HEFTER, LESHEM, MARGOLIS

CAPITAL MANAGEMENT GROUP

The Hefter Report – December 2019

With US stock market indices near all-time highs, the US and China appear to have reached a phase one trade deal. We believe the phase one deal will at least serve to cool tensions between the US and China prior to the 2020 election. However, a true comprehensive deal could see significant upside for global markets.

During 2019, equity mutual funds experienced net outflows from retail investors. We continue to receive calls to sell, lighten up, and hedge, but no one has asked us to be more aggressive. With moderate Democrat presidential candidates rising in the polls, sectors such as health care and financials have soared in recent weeks. Interest rates and inflation remain low, global economic growth seems to be bottoming, and yet to many, this remains the most unloved bull market of all-time.

Along with this month's report, we are attaching a link to all of our prior reports over the past 12 months. A year ago in our December 14th, 2018 Hefter Report, we stated that we would buy US equities following what we believed (based on technical analysis) would be another 5-8% of downside after US indices had already dropped 11%. After the S&P 500 fell another 5% the following week, we released a subsequent report (Hefter Short Take December 21, 2018) announcing our buy level at 2375-2400 for the S&P 500. In our January 8th, 2019 Hefter Report, we declared the correction to be over, our buy levels reached, and based on our analysis, predicted 2019 would be an excellent year for stocks. Throughout this year we've remained bullish, asserting market pessimism was too high and that the rally wouldn't end until there was euphoria and capitulation to the upside. We maintain that argument today which is one reason why we continue to be bullish for 2020.

Stock market prices are largely determined by earnings and their multiple, better known as the price/earnings ratio. In the rally this year, earnings have stayed relatively steady, but stock prices have soared due to a rising multiple fueled by low interest rates, low inflation, and an accommodative Federal Reserve. We anticipate these conditions to hold in 2020 which could see the market multiple continue to rise in a more optimistic environment. We also concur with one of our favorite market strategists, Jim Paulsen: collective S&P 500 earnings could increase to $175 per share in 2020. That would project an S&P 500 of 3500, about 12% higher than current levels.

We continue to invest with managers whose level of risk and volatility is lower than that of the S&P 500. In addition, some of our managers have broad exposure to technology and emerging industries of the future such as artificial intelligence, cyber security, DNA editing, cloud computing, and alternative energy. In fixed income we like adjustable rate preferred stocks, floating rate bonds, as well as higher yielding municipal and corporate bonds. In this environment of low interest rates and rising stock prices, cash is our least favorite asset class.

Please feel free to pass on the link to our website and The Hefter Reports to friends, family and anyone who is holding large cash positions. Our entire HLM team wishes you and your family a very happy and healthy holiday season.

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S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

Stocks are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets accentuates these risks.

Investments that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than investments that are more diversified.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

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