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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Partners

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The Hefter Report – October 2019

With the announcement of the so called "skinny deal" with China, some of the risk in global equity markets has been removed. Assuming it gets signed within a few weeks, our overall attention will primarily be on earnings, impeachment, investor sentiment, and election polling.

We believe that expectations for US corporate earnings have been lowered so much that even seemingly poor numbers can be interpreted as "good" as long as they beat the predictions. Global earnings could also improve now that the fear of an escalating trade war appears to be mitigated.

As for the Democratic presidential nomination, it is our belief that if former Vice President Joe Biden gains support in the polls, equity markets will calm, giving a boost to certain depressed areas such as healthcare and financials. However, if Senator Warren emerges as the presumptive nominee, we anticipate investors will lighten up on stocks amidst fear of higher taxes and increased regulation. Furthermore, should Warren be poised to win the Democratic nomination, a damaging impeachment process could help her win the general election. Recently on CNBC, former partner and head of research at Goldman Sachs Leon Cooperman said of Warren, "Her polices are counterproductive. They're negative for capitalism and capitalism is what brought America into the position we're in today." Speaking about stocks during a Warren administration he added, "It would be a bear market and go on for a year and go down (about) 25%." In a recent research report titled "The Warren Correction", Oppenheimer's bank analyst Chris Kotowski attributed part of the bank sector's decline in September to Warren's corresponding rise in the polls.

Regardless of one's political views, it is clear that some prominent market forecasters are concerned about the prospects of a Warren presidency. It is our job to pay attention to this and to manage portfolios and risk accordingly.

Our bottom line interpretation of the continued geopolitical and economic uncertainty is actually positive for investing: we expect equities remain in a bull market with higher prices and new all-time highs through the 4th quarter and into 2020. Part of our optimism is based on investor sentiment, which is extremely negative and pessimistic. It's hard to imagine anyone watching the evening news getting excited about buying stocks. Worries and fear over hostile actions by Iran and Turkey, combined with poor economic numbers and political uncertainty in the US, make buying equities a very brave act. Fear is pervasive right now, which we understand to usually be a contrary indicator that is actually bullish for stocks.

So, although we believe this aging bull market run has more to go, we do see the potential for darkness at the end of the lighted tunnel. In effort to take advantage of the rampant fear in the markets, we remain invested in stocks for now, but anticipate lightening up and becoming more defensive come spring of next year.

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Partners

The Hefter Report – August 2019

On the morning of August 1st, the US stock indices were near record highs with the Dow Jones Industrial Average up 15.47% YTD to 26,583.42. But then later that day, President Trump announced via Twitter that the 10% tariff on the remaining $300 billion in Chinese goods were back on. The Dow then plunged 700 points, closing down 400 points on the day. Since then, due to the strong dollar and new tariffs, we have been lightening up on international securities and generally lowering overall risk. Until that tweet, the general consensus seemed to be that, with an election in 2020, Trump would continue the trade truce with China. It's been reported that Commerce Secretary Wilbur Ross, Treasury Secretary Steve Mnuchin and Economic Advisor Larry Kudlow all argued for that strategy. Only hawkish US Trade Representative Peter Navarro made the case for imposing new tariffs. Unfortunately, it appears the President listened to Navarro. Between the time of his initial tweet and his follow up announcement of a partial delay on tariffs for some goods, the DJIA dropped an additional 6.2%. Further, the damage from international trade uncertainty has continued to spread across global economies. By Wednesday, August 14th, the US 2 year note had fallen below the 10 year for the first time since 2007. Such an inversion is often a harbinger of an upcoming recession.

Historically, August and September are the weakest months for the US stock market. Considering all these factors, we remain cautious in the near term but still believe the secular bull market remains intact. Stock market indices could be higher by year end and higher still going into the 2020 election. Technical indicators provide support for the S&P 500 at the 200 day moving average at 2794, (approximately 1.6% lower than the August 14th close). Additional support levels are at the May 2019 closing low of 2745. We will consider investing cash should the market reach those levels.

We still anticipate that trade war tensions should ease prior to November 2020 while interest rates and inflation will likely remain low. Until a trade deal is reached we remain overweight the US markets relative to the global equity index, which is down 1.12% over the past 12 months. Typically our favorite managers are those who invest in companies that are expected to increase dividends and grow earnings. With global interest rates at historically low levels, we believe the hunt for yield will continue, in turn benefiting equities, preferred stocks, high yield municipal bonds and global diversified bond funds.

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