THIRD QUARTER 2018

THE PACIFIC FINANCIAL GROUP INC.

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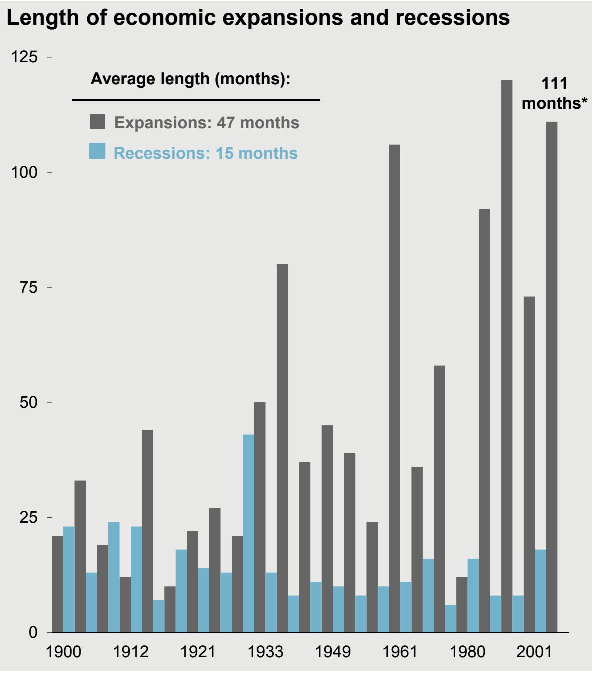
Outlook

U.S. equities, propelled by strong earnings, provided investors with another strong quarter. The S&P 500 finished the quarter up 7.7%, while mid-caps and small-caps were also positive, up 3.86% and 4.71% respectively. Even more impressive, all S&P 500 sectors were positive for the quarter, led by Healthcare, up 14.53%. Note that the Communications sector replaced Telecom, with major effects on sector composition. In particular, Facebook (FB) and Alphabet (GOOG) moved out of Technology, and Netflix (NFLX) moved out of Consumer Discretionary, to join the new sector.



Source: JPMorgan Asset Management

The current economic expansion entered its 10th year, the second longest since 1990. While some pundits cite this as a reason to be cautious, we are focused on the fundamental data. Leading economic indicators, employment growth, corporate profit margins and fiscal stimulus all point to continued growth. More specifically, we saw revenues for U.S. large caps grow by 9.5% in the second quarter, according to Thomson Reuters. Corporate tax cuts have boosted earnings substantially in 2018, but revenue growth has also been surprising to the upside. This is another indicator of support for a continued expansion. Looking forward, analysts are projecting 19% earnings growth in the third quarter. Wage inflation and higher borrowing costs could be a risk to those projections and we are monitoring them closely.

Gross Domestic Product (GDP) grew a stellar 4.2% in the second quarter, and another strong quarter is possible; the Federal Reserve Bank of Atlanta released an estimate of 4.1% on October 1st. Wage growth continues to only improve marginally. The unemployment rate has fallen to 3.9%, but productivity also remains flat. Manufacturing and Services PMI readings remains solidly in expansion territory, confirming continuing economic growth.

Trade agreements and tariffs were also an important factor in market sentiment during the quarter with headlines driving intermittent volatility. The quarter closed on a positive note, with the U.S., Mexico and Canada agreeing to an updated version of NAFTA. The administration will now turn its focus on negotiations with China. Ultimately, we believe tariffs and trade negotiations are likely to have little impact on domestic growth.

U.S. Fixed Income sectors were mixed, with Treasuries struggling and Corporates providing solid returns. Longer duration 10+ Year U.S. Treasuries were down -2.77%, while High Yield bonds benefited from spread compression and finished up 2.4%. Strong economic indicators are driving the returns in corporate bonds. Overall, the Bloomberg Barclays U.S. Aggregate Bond Index finished flat. The 10 Year Treasury has been trading in a range for most of year and finished the quarter at 3.05%. The Federal Reserve continued to normalize interest rates with an additional 0.25% hike in September. We expect one additional hike this year. However, looking forward to 2019 the outlook is mixed, with economists forecasting between 2 and 4 additional hikes. The Fed remains data dependent and will focus on growth and inflation expectations when considering the path of interest rates.

In commodities, both Oil and Natural Gas were up. We see potential for higher oil prices, due to the collapse of Venezuela and pending U.S. sanctions on Iran. However, the sector is subject to geopolitical and headline risk, so we are proceeding with caution.

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Strategy Commentary

Balanced Strategy

There was a fair amount of dispersion in returns across asset classes during the third quarter. There was strong momentum in mega cap companies, led by Technology and Health Care stocks. Mid and small caps, led by Heath Care and Industrial sectors, posted solid results but trailed large caps. The Bloomberg Barclays U.S. Aggregate Bond Index was flat but holders of corporate bonds, both investment grade and high yield, were rewarded with strong returns. The more economically sensitive corporate bond sector benefited from strong leading indicators, while Treasuries struggled as rates rose. Non-agency MBS continue to be a source of strong risk adjusted returns, outpacing the index during the quarter.

We focus on several themes in the portfolio. First, we focus on overall asset allocation. Given our view on the economy and expectations for future returns, we favor equities. We then look to allocate within the asset class to capture a variety of opportunities. As with our Equity strategy, we have implemented multi-cap exposure with a growth style overweight. Growth continues to outperform value and contributed to performance during the quarter. In fixed income, we look towards active managers to access non-agency MBS, which have produced strong results with less duration risk. Finally, we utilize a group of moderate allocation managers with successful long term track records and a proven investment process. As a group, these managers detracted slightly due to equity sector allocations. Overall, we feel the portfolio is positioned to take advantage of a strong economy with robust earnings growth.

Equity Strategy

The bull market in the U.S. continued to march higher in the third quarter, with the S&P 500 leading the way with a 7.71% gain. The S&P 500 has posted positive gains in 32 out of 38 quarters since the market bottom in 2009. The trend of growth style leadership, which has been in place since early 2017, continued through the quarter. Health care and industrials also provided leadership after beating revenue and earnings expectations. Small caps cooled modestly after leading for the first half of the year, with the S&P Small Cap 600 Index posting a gain of 4.71%. One reason for the strong performance in large caps was the strong earnings and revenue growth. According to Thomson Reuters, earnings grew 25%, while revenues posted a 9.5% gain for S&P 500 companies.

The portfolio is structured with multi-cap exposure and a growth style bias. The large cap and growth holdings contributed to performance, while mid and small cap beta positions detracted modestly. The portfolio also maintains broad exposure to technology through several ETFs. Mega cap technology exposure, such as Apple and Microsoft, contributed to performance while internet and semi-conductor exposure detracted. We continue to believe these areas will benefit from trends in consumer behavior and innovation. In addition, the portfolio uses select active managers, which contributed to performance during the quarter. Overall, the allocation was stable over the past three months but we remain diligent in managing risk and looking for opportunities that might improve the risk/return profile of the portfolio.

Global Strategy

Global equity markets finished the third quarter on a positive note, as the MSCI ACWI NR Index was up 4.3%. The strongest and weakest markets ere similar to the 2nd quarter: The U.S. was again the best performer, while emerging markets was the worst. Domestic markets continue to be fueled by robust consumer and business spending. Second quarter GDP was reported at the highest growth rate since 2014. Equity markets in Europe were up 0.8%, as worries of a slowing economy – accompanied by

the Italian government announcing a high debt target – weighed on investors' minds. In Japan, equity markets progressed nicely, especially in the last month of the third quarter, largely due to strong economic news and with Prime Minister Abe securing a third term. The recent strength of the U.S. dollar and higher U.S. interest rates, plus unsettled geopolitical and trade risks, negatively impacted most of emerging market economies. The MSCI EM Index was down 1% for the quarter.

Our strategy is structured into three broad components. The largest component is an allocation to global equity managers, selected for their long-term track record and ability to capitalize on a variety of market opportunities. The group as a whole detracted from performance due to an overweight to emerging markets. The next largest component is an allocation to domestic equity, with the purpose of taking advantage of opportunities in mid and small-cap stocks. This group contributed as domestic markets significantly outperformed international markets. The last component is an allocation to international equity managers, selected for delivering consistent and robust risk-adjusted performance over a full market cycle, relative to the MSCI ACWI ex US Index. This component detracted in the third quarter, as it was weighed down by EM exposure.

Overall, we continue to maintain broad exposure to Europe, Japan, EM and U.S. equities, with a slight overweight to the U.S., slight underweight to Europe, and neutral to emerging markets. We believe that as long as the U.S. economy stays on its current growth trajectory, it should deliver positive performance.

Has anything happened we should know about? If there are any changes in your financial situation, investment objectives or specific restrictions, please contact your Investment Advisor or The Pacific Financial Group, Inc. It is critical to the achievement of your investment goals and the success of our relationship to discuss any changes in your financial needs.

Our clients receive quarterly performance on their accounts. For performance on any of our strategies, please contact your Investment Advisor.

Style Insights

Market Movements

The strategies offered in the market movement segments are built to optimize risk-adjusted returns by capitalizing across equity and fixed income markets. The momentum in the U.S. economy continued in the third quarter, as it delivered its fastest gain in real GDP since 2014. The combination of a robust labor market and rising wages continued to support consumer spending in the second half of the year. The S&P 500 delivered positive returns in all three months of Q3, posting a gain of 7.7% for the quarter. Mid caps and small caps also were up for the quarter, yet ending behind large caps, at 3.8% and 4.7%, respectively. Emerging markets fared the worst due to unsettled geopolitical and trade risks, falling 1.1%. International developed markets followed the lead of U.S. indexes, and the MSCI EAFE Index rose 1.4%. In fixed income markets, U.S. Treasuries and TIPS suffered the most from rising rates due to strong economic data, while the corporate bond sector benefited from strong earnings and revenue growth.

Dynamic

The Dynamic strategies have the flexibility to move across certain asset classes or sectors in order to capture current market trends. All thirteen sectors were up for the quarter, with the best performers in the Health Care, Industrial and Technology sectors. Hence, the trend of growth style leadership continued through the quarter. Large caps outperformed mid and small caps thanks to strong earnings from mega caps such as Amazon, Apple and Microsoft. In fixed income, high yield and bank loans securities performed better on a relative basis than Treasuries.

Active Alternatives

The role of active alternative strategies is to provide diversification via uncorrelated return streams, potentially reducing risk in a client's portfolio. Despite geopolitical and trade risks, stock markets have remained remarkably calm, with the VIX hovering around 12 throughout the quarter. Managed futures strategies continued to struggle during the quarter and throughout the year, while long-short equity managers delivered solid performance.

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Internationally, the news is more mixed due to political issues and currency fluctuations. European equities were positive for the quarter, up 0.80%. Questions surrounding Brexit negotiations and Italian debt weigh on growth prospects in the region. Economic data in Japan is accelerating, while Prime Minister Shinzo Abe won a third term, pushing the Nikkei 225 up 8.91%. Emerging market equities lagged, down 1.09%, due to some country specific volatility and a strengthening U.S. dollar.

Looking forward we recognize several risks to the global economy and markets. Trade negotiations and tariffs remain a potential risk to growth as China and the U.S. attempt to hammer out an agreement. Higher interest rates also present a risk to companies who utilize floating rate debt instruments. However, employment continues to be strong, consumer and small business sentiment is at its highest level in years and inflation remains in check. Due to the strong fundamentals across many measures, we continue to have a favorable view of risk assets and the economy.

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