



# Monthly Investment Commentary

September 2018

## U.S. Economics

The overall picture in the U.S. is bright. We see better unemployment trends, strength in manufacturing and non-manufacturing, and notable improvement on the trade front, as exports are rising. With modest increases in consumer prices we expect the Fed to keep raising interest rates but staying less hawkish, since there is a probability of derailing the economy from its path higher if monetary tightening is too strong. The Fed indicated we could see two additional increases this year—most likely in September and December. The Fed also implies that it may raise rates as many as three times in 2019, as it strives for a more normalized rate structure after a decade of unprecedented monetary easing. Overall, we expect the economy to keep up with the recent pace of growth in the second half of the year.

### MRM NET COMPOSITE PORTFOLIO RESULTS (As of 08/31/2018)

| MRM PLATFORMS VS. BENCHMARK                      | YTD            | 1-YEAR         | 3 Years Annualized | 5 Years Annualized |
|--|----------------|----------------|--------------------|--------------------|
| <b>Dynamic Overlay</b>                           | <b>+7.24%</b>  | <b>+15.01%</b> | <b>+7.90%</b>      | <b>+7.52%</b>      |
| <i>Morningstar Average Tactical Return</i>       | +1.72%         | +6.94%         | +6.63%             | +5.44%             |
| <b>All Equity</b>                                | <b>+22.20%</b> | <b>+38.09%</b> | <b>+15.03%</b>     | <b>+14.08%</b>     |
| <i>S&amp;P 500 Total Return</i>                  | +9.94%         | +19.66%        | +16.11%            | +14.52%            |
| <b>Dynamic International</b>                     | <b>-8.32%</b>  | <b>-5.38%</b>  | <b>+2.03%</b>      | <b>+1.09%</b>      |
| <i>MSCIEAFE with dividends</i>                   | -1.87%         | +4.90%         | +7.57%             | +6.22%             |
| <b>Global Strategies</b>                         | <b>+8.39%</b>  | <b>+14.84%</b> | <b>+7.67%</b>      | <b>+9.85%</b>      |
| <i>(50%) S&amp;P / (50%) MSCIEAFE</i>            | +4.04%         | +12.28%        | +12.00%            | +10.68%            |
| <b>Tax-Advantaged Income*</b>                    | <b>-1.39%</b>  | <b>+1.10%</b>  | <b>NA</b>          | <b>NA</b>          |
| <i>Dow Jones US Select Dividend Total Return</i> | +4.45%         | +13.67%        | 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.

## Global Economy

Incoming reports reinforce the message that global growth is accelerating this quarter amid widening regional divergences. The global economy is indeed lifting, but almost entirely due to the U.S. Europe has yet to rebound, China's recent PMI and investment data are conflicting (perhaps due to slowing credit) and several EMs like Brazil, Argentina and Turkey are slowing down.

While U.S. GDP did rise 4.27% annual rate last quarter, disappointing Euro area and China releases point to downside risks in their economies with no help from Emerging economies. Per JP Morgan, the balance of data is still positive. Their economists don't judge these regional divergences to be intrinsic or material enough to create a feedback loop that threatens the global expansion. JP Morgan's global GDP growth forecast moved up to 3.6% this month.

## Earnings and Multiples

The U.S. economy is growing and corporate profits are rising, which should support higher stock prices through 2019. However, the appreciation potential will be constrained by tightening monetary policy, a flattening yield curve, rising trade tensions, and the upcoming mid-term Congressional elections. Economic growth, oil prices, and tax rates have been better than expected in 2018. Per Goldman Sachs, EPS consensus growth rate is 21% in 2018, 10% in 2019, and 9% in 2020. Valuation compression generally occurs when earnings growth exceeds share price gains. An environment of decelerating economic growth, a tightening Fed, a flattening yield curve, and political uncertainty is consistent with a P/E multiple that will end 2018 around 16.8x, unchanged versus today but 10% below its January peak.

The earnings remain a tailwind for stocks. After stalling in Q1, global growth is delivering above potential and operating leverage remains positive. The street thinks the consensus EPS growth expectations for this year of 10-12%, ex U.S. tax cut impact, is likely to be met or surpassed. Wage growth could eat into margins but strong sales growth should offset any negative impact on the bottom-line. There is more potential for U.S. earnings upside, as U.S. earnings typically tend to significantly overshoot the trend line – they are currently exactly at trendline now.

## Fundamentals and 2Q Performance

Factor performance in 2Q18 was dominated by stocks with Safety and Momentum characteristics. Valuation, Growth and Profitability lagged. In such an environment, our fundamental scores can get inverted, with weaker fundamental characteristics outperforming. We saw this trend slow in May and June.

## MRM's View

In August 2018, the U.S. stock market recorded the longest bull run in its history, (almost nine and half years) without a bear market. The current bull market is measured starting March 9, 2009, when markets inflected coming out of the financial crisis. The S&P 500 Index has rallied since then, posting returns of over 400% without a correction of over 20%. During this period, the U.S. economy saw unprecedented quantitative easing and had the tailwinds of very low interest rates and inflation. The market also withstood several crises during this time, including the downgrade of the U.S. credit rating in 2011, the oil crisis in 2015, and tariff fears in 2018 among others. We remain bullish.

Source: Signet / AIG

### MRM model holdings as of June 30, 2018

#### MRM Global Strategies

|                                     |        |
|-------------------------------------|--------|
| AMAZON COM INC                      | 5.00%  |
| BAIDU COM INC SPON ADR REP A        | 5.00%  |
| BOX INC CL A                        | 5.00%  |
| CENTENE CORP DEL                    | 5.00%  |
| ISHARES MSCI EMERGING MARKETS INDEX | 5.00%  |
| ISHARES MSCI EAFE INDEX FUND        | 3.00%  |
| LAUDER ESTEE COS INC CL A           | 5.00%  |
| ISHARES MSCI NEW ZEALAND INVEST     | 5.00%  |
| ISHARES MSCI HONG KONG INDEX FUND   | 10.00% |
| ISHARES FTSE CHINA 25 INDEX FUND    | 5.00%  |
| J P MORGAN CHASE & CO               | 5.00%  |
| MASTERCARD INC COM                  | 5.00%  |
| NIKE INC CL B                       | 5.00%  |
| RAYTHEON CO                         | 5.00%  |
| BOSTON BEER INC CL A                | 5.00%  |
| SPDR S&P 500 TRUST                  | 5.00%  |
| TWITTER INC COM                     | 5.00%  |
| FDIC CASH NOT COVERED BY SIPC       | 12.00% |

#### MRM Dynamic Overlay – ETFs

|                               |        |
|-------------------------------|--------|
| ISHARES MSCI EMERGING MKRKS   | 10.00% |
| ISHARES MSCI EAFE INDEX FUND  | 5.00%  |
| ISHARES RUSSELL 1000 GROWTH   | 10.00% |
| ISHARES RUSSELL 2000 VALUE    | 5.00%  |
| POWERSHARES QQQ TRUST         | 5.00%  |
| ISHARES PHLX SOX SEMICON      | 5.00%  |
| SPDR S&P 500 TRUST            | 10.00% |
| SPDR S&P 500 GROWTH ETF       | 5.00%  |
| VANGUARD GROWTH INDEX FUND    | 8.00%  |
| FINANCIAL SELECT SECTOR SPDR  | 5.00%  |
| TECHNOLOGY SELECT SECTOR      | 10.00% |
| HEALTH CARE SELECT SECTOR     | 10.00% |
| CONSUMER DISCRETIONARY        | 10.00% |
| FDIC CASH NOT COVERED BY SIPC | 2.00%  |

#### MRM Dynamic International

|                               |        |
|-------------------------------|--------|
| ISHARES MSCI EMERGING MARKETS | 25.00% |
| ISHARES MSCI EAFE INDEX FUND  | 15.00% |
| ISHARES MSCI NEW ZEALAND INV  | 10.00% |
| ISHARES MSCI HONG KONG INDEX  | 20.00% |
| ISHARES MSCI NETHERLANDS INV  | 10.00% |
| ISHARES FTSE CHINA 25 INDEX   | 10.00% |
| ETF MANAGERS TR BLUESTAR      | 8.00%  |
| FDIC CASH NOT COVERED BY SIPC | 2.00%  |

#### MRM All Equity

|                               |       |
|-------------------------------|-------|
| APPLE INC COM                 | 5.00% |
| ALLERGAN PLC SHS              | 5.00% |
| AMAZON COM INC                | 5.00% |
| ALIBABA GROUP HLDG LTD        | 5.00% |
| BOEING CO                     | 5.00% |
| BAIDU COM INC SPON ADR REP A  | 4.50% |
| BOX INC CL A                  | 5.00% |
| CENTENE CORP DEL              | 5.00% |
| LAUDER ESTEE COS INC CL A     | 5.00% |
| INTERNATIONAL BUSINESS MACHS  | 5.00% |
| INTUIT                        | 5.00% |
| J P MORGAN CHASE & CO         | 5.00% |
| MASTERCARD INC COM            | 5.00% |
| MICROSOFT CORP                | 5.00% |
| NETFLIX COM INC               | 5.00% |
| NIKE INC CL B                 | 5.00% |
| BOSTON BEER INC CL A          | 5.00% |
| TELEDYNE TECHNOLOGIES INC     | 5.00% |
| TWITTER INC COM               | 5.00% |
| VISA INC                      | 4.50% |
| FDIC CASH NOT COVERED BY SIPC | 1.00% |

## 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<br>(When Potential Investments<br>Look Unattractive) |
|-----------------------|--|---|--|
| 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<br>(ETF's)/Other Securities | Up to 25%  |
| Global Strategies     | 50% S&P 500 Total Return/<br>50% MSCI EAFE Gross | Exchange-Traded Funds<br>(ETF's)/Other Securities | Up to 50%  |
| Tax-Advantaged Income | Dow Jones US Select Dividend<br>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 June 30, 2018. 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.

Valuations are computed and performance is reported in U.S. dollars. Client performance may differ based upon the structure of a particular investment program. For example, some programs are structured as wrap fee programs in which trading costs and brokerage commissions are included in one all-inclusive wrapped fee. As such, these costs may be higher than if the client were to pay trading costs and brokerage commissions separately. The standard management fee is 2.0%. Deviation from the model's diversified structure may result in different risk, return, and diversification characteristics and would therefore not be representative of the models.

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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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