

EXECUTIVE SUMMARY

- In 3Q, security selection was modestly favorable relative to the S&P 500 with relatively wide dispersion of returns across individual holdings. Option sales hindered returns as a strong recovery from August’s pull back caused multiple positions to appreciate above their respective call strikes. In the end, a historic rotation from momentum to value assisted the Dividend Income Strategy’s recovery from a challenging August to finish the quarter ahead of its benchmark, the CBOE Buywrite (BXM) Index.
- The White House’s decision to implement a new round of 10% tariffs on \$300 billion of Chinese imports sparked a market selloff and increased concerns that the trade conflict will exacerbate a global economic slowdown. The Chinese vowed retaliation and insist the halting of further tariffs is a necessary precondition for any deal. The White House maintained that it is not interested in a ‘partial deal’ and that IP protection and reform of state support of private industry remain necessary elements of any deal.
- Early in 3Q 2019, the S&P 500 broke a familiar 3,000 level before dropping sharply in August and subsequently recovering enough to end the quarter modestly higher. As of now, hopes for a U.S./China trade deal have been revived and investors appear to expect more accommodative monetary policy from the Federal Reserve.

ATTRIBUTION ANALYSIS

Security selection had little relative effect as LRCX, KR, and CVS climbed and LB, VIAB, and PRU declined over the quarter. LRCX gained after an earnings beat triggered analyst upgrades and price-target increases. KR recovered nicely after restoring faith that its Restock Kroger plan will allow it to maintain market share. CVS bounced after beating estimates and raising guidance. Weakness in LB persisted as an earnings beat failed to inspire faith that Victoria’s Secret is turning a corner. LB announced an entirely new marketing approach in September, which has received mixed reviews. VIAB came under pressure as a result of its announced intent to merge with CBS, despite reporting strong results. Unfavorable trends in insurance, low interest rates, and the performance of its investment portfolio adversely impacted PRU.

TOP 3	BOTTOM 3
LRCX	LB
KR	VIAB
CVS	PRU

PORFOLIO ACTIVITY

BOUGHT	SOLD
CMI	UNH
PRU	ALLY

In 3Q 2019, we attempted to marginally reduce our exposure to global trade and economic conditions. To this end, we decided to exit our Industrial Sector position in CMI and purchased UNH in its place. While we continue to like CMI, its exposure to both trade sentiment and economic conditions led us to seek a more defensive replacement. The national dialogue surrounding healthcare reform has depressed valuations in the sector and we believe UNH was a bargain at roughly 15x forward earnings. Like other insurers, PRU is exposed to capital market conditions. Low rates have suppressed earnings and meaningfully higher financing costs seem unlikely any time soon. We selected ALLY in an effort to maintain exposure in the Financials Sector and lower our exposure to a potential economic downturn. ALLY, formerly known as G.M. Acceptance Corp, is a financial holding company that focuses on auto financing and mortgage lending.

OUTLOOK AND POSITIONING

Deteriorating trade relations, heightened tensions in the Middle East, political conflict in Washington, and mixed economic data contributed to a turbulent quarter. The trade relationship between Beijing and Washington deteriorated substantially over the quarter. Notable developments include the U.S. State Department's approval of a \$2.2 billion arms sale to Taiwan, the White House's announcement of 10% tariffs on an additional \$300 billion of Chinese imports and 'blacklisting' of technology firms by both sides. An attack on Saudi oil facilities raised tensions in the region just as talks between Washington and Tehran looked conceivable. Political turbulence continued following Robert Mueller's testimony before Congress and reports of a scandal involving Ukraine's government and the President. The U.S. consumer remained strong over the quarter as domestic housing, manufacturing, and automotive industries languished, despite lower financing rates. Looking forward, we expect global trade and political developments to dominate the market's attention. Throughout the rest of the year, we expect a 'mixed-message' environment will allow volatility to remain heightened with upside risk to positive trade developments and downside risks to weak macroeconomic data/investor sentiment.

COMPOSITE RETURNS

As of 9/30/2019	Since Inception 10/1/07*	QTD	YTD	1 Year	3 Year*	5 Year*	10 Year*
Dividend Income (Gross)	5.81%	0.97%	12.26%	-2.91%	9.90%	7.83%	9.46%
Dividend Income (Net) ^	4.57%	0.53%	10.77%	-4.63%	8.11%	6.30%	8.14%
CBOE Buy Write (BXN)	4.73%	0.56%	10.88%	-1.11%	6.99%	5.92%	7.43%

*Annualized Returns.

Performance is presented gross and net of advisory fees. ^Net highest bundled fee assumes all accounts are wrap accounts and are charged the highest applicable fee for a specific period. The current highest bundled fee is 1.80%; this total fee is inclusive of Gyroscope Capital's sub-advisory fee. Past performance is not indicative of future returns. The U.S. Dollar is the currency used to express performance.

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Gyroscope Capital Management Group, LLC ("GCMG") claims compliance with the Global Investment Performance Standards (GIPS®).

The Large Cap Dividend Income Composite includes all portfolios that are at least 70% invested in our 20 stock large cap dividend paying equities strategy with covered call sales to generate additional income and for comparison purposes is measured against the S&P 500 CBOE BuyWrite Index (BXN). The S&P 500 CBOE BuyWrite Index is a hypothetical index in consideration of a portfolio owning the S&P 500 and selling a 1 month covered call just above the prevailing index value (i.e. slightly out of the money). The call is held until expiration and cash settled at which time a new one-month, near-the-money call is written.

No leverage or short positions have been used in this composite. The use of derivatives in this composite is limited to the sale (and subsequent repurchase) of covered call options to generate additional premium income.

Prospective clients and other interested parties can obtain a copy of the Compliant Presentation and/ or a list of the firm's composite descriptions by contacting Robert Carr by phone at 1-866-459-9998 or by email at rcarr@moorscabot.com.

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