

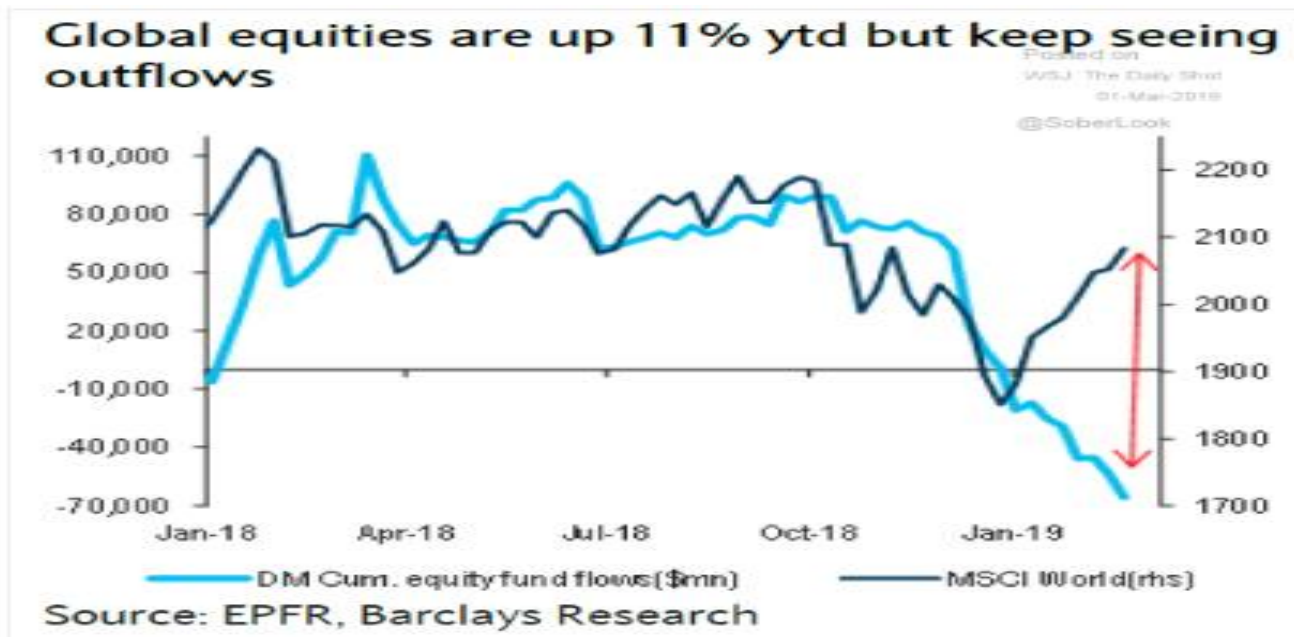
March 1, 2019
Investor Update

There has been a nice follow through to the January gains in February. Interestingly, money has flowed back into the most expensive growth names as they have moved to new all-time highs. This has happened with a weakening economic backdrop and corporate earnings estimates coming down. On the flip side the most conservative names highlighted by the record drop in Kraft Heinz this month have lagged significantly at a time when they should be doing well in a weakening economy. There are several mixed signals going on which again highlights our view of late cycle dynamics.

There have been a lot of skeptics of this rally back in stocks and in many ways the fundamentals say the rally should stop about here. As I have mentioned before the fundamentals are only part of the story with sentiment and positioning being a big driver of stocks. One thing that leads me to the conclusion that this is not a bear market rally and will eventually lead to new highs is that we have seen a big boost in breadth as shown below and also highlighted in last month's letter. With breadth hitting an all time high, the market should follow suit later this year. In fact breadth rolled over in September before the market last year.



Additionally there has been less participation as the market has risen as money leaving the market has accelerated as the market has recovered. As shown below there is quite a large gap between money flows and the stock market performance. This is very unusual and should provide plenty of dry powder to purchase any dip that we see in the market. In fact, the discrepancy is large enough that should these flows come back into stocks, it could drive the market to new all-time highs.

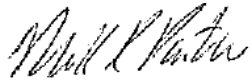


One last piece of interesting data that paints a different picture than the headlines is the fact that corporate earnings estimates have come way down. While it is true that earnings estimates have come down, if you look at sales estimates they have held up relatively well. Sales are a function of the economy, while earnings are a function of profitability and margins. This may mean that profitability and profit margins may have peaked for this cycle but that the economy is not on the doorstep of recession. This could be a big explanation for why growth names are dominating value names again as value names struggle with maintaining profit margins.



Going forward we continue to believe that we are late in the economic cycle and that volatility will persist on both the upside and the downside. While there are a lot of positives in this report, positioning in the market does bode for a consolidation of this rally over the next 4-6 weeks. Consolidation happens either by price (3-5% down) or time (sideways market for several weeks). For this reason, for clients that have the ability to use options, we have been writing covered calls to boost returns while maintaining a cash balance to jump on opportunities over the next several weeks. If you have any questions about how a covered call strategy can help your portfolio please contact me at 908-376-3041.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark R. Painter". The signature is written in a cursive, flowing style.

Mark R. Painter, CFA