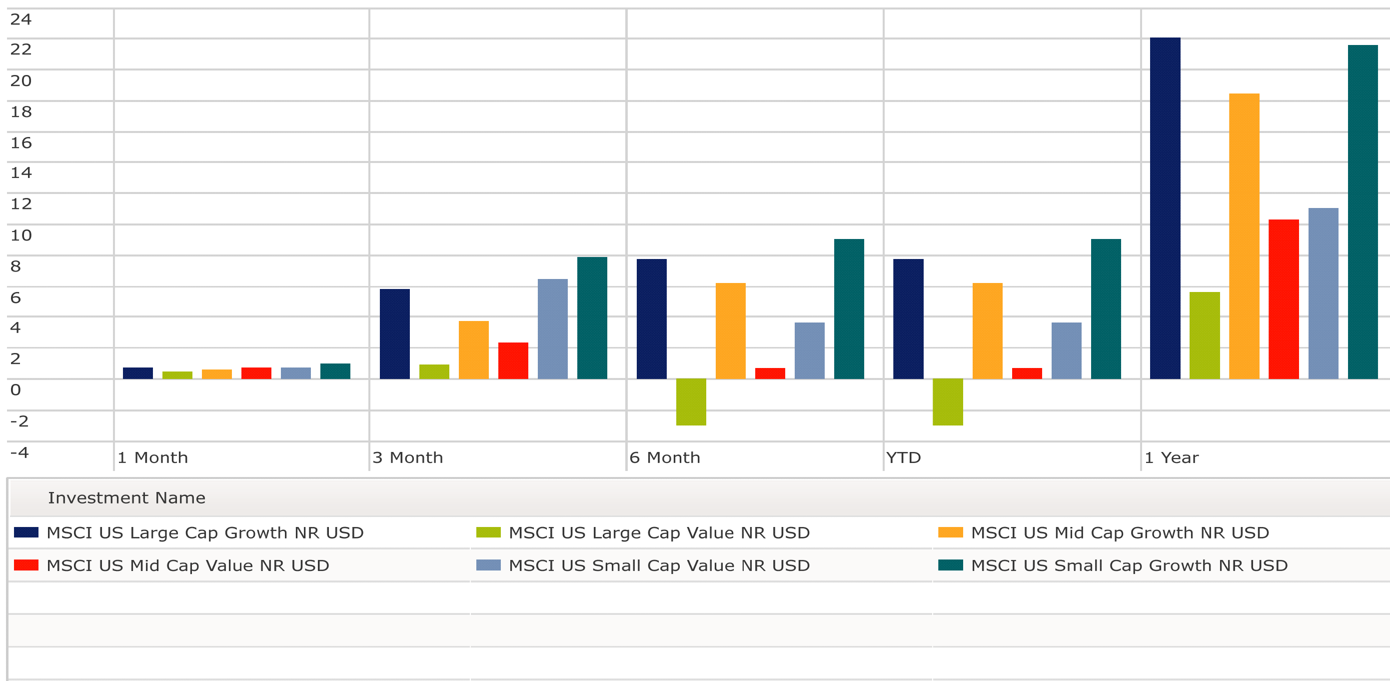
The fund flow chart leads us to believe that the recent underperformance of international equities could reverse as quickly as it did in 2017. But it is important to remember that just because an asset class is under-valued doesn't mean it will turn around immediately and the time horizon can stretch into the years.

Small Caps Outperform

As you can see from the chart below of the broad U.S. equity market asset classes, the U.S. small capitalization growth category has been the leading equity asset class as the trend mentioned above took place in the first half of this year.

We attribute this to smaller companies' ability to avoid many of the issues plaguing larger U.S.-based companies who do much of their business in the international economies experiencing challenges due to the rising U.S Dollar and trade tariff situation described above. Smaller companies do less if any business overseas, thereby protecting their profits from currency issues and some of the trade battle. In many cases, smaller companies have historically paid corporate income taxes at the highest rates. Recent tax law changes from late 2017 have been advantageous to their net after tax profits more so than larger companies.

U.S. Broad Equity Asset Classes



Source: Morningstar Direct™

Bond Markets Drag on Portfolio Performance

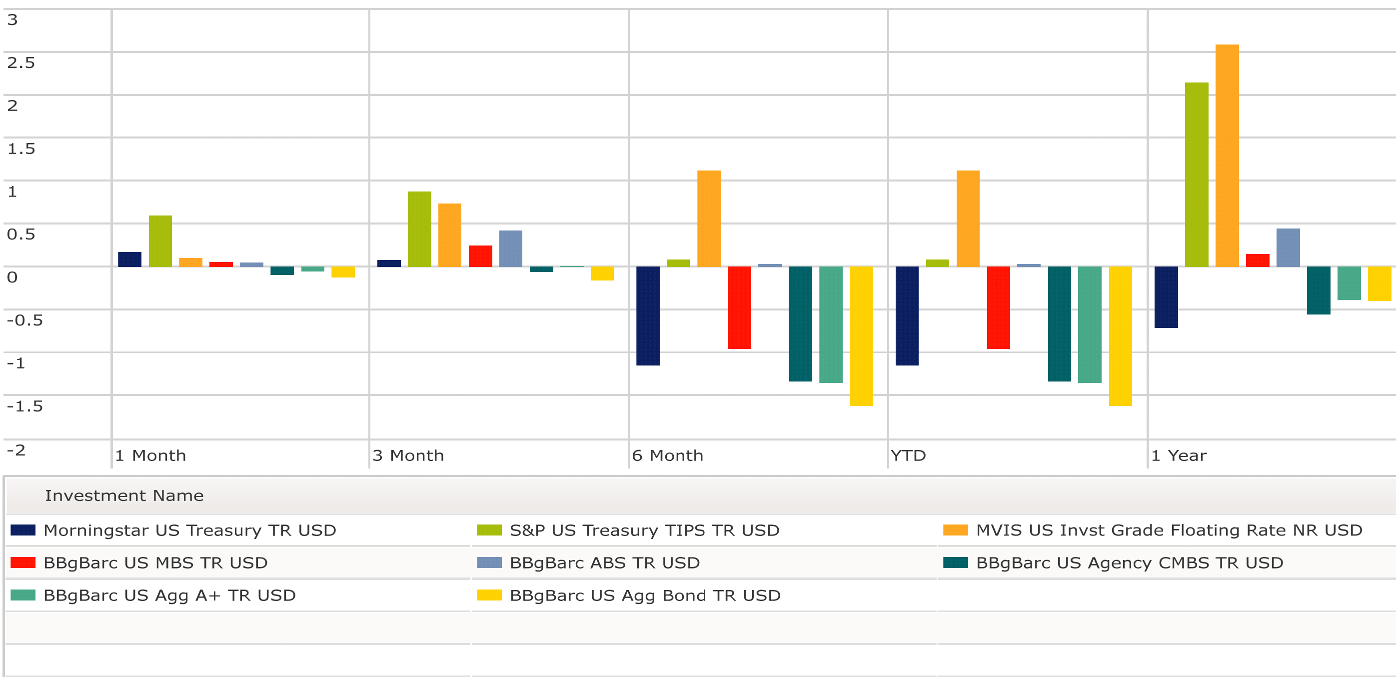
Like most financial advisors, we preach the value of a diversified asset allocation for most investors who cannot afford or tolerate dramatic declines in their portfolio value. Of course, asset allocation loses attractiveness as bull stock markets like the current one give the impression they will just keep going and going like the Energizer Bunny in the TV commercials. Even tougher has been the decline in value of most traditional bond types this year due to rising interest rate levels, But rising stock markets do end and always will. Asset allocation remains a first defense against major stock market declines, or even both market declines for that matter.

But, like the various categories of stocks (small, large, domestic, international), there are bonds of differing types and characteristics. We've sought to minimize the impact rising rates on traditional government and corporate bonds by focusing on floating rate fixed income positions and other non-traditional bond strategies that have a better chance of yielding positive results as interest rates continue their upward trajectory.

As you can see in the chart below of various segments of U.S bond market, Investment Grade Floating Rate bonds (orange bar in the chart) have been the best performers over the last 1 year and year to date. The worst performing segment of the traditional bond market year to date has been the Aggregate Index of U.S. bonds which includes corporates, treasuries, investment grade and non-investment grade to name a few (green bar in the chart).

TIPS or treasury inflation protected securities have also performed reasonably well as inflation has ticked up in the U.S. TIPS do not pay interest coupons but rather rise in value when the rate of inflation increases.

Performance of U.S. Bond Categories



Source: Morningstar Direct™

In summary, while international equities offer a better value related to historic norms, the momentum has shifted back in the favor of domestic equities here in the U.S. We believe that investors should be prepared for higher levels of volatility for stock prices as we get later into the current economic expansion which is now the second longest on record. Bond investors should prepare for subdued returns in the face of almost certain continued interest rate increases by the Federal Reserve. Further, we think that bonds in the floating rate category will fare better than traditional fixed income vehicles in the current rising rate environment.

As always, please call us if we can be of help in any financial decisions, or if you know of someone that our services may be helpful for.