

EXECUTIVE SUMMARY

- In 2Q, option sales moderately restrained returns as positions representing the Health Care and Information Technology sectors were capped. Overall, active weights had a modest negative effect on performance relative to the S&P 500 as an underweight position in the Information Technology sector restrained returns. That being said, by writing options on individual sector ETFs that were further out of the money, the Optimal Sector Weight Strategy was able to outperform both the S&P 500 Total Return Index and its benchmark, the CBOE Buywrite (BXM) Index.
- A trade deal between the U.S. and China appeared all but certain in May before talks broke down after the White House accused the Chinese of renegeing on already-agreed upon terms. Talks were subsequently revived after Presidents Trump and Xi met on the sidelines of the G20 summit in Osaka, Japan.
- For U.S. equity investors, 2Q 2019 was a tale of three months. The S&P 500 hit an all-time high during a steadily-advancing April before falling roughly 6.5% in May. June brought new highs as hopes for a U.S./China trade deal were revived and investors acted on expectations for more accommodative monetary policy from the Federal Reserve.

OUTLOOK AND POSITIONING

The second quarter of 2019 was a bit all over the place in many respects. Economic data, asset prices, investor and business sentiment, trade conflicts, and economic growth forecasts varied widely over the quarter. The White House's decision to refrain from further trade restrictions on Mexico removed a serious overhang on the markets and developments in late June/early July give us reason to feel cautiously optimistic that further market upside through the end of the year is more likely than not. The 3-month/10 year Treasury spread has remained inverted since May 23rd. As of 7/16/19 the futures market is pricing a July rate cut as a certainty with a roughly 20% chance of a 50bps cut. We expect the Fed to cut rates by 25bps at their July 31st meeting with the likelihood of one more cut before the end of the year. With the S&P 500 trading at roughly 17.2x blended forward EPS of \$175.43 (as of 7/16/19), we continue to expect the S&P 500 to finish above 3,000 with further market strength depending on 2H earnings coming in stronger than forecasted and/or the White House making significant progress in resolving trade conflicts.

COMPOSITE RETURNS

As of 6/30/2019	Since Inception 4/19/13*	QTD	YTD	1 Year	3 Year*	5 Year*
Optimal Weight (Gross)	10.99%	4.38%	16.22%	8.93%	11.10%	9.42%
Optimal Weight (Net) [^]	9.74%	3.92%	15.21%	7.04%	9.73%	8.17%
CBOE Buy Write (BXM)	6.84%	3.28%	10.27%	3.18%	7.44%	5.98%

*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 1.75%; 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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The S&P 500 Optimal Sector Weight Composite includes all portfolios that are at least 90% invested in sector momentum strategy that invests in GICS sector ETFs with covered call sales to generate additional income and for comparison purposes is measured against the S&P 500 CBOE BuyWrite Index (BXM). 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.

OPTIMAL S&P 500 SECTOR WEIGHT STRATEGY QUICK LINKS

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[RETURNS](#)

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