CMG Mauldin Smart Core: Q1 Strategy Update

John Mauldin
Chief Economist & Co-Portfolio Manager
Steve Blumenthal
Executive Chairman, CIO & Co-Portfolio Manager

We hope that this letter finds you and your family safe and well. Defining the times as challenging right now is an understatement. Unprecedented? Yes. In our view, "The Great Reset" remains ahead. Resetting/restructuring debt and the path central bankers and legislators will pursue are not yet known – though we are seeing a glimpse into what the path may be. We provide some additional commentary at the end of this letter, but for now let's take a look at how the CMG Mauldin Smart Core Strategy managed risk during extremely adverse market conditions in the first quarter.

Q1 2020 Performance Update

Since the last week of February, when the current equity market decline started to accelerate, the strategy reallocated the portfolio among asset classes. By quarter end, the portfolio had meaningfully reduced risk exposure. You'll get a good feel for how the portfolio reduced risk exposures in the "Exposures by Asset Category" section below.

We associate the degree of risk by the overall exposure to the equity markets, fixed income markets, and exposures to short-term high quality bond markets. By design, each of the four strategists have investment processes that may increase or decrease risk exposures by shifting allocations to various asset classes. Since each strategy is actively managed, risk exposures may increase and decrease over time. The risk gauge below is our interpretation of the strategy's risk exposure at quarter end.

Current Risk Exposures and Commentary

- **Reduced equity exposure from approximately 57% to 21%.**
- **Increased fixed income exposure from 38% of the portfolio to approximately 70% of the portfolio.**
- **Increased the allocation to gold from 4% to over 6%.**

The CMG Mauldin Smart Core Strategy declined 7.92% for the quarter ending March 31, 2020, net of investment management fees. The benchmark for the strategy is a custom Global Allocation composite, which is comprised of a portfolio mix that includes the S&P 500 Total Return Index, the FTSE World Ex U.S. Total Return Index, the ICE BofA Current 5-Year U.S. Treasury, the FTSE World Government Bond Index Non USD Index and the Bloomberg Commodity Total Return Index. For the quarter, the Global Allocation benchmark declined 17.72% before the deduction of transaction costs and investment management fees.

For additional comparison, the Morningstar category for U.S. Fund Tactical Allocation declined 13.87%, the U.S. Fund Multi-alternative declined 9.71%, and the S&P 500 Index declined 19.60% for the quarter ending March 31, 2020. Please note that past performance is not indicative or a guarantee of future results.

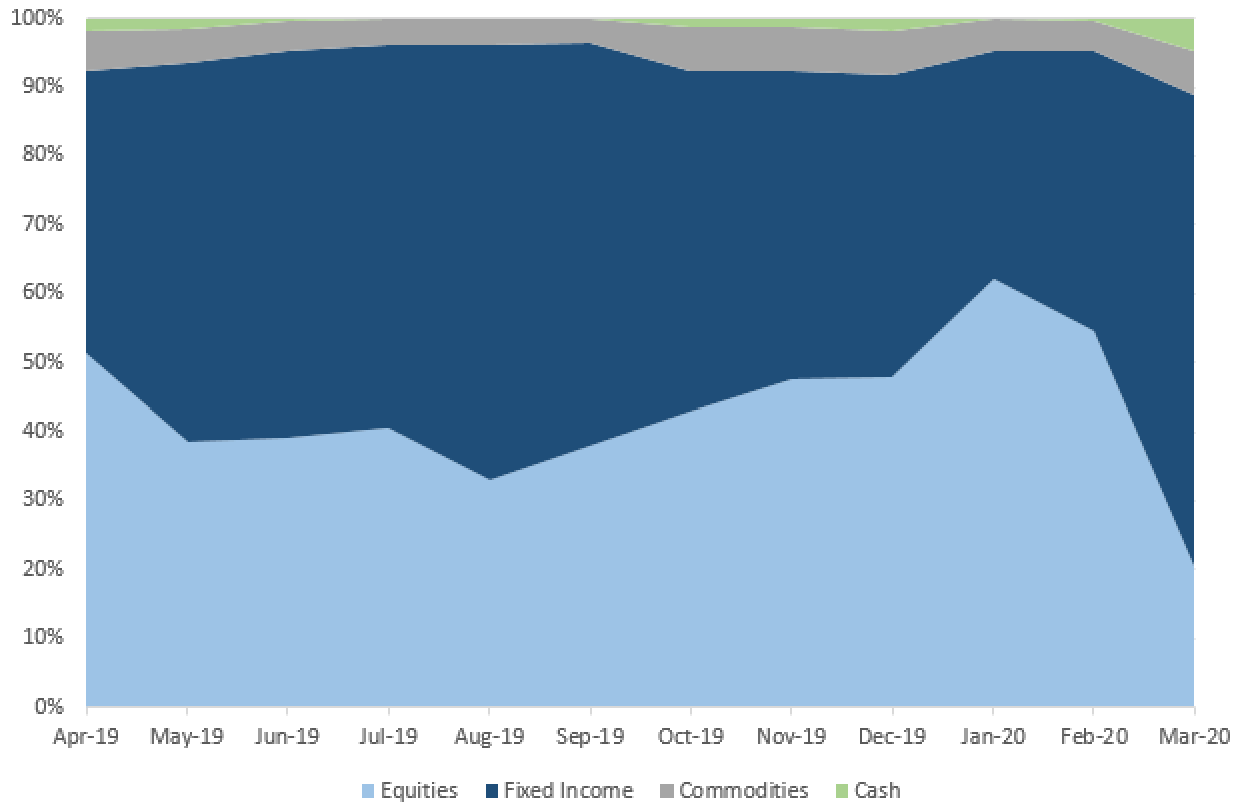
By preserving capital during a market decline and avoiding large drawdowns that take years to get back, the strategy is well positioned to capture upside opportunities.

The Smart Core Strategy's tactical unconstrained approach means that wherever opportunities arise, in any asset class, the strategy has the ability to capture market gains and generate outperformance.

Exposures by Asset Category

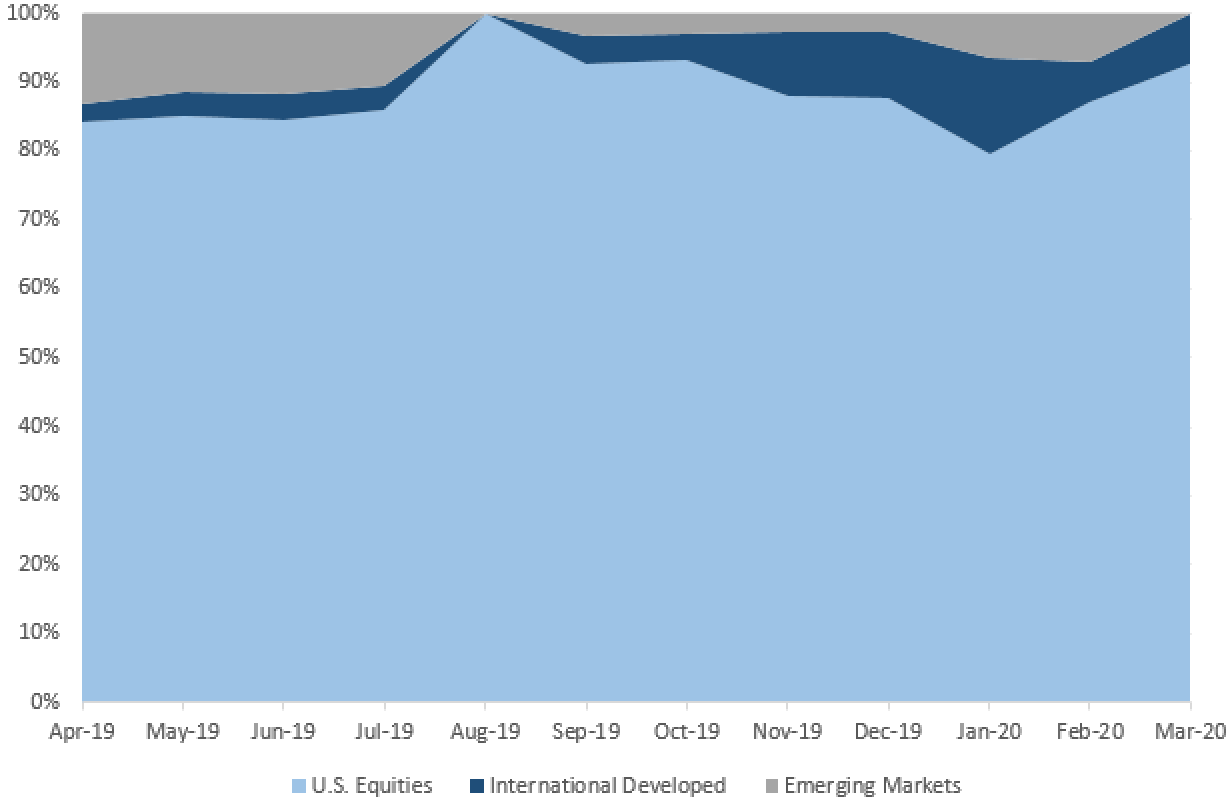
The heat maps below are designed to show you the total combined monthly portfolio exposures by asset class: equity exposure (differentiating domestic, international developed and emerging markets exposure), fixed income exposure (broken down by fixed income category), commodities and cash.

Equity exposure increased in January, decreased in February and was significantly reduced to 20.51% by quarter end. Exposure to fixed income increased from 44.09% on December 31, 2019 to 68.24% by quarter end. Most of the increase allocated to short-duration U.S. Treasury market exposure.



Equity Exposures by Geography

Within the portion of the portfolio allocated to equities, U.S. stock exposure represented 92.50% of the portfolio's equity exposure, up from 87.78% at the end of Q4 2019. International developed market equity exposure was 7.50% and exposure to Emerging Markets was 0% at quarter end.

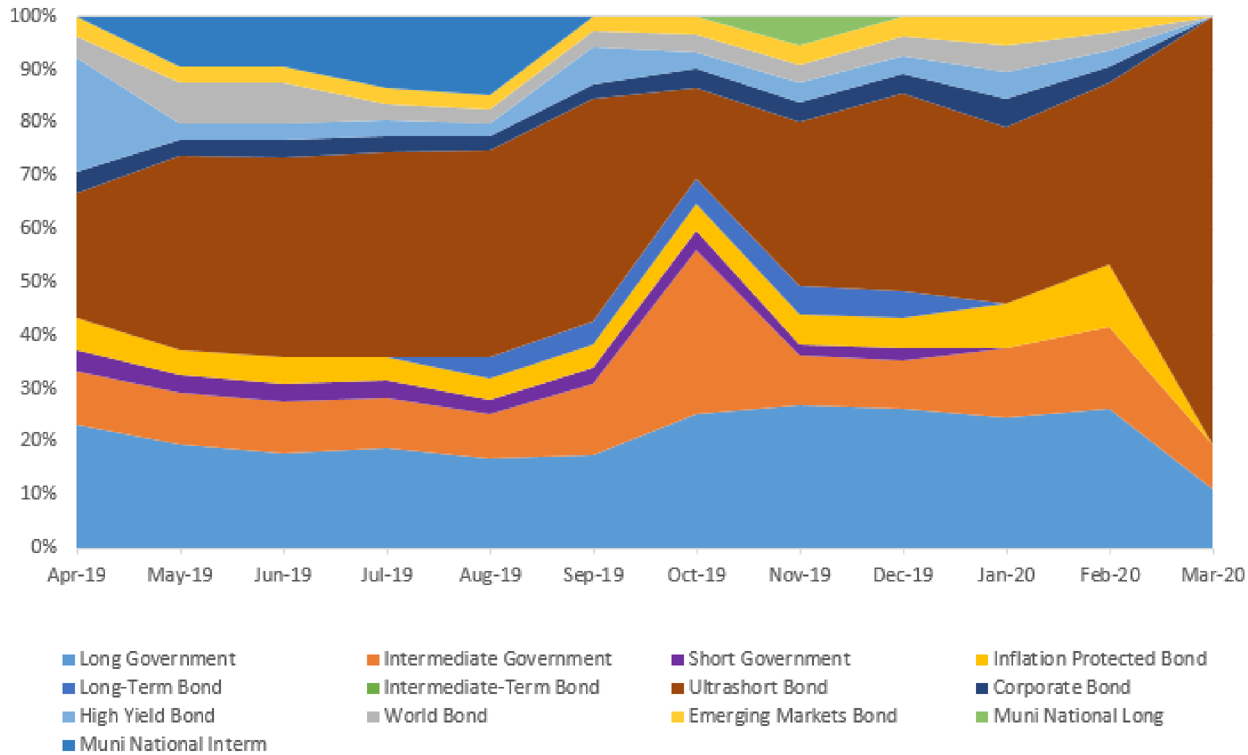


Top equity holdings as of March 31, 2020:

Vanguard S&P 500 ETF
Schwab U.S. Small-Cap ETF
Invesco S&P 500 Low Volatility ETF
Schwab U.S. Large-Cap Value ETF
SPDR S&P Dividend ETF
iShares Edge MSCI USA Momentum Factor ETF

Fixed Income Exposures by Category

Exposure to short-term U.S. government bonds was 80.56% of total bond market exposure at quarter end. Long-duration Treasury bond exposure was 11.25% at quarter end. Intermediate-duration Treasury bond exposure was 8.19% at quarter end. There was zero exposure to municipal bonds, high yield bonds, high-grade corporate bonds, emerging market and developed market bonds. We are pleased that the strategy avoided much of the downside that occurred in those markets.



Top fixed income holdings as of March 31, 2020:

SPDR Portfolio Long-Term Treasury ETF
Invesco Treasury Collateral ETF
iShares 20+ Year Treasury Bond ETF
iShares TIPS Bond ETF
SPDR Bloomberg Barclays 1-3 Month T-Bill ETF

Market Commentary

Beginning April 13, companies will report their first quarter earnings numbers. This will give us the first glimpse of the economic damage caused by the coronavirus shutdown. We expect companies will message a bleak outlook simply because they have little visibility on the impact of the crisis on their businesses. The impact is global. The timing of the pandemic crisis challenges overvalued and leveraged markets. The first wave of the sell-off took the S&P 500 Index down 33%. For the quarter, the S&P 500 Index declined 19.60%. Gains were achieved in the U.S. Treasury bond market, but other areas of the debt market fared less well. Yields on high grade and high yield corporates shot higher due to rising default risks. The same occurred in the mortgage bond markets, as investors anticipate rising delinquencies and the challenges that presents to banks and the derivative markets.

On the broader macro level, excessively high debt levels remain the significant challenge and when we think about The Great Reset, a significant part of the equation is debt, the balance is tied to the intersection of aging demographics and the impact the timing has on the woefully underfunded pensions in the world. As for debt, challenges are everywhere.

It is also unclear to us when the debt problems in China and other emerging countries will surface. But we believe it will. The same is true for Italy and France, and much of the debt in Europe. The point is, there are many points of instability and current shock is affecting all businesses in the world at the same time. The bottom line is there are many unknowns that could provoke setbacks in markets. Should the pandemic curves not flatten out as quickly as we assume today, markets will be under pressure again. Should major debt issuers default, markets will be under pressure again. We can’t know for sure but we suspect that over the course of the coming weeks, we will gain more visibility on the virus and when businesses get back to work, we expect a sustained recovery in equities. How long will this recovery last? Much depends on developments in the economy and the response from legislators. The initial response of $2 trillion is a good start. We suspect the number will end up closer to $5 trillion.

In short, we see a trading range environment in the market with the downside supported near fair value, which we estimate to be 2,200 to 2,400 in the S&P 500 Index, and the upside between 2,800 and 3,000. We believe markets will continue to see large fluctuations for some time to come, that The Great Reset has begun, and the 2020s will favor active management over passive buy-and-hold. We believe CMG Mauldin Smart Core is well positioned for the period ahead.

Why CMG Mauldin Smart Core

The CMG Mauldin Smart Core Strategy is an opportunistic, multi-asset, multi-manager investment strategy. The Smart Core Strategy combines four independent active investment strategies into one portfolio. The investment objective is to seek global growth opportunities while maintaining a meaningful level of risk management in times of downward market pressure.

The Smart Core Strategy believes in an active investment management approach is best suited to an environment of increased market volatility, high equity valuations and ultra-low bond yields.

The Strategy has a broad global asset allocation mandate. Asset classes may include equities, fixed income, commodities and cash, utilizing systematic risk-minded investment processes designed to identify favorable investment opportunities. Benefits of the Strategy include:

- Liquidity: Smart Core uses ETFs for efficiency and daily liquidity.
- Diversification: Smart Core is actively managed and diversified across both asset classes and investment styles. By allocating across four active management strategies, portfolio risk is not dependent on a single manager.
- Seeks Growth and Preservation of Capital: Low correlations to the fixed income and equity markets allow Smart Core to dampen overall volatility and solve for today's low yield fixed income problem.
- Alternative to Low Yielding Fixed Income: The combination of these managers is designed to reflect the beta/return of the overall hedge fund industry without the high costs and poor investor liquidity.

How to Access CMG Mauldin Smart Core

The CMG Mauldin Smart Core Strategy is available in a managed account or mutual fund structure. For more information on performance and risk analytics, please reach out to your CMG Advisor Representative. To learn more about the Strategy or how to invest, email sales@cmgwealth.com.

We appreciate the trust you have placed in us. Please know we are thinking about you and your family. Stay safe and stay well.

Yours truly,

John Mauldin and Steve Blumenthal

IMPORTANT DISCLOSURE INFORMATION

Investing involves risk. Past performance does not guarantee or indicate future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by CMG Capital Management Group, Inc. or any of its related entities (collectively "CMG") will be profitable, equal any historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. **No portion of the content should be construed as an offer or solicitation for the purchase or sale of any security.** References to specific securities, investment programs or funds are for illustrative purposes only and are not intended to be, and should not be interpreted as recommendations to purchase or sell such securities.

Certain strategy or portfolio representations may constitute model allocations and, accordingly, actual portfolio allocations may differ.

Certain portions of the content may contain a discussion of, and/or provide access to, opinions and/or recommendations of CMG (and those of other investment and non-investment professionals) as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current recommendations or opinions. Derivatives and options strategies are not suitable for every investor, may involve a high degree of risk, and may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved. Moreover, you should not assume that any discussion or information contained herein serves as the receipt of, or as a substitute for, personalized investment advice from CMG or the professional advisors of your choosing. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisors of his/her choosing. CMG is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice.

This presentation does not discuss, directly or indirectly, the amount of the profits or losses, realized or unrealized, by any CMG client from any specific funds or securities. Please note: In the event that CMG references performance results for an actual CMG portfolio, the results are reported net of advisory fees and inclusive of dividends. The performance referenced is that as determined and/or provided directly by the referenced funds and/or publishers, have not been independently verified, and do not reflect the performance of any specific CMG client. CMG clients may have experienced materially different performance based upon various factors during the corresponding time periods.

In a rising interest rate environment, the value of fixed income securities generally declines and conversely, in a falling interest rate environment, the value of fixed income securities generally increases. High-yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment-grade investments are those rated from highest down to BBB- or Baa3.

NOT FDIC INSURED. MAY LOSE VALUE. NO BANK GUARANTEE.

Certain information contained herein has been obtained from third-party sources believed to be reliable, but we cannot guarantee its accuracy or completeness.

In the event that there has been a change in an individual's investment objective or financial situation, he/she is encouraged to consult with his/her investment professional.

Written Disclosure Statement. CMG is an investment adviser registered with the U.S. Securities and Exchange Commission and is located in Malvern, Pennsylvania. The above views are those of Steve Blumenthal and John Mauldin and do not reflect those of any sub-advisor that CMG may engage to manage any CMG strategy, or exclusively determines any internal strategy employed by CMG. A copy of CMG's current written disclosure statement discussing advisory services and fees is available upon request or via CMG's internet web site at www.cmgwealth.com/disclosures.