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CAPITAL MANAGEMENT GROUP
of Wells Fargo Advisors

The Hefter Report – April 2019

According to Reuter's news service, US equity mutual funds saw $98 billion withdrawn in December of last year. More remarkably, retail investors have withdrawn another $60 billion in the first quarter of 2019. So, the obvious question is, why have individual investors continued to withdraw money from the stock market even in the midst of a double digit percentage rally this year?

Well there are certainly many issues to cause concern; geopolitical concerns like Brexit, the US/China trade deal, and North Korean nuclear talks have spooked investors. There are tense elections coming up in India and the Ukraine, a leftist is now running Mexico and Russia continues to flex its muscles in Syria and Venezuela.

More recently, recession fears escalated dramatically as the 3 month T-bill and 10 year Treasury bond yields inverted for the first time since mid-2007. Financial commentators came on TV predicting recession, citing the 2 previous inversions which occurred in 2000 and 2007 which were both followed by substantial stock market declines. We, however, came out with a short take report stating that in our opinion, we were experiencing a temporary pullback in a bull market with more upside.

Our conviction was based on technical factors: stock indices solidly in a long term uptrend and fundamentals (such as low inflation and low interest rates) which can benefit housing and make fixed income alternatives less attractive to stocks. We see yield curve inversion as temporary, an aberration caused by much better economic growth in the US than the rest of the developed world.

If the yield curve were really reflective of a recession, junk bond spreads would have widened and global commodity prices such as copper and oil would have declined. When neither of these occurred, we saw no reason to lighten up on stocks.

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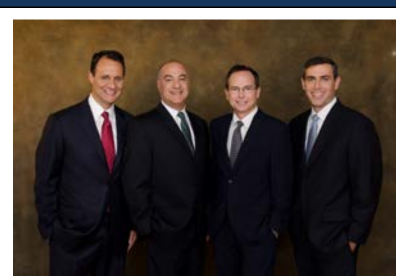

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Micah Nathan
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We continue to believe equity prices across the globe may head higher and the US indices might test and possibly surpass previous all-time highs. In our view, the end of the bull market may not come until the investors who have been reducing positions for the past 4 months start buying back stocks at higher prices. Once we see capitulation to the upside, a change in strategy may be prudent.

Economic growth expectations across the globe appear to be very low. If the US holds at 2% or better, and if international economies surprise to the upside, we think stocks may rally further. As a consequence, interest rates could begin rising and that may ultimately lead to an end to this bull market. It is our view that the relative slow growth across the globe is actually prolonging the current bull market, keeping interest rates and inflation low.

We continue to believe that with much lower price to earnings multiples, valuations overseas appear more attractive than in the US so we remain diversified globally. We believe that technology stocks, small cap US growth and international large cap growths sectors may provide the best opportunity for price appreciation.

In the fixed income arena, various preferred stocks, corporate bonds, high yield bonds and floating rate bonds have been providing mid-single digit returns year to date and may provide suitable options for the more conservative portion of portfolios.

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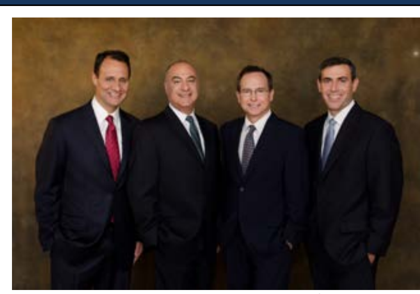

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Disclosures

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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.

The prices of small and mid-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

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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