Inside Views From an Investment Management Leader

UPDATE

April 2019

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 Rebound as Economic Fear Dissipates

US equity markets rebounded at an amazing pace in the first quarter of 2019. Historically it has almost been unheard of for equity market corrections of 15% or more to be retraced at the same or better pace than what occurred during the fall. This is exactly what occurred in the first quarter of this year. This obviously has us thinking deeply about what was behind the selloff that occurred in the fourth quarter and whether it was in fact a manufactured correction by hedge funds seeking to make enormous amounts of money through a big short. We hypothesized in January of this year that the selloff in the fourth quarter was likely due to a big short put on by hedge funds and institutional investors and not likely due to fears from investors worried about a substantial change in the economic environment. This seems to be what primarily occurred. Now in hindsight there are some other observations that can be made and clearly more data is available about the economic conditions that were the headline news driving markets lower in Q4.

It is now clear that the decline in US economic activity has been real but nothing close to the economic collapse or recession that many feared and forecasted and used to drive markets lower. Much of the slowdown can be attributed to the decline in wealth that occurred in Q4 as a result of the 15 to 20% haircut in the values of equity markets that happened as a result of the big short, and the resulting decline in wealth and consumer confidence. There were troubling economic events however that unfolded in 2018 that impacted the economy and they involved higher rates from the Fed, higher prices of goods from dueling Tariffs from the US vs China & Eurozone fight, reduced consumption from fragile spoiled consumers and workers, and the problems in corporate America related to tight labor markets.

Mitchell Anthony
President
Chief Investment Officer

The US economy and the globe are benefiting from significantly improved decision-making and wisdom from central banks around the world. Much has been learned over the last several decades about the use of central-bank policy to lengthen economic cycles and avoid boom and bust type cycles. As a result we are seeing much longer economic cycles that ebb and flow for 10 years or more before a recession emerges or bust occurs. This current cycle began in 2010 and we are in the ninth year of this cycle with likely many more years of growth before it ends. The cycle is clearly ebbing right now after two years of slightly better than trend growth stimulated by corporate tax cuts and the best consumer confidence in over a decade.

Chairman Powell is seen as a new breed of central banker but is really just a central banker with wisdom derived from the failures of his predecessors. One of the biggest problems facing the US economy is the failures of central bankers beginning with the Greenspan era and ending with Yellen. These central bankers were too fearful about recession and addicted US consumers on low interest rates. As a result we have had an asset boom that is the foundation for much of what is wrong in America today. It underpins socialism, our employment problem, our consumption problem, and our growth problem in general.

(continued on pg. 2)

Economic Review & Outlook (continued)

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Decades of future growth has been pulled forward and as a result the growth on the horizon is modest at best. We have no prevalent consumption themes in our economy, something that is an earmark of a great growth cycle. Our assets are highly inflated in value and real estate and housing is out of reach for our younger generation, and as a result they are embracing socialism over capitalism today.

The equity markets bottomed on December 24, 2018 from their highs achieved at or around September 30, 2018. High growth popular growth names fell the hardest (Facebook, Apple, Amazon, Netflix, Google) while the broad market (S&P 500) still came down hard (-20%). From the bottom there has been a sharp rebound in the names that came down the hardest and highlight the list of best performing stocks since December 24th. Amazon is up 36% from its low, Netflix 52% from its low. Amazon and Apple however are still 10% from their highs of September 30th due to investor's fear of owning highly valued names and still remembering how hard they fell during the downturn. This will undoubtedly resolve itself as investors realize these secular growth names are the place to be even in a slower growing economy. The S&P 500 has now touched its high achieved on September 30, 2018.

MACM portfolios are still 5% from their 2018 highs due to large holdings in Amazon and Apple and a large cash position that was built defensively during Q4. We are unhappy that we took that large cash position in hindsight but undoubtedly it was the right thing to do at the time given the fact that we manage retirement money and took action after the correction past the 10% mark. We expect our portfolio to make new highs over next few months and expect our portfolio to lead the market through the rest of 2019. We have groomed the portfolio to fit the best names thus far in 2019 and will adjust as needed to stay ahead of the S&P 500. We have already gained 200 basis points of alpha in Q1 after gaining 200 basis points of alpha in all of 2018.

Risk is clearly back on and asset growth will continue as the economy ebbs and flows for the next few years. Real estate is moving again after a flat year in 2018. REITs were the best performer through the last two quarters of equity market volatility and will now ebb as stocks continue to flow. Europe was one of the worst places to be as socialism and political obstruction became problematic. China is now in our portfolio as we expect the tariff and global trade problems to move to the back burner during the election. Global conditions will likely improve along with economic conditions in the US over the next several quarters. The upside however is modest for growth, but reasonably good, for stock prices. The rally in Treasurys is over as recession is off the table for 2019 and risk is back on.

We remain optimistic about the economy and the markets.

Table 1: Stock & Bond Market Returns — 3/31/19

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	16.0%	12.5%	Small Cap Value (IWN)	12.0%	0.2%
Large Cap Value (IWD)	11.8%	5.5%	Small Cap Growth (IWO)	17.2%	3.9%
Europe Asia Far East (EFA)	10.3%	-4.0%	Emerging Markets (EEM)	9.9%	-9.2%
Invest Grade Bonds (LQD)	6.2%	5.2%	High Yield Bonds (HYG)	7.6%	6.5%
Interm Treasurys (IEF)	2.8%	5.9%	Mortgage Bonds (MBB)	2.2%	4.5%

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

Table 2: Real Estate & Commodity Returns — 3/31/19

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	17.0%	19.2%	DJ Commodity Index (DJP)	6.8%	-6.9%
Int'l Real Estate (IFGL)	13.3%	6.3%	Goldman Commodity (GSG)	13.8%	-4.2%
NAREIT Residential (REZ)	14.3%	27.0%	Gold (GLD)	0.6%	-3.0%

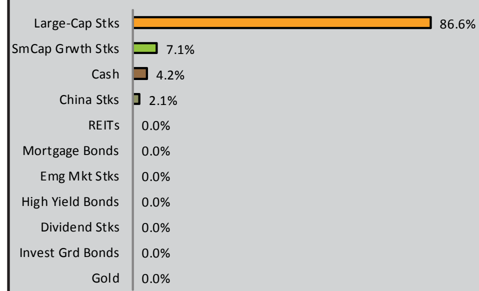
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

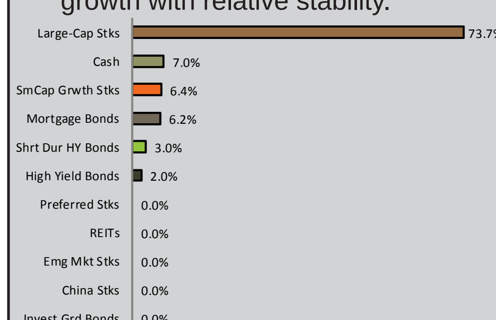
Focused REIT

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

Balanced Portfolios

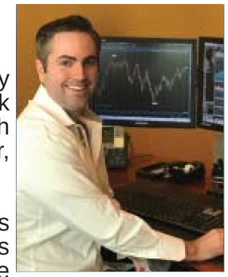
Asset Allocation for Income

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



MACM Research Spotlight

Is a Recession Looming?



Kyle Aron
Senior Analyst

Allocations to various asset classes are a key part of the dynamic investment management strategy at MACM. In forming these decisions, we examine the big-picture environment to better understand where we are in the current economic and market cycle, and the implications this has for our portfolio allocations. Recently, slowing global growth, volatile market performance to end 2018, and an inverted yield curve have been among the factors causing investor concern that this 10-year old bull market might be challenged by a looming economic recession. To inform our decision making process, we examined the factors evident leading up to prior recessions, and used those to help evaluate our current position. Inflation, employment, GDP growth, Federal Reserve posture, and market valuations were among the key factors involved in our research.

The prior two growth cycles of the 1990s and the 2000s, each ending in an exaggerated bust, shared many of he same characteristics. Irrational exuberance, poor or ill-timed Fed policy decisions, sharply upturned inflation, and other factors were present in each case. Conversely, there is a distinct lack of most or all of these factors in the current environment. Ultimately, this research has helped shape MACM's forecast that the current period of growth is not facing an imminent end and recession.

Early 2000s Recession

The recession in the early 2000s followed nearly a decade of strong economic growth. After the early 1990s recession, wage growth and GDP quickly recovered alongside highly accommodative Fed policy, and were averaging 3-5% growth annually for an extended period. During this period of strength, with wage and GDP growth near 5% in the late 1990s, inflation ultimately started to spike up sharply to nearly 5%, which the Fed attempted to combat by hiking short term rates to nearly 7%. Ultimately, this coincided with cracks in the growth picture as the internet bubble was bursting, and the Fed was too slow to accommodate the weakening economy. Recession ultimately followed.

Notable leading up to this recession was the extended period of strong GDP and wage growth, along with spiking inflation - conditions which are quite dissimilar to those present today. Moreover, the Federal Reserve was markedly too slow to react to changing decelerating growth conditions, seemingly different from the environment in which we find ourselves today.

More significant, perhaps, were conditions of irrational exuberance – in this case, the dot-com boom. Internet companies were bought at any price, many with no earnings or real business model. This coincided with the rapid expansion of computers in households – from about 1 in 8 in 1990, to more than 1 in 3 in 1997. There was an over-abundance of excitement centered around computers and the internet during this time. This ultimately led the equity market to see highly overvalued conditions. These conditions of irrational exuberance and highly overvalued market conditions are not as obviously present in today's environment.

Great Recession

The recession in the late 2000s saw many of the same factors present as were evident leading up to the early 2000s recession. Accommodative Fed policy quickly jump-started the economy following the prior downturn, with GDP growth back near 5% only a few years later. With wage growth also recovering, inflation ticked markedly higher, reaching 5% by the mid-2000s.

Yet again, irrational exuberance took hold, this time in the housing market. Where the late 1990s saw dot-com securities bought at any price, the 2000s saw the same in housing. Lending standards relaxed as mortgage issuers sought more and more profits, leading to poor lending decisions. With nearly anyone able to get a home loan, prices for homes skyrocketed, all while the repayment potential of borrows continued to deteriorate. As borrows began to default, and the securities backed by their mortgage payments began to evaporate in value, the irrational exuberance came to an end. Once again, however, the Fed was slow to react, and continued to raise rates to combat spiking inflation well after GDP growth had begun to decelerate and the housing-bubble showed signs of bursting.

Current Environment

So, where are we now? We have yet to see accelerating wage growth like that which was evident prior to past recessions. Productivity growth has remained subdued, which will likely cap strong growth in wages. Inflation likewise remains benign. GDP growth, despite a boost from tax policy, remains subdued as policy effects fade and trade wars add further pressure. Indeed, the cumulative GDP growth since the Great Recession has remained significantly below the trend of prior periods following a recession. Undoubtedly, this is due to the size and scope of that downturn, and the continued anchor from over-accumulation of debt in that cycle which remains. Market valuations sit right around their long-run averages. Moreover, there do not appear to be conditions of irrational exuberance. Certainly pockets of overconsumption exist, as may well be the case in the student debt market, for example, but we have not yet seen conditions of the size and scope of the prior levels of exuberance. All things considered, the majority of conditions preceding prior recessions are not evident today.

Additionally, the Federal Reserve is perhaps more keenly attuned now than ever to economic and market conditions, as well as open and transparent with observers about its position. As policy-fueled GDP growth accelerated in 2017 to early 2018, the Fed embarked on a steady path of hiking rates to keep pace. However, as global growth problems took hold in 2018, and the Fed's somewhat aggressive policy seemed to be a bit too aggressive given the circumstances and waning U.S. growth, the Fed quickly backed off and indicated a more accommodative approach.

In light of the foregoing, this extended period of slow but steady growth could well remain, buttressed by the better adaptive policy of the Federal Reserve. The risk perhaps is that the current growth phase ends without a bang, but a whimper, unlike the prior two recessions. The Fed's improved policy-making may well be a cure sufficient to overcome such a path, however.

Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Technology	20.7%	18.1%
Real Estate	17.3%	20.2%
Industrials	17.2%	3.0%
Energy	16.5%	0.8%
Consumer Discretionary	14.8%	11.3%
Comm Services	13.9%	9.8%
Consumer Staples	11.8%	9.5%
Utilities	11.5%	20.3%
Materials	11.1%	-1.8%
Financials	8.9%	-4.7%
Healthcare	7.5%	15.5%

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

2019 Q1: Equities Roar Back

Equities retraced virtually all of their Q4 2018 losses in the first quarter of 2019 alongside the Fed's dovish turn in policymaking. Technology lead the way once again, where the sector's strong earnings growth and secular insulation from a potential cyclical downtrend bolstered investor appetite. Energy had outsized returns, as the price of oil rose sharply during the quarter. Financials lagged the group, where the Fed's retreat caused interest rates on various financial products to fall, impacting bank earnings. Healthcare also trailed the broad market, as uncertainty around the Trump administration's stated desire to fully unwind Obamacare led investors elsewhere.

Economic & Financial Market Charts

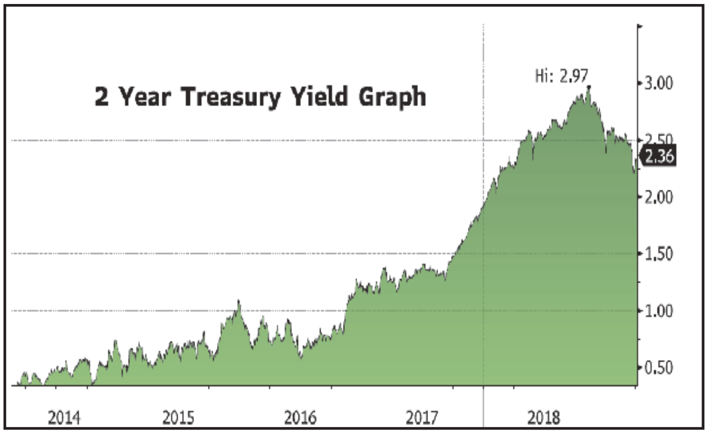


Figure 1 - Source: MACM / Bloomberg Financial

Graph of 2 Year US Treasury Yield, showing a steep rise during 2018 prior to Q3

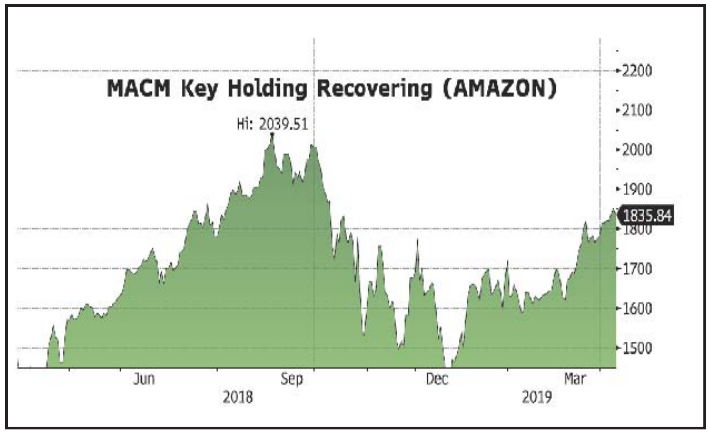


Figure 2 - Source: MACM / Bloomberg Financial

Graph of Amazon, strongly rebouding off its December lows

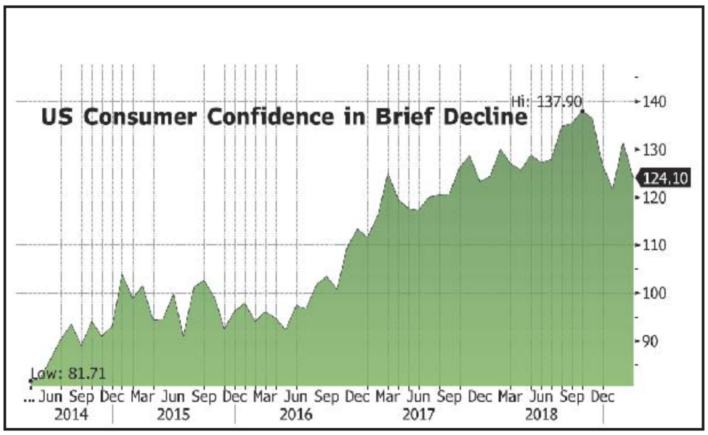


Figure 3 - Source: MACM / Bloomberg Financial

Graph of U.S. Consumer Confidence briefly declining amidst market volatility

Figure 4 - Source: MACM / Bloomberg Financial

Graph of Existing U.S. Home Sales showing a sharp rebound in 2019

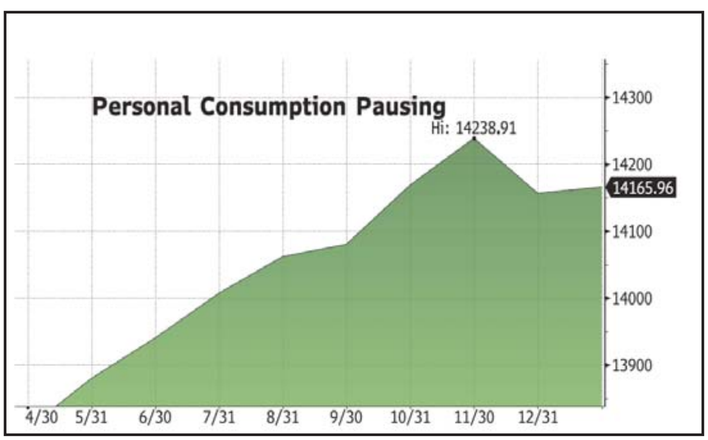


Figure 5 - Source: MACM / Bloomberg Financial

Graph of U.S. Personal Consumption Expenditures showing a slight pause

Figure 6 - Source: MACM / Bloomberg Financial

Graph of U.S. PMI declining from the Q3 2018 peak