Gore Capital Management

Our only client is you.

The phrase "not so bad" seems appropriate to describe the way the year has begun, at least if we're ignoring the state of political discourse and focusing only on the economy. The Great Christmas Eve Panic of 2018 (being trademarked as we speak) has all but disappeared from the market's memory, even though it happened less than 6 months ago.

Earnings

Earnings season is nearly finished with 3/4ths of companies reporting as of May 3rd. The results thus far are quite good; 76% have beaten earnings estimates, surprising to the upside by an average of 5.6% (meaning that, if a company was expected to report $1, they actually reported about $1.06). Both the percentage of beats and the average surprise are above their five-year trend lines, suggesting that things are considerably better than analysts were expecting.

All is not perfect, however. Even after all of the good news, it seems that this quarter will still mark the first year-over-year quarterly earnings decline in nearly 3 years. Yes, the decline is much smaller than we anticipated, -0.8% versus early expectations of around -5% for the quarter, but it's a decline nonetheless. For the sake of clarity, a quarterly earnings decline of 5% means a company that reported earnings of $1 during this quarter last year reported earnings of $0.95 in the same quarter this year. It is important to note, as we mentioned in our last newsletter, that growth expectations for the full 2019 calendar year are still positive, meaning analysts expect companies to make more money in 2019 than they did in 2018. One quarter doesn't a year make. (all data from Factset, 5/3/19).

S&P 500 Sectors	Price Return Year to Date
Information Technology	23.4%
Consumer Discretionary	19.6%
Communication Svcs.	18.8%
Industrials	18.1%
S&P 500	***15.0%***
Financials	14.8%
Real Estate	14.4%
Consumer Staples	11.8%
Energy	11.1%
Utilities	9.0%
Materials	8.5%
Health Care	2.7%

Year-to-date performance of S&P 500 sectors (through 5/8/19. From RJ Equity Portfolio & Technical Strategy Group)

Interestingly enough the standout sector this quarter was healthcare, with the best earnings and revenue growth among the 11 sectors of the S&P 500. While this is generally good for shareholders today, it may not be so good going forward. As the debate over Medicare for All seems to be picking up steam among presidential contenders for 2020, rising revenues and profits may only help to make the case for government oversight. Will universal healthcare make headway in Washington? History says no, but even if it does we believe the

Market Statistics	1Q 2019	YTD (as of 4/30/19)	2018	3-Year Annl.	5-Year Annl.
S&P 500	13.47%	18.03%	-4.94%	14.18%	10.94%
Dow Jones Ind. Avg.	11.61%	14.55%	-4.13%	16.31%	11.79%
Russell 2000 (Small Cap)	14.47%	18.34%	-11.35%	13.15%	8.20%
MSCI EAFE (Foreign)	9.98%	13.07%	-13.79%	7.24%	2.60%
MSCI ACWI (Global)	12.18%	15.96%	-9.41%	11.36%	6.96%
MSCI Emerg. Mkts. Equity	9.91%	12.23%	-14.57%	11.25%	4.04%
Barclay's Aggregate Bond	2.94%	2.97%	0.01%	1.90%	2.57%
S&P GSCI Gold (Spot)	1.34%	0.34%	-2.14%	-0.12%	-0.16%

Source: Morningstar

healthcare sector remains a good place to invest for the long-term. Advances in technology and shifting demographic trends (aging Baby Boomers) tell us that more people will be using more healthcare services in the future, and that can't be a bad thing for the industry. While the sector has been outperforming the rest of the market from a fundamental perspective, it has dramatically underperformed the S&P 500 on a stock price basis (see illustration on the previous page), potentially offering investors a compelling buying opportunity.

Economic data

Widening our scope to review the broader economy, data has also been mixed-to-positive. On the positive side, job growth continues to blow away expectations. 263,000 jobs were created in April, the unemployment rate continues to hover under 4%, and the US has extended its record positive job growth streak to more than 100 consecutive months (data from NYTimes). Furthermore, GDP growth for the first quarter of 2019 hit 3.2%, handily beating the 2% estimate. These are not the kinds of figures that suggest our economy is on the verge of recession.

All is not perfect, however (you may be sensing a trend here). The Purchasing Managers Index, a popular survey of manufacturing production, fell 2.5%, from 55.3 in March to 52.8 in April. Any figure above 50 indicates growth, but the trend is beginning to slow down. The same survey indicated that inventories are also starting to rise, meaning products are not being sold as quickly as expected.

"Will they or won't they"… raise interest rates? The Fed has stated they do not anticipate any more rate increases this year and market participants seem to be believing them. In fact, there is some discussion of whether the Fed may actually decide to cut interest rates this year. We think this is one major reason why the market has rebounded so sharply from the December lows; a rate hike is considered stimulative monetary policy because it makes borrowing less expensive and usually provides a boost to stock prices. We, however, believe a rate cut is unlikely because, at least at this point, much of the data the Fed uses to make interest rate decisions is still very strong (inflation, GDP, and unemployment in particular) and they do not need to stimulate the economy right now. Depending on how the Fed prioritizes their data sources, some analysts believe they may actually decide to raise interest rates later this year if the outlook is expected to remain strong.

Putting it together

It's rare that all of the evidence provides a perfect signal, and this quarter's results are no exception. We believe the balance of data still points to the positive: earnings are okay, the economy is okay, and analysts are reasonably optimistic for the rest of the year. Fears of recession have subsided, at least for 2019. The summer months usually see lower trading volume, which can mean greater price disparities between buyers and sellers (read: volatility). We continue to recommend staying the course but, if the past few quarters are any indication, the future could certainly hold some surprises.

GCM's Top Holdings	1Q 2019	YTD (as of 4/30/19)	2018	3-Year Annl.	5-Year Annl.
PIMCO Income (PONPX)	3.00%	3.90%	0.48%	6.13%	5.38%
FPA Crescent (FPACX)	10.80%	15.75%	-7.43%	8.65%	5.98%
Litman Gregory Masters Alt (MASFX)	3.94%	5.48%	-2.08%	4.26%	3.11%
Vanguard Mega Cap Value (MGV)	10.14%	13.95%	-4.05%	13.05%	10.12%
First Eagle Overseas (SGOIX)	7.92%	9.79%	-9.99%	3.82%	3.25%
T Rowe Price Blue Chip Grwth (TRBCX)	16.16%	20.77%	2.01%	21.65%	16.32%
Dodge & Cox Stock (DODGX)	10.29%	15.48%	-7.07%	15.06%	9.77%
Virtus Seix Floating Rate (SAMBX)	4.01%	5.45%	0.22%	5.43%	3.74%

Source: Morningstar

Culinary Corner

In anticipation of celebrating Memorial Day, Keri and Ben put together a few recipe ideas for your backyard barbeque. Since meat is usually the star of the show and everybody has their own "special" way of grilling burgers, we're shining some light on the supporting cast of side dishes, desserts, and cocktails. Happy partying!

Blueberry Strawberry Mojito

Ingredients (per serving)

- 3 tablespoons fresh blueberries
- 2 fresh strawberries
- 10-15 mint leaves
- 1 tablespoon lime juice
- 1 teaspoon white sugar
- 1.5 oz white rum
- Ice
- Club soda

Instructions

- Muddle first five ingredients in the bottom of a tall cocktail glass, until sugar is dissolved
- Fill glass with ice, top with club soda, stir to combine. Garnish with mint leaves and berries as desired
- For a virgin mojito, swap the rum and club soda for ginger ale or Sprite

Courtesy of wellplated.com

Mexican Corn Salad

Ingredients (yields 4 servings)

- 6 ears corn, uncooked, kernels removed
- Salt
- 1/2 cup mayonnaise
- 1/4 cup cotija cheese or feta
- Juice of 2 limes
- 2 tablespoons chopped cilantro
- 1 tablespoon chili powder

Instructions

- Fill saucepan with 1/2" of water and bring to a simmer. Add corn kernels, cover, and cook until corn is tender (3-4 min). Drain, pat dry
- In serving bowl, toss all ingredients and season generously with salt
- Once mixed, top with more cheese, cilantro, and chili powder as desired

Courtesy of Delish

Mixed Berries with Mascarpone-Limoncello Cream

Ingredients (yields 8 servings)

- 8 cups (2 pounds) of mixed berries (strawberries, blueberries, raspberries, anything you like)
- 3/4 cup chilled whipping cream
- 4oz mascarpone cheese
- 1/2 cup + 3 tablespoons white sugar
- 3 tablespoons limoncello
- 3/4 cup raspberry preserves
- 1 tablespoon grated lemon peel

Instructions

- Combine whipping cream, mascarpone, 3 tablespoons sugar, and limoncello in a large bowl and whip until stiff peaks form
- Combine berries, raspberry preserves, lemon peel, and 1/2 cup sugar in a large bowl
- Divide berries among 8 serving cups, top with cream mixture

Courtesy of BonAppetit

Ben's Corner

We've been hearing about the trade war with China for nearly a year now. Every headline news story, be it progress or steps backwards, sets off the market rollercoaster as investors try to make sense of the newest developments. But why do we have to engage in economic warfare with the second largest economy on earth? Can't we all just get along? This is a very complex issue with many facets and, frankly, quite a bit of ego on both sides. I can't possibly address all of that in a single page, but I'll do my best to cover what I think is the main rub. Remember, this is an editorial column and much of what follows is my (somewhat informed) opinion. Despite this being MY editorial column, Peter would like to point out that he agrees with the opinions expressed herein.

For the past few decades, China has offered the rest of the world a cheap place to manufacture and produce goods. In exchange, China requires foreign firms to share their intellectual property by creating joint ventures which are majority-owned by the Chinese. You can guess why: once they've got your intellectual property and your technology, the Chinese can produce knockoffs of your product to compete with you. And they do – citing a 2011 report by the US International Trade Commission, a Bloomberg article stated that US corporations lost $48 billion in 2009 due to copyright and patent infringement by the Chinese. No doubt that figure has increased in the last decade.

The Chinese government has promised for years that they're working on stricter laws and harsher punishments for IP infringement, but not much has changed. Why would it? The Chinese benefit hugely from this arrangement and don't have much incentive to do things differently. The West has allowed the practices to continue because, if we're honest, it's still a better deal than not doing business at all in China.

President Trump has decided to go where no president before him dared tread: harsh, sweeping tariffs on Chinese goods intended to dent their economy and force them to the negotiating table. Has it worked? Any free market economist knows that tariffs end up harming both sides, and this case is no different. The Chinese have responded with trade levies of their own designed to cripple farmers and put pressure on Trump's voter base. At this point, I think it's fair to say that almost everyone is losing and potentially stands to lose more if a resolution is not found soon.

But what about the long-term? I support the efforts to make China play fair and I think that agreeing to fairer practices could end up benefitting China as more corporations may be willing to do business there if they see meaningful changes in policy. Intellectual property rights are sacred. The people and companies that invent new technologies and products to make our world a better place should be rewarded for their efforts and protected from theft. If the price for leveling the playing field is some market volatility, I'll gladly pay it. The trouble is, the longer this goes on and the more tariffs are shot back and forth, the more likely it is that we're going to pay a steeper price than just a wobbly Dow. Unfortunately, the tariff hikes that were announced last week suggest that we're still quite a ways away from finding resolution. The market rollercoaster barrels onward...

Market Movers	1Q 2019	YTD (as of 4/30/19)	2018	3-Year Annl.	5-Year Annl.
Alphabet (GOOGL)	12.63%	14.74%	-0.80%	19.20%	17.52%
Amazon (AMZN)	18.56%	28.27%	28.43%	42.94%	44.66%
Apple (AAPL)	20.88%	27.68%	-5.12%	30.51%	20.29%
Chevron (CVX)	14.32%	11.45%	-9.52%	9.26%	2.47%
General Electric (GE)	34.21%	36.59%	-54.50%	-26.42%	-12.15%
JP Morgan Chase (JPM)	4.52%	20.52%	-6.40%	24.90%	17.71%
Microsoft (MSFT)	16.57%	29.03%	20.21%	39.38%	27.76%
Verizon (VZ)	6.25%	3.87%	10.70%	8.04%	8.00%

Source: Morningstar

Disclosure

Investing involves risk and you may incur a profit or a loss. Please carefully consider investment objectives, risks, charges, and expenses before investing.

Mutual Funds are sold by Prospectus only. Please carefully consider the fund's investment objective, risks, charges and expenses applicable to a continued investment in the fund before investing. For this and other information, call or write to for a free prospectus, or view one online. Read it carefully before you invest or send money.

The indexes are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market.

Cantella & Co., Inc. does not provide legal or tax advice. For legal or tax advice, please seek the services of a qualified professional.

This material is not intended to provide legal, tax or investment advice, or to avoid penalties that may be imposed under U.S. Federal tax laws, nor is it intended as a complete discussion of the tax and legal issues surrounding retirement investing. You should contact your tax advisor to learn more about the rules that may affect individual situations.

This was prepared for informational purposes only. It is not an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable but there is no guarantee that the facts cited in the foregoing material are accurate or complete. Changes to assumptions may have a material impact on returns. Past performance is not indicative of future results. The views and opinions expressed in an article or column are the author's own and not necessarily those of Cantella & Co., Inc.

Securities and Advisory Services offered through Cantella & Co., Inc., Member FINRA/SIPC