



CAPITAL MANAGEMENT GROUP
of Wells Fargo Advisors

The Hefter Report - July 2017

I recently returned from a conference where much of the conversation revolved around industries of the future. The theme of the weekend was the speed at which the IT revolution and big data are changing the way we live.

The areas discussed that show the most promise for economic investment include:

- CRISPR (DNA and gene editing)
- Cybersecurity
- Cryptocurrencies
- Artificial intelligence, augmented reality and robotics
- Space exploration, including the mining of asteroids

For me, the most exciting area is CRISPR (Clustered Regularly Interspaced Short Palindromic Repeats). These segments of DNA play a vital role in our bacterial defense system and are the basis of the new gene editing technology. There are now a handful of companies that have applied for and received patents for gene editing. Some of the many different potential uses for this technology include the elimination of certain genetic diseases and the creation of new medicines that can more effectively treat a wide variety of illnesses. The potential exists for dramatically increasing life expectancy and saving billions of dollars in health care.

As for cybersecurity, we need only listen to the news. Hackers are infiltrating government, corporate and personal computers to steal and damage information. The cybersecurity industry is expected to grow from its current revenue base of \$137 billion to over \$231 billion within 5 years¹. That level of growth and the prices that will be paid for protecting computer systems could produce significant rewards for the cybersecurity companies that develop proven solutions.

Cryptocurrencies like Bitcoin and Ethereum have appreciated dramatically in the last few years although it appears their use has been predominantly for illicit online transactions. However, the future of digital currency is extremely promising, especially if fraud can be mitigated. Although it is premature for us to be investing in digital currencies, we are keeping a close watch on their growth and usage. We will be prepared to invest if we believe risk has diminished.

Artificial intelligence, augmented reality and robotics are a topic of much debate as well. There are those who fear it will be a catastrophe leading to mass unemployment and the ultimate demoralization of humanity vs. the ardent enthusiasts who claim that the economic and social benefits are enormous; liberating humans to pursue higher purpose and more meaningful employment. Regardless, it is here to stay and already revolutionizing manufacturing and the way we live including how we shop, travel and interact with others. Investments in robotics may be very rewarding now and in the future.

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Mining of asteroids is still at least a few years away. NASA currently has a spaceship in orbit that will collect minerals from the asteroid 101955 Benu. The director of this operation, Dante Lauretta, spoke to us and said that the costs of exploration are coming down and that the private marketplace for using and extracting minerals from asteroids may create a trillion dollar industry. Dante's spacecraft, the OSIRIS-REX is expected to reach 101955 Benu and begin collecting samples in 2018.

All of these industries seem exciting and promising. With our current set of managers we already have investments in gene editing biotech, robotics and cybersecurity stocks. We will stay in touch with experts in these emerging industries and evaluate opportunities as they arise.

Our overweight allocation in international equities has been fortuitous this year and we continue to like overseas markets. We are also investing some funds in emerging markets. We want to be where smart money is flowing and we see opportunities for economic earnings and earnings multiple growth overseas. As global growth improves, we think that small cap companies and emerging markets will lead the way. We have been correct on our call that the dollar would decline and if as we believe the dollar will fall, we should see further appreciation in our foreign investments.

Preferred stocks are already up an average of +8.2% this year (according to Bloomberg) and we continue to like this area for income investments. The index of floating rate preferred stocks is up 8.79% year to date².

We have been managing money for high net worth families since 1983 and have seen remarkable appreciation in equities since then. Our belief in the future is very positive and we think those in their 30's and younger will live to see similar or even greater appreciation in stock prices in their lifetime. We remain fully invested.

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Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. Dividends are not guaranteed and are subject to change or elimination.

The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

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.

Past performance is no guarantee of future results and there is no guarantee that any forward looking statements made in this report will be attained.

The indices are presented to provide you with an understanding of their historic long-term performance and are not presented to illustrate the performance of any security. Investors cannot directly purchase any index.

¹<http://www.marketsandmarkets.com/PressReleases/cyber-security.asp>

²<https://us.spindices.com/indices/fixed-income/sp-us-floating-rate-preferred-stock-index>

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