



# Monthly Investment Commentary

May 2019

## Trade Talks

As we go to print, the last few sessions, major U.S. stock indices have moved lower when trade talks between the United States and China broke down. The Standard & Poor's (S&P) 500 Index, Nasdaq Composite, and Dow Jones Industrial Index all down between 2 percent and 3 percent. The economic impact of higher tariffs may be relatively small; however, the impact on business confidence and global markets could be significant. We think that the direct effects of President Trump's threatened tariff hikes could reduce Chinese GDP by up to 0.4 percent and that the associated retaliation would have only a marginal direct impact on the United States. The effects on business confidence and financial markets around the world could be more significant, potentially adding to reasons for renewed policy loosening...In theory, if all else were unchanged, the increase in tariffs would amount to a small fiscal tightening in China and the United States. But both governments have avoided this by spending the proceeds on aid for the most affected parties. Changes around the world markets could be significant.

### MRM NET COMPOSITE PORTFOLIO RESULTS (As of 04/30/2019)

MRM PLATFORMS VS. BENCHMARK	YTD	1-YEAR	3 Years Annualized	5 Years Annualized
<b>Dynamic Overlay</b>	<b>+8.32%</b>	<b>+8.43%</b>	<b>+10.76%</b>	<b>+5.14%</b>
<i>Morningstar Average Tactical Return</i>	+8.90%	+1.91%	+5.96%	+3.33%
<b>All Equity</b>	<b>+8.87%</b>	<b>+14.28%</b>	<b>+18.77%</b>	<b>+12.50%</b>
<i>S&amp;P 500 Total Return</i>	+18.25%	+13.49%	+14.87%	+11.63%
<b>Dynamic International</b>	<b>+6.40%</b>	<b>-8.94%</b>	<b>+1.60%</b>	<b>-2.56%</b>
<i>MSCIEAFE with dividends</i>	+13.33%	-2.73%	+7.77%	+3.09%
<b>Global Strategies</b>	<b>+8.67%</b>	<b>+4.25%</b>	<b>+8.24%</b>	<b>+6.15%</b>
<i>(50%) S&amp;P / (50%) MSCIEAFE</i>	+15.79%	+5.38%	+11.49%	+7.70%
<b>Tax-Advantaged Income*</b>	<b>+16.14%</b>	<b>+5.86%</b>	<b>NA</b>	<b>NA</b>
<i>Dow Jones US Select Dividend Total Return</i>	+14.40%	+9.04%	NA	NA

*MRM Group claims compliance with the Global Investment Performance Standards (GIPS®). Returns are net of fees. For more information visit [www.mrminv.com](http://www.mrminv.com).*

*Please contact MRM Group to obtain a Compliant Presentation and/or MRM's list of Composite descriptions.*

*\* Tax-Advantaged Income composite started 06/01/2017.*

**First Quarter**

U.S. earnings growth has slowed markedly from 2018, but a surprisingly resilient first quarter supports our still-positive view on U.S. equities. The Federal Reserve maintained its patient policy stance on U.S. jobs gains and Eurozone growth both surprised to the upside. U.S. stock indexes have rallied to new highs in recent weeks. The S&P 500 is up since its December low, fueled partly by encouraging first-quarter earnings results. What does this mean for our view of U.S. equities? We still favor them, as cost-cutting and efficiency gains help moderate the earnings slowdown. U.S. corporate profit margins are holding up, despite rising concerns that today's low unemployment rate could spur labor shortages — and wage inflation. Attention to these trends is reflected in our text-mining analysis of broker reports from 2004 to 2019. We found the share of reports that carry the phrase "margin pressure" is now below the historical average, even as the share of documents with the phrase "tight labor" is at all-time highs. Companies have been using technology to drive efficiencies that keep costs down, reduce the need for labor and help keep profit margins stable. To be sure, the pressure on earnings is likely to intensify in this late-cycle period as wage inflation picks up and productivity growth slows. Yet for now, companies are taking actions to cushion the downside, with many also returning capital to shareholders through share buybacks.

**A Better (But Not Great) Picture**

U.S. earnings growth has slowed sharply from the double-digit pace of 2018. First-quarter earnings are up just 2.3% from a year earlier based on the companies that have reported to date, representing 80% of the S&P 500 market capitalization. Ahead of this earnings season, consensus estimates were pointing to a modest year-on-year contraction, the worst quarter for S&P 500 earnings growth since the second quarter of 2016. Companies have been beating forecasts at a higher rate than previous quarters, as subdued analyst expectations had lowered the bar for U.S. earnings beats. Earnings also appear solid when viewed in the context of slowing global economic growth and the fading impacts of U.S. fiscal stimulus. Yet we are still seeing more downgrades to analyst earnings expectations than upgrades this quarter, even as the pace of downgrades has eased over the last four weeks. Any bottoming out of earnings expectations could support a market that has rallied aggressively this year.

**MRM's View**

At this point, we think stock prices are fairly valued given the macro backdrop and corporate earnings results and expectations. That suggests that the market may be reflecting too much optimism over the near-term. And while we continue to believe that this bull market is not over, we also think stocks could be due for a near-term consolidation.

Source: BlackRock

**MRM model holdings as of March 31, 2019**

**MRM Global Strategies**

APPLE INC COM	5.00%
BROADCOM LTD SHS	5.00%
BOEING CO	10.00%
SALESFORCE COM INC	5.00%
ISHARES MSCI EMERGING MARKETS	10.00%
ISHARES MSCI EAFE MIN VOLATILITY	5.00%
ISHARES MSCI SINGAPORE INDEX	5.00%
ISHARES MSCI BRAZIL INDEX	5.00%
INTERNATIONAL BUSINESS MACHS	5.00%
INTUITIVE SURGICAL INC NEW	7.00%
LILLY ELI & CO	5.00%
LOCKHEED MARTIN CORP	5.00%
MCDONALDS CORP	7.00%
MICROSOFT CORP	4.00%
NETFLIX COM INC	5.00%
SPDR S&P 500 TRUST	5.00%
ULTA BEAUTY INC NEW	5.00%
FDIC CASH NOT COVERED BY SIPC	2.00%

**MRM Dynamic Overlay – ETFs**

ISHARES MSCI EMERGING INDEX	20.00%
ISHARES MSCI EAFE MIN VOLATILITY	5.00%
FIRST TRUST TECH ALPHADAX	3.00%
SPDR GOLD SHARES	3.00%
ISHARES NASDAQ BIOTECHNOLOGY	5.00%
ISHARES DOW JONES US AEROSPACE	10.00%
ISHARES RUSSELL 1000 VALUE INDEX	5.00%
ISHARES RUSSELL 2000 INDEX FUND	5.00%
ISHARES DOW JONES US HEALTH	5.00%
MIDCAP SPDR TRUST, SERIES 1	5.00%
ISHARES S&P 100 INDEX FUND	4.00%
POWERSHARES QQQ TRUST	5.00%
INVESCO S&P 500 LOW VOLATILITY	5.00%
SPDR S&P 500 TRUST	10.00%
VANGUARD GROWTH INDEX FUND	5.00%
FINANCIAL SELECT SECTOR SPDR	3.00%
FDIC CASH NOT COVERED BY SIPC	2.00%

**MRM All Domestic Equity**

APPLE INC COM	5.00%
BROADCOM LTD SHS	5.00%
BOEING CO	10.00%
CENTENE CORP DEL	5.00%
SALESFORCE COM INC	5.00%
INTERNATIONAL BUSINESS MACHS	5.00%
INTUITIVE SURGICAL INC NEW	7.00%
LILLY ELI & CO	5.00%
LOCKHEED MARTIN CORP	5.00%
MCDONALDS CORP	7.00%
MERCK & CO INC	5.00%
MICROSOFT CORP	4.00%
NETFLIX COM INC	5.00%
O REILLY AUTOMOTIVE INC	5.00%
PEPSICO INC	5.00%
PAYPAL HLDGS INC	5.00%
ULTA BEAUTY INC NEW	5.00%
VISA INC.	5.00%
FDIC CASH NOT COVERED BY SIPC	2.00%

**MRM Dynamic International**

ISHARES MSCI EMERGING MARKETS	35.00%
ISHARES MSCI EAFE MIN VOLATILITY	7.00%
SPDR S&P 500 TRUST	10.00%
ISHARES MSCI NEW ZEALAND INVEST	15.00%
ISHARES MSCI SINGAPORE INDEX	15.00%
FDIC CASH NOT COVERED BY SIPC	2.00%

ISHARES MSCI MEXICO INVESTABLE	6.00%
ISHARES MSCI BRAZIL INDEX FUND	10.00%

## IMPORTANT DISCLOSURES

MRM Group, Inc. (“MRM”) is an SEC registered investment advisor and an independent management firm that is not affiliated with any parent organization. Using quantitative selection methods, each MRM strategy searches within a well-defined universe of securities, using consistent investment criteria to identify attractive investments and create diversified portfolios. MRM seeks to provide long-term capital growth.

STRATEGY	BENCHMARK	VEHICLES	CASH HOLDINGS <i>(When Potential Investments Look Unattractive)</i>
Dynamic Overlay	Morningstar Tactical Allocation	Domestic Securities	Up to 70%
All Domestic Equity	S&P 500 Total Return	Domestic Securities/ADR's	Up to 60%
Dynamic International	MSCI EAFE Gross	Exchange-Traded Funds (ETF's)/Other Securities	Up to 25%
Global Strategies	50% S&P 500 Total Return/ 50% MSCI EAFE Gross	Exchange-Traded Funds (ETF's)/Other Securities	Up to 50%
Tax-Advantaged Income	Dow Jones US Select Dividend Index	Domestic Securities	Up to 4%

The portfolios do NOT use inverse or leveraged ETFs. Universe vehicles may change, from time to time, when approved by the principal of MRM Asset Allocation Group at its sole discretion.

### BENCHMARK NOTES

Morningstar’s Tactical Allocation Category averages returns for the peer group based on the return of each fund within the group, for the period shown. The S&P 500 Index with dividends is an unmanaged composite of 500 large-capitalization companies whose data is obtained from the Standard & Poor’s website. S&P 500 is a registered trademark of McGraw-Hill, Inc. The MSCI EAFE Gross Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada, with data from the MSCI website using price with reinvestment of dividends. The performance of blended benchmarks is shown for comparison because MRM uses securities which track indices related to these products. The Dow Jones US Select Dividend Index comprises 100 stocks and aims to represent the U.S.’s leading stocks by dividend yield. An investment cannot be made directly into an index.

### DISCLOSURES

MRM Group claims compliance with the Global Investment Performance Standards (GIPS®). MRM has been independently verified for the periods January 1, 2008 through March 31, 2019. The verification report is available upon request. Verification assesses whether (1) MRM has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) MRM’s policies and procedures are designed to calculate the present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

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***If you wish to modify or impose reasonable restrictions concerning the management of your account, or if your financial situation, investment objectives, or risk tolerance have changed, please contact your MRM Group investment advisor representative or contact the Manager at (800) 233-1944. We will contact you at least annually to determine if your investment goals, objectives, and risk tolerance have changed.***

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