1492 CAPITAL MANAGEMENT
DISCOVERING OPPORTUNITY
SEPTEMBER 2018 • VOL. 11 • ISSUE 9
IDENTIFY THEMES | FUNDAMENTAL ANALYSIS | TARGET VALUATION | GROWTH STRATEGY | VALUE STRATEGY | CORE ALPHA STRATEGY | VALUE INCOME STRATEGY

1492 Vantage Point Quarterly Newsletter

Welcome to 1492 Capital Management's quarterly newsletter for the third quarter of 2018. In each quarterly newsletter, we provide our perspective on the most recent quarter, preview what lies ahead, and offer a bit of market trivia.

Our corporate slogan is "Discovering Opportunity" which is our daily focus for our clients. Our investment professionals possess a tremendous amount of experience navigating through multiple market cycles. This experience was demonstrated as we are again pleased to announce that 1492 Capital Management has been named a Top Gun(1) by Informa Investment Solutions' PSN manager database, North America's longest running database of investment managers. The 1492 Small Cap Core Alpha strategy was recognized as the sixth best performing strategy in their Small-Mid Core Universe for the one year period ended June 30, 2018. The 1492 Small Cap Value strategy was recognized as the eighth best performing strategy in their Small-Mid Value Universe for the one year period ended June 30, 2018. Additionally, the 1492 Small Cap Growth Strategy was ranked 18th out of 465 for the one year performance and 39th out of 396 for the three year performance for period ending June 30, 2018 within the U.S. Small-Cap Equity category in Broadridge Marketplace Best Money Managers(2) list.

U.S. Economic Strength Overcomes Tariff Tantrums and Emerging Market Meltdowns. During the third quarter, all of the major U.S. stock market indices posted nicely positive results and pushed aside the old stock market adage to "sell in May and go away". This advance was a great outcome despite the various parties involved in the ongoing trade negotiations throwing tariff tantrums. It was particularly strong in light of the mini emerging market meltdowns that occurred in the quarter from Turkey and Argentina, where they're battling skyrocketing interest rates and inflation and deflating currencies, to South Africa where the economy is falling into recession, to China where the local stock market has fallen nearly 25% this year on fears of slowing growth from tariffs. In weaker times, these emerging market flare ups would have derailed the U.S. stock market. The U.S. may be the best house in the global neighborhood at present as Europe's growth rate has slowed to around 2%, and as U.S. GDP growth rate will come in close to 4% again in the third quarter. Optimism over tax reform and deregulation appears to be taking hold as consumer confidence hit a new cycle high, and as corporate spending is accelerating on a number of fronts including capital expenditures, stock buybacks, dividends, and employee wages. We may be on the cusp of the first self-sustaining growth cycle in the U.S. since before the recession of 2008. The next month will be filled with more political rancor than most of us care to indulge in but pay attention to the stock market because it may provide some insight into the outcome. Please read on to see our unique views of what's on tap for the remainder of 2018, what the key drivers will be, and to indulge in some stock market trivia.

For detailed performance information on 1492's strategies, please click on these fact sheet links (Small Cap Growth / Small Cap Value / Small Cap Core Alpha) to find gross and net of fee performance information and disclosures. If you would like to discuss any of these strategies with us, please contact Tim Stracka at 414-238-3398.

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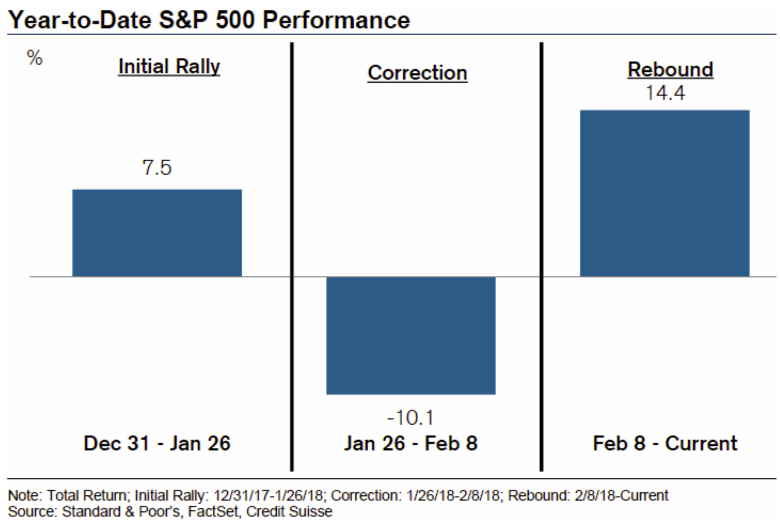
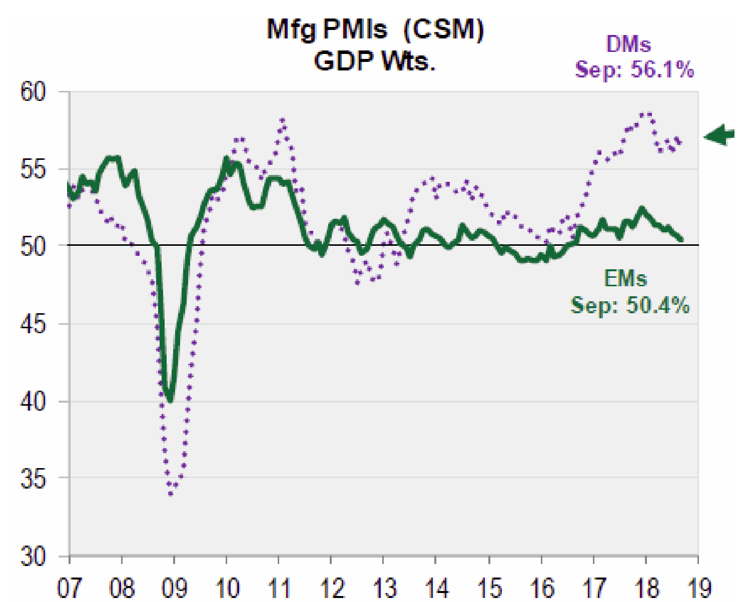
A Review of the 3rd Quarter: U.S. Economic Strength Overcomes Tariff Tantrums and Emerging Market Meltdowns

The U.S. stock market continued its winning ways in the third quarter and brought year-to-date gains for most of the major U.S. stock market indices into the double digits. This advance is a much better result than almost anyone predicted nine months ago. The performance path of the S&P 500 year-to-date is shown graphically below.

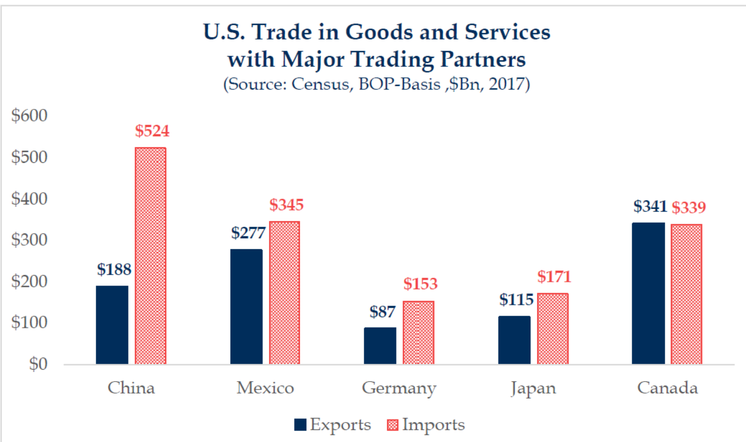


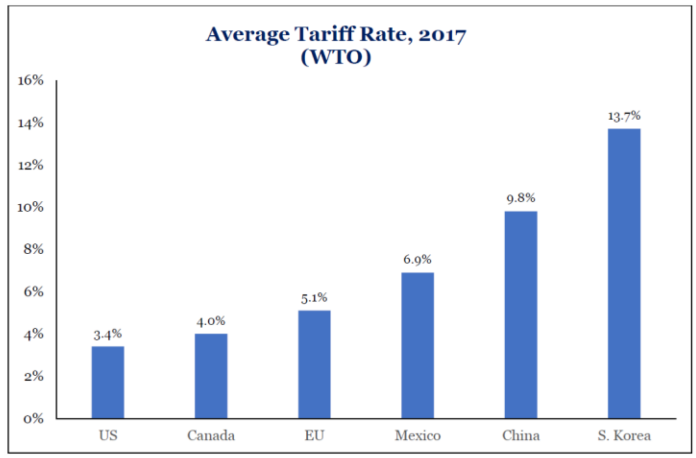
Most market observers continue to underestimate the power of the tax reform law that was enacted late in 2017. The resiliency of the stock market can be attributed to 4% GDP growth in the U.S. which looks likely again in the third quarter according to the Atlanta Fed's GDPNow forecasting tool. The U.S appears to be the best house in the global neighborhood as Europe's growth has slowed to around 2% recently, and as China appears to be struggling to keep their growth rate at 6%+ as they fight drags from tariffs and faltering emerging market economies around the globe. The chart below highlights the widening spread between the manufacturing PMI's (purchasing manager's index) of developed markets (DM) and emerging markets (EM). Normally we think of the emerging markets as high growth countries with the potential for significant volatility. Note that a PMI score of greater than 50 represents growth. It now appears that the EM economies have the potential to collectively slide into recession.



Source: Cornerstone Macro

In fact, we've seen a number of mini emerging market meltdowns that occurred in the third quarter from Turkey and Argentina, where they're battling skyrocketing interest rates and inflation and deflating currencies, to South Africa where the economy is falling into recession, to China where the local stock market has fallen nearly 25% this year on fears of slowing growth from tariffs. In weaker times, these emerging market meltdowns may have been enough to derail U.S. equities. It's amazing what 4% GDP growth can do for the stock market. Additionally, tariffs continued to be front and center in the business headlines this quarter as the U.S. continued its efforts to extract change from its trading partners. There has been ongoing escalating rhetoric and threats between the U.S. and its primary trading partners, Canada, Mexico, and China. The trade balances between the U.S. and its major trading partners are shown in the chart below left. Note that the imbalance between the levels of imports and exports is the greatest with China. This deficit is what the Trump administration is using as leverage in the discussions to create a more balanced trading environment and to protect the intellectual property of U.S. companies. The chart below right shows the average tariff rate that each country imposed in 2017. The U.S. rate is the lowest of the major trading partners and nearly one third lower than China's rate.



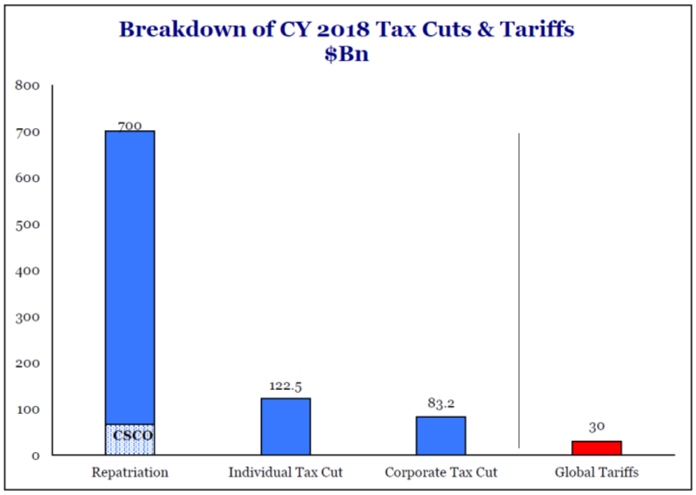


Source: Strategas Research

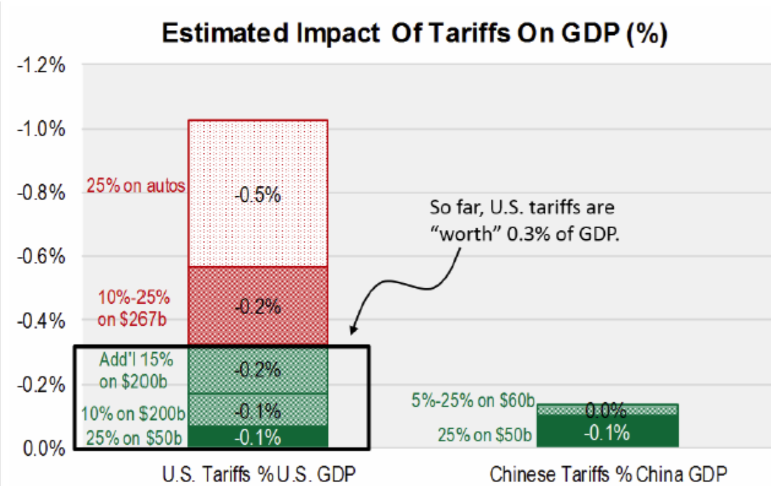
Just within the last few days, the U.S. reached a new agreement with its two North American trading partners, Canada and Mexico, which is called the United States- Mexico- Canada Agreement, or USMCA. This agreement will replace NAFTA in the future. However, the threats of escalating tariffs and the broadening list of goods subject to tariffs continues with China. China has no incentive to strike a deal prior to the mid-term elections as they may be dealing with a whole new cast of characters depending on the mid-term election outcome. However, the stock markets are voting every day, and it appears that the markets believe the U.S. holds the winning hand. The chart below shows the performance of the S&P 500 index against the Shanghai Composite index since the beginning of 2017. The S&P 500 is up about 10% year to date compared with -15% for the Shanghai index. Note that the divergence between the two indices really widened when President Trump began his crusade against unfair trade practices earlier this year (green circle).

Source: Strategas Research

Despite the concerns being raised over tariffs in the U.S., the significant size of the tax reform benefits dwarfs them and includes individual and corporate tax cuts as well as the ability of companies to repatriate cash from overseas without paying exorbitant taxes in the U.S. These new tax policies make the impact of global tariffs look like a speed bump compared to a mountain. See chart below left. The impact of the imposed and proposed tariffs are shown in the chart below right. Again, the impact is rather small all things considered, and the current impact of tariffs imposed is equal to about 0.3% of GDP, or less than 10% of the current growth rate in the U.S. economy. This math is why Trump can stick to his trade guns for a while with little risk of slowing the economy too much.



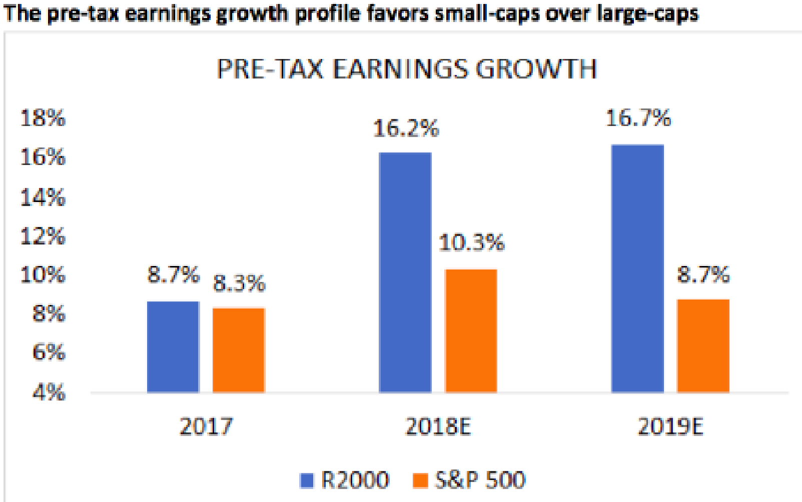
Source: Strategas Research



Source: Cornerstone Macro

Throughout much of this year small caps stocks have outperformed large caps up until the last few weeks. We attributed much of the outperformance of small caps over large caps prior to this quarter to the preference of investors to own domestic focused companies to avoid any pitfalls or fallout from the international tariff battles. Small caps tend to have significantly less exposure to international markets. However, in the last few weeks of the quarter, there was a clear reversal of this trend. It's possible that the stock market was anticipating the conclusion of the tariff tension between the U.S., Mexico, and Canada, and began to reverse this trade. However, regardless of the preference for international or domestic exposure, small cap earnings are forecast to grow significantly faster than large caps in 2018 and 2019. Some may want to attribute this differential to the larger impact that tax reform has on domestic focused companies (i.e. small caps), but, the chart below shows pretax earnings growth of small caps are forecast to significantly outgrow that of large caps.

The pre-tax earnings growth profile favors small-caps over large-caps



Source: Furey Research Partners and FactSet. Represents median YoY growth figures including loss-making companies.

During the quarter, investors reversed their preference for domestic stocks, so international and industrial stocks caught a bid as tariff fears waned driving the S&P 500 (+7.71%) to significantly outperform the Russell 2000 (+3.58%). This reversal was almost identical in the opposite direction in the second quarter. Amongst the indices, the Dow Jones Industrial Index was the gold medalist for the quarter with an advance of +9.0% while the Russell 2000 Value Index lagged badly. This result was also exactly opposite last quarter. With continued strong performance from the Technology and Healthcare sectors, the year-to-date leaders are the Russell 2000 Growth Index (+15.80%) and NASDAQ Composite Index (+17.48%). The table below highlights the returns for the third quarter and for 2018 year-to-date returns for the popular indices.

Index Returns		
Index	Third Qtr. 2018 Return	2018 YTD Return
Russell 2000	+3.58%	+11.54%
Russell 2000 Growth	+5.53%	+15.80%
Russell 2000 Value	+1.60%	+7.15%
S&P 500	+7.71%	+10.56%
Dow Jones Industrials	+9.01%	+7.04%
NASDAQ Composite	+7.41%	+17.48%

Source: 1492 Capital Management, LLC and Factset

From a style perspective, the Russell 2000 Growth Index (+5.53%) surged during the quarter and reversed the gains the Value index made in the last quarter. The Russell 2000 Value Index appreciated relatively little (+1.60%) in the quarter and continued the trend of growth over value that has been in place since early 2017. The Growth index still has a substantial lead year to date. As mentioned above, the Technology and Healthcare sectors propelled the strong performance in the Growth index. Energy and Basic Materials were the worst performers in the quarter despite crude oil reaching new 52-week highs. Investors were seemingly more intrigued with industrial stocks as tariff concerns waned. The first two tables below highlight the performance of the Russell 2000 style indices by sector for the month of September, the third quarter, and year-to-date 2018. Year to date, the runaway winner is the Healthcare sector. Lastly, the third table below shows that the performance within the Russell 2000 was generally better as you moved up market cap. This effect is a continuation of a trend which has existed since early 2014 with only a brief respite in the second half of 2016 and in the last quarter as investors sought more domestically exposed companies due to a stronger dollar and tariff concerns.

Table 4: Performance Monitor for Russell 2000 Growth through September

	September			Third Quarter			Year To Date			
Russell Sec.	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Wgt**
Discretionary	-1.38	-0.24	0.96	4.84	0.86	-0.69	15.83	2.49	0.03	17.4
Staples	-2.16	-0.05	0.18	3.30	0.08	-2.22	16.03	0.37	0.23	2.4
Energy	-4.05	-0.08	-1.71	-6.33	-0.14	-11.86	-8.90	-0.17	-24.70	2.1
Financials	-3.22	-0.25	-0.88	2.43	0.21	-3.10	9.97	0.76	-5.84	7.5
Health Care	-2.85	-0.73	-0.51	7.39	1.84	1.86	26.16	6.19	10.35	25.6
Mat. & Process	-3.26	-0.26	-0.92	0.50	0.07	-5.02	-2.40	-0.20	-18.20	7.6
Prod. Durables	-2.14	-0.33	0.20	4.66	0.73	-0.87	5.17	0.75	-10.63	15.1
Real Estate	-2.67	-0.06	-0.33	0.46	0.02	-5.07	2.30	0.05	-13.51	2.2
Technology	-3.02	-0.46	-0.68	8.77	1.27	3.24	26.38	4.96	10.57	15.1
Utilities	1.03	0.02	3.37	7.50	0.13	1.98	12.49	0.21	-3.31	1.7

Table 5: Performance Monitor for Russell 2000 Value through September

	September			Third Quarter			Year To Date			
Russell Sec.	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Wgt**
Discretionary	-1.64	-0.20	0.84	1.82	0.22	0.22	8.37	0.96	1.21	12.1
Staples	-5.69	-0.14	-3.21	-5.27	-0.12	-6.87	-7.08	-0.22	-14.23	2.3
Energy	0.95	0.07	3.43	-0.75	-0.06	-2.36	10.14	0.69	2.99	7.4
Financials	-4.08	-1.09	-1.60	0.42	0.11	-1.19	5.17	1.63	-1.98	26.1
Health Care	-4.58	-0.22	-2.10	7.15	0.31	5.55	25.53	1.44	18.38	4.9
Mat. & Process	-1.05	-0.06	1.43	1.74	0.10	0.14	0.56	0.04	-6.59	5.8
Prod. Durables	-0.64	-0.07	1.84	5.09	0.56	3.49	9.32	1.03	2.17	11.7
Real Estate	-2.70	-0.36	-0.22	-0.09	0.00	-1.70	4.10	0.48	-3.05	13.7
Technology	-5.38	-0.53	-2.90	1.16	0.11	-0.44	5.45	0.39	-1.70	9.5
Utilities	1.83	0.12	4.31	5.81	0.38	4.21	8.48	0.52	1.33	6.6

Size Quintile	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Wgt**
1 (Largest)	-2.26	-1.15	0.14	3.60	1.78	0.02	10.43	5.54	-1.11	50.5
2	-2.31	-0.59	0.09	5.26	1.34	1.68	12.75	3.05	1.21	25.4
3	-2.86	-0.40	-0.46	2.59	0.37	-0.99	13.95	1.88	2.41	13.9
4	-2.83	-0.19	-0.42	1.41	0.10	-2.17	12.76	0.86	1.22	7.0
5 (Smallest)	-2.46	-0.08	-0.05	-0.75	-0.02	-4.32	7.90	0.21	-3.64	3.2

Source: Jefferies

The tariff wars continued to take their toll on China's stock market during the quarter, but many other international markets, which are being used as pawns in this trade chess match, showed a nice rebound, in particular Brazil, which is more exposed to goods being sold into China. Germany continues to sputter along and is down -5.2% year to date as growth has slowed significantly in the Eurozone over the past few months. Most other international markets were up modestly in the quarter and showed some improvement after a fairly weak start to the year. Bond investments did poorly during the quarter and are in the red year to date as interest rates begun climbing to levels not seen in years (although extremely low in historical terms). Bond investors are being reminded that they can lose money, too, after many years of gains. Amongst commodities, industrial metals were the biggest winner in the third quarter but precious metals like gold continued to wane. Despite OPEC's decision to add supply to global oil markets late last quarter, oil prices hung in and actually started surging late in the quarter on supply concerns as the Iran sanctions begin. Despite the increased supply, oil is up nearly 23% this year. The largest mover was lumber which dropped precipitously following tariff agreements and softer housing data.

Index	Third Qtr. 2018 Return	2018 YTD Return
France	+3.36%	+6.43%
Germany	-0.48%	-5.19%
Brazil	+9.04%	+3.85%
India	+2.63%	+8.10%
China- A Shares	-0.91%	-14.41%
China- Shenzhen A Shares	-10.34%	-23.65%
Japan	+8.91%	+7.70%
Long-Term Treasuries (TLO)	-3.51%	-7.22%
Investment Grade Corp. Bonds	+0.80%	-0.80%
Gold	-4.65%	-7.79%
Volatility- VIX index	-24.67%	+24.50%
Oil	-1.21%	+22.41%
Natural Gas	+2.87%	+3.23%
Lumber	-39.50%	-22.97%

Source: 1492 Capital Management, LLC

Updated 2018 Outlook: Is This as Good as it Gets? The Tug-of-War Continues

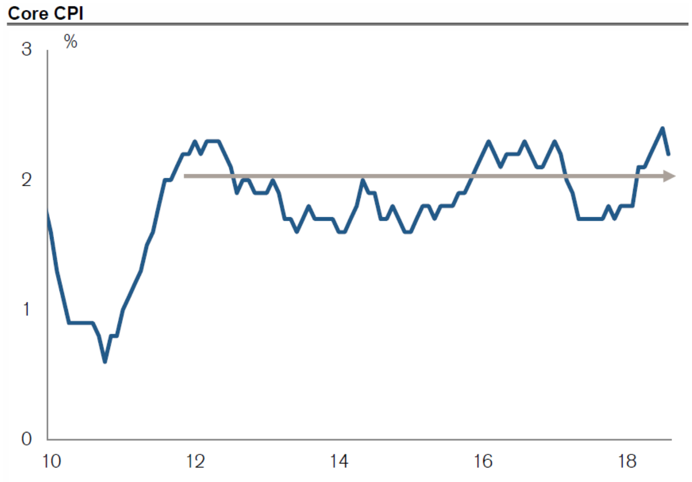
In our first quarter newsletter we began this discussion with the title, "Is This as Good as it Gets? The Tug-of-War Begins". We anticipated that the stock market was going to take longer than a single quarter to discern what the drivers would be to take equities higher. As we know now, the stock market has grinded higher since the first quarter despite all of the "peak economy" arguments being made earlier this year. As we pointed out at the time, we don't believe that many investors appreciated just how meaningful tax reform and the subsequent repatriation of funds from overseas could be. We're starting to get a taste of it now. It appears that accelerating GDP in the second quarter to +4% was a key catalyst and the third quarter number should be comparable. So now that we're nearing the finish line for the year, we thought we'd take another look at the balance sheet for the stock market and weigh the tailwinds against the headwinds.

The Stock Market Balance Sheet is, Well, Balanced

Market Headwinds	Market Tailwinds
China Trade War	Tax Reform/Repatriation
Fed Tightening Interest Rates	Fiscal Stimulus Accelerates in U.S.
Reversal of QE in the U.S.	China is Stimulating Economy
Japan/Europe Central Banks to end QE	Deregulation in the U.S.
Emerging Market Mini Meltdowns	Slight Inflation/Wages Increasing
Mid-term Election/ Politics	Productivity Picking Up
Yield Curve Flattening	Broad Strength in the Economy

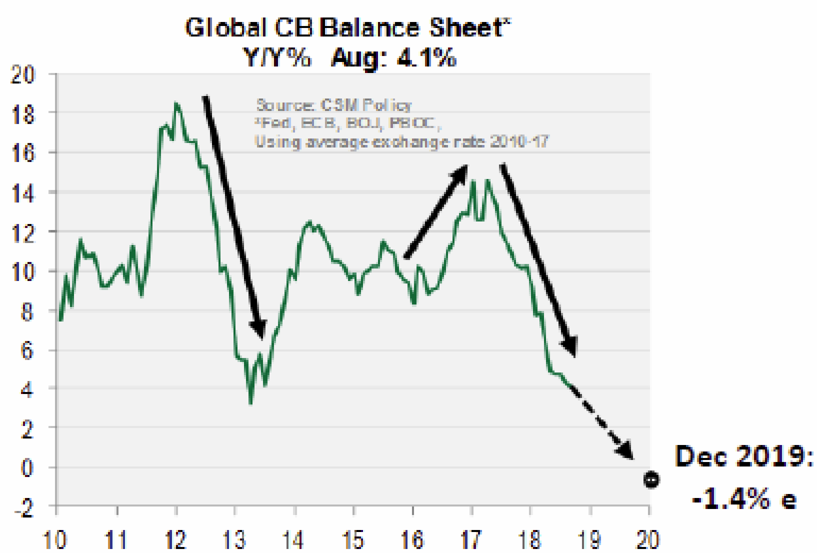
The Market Headwinds

One could argue that there are always headwinds for the stock market no matter the environment, and at this point in time, it's no different. We'll address them in the order that they appear in the table above. The China trade war is a headwind as we mentioned in our "Review of the Quarter" section above. It's certainly something to watch as it could develop into something more meaningful if the parties can't see eye to eye. Presently the stock market in China seems a lot more concerned about it than the U.S. market for the reasons highlighted previously. The biggest headwind for the stock market, in our mind, is the Federal Reserve's resolve to tighten interest rates. Our concern isn't solely that they are tightening, but the pace at which they are tightening. They spent the last decade trying to light a fire under inflation and GDP growth, and for the most part, it failed until this year when tax reform and repatriation of overseas funds were added to the stimulus mix. We then saw an acceleration in GDP to over 4%. We don't fault the Fed for raising rates off of the zero bound that existed for several years as that was unsustainable and they needed to reload their monetary stimulus gun with ammunition for the future. However, the pace at which they want to raise rates is what concerns us. They are on pace to hike rates four times this year and at least another two times in 2019. While the transparency of their thoughts gives the markets some comfort, we wonder what battle they're trying to fight as inflation is still very tame despite unemployment being historically low. Their commentary seems to indicate that they are trying to "normalize" rates (whatever that means) yet be accommodative. However, if price stability is one of their main tasks, it appears that we have it currently with little indication that an inflation spike is around the corner. The chart below shows how the Core CPI has been stuck in a range around 2% for the last six years. Clearly there is nothing to get too excited about, and it's nearly as close to a Goldilocks scenario as possible.



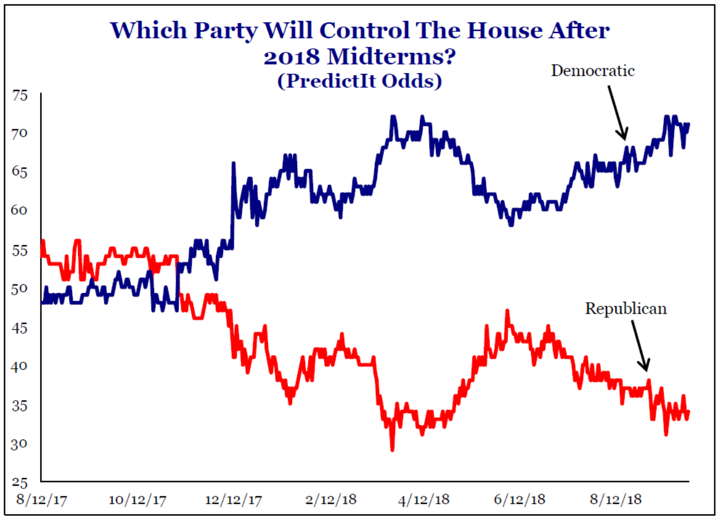
Source: BLS, Haver Analytics®, Credit Suisse

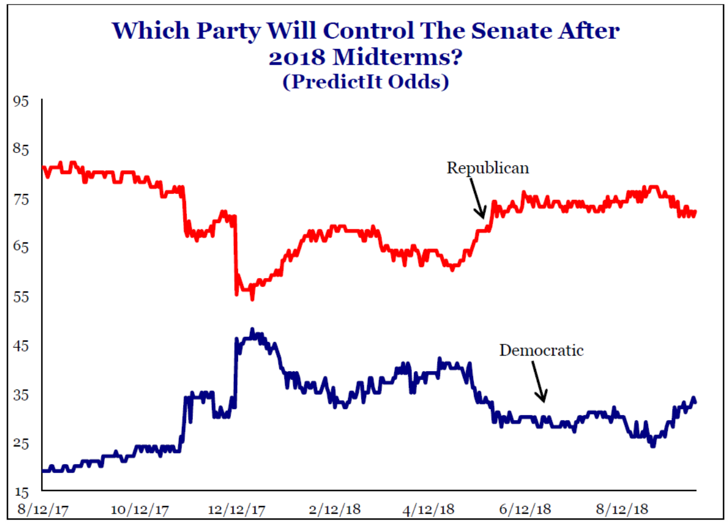
The reversal of quantitative easing (QE) goes into effect this month. Since 2009 when the Fed implemented QE, the Fed's balance sheet has grown as they repurchased debt to push down interest rates with the hope of stimulating the economy. Now after a pause in adding to their ownership stake in debt, they will now embark on a shrinkage of their balance sheet for some time to come. The plan is to reduce their ownership stake to the tune of $50 billion per month. With the Fed balance sheet security holdings approximating $4 trillion currently, it would take approximately eighty months to drive their security holdings to zero. However, it's unlikely that they'll bring the balance to zero but in the meantime, the supply of securities that they'll add to the market, all else equal, will push interest rates higher over time. The next headwind that we identified above relates to what the other central banks around the world are planning on doing. For example, Europe's central bank is scheduled to end their QE buying program at the end of 2018. Combining this event with the aforementioned U.S. Fed actions will result in the first shrinkage of the global central bank balance sheets since the great recession. The chart below shows how the growth rate of the global central bank's balance sheet has slowed dramatically over the past year and is forecast to shrink into 2019. These actions, will again, push interest rates higher all else equal.



Source: Cornerstone Macro

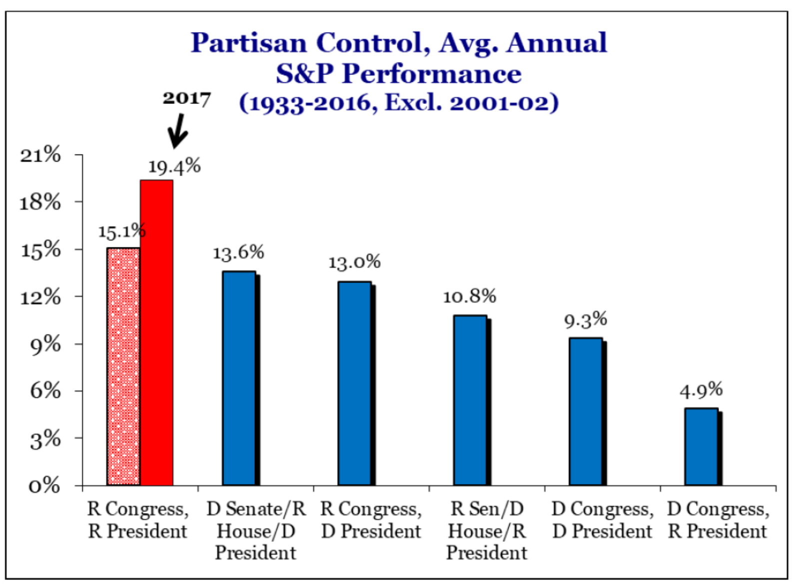
The next headwind is the mid-term election and the ongoing political environment in the U.S. The mid-term election is likely a short-term headwind that will be flushed out by early November when the elections take place and the makeup of congress will be known. The ongoing polarized political environment is something that will probably exist for years to come and is simply hard to quantify its impact other than to know that it's not good. The consensus regarding the mid-term election outcome is that the Democrats will take over control of the House of Representatives and that the Republicans will retain control of the Senate. The current betting odds are shown in the two charts below.





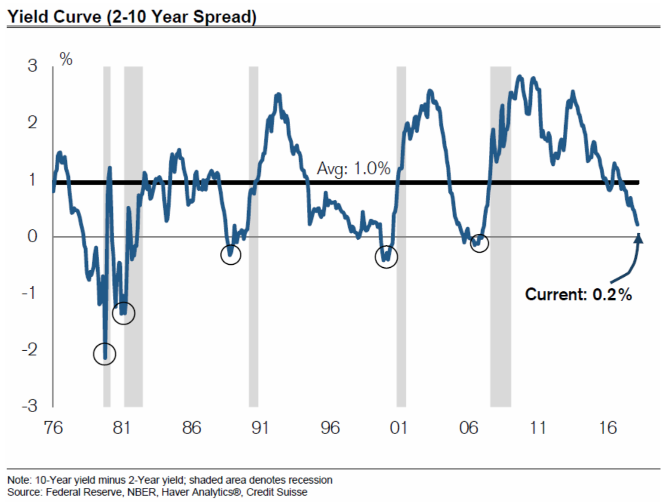
Source: Strategas Research

Nevertheless, I posit that the best indicator of who will win is the stock market. Recalling the 2016 Presidential election, the stock market fell about 5% from mid-August through the first week of November. The market doesn't like change, and the stock market's action was predicting change (i.e. that Donald Trump would win) and selling off into the election. Therefore, watch what the market does as we head into the election on November 6. If it sells off, we are likely looking at a Democratic sweep. If not, it's likely that the Senate and House are split between the parties. The chart below shows the average annual performance for the S&P 500 depending on which party is in power. The best historical outcome is the status quo, Republican Congress and Republican president.



Source: Strategas Research

The last headwind to address is the flattening of the yield curve. The stock market playbook is pretty much set in stone. If the yield curve inverts (2 yr. yield minus 10 yr. yield < 0%) then the economy enters a recession in less than 17 months on average and the stock market enters a corrective phase within eight months on average. The historical data is shown in the table below right. While we'd like to have some argument to say why it's different this time, we've got nothing on which to hang our hat. Still, we can hope that because interest rates are so low this time, it provides a longer period of cover until we dip into recession.



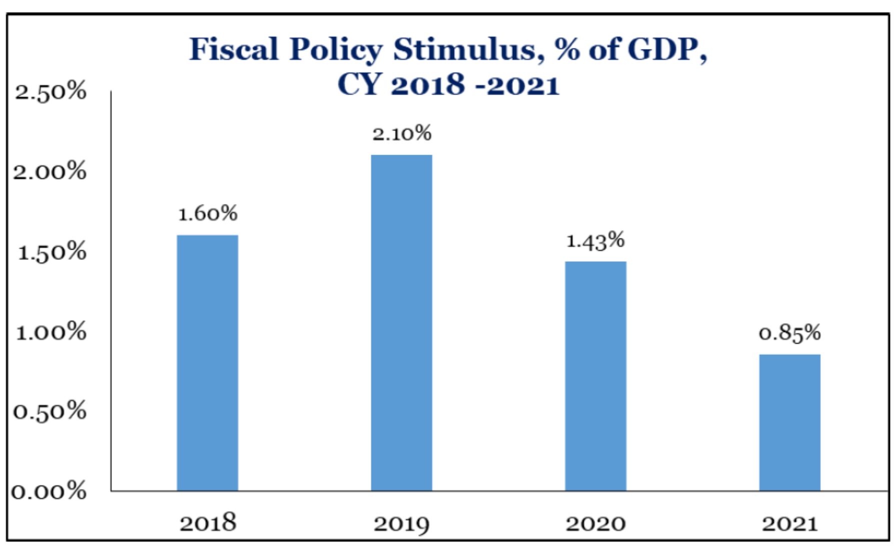
Source: Strategas Research

Yield Curve Inverts	Equity Market Peaks	Months to Peak	Recession Begins	Months to Recession
Sep-78	Sep-78	0	Feb-80	17
Sep-80	Nov-80	2	Aug-81	11
Jan-89	Jul-90	18	Aug-90	19
Feb-00	Mar-00	1	Apr-01	14
Feb-06	Oct-07	20	Jan-08	23
	Average:	**8**	**Average:**	**17**

The Market Tailwinds

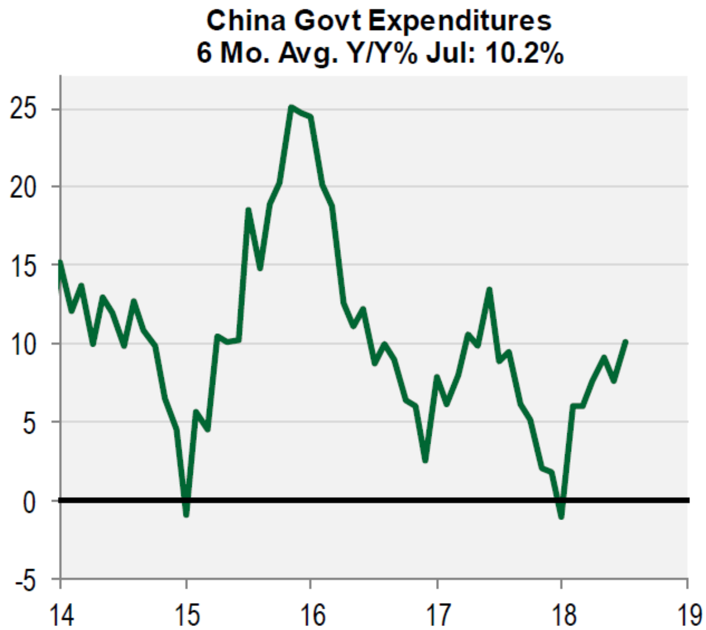
The first tailwind in our table above is tax reform / repatriation. As we've wrote above in our quarterly review section, the impact of tax reform is huge and its impact hasn't been felt in its entirety. The reform has only been felt for about eight months and the stimulus from the 100% deductibility of capital expenditures is just now kicking in and will likely be felt for years to come. See the charts above and below related to capital expenditures and stock buybacks.

The second tailwind is fiscal stimulus here in the U.S, which is what the government is budgeting to spend. Despite a nice uptick in spending in 2018, the government is forecast to spend even more in 2019. The increase in 2019 is estimated to add 0.5% growth to GDP before anything else happens as the chart below shows. The falloff in 2020 as budgeted is unlikely to happen as it implies that we go back to budget sequestration from several years ago.



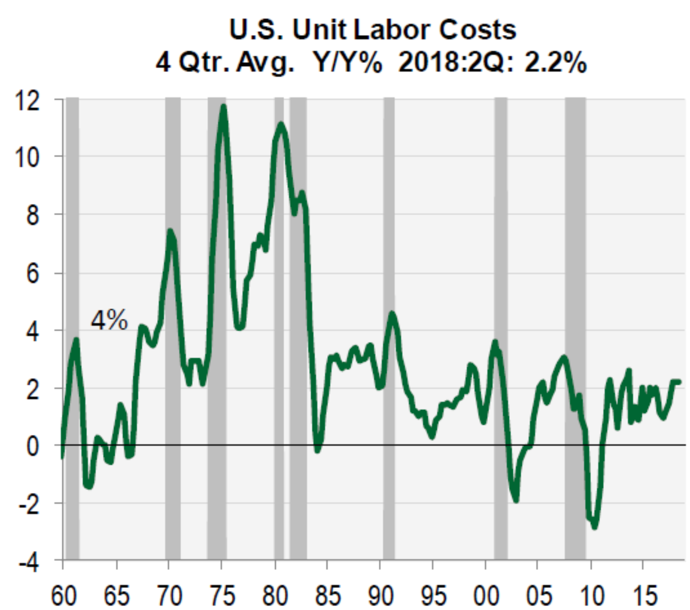
Source: Strategas Research

The next tailwind is the stimulus that the Chinese government is putting into their economy, presumably to offset the impact that tariffs/proposed tariffs are having. Notice from the chart below that the increase in government spending in China was coincident with President Trump's tariff talk. Given the size of China's government, it is a very healthy increase.



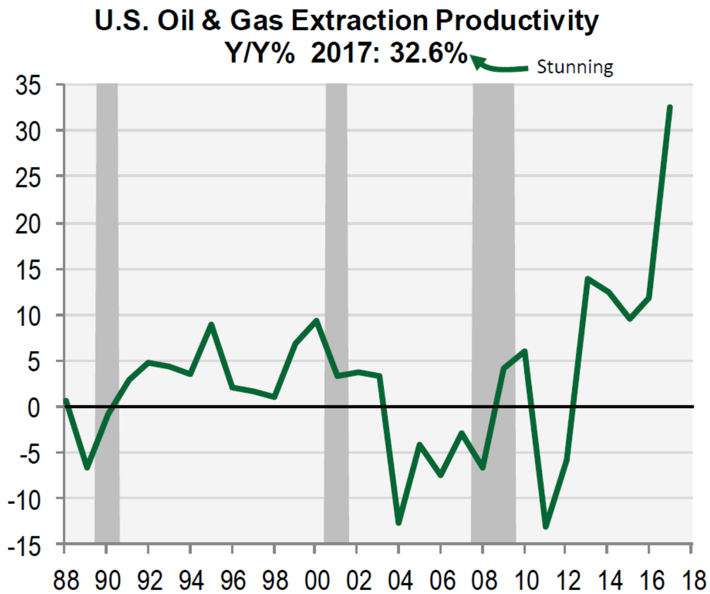
Source: Cornerstone Macro

The next tailwind is deregulation. It's real…it's happening…but it's almost impossible to quantify. In prior newsletters, we've tried to assess the impact, but while it's a massive, hidden cost of doing business, many companies are telling us that they can feel the change. One tailwind that is more easily quantified is inflation and increasing wages. Just look at the headlines of the last week when Amazon stated they will raise their minimum wage to $15/hour across the U.S. Modest inflation and wage increases are good when they move in tandem. Wage increases add spending power to the economy, and modest inflation allows companies pricing power in order to absorb the wage increases without sacrificing margins. It's when one gets too far out in front of the other that problems arise. The chart below shows that unit labor costs remain range bound around 2% currently and that recession issues surface closer to 4%. As we've shown above in the headwinds section, core CPI remains relatively contained around 2%.

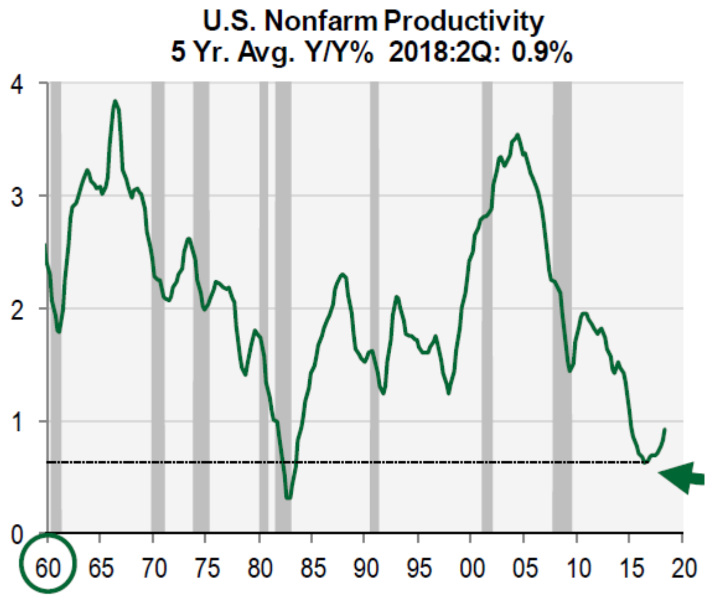


Source: Cornerstone Macro

Productivity is starting to turn upward after a long hiatus. This productivity improvement is important because as the labor pool tightens, companies have to figure out how to do more with less. These gains are also a byproduct of accelerating capital expenditures, as companies upgrade equipment to more efficient and flexible machinery requiring less labor and generating better returns on capital. Nowhere have we seen better productivity increases than in the domestic shale oil industry. The amount of capital required to extract a barrel of oil has shrunk enormously over the past decade as new, more efficient drilling techniques have been introduced into the industry. The chart below left shows how impactful these changes have become in the oil and gas sector. The chart below right shows that nonfarm productivity has been suffering over the past 15 years. We're just seeing a turn presumably because of an acceleration in capital expenditures that is taking place where companies are upgrading equipment to new, more efficient machines.

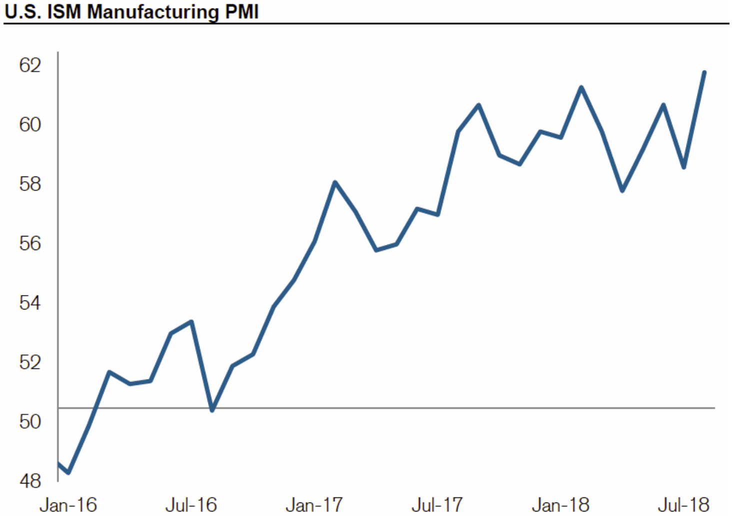


Source: Cornerstone Macro



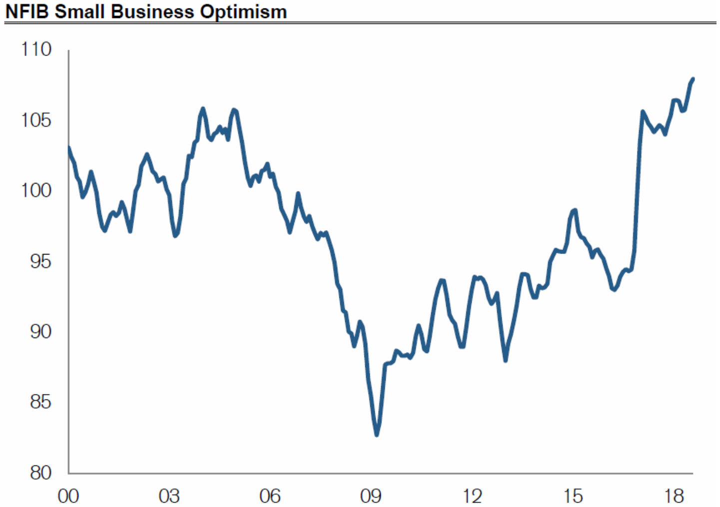
The last tailwind we wanted to discuss is simply the broad strength in the economy. In almost every corner of the economy that one looks at, there appears to be a healthy environment. Below we show a number of charts that highlight this phenomenon. The chart below left shows the manufacturing PMI survey which is currently around 61 (above 50 represents growth) and is at a new cycle high. The chart below right shows that small business optimism is also at a new cycle high.

U.S. ISM Manufacturing PMI



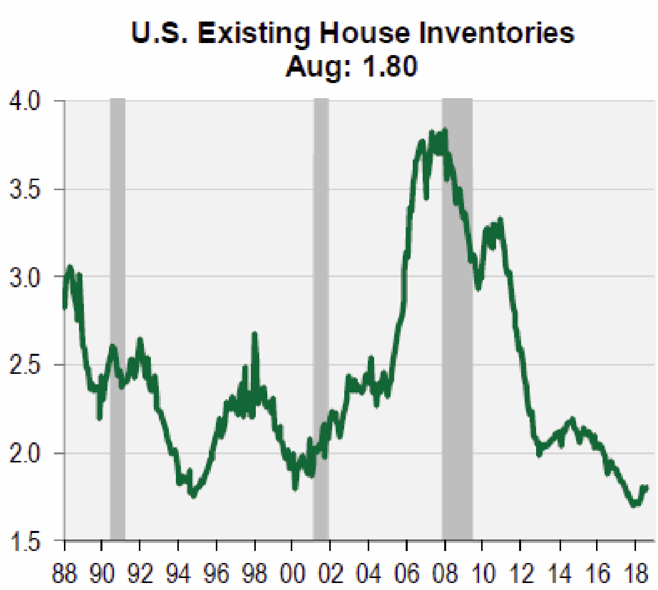
Source: Institute for Supply Management, Haver Analytics®, Credit Suisse

NFIB Small Business Optimism

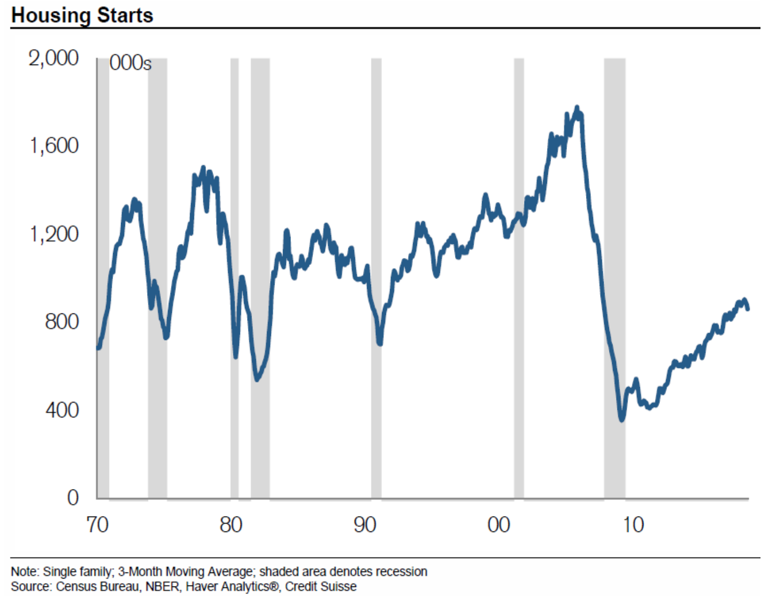


Note : 3-month moving average
Source: NFIB, Haver Analytics®, Credit Suisse

The two charts below show that the housing market, which is a key cog in the U.S. economy, is in a healthy place. The chart on the left shows that existing housing inventory is at 30 year lows which implies we need to build more homes. On the right is the housing starts chart which shows that we continue to see a measured increase in starts. However, we're nowhere near where we've been over the last 50 years which implies that we likely have a bit of pent of demand for homes. This dynamic will likely keep home builders busy for quite some time.



Source: Cornerstone Macro



<u>2018 Updated Outlook: Despite Constant Claims of Overvaluation, Stock Valuations are not Stretched</u>

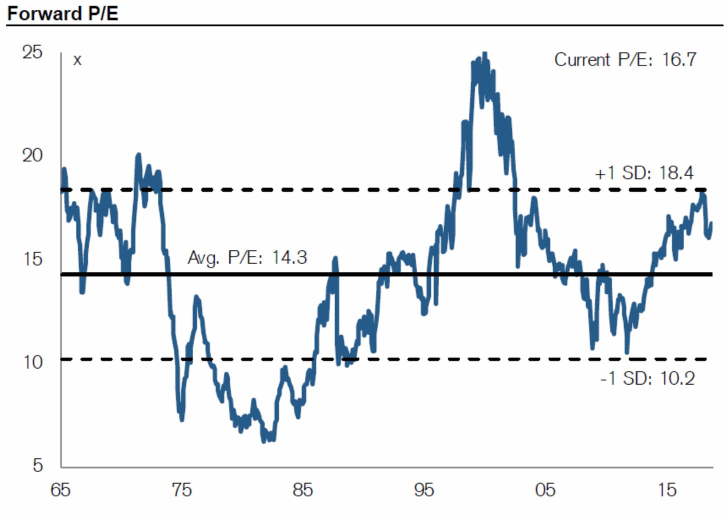
One of the most common themes that talking heads and market pundits articulate is that the stock market is overvalued. While beauty is in the eye of the beholder, we offer a number of thoughts that refute this notion. In our past newsletters we've noted that valuation at any point in time is a function of a number of variables, including interest rates, tax rates, growth rates, sentiment, and simple supply and demand of equities. In the table below, we highlight that most of these variables are positive relative to their long-term levels. Those variables circled in green are favorably positioned relative to historic levels, and the only variable circled in red is the P/E ratio. The problems with using the P/E ratio as a valuation tool are numerous, but one problem is that it doesn't take into consideration corporate debt levels, and it's backward looking. We prefer to use forward 12 month P/E's as the market is discounting what lies ahead and not the past.

Average Inflation, Treasury Yields, Valuation, Tax Rates & Nominal GDP by Decade

	CPI Y/Y % Change	S&P 500 Operating P/E	10 Year Treasury Yield	Dividend Tax Rate	Capital Gains Tax Rate	Nominal GDP
1950s	2.1%	12.6	3.0%	91.0%	25.0%	7.1%
1960s	2.3%	18.1	4.7%	80.3%	25.4%	7.1%
1970s	7.1%	12.5	7.5%	70.2%	36.0%	10.2%
1980s	5.6%	11.7	10.6%	48.4%	23.6%	7.8%
1990s	3.0%	19.5	6.7%	37.0%	26.0%	5.6%
2000s	2.6%	20.1	4.5%	23.4%	16.8%	4.0%
2010s	1.7%	17.1	2.4%	20.0%	20.0%	3.9%
Average	**3.5%**	**16.0x**	**5.6%**	**52.9%**	**24.7%**	**6.5%**
Current	**2.9%**	**20.6x**	**2.9%**	**23.8%**	**23.8%**	**7.6%**

Source: Strategas Research

On the metric of forward looking P/E's shown in the chart below, the market trades at 16.7 times forward 12 month earnings. This level compares with the 50 year average of 14.3 times. Given the current interest rate environment and current growth rates, we believe that this modest premium is justified. Notice that this metric has recently dropped despite the stock market moving higher. This decrease means that earnings growth is exceeding the escalation in the stock market, which is making the P/E ratio shrink.



Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse

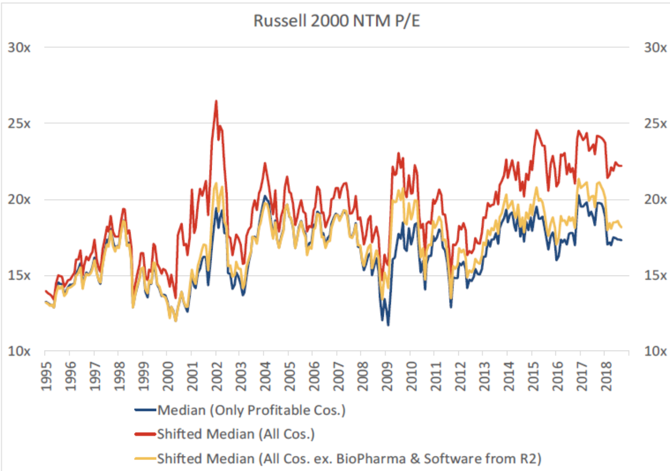
We aren't arguing for higher P/E ratios based on where we're at in the cycle and with the Fed tightening interest rates. As the table below shows, the easing or tightening of financial conditions has largely explained the direction of equity valuations. As we noted in the headwinds/tailwinds section above, we're experiencing a tightening of conditions as the Fed raises interest rates and as quantitative easing is unwound. Based on historical trends, we're likely to see P/E ratios contract, which is what's occurred so far this year. Further gains in the stock market are likely going to be earnings growth driven.

EQUITY VALUATIONS ARE LARGELY EXPLAINED BY THE *EASING* OR *TIGHTENING* OF FINANCIAL CONDITIONS

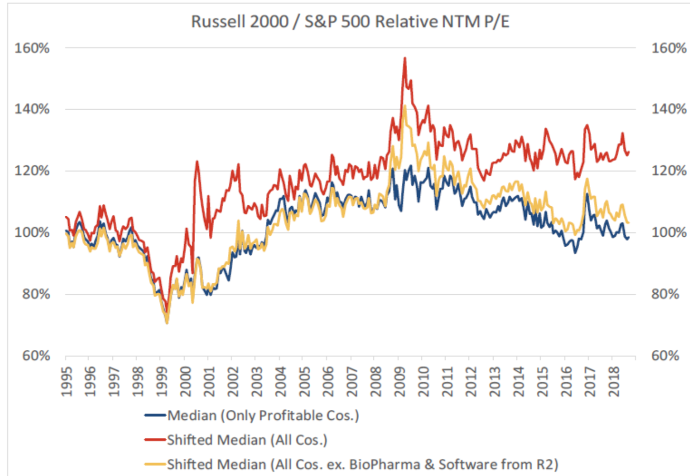
	Fin'l Conditions	Start	End	PE @ Start Date	PE @ End Date	PE Change
LOWER RISKS P/E ↑	Easing	Feb-90	Oct-93	11.7	15.2	3.5
	Easing	Jan-95	Apr-00	12.9	24.9	12.1
	Easing	Oct-02	Nov-07	13.5	14.8	1.3
	Easing	Mar-09	Aug-14	10.6	15.6	5.1
	Easing	Feb-16	Jan-18	15.2	18.4	3.2
HIGHER RISKS P/Es ↓	Tightening	Oct-93	Jan-95	15.2	12.9	(2.3)
	Tightening	Apr-00	Oct-02	24.9	13.5	(11.4)
	Tightening	Nov-07	Mar-09	14.8	10.6	(4.2)
	Tightening	Aug-14	Feb-16	15.6	14.5	(1.2)
	Tightening	Jan-18	Present	18.4	16.8	(1.6)
	Easing				Average	5.0
	Tightening				Average	(4.1)

DATA SOURCE: BLOOMBERG

One last point on valuation is that small caps are regularly called out as being expensive relative to large caps. However, we'd like to add some color to this point. When you remove the unprofitable companies from the Russell 2000 Index (roughly 35% of the index is made up of unprofitable companies currently) and compare the P/E ratio of the profitable companies within the Russell 2000 to the S&P 500, you arrive at a much different answer. The two charts below highlight this point. First, the chart on the left shows the absolute P/E ratio of the profitable companies within the Russell 2000 (see the blue line). The current level is about a P/E of 16.5 times. The right chart shows the relative P/E ratios of the Russell 2000 compared to the S&P 500. The blue line again shows only profitable companies. On this metric, profitable small caps stocks within the Russell 2000 actually trade at a slight discount to the S&P 500 index.



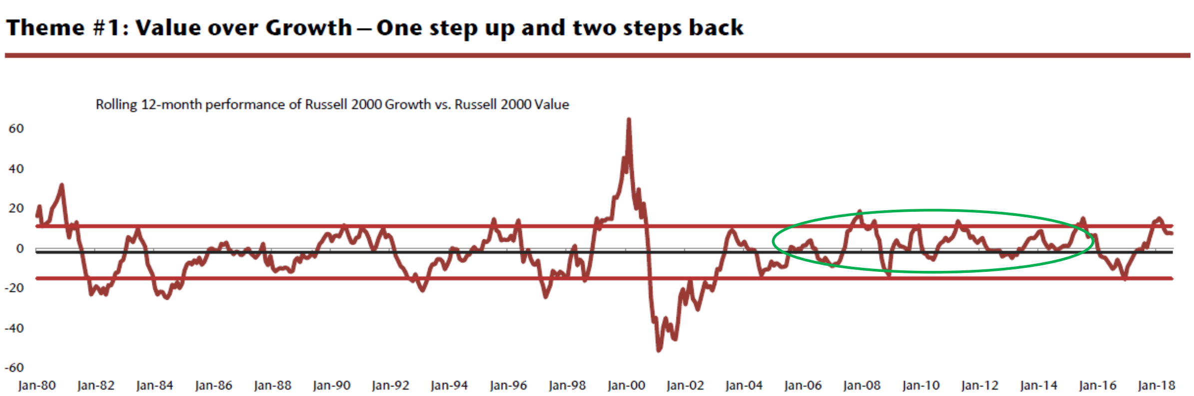
Source: Furey Research Partners, FactSet Research. Data as of September 12th, 2018



Source: Furey Research Partners, FactSet Research. Data as of September 12th, 2018

2018 Updated Outlook: Why Growth is Beating Value Consistently

Many market strategists have been making the call that assets should be shifted from the "growth" bucket to the "value" bucket because growth has been a consistent winner, and it's time for the pendulum to swing back to value. We tend to view the performance contests between value and growth on an annual basis. As a point of reference, in the 10 periods going back to 2009 (we're counting the nine months of 2018 as a full period), the Russell 2000 Growth Index has outperformed the Russell 2000 Value Index in eight of the 10 periods. The last year in which value outperformed growth was in 2016. Interestingly, in the two periods that the Russell 2000 posted negative returns (2011 and 2015), the Growth index outperformed the Value index. Many associate "value" indices with cheap stocks. This conclusion isn't necessarily true. There are a significant number of stocks that are in both the Russell 2000 Growth and Value Indexes. The stocks that go into each index are based on predetermined metrics that are supposed to be applied consistently year to year. The stocks are then sorted on those metrics, rank ordered, and assigned to the "growth", "value" or both indexes. The chart below shows how the pendulum has swung back and forth over time between growth and value outperformance. The area highlighted with the green circle is what seems to be frustrating value investors. As you can see, much more time has been spent above the "0" line which implies that growth has outperformed value. We believe that the real issue isn't about whether "growth" or "value" stocks are outperforming, *the issue is really about index construction and how sectors are weighted within the indices.*



Source: Jefferies

So let's look at the Russell 2000 Growth and Value indexes construction as of June 20, 2017. We chose this date in order to see what might have caused the Value index to underperform the Growth index recently. As you can see by the table below, the Russell 2000 Growth weights are on the left and the Value weights are on the right. We've highlighted in green the key sectors that have caused the Growth index to outperform. The best performing sectors for much of the time since June 30, 2017 have been Healthcare and Technology. There are key secular growth stories within technology that investors find attractive and within healthcare, biotech stocks have been attracting more investors because there appears to be a friendlier FDA, which is allowing more drugs to be approved. Note the significant difference in weights between the Growth and Value indexes for these two sectors. Alternatively, observe the sector weights highlighted in red in the Value index column. The key overweights are Financials, Real Estate, and Utilities, which are all interest rate sensitive sectors. During much of the past 15 months, interest rates have been ticking up, particularly on the short end of the yield curve, which isn't a great environment for these sectors. Therefore, we conclude that the Growth versus Value winner is more about which sectors are in favor than about what's cheap or expensive. As further proof, consider the NASDAQ Composite index. It contains virtually no weight in Financials with most of its weight within Technology and Healthcare. It's by far the best performing index since the beginning of 2017.

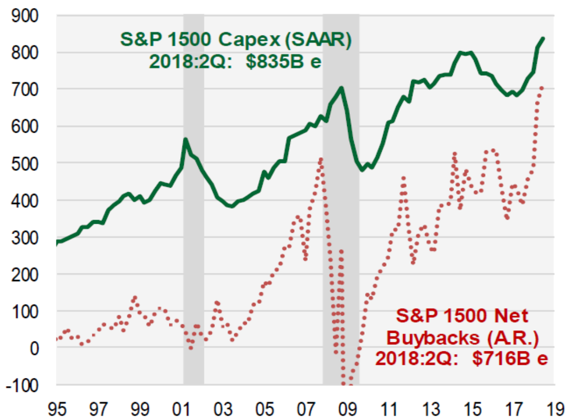
Sector	Russell 2000 Growth Weight	Russell 2000 Value Weight
Communication Services	**0.73**	**1.41**
Consumer Discretionary	**13.30**	**9.02**
Consumer Staples	**2.36**	**2.36**
Energy	**1.14**	**5.18**
Financials	**5.41**	**28.93**
Health Care	**22.44**	**5.17**
Industrials	**17.00**	**10.87**
Information Technology	**22.38**	**8.30**
Materials	**4.42**	**3.96**
Real Estate	**3.42**	**9.76**
Telecommunication Services	**0.36**	**0.15**
Utilities	**0.72**	**6.03**
[Unassigned]	**6.30**	**8.86**

Source: 1492 Capital and Factset

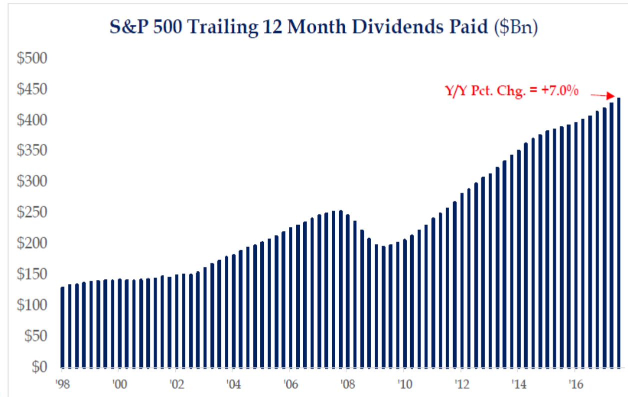
2018 Updated Outlook: Capital Expenditures or Stock Buybacks or Both? A 1492 Internal Debate Update

Last quarter we penned a section of our newsletter that related to an internal debate that we were having about whether companies would favor stock buybacks (short-term focus) over capital expenditures (long-term focus) used to enhance productivity and update aging plants. As a quick refresher, much of our optimistic economic outlook for 2018 that we discussed in our newsletter at the beginning of the year was predicated on that the new tax reform law would help to accelerate corporate America's capital expenditures. Recall that the tax reform law put in place a mechanism that allowed corporations to immediately deduct 100% of any new capital expenditures made on equipment, buildings etc. over the next several years. Our debate centered on whether the tax incentive was large enough to make companies take the plunge and shell out incremental capital on buildings and equipment this late in the cycle, or would companies instead stick to the tried-and-true stock buyback programs that help push share prices higher which can enrich company management more immediately than making capital expenditures that may take years to pay off. We had people on both sides of the argument and expressed both views in detail in last quarter's newsletter.

The updated information that we've gathered since last quarter is about as good as one could expect. Corporations are spending robustly on capital expenditures, stock buybacks, dividends, and even employee wages. The chart below left shows that the companies that make up the S&P 1500 are growing capital expenditures (green line) by about 20%, year over year, and stock buybacks (red line) are surging roughly 70%. The chart below right shows that the S&P 500 companies' dividends are up 7% year over year, which lets investors participate in the spoils, too. Much of this wherewithal to make these expenditures is coming from repatriated earnings that were historically stranded overseas but under the new tax law, companies are able to bring this money back to the U.S. by paying a modest tax. They then use the proceeds to fund domestic operations and buybacks. The bottom line, at least for now, is that companies are surprisingly making investments for both the short and long run. This combination is a good result for both investors and management alike. Our debate for now is a draw.



Source: Cornerstone Macro

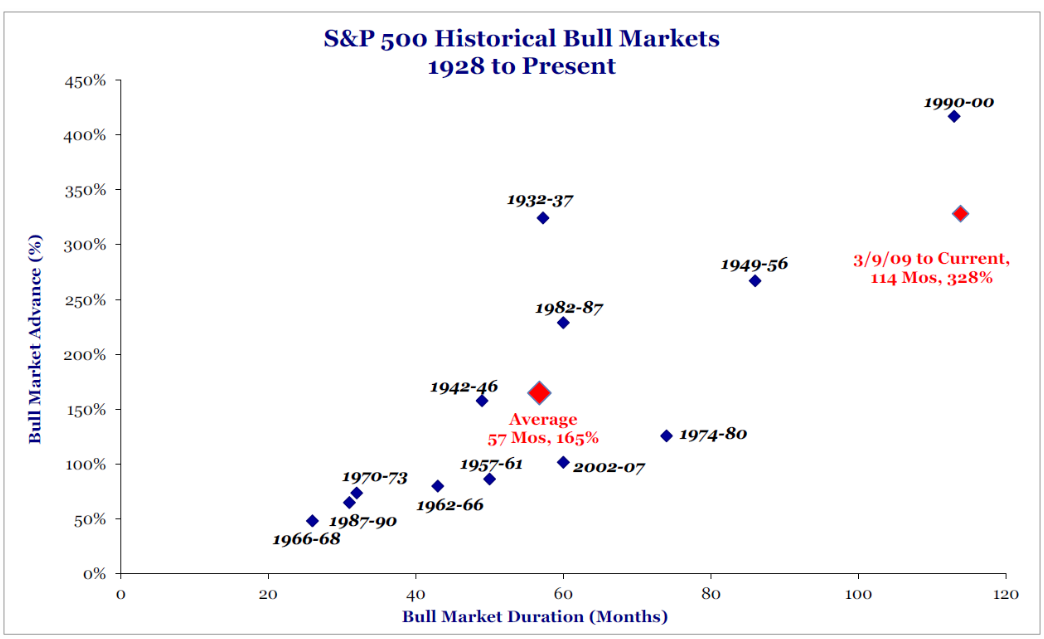


Source: Strategas Research

2018 Updated Outlook: A Picture is Worth a Thousand Words

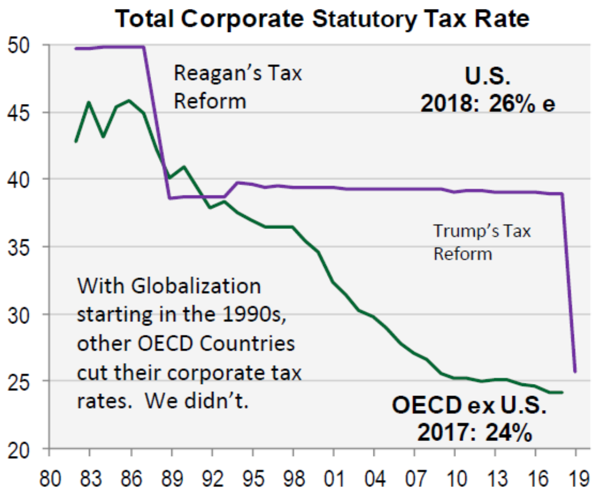
Above we articulated our updated 2018 outlook and the key issues and drivers for the stock market. Yet, we believe that there are other topics that we haven't spent a great deal of time on that deserve some mention. In order to provide you with a shorter read, as everyone's time is valuable, we decided to express it in pictures. As they say, a picture is worth a thousand words, and we'll let you interpret what we view as some compelling charts. We'll provide a bullet point or two of explanation as to why we think the chart or graphic is important.

This bull market is approaching the longest ever but still falls short of the best performing period. The duration of this bull market is a bit skewed because we've had greater than 20% pullbacks in many indices since 2009, but the S&P 500 Index has just narrowly avoided it.

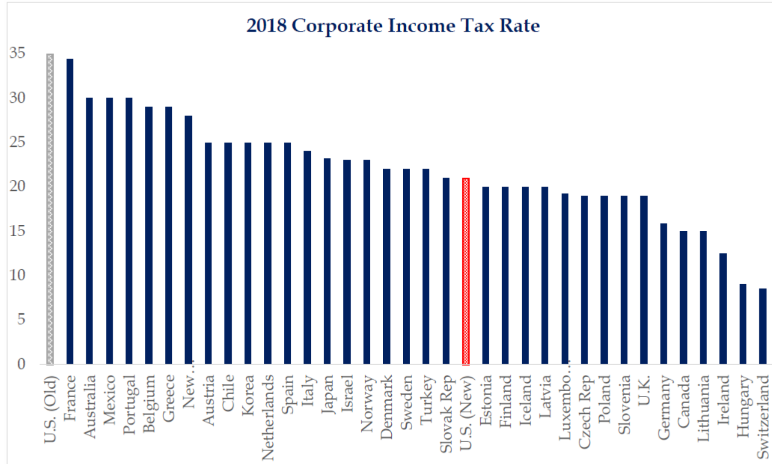


Source: Strategas Research

After the tax reform act passed, our tax regime became far more competitive as the two charts below show. Below right notice we went from worst to middle of the pack.

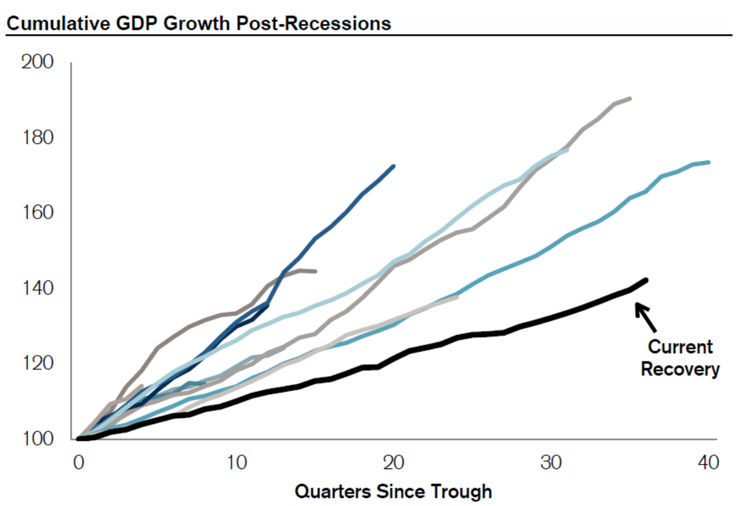


Source: Cornerstone Macro



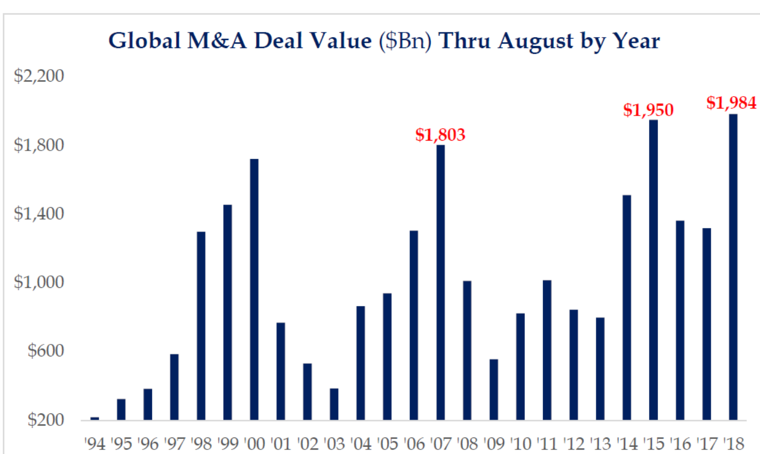
Source: Strategas Research

GDP growth continues to lag this recovery relative to the pace of prior recoveries.



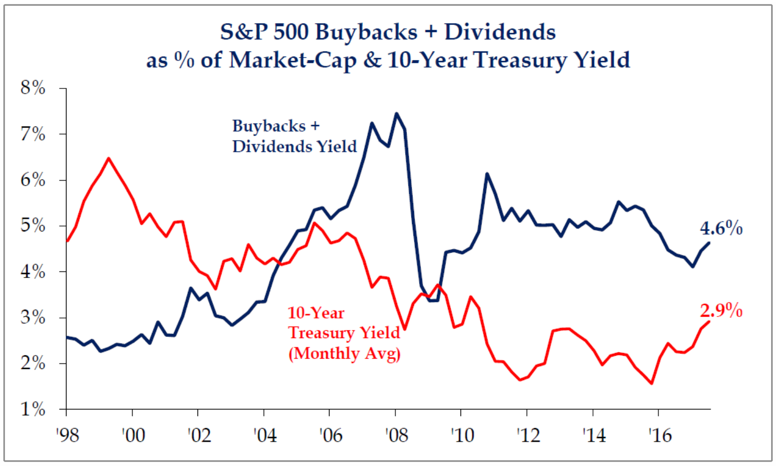
Source: Credit Suisse

M&A (mergers and acquisitions) activity is on pace to set a new record in 2018. This acceleration is likely a function of continued low interest rates and massive flows into private equity funds that need to deploy their capital.



Source: Strategas Research

The corporate payout ratio combining stock buybacks and dividends remains well above the yield on the 10 Yr. Treasury Note, keeping equities in demand.

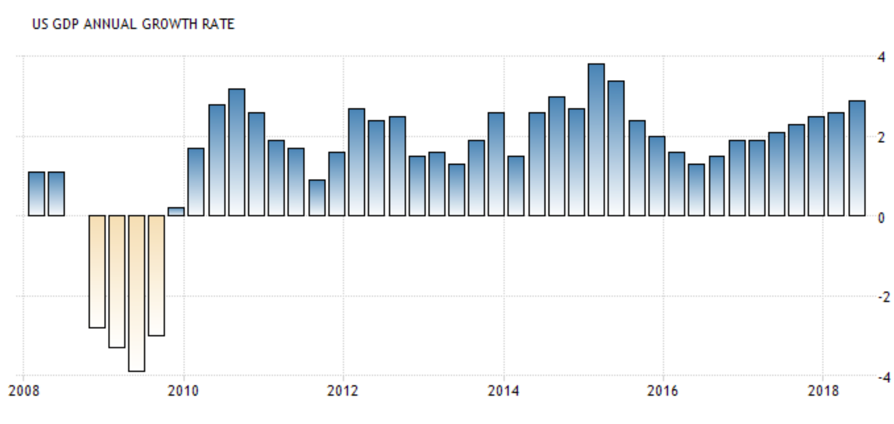


Source: Strategas Research

Thematic Investing: Engineering and Construction Boom

Following the financial crisis of 2007 and the ensuing Great Recession, then President, Barack Obama, signed the **American Recovery and Reinvestment Act of 2009** (**ARRA**) that was designed to cushion job losses. It was originally forecasted to deploy $787 billion of federal money towards programs and initiatives to stimulate the economy. On the surface, most prognosticators would agree that a $787 billion stimulus bill would have provided a sizeable adrenaline shot to economic growth. Over the last 10 years however, there has been much debate whether the economy would have had a stronger recovery had the bill not been passed into law. The reason that we believe The Recovery Act had a muted impact on growth was the lack of money directed towards true investment projects. Of the $787 billion, arguably less than $150 billion was directed towards growth stimulus projects like infrastructure and capital spending, which are activities that would have had a multiplier effect and accelerated money velocity. In fact most of the $787 billion was directed towards line items that probably hampered growth such as the extension of unemployment benefits ($40B), aid to local school districts to prevent layoffs ($53B), expansion of Medicaid ($87B), and the food stamp program ($20B).

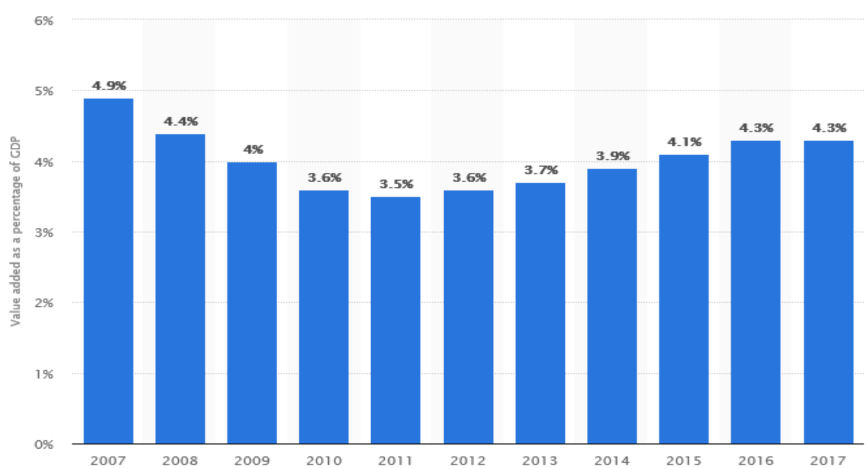
By most calculations and metrics the pace of economic recovery here in the U.S. over the past 10 years has been anemic as annual GDP growth hovered near or below 2% for much of the decade. We have discussed in past publications reasons for this less-than-stellar economic rebound off the deep trough of 2009, which included a stifling regulatory environment and high corporate tax rates relative to other OECD countries.



However, GDP growth surged to 4.1% in the most recent quarter ended June 30th, which is the highest rate of growth since 2014 during the last oil & gas boom. We believe that this acceleration in growth is coinciding with a renewed interest in capital investment by companies here in the U.S. The dearth in capital spending projects over the past few years can be attributed to a heavy handed regulatory environment as well as a bear market in the oil commodity market following Black Friday of 2014 when the price of oil plummeted. See the section above entitled "Capital Expenditures or Stock Buybacks, or Both" for more discussion and charts regarding capital expenditure trends.

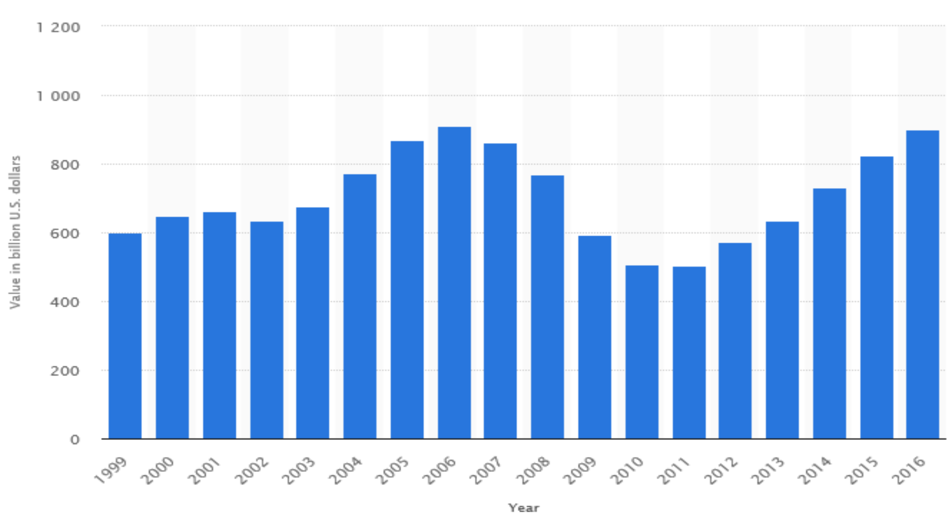
In recent meetings with several engineering and construction companies, the overarching theme has been strong to record backlog for the industry. Projects vary from oil and gas pipeline projects, electric grid updates, wind turbine plants, rebuilding of Puerto Rico, 5-G wireless upgrade, gas turbine plants, water treatment infrastructure, and higher education facilities. With expenditures reaching over $1.2 trillion, the United States is one of the largest construction markets worldwide. After the recession, construction projects that were once stalled have now accelerated their progress once again.

Value added of the construction industry as a share of gross domestic product in the U.S. from 2007 to 2017



Source: Statista

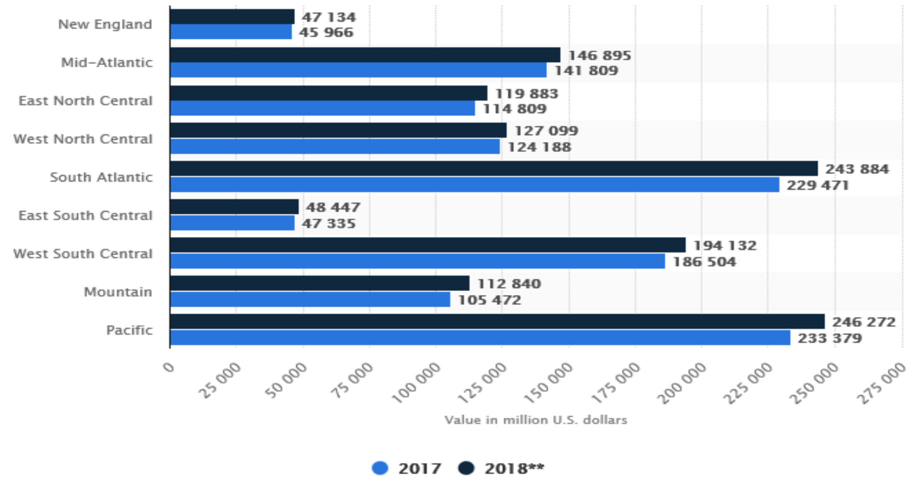
Total value of new private construction put in place in the U.S. from 1999 to 2016 (in billion U.S. dollars)*



Source: Statista

As you can see in the following chart, construction project spending is up in every region of the country and is not confined to merely the oil and gas focused regions that drove the last spending cycle.

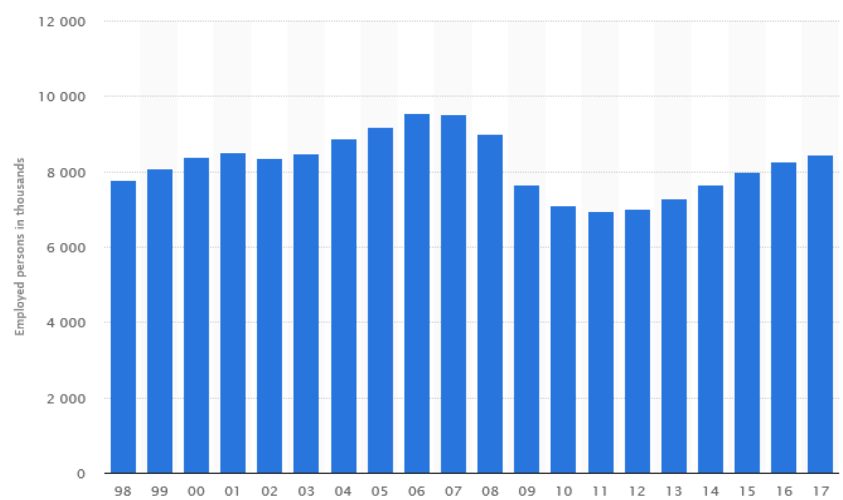
Value of new construction put in place in the U.S. in 2017 and 2018, by region (in million U.S. dollars)*



Source: Statista

The strong demand for construction projects is putting a strain on an already tight labor market and will most likely be the main constraint to growth going forward for the industry.

Number of production workers within the U.S. construction industry from 1998 to 2017 (in 1,000s)



Source: Statista

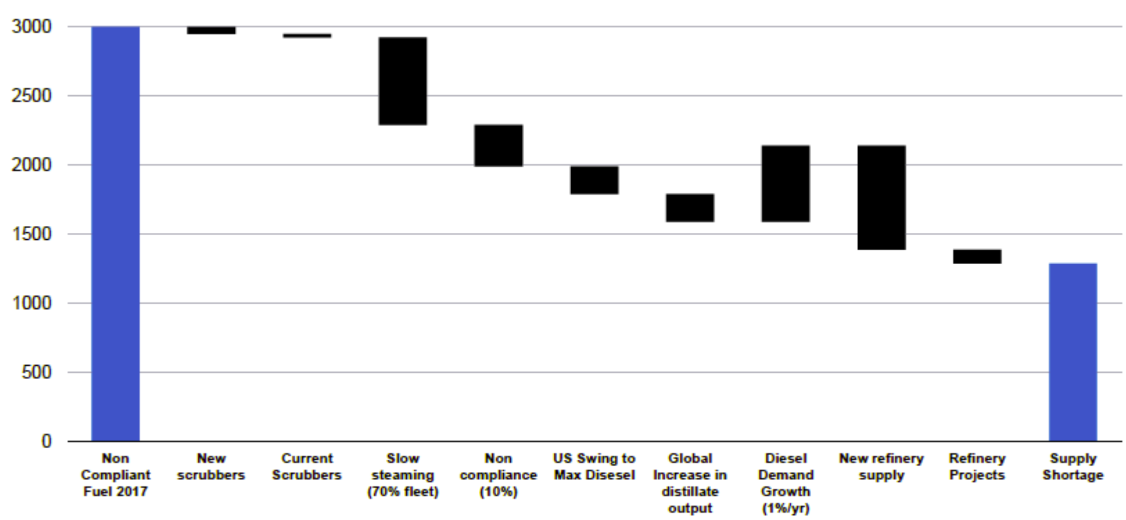
We believe that the visibility for these capital spending and construction projects is good through at least 2020 and provides a very sanguine backdrop for investment in the sector. For example, forecasts for wind turbine plant construction here in the U.S. is expected to grow from eight gigawatts this year to over 13 gigawatts in both 2019 and 2020. That increase equates to over $2 billion of annual construction spend not counting the purchase of the actual equipment. While the lumpiness of contract awards can sometimes make it difficult for public companies to forecast quarterly revenues, we believe that the long-term tailwind for this investment theme is strong and should remain robust for the next few years.

IMO 2020: New Marine Fuel Oil Standard Investment Theme

Like a scene from the movie Jaws, just when you thought it was safe to go back in the water, the International Maritime Organization (IMO), a United Nations agency in charge of international, ocean-going shipping, implements IMO 2020 on January 1, 2020. IMO 2020 requires the sulfur content for marine fuels to drop from 3.5% to 0.5%, and the implications of this change are numerous and likely make for an interesting investment theme as we approach the implementation deadline. As background, high sulfur fuel oil (HFSO) is produced as a byproduct of the oil refining process that is designed to produce primarily gasoline and distillates which include low sulfur diesel fuel. According to research from the Royal Bank of Canada, the shipping industry burns roughly 3.5 million barrels per day of HFSO across a global shipping fleet of some 50,000 vessels that include containerships, refined product tankers, dry bulk carriers, oil tankers, etc. The proverbial $64,000 question is what happens to this 3.5 million barrels per day of demand on January 1, 2020 when the new regulation begins and which companies will benefit from this change.

To begin, there is the ability to continue to use HFSO if you install a scrubber on your ship that will bring the sulfur emissions into compliance. This device will be installed on a portion of the ocean-going ships but will likely be used on newer, larger vessels that have the space for installed equipment. If the price gap between the new fuel and HFSO is wide enough, the payback on installing a scrubber may make sense but will involve downtime of roughly two months in a shipyard and incremental capital spending on a shipping fleet. According to estimates from Arrow Shipbroking Group, scrubbers are forecasted to be installed on roughly 1,500-1,600 ships of the roughly 50,000 ship global shipping fleet or about 3%. The vast majority of the fleet will need either an effective cheating program which will be difficult beyond the initial few months or will need to source low sulfur fuel.

Figure 4: Incremental Diesel Demand from IMO 2020 (kbd)



Source: Cowen

We believe that at least two million barrels per day of new demand for low sulfur fuel oil is likely in 2020. This incremental requirement means that instead of producing HFSO byproduct as part of the refining process of generating gasoline and distillates, the world is likely to need a staggering, incremental two million barrels per day of low sulfur product as well as the crude oil to refine it. Using a more conservative outlook that is featured in the chart above, we find that the transition from three million barrels per day of what will soon be non-compliant fuel translates to a supply shortage of 1.3 million barrels per day of low sulfur fuel oil after factoring the use of scrubbers, non-compliance, and higher distillate output at existing refineries. As a reference point for the sizable potential impact, a 1.3 million barrel per day shortage of low sulfur fuel oil compares to overall, pre IMO 2020 oil demand growth of roughly 1.2-1.5 million barrels per day each year! This transition should be very positive for both oil producers who will see strong demand for their light oil product (produces more low sulfur fuel in the refining process than heavier oils from Venezuela or Mexico in general), for oilfield service companies that will have more wells to drill and frack for the producers, and for refiners who will see a surge in demand for this low sulfur fuel. A refiner will be particularly advantaged if it has a coker at its refining facility which would allow the refiner to buy heavier, less desirable oil at a discount as demand for this crude weakens substantially in IMO 2020 and then still be able to refine the lower quality crude into a low sulfur fuel oil for the proverbial best of both worlds from a profit perspective (strong demand for end product and lower input cost).

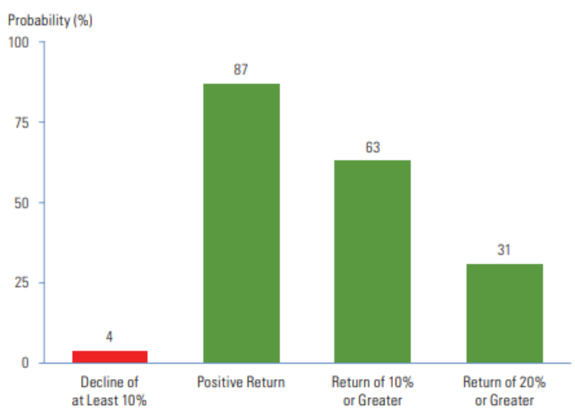
Additionally, there is an impact on the shipping industry itself as it is looking at much higher fuel prices to run their ships in an IMO 2020 environment. There choices are to scrap older, inefficient ships and reduce supply to create higher day rates on the remaining ships to cover the higher cost and/or slow steam their ships. Slow steam means running the ship at a slower speed to burn less fuel and consequently make the voyage longer and effectively reduce industry ship supply as well. One class of ships that may benefit particularly well in the IMO 2020 is the refined product tankers. Along with limited new ship supply growth, they are likely to benefit from additional shipping demand as this low sulfur fuel will not be available in sufficient quantities at all ports via a local refinery and thus may need to be transported to and stored at the port. Marine fuel oil logistics should be increasingly complex in 2020 and any logistics firm with the expertise to handle this complexity for shippers should be well positioned. The IMO 2020 regulation implementation provides for an interesting investment theme opportunity at 1492 Capital Management as we research the best positioned beneficiaries in the industrial, oil and gas, refining, and shipping industries for this potentially game changing event that is now less than 15 months away.

Market Trivia

Each quarter we offer a piece of market trivia that we believe is interesting or timely, or both. The graph below shows the odds and magnitude of gains of the S&P 500 Index when the economy is growing. It makes you wonder when you see these talking heads on CNBC forecasting downturns in the stock market in almost any environment. They clearly haven't seen these probabilities that are massively stacked against them.

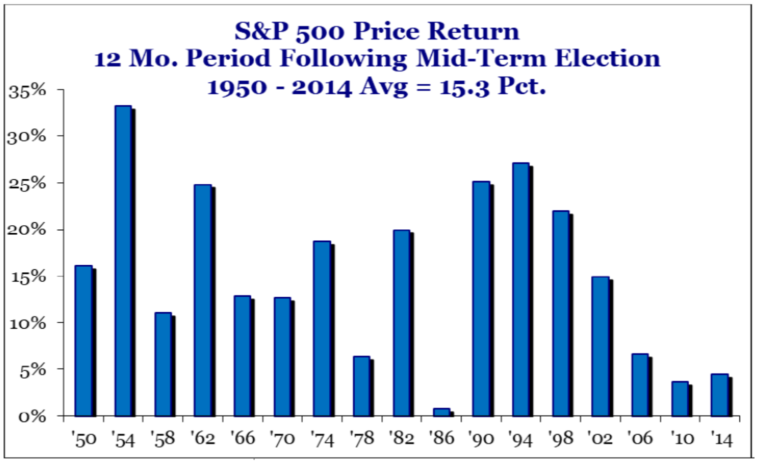
Exhibit 19: Odds of Various S&P 500 One-Year Total Returns During US Economic Expansions

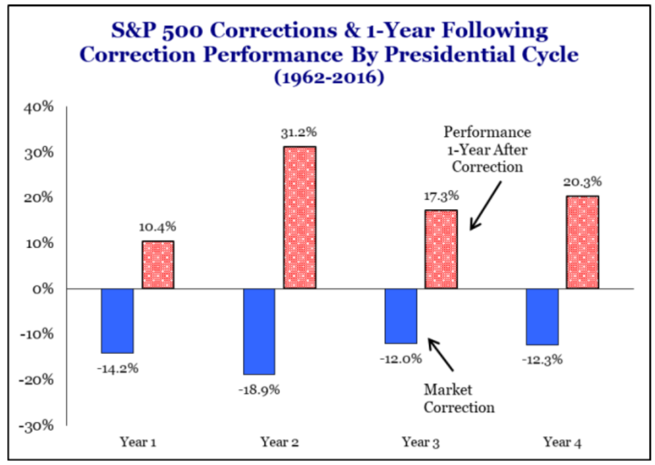
The likelihood of positive US equity returns is high when the economy is growing.



Data as of December 31, 2017.
Note: Based on data since 1945.
Source: Investment Strategy Group, Bloomberg.

In honor of the mid-term elections which are just a month away, we thought we'd leave you with a reminder of how the stock market performs following the mid-term elections (left chart) and into the third year of a President's term (right chart). One last fun fact- the S&P 500 has never declined in the 20 months following the mid-term elections since 1946. Let's hope that streak continues!!





Source: Strategas Research

We hope that you found our third quarter 2018 and updated 2018 outlook newsletter to be insightful and interesting. Should you have any questions about anything discussed herein or would like more information about 1492 Capital Management, please call us at 414-276-1492.

Joe Frohna Rodney Hathaway Adam France Nancy Frohna Tim Stracka

Important Disclosures:

(1) Utilizing a proprietary blend of Informa Investment Solutions' top priority performance screens, PSN Top Guns ranks products in six proprietary star categories in over 50 universes. This is a highly anticipated quarterly ranking and is widely used by institutional asset managers and investors. Top Guns receive a star rating in the range from one to six. The stars indicate the continued performance over a length of time. 1492 Capital Management was named a Top Gun with a rating of 2 Stars in the Small-Mid Core Universe based on the Small Cap Core Alpha strategy's return for the year ended June 30, 2018. The 1492 Small Cap Value strategy received a 2 Star rating for the strategy's performance which ranked eighth for the one year ended June 30, 2018 in the Small-Mid Value Universe.

The complete list of PSN Top Guns and an overview of the methodology can be located on http://www.informais.com/resources/psn-top-guns. For more details on the methodology behind the PSN Top Guns Rankings or to purchase PSN Top Guns Reports, contact Ruth Calderon at ruth.calderon@informais.com. **About Informa Investment Solutions:** A market leader in intelligence and software solutions for investment professionals and financial institutions of all sizes, Informa Investment Solutions offers a robust set of analytics and tools to help you grow and retain your business. With a nearly 40-year history, Informa Investment Solutions is part of Informa PLC, a leading business-to-business knowledge provider serving International markets. Informa Investment Solutions has set the standard for providing turnkey and customizable applications for performing manager searches, building wealth plans, and producing client reports and investment marketing materials for companies worldwide. For more information, please visit http://www.informais.com/ and follow https://twitter.com/InformaInvest

(2) The minimum criteria for inclusion in Best Money Managers: Performance must be calculated "net" of all fees and brokerage commissions. This means after all fees have been deducted. This standard is somewhat controversial, as the SEC requires that only "net" of fees numbers be presented publicly, while GIPS (Global Investment Performance Standards) prefers that "gross" numbers be presented along with a fee schedule. Since the SEC is a regulatory authority, and since complete fee schedule presentation would be impractical in this "ranking" format, we require "net" numbers. Performance must be calculated inclusive of all cash reserves. To explain, any given investment portfolio will hold some level of cash over a particular reporting period. Even equity portfolios which specifically seek to be fully invested in the market at all times will temporarily have dividend payments and other ordinary cash flows which cannot instantaneously be invested in the market.

These cash holdings obviously will have an effect on the performance of the overall portfolio – negative when cash returns are low relative to returns of the asset class, and positive if the opposite is true. While presentation of "equity-only" (for example) returns may provide a valuable insight into the security selection skills of the manager, we require for comparability's sake that performance results be inclusive of cash reserves for consideration in the rankings. Performance results must be calculated in U.S. dollars, that is, from the perspective of a U.S.-based investor. Currency holdings can have a very significant impact on the performance of a portfolio with international holdings. While this will always be the case (as we do not make distinctions between hedged and unhedged portfolios), we require that performance must be translated into U.S. dollars to ensure comparability to the point where these are all returns that would be seen by a U.S.-based investor. Performance results must be calculated on an asset base which is at least $10 million in size for "traditional" U.S. asset classes (equity, fixed income, and balanced accounts) or at least $1 million in the case of international and "alternative" U.S. asset classes. This minimum ensures that the firm and product are somewhat established. The goal is to not taint the rankings with "flashes in the pan" while also not excluding promising emerging managers. The minimum asset base requirement, therefore, is set at a level which balances these objectives. The classification of the product must fall into one of the categories which we rank. We only publish rankings for categories/time period combinations for which we have at least 20 contenders.

Comments and opinions expressed in this document regarding individual securities, markets, strategies and case studies are not recommendations or predictions, and thus should not be acted upon. They are based only upon the judgments and opinions of 1492's professional staff. The use of any investment strategy does not guarantee that an investment return will be achieved, or that a loss will not occur from the advice provided. Past performance does not guarantee future results. No investment firm, including 1492 Capital Management, guarantees gains or that losses will not occur from the strategies applied to managed portfolios. You are encouraged to contact us with your questions.

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