CMG Mauldin Smart Core Strategy Update

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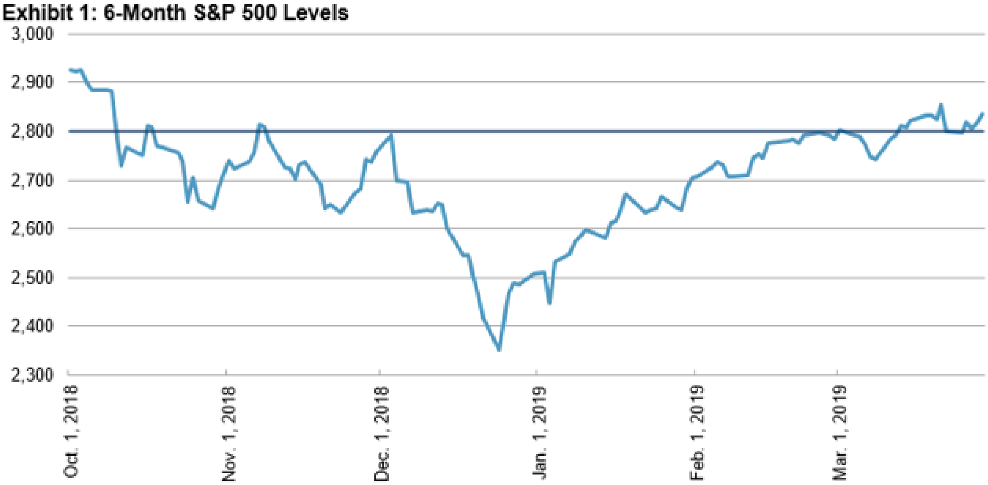
1Q 2019 Market Summary and Forward Outlook

Recently, when speaking with a prospective client at one of our dinner events, we were asked about our returns relative to the stock market. It's an appropriate question. We are pleased with the CMG Mauldin Smart Core Strategy's performance, especially relative to our investment objective and relative to our benchmark (the Morningstar Moderate Target Risk Index), we answered. It's been a volatile few quarters in the equity market and a near six-month round trip from September through March 2019 month-end. In some ways, we see it as a test for the period we foresee ahead. We navigated the volatility well.

Exhibit 1: 6-Month S&P 500 Levels



Source: S&P Dow Jones Indices LLC. Data as of March 29, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

We caution that short-term swings in the broader markets as a whole, viewed in isolation, don't sufficiently tell the whole story. Of course, we'd all like to have fully participated in the 20% S&P 500 Index rally since the December 24, 2018 low or the even larger gains in popular technology companies; however, Apple is not the same as Pacific Gas and Electric. The Technology sector is different than the Healthcare sector and stocks are different return drivers than bonds. Likewise, we believe it is unwise to compare singular risks to broadly diversified portfolios. When it comes to investing, performance is important but it is performance relative to risk over a full market cycle that matters in the end. That remains our objective.

1Q 2019 Sector Performance

Sectors	Q1	March	Vs. 52-week Low	Vs. 52-week High
Technology	19.4%	4.8%	28.5%	-3.0%
Industrials	16.6%	-1.2%	25.3%	-6.0%
REITs	16.5%	4.6%	21.9%	-0.4%
Energy	15.4%	2.0%	23.8%	-16.1%
Consumer Disc.	15.3%	3.9%	25.1%	-4.8%
Communications	13.6%	2.4%	20.6%	-2.8%
Staples	11.2%	3.7%	16.8%	-0.9%
Utilities	9.9%	2.7%	21.4%	-1.4%
Basic Materials	9.7%	0.9%	17.6%	-9.2%
Financials	7.9%	-2.7%	16.5%	-11.1%
Healthcare	6.1%	0.3%	16.5%	-4.5%

Source: NASDAQ

Valuation and Coming Returns

The forward return outlook for equities remains low due to high equity market valuations. See *On My Radar:* *Balancing Offense and Defense; Equity Market Valuations and What They Tell Us About Coming Returns* and *Thoughts from The Frontline:* *No Free Lunch: Valuation Determines Return*. Supporting our low return view: Vanguard, BlackRock, Goldman Sachs, Robert Schiller and even Wharton's Jeremy Siegel are predicting returns in the 2% to 5% range. Jeremy Grantham and his team at GMO see negative real returns over the coming seven years.

The current cyclical bull market move is now the longest in history. Had an advisor told his client to sell all of her technology exposure in late 1999, she'd have thought it bad advice. It wasn't. It took more than 15 years to recover the losses that followed. Valuations and the mania of crowds do matter. We believe we sit at a similar point in the investment cycle today.

To us, it feels much like 1999 again. Then we predicted recession and increased volatility and we did so again in 2007 warning of a sub-prime problem. This time, we see even broader challenges:

some form of debt restructure (globally) must occur and we have to figure out how deal with underfunded pension and entitlement challenges. Our initial investment starting conditions find us late cycle, overvalued and over-leveraged. This all sets the stage for a more challenging forward-looking environment for equities. As for bonds, they are yielding half of what they yielded at the top of the last two crises. This is why we favor risk-protecting equity exposure, reducing bond exposures and adding diverse trading strategies into portfolios.

Regular readers of our commentaries are aware we take a different approach with CMG Mauldin Smart Core. A large part of our world view is shaped by where we believe we sit in the long-term economic cycle, high market valuations, the current record high level of margin debt, corporate debt and government debt and our understanding of how markets and economies cycle over time. Our analysis of the fundamental mechanisms that have guided the markets for the past few decades (such as leverage constraints and access to liquidity) have irrevocably changed for the worse; thus, our caution to be forward looking with view and flexible in investment approach. This may sound gloomy but we believe it need not be viewed with pessimism. In fact, we see opportunity ahead. We just believe it requires a flexible trading strategy and a focused approach designed to seek returns and manage the downside risks.

The CMG Mauldin Smart Core Strategy is an equally-weighted multi-manager portfolio of four different ETF trading strategists combined together and delivered in a single investment account. The strategists are selected based on strategy styles, investment process, management teams and years of investment experience. Each strategy seeks growth opportunities while maintaining a level of protection and liquidity in down markets, but they do so in different ways. We believe this enhances portfolio diversification and reduces single-manager risk. While many managers and investors often wait until it's too late to take action, our approach is unwavering in our commitment to an investment process that seeks growth with the flexibility to quickly position to more defensive asset classes including short-duration Treasurys. We are unafraid to be early and to take decisive action in light of potential deteriorating market conditions. Our objective is to help investors successfully navigate what John has called the "Great Reset" – a period in time that we believe will be one of the more challenging investment environments in a generation.

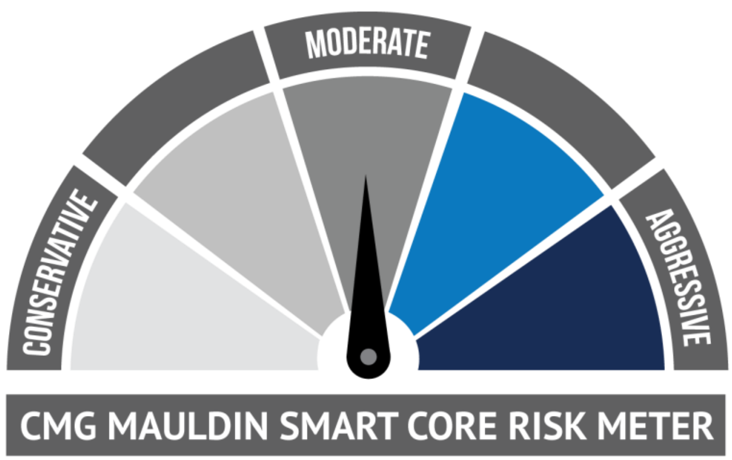
Ultimately, the end objective of portfolio diversification is to produce a desired return stream relative to an acceptable risk. However, the standard 60% stocks/40% bonds portfolio sits in a challenging point in its cycle. Today, the 2.60% 10-year Treasury bond yield is about half of what it yielded in 2007. After inflation, you're earning less than 1%. And what if the fix for the global debt crisis results in higher rates? Both your stock and bond allocations may decline together. Either way, 2.60% offers little potential reward over the coming 10 years. We believe CMG Mauldin Smart Core offers a viable alternative to your bond allocation and enhanced diversification benefits to your overall total investment portfolio(s).

To be sure, the S&P 500 Index went from a high of 2,929.67 on September 20, 2018, to a low of 2,351 on Christmas Eve. The S&P 500 Index rallied the last week of 2018 and finished the year at 2,586. The rally continued through the first quarter with the S&P 500 reaching 2,834 on March 31, 2019. A six-month near roundtrip back to the September 2018 high.

The driver of the recovery was the Fed's late December complete about-face. The Fed's rate hike cycle began in December 2015. Since then, the Fed has raised rates nine times, moving from a target fed funds rate of 0% to 2.50%. After partially removing the effects of Quantitative Easing (QE) by reducing its balance sheet (so-called Quantitative Tightening or QT), it is estimated by some authorities to be in the neighborhood of a cumulative tightening of 5.5%. That is roughly in line with the typically Fed rate hike cycle. As discussed in detail in *Thoughts from the Frontline*, raising rates while also reducing the balance sheet is in essence running a two-variable experiment. To our point, the economy (like the equity market) is late cycle. Ten of the last 13 Fed rate hike cycles have landed the U.S. economy in recession. It's after they pivot that recessions tend to follow. We believe it probable their batting average rises to 11 for 14.

CMG Mauldin Smart Core Strategy Update

To give you a sense for how to view the Strategy's aggregate risk exposure, we have created a risk gauge to help give you a sense of the most recent quarter-end portfolio exposures and how that translates into overall risk exposure. If the combined portfolio is overweight equities via ETFs, you'll find the needle in the "Aggressive" mode. If the combined portfolio is overweight "safer" asset classes via ETFs, such as short-term bonds, you'll find the needle pointed to the "Conservative" mode. Currently, CMG Mauldin Smart Core is moderately positioned from a risk perspective. It is quite interesting to watch each of the four strategists trade the markets and are pleased that our approach affords us the flexibility to increase or decrease risk exposures.



We are also pleased to report our portfolio adjustments were once again proactive and consistent with what we would expect in the face of increased market volatility.

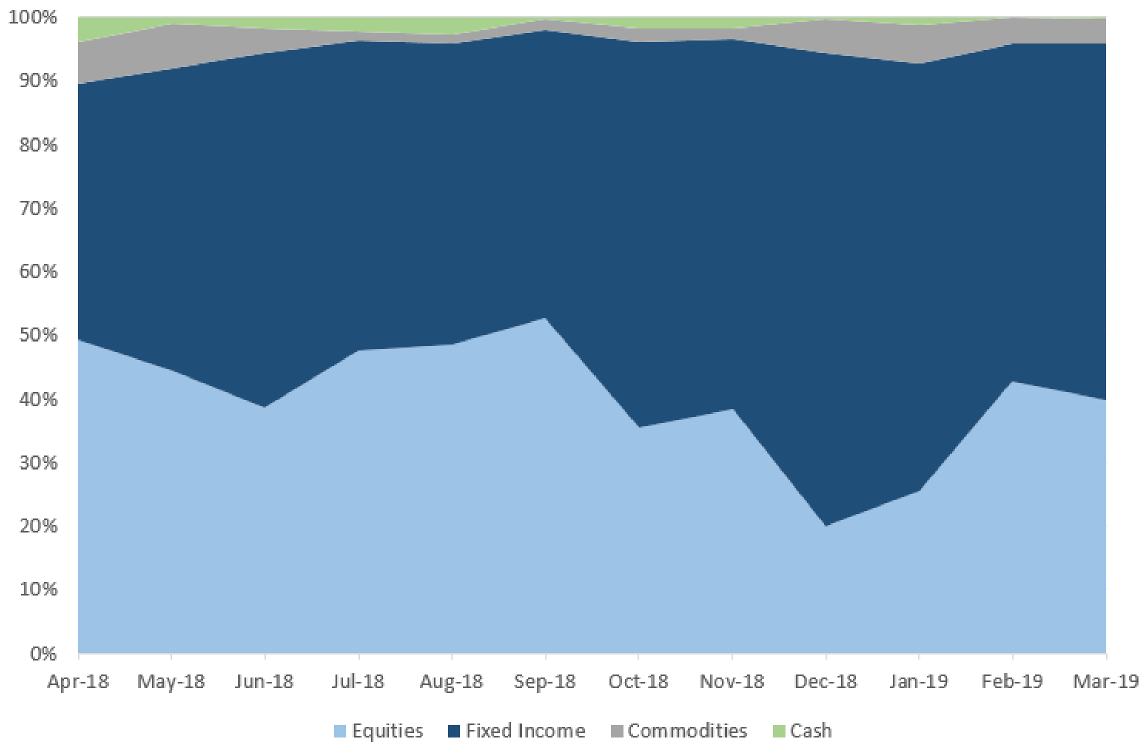
The following three heat maps show the total combined monthly portfolio exposures by asset class: equity exposure (differentiating domestic, international developed and emerging markets exposure), fixed income exposure, broken down by fixed income category, commodities and cash.

- Notable over the course of the quarter is the increase in equity market exposure and the decrease in fixed income exposure. At the end of 2018, equity exposure was just 20% and fixed income exposure was 74%. Exposure to commodity ETFs was 6% and exposure to cash was just 0.27%.

- During the first quarter 2019, the overall portfolio's weight to equity exposure increased to 26% in January, 43% in February and reduced slightly to 40% on March 31, 2019. Fixed income exposure declined from 74% to 56%. Commodity exposure declined modestly from 5% to 4%. Cash exposure was 0.40% at quarter-end.

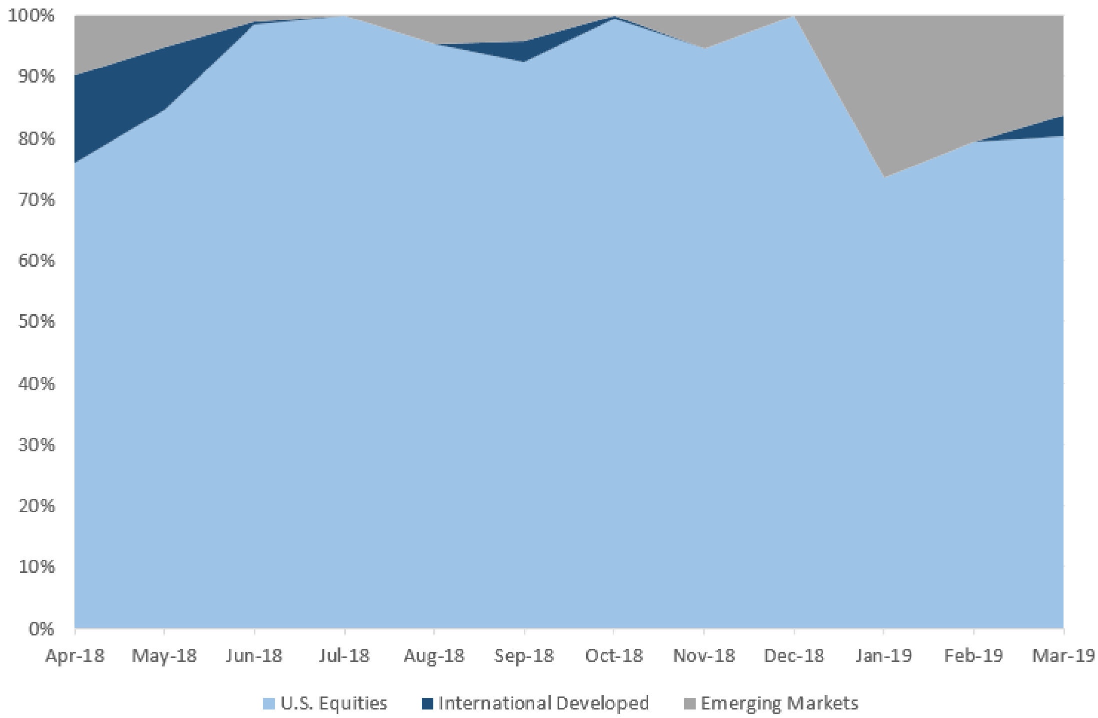
Exposures by Asset Category

You can see how the Strategy began to reduce equity exposure (light blue) last September from approximately 50% to 20% in December, while fixed income (dark blue) increased meaningfully. Equity exposure picked up and peaked at 40% of the portfolio's exposure in February and decreased modestly by March month-end.

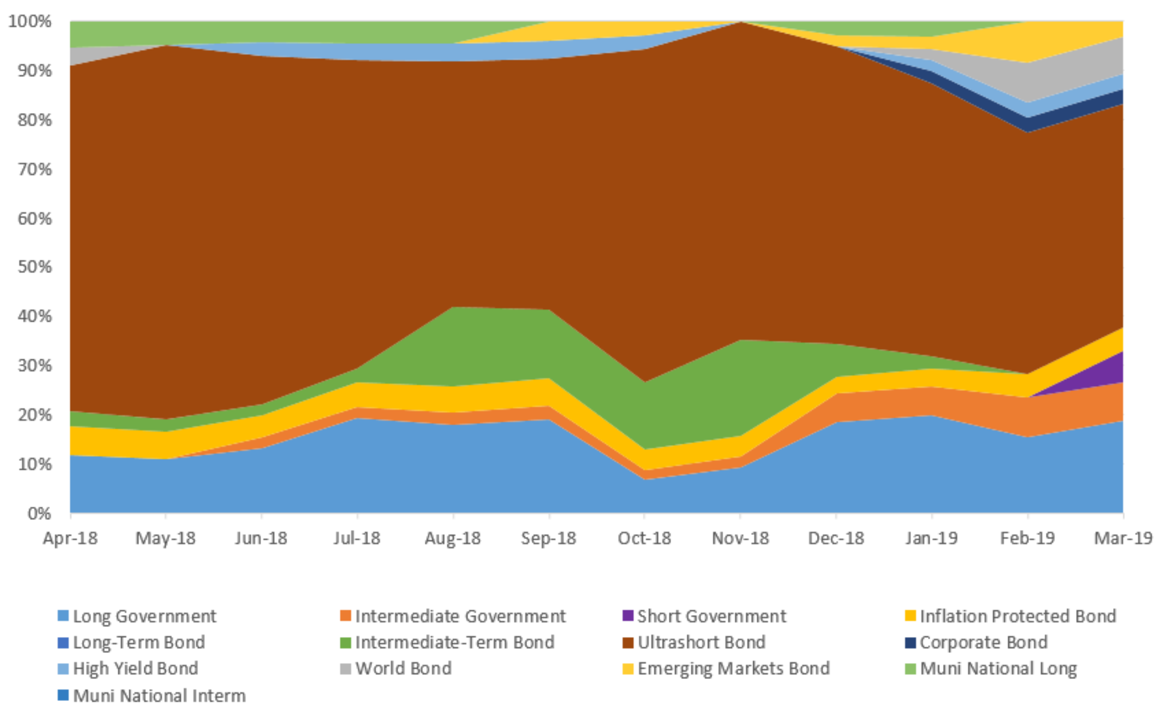


Equity Exposures by Geography

You can see in this next heat map that the majority of equity exposure is to U.S. equities. Within the U.S. equities category, the strategy was overweight U.S. large cap ETFs with notable exposure to U.S. small cap and technology ETFs.



Fixed Income Exposures by Category



While overall portfolio exposure to fixed income declined 74% to 56%, notable changes within the fixed income category was the reduction in exposure to short-term bond ETFs and increased exposures to High Yield, U.S. Corporate and World Developed Market Bond ETFs.

We always need to caution that past performance is not indicative of future results. With that said, we are pleased the CMG Mauldin Smart Core Strategy performed in line with our expectations in terms of both total return and risk in Q1 2019, return and defensive positioning in Q4 2018 and the return/risk profile since the inception of the managed account strategy in 2017.

The Strategy is available in a managed account or mutual fund structure. The benchmark is the Morningstar Moderate Target Risk Index. There are slight nuances to the start dates due to GIPS reporting standards. For more information on performance and risk analytics, please reach out to your CMG Advisor Representative. You can find the quarter-end return vs. benchmark summary here.

Concluding Thoughts

Looking forward, we believe investors can no longer follow the same playbook in navigating the markets (traditional 60/40 buy and hold) unless one has the resources, the time and the emotional discipline to stay the course. The majority failed to adhere to that game plan during the Great Financial Crisis and investor behavior was poor leading up to and post the 2000 Tech Bubble. We sit a similar point in time today and believe it unwise to have faith that some powerful, benevolent government or regulatory entity will save us. Perhaps they can but the challenges loom large; thus, we advise a vigilant and proactive approach to portfolio management. We recognize our message leans “tough love,” but do know we strongly believe there is a way to successfully navigate and gain advantage in the period we foresee. CMG Maudlin Smart Core is one potential solution for a portion of a well-diversified portfolio.

We believe there is no substitute for the relationship between thought leadership and actionable strategies that define our approach. We welcome discussions with you about our investment approach, portfolio sizing and diversification benefits.

Thank you for your continued interest in CMG Mauldin Smart Core. We hope you find this update helpful. If you have any questions and/or would like a deeper understanding of the Strategy, please reach out to your CMG Advisor Representative. To learn more about the Strategy or how to invest, email John at **mauldin@cmgwealth.com**.

Yours truly,

John Mauldin and Steve Blumenthal

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