

September, 2016

Four events toward the end of the month contributed to our MSCI ACWI AC benchmark gain of .6% masking increased volatility. On the 21st the Fed left interest rates unchanged, "The committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives." However, they increased the likelihood of a December hike, while lowering their estimates through 2018. By the close the Dow had added 164 points.

Clinton clearly won the 1st of the 3 presidential debates on the night of the 26th, with the Dow tacking on 133 points the next day, while the Mexican Peso had a "huge" day. It is rare when Mr. Market is cheering for the Democrat. The polls had been tightening prior to the debate, with FOX's actually showing Trump ahead by 1% for 9/11-14. Their 9/27-29 survey put Clinton back on top by 5%. Nate Silver's Five Thirty Eight now gives Clinton a 64.4% (Polls-plus forecast) chance of winning, while PredictWise, which is primarily "generated from real-money markets that trade contracts on upcoming events", now puts her chances at 79%.

WTI jumping 5% and Energy stocks leading the equity markets higher (the Dow added another 111 points) on the 28th was attributed to this quote: "The Conference took into account current market conditions and immediate prospects and concluded that it is not advisable to ignore the potential risk that the present stock overhang may continue to weigh negatively well into the future, with a worsening impact on producers, consumers and the industry." Huh? The WSJ's lead story on the 29th interpreted: **OPEC Gains Consensus for Cuts**. However, Mr. Market, who suffers from Attention Deficit Disorder, turned his focus to Deutsche Bank, saw the reincarnation of Lehman Brothers, and drove the Dow down 196 points on Thursday. He changed his mind on Friday, with the Dow gaining back 165 points. This weekend's lead in the WSJ: **Stocks End Quarter on a High Note**.

BCA Research's Global Investment Strategy's August 26th weekly report, titled **A Correction Is Coming** detailed their reasons for going tactically short the NASDAQ 100 earlier that week. They included: "Political risks could pose a further headwind to stocks. ... the S&P 500 has tended to react negatively whenever Donald Trump has moved up in the polls. ...

After tumbling in the polls in the weeks following the Democratic convention, Trump's numbers have started to rebound We continue to think that the race for the White House is tighter than most pundits realize. Even if one rejects the view that the Trump presidency would be negative for risk assets, what is important, at least for now, is that most market participants (*including HCM*) believe this to be the case. Thus, any further tightening in the polls could cause equities to buckle.

This is the fourth time since last summer that we have introduced tactical hedges into our portfolio. We closed our first hedge (long 30-year U.S. Treasuries/Short S&P 500) on October 2nd for a 16-week gain of 17.9%. We then went short the NASDAQ 100 futures on November 6th, closing that position on January 20th for a 10-week gain of 16.2%. Finally, as discussed in our report "Worry About Brexit, Not Payrolls," we went short European equities on June 9th (in U.S. dollar terms) on the grounds that investors were understating the likelihood of Brexit. We closed that position on the day after the vote for a two-week gain of 8.2%. This time around, we expect U.S. stocks to decline by 5%-to-10%."

Several of our clients have expressed concern about Trump. He isn't going to win. However, while we have attempted to reassure them, it is important to understand that HCM doesn't attempt to time the market. Sell offs

provide an opportunity to move out of Transitional Funds into individual stocks, whether [IVE System](#) picks or [Insider Buying Themes](#).

Positions

HOME - On September 28th a block trade was used to establish 2% positions in At Home Group @ 14.53 for clients focused on Capital Appreciation. This Home Decor Retailer's IPO was 8/3/16 @ 15. It has a PEG of .68, solidly in the lowest decile of our preferred Valuation metric, and reported a positive earnings surprise of 18.2% on 9/13. As a result, 1 analyst raised their recommendation to Buy, with the stock now having 4 Buys and 3 Holds with an average Target Price of 17.75.



Insider Buying:

Insider	Transaction	Type	Value	Date	Shares
STONE LARRY D Director	Purchase at \$14.15 per share.	Indirect	80,159	Sep 19, 2016	5,665
BIRD LEWIS L III Officer	Purchase at \$13.97 per share.	Indirect	26,934	Sep 19, 2016	1,928
BROUSSARD MARY JANE Officer	Purchase at \$13.52 per share.	Direct	35,828	Sep 18, 2016	2,650
BIRD LEWIS L III Officer	Purchase at \$13.71 per share.	Indirect	225,214	Sep 18, 2016	16,427
BROUSSARD MARY JANE Officer	Purchase at \$13.13 per share.	Direct	263,913	Sep 15, 2016	20,100
CORSA PETER SG Officer	Purchase at \$13.29 per share.	Indirect	30,035	Sep 15, 2016	2,260
MCLEOD NORMAN E Officer	Purchase at \$12.79 per share.	Direct	20,464	Sep 15, 2016	1,600
NYSTROM JUDD T Officer	Purchase at \$12.94 per share.	Direct	388,200	Sep 15, 2016	30,000
FRANCIS PHILIP L Director	Purchase at \$12.88 per share.	Indirect	476,560	Sep 15, 2016	37,000
STONE LARRY D Director	Purchase at \$12.90 per share.	Indirect	19,350	Sep 15, 2016	1,500

A New Client

With the proliferation of Smart Beta Funds over the last several years, the roster of Funds we are currently using has changed. Here is an example of the Initial and Goal portfolios for a client seeking Capital Appreciation, but wanting to keep Maximum Drawdown, our preferred measure of risk, in line with that of the S&P 500:

%	Symbol	Type	Description	Factors (1)	Yield (2)	Risk (3)	(4)
Initial							
20	QMNIX	OEF	Global Long/Short Equity Mid Blend	V, M, Q	2.5%	A	0 C
20	KNOW	ETF	Domestic Mid Blend	I, E, V	1.4%	Q	1.0 T
10	QVAL	ETF	Domestic Mid Value	V, Q	1.4%	Q	1.5 T
10	MTUM	ETF	Domestic Lg Growth	M	1.0%	Q	1.0 T
10	IVAL	ETF	Foreign Lg Value	V, Q	2.2%	Q	1.3 C
10	IMOM	ETF	Foreign Lg Blend	M, Q	0.7%	S	1.2 C
20	OBIOX/GPIIX (5)	OEF	Foreign Small/Mid Growth	S, M, Q	0.2%	A	1.3 C
Weighted Average:							1.0
Goal							
20	QMNIX	OEF	Global Long/Short Equity-Lg Blend	V, M, Q	2.5%	A	0 C
40	IVE System & IBT (6)		Domestic	I, V, E			1.4
10	IVAL	ETF	Foreign Lg Value	V, Q	2.2%	Q	1.3 C
10	IMOM	ETF	Foreign Lg Blend	M, Q	0.7%	S	1.2 C
20	OBIOX/GPIIX (5)	OEF	Foreign Small/Mid Growth	S, M, Q	0.2%	A	1.3 C
Weighted Average:							1.1
Notes							
1	V=Value, M=Momentum, Q=Quality, I=Insiders, E=Earnings, S=Size						
2	Distribution Frequency: A=Annual, S=Semi-Annual, Q=Quarterly, M=Monthly						
3	Ratio of average historical Max. Drawdowns to S&P 500 declines greater than 10%						
4	Holdings: C=Core, T=Transitional						
5	OBIOX for IRAs, GPIIX for Taxable accounts (Factors S, Q; Risk 1.7)						
6	IBT=Insider Buying Themes						