



CAPITAL MANAGEMENT GROUP

The Hefter Report – July 2019

In our view, global equity markets remain in an upward trajectory. Fundamentally, low interest rates, low inflation and good earnings are in place (the key ingredients to a bull market). It's usually not wise to ignore the old adage "don't fight the Fed."

So we are broadly invested, however, we believe that the general public is underinvested. Even some very able money managers have sat out the past 6 months. It appears that investors are nervous. For example, we have not received any calls from clients urging us to become more aggressive. On the contrary, like the rest of the country, our investors are concerned with downside potential given the lofty heights and long duration of this 9 year run. Interestingly, the S&P 500 is up only 7.9% this year from its high, reached in December 2018. We also believe there is no recession in sight and this rally will continue until money on the sidelines floods the markets amidst an atmosphere of euphoria. This could come if a trade agreement is reached with China and the rest of the world catches up with the economic growth of the United States.

In the past few months we've started to see laggards like health care, financials and international growth stocks outperform. We have also noticed that while growth has been outperforming value overseas in recent months, the US has seen more defensive sectors outperform such as health care and consumer staples. We believe this trend can continue and are looking to move capital into the best US value managers, as well as the top international growth managers.

Although we remain bullish, we've kept a variety of other asset classes in many portfolios, such as preferred stocks and high yield bonds. Yet even our managers in these assets are up around 10% YTD. These investments also serve as a buffer if our bullish prognosis is flawed. However, it is our view that even if an agreement is not reached before the 2020 US elections, as long as trade talks continue, equity markets can maintain momentum.

The other caveat to a sustainable bull market is geopolitical risk in the form of military conflict. Should the US become involved in another war in the Mideast, investor tranquility may erode and markets could correct. Given that most of our equity managers have less risk than the S&P 500 (as measured by beta), we believe our portfolios will hold up better than the indices in a down market.

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Investment products and services are offered through Wells Fargo Advisors Financial Network, LLC (WFAFN), Member SIPC. Hefter, Leshem, Margolis Capital Management Group is a separate entity from WFAFN CAR #0719-03740

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We've been in this business for 35 years and have studied historical market statistics. We have yet to see a bull market die of old age. The cause is either euphoria that leads to overvaluation or recession. We do not see either as likely in the near future.

Many of our investors have had us talk with family members who wish to learn more about economics and the markets. We've arranged for those in need, to receive estate planning services for free from the same expert who handles our own estate and insurance planning. Although we are no longer employees of Wells Fargo & Co., our clients still have access to securities-based financing, residential mortgage, home equity financing, credit cards, and business financing through Wells Fargo Advisors or affiliates of Wells Fargo.

Please let us know if you would like to review investment strategy and goals with us. We are also supplementing this month's report with our past 2019 Hefter Reports, beginning with the December 2018 market correction. Previous Hefter Reports and Hefter Short Takes can also be found on our newly redesigned website at www.hlmcapital.com.

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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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