Inside Views From an Investment Management Leader

UPDATE

April 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*

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In the News

Check out MACM's new website and blog!

If you have't already, be sure to visit the new website of Mitchell Anthony Capital Management at **www.MitchellAnthonyCapital.com**. In addition, Mitch and the team publish frequent market and economic updates on MACM's blog, which you can find at **www.MACMblog.com**.

Economic Review & Outlook

Equity Markets De-Link from Economic Data and get Distracted by Washington Policy

Mitchell Anthony
President
Chief Investment Officer

Equity markets in America suffered their worst quarter in over two years as 2018 began on a soft note. The softness in equities in Q1 followed an outstanding year for equities in 2017 and was not surprising for many investors but was unwelcome for traders. The S&P 500 fell .76% in the first quarter of 2018. Mitchell Anthony Capital Management (MACM)'s clients enjoyed much better performance in Q1 with almost all strategies posting positive returns. MACM's diversified equity portfolio advanced 4.8% , DYNAMIC GROWTH advanced 3.5% HIGHLY FOCUSED EQUITIES advanced 5.4%, ASSET ALLOCATION INCOME advanced 3%, and GROWTH advanced 4% in the quarter. MACM's clients enjoyed 372 - 620 basis points of positive alpha in Q1 of 2018. This outperformance was attributed to the superior group of equity holdings in the portfolios managed by MACM. Positive alpha was gained from holdings in healthcare, internet retailing, technology, and financials. Conversely MACM had only modest holdings in areas like telecom, energy, utilities, and consumer staples (which led the equity market lower).

Generally, Washington policy has little impact on the immediate direction of the economy and the markets. However, markets can be emotionally moved over the short term which has become the case recently and as a result we are spending more time examining the political issues in our research. The President's biggest hammer involves his ability to affect consumer confidence and hence drive the direction of consumption. Today consumer confidence is sitting near an all-time high in American history even though America is in the midst of what seems like a revolution as the sharply divided Congress clashes. Confidence is likely improving given the fact that ISIS is being obliterated, and our borders are being hardened. A few years ago the consumer's explanation for low confidence was heavily tied to the threat of terrorism and a weak economy. These two problems have shown modest improvement, and this would seem to explain the all-time high in consumer confidence despite the fallout from the political battle waged on Facebook and Twitter.

The Trump administration is attempting to remake the structure of American politics with unrelenting attacks on the corruption in Congress. It would seem that his goal is to return America to the capitalistic path it was on in the 80's under President Reagan. Under Obama and the leadership of liberal Democrats running states like California and New York, America has lost much of its capitalistic foundation, and socialism, if not communistic policies, have been pushed by these leaders. Today's far left liberals seem to believe that the world should have total financial equality and billionaires should cease to exist. Apparently they want state owned enterprises, and compensation which has little correlation to work ethic or ambition. Historically liberal thinking has been good for America and has driven innovation and put the best people at the forefront of our economy. However, the new far left does not appear to be focused on innovation or ensuring that ambitious individuals have opportunities as in the past. Significant evidence is now emerging of socialistic changes to American policies by the Obama administration that were not part of his platform when he was elected nor communicated to America as they were put in place. *(continued on pg. 2)*

Economic Review & Outlook (continued)

(continued from pg. 1)

Obviously the Trump revolutionaries seek to change this type of thinking and revolutionize the policies of Obama. As a result, Congress, the FBI, and the Department of Justice are now under attack and the legislation for a significant cleanup from Obama era policies appear to be on the horizon.

President Trump is attempting to execute what America elected him to do and seems relentless as he pursues these promises. The Democrats are also unrelenting and continue to obstruct Trump's objectives with fake news and have joined hands with the liberal media to counter the perspectives offered by the Trump administration on the problems with the path that America has been on for the last decade or more.

Putting politics aside, we note that the better economic data has given the Federal Reserve the strength needed to raise short-term interest rates and talk optimistically about deleveraging their extensive balance sheet and begin sales of their long-term treasury portfolio. Investors have braced for this, and as a result, the fixed income markets lost considerable ground over the last three months. However, the selloff in fixed income markets has paused recently as trading capital left equities after uncomfortable Washington policy on trade emerged.

Looking away from the distraction of Washington policy we find that the real drivers of the US economy and financial markets have turned upward as positive economic data now is accelerating.

Consumption trends are building across the board. There are notable positive trends from the US consumer, US corporate purchasing managers, and global consumers. US Consumption is supported by the rising wealth of US consumers, and likewise tax cuts for US corporations has brought increased confidence for corporate purchasing managers. The US economy looks the best we have seen since this recovery began in 2010 and it is exciting to see this emerge after 10 years of difficult times for America. Housing data is still good but leveling out and notably there is not any exuberance worth talking about in housing. Mortgage delinquencies are still close to all-time lows. Debt as a percent of disposable income continues to fall and consumer confidence is close to all-time highs with unemployment near all-time lows. The industrial sector is strong and output is the best ever. The purchasing manager's survey shows optimism at US corporations.

The outlook for corporate earnings is the best it has been in several years. Sell side analysts are expecting 25% earnings growth for S&P 500 companies this year. First-quarter earnings reports begin next week. Generally investors are not yet believing that the numbers analyst are forecasting are achievable, setting low expectations. If analyst earnings numbers are close to right this equity rally could get back on track again as the widely misunderstood problems with Facebook and data firms move to the back burner. It would seem that the equity markets will move higher this year after the media's overcooked problems with trade and data management subside.

We remain optimistic.

Table 1: Stock & Bond Market Returns — 3/31/18

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	1.3%	21.0%	Small Cap Value (IWN)	-2.7%	5.0%
Large Cap Value (IWD)	-3.0%	6.8%	Small Cap Growth (IWO)	2.2%	18.8%
Europe Asia Far East (EFA)	-0.9%	14.9%	Emerging Markets (EEM)	2.5%	25.0%
Invest Grade Bonds (LQD)	-2.9%	2.8%	High Yield Bonds (HYG)	-1.0%	2.6%
Interm Treasurys (IEF)	-1.9%	-0.5%	Mortgage Bonds (MBB)	-1.4%	0.5%

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

Table 2: Real Estate & Commodity Returns — 3/31/18

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	-6.1%	-0.2%	DJ Commodity Index (DJP)	-0.2%	3.5%
Int'l Real Estate (IFGL)	-0.2%	13.8%	Goldman Commodity (GSG)	2.3%	12.3%
NAREIT Residential (REZ)	-6.4%	-5.4%	Gold (GLD)	1.7%	6.0%

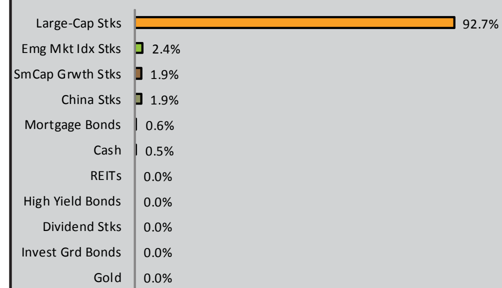
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

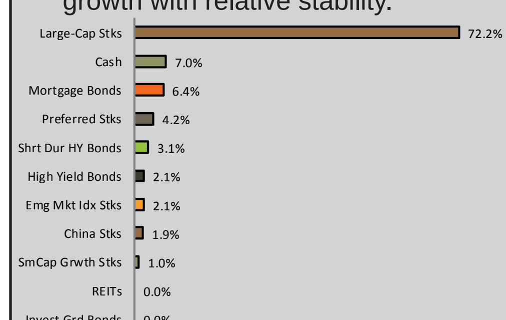
Focused REIT

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: Volatility Returns in Q1

Equities were off to a rocky start to 2018 as investors got caught up in a media-fueled frenzy around Washington trade policy and technology-company privacy practices. However, despite a late-quarter selloff, the S&P 500 technology sector hung on to strong early-year gains to end the quarter in the lead, returning nearly 4.0%. Indeed, these companies continue to have the best earnings growth prospects for the year ahead. Consumer discretionary names also performed well (up 2.3% YTD), as consumer confidence levels remain markedly strong. All other S&P 500 sectors ended the quarter in red, with yield-related names like telecoms lagging the most (down 7.4% YTD). Markets will likely stabilize as investors and the media digest the current news cycle.

Sector Performance Review *3/31/18*

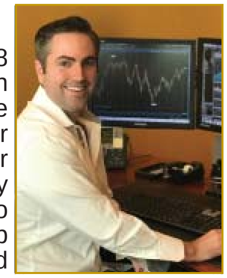
	Quarterly Change	Trailing 12-Months
Technology	3.9%	28.1%
Consumer Discretionary	2.3%	16.4%
Financials	-0.5%	17.8%
Healthcare	-1.0%	11.4%
Industrials	-1.7%	14.5%
Utilities	-3.0%	2.5%
Materials	-5.5%	10.5%
Energy	-5.8%	-0.5%
Consumer Staples	-6.8%	-0.8%
Telecom	-7.4%	-5.3%

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

Fixed Income Review

By Kyle Aron

Bumpy Start to 2018



Kyle Aron
Senior Analyst

Volatility reared its head to start 2018 after slumbering virtually all of last year. In fact, the S&P 500 has already had more than three times as many days this year with market moves of 1% or more (up or down) than we experienced in the entirety of 2017. Investors, having been lulled into complacency after an uninterrupted climb higher in 2017, have gotten whipped into a bit of a frenzy over Washington policy and technology company privacy practices. This has not been helped by the major news outlets, which have only been fanning the flames of investor fear with shallow stories and analysis that lacks depth, seeking only to keep eyeballs glued to TV screens. The reality, however, is that these headlines are merely distractions from the underlying economic data that continues to show evidence of strength. 2017 Q4 GDP saw its third revision near 3.0%. Consumer confidence sits just below all-time highs. Wage data shows wages growing at the fastest pace in nearly a decade. Indeed, consistent with the incoming economic data, the Fed raised rates the first of three projected times this year in March.

All told, the S&P 500 ended the quarter slightly down, with investors still shaken by concerns over Trump's policy maneuvers and Facebook's privacy battle (SPX -0.8%). Ironically, for all its negative media coverage, the technology sector outperformed again (QQQ +3.0%), with this sector still estimated to have the best earnings growth for 2018. MACM's strategic overweight to this segment continues to reward its clients. Despite the market turmoil, investors found little solace in fixed income. Investors in this space seem primarily focused on strong economic fundamentals, which caused yields to rise in virtually all fixed income segments during Q1 alongside the Fed's first 2018 rate hike. REITs performed even worse, as rising yields made the space incrementally less attractive (IYR -6.0%). Gold edged slightly higher, consistent with the sell-off in most other asset classes GLD + 1.7%). The price of oil and commodities also moved a bit higher to end the quarter (GSG +2.3%).

Between the end of January and early February, the S&P 500 fell dramatically, losing more than 10% in this short window. However, as discussed earlier, investors were unable to take cover in fixed income. During this same period, the yield on the 10-year Treasury actually increased from 2.6% to 2.8%. While equity market traders seem to have gotten caught up in some short-term paranoia, fixed income investors have been unable to ignore the reality of underlying positive economic trends. Indeed, in light of such data, the Fed moved rates higher in March, now targeting a range just shy of 2.0%. Moreover, the Fed has steered steadily ahead on its balance-sheet reduction program, shedding nearly $70 billion in assets since the program commenced last October. As a result, every segment of the fixed income space posted a loss for the first quarter of 2018. Long-dated Treasurys lost the most ground, down 3.5% (TLT). Mid-term Treasurys did marginally better, losing 1.9% (IEF). Investment-grade corporate bonds fared about the same, losing 2.9% (LQD). The lower quality segments of fixed income were the only bright spots, with high-yield corporate credit down 1.0% (HYG) and leveraged commercial mortgage debt down 0.03% (PCM).

Equity markets should stabilize once investors refocus on strong underlying factors that exist: solid earnings growth in corporate America (bolstered by large tax cuts), all-time highs in consumer sentiment, wage growth, and low/steady inflation. This remains a recipe for strong equity market returns, particularly in a cycle where there have yet to emerge signs of irrational exuberance. As long as the flight path for incoming data remains tilted up, equities should continue to be the asset class of choice for most investors. Fixed income will remain risky if economic strenghtening trends continue.

A Word from the MACM Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Summary of 2018 Tax Reform

It would seem that middle-income America did not benefit from the recent tax reform. While much was changed, the biggest beneficiary of the reform was clearly the C-Corporation. Individuals who itemize their deductions, and have itemized deductions that exceed 2% of adjusted gross income, may find their tax bill to be ultimately higher. Generally, there was some simplification of the tax code that will benefit a broad part of the population. Individuals with estates valued more than $5 million will also find relief.

To be more specific, MACM's review of the tax reform found:

Tax rates are lower

The maximum tax rate is now 37% but still has a seven bracket structure. Tax rates for each bracket are lower. For example, a married couple filing jointly with combined income of $165,000 now has a marginal tax rate of 22% compared with 28% previously.

Higher standard deduction for those who itemize

For a couple married filing jointly, the standard deduction has been increased from $13,000 to $24,000; however, the personal exemption of $4,150 is now gone. The result is still better, but only modestly.

Some deductions are disappearing

Casualty and theft losses are no longer tax deductible, along with:

1) Unreimbursed business expenses for an employee
2) Moving expenses
3) Tax preparation expenses
4) Employer subsidized parking and transportation expenses
5) Miscellaneous deductions

Investment management fees are generally written off as a miscellaneous deduction, so investors who previously qualified can no longer take this deduction.

Home Mortgage Interest

Home mortgage interest deductions are limited to interest on $750,000 of acquisition debt (including debt on second homes). Debt incurred before 12/15/2017 is grandfathered to the $1MM limit. The deduction for interest on non-acquisition debt (i.e. home equity lines of credit) has been eliminated.

Capital gains remain the same

Short-term capital gains are still taxed as ordinary income and long-term capital gains are taxed at 0%, 15%, or 20%, depending upon your income.

The SALT deduction

State and local income taxes are still deductible, but the deduction has been reduced to $10,000.

Estate tax

Lastly, the estate tax deduction has been increased to $11.2 million per married couple or $5.6 million per individual. The step-up in basis at death is preserved. The estate tax rate remains at 40%.