Your Investments | April 2018

KCM Macro Trends Fund   Tear Sheet   Our Team   Contact Us   Legal Information

Is it safe to go outside?

After recovering over 10% of its 12% loss in February, the S&P 500 sold off again during the latter half of March: first on Fed news of a more aggressive interest rate policy, and then on the brewing trade war with China. As a result, the S&P turned in its first negative quarter in nine, finishing down -0.76%.

As we wrote to you in a special volatility update in early February, corporate earnings and economic conditions are favorable. **There is no structural reason for the sell-off.** Our opinion has not changed. The stock market doesn't like uncertainty and that's what we see playing out on the trade front. Trade wars are good for no one. Thus, we expect an agreement of some kind in the near term. When that happens, the market should quickly recover and rally to new highs. Here's why.

Economically, America continues to grow stronger, not weaker. According to FactSet, March 29, 2018:

- **Earnings Growth:** For Q1 2018, the estimated earnings growth rate for the S&P 500 is 17.3% which would mark the highest earnings growth since Q1 2011.
- **Earnings Revisions:** Ten of eleven sectors have higher growth rates today (compared to December 31, 2017) due to recent upward revisions to earnings estimates, led by the Energy sector.
- **Earnings Guidance:** For Q1 2018, the current number of S&P stocks issuing positive earnings guidance is the highest since FactSet began tracking EPS guidance in 2006.

As such, last week Q1 GDP (US economic growth) was revised upward to 2.9%. Ever so close to the elusive 3%.

Lets also take a look at what the market is telling us from a technical perspective.

Recent Volatility Explained

Looking at the charts, it appears that the recent downtrend (that began March 13 after new Fed Chairman Jerome Powell testified to Congress and worsened with recent trade issues) has lost momentum and may be setting up for a bounce higher.

In the chart above, compare the two early February bottoms with the most recent two bottoms. In both cases, the Relative Strength Index (RSI) and Moving Average Convergence Divergence (MACD) made higher lows on the second bottom while price made a lower low (see the green lines). Both of these indicators measure momentum, and they tells us in each case that momentum did not support the second price bottom. This is called bullish divergence.

After the second February bottom, the S&P rallied more than 200 points over the next week. It would not surprise us to see the same thing happen now as the market is vastly oversold

In addition to momentum, breadth tells us that there has not been much participation in the recent sell off. Below is the NYSE Advance-Decline line. It is a running total of each day's net advancing issues (advancers minus decliners) on the New York Stock Exchange. As you can see, despite all the recent selling the Advance-Decline line has not even come close to the February 9 low. This is a sign that the rank-and-file stocks are hanging tough, and that the sell-off has been concentrated in the mega-cap names (such as Facebook).

Anything can happen, but from a technical perspective it appears to us that for the time being, the worst may be just about over.

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 3/31/18, out of 376 and 150 funds, respectively, based on total return. The multi-alternative category incorporates KCMTX's ability to tactically invest long/short.**

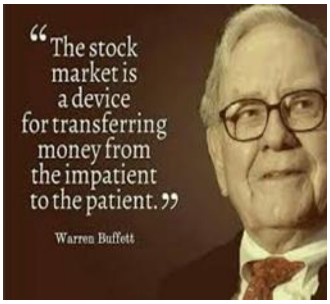
To learn more about the Fund, please visit KernsCapital.com or contact Octavia Grimston, Investor Relations, at 713.993.0949, ext. 115.

How Are We Doing?

As previously discussed, the S&P 500 suffered its first quarterly loss in nine quarters, finishing down -0.76%. Bonds did a little worse finishing the quarter down -1.47%. Notwithstanding, our Models hung in there finishing the quarter with small losses.*

Model	March	YTD	1-Year
KCM Aggressive	-0.45%	-0.38%	17.5%
KCM Moderate	-0.87%	-0.69%	13.37%
KCM Conservative	-0.82%	-0.75%	11.31%
S&P 500 TR	-2.54%	-0.76%	13.99%
AGG Barclays Int Bond	-0.43%	-1.47%	1.16%

In Closing



Stocks continue along the bumpy road for now. We expect this pattern to continue until trade issues resolve; and we expect they will with the US in a better position with China. When that happens, stocks should move aggressively higher on strong corporate earnings, tax reform and deregulation. For now, we wait.

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 or to sign up for this newsletter, 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 March 31, 2018 out of 150 and 376 funds respectively, based on total return. The fund ranks in the top 3% for the three-year period out of 279 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.

*** **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.

Lipper, a wholly owned subsidiary of Thomson Reuters, is a leading global provider of mutual fund information and analysis to fund companies, financial intermediaries and media organizations.