2018 Roundtable Contributors

Panelists

Brian Lockhart, CFP®

Chief Investment Officer

Peak Capital Management, LLC

Louis Navellier

Chief Investment Officer

Navellier & Associates, Inc.

Clint Pekrul, CFA

Chief Equity Strategist

Peak Capital Management, LLC

This month we present to you our annual Roundtable Discussion of the economy and markets, what is on our radar for concern and where we see opportunity. I want to personally thank the venerable Louis Navellier for providing his insights on the economy and markets. I hope you find the discussion enlightening. –Brian

Copyright 2018 © Peak Capital Management, LLC, All Rights Reserved

QUESTION: Warren Buffett recently told CNBC we are in the 6th inning of the current expansion with sluggers just coming up. Is it possible we get a GDP print with 4% growth this year?

BRIAN: That seems very unlikely to me at this point after growing at 2.2% in Q1 and 3% in Q2. I expect the 2nd half to accelerate in terms of growth but see 3.5% as a growth cap. The tax cuts should boost growth and businesses are stockpiling inventory but that is offset by the combination of falling car sales and higher mortgage rates. The biggest threat to ongoing growth would be an escalation of the rhetoric between the U.S. and China on trade. I expect growth to show next year as consumer debt has moved from 17% of disposable income in 2008 to 24% today, at historical high levels.

LOUIS: I would agree with Mr. Buffett that we are in the 6th inning, but the stock market rally can also go into extra innings, so even though earnings momentum is slowing due to more difficult year over year comparisons, GDP is currently accelerating to a 4% annual pace, the 10-year Treasury bond yield has declined since the FOMC meeting and forecasted earnings remain strong.

CLINT: I'm not sure what inning we are in exactly, but it does seem that the expansion is a bit extended. We might get an upward leg in the market, led mainly by the tech sector, and then be in store for a pullback. There might be some sector rotation into more defensive names that have underperformed this year. In addition, with higher yields, bonds might be considered a safe haven asset if equity markets become highly volatile.

QUESTION: What threats to growth should bulls be wary of?

LOUIS: In 2017, most of the flow of funds when into international, emerging market and multi-international stocks. However, the currency in emerging markets, like Southeast Asia, Latin America and Turkey, is causing worldwide capital flight to the U.S. dollar. In recent months, flow of funds has been diverted to predominately domestic U.S. stocks and continues to propel the Russell 2000 index steadily higher. Next Monday, June 25th is the annual Russell realignment and I am confident that many stocks may be surging higher as they are added to the Russell 1000, 2000 and 3000 indices (i.e., the Russell 1000 & 2000 constitutes the Russell 3000 index).

CLINT: Based on what we've seen so far this year, a strengthening dollar might continue to be a meaningful headwind for emerging markets. Overall, emerging market equities had a stellar 2017, but since February's pullback, they have not recovered the same way that domestic equities have. In other words, the currency effect has diminished the returns U.S. investors have received so far this year. Also, at some point, the price multiples on technology stocks will have to mean revert to longer-term averages. I'm not saying this is like the late 1990s, but it does seem there is some froth in the tech sector now.

BRIAN: The debt mentioned above and trade are the largest threats I see on the horizon. The issue that does not get talked about much is how the government is going to be funded given increasingly large budget deficits. The Congressional office (CBO) projects $804B in official borrowing in 2018 while international demand for Treasuries is at recent loss. When you add in $420B with the Fed's reducing balance sheet liquidity could become very tight in a short periods of time.

QUESTION: 2017 was a true Pollyanna year for investors with almost no volatility. This year we have experienced spikes in volatility. What is your outlook for volatility for the remainder of the year?

CLINT: I agree that 2017 was an outlier in terms of volatility. With that type of environment comes complacency. Investors can get drawn into the belief that equities rise smoothly and that there is a "free lunch". I suspect that market volatility – both in equities and bonds – will be more normalized this year. That's not to say that investors can't make a decent return, but the ride to the finish line will likely have many more twists and turns.

BRIAN: You have to go all the way back to 1964 to find a year with lower volatility even though headlines regarding N. Korea, the Russian investigation, and hurricanes were reasons to cause concern for investors. Trade uncertainty and it's potential economic impact is likely to result in much higher levels of volatility in 2018. I am also wondering when the Fed's past rate hikes will begin to impact consumer spending since there is typically a 9-18 month lag between rate hikes and consumer behavior.

LOUIS: The February correction was caused by the failure of Exchange Traded Notes (ETNs) and other investment vehicles that invested in inverse VIX options that were designed to protect portfolios. In other words,

Copyright 2018 © Peak Capital Management, LLC, All Rights Reserved

these ETNs that offered portfolio insurance and protection failed, just like the portfolio insurance products that failed and caused the October 1987 crash. In March, the February 8th lows were retested 4 times, so at least we got out annual correction out of the way. Looking forward, volatility should persist and the primary risk is seasonal in nature, like August and early September, which is a notoriously seasonally weak period.

QUESTION: What is your view of the developed and emerging markets?

LOUIS: In 2017, most of the flow of funds when into international, emerging market and multi-international stocks and benefitted from a weak U.S. dollar. Now however, the U.S. dollar is strong, so the flood of money pouring into international stocks is now just a trickle. Furthermore, MSCI just added a bunch of blue chip Chinese stocks to their MSCI indices, so those stocks have already benefitted from their 'index pop" and are now more volatile. As long as the U.S. dollar remains strong and currency problems persist in emerging markets, I would stay away from adding to international stocks

BRIAN: Investing outside the US is largely driven by your outlook on the USD. Emerging market currencies have been getting hammered recently and the risk of having too little dollar liquidity is significant for EM investors. Christine Lagarde, Managing Director of the International Monetary Fund, was recently quoted saying, "clouds on the horizon that we have signaled about six months ago are getting darker by the day." Euro area growth slowed to 0.4% in Q1 so I am cautious on DM even though valuations are more compelling than in the US.

CLINT: I wouldn't suggest abandoning international equity investments altogether, but the allocation to overseas markets will likely need to be scaled back from 2017 levels. The main headwinds for international markets are 1) currency effects and 2) slower growth relative to the U.S. As long as the dollar (USD) continues to rise, the returns to international equities are going to lag the returns from domestic equity markets. But market conditions can change quickly and investors might flock back to the beaten down overseas markets. In addition, I still think an allocation to international markets can potentially help with portfolio diversification.

QUESTION: The Fed has stated they are willing to let the economy run hot and allow inflation to exceed their 2% target. Could this result in an inverted yield curve?

BRIAN: It really depends on what yield curve you are looking at. The Fed has hiked the discount rate 7 times since December 2015 a total of 1.75% but the 10-year UST has risen only .50% over the same time. If the Fed allows inflation to run above the stated threshold of 2%, and they have given every indication they will, they risk raising the ire of the dreaded bond vigilantes who recently emerged in Italy. The yield curve is extremely flat right now so it would not take much for the yield curve to invert.

CLINT: In theory, it shouldn't. Long-term yields (i.e. the 10 and 30 year bond) reflect inflation expectations. That's basically the market's way of telling us what the value of money will be in the future. The Fed absolutely does not want an inverted yield curve. That scenario would be very difficult for the financial sector. Lending would not be very profitable and credit to businesses would be curtailed, which would likely lead to a recession. I think the bigger issue here is that the bond market does not think we are in a synchronized global expansion. There's the U.S. and everyone else. That's why I think long-term rates aren't accelerating up as quickly as expected.

LOUIS: Absolutely not. Under no circumstances does the Fed want to invert the yield curve, since it would destroy the operating margins at the banks that the Fed regulates. After last week's FOMC meeting, Fed Chairman Jay Powell said "If you raise rates too quickly, you are just increasingly the likelihood of recession." He added that "We've been very, very careful not to tighten too quickly… We had a lot of encouragement to go much faster and I'm really glad we didn't." The FOMC remains divided on just how fast the Fed should raise key interest for the remainder of 2018. Based on Chairman Powel's comments as well as moderating market rates, I expect only one more increase in key interest rates later this year.

QUESTION: Volatility in the fixed income markets might exceed the volatility with equities. Where do you see opportunities to get defensive if that becomes necessary?

CLINT: You have to go back a long time to a market environment when bond volatility exceeded equity volatility. But with rising interest rates, the backdrop is set for turbulence in fixed income. I don't think we will incur a credit event (e.g. 2008), but duration risk is quite high. I think the opportunity in the short-term is simply managing duration by using cash or short positions. Your income will likely be diminished somewhat, but using hedges may help you sleep at night.

LOUIS: In environments when there is panic selling, Treasuries are the best oasis. However, after the dust settles, dividend growth stocks typically rebound first and are generally the best place to hide when uncertainty persists.

BRIAN: I still believe that long duration US Treasuries are attractive as a hedge against equity market volatility

Copyright 2018 © Peak Capital Management, LLC, All Rights Reserved

and the next recession. Bonds are expensive, especially high yield where BB bonds only yield 5.2% and the more risky B yield 6.5%. With yields rising, floating rate makes sense but only if you are able to do extensive credit analysis as many of these bonds are issued as covenant-light without sufficient projections. EM bonds have attractive yields but the cost of hedging the currency risk is extraordinarily high today. Closed-end muni's look attractive on the short end.

QUESTION: What are your thoughts on blockchain and cryptocurrencies? Is this a disruptive technology or a passing fad?

LOUIS: I recently wrote an article for Advisor Hub warning financial advisors to not get "fleeced" in blockchain and pot ETFs that are charging 15% to 30% premiums relative to the underlying stocks. My best blockchain and crypto related advice is to focus on companies that benefit from the growth or popularity of the new technology. Since cryptocurrencies are not "legal tender" according to the Fed, but defined as an "asset" by the Treasury, confusion persists. I would only buy companies that are profitable outside of their blockchain exposure and not solely that are profiting from other businesses and not solely related to the blockchain and crypto themes that may prove to be a passing fad.

BRIAN: It is important to separate blockchain from cryptocurrencies even though they are cousins. I view blockchain similar to the internet in the early 1990's, it is going to have a transformative effect in every aspect of our lives. Smart contacts will allow multi-national corporations to transact business without the risk of default or working with less than trustworthy intermediaries. Bitcoin and other cryptocurrencies could be compared to the early browsers (Netscape and AOL). It is much more difficult to have confidence in which will ultimately prevail.

CLINT: I will be the first to admit that I'm not an expert on bitcoin or cryptocurrencies. It doesn't seem like a passing fad though. I think we are in the very early stages of development in terms of bitcoin being an investible asset. At this point I'm not sure if we should treat bitcoin as a commodity (similar to gold) or as a currency. Just beware that the risk with cryptocurrencies today is exceedingly high.

QUESTION: We seem to vacillate between a Blue Wave and status quo this November. What do you expect from the Mid-Term elections?

BRIAN: The Blue Wave has become barely a ripple right now if you believe the latest polls. The Democrats seem to be shooting themselves in the foot and appear to be in need of new leadership. Primary candidates who aligned with Trump have done surprisingly well so far. There is a majority of Americans (or very close) who believe Trump is working on their behalf and they are better off the today then in 2016. The House is a coin toss but it appears the Republicans will keep the Senate.

CLINT: I think the GOP will likely pick up seats in the Senate, with the House race much closer. At the end of the day, I don't think the market will care post-election. It's the uncertainty that spooks the market. That said, we could get a nice late-year rally after the mid-term elections are over, and the uncertainty is behind us. But if we do get a surprise, particularly on the Democrat side, then all bets are off. Think about how volatile the markets were when Trump got elected back in 2016.

LOUIS: The GOP will pick up seats in the Senate, since there are a lot of blue senate seats in red states up for grabs. The House will likely be a much closer contest. The truth of the matter is the turnout is typically very low during the mid-term elections and the party that is the most energized typically picks up seats. You can see that the Democratic side is trying to get their base energized over the border mess and Trump is also striving to get his base excited. In the end, the party with the strongest base typically wins the mid-term elections. I expect the stock market will rally after the mid-term elections, no matter who wins, since we will all be glad it is over.

QUESTION: What is a favorite opportunity right now and what would you not want to own?

CLINT: We've got a bifurcated market now, with tech leading the way. That sector seems to be overvalued by any measure, so I'm not sure how much upside remains. If the yield curve does indeed widen (long-term rates move up faster than short-term rates), then financials should do well. Credit conditions are overall in good shape, so high yield bonds might hold up relatively well. High yield generally has lower duration than investment grade bonds, so that asset class might outperform in a rising rate environment.

LOUIS: I like refiners, since the crack spreads between sour, intermediate and sweet crude oil is at the widest in 3 years, which will help refiners post record earnings. I do not like money center banks, since the flattest yield curve in over a decade squeezes their operating margins.

BRIAN: Beginning with the latter, office and retail REIT's look scary and I would not want to own either equity or debt in emerging markets local currency. Energy and materials continue to be the most attractive sectors to me. I also think gold miners are attractive as they have not appreciated in line with the spot price of metals. Alternatives like private credit are also attractive but can be difficult to source and perform due diligence on.

Copyright 2018 © Peak Capital Management, LLC, All Rights Reserved

Roundtable Contributor Bios

Louis Navellier

Louis Navellier is Chairman of the Board, Chief Executive Officer, and Chief Investment Officer of Navellier & Associates, Inc., located in Reno, Nevada. Mr. Navellier is also editor of three stock advisory newsletters: Emerging Growth, Blue Chip Growth, and Ultimate Growth. Specializing in translating what had been purely academic techniques into real market applications, he believes that disciplined, quantitative analysis can select stocks that will significantly outperform the overall market. Mr. Navellier and his team employ a three-step, highly disciplined, bottom-up stock selection process, focusing on quantitative analysis, fundamental analysis, and optimization of the securities selected for the portfolios the firm manages. In 1980, Mr. Navellier began publishing his research in his stock advisory newsletter, the MPT Review. Since 1987, he has been active in the management of individual portfolios, mutual funds, and institutional portfolios. A charismatic figure, Louis Navellier has been covered by a wide range of international media. In addition to appearing on CNBC, Bloomberg and Fox Business, he has been featured in Barron's, Forbes, Fortune, Investor's Business Daily, Money, Smart Money, and The Wall Street Journal. In 2007, Mr. Navellier wrote the 4th book in Wiley Publishing's Little Book series, titled The Little Book That Makes You Rich. Mr. Navellier received a B.S. in business administration in 1978 and an M.B.A. in fnance in 1979 from California State University - Hayward.

Brian Lockhart, CFP®

Brian Lockhart 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 dynamic allocation of PCM's unique ETF investment strategies implemented on behalf of high net worth and institutional clients like Mauldin Solutions Core and Cavalier Funds Dynamic Growth. 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 San Luis Obispo, California, Brian received his Bachelor of Science degree in Business Administration with a concentration in Financial Management. Brian is also an alumni of Harvard, having completed an Executive Education course in Investment Decisions and Behavioral Finance at Harvard's John F. Kennedy School of Government in 2017. 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.

Clint Pekrul, CFA

Clint Pekrul, CFA is Head of Research at Peak Capital Management (PCM), and is responsible for the development and implementation of the firm's quantitatively driven strategies. Clint has over 16 years of industry experience. Prior to joining PCM, Clint worked in the asset management group at Curian Capital, a registered investment advisor, where he managed $2BB in managed risk strategies. Clint is often heralded as a pioneer in creating and managing portfolios using ETF's. Clint holds a B.S. in business administration from the University of Oklahoma, and is a Chartered Financial Analyst. Clint resides in Denver where he enjoys fly fishing when he is not managing portfolios.

Copyright 2018 © Peak Capital Management, LLC, All Rights Reserved

PCM

PEAK CAPITAL MANAGEMENT

Fundamental Technical Discipline

15455 Gleneagle Dr., Suite 100

Colorado Springs, CO 80921

Phone: 719.203.6926

Fax: 719.465.1386

Email: info@pcmstrategies.com

Website: www.pcmstrategies.com

This material is for general information and education purposes. The information contained in this report represents the opinions of Peak Capital Management, LLC, as of the report date and does not constitute investment advice or an offer to provide investment management services. Before purchasing any investment, a prospective investor should consult with its own investment, accounting, legal and tax advisers to evaluate independently the risks, consequences and suitability of any investment.

An investor cannot invest directly in an index. Index performance does not represent the performance of any investment product offered by Peak Capital Management, LLC. The performance of client accounts may vary from the Index performance. Index returns shown are not reflective of actual investor performance nor do they reflect fees and expenses applicable to investing. Portfolio composition will change due to ongoing management of the Funds. References to specific securities or sectors should not be construed as recommendations by the Fund, its Advisor or Distributor.

Past performance is not indicative of future results, loss of principal is possible.
Please consider charges, risks, expenses and investment objectives carefully before investing.

The data and information presented and used in generating this report are believed to be reliable. Peak Capital Management, LLC. does not warrant or guarantee the accuracy or completeness of such data.

Peak Capital Management, LLC, is a fee-based SEC Registered Investment Advisory firm with its principal place of business in Colorado providing investment management services. A copy of our current written disclosure statement discussing our advisory services and fees is available for your review upon request. Advisory services are only offered to clients or prospective clients where our firm and its representatives are properly licensed or exempt from licensure. No advice may be rendered by Peak Capital Management, LLC unless a client service agreement is in place. Nothing herein should be construed as a solicitation to purchase or sell securities or an attempt to render personalized investment advice.

A full listing of investment decisions made by PCM in the past year and relative performance is available upon request. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities presented here. Opinions expressed are those of Peak Capital Management and are subject to change, not guaranteed, and should not be considered recommendations to buy or sell any security.

Copyright 2018 © Peak Capital Management, LLC, All Rights Reserved