Inside Views From an Investment Management Leader

UPDATE

January 2018

About our Company

Company Profile:

Mitchell Anthony Capital Management is a private, boutique investment firm who has helped our clients grow and protect their wealth since 1991.

Key Offerings:

- *Personal wealth management*
- *Proactive investment strategies*
- *Proprietary research*
- *A professional team*
- *Fee-only services*

Distinguishing Values:

- *Passion for excellence*
- *Strategic focus*
- *A disciplined process*
- *Prudent risk management*
- *Comprehensive client care*
- *Superior long-term performance*
- *Sound judgment*
- *Objective Analysis*

MITCHELL ANTHONY
CAPITAL MANAGEMENT
9259 Research Drive
Irvine, CA 92618
Phone: 949-852-4100 or 800-497-9400
Fax: 949-852-4106
www.MitchellAnthonyCapital.com

In the News

Register for Our Upcoming Client Meeting

In case you haven't already done so, register now for our upcoming client meeting scheduled for Thursday, February 8, from 12:00 - 1:30 p.m. Call Jill Pletcher at 949-852-4100 extension 102 or email jill@cichome.com to confirm your attendance. We look forward to seeing you there! See pg. 4 or visit www.MitchellAnthonyCapital.com for more details.

Economic Review & Outlook

What a Year!

Mitch Pletcher
President
Chief Investment Officer

2017 began with optimism from investors, consumers and businesses. The market's great year began with a great first quarter followed steadily by similar gains in Q2 - Q4. Washington policy took a turn for the better despite unrest amongst the liberal socialists in our country. Trump's first year was difficult for him and the nation as the country failed to unite; however, progress was made as Trump proved himself worthy of the job and did get one of his initiatives done! The tax cut was a great victory for business and had some modest benefits for most Americans as well. The obstruction to Trumps plans was unfortunate. It continues but shows signs of waning as liberal democrats are losing face, and possibly their will to continue, as meritless attacks failed to distract the White House agenda, but did wear on the American public's tolerance for dishonesty from their leaders and the media.

Growth and consumption?

The tax cut brightens the picture for our economy and markets. As a result, consumer spending, which was already running at a moderate pace, improved. Tech products were in high demand from all areas of consumption. Broad corporate spending on goods and services was soft and continues on this path, however there was a bright spot for Tech and industrial products with clear growth in demand visible. As a result demand for materials and energy improved. Government consumption moved toward more job creation and growth related consumption. The Healthcare mandate was abolished and other entitlements are now on the cutting board further advancing confidence. Exports are tilting up with trade deals on the front burner.

US GDP is still depressed but may be improving: Q1 - 2.2%, Q2 - 2.1%, Q3 - 3.3%, and Q4 - estimated to be 3.0%. Corporate earnings growth returned in 2017 but fell far short of high street expectations that prevailed for most of the year. (9.9% for S&P500 companies with narrow leadership) Troubled companies went private or bought back shares explaining the puzzle of modest GDP along with accelerating S&P 500 earnings. The outlook for 2018 from street analysts for earnings growth is bright. Expectations are for 25% growth with broadening leadership.

Assets richly valued?

The Dow cracked 25K in 2017 but PE's remain well below all time highs. Broad leadership was notable in stock markets with all sectors of S&P 500 posting double digit gains for the year except telecom which lost 12% in 2017. The S&P 500 gained 21.8%, MACM's Dynamic growth portfolio gained 28%, the MACM AAI portfolio gained 25%, MACM's Diversified Equity Portfolio produced 29%, with the best returns coming from MACM's Growth strategy which gained 33%.

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

Looking at equity sectors Tech gained 34% followed by Materials and Industrials at 24%, followed by financials and healthcare advancing 22%. 2017 was a great year for MACM clients with high absolute returns and alpha of 300-1100 basis points over returns for the S&P 500 Index.

Fixed income securities are still at historical high valuations, real estate, likewise, has historically low cap ratios, and commodity assets were soft as slow growth and low inflation prevailed in 2017. Stocks are now only moderately valued with renewed earnings growth offsetting the higher stock prices achieved in 2017.

Better business environment on horizon?

Cheap capital, rising consumer confidence, fewer and more friendly federal regulations, lower corporate taxes, strong asset values, and low inflation highlighted the good news businesses received in 2017. However, the good news was coupled with complaints about debt burdened consumers, unfriendly socialistic state regulators, expensive healthcare, and rising labor costs. Trump convinced many fortune 500 companies manufacturing abroad to return to America along with the repatriation of trillions of dollars from overseas operations that no longer have tax issues with American Government. The returning capital is already finding its way into the hands of American employees. All of this has worked to push consumer confidence to post recession highs. (Pg. 4, Figs 1 & 2).

The outlook is bright for business, consumers and investors! Businesses can see a light at the end of the dark tunnel that Obama regulations forced American businesses to traverse, and a lower tax burden justifying spending on growth initiatives. Employment is at all time highs and our trade position in the world is improving. There however remains significant work ahead for President Trump and our congress. Strong infrastructure, energy, and educational systems are the foundation for successful republics like America, but remain deficient as a result of the ineffective government we have had in America for a few decades. America spends more on education than any other country in the world but our education system ranks poorly (28th in some studies). Our infrastructure is crumbling and in decay. The turnaround in energy has already begun but much more needs to be addressed.

The markets will undoubtedly go higher as our economy progresses with careful guidance by the fed and the White House. America is on the road back to greatness!

We remain optimistic.

Table 1: Stock & Bond Market Returns — 12/31/17

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	8.0%	29.9%	Small Cap Value (IWN)	2.0%	7.7%
Large Cap Value (IWD)	5.5%	13.4%	Small Cap Growth (IWO)	4.5%	22.2%
Europe Asia Far East (EFA)	3.8%	25.1%	Emerging Markets (EEM)	6.7%	37.2%
Invest Grade Bonds (LQD)	1.3%	7.0%	High Yield Bonds (HYG)	0.0%	6.0%
Interm Treasurys (IEF)	-0.3%	2.6%	Mortgage Bonds (MBB)	0.1%	2.5%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

Table 2: Real Estate & Commodity Returns — 12/31/17

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	2.5%	9.3%	DJ Commodity Index (DJP)	4.9%	0.7%
Int'l Real Estate (IFGL)	5.6%	20.0%	Goldman Commodity (GSG)	9.3%	3.9%
NAREIT Residential (REZ)	-1.3%	3.9%	Gold (GLD)	1.7%	12.8%

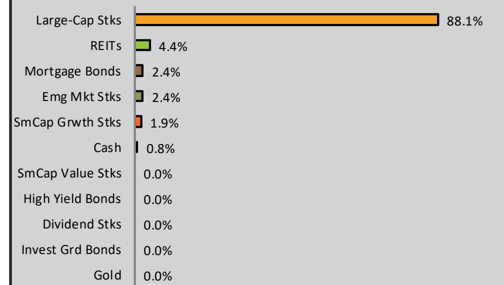
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

MACM Managed Accounts

Growth Portfolios

Dynamic Growth

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.



Growth

A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

Diversified Equity

A global, all-cap equity portfolio following economic trends across capitalization and geographic ranges.

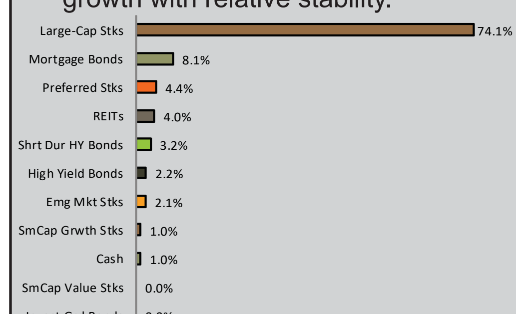
Focused REIT

A portfolio of companies whose primary business is owning and leasing real properties.

Balanced Portfolios

Asset Allocation for Income

A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.



Equity Markets: Consumption Drives Growth

Earnings growth drives leadership in the stock market, while consumption generally drives earnings. Every market cycle has consumption themes which are either secular or cyclical in nature. Here's what is active in this market cycle.

Secular Consumption Themes:

- **Theme:** Global demand for wireless devices, digital media and cloud computing power. Demand growth is a product of industry's ability to innovate. Sector: Technology
- **Theme:** Global demand from wealthier and growing emerging market populations for meat and poultry to support more "western-like" eating habits, as well as growing demand for technologies that provide greater agricultural yields.

  Sector: Materials
- **Theme:** Global demand for energy as population grows as well as increasing demand for the technologies that make it viable to extract natural resources from the farthest reaches of the earth. Sector: Energy
- **Theme:** Increasing demand for healthcare as population ages, as well as growing demand for new and better products provided by innovation in the development of life-saving drugs, devices, and services. Sector: Healthcare

Cyclical Consumption Themes:

- **Theme:** The return of mild consumer discretionary spending balanced against purchasing decisions based on need instead of want. Sector: Consumer Discretionary/Staples
- **Theme:** Pent-up demand within the enterprise upgrade cycle. Sector: Technology
- **Theme:** The re-surfacing of emerging market infrastructure spending. Sector: Industrials
- **Theme:** Credit market stabilization and a return of demand for investment banking products and services. Sector: Financials
- **Theme:** The return of demand for manufactured products.

  Sector: Industrials, Energy

Commentary: Broadly Strong Performance to Close 2017

Equities soared higher to close the year, bringing the total S&P 500 return to north of 21% for the year. Performance was broadly strong, with less than 3% dispersion in returns between the top 7 sectors. Technology was again near the top of the pack, returning nearly 9.0% for the quarter and almost 40.0% for the year. Technology had far and away the best earnings growth for the year, which was double that of the broad index (apart from Energy's unique earnings recovery). Financials and materials followed closely behind, returning 8.3% and 7.0%, respectively. Technology, financials, and materials are forecasted to be among the top of the class for earnings growth in 2018, which will likely serve to continue this performance trend.

Sector Performance Review *12/31/17*

	Quarterly Change	Trailing 12-Months
Consumer Discretionary	9.2%	23.4%
Technology	8.9%	38.5%
Financials	8.3%	21.6%
Materials	7.0%	24.2%
Industrials	6.5%	21.7%
Consumer Staples	6.4%	12.9%
Energy	6.4%	-1.3%
Telecom	3.3%	-1.3%
Healthcare	1.5%	22.2%
Utilities	0.6%	12.3%

Data based upon Russell 1000 Index and GICS sectors. Source: Bloomberg Financial

Fixed Income Review

By Kyle Aron

All Eyes on Equities

Kyle Aron
Senior Analyst

2017 finished with a bang as strong corporate earnings and consumer sentiment continued to provide fuel for the market rally. The consumer confidence reading in November hit its highest level in 17 years. The S&P 500, despite earning less than anticipated, still ended the year with strong earnings growth of nearly 10.0%. This was the highest level of earnings growth since 2011, and marked a sharp reversal from the slow/negative growth over the preceding two years. Moreover, despite partisan bickering, Trump continued to flex his commander-in-chief muscle and pushed through sweeping tax reforms, fulfilling a central campaign promise. Perhaps the most significant impact of Trump's tax policy is the massive reduction in the corporate tax rate, taken down to 21% from 35%. Markets clearly had fuel for their fire.

Accordingly, equities again lead the way in performance in Q4. The S&P 500 finished the quarter up 6.6%, for a total annual return of nearly 22.0%. Unlike quarters past, equities saw broadly strong sector performance in Q4. Technology was again a standout, however, leading the NASDAQ 100 to a 32.6% return for 2017. Notably, the technology sector led the way in earnings growth in 2017 and is expected to again lead the way in 2018. Fixed income performance was conversely flat, with valuations still elevated and market volatility hovering near the lowest levels in a decade. In fact, The VIX registered its lowest reading ever during the month of October. REITs moved up only slightly in the third quarter, slightly more than their fixed income counterparts (IYR, +2.5%). While geopolitical tensions may have boosted oil-prices recently, commodities generally remained anchored by slower global growth and low inflation. Annual performance for commodities barely inched above zero to close the year (DJP +4.9% Q4; + 0.7% in 2017).

Fixed income was mostly left in the dust for the year, as strong S&P 500 earnings, historically low volatility, and highly valued bond prices led investors elsewhere. The Fed enacted its third rate hike for the year, leading investors to continue to shun the short end of the yield curve and cause further flattening. The yield on the 2-year Treasury bond rose nearly 40 basis points in Q4, and has risen almost 70 basis points since the end of last year. In fact, the 2 year Treasury ended 2017 with its highest yield in nearly a decade. Fixed income investors instead sought out duration, with long-dated Treasurys (TLT) up 2.5% in Q4 and 9.2% for the year, one of the better-performing segments. Corporate bonds fared modestly, with investment-grade securities marginally edging out their lesser-quality counterparts for the year (LQD +7.1%, HYG + 6.1% in 2017). A bright spot in performance came from leveraged commercial mortgage securities, up 1.6% in Q4 and nearly 27% for the year (PCM). Financial preferred securities also did well, up 0.8% in Q4 and 10% for the year (PGF).

With still historically high fixed income valuations, another round of rate hikes coming, and acceleration in corporate earnings and GDP, equities remain a favorable asset class for the foreseeable future. Even prior to the tax reforms, S&P 500 companies were expected to accelerate earnings growth further into 2018 after a strong 2017. With the tax cuts added into the equation, and persistent Team Trump Tenacity, markets should continue to see strong performance into next year. Moreover, equity markets will likely cheer Yellen's replacement as Fed Chair with Jerome Powell. Powell is a Republican with strong roots in the party's establishment and in the financial industry, a lawyer by training and investment banker by trade. Powell appears well-equipped to help keep the economy (and markets) on track.

Economic and Financial Market Charts

Figure 1 - Source: Bloomberg Financial

Graph of U.S. Consumer Confidence Index, which reached a 17 year high in Q4 2017

Figure 2 - Source: Bloomberg Financial

Graph of U.S. Average Hourly Earnings growth, shown accelerating through the end of 2016 into 2017

Register for MACM's Upcoming Client Meeting

MACM's Annual Client Meeting is coming up on **Thursday, February 8, 2017, from 12:00-1:30 p.m.** at 9259 Research Drive, Irvine, CA 92618. Lunch will be served. If you haven't already registered, be sure to call Jill Pletcher at 949-852-4100 extension 102 or email jill@cichome.com to reserve your spot! We invite you to bring family or qualified friends who could also benefit from the stewardship of Mitchell Anthony Capital Management. Topics covered will include:

The US Economy

- *Is the Growth Sustainable?*
- *Trends with Interest Rates*
- *Trends in Corporate Earnings*
- *Fed Policy*
- *Excess Capacity*
- *Consumption Themes*

Global Overview

- *Global Growth Update*
- *Global Consumption*

Wealth Management

- *Doing What's Appropriate*
- *Doing What's Timely*

The Equity Market

- *Investment Themes for 2018*
- *Market Leadership*
- *Equity Valuations*
- *Market Liquidity & Expected Returns*
- *Value in Stocks, Bonds, Real Estate, & Commodities*

Managing Risk

- *New Discipline*
- *Geopolitical Events*
- *Normal Cycle for Investment*

Washington Policy

- *Role of New Central Bank Chairman?*
- *The Impact of Trump Administration*

MITCHELL ANTHONY

CAPITAL MANAGEMENT

9259 Research Drive
Irvine, CA 92618