Inside Views From an Investment Management Leader

UPDATE

October 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

Economy Accelerates Despite Tariffs & Social Media Trouble

The US economy continued on its path of acceleration in the third quarter at the expense of rest of the globe. Virtually all sectors of the US economy reported robust growth and improving demand for their goods and services throughout the third quarter. While the naysayers worried about the impact of tariffs and the trouble in social media, the equity markets notched a terrific quarter with returns exceeding 7% or more across most domestic large-cap indices. MACM's Dynamic Growth portfolio advanced 9% in the quarter and its Diversified Equity portfolio advanced 10.1% in the quarter, far exceeding the bogey of the S&P 500 which was up 7.4%.

Investors who have been numb to how the impact of tariffs would play out poorly for the rest of the globe felt the repercussions of their disconnect. European markets were mostly soft in the quarter with emerging markets flat to lower as well. The tariffs are clearly more painful for the rest of the globe given the fact that the US is the world's largest consumption engine of global goods and services and is a minor player in the export game. The Chinese are fighting with their best customer who does little business in their own market. It would seem that their aggressive strategy is misplaced given the policies and strong will of Washington today. Europe is suffering from the same situation. The broad changes in economic policy coming from the Trump administration are reinventing the possibilities for growth for American businesses. The tailwinds for US growth that began with tax cuts are transitioning to positioning America to be a major exporter to the rest of the world with new rules for trade. (pg. 4, fig. 1). Further, Trump's actions of tightening the borders and intimidating terrorists have made Americans feel safer. This has been and is contributing to record levels of consumer confidence, which explains our improving picture for domestic consumption. (pg. 4, fig. 2).

Mitchell Anthony
President
Chief Investment Officer

Social media has been attacked broadly in America and throughout the globe by liberals, conservatives, and the media, seeking another hotspot of drama. Social media is one of the strongest areas of growth in the globe today and is insulated from the impact of tariffs and the bickering between the global superpowers. While these companies may have taken their eye off the ball a bit in allocating their intellect and computer genius to engineer code that is resilient to hacking, it is undoubtedly clear they are more than capable of providing this protection to their clients as they balance security needs with innovative tools for consumers. There have been breaches and there will undoubtedly be more but the progression and growth of the digital world and social media will continue as these deep thinkers in Silicon Valley protect their franchises and continue on their path of innovation.

America is Leading the Globe in Growth

Historically Washington policy has had little effect on the economy with the only strong hammer being held by the Federal Reserve. Past presidents were listening to Lawrence Welk music rather than managing the forefront and keeping America competitive. As a result global growth was more about policy from China and emerging markets than policy in Washington. This has now changed and the impact from Washington policy must be evaluated into an investment posture.

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

Trump is seeking to reengineer the playing field for America. Trump is clearly a doer and enjoys the journey of making America great again. The confrontations for change that others have avoided are the battles that he seems to enjoy the most and he is working aggressively for substantial change for how America is positioned in the world. For decades American leaders have been giving away the strong position in the globe that our forefathers fought for that made America "The Economic Superpower". Trump is putting America back in a strong position to lead the world in industrial production, manufacturing, and intellectual innovation. For decades America has seen its growth slow as our economy became more socialistic. Now with the return to our capitalistic roots with trading and regulatory advantage, the door for 4% or more GDP growth has been opened. It's exciting what lies ahead for America.

GDP Accelerates

GDP in the second quarter came in at 4.2%, far better than expected. At the same time, corporate earnings accelerated with the S&P 500 companies reporting 24% growth in Q2. This was a product of near record consumer confidence that translated into higher retail sales. The tax cuts motivated corporate America to spend money on manufacturing and industrial equipment and these sectors accelerated from their trend of the last few years. Housing in America continues at a fair pace but there have been some signs that prices are flattening as interest rates ebb higher. It would appear that the cost of housing will continue to rise but mostly due to a higher cost of borrowing combined with a flattening of the price of the house. With conditions in the globe softening foreign investors have been less robust in purchasing American properties contributing to some of the deceleration in housing.

No Inflation Yet

Given the recent acceleration in the US economy one must be vigilant, with an eye on inflation. However, there is no inflation visible on the horizon. Curiously though inflationary expectations are brewing with yields on 10 year treasuries now at 3.2% up from a low of 1.4% in mid-2016. Investors and strategists have been misguided for several years in believing that inflation would be accelerating soon and continue to have overly high expectations for inflation. They seem to be numb to the secular winds that have kept inflation bottled up and will continue to mute inflation going forward. This is the reason why we are 10 years into an expansion with no euphoria or excess capacity in America or in the globe. Obviously when we get the inflation there will be an exciting cycle for investments in gold, commodities, and then treasuries, which we seek to leverage; however, it appears we are still far from this inflection point.

The deceleration in the globe must be monitored and we are holding steady with our posture but positioned to reallocate quickly should the environment start to weaken or accelerate further.

We remain optimistic!

Table 1: Stock & Bond Market Returns — *9/30/18*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	9.1%	26.1%	Small Cap Value (IWN)	1.7%	9.1%
Large Cap Value (IWD)	5.6%	9.3%	Small Cap Growth (IWO)	5.6%	21.0%
Europe Asia Far East (EFA)	1.5%	2.4%	Emerging Markets (EEM)	-0.9%	-2.1%
Invest Grade Bonds (LQD)	1.2%	-2.0%	High Yield Bonds (HYG)	2.9%	2.5%
Interm Treasurys (IEF)	-0.7%	-3.0%	Mortgage Bonds (MBB)	-0.2%	-1.1%

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

Table 2: Real Estate & Commodity Returns — *9/30/18*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	0.3%	4.1%	DJ Commodity Index (DJP)	-2.4%	2.1%
Int'l Real Estate (IFGL)	-1.2%	3.6%	Goldman Commodity (GSG)	1.1%	21.5%
NAREIT Residential (REZ)	0.7%	2.6%	Gold (GLD)	-5.0%	-7.3%

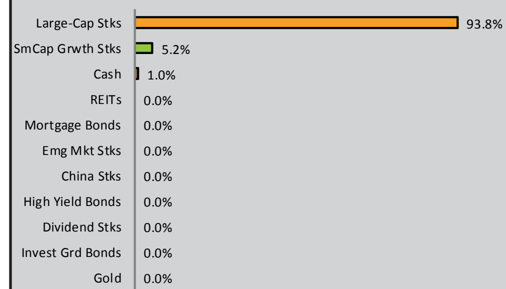
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

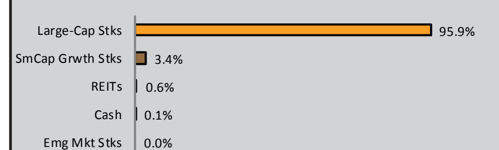


Growth

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.



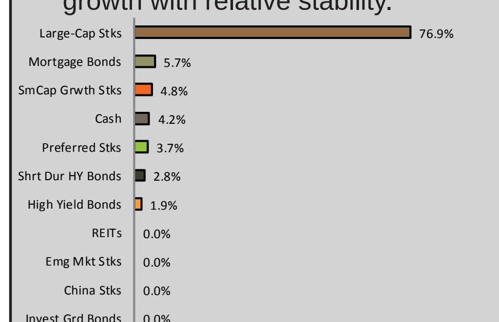
Focused REIT

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: Equity Rally Continues

Equities extended their rally in Q3, as investor confidence was bolstered by strong corporate earnings and economic data. Approximately 80% of S&P 500 companies beat their earnings estimates for Q2, and 2018 earnings growth is tracking to be well-North of 20% for 2018 in total. The healthcare sector led the way in Q2, returning over 14%, as 96% of healthcare companies exceeded their earnings expectations. Technology and consumer discretionary sectors did similarly well. Encouragingly, all S&P 500 sectors saw double-digit quarterly earnings growth in the second quarter but for the real estate sector.

Sector Performance Review 9/30/18

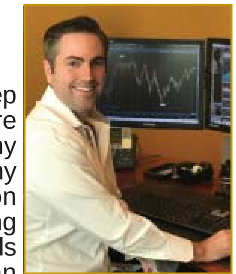
	Quarterly Change	Trailing 12-Months
Healthcare	14.3%	18.6%
Technology	12.4%	37.1%
Industrials	9.7%	11.8%
Consumer Discretionary	7.6%	32.2%
Consumer Services	7.4%	12.1%
Consumer Staples	5.4%	3.6%
Financials	4.0%	8.6%
Utilities	2.5%	4.1%
Energy	0.9%	15.4%
Real Estate	0.7%	4.9%
Materials	-0.1%	3.5%

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

Fixed Income Review

By Kyle Aron

American Strength



Kyle Aron
Senior Analyst

Despite the media's tireless objective to keep focus away from positive drivers that are present right now, the American economy is on a markedly strong path. Our economy has accelerated meaningfully in 2018 on the back of fiscal stimulus and an improving trade deficit. GDP growth is achieving levels not seen in years, recently tracking at an annualized rate of over 4.0%. Consumer confidence remains at all-time highs. Trade war pains have been mostly borne by our export heavy foes - undoubtedly, China's year-to-date market performance (down more than 16%) is a reflection of this. U.S. markets are meanwhile making all-time highs. In short, the U.S. economic landscape, bolstered by Trump's policymaking prowess, looks robust.

Taking all this positive data into consideration, the Fed raised rates for a third time this year in Q3. While inflation will likely remain subdued for structural reasons, the Fed is continuing to put powder back in its pack and also positioning itself to temper accelerating growth. The Fed's target rate is now above 2.0%, and the Fed has removed the "accommodative" policy language from its official statement. However, despite this expansion reaching its tenth year (the second longest expansion since 1900), the Fed noted that we have yet to see a buildup of excesses in financial markets or exuberance. The current expansionary cycle is not likely facing an imminent conclusion.

As a result, equity markets soared higher in the third quarter. The S&P 500 put in its best quarterly performance in five years, up nearly 8.0%. S&P company quarterly earnings grew by more than 24% in Q2 2018, the best investors have seen in nearly a decade. In fact, almost every sector saw earnings growth in the double digits. Even better, the technology sector, a core focus of MACM's portfolios, saw 93% of companies beat their earnings forecasts. MACM's outperformance has reflected this, with Dynamic Growth portfolios up 20% year-to-date (double the S&P's performance). REIT performance moderated after a strong prior quarter, with returns essentially flat for the quarter (IYR +0.2%). As MACM discussed in Q2, rising rates are indeed a meaningful headwind for this space. Gold continued its poor performance for the year, contending with a low-inflation environment and strengthening dollar. Gold is down nearly 9.0% year-to-date (GLD), with broad commodities down slightly less at -3.0% for the year (DJP).

The fixed income space continued to lag in the third quarter, with high-yield managing the only modest positive performance. This asset class continues to be disfavored in the strong corporate and economic climate. As anticipated, trade war fears were only sufficient to buoy fixed income for the prior quarter, and most segments have now continued their retreat. Long-term Treasurys were down 3.0% for the quarter (TLT). Shorter dated Treasurys were down slightly less, -1.0% (IEF). Investment-grade corporate bonds managed a 1.0% gain (LQD), with their high-yield counterparts performing a bit better, up 2.9% (HYG). Mortgage bonds were flat in Q2. Overall, the outlook for this asset class remains poor given the incoming economic data and the Fed's policy positioning.

These are exciting times for the U.S. economy. The Trump administration continues to make headway with its campaign promises – most recently having re-negotiated the trade framework formerly known as NAFTA. Domestic businesses and consumers have clearly been encouraged by the America-first policy support coming out of Washington. However, global growth and optimism levels are not as positive, impacted in part by the protectionist U.S. policy. Domestic reverberations from the global slowdown should be closely monitored. For now, however, the domestic growth picture remains bright.

A Word from the MACM Client Team

Jill Pletcher
Vice President
Senior Financial Advisor

The Evolving Tech World & Buoyant Financial Markets are Driving More People to Retire

Our economy is now reasonably strong and unemployment has been at historical lows for several years, but yet we have only modest inflation. This has market strategists and economists scratching their head a bit. Obviously there are lots of reasons to explain this economically but my world of working with retirees and helping them move into and live comfortably in retirement has brought answers to this question as well. The world of retirement has gotten better and this better environment is quite frankly attracting more people to retire earlier or embrace semi-retirement at an early age.

The surging financial markets have provided wealth enabling people to have choices they didn't have in the past. The 401(k) plan somehow got to $1 million a lot faster than folks thought it would. Further, modest inflation particularly for retirees has kept the cost of living in retirement at reasonable levels and there is real value between the change in wealth and the increase in living expenses. Many thought Social Security would be gone and not there for their retirement. However people are pleasantly surprised to find $40-50,000 per year income streams from Social Security.

The world has changed and evolved and the internet has allowed employees of corporate America and small businesses to work at home and not commute daily to the corporate office. This has actually kept people working longer and avoiding retirement but also has contributed to lots of workers staying on the payroll in a part-time situations at home.

Technology has made living in retirement simpler. It used to be when you retired you became disconnected from your friends at work and your social life declined significantly. However today social media has allowed you to stay connected with your colleagues and not feel so alone in retirement. Self driving cars and Uber allow people to stay active and get to wherever they need to go in retirement. Smart apps on your phone allow you to manage the house as well as order meals and groceries all from the convenience of your recliner. There's even sophisticated smart devices for managing your health at home. Even the stodgy old doctor has gotten tech savvy and the appointments are shorter and quicker and easier to book. All-in-all retirement is much better today than it was just 20 years ago.

Economic & Financial Market Charts

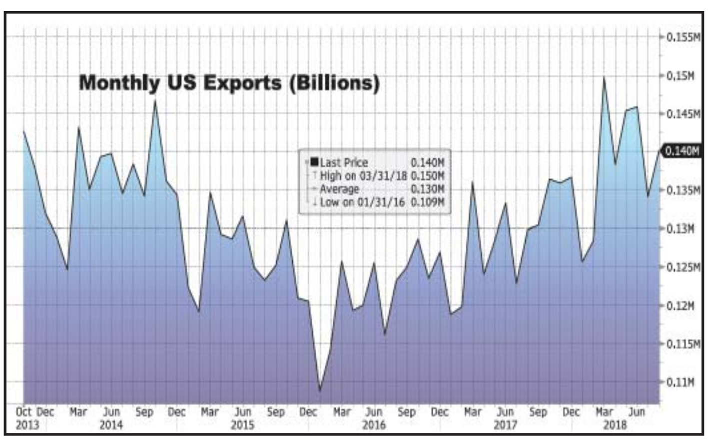


Figure 1 - Source: MACM / Bloomberg Financial

Graph of U.S. Exports, reflecting an uptick as a result of Trump's trade policies.

Figure 2 - Source: MACM / Bloomberg Financial

Graph of U.S. Consumer Confidence, which continues to make new highs.