



CAPITAL MANAGEMENT GROUP
of Wells Fargo Advisors

The Hefter Report – April 2018

Tariff Tirade

The S&P 500, Dow Jones, Nasdaq, and the MSCI Global indices have, as of April 5, approached but failed to close under the all-important 200 day moving average on 4 different occasions. Technically, in our view this signals that the upward trend line and the bull market remain in place. Normally we would interpret this more favorably however several factors are causing us concern.

Recent stock market volatility has made the risk of owning equities more acute. To justify this increased risk, higher returns are necessary and right now the markets do not seem able to provide that. We are also troubled by erratic policy decisions emanating from the Oval Office. Some say Trump's tariff threats are just a negotiating tactic. The problem is that if that's the case and it's all a bluff, his credibility on the world stage will suffer. If he keeps to his word and a trade war emerges we believe that this bull market will be over.

If all this tariff talk had been avoided, we believe the announcements of first quarter earnings that will start this week would propel prices higher. Unfortunately with all the uncertainty, we do not believe we will get the upside needed to justify the risk. One effect of the tariff tirade is that it's lowered the rate on the 10 year U.S. Treasury which had been approaching 3%. It is now down to 2.75%. But to us that just indicates that as the chance of a trade war increases, so does the likelihood of economic slowdown. Whereas the fear had been an overheating economy and 10 year bond rates above 3%, now we fear a further decline in rates which could portend a recession.

Although technical analysis still tells us the bull market is intact, we are lowering our exposure to stocks due to increased volatility without commensurate returns. With interest rates capped by trade war fears and our belief that the dollar will continue to decline versus foreign currencies, we like global bonds. They are up 4% year to date and are currently providing more return with less volatility than stocks. The risk reward has become more attractive than in equities, so we will be investing some of the proceeds of equity sales in this asset class. We are also looking to add to bond managers who have the capability to hedge in case of rising rates. We remain diligent and are prepared to lower equity exposure further if the trend line is indeed broken and indices close below technical support levels.

Investment and Insurance Products: ▶NOT FDIC Insured ▶NO Bank Guarantee ▶MAY Lose Value

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank Affiliate of Wells Fargo and Company. CAR #0617-03778 & 0418-01752

Hefter, Leshem, Margolis Capital Management Group
of Wells Fargo Advisors
1849 Green Bay Road
Suite 200
Highland Park, IL 60035
847 563-3400 phone
800 247-1541 toll-free
847 563-3420 fax
www.hlmcapital.com



Charlie Margolis, Ben Leshem, Steve Hefter, Micah Nathan
Managing Directors – Investments
Senior Vice President - Investments



CAPITAL MANAGEMENT GROUP
of Wells Fargo Advisors

The Hefter Report – April 2018

Page 2

Disclosures

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security, including the possible loss of principal. Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets accentuates these risks.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Past performance is not indicative of future results and there is no guarantee that any forward looking statements made in this report will be attained.

This and/or the accompanying statistical information was prepared by or obtained from sources that Wells Fargo Advisors believes to be reliable, but its accuracy is not guaranteed. The report herein is not a complete analysis of every material fact in respect to any company, industry or security. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

Investment and Insurance Products: ▶NOT FDIC Insured ▶NO Bank Guarantee ▶MAY Lose Value

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank Affiliate of Wells Fargo and Company. CAR #0617-03778 & 0418-01752

Hefter, Leshem, Margolis Capital Management Group
of Wells Fargo Advisors
1849 Green Bay Road
Suite 200
Highland Park, IL 60035
847 563-3400 phone
800 247-1541 toll-free
847 563-3420 fax
www.hlmcapital.com



Charlie Margolis, Ben Leshem, Steve Hefter, Micah Nathan
Managing Directors – Investments
Senior Vice President - Investments