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We certainly live in interesting times!

For the first time since February 2009, the stock market lost ground during the month of February. As we have written before, no market goes straight up. It's always two steps forward, one step back.

This month, we will examine the causes of the recent sell-off and what it means going forward.

In addition, we are pleased to announce that our mutual fund, KCMTX, has won the Thompson Reuters Lipper Fund Award in the Alternative Global Macro five-year category. These awards recognize funds and fund management firms for their consistently strong risk-adjusted three-, five-, and 10-year performance relative to their peers, based on Lipper's proprietary performance-based methodology.***

As pictured, Marty recently traveled to New York to receive the award.

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Recent Volatility Explained

Beginning in late January, the market experienced a wave of volatility. The S&P 500 topped on January 26, and gave back nearly 12% by the bottom on February 9. The market rebounded, gaining 10% by midday on February 27. From that point, the market sold off nearly 3% from the afternoon of February 27 through month end, finishing down 3.69% for the month.

As we wrote to you in a special update in early February, corporate earnings and economic conditions are favorable. **There is no structural reason for the sell-off.** In fact, part of what ignited the initial selling were economic reports that were "too good," resulting in speculation that inflation would rise causing the Federal Reserve to raise interest rates higher than originally thought.

Once the selling started, however, a variety of issues caused it to snowball. For example, on February 5, the Volatility Index or VIX (aka "Fear Index") more than doubled from 17.3 to 37.3:

This is important because many investors held short positions in various volatility products indexed to the VIX. Even with no margin, when you sell a security short and it doubles, you lose everything. H**ere, the VIX doubled IN ONE DAY.** There were many margin calls, which caused these trapped investors to sell other holdings for no good reason other than they needed to raise capital quickly. It was a vicious cycle, and a lot of good quality stocks were caught in the crossfire.

Even for those investors who did not hold volatility products, the magnitude of the sell-off caused a lot of emotional selling. Fear gripped a market that had become complacent with 21 positive results in the last 22 months.

In our February 6 special update, we noted several potential areas of support for the sell-off, including the 200-day moving average around 2540. The actual bottom was 2533. From there, the market rallied 10%.

The market sold off nearly 3% at the end of the month as new Fed Chairman, Jerome Powell, testified to Congress for the first time. The market interpreted his testimony to mean that inflation could be a bigger issue than anticipated, and therefore there will be more interest rate hikes than currently expected. The bond markets also moved lower on the prospect of higher interest rates with AGG down 1.01% for the month.

Certainly, "main street" businesses across America are booming. A National Federation of Independent Business study found about 31% of small businesses are paying higher wages; the highest reading since 2000. Nearly a third of small businesses believe it's a good time to expand, the highest since the survey began in 1973. Business expansion and higher wages can lead to higher prices. But we aren't there yet.

Finally, as we are writing this, the market is in again today in response to news of tariffs on imported steel. There are concerns this may lead to a trade war with China, although we import a lot more steel from Canada and Mexico than China. The tariff therefore may have its largest impact on NAFTA.

So where do we go from here?

Clearly this is a skittish market. After the relief rally, any hint of bad news is now met with worse than normal selling. We anticipate volatility to remain elevated for a while as the up and down swings may be larger in scope than what we saw in 2017.

Blackrock upgraded US stocks earlier this week, citing fiscal stimulus that is "supercharging" expectations for earnings growth. Like Blackrock, we remain bullish on this economy and corporate America. However, we continuously monitor our risk signals and stand ready to adjust the portfolio at any time as short-term stock prices can be driven by emotion as much as corporate fundamentals.

KCMTX Recognized by Thompson Reuters Lipper & Morningstar

Thompson Reuters Lipper tracks mutual funds, similar to Morningstar. Lipper classifies the KCM Macro Trends Fund (KCMTX) in its Alternative Global Macro category, which consists of funds that invest in domestic and foreign equities and bonds, currencies and commodities, based on broad macroeconomic and systemic factors. In February, Lipper named KCMTX the Best Alternative Global Macro Fund based on its five-year risk-adjusted performance as compared to 55 peers in the category.***

KCMTX also continues to hold Morningstar's highest overall rating of five stars; and is ranked in the Top 1% of its Multi-Alternative category for the one- and five-year periods ending 2/28/18, out of 394 and 171 funds, respectively, based on total return. The multi-alternative category incorporates KCMTX's ability to tactically invest long/short.**

To learn more about the Fund, please visit KernsCapital.com or contact Octavia Grimston, Investor Relations, at 713.993.0949, ext. 115.

How Are We Doing?

February was a tough month for stocks with the S&P 500 down 3.69%; and bonds provided little protection with AGG (Barclays Intermediate Bond Index) down 1.01%. But remember, the glass is more than half full. Notwithstanding February's step back, the S&P 500 is still up a robust 17.10% over the last twelve months. Our Models have kept pace.*

Model	February	1-Year
KCM Aggressive	-3.77%	16.34%
KCM Moderate	-3.47%	13.54%
KCM Conservative	-3.09%	11.52%

In Closing

Stocks have hit a bit of a bumpy patch. It happens. In fact, it has happened quite regularly during midterm election years. In almost all cases, stocks rally to new highs within twelve months.

As the days are getting longer and Spring approaches, Parker and Octavia will be meeting with investors in Miami mid-March; Marty in Los Angeles the following week. Enjoy the beautiful weather this month... Spring Break calls!

"Pick any company you want - the price is often very volatile over short periods of time. It does not make sense to me that their values are nearly as volatile as the prices and therein lies what should be a great opportunity."

- Joel Greenblatt

Sincerely,

Marty Kerns
President & Chief Executive Officer

Parker Binion
Chief Investment Officer

Octavia Grimston
Investor Relations

About Kerns Capital Management

Kerns Capital Management is a leading asset management firm with a focus on quantitative, liquid alternative investment strategies, including the KCM Macro Trends Fund. We are value-oriented investors in long/short equity, credit and volatility, and apply the same attention to risk in the deployment of capital that has guided us since our inception as a fiduciary investment manager to corporate pensions, trusts and high net worth individuals. Kerns was founded in 1996, and is based in Houston, Texas.

For more information on our products, including fund performance, please visit www.kernscapital.com or contact our Investor Relations director Octavia Grimston at 1.993.0949 x115 or ir@kernscapital.com

IMPORTANT DISCLOSURES

Performance data represents past performance and is not a guarantee of future results.
Performance current to the most recent month-end may be lower or higher, and can be obtained by calling 800-945-2125.

***Kerns Capital Management Risk-Based Models.** Performance figures, unless otherwise described, represent a composite of all individual portfolios managed in accordance with the investment category, are after the deduction of KCM's actual management fee, and include reinvestment of dividends and earnings. The composites contain accounts structured with mutual funds that are managed with a view towards capital appreciation.

Composites do not include 401(k) accounts which are managed differently due to Department of Labor rules.

Marty Kerns, KCM's Chief Compliance Officer, remains available to address any questions regarding this performance presentation, including its limitations. Mr. Kerns can be contacted via email at marty@kernscapital.com or toll-free at 800.945.2125.

**** KCM Macro Trends Fund. Investors should carefully consider the investment objectives, risks, charges and expenses of the KCM Macro Trends Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained at kernscapital.com or by calling 800.945.2125. The prospectus should be read carefully before investing.**
The KCM Macro Trends Fund is distributed by Northern Lights Distributors, LLC. Member FINRA/SIPC. Kerns Capital Management, Inc. and Northern Lights Distributors, LLC are not affiliated.

Morningstar Rankings. The KCM Macro Trends Fund (KCMTX) ranks in the top 1% of Multi-alternative funds by Morningstar, Inc., for the five-year and one-year periods ending February 28, 2018 out of 171 and 394 funds respectively, based on total return. The fund ranks in the top 4% for the three-year period out of 298 funds. Rankings are just one form of performance measurement.

Morningstar Ratings. The Morningstar RatingTM for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics.

Morningstar Multialternative Category includes funds that have a majority of their assets exposed to alternative asset strategies, including long/short, and can include funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes.

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*** **Source: Lipper, Inc.** The Best Alternative Global Macro Fund award is granted to the fund in the Alternative Global Macro category with the highest Lipper Leader score for Consistent Return over the 5-year period as of 11.30 of the prior year. Lipper awards are granted annually to the funds in each Lipper classification that achieve the highest score for Consistent Return, a measure of funds' historical risk-adjusted returns, relative to peers.

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