2017 Roundtable Contributors




Panelists

John Mauldin President Mauldin Economics & Mauldin Solutions	**Brian Lockhart, CFP** CIO Peak Capital Management
Steve Blumenthal Exec Chairman & CIO CMG Capital Management Group	**Clint Pekrul, CFA** Chief Equity Strategist Peak Capital Management

PCM
PEAK CAPITAL MANAGEMENT

2017 Roundtable

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Geoff: Gentlemen, let's start this discussion with your broad outlook for 2017 and what is on your radar, to borrow a phrase from Steve.

JOHN: The frustrating thing is that your outlook for 2017 is going to depend on what happens over the next five months. It's in the hand of politicians and we don't know what politicians are going to do. I was just in Washington D.C – there is an extraordinary amount of enthusiasm but there is also an extraordinary amount of "We're really not sure what's going to happen". The range of what could happen is extraordinarily high. At the same time, the problems that are developing in both Italy and some of the other parts of Europe, and in China, are going to impinge on all these factors. We'll know a lot more in five months. ***I think we can have a 2017 forecast sometime by the middle of May.***

Exclusive: John Mauldin in DC for Trump's Inauguration

STEVE: Really well said. I look at things from a lens of risk and reward and the bigger risk is that we're in the third longest bull market run in history, and valuations are the second highest level they've been in history. No matter what valuation metric – pick your choice, we're elevated. You get one to two recessions every decade. It's been some time. The upside hopefully is we get tax cuts, we get the government moving, and we get a repatriation of two trillion in corporate cash, and a stimulus package. ***I think the biggest risk is in the bond portion of the portfolio.*** I'm seeing fundamental forecasts of 10-year Treasury note rate at 5% inside of the next several years. Investors aren't prepared for that. They need to think differently about that portion of the portfolio.

BRIAN: When I look at 2017, if there was one word that I had to use to describe it, it would be conflicted. On one side you have this optimism since the election that seems well-founded. With profit repatriation, tax cuts for individuals in corporations, and a roll-back of regulation is business friendly and should stimulate higher growth. Add fiscal stimulus through infrastructure spending and it is easy to see why the markets have rallied since the election. At the same time, you have a Fed tightening cycle that probably is going to accelerate. ***I think the Fed will probably hike rates three times this year, the market has only priced in two.*** Maybe one more won't matter, but at some point in time they will matter. Reagan came into office in 1981 with a much different economic plan than what the prior administration had. He wanted to boost growth and create opportunity from Main Street to Wall Street. I see Donald Trump being in a very similar position.

JOHN: But they created a deep recession that was actually worse in terms of GDP and worse in terms of employment than what we went through in 2008.

BRIAN: Correct, the stock market fell 30% in Reagan's first eighteen months. Those policies we now know led to a decade of prosperity. The Fed was tightening when Reagan came into office just like today. I'm cautious to make comparisons between Trump and Reagan, but there are a lot of similarities between 2017 and 1981.

STEVE: Can I interrupt and jump in and ask a quick question – your thoughts around this debt supercycle? This is crazy! Across all of the developed world we're at north of 300% debt-to-GDP. How do you think that plays out, what is the end game?

JOHN: Badly. Debt is one of the two biggest bubbles in the history of mankind, the other being the bubble of government promises. Both of those bubbles will have to be resolved in one way or another over the next ten years. You can resolve debt in a *number* of ways. The most problematic way is if each country individually starts printing their own money to destroy their currency. You end up with currency wars. You end up with all sorts of manipulations. That becomes problematic for the markets. If all of the major developed world holds hands, walks off the cliff together, says, "we're going to manage our currencies and our resolution of debt in a cooperative manner, we are going to keep our currencies within a band, whatever that

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band is. Ok, that's one way to resolve it – it's going to impact the market—but avoid the debilitating impact of a trade war or currency war. Can they do that? Well, yes. We did Brenton Woods twice. It's plausible that they look into the Abyss and go, "Oh my God, we've got to do this together."

BRIAN: Where we could probably all agree is that this is unlikely to be dealt with this year. The can (ever growing in size) will continue to be kicked down the road for the foreseeable future.

JOHN: The environment that gave us the 3-4% growth during the Reagan years and before – that doesn't exist today. We are in a different environment.

STEVE: That was a different starting point.

JOHN: Different starting point. Now could we get 2 ½ - 3% growth? Yeah, I could see that. And that by the way would be the equivalent of 4-5% during the Reagan years. Europe's growing at 1-2% and they think they're doing well.

Geoff: Brian, where do you forecast growth for this year?

BRIAN: The most likely scenario in 2017 is that the economy strengthens. I think we get 5-5½% nominal growth this year with 3% real growth. Look at the NFIB survey of small business owners, they are more optimistic than they've been in 15-20 years. Look at the University of Michigan consumer sentiment survey, it's the highest it's been since I believe 2004. Economic activity has to increase in that environment when you still have an accommodative Fed.

STEVE: We did a study and we took a look at what the impact of certain tax cuts would be. So, let's say corporate tax goes down to 15%, what does that mean with potential boost in earnings. And then from there, we looked at valuations which are really rich, second most expensive market in history. The outcome of that was, yes, earnings are going to be better. We've been in a earnings recession so they are going to get better. ***Still, in the most optimistic scenario, the markets remain expensively priced.***

BRIAN: ***The potential for releasing animal spirits from that rollback of regulation and tax cuts is significant.*** Now, it may not happen. The potential for that certainly does exist.

JOHN: Which is why so many people are optimistic. They really believe Trump is going to deliver what he said in his inaugural speech, which I wasn't entirely comfortable with, but realize as I was listening to it, he was just laying down a marker. If you look at his management style he's bringing his people in and he's expecting them to affect change and if they don't achieve that, he will bring someone else in.

Geoff: Clint, to turn our attention to you. You head up research for Peak Capital and to John's point, there is no shortage of question marks. As the lead portfolio manager on PCM's Dynamic Risk Hedged Indexes, how do you go about managing money both globally and in the U.S. given these question marks?

CLINT: For Peak Capital, the way we approach portfolio management and portfolio construction is to understand how each component of a portfolio is contributing to the overall risk in the portfolio and how a change in any part of the portfolio impacts the risk or volatility of the portfolio as a whole. In order to do that, you have to construct what we call a risk budget. Are you overly concentrated in any single position? How might a change in one position impact the overall portfolio characteristics? It's important to quantify that on a daily basis to make sure that your portfolio is aligned with pre-determined goals. Allocating based on risk is a little bit different than portfolio manager's who use a dollar-weighted asset allocation. So, we look at it from a risk contribution standpoint and then we back into what the appropriate dollar weight should be in the portfolio. That's the first step in our construction process. The second thing we do is we look at how diversified that portfolio actually is. To do that you need to look at your

average volatility and your correlations. If risk is too concentrated or correlations are too high, we will increase our hedge which includes the ability to utilize a short position on the S&P 500 or add cash. We're not just going to be a beta portfolio to the S&P 500 or a passive, long-only strategy. We feel that having the ability to step aside or inject into the portfolio something that's not correlated helps to control volatility and ensure a minimum level of diversification.

Geoff: CMG has successfully navigated periods of volatility by maintaining a tactical approach. Can you expound upon your process at CMG?

STEVE: We wrote a piece titled Trend Following Works. In short, years of academic research, hundreds of independent studies, some looking at nearly 200 years, studying equity markets, fixed income markets, commodities, etc., both hear and globally show that asset classes trend consistently. Our objective is to measure trend in a large number of liquid markets, identify the ETFs demonstrating the strongest trend and allocate to them during favorable up-trending markets. We have a rules based process to help minimize loss during negative down-trending periods. In short, to participate and protect. Sometimes, bond ETFs may be gaining while equity market ETFs are in decline. Other times, equities and fixed income may both be in decline. In rare instances we have the ability to position 100% in Treasury Bill ETFs (a cash alternative). We believe that understanding the power of compound interest should be lesson #1 all investors should learn. Surprisingly, many don't understand how merciless loss can be. Overcoming a 50% decline requires a 100% return to get back to even, not 50%. Overcoming such losses may take years.

"Our intermediate term indicator is signaling a bearish trend for gold while our short-term indicator is bullish."

Geoff: Well gentleman, let's pivot off of our outlook and turn our attention to the global markets. John, you've written quite a bit on currency wars. You mentioned it in your opening comments. Tell us more. What changed post-election and what stayed the same?

JOHN: Well, post-election we got Trump. I mean, that was the shocker! For half of the country it was a debilitating shock and for the other half it created optimism. What stayed the same was Italy. Italy still has massive banking problems. It's just hard to overstate how indebted and how underwater those banks are. The analogy in the U.S. is probably close to 4-5 trillion, imagine if our banks had 4-5 trillion of unfunded liabilities and non-performing loans. We would be running around like chickens with our heads cut off screaming for the end of the world. That's what Italy is facing and the Germans are either going to have to allow the ECB to underwrite that or the Italians are going to have to go to their central bank and say, "underwrite it" and expect the ECB to give them money. If it doesn't happen the Italians will have a snap election and they will likely vote to leave the Euro. ***This isn't a Brexit in the sense they leave the European Union. This will be a, "we don't want to leave the Union, we just want to leave the Euro."***

BRIAN: There's currently nothing in place to allow that. Draghi and the ECB surely believe that if Italy, the 8th largest economy in the world, exits the Euro the currency is dead.

Geoff: John, what about the Yuan and the Yen?

JOHN: I think the Yuan is going to continue to ratchet down. They've already gone through a trillion dollars protecting their currency. The irony is that China has been manipulating their currency. There's no question about it, they've just been manipulating it up. The Euro's down 30%. The pound went down to about 40%. The Yen is down 30-35%. Look how far down the Canadian Dollar is – the Looney. The Peso is down. I mean, these are meaningful devaluations.

BRIAN: ***Trump may have to label every nation in the world as a currency manipulator.*** Geoff, you mentioned the inaugural speech. What was obvious was Trump making it clear that America is going to come first. That is a different take than what our political leaders have had.

JOHN: No, that's not true. America has ALWAYS come first we've just never said it so bluntly, so in your face.

BRIAN: I may push back on that. I think that a lot of what America has done is put others first. Whether in some of the trade policies that have not been as favorable for the U.S. as others or our willingness to spend billions as a global cop or enforcer of virtue. What's going to be interesting is identifying the fine line between protecting American interests and Protectionism. You can have a border tax, you can have tariffs to punish the supposed currency manipulators, but you can't have your cake and eat it too. A border tax or tariffs is going to help some domestic companies but there will be winners and losers. American companies who depend on exports are going to suffer from an even stronger dollar and possible retaliatory policies from China and elsewhere.

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STEVE: John, do you think Trump is setting up for a grand negotiation with China?

JOHN: Absolutely. But understand, that's his style. All of his positions during the campaign were putting China, Canada, Mexico on their back foot. They're posturing before entering into negotiations and, to Brian's point of protecting American interest as opposed to protectionism, is deliver something better than we have today. The other guy says, "Oh, that's all you want? I don't have to do this or that?! I'll take it." And Trump looks like a hero. Everybody breathes a sigh of relief.

Geoff: Steve, you just presented your views on gold at the Inside ETF conference, what do you expect the yellow metal to do this year?

STEVE: Fundamentally I believe gold is a hedge against global central bank QE-related risks. We are eight years into a grand experiment of zero bound interest rates and print and buy activity that we just don't know what the outcome will be. For investors in general I favor up to a 10% position in gold. In our clients wealth portfolios, we utilize a simple trend following investment process. We want to participate in an up-trending period in gold when price is moving higher and we want to risk protect in periods when price is declining. We use an intermediate trend following process and a short-term trend following process. When both are bullish we invest 10% in gold. When both trend indicators are bearish we reallocate to other asset classes. Our intermediate term indicator is signaling a bearish trend for gold while our short-term indicator is bullish. Therefore, we currently maintain a 5% position in a gold ETF.

Geoff: It appears volatility in the bond market will remain for some time. Clint, how are you managing that risk in portfolios designed to provide current income?

CLINT: We seek to balance current income with safety of principal. For example, we won't simply reach for yield with no consideration for the potential loss of principal. We diversify the portfolio across multiple securities that produce income. This includes traditional bonds, but also dividend paying stocks and high yield corporate debt. In some cases, the expected cash flows are relatively stable, while in other cases the cash flows are more variable and can adjust to changes in inflation expectations. Once we select the portfolio's holdings, we then scale the asset allocation through a risk budget. Each constituent receives a dedicated percentage of the portfolio's overall risk. This framework allows us to scale the positions up and down as volatilities and correlations change. For example, if credit conditions deteriorate, our trading system can systematically scale back the high yield bond exposure, and help limit any damage that it could inflict on the overall portfolio. ***If rates are rising rapidly, like what happened post-election, we have the ability to utilize a short U.S. Treasury position to lower portfolio duration and volatility.***

Geoff: Brian, you manage a concentrated individual stock portfolio that focuses on dividend paying stocks. What insights can you share on your methodology to manage risk while capturing market gains?

BRIAN: A lot of our work on the dividend equity portfolio involves avoiding risk where there is limited reward potential. It is my opinion that you don't need 100's of positions to achieve diversification if each holding serves a purpose in the portfolio. Security selection starts with our macro outlook. For example, our view that higher growth forces inflation and rates higher causes us to underweight interest-rate sensitive investments like corporate REITs, Utilities, and Telecoms. We attempt to identify stocks that have exceptional ROIC (return on invested capital) and who generate increasing levels of free cash flow. Once we have narrowed the universe of possible holdings we look for companies with great management, firms with a long-term track record of increasing dividends, and finally a payout ratio that we believe is sustainable. In a rising inflation environment like today, companies who have

demonstrated pricing power is critical, leading us to overweight technology, healthcare, and energy.

Geoff: With that, let's finish this discussion with the single best piece of advice you can give investors given the vast dispersion of possible outcomes in 2017. Give your call on where the S&P 500 will finish and your expectation for the 10-year Treasury. John, do you want to kick things off?

JOHN: I think the best thing you can do is to diversify trading strategies. You have to have active, and for my money it is ETF strategies. That's why Peak Capital and CMG are part of the portfolio of a blended management team that I've put together. I think that's the way you have to attack the markets. Where I think the bond market and the S&P will end up this year – I have no clue. Furthermore, because of the way that I am blending trading strategies, I really don't care! I think I've got the opportunity to do well in any environment.

STEVE: Investors often behave poorly when we run into difficulties in the market. I don't think that that's going to change. So, we've been through a period where passive investing has worked, a Q E driven market but I think volatility is going to pick up. I wouldn't be afraid of change. Be adaptive. ***What John's put together is a very adaptive portfolio and I would add that not only do you want strategies that can look anywhere – ETFs provide the ability to do that***, but also think very differently about your fixed income weightings within your portfolios. Diversify to tactical fixed income strategies as well. There's just a lot of risk with where interests rates will go.

Geoff: Steve, your weekly letter, On My Radar is fantastic. It's chock full of information. How do our readers and sign up if they are interest-ed?

STEVE: It's a free letter. You can go to our website, http://www.cmgwealth.com/. At the bottom of the home page, put your name and email address in and you'll be added to the list.

Geoff: Clint, your forecast?

CLINT: It's anyone's guess on the ten year. Rates have been coming down and down and down for thirty years. It's like a ping pong ball hitting a table, they have to go up. Well, not necessarily. We could be in a low rate environment for a long time. One hiccup in the equity markets and all the sudden the yield on the ten year is attractive and people buy into it and it rolls back down. After all is said and done you might not see much of a change but a lot of volatility. On the S&P 500, maybe you'll get low single-digits, a 5% type of return. I think people are going to really try to adjust and adapt to what having Trump as president really means.

Geoff: Best advice for investors?

CLINT: Have a disciplined strategy and a disciplined approach and stick to it.

Geoff: Great. Brian let's have you close it out for us. Best advice for investors and your call on the S&P and the ten year?

BRIAN: Investors need to understand that passive investments strategies have worked phenomenally well the last five years because the focus has been on QE and monetary policy. The new administration is going to shift away monetary policy to fiscal policy to stimulate the economy. There will be tax cuts and reduced regulation. What's going to drive the market is very different from what's driven the market the last five years. My advice for investors is to have a strategy that will adapt to what is unknown today. With respect to market performance, I expect to see the S&P 500 trade in the 2450-2475 range, about 9% above where we started the year. I don't know that it will end the year at that level, but will get there while sentiment is high. I expect to see the ten year Treasury finish almost exactly where we're currently at – between 2.4-2.5%.

Geoff: Well, thank you for everyone's time and thoughts. We truly appreciate your insight as we set out to serve advisors and clients alike with excellence. Thank you.

> ***"What's going to drive the market is very different from what's driven the market the last five years."***

Roundtable Contributor Bios

John Mauldin

John Mauldin is a renowned financial expert, a New York Times best-selling author, and a pioneering online commentator. Each week, over 1 million readers turn to Mauldin for his penetrating view on Wall Street, global markets, and economic history. Mauldin's weekly e-newsletter, Thoughts from the Frontline, was one of the first publications to provide investors with free, unbiased information and guidance. Today, it is the most widely distributed investment newsletter in the world. Mauldin is a frequent contributor to publications including The Financial Times and The Daily Reckoning, as well as a regular guest on CNBC, Yahoo Tech Ticker, and Bloomberg TV. His books have appeared on the New York Times Best Sellers list four times. They include Bull's Eye Investing: Targeting Real Returns in a Smoke and Mirrors Market, Just One Thing: Twelve of the World's Best Investors Reveal the One Strategy You Can't Overlook, and Endgame: The End of the Debt Supercycle and How it Changes Everything. He also edits the free weekly e-letter Outside the Box. Mauldin is the President of Mauldin Solutions, an investment advisory firm registered with multiple states. He is also a registered representative of Mauldin Securities, a FINRA-registered broker-dealer. Prior to that, he was Chief Executive Officer of the American Bureau of Economic Research, a publisher of investment newsletters and books. Mauldin is one of the founders of Adopting Children Together, the largest adoption support group in Texas. He is currently on the board of directors of The International Reconciliation Coalition. He has also served on the Executive Committee of the Republican Party of Texas. Mauldin earned his Bachelor of Arts degree from Rice University in 1972 and his Master of Divinity degree from Southwestern Baptist Theological Seminary in 1974. Mauldin currently lives in Dallas. He is the proud father of 7 children, 5 of whom are adopted.

Brian Lockhart, CFP®

Brian is the founder and Chief Investment Officer of Peak Capital Management, LLC (PCM). With over 20 years of portfolio management experience, he serves as the co-portfolio manager of PCM's suite of strategies. Brian directs the company's tactical allocation of PCM's unique investment models and has been crafting ETF strategies for nearly a decade, making PCM an early adopter of ETFs. Brian has been featured in multiple media outlets including Barron's, Forbes, Fortune and Business Week. An active conference speaker, Brian communicates on topics ranging from portfolio and risk management to alternative investments. A graduate of Polytechnic State University in California, Brian received his Bachelor of Science degree in Business Administration with a concentration in Financial Management. He and his wife, Cindy, have been married for over 25 years and love living in Colorado where they raised their two children, Caleb and Jennifer.

Steve Blumenthal

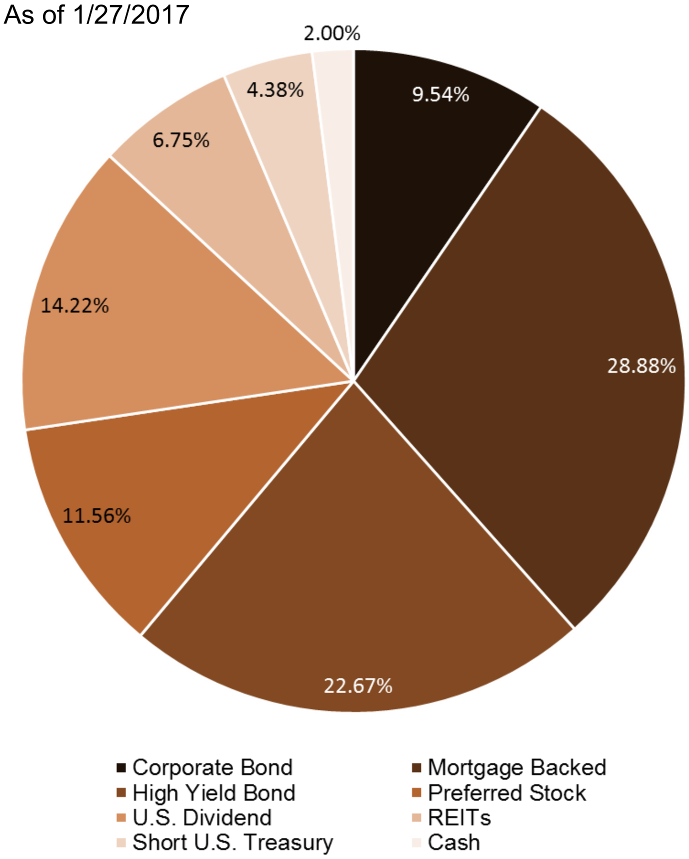
Stephen Blumenthal founded CMG Capital Management Group, Inc. in 1992. He is CMG's Executive Chairman and Chief Investment Officer. With over 30 years of investment management and industry experience, Steve began his career with Merrill Lynch in 1984. He is a frequent speaker and writer on investment strategies. He writes investment commentary for Forbes and has been featured in The Wall Street Journal, Barron's, Investor's Business Daily, Pensions & Investments Magazine, Investment News and ETF.com. He has appeared in various media outlets including Bloomberg, CNBC and Fox Business News. Mr. Blumenthal is the author of the popular weekly e-letter, On My Radar, that helps investors, advisors and institutions gain a deeper understanding of the forces driving the economy and investment markets. Mr. Blumenthal graduated with a Bachelor of Science degree in Accounting from Pennsylvania State University. He is married and has three children and is active in his community coaching youth soccer.

Clint Pekrul, CFA

Clint Pekrul is Head of Research at Peak Capital, and is responsible for the development and implementation of the firm's quantitatively driven strategies. Clint has approximately 16 years of industry experience. Prior to joining Peak, Clint worked in the asset management group at Curian Capital, and was responsible for managing quantitative ETF models with a focus on risk management. Prior to joining Curian Capital, Clint worked in the Private Client Group at Merrill Lynch. Clint is a Chartered Financial Analyst and holds a B.S. in business administration from the University of Oklahoma, graduating cum laude in 1998.

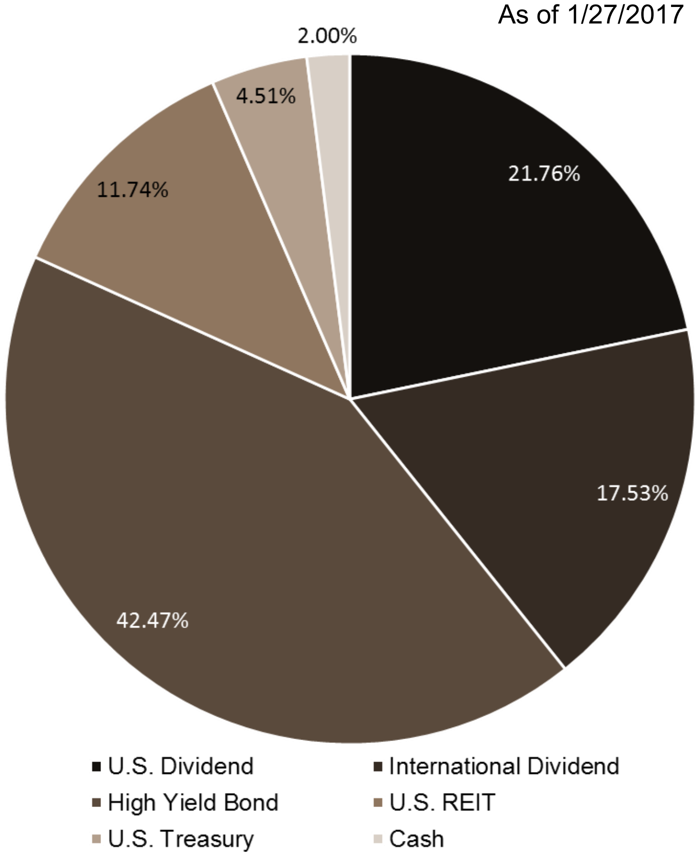
Income

As of 1/27/2017



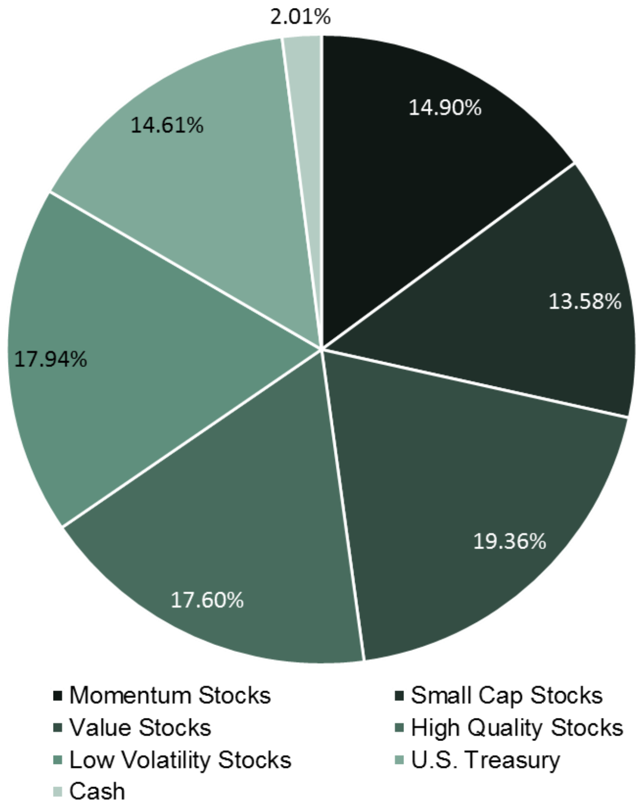
Balanced Income

As of 1/27/2017



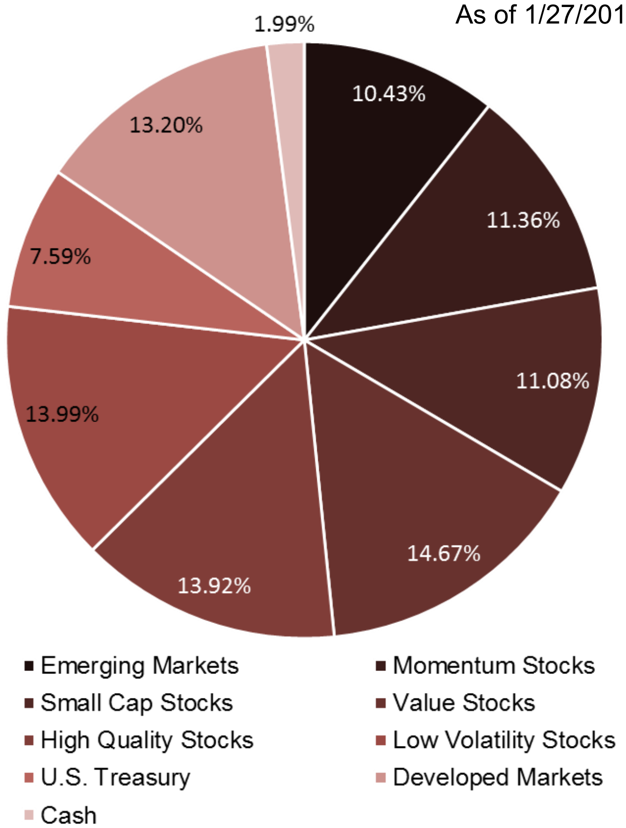
U.S. Growth

As of 1/27/2017



Global Growth

As of 1/27/2017



The Road More Traveled

For more information about any of the events listed below, please contact us at info@pcmstrategies.com

February

1st—Dallas

- S&P Advisor Forum

3rd-14th—South Africa

- Due Diligence Meetings

22nd-23—Orlando

- Advisor Meetings

March

9th-10th—San Antonio

- Advisor Meetings

17th—Colorado

- PCM St. Patrick's Day Celebration

27th-29th—Dallas

- Mauldin Solutions

Coming Soon!

3rd Annual Managed Solutions Advisor Summit

Sonoma, CA

Hosted by PCM and CMG