Core Investment Principles for Times of Market Turbulence

Investment Strategy Group

Janney

Core Investment Principles for Times of Market Turbulence

History shows that corrections typically occur every couple months. With the market now experiencing volatility, we thought it would be prudent to review our core investment principles for market turbulence.

1. Stock market corrections are a normal occurrence. Despite average intra-year drops of 13.8%, the S&P 500 has produced positive annual returns in 29 of 38 years with average total returns over that period of 10.1%. **See slide 2.**
2. Owning stocks is critical for maintaining purchasing power. Stocks have significantly outperformed every major asset class over long periods of time (slide 3).
3. Market timing is very difficult and a major threat to portfolio returns is short-term emotional decisions related to market volatility. The average investor significantly underperforms most asset classes because of poor market timing and a lack of portfolio diversification. Investors are usually best served by focusing on long-term returns and maintaining a diversified portfolio that includes exposure to riskier assets (slide 4).
4. Diversification matters. Asset class returns vary from year-to-year and diversification can greatly reduce portfolio volatility. A balanced portfolio reduces volatility while maintaining long-run returns (slide 5).
5. Investment time horizon is critical for investment success. While yearly returns can be volatile, holding a diversified portfolio for longer time periods usually results in significant, positive returns (slide 6).

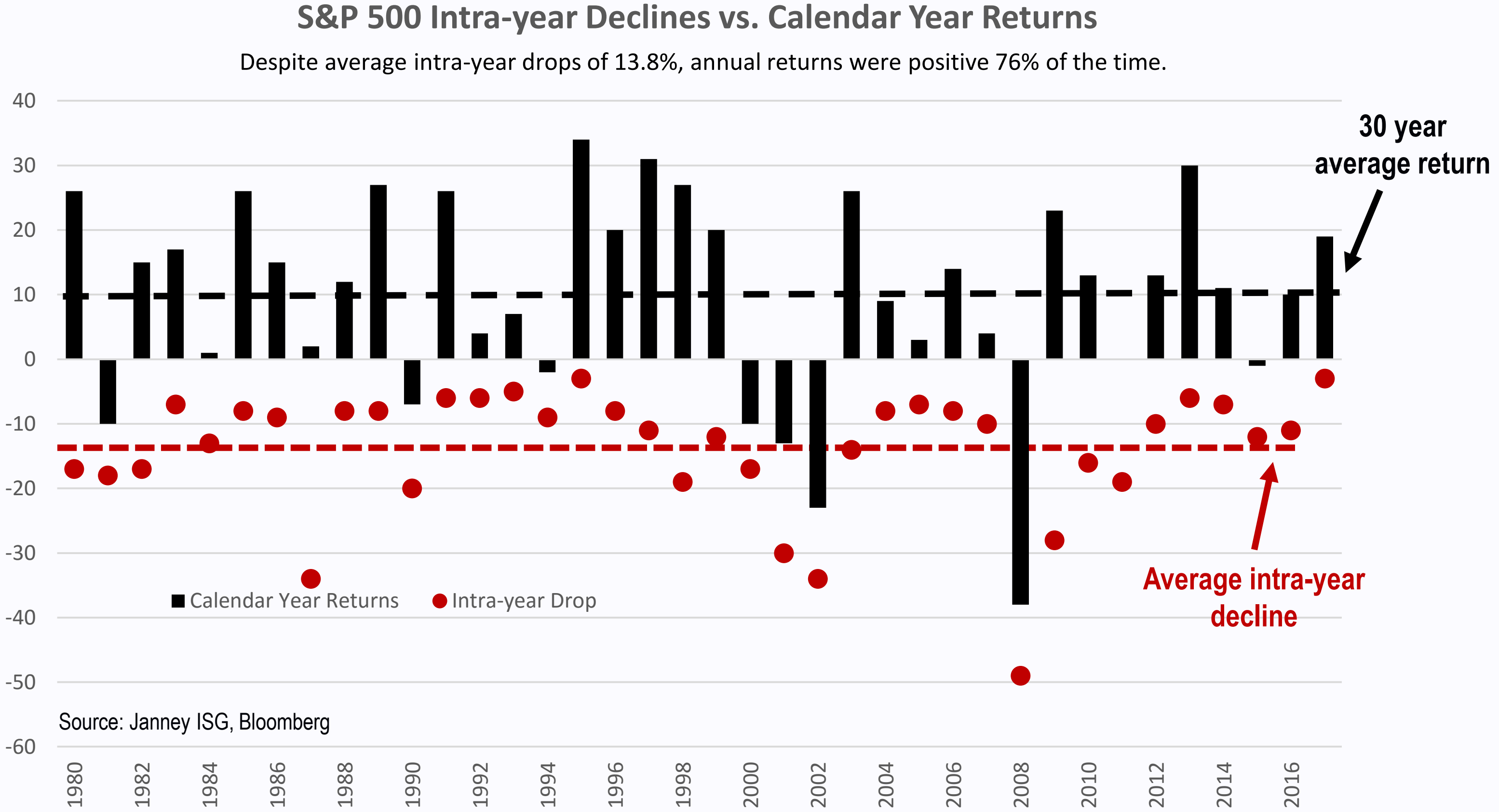
The stock market's fall from its recent all-time high has been driven by concerns over rising Treasury bond yields, slower global economic growth, trade protectionism, and Italy's proposed budget that doesn't meet European Union rules.

However, the U.S. economy is very healthy with no signs of a near-term recession. This should continue to support corporate profit growth, which is the ultimate foundation for higher stock prices. Inflationary pressures remain contained and this allows the Federal Reserve to gradually raise interest rates. While interest rates have moved higher, they remain at levels that are still conducive for further economic growth. Economic growth is also supported by fiscal stimulus (tax cuts and increased government spending), strong credit (bank loan) growth, and a very healthy labor market (supports consumer confidence and spending).

Major bear markets are usually associated with economic recessions while we see favorable economic conditions that should support further stock gains.

Stock Market Corrections are a Normal Occurrence

- Despite average intra-year drops of 13.8%, the S&P 500 has produced positive annual returns in 29 of 38 years with average total returns over that period of 10.1%.
  - Market corrections are not a financial loss…unless you sell.

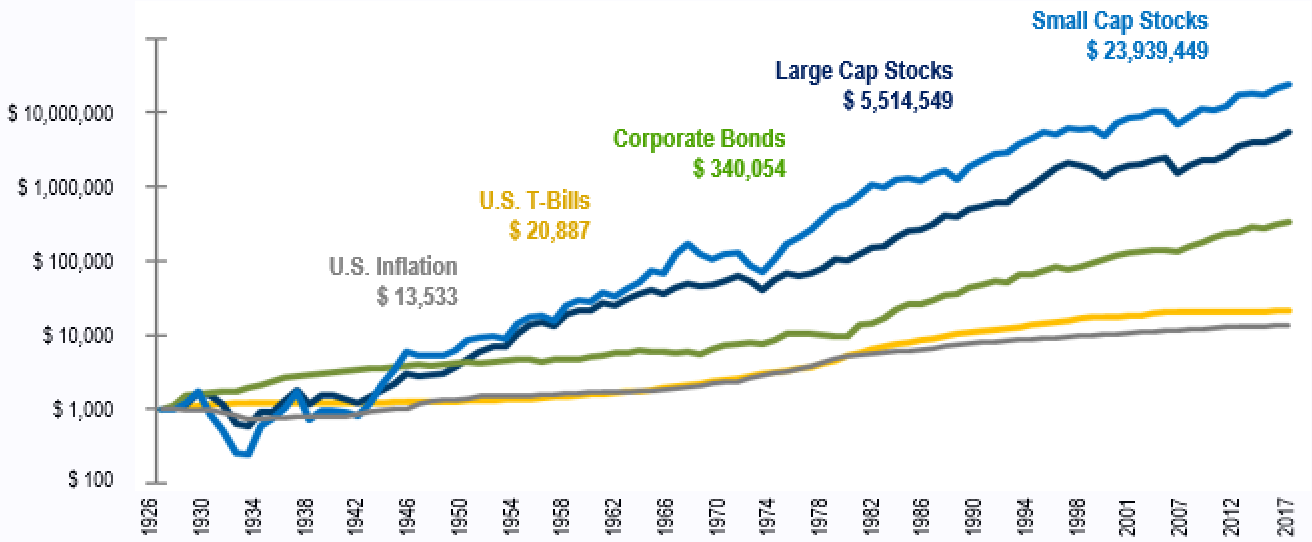


Too Little Equity Exposure is a Major Mistake

- Significant stock exposure is critical for portfolio growth and maintaining long-term purchasing power.
  - Compounding returns are powerful over time, despite bouts of volatility.
  - Stocks have significantly outperformed every major asset class over long periods of time.
  - While we face significant economic challenges today, stocks significantly outperformed during the last 90 years, which included the Great Depression, World War II, The Cold War, and numerous other economic and market challenges.

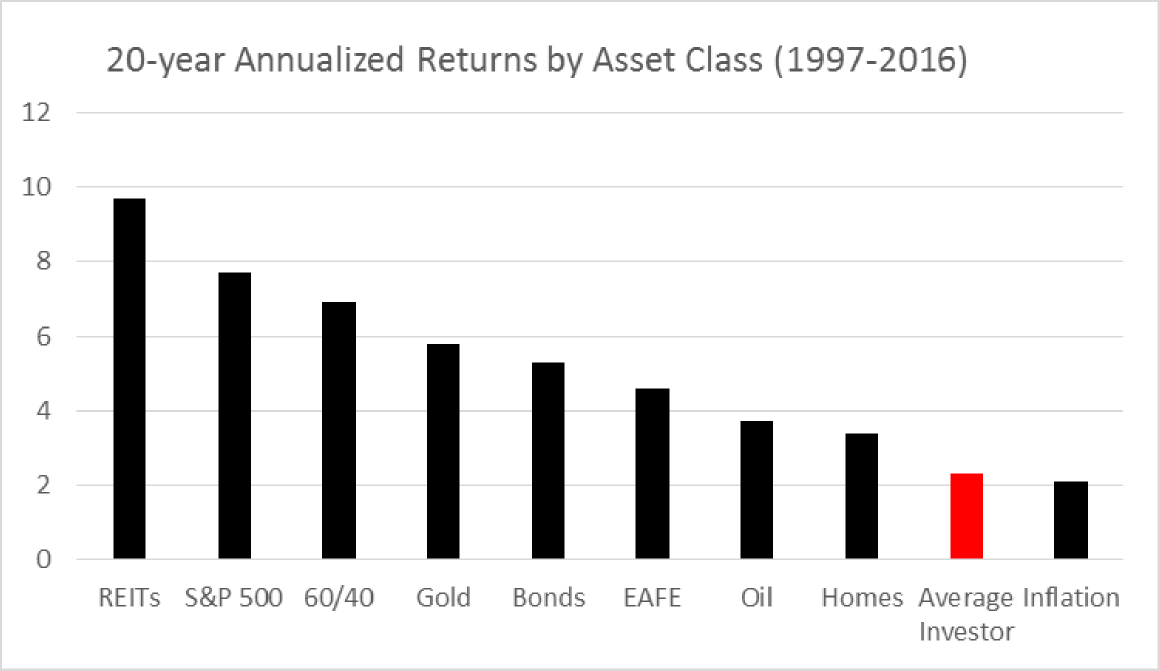
Value of $ 1,000 in 2017 invested in 1926	
Small Cap Stocks	$ 23,939,449
Large Cap Stocks	$ 5,514,549
Corporate Bonds	$ 340,054
U.S. T-Bills	$ 21,106
U.S. Inflation	$ 13,732

(Sources: Janney ISG, Bloomberg, Barclays, Standard and Poor's, Russell and BEA)



Market Timing and Lack of Diversification

- The average investor significantly underperforms most asset classes because of poor market timing and a lack of portfolio diversification.
  - Investors are usually best served by focusing on long-term returns and maintaining a diversified portfolio that includes exposure to riskier assets. A major threat to portfolio returns is short-term emotional decisions related to market volatility.



Source: Janney ISG, J.P. Morgan, Dalbar Inc.
Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high quality U.S. fixed income, represented by the Barclays U.S. Aggregate Index.

Diversification Reduces Yearly Volatility

- Asset class returns vary from year-to-year and diversification can greatly reduce portfolio volatility.
  - A balanced portfolio reduces volatility while maintaining long-run returns.

Periodic Table

Source Data: Gross Return

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	10 Years
Best	Barclays Agg. (Bonds) 5.2	MSCI Emerging Markets 78.5	FTSE NAREIT (REIT) 27.9	FTSE NAREIT (REIT) 8.3	FTSE NAREIT (REIT) 19.7	S&P 500 32.4	FTSE NAREIT (REIT) 28.0	FTSE NAREIT (REIT) 2.8	Barclays High Yield 17.1	MSCI Emerging Markets 37.3	S&P 500 8.5
	Barclays High Yield -26.2	Barclays High Yield 58.2	MSCI Emerging Markets 18.9	Barclays Agg. (Bonds) 7.8	MSCI Emerging Markets 18.2	MSCI EAFE (International) 22.8	S&P 500 13.7	S&P 500 1.4	S&P 500 12.0	MSCI EAFE (International) 25.0	Barclays High Yield 8.0
	Bloomberg Commodity -35.6	MSCI EAFE (International) 31.8	Bloomberg Commodity 16.8	Barclays High Yield 5.0	MSCI EAFE (International) 17.3	Barclays High Yield 7.4	Barclays Agg. (Bonds) 6.0	Barclays Agg. (Bonds) 0.5	Bloomberg Commodity 11.8	S&P 500 21.8	FTSE NAREIT (REIT) 7.8
	S&P 500 -37.0	FTSE NAREIT (REIT) 28.0	Barclays High Yield 15.1	S&P 500 2.1	S&P 500 16.0	FTSE NAREIT (REIT) 2.9	Barclays High Yield 2.5	MSCI EAFE (International) -0.8	MSCI Emerging Markets 11.2	FTSE NAREIT (REIT) 8.7	Barclays Agg. (Bonds) 4.0
	FTSE NAREIT (REIT) -37.7	S&P 500 26.5	S&P 500 15.1	MSCI EAFE (International) -12.1	Barclays High Yield 15.8	Barclays Agg. (Bonds) -2.0	MSCI Emerging Markets -2.2	Barclays High Yield -4.5	FTSE NAREIT (REIT) 8.6	Barclays High Yield 7.5	MSCI EAFE (International) 1.9
	MSCI EAFE (International) -43.4	Bloomberg Commodity 18.9	MSCI EAFE (International) 7.8	Bloomberg Commodity -13.3	Barclays Agg. (Bonds) 4.2	MSCI Emerging Markets -2.6	MSCI EAFE (International) -4.9	MSCI Emerging Markets -14.9	Barclays Agg. (Bonds) 2.6	Barclays Agg. (Bonds) 3.5	MSCI Emerging Markets 1.7
Worst	MSCI Emerging Markets -53.3	Barclays Agg. (Bonds) 5.9	Barclays Agg. (Bonds) 6.5	MSCI Emerging Markets -18.4	Bloomberg Commodity -1.1	Bloomberg Commodity -9.5	Bloomberg Commodity -17.0	Bloomberg Commodity -24.7	MSCI EAFE (International) 1.0	Bloomberg Commodity 1.7	Bloomberg Commodity -6.8

Source: Janney Investment Strategy Group, Morningstar. U.S. Large Cap Stocks: S&P 500, U.S. Small Cap Stocks: Russell 2000, Emerging Market Stocks: MSCI EME, International Stocks: MSCI EAFE, Commodities: Bloomberg Commodity Index, Global High Yield: Barclays Global HY Index, U.S. Bonds: Barclays Capital Aggregate, REITs: NAREIT Equity REIT Index
ISG Balanced Portfolio assumes the following weights: 51% MSCI ACWI, 3% Bloomberg Commodity Index, 3% NAREIT Equity REIT Index, 3% Alternative Investments, 40% Barclays Capital Aggregate.

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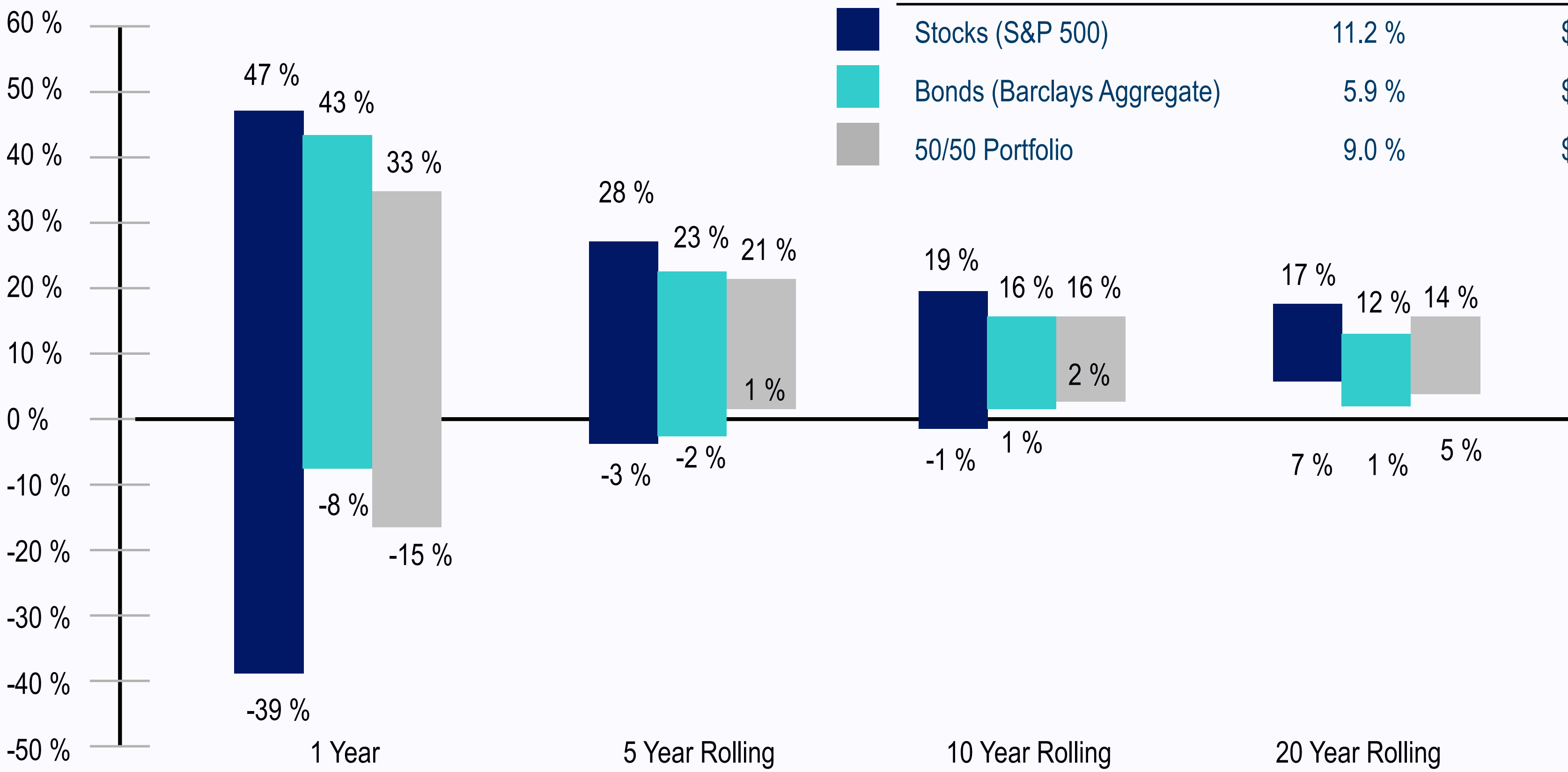
Time and Diversification are Critical

- While yearly returns can be volatile, holding a diversified portfolio for longer time periods usually results in significant, positive returns.
  - Annual total returns, 1950 - 2017

	Annual Avg. Total Return	Growth of $100,000 over 20 years
Stocks (S&P 500)	11.2 %	$ 840,219
Bonds (Barclays Aggregate)	5.9 %	$ 316,600
50/50 Portfolio	9.0 %	$ 556,848



Source: Janney Investment Strategy Group, Bloomberg, Barclays, Standard & Poor's

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Index Definitions:

The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

The Russell 2000 Index® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Barclays Global High Yield Index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

The Barclays US Capital Aggregate Bond Index is an unmanaged, broad-based index consisting of Treasury securities, Government agency bonds, Mortgage-backed bonds, publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding.

The NAREIT EQUITY REIT Index is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The Bloomberg Commodity Index and related sub-indices are composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.