Inside Views From an Investment Management Leader

UPDATE

July 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*

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

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

Markets Advance with Defensive Leadership

The US Economy continues to ebb and flow producing steady but below trend growth for several quarters. This trend seems likely to continue as the economic environment stays extremely stable with low inflation, friendly fed policy, and employment at all-time highs. The Current trends in the US economy show a mixed picture but generally improving economic fundamentals are visible.

There is an abundance of positive statistics for bulls to hang their hat upon for remaining optimistic in this world of highly valued markets. There is no evidence that the tariffs from the Trump administration and countermeasures from the Chinese are slowing the US economy in any meaningful manner. As a result consumer confidence which declined earlier in the year is now on the rebound. Trends with prices of goods and services are extremely positive and for the most part inflation remains bottled up.

Washington policy has had more impact on the global economy over the last few years than ever in history it would seem. All of the talk about tariffs and trade battles with China has caused concern from consumers and as a result the Fed has moved to an accommodative position and will likely cut rates at their next meeting. Bond prices have already rallied in anticipation of this event and interest rates are close to their 2016 all-time lows.

These low Interest rates and all-time highs in employment have given consumers confidence to spend on discretionary items despite not having much pent-up demand for durable goods. (pg. 4, fig. 1). Personal income continues to make new highs and entertainment and leisure spending continues at an above trend pace as optimism turns into real profits for corporate providers. (pg. 4, fig. 2). Growth in housing has not been as exciting as pent-up demand is modest and there are demographic trends playing out for apartment living which is obstructing homeownership trends.

Mitchell Anthony
President
Chief Investment Officer

What's happening in the work force is more exciting for workers than corporate employers. The poor productivity of these low-quality employees is hampering employers' ability to expand their businesses effectively, however the problems are mitigated by continued gains in productivity from technology allowing the poor work force to still be effective for corporate America. (pg. 4, fig. 3).

The manufacturing and industrial side of our economy lacks confidence because of the workforce problems and the uncertainty about tariffs and global economic strength.

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

All of these factors continue to affect the US economy and as a result we have an economy that ebbs and flows.

This environment is actually ideal for financial markets and as a result our financial markets have stayed on the upward path that began in January of this year. For the most part risk is on with investors but yet there has been defensive leadership in our markets. The second quarter of 2019 was good for both stocks and bonds with most equity and bond indices producing 3 to 5% returns for the quarter.

Corporate American superstars (FAANG) rallied on par with the broader market, held back by the unfounded fears of recessions. (pg. 4, fig. 4). The rally in Treasurys that began in the fourth quarter of 2018 continued at a modest pace last quarter as bond investors have been reluctant to give up on their belief that a recession lies on the horizon.

Most equity indices are at or near 2018 all-time highs. MACM's Dynamic Growth portfolio is now pushing up against its 2018 all-time high as the underperformance from large positions in corporate American superstars begins to wane. MACM's Dynamic Growth portfolio has about 100 basis points of lead on the S&P 500 this year.

The Economic outlook remains positive with no recession or economic bust visible on the horizon. Confidence is already improving as expectations for lower interest rates from the Fed builds. These lower interest rates are already stimulating soft consumption and giving corporate purchasing managers confidence to get back in the game. Financial markets are highly valued and will likely remain highly valued in this seemingly recession-less environment that ebbs and flows. Stocks, bonds and real estate will likely remain highly valued. Stocks seem like the most ideal asset class of the three as gains in corporate earnings will push prices higher. Interest rates on Treasurys and corporate bonds are close to zero and hence the upside for fixed income seems modest at best. (pg. 4, fig. 5). Real estate also has a difficult outlook for growth as cap-rates are close to all-time lows and unlikely to push substantially lower to justify higher prices. (pg. 4, fig. 6).

We remain optimistic!

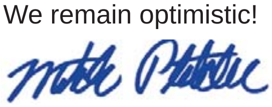


Table 1: Stock & Bond Market Returns 6/30/19

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	4.2%	11.0%	Small Cap Value (IWN)	1.0%	-6.5%
Large Cap Value (IWD)	3.6%	8.05%	Small Cap Growth (IWO)	2.3%	-0.9%
Europe Asia Far East (EFA)	3.5%	1.3%	Emerging Markets (EEM)	0.7%	1.3%
Invest Grade Bonds (LQD)	5.4%	12.6%	High Yield Bonds (HYG)	2.2%	8.1%
Interm Treasurys (IEF)	3.8%	10.0%	Mortgage Bonds (MBB)	1.9%	6.2%

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

Table 2: Real Estate & Commodity Returns 6/30/19

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	1.1%	11.7%	DJ Commodity Index (DJP)	-1.9%	-8.7%
Int'l Real Estate (IFGL)	-0.8%	6.0%	Goldman Commodity (GSG)	-1.9%	-12.6%
NAREIT Residential (REZ)	3.8%	19.4%	Gold (GLD)	9.2%	12.3%

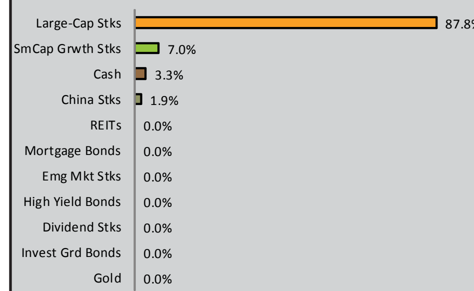
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

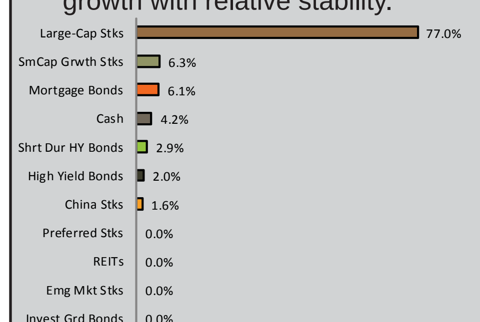
Focused REIT

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.



MACM Research Spotlight

Facebook's Growth Idea - The Libra

News media has been full of discussion about digital currencies recently. This has come largely as a result of Facebook's introduction of their Libra, which they propose to be a new and superior digital currency. What is Libra exactly? How is it intended to benefit consumers, and ultimately, of course, Facebook? The MACM research team has dug in to reveal the truth about Facebook's exciting new endeavor.

Background on Digital Currencies

Digital currencies like Libra are intended to function as an alternative to central bank issued currency. Perhaps the most widely known is Bitcoin, which has been in existence for about a decade. These are currencies that exist purely in a digital format.

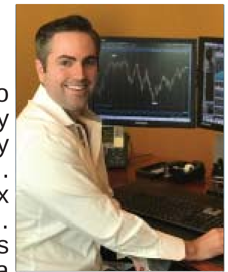
Bitcoin was borne out of users' desire to hold an anonymous, decentralized currency, rather than a traceable and centrally controlled currency like US Dollars. Naturally, this led to use cases of Bitcoin that were tied to purchases the users preferred to keep anonymous – drugs, for example, along with other illicit items. Indeed, obtaining and using Bitcoin remains a very expensive and somewhat difficult endeavor. The conversion of ordinary currency (US Dollars) to Bitcoin carries hefty conversion fees, and each use of Bitcoin (sending it to another person for payment, for example) requires an additional transaction fee. Thus, few have opted to actually use Bitcoin for purchases other than those who need maintain anonymity in their purchases, as the cost of transacting in Bitcoin is simply too high. Moreover, speculators in Bitcoin have caused wild price swings, deterring the desire of most to hold Bitcoin long term for any reason other than a high risk/reward gamble.

Facebook's Libra – A Better Digital Currency for Consumers?

Enter Libra – a digital currency intended to overcome the obstacles that have prevented digital currencies like Bitcoin from seeing widespread adoption.

First, Libra is intended to be transaction-fee free. This is a huge advantage over something like Bitcoin, which, as discussed, is very expensive to use. This is also an improvement on the existing system of currency conversion, where someone travelling to Europe from the US, for example, still endures numerous pain points of fees for converting and transacting in different currencies.

Second, Libra is intended to be a stable currency. Again, a huge advantage over digital currencies like Bitcoin, which sees dramatic price swings on a daily basis. While the precise mechanism of stability is not perfectly clear, Libra will be backed by a basket of central bank currencies that will be adjusted as needed to maintain a stable Libra value. The Libra Association, a non-profit consortium of respected multinational companies like Visa (many already in the payments space), will oversee the stability and functionality of Libra.



Kyle Aron
Senior Analyst

Moreover, Libra will bring ease-of-use to consumers. Facebook plans a user-friendly digital wallet for Libra that can be used by anyone with an entry-level smartphone. Users of Libra won't have to endure complex exchanges where digital currencies (e.g. Bitcoin) trade like stocks and conversion is expensive and confusing. Even better, Libra transactions will be instantaneous, meaning Libra users can send money anywhere in the world with no hassle or delay. Overall, Libra seems promising in its value proposition to consumers and may well be poised to succeed where other digital currencies have failed.

What is Facebook's Incentive?

Of course, offering such a fantastic digital currency to consumers isn't free. Facebook will bear costs incurred in developing and maintaining the digital currency in the manner described above. Facebook, naturally, is seeking something out of offering Libra to consumers. Generally speaking, Facebook is playing directly into its wheelhouse – it is offering "free" use of Libra in exchange for users and their data, ultimately intended to bolster their advertising revenue. We think this is a smart move.

First, Facebook hopes to have more people on its platform more often as a result of their desire to transact with Facebook's digital currency, Libra. More people using Facebook more often provides an even more appealing offering to potential advertisers on Facebook.

In addition, Facebook will have incrementally more data about consumers who use its Libra currency. While Facebook has downplayed the extent to which it will have access to this information, the reality is that the structure of Facebook's Libra will enable Facebook to have financial and transaction history data for those who use its Libra currency. This information is obviously highly relevant to advertisers, and allows Facebook to potentially offer an even more robust platform on which advertisers can target consumers.

Key Takeaways

As discussed, it seems Facebook's Libra fits well within their business model, and provides a uniquely appealing digital currency option for consumers. Facebook has also smartly engaged a group of trusted companies to oversee Libra, which will likely help consumers overcome privacy concerns that have troubled Facebook somewhat historically. On net, we see this as one more reason to hold Facebook in the MACM strategies.

Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Financials	7.9%	6.1%
Technology	5.8%	18.7%
Materials	5.4%	1.0%
Consumer Discretionary	5.0%	8.9%
Comm Services	4.6%	4.9%
Industrials	4.2%	10.3%
Consumer Staples	3.5%	15.5%
Utilities	3.4%	19.4%
Real Estate	1.8%	14.1%
Healthcare	1.6%	13.0%
Energy	-3.6%	-14.9%

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

2019 Q2: Equities Continue Higher

Equities finished higher through the end of the Q2, after struggling through trade tensions that flared up mid-quarter. While the US had previously seemed close to a trade deal with China, these negotiations fell apart in early May, causing markets to tumble. Ultimately, however, markets were bolstered when the Fed stepped in and discussed cutting interest rates as a result of the "uncertainty" in the outlook caused by the trade dispute. Moreover, Trump indicated that the US and China were back on track with their trade negotiations after the G20 summit in late June. The US postponed Chinese tariffs that were slated to hit following this meeting, a move cheered by markets. As a result, growthier risk-on sectors mostly led the pack for the quarter, with segments like technology and consumer discretionary near the head of the pack once again.

Economic & Financial Market Charts

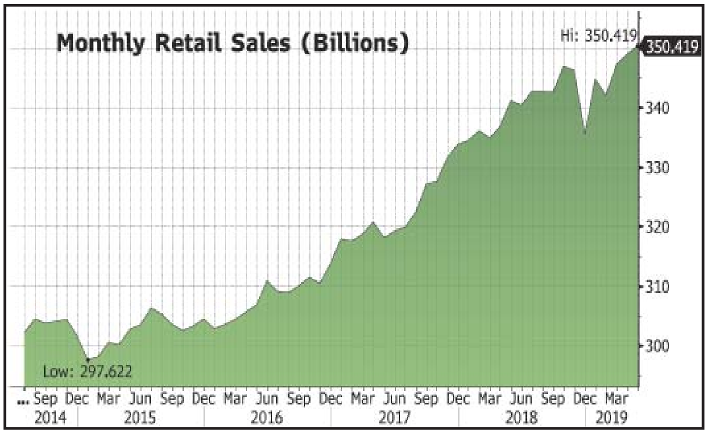


Figure 1 - Source: MACM / Bloomberg Financial

Graph of Retail Sales, showing a resurgance back to all-time highs

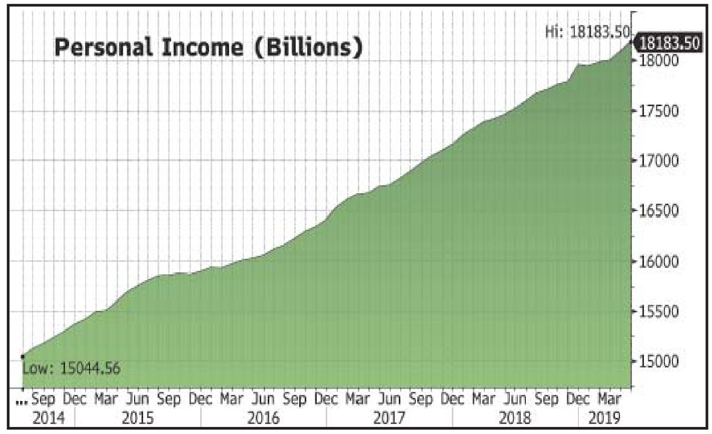


Figure 2 - Source: MACM / Bloomberg Financial

Graph of Personal Income, showing a steady trend higher

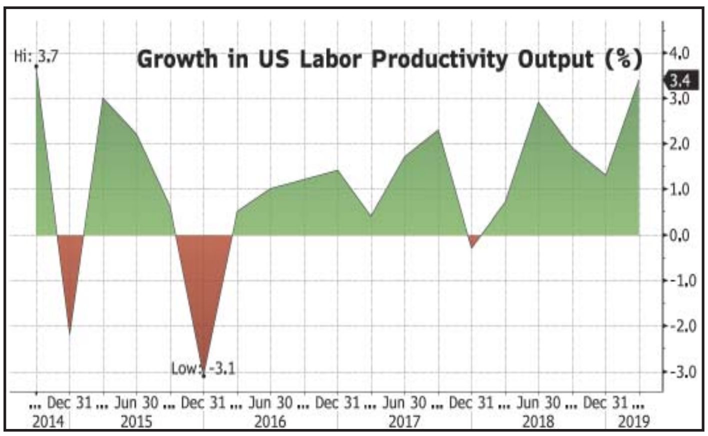


Figure 3 - Source: MACM / Bloomberg Financial

Graph of Labor Productivity, showing largely gains for an extended period

Figure 4 - Source: MACM / Bloomberg Financial

Graph of AMZN, a MACM key holding, showing strong performance and approaching new highs

Figure 5 - Source: MACM / Bloomberg Financial

Graph of U.S. 10 Year Treasury, with yields nearing their all-time lows in 2016

Figure 6 - Source: MACM / Bloomberg Financial

Graph of Real Estate Cap Rates, continued their downward trend