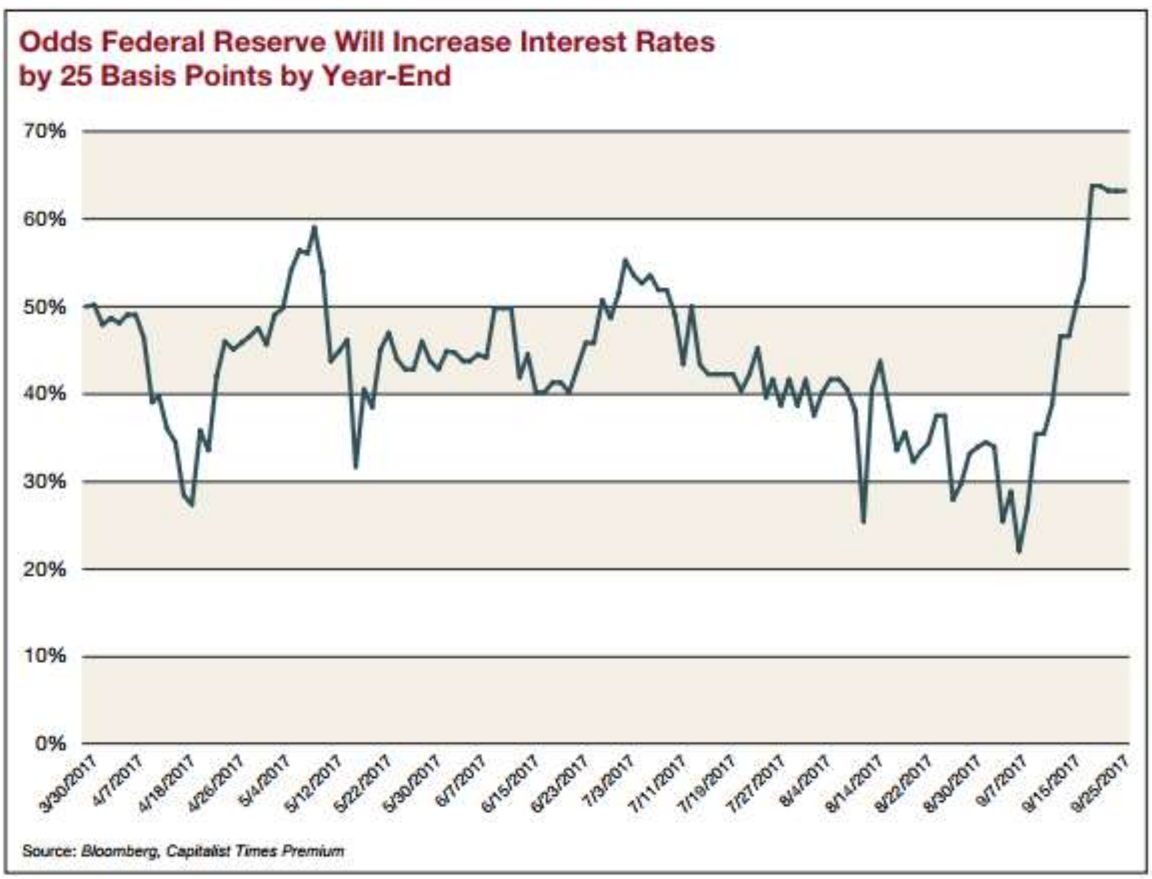
September 2017

Despite Trump's best efforts, hurricanes dominated the headlines in September. However, for investors the most significant headline came from the front page of the WSJ on September 21st: **Fed to Unwind Crisis-Era Stimulus,** with a subheading of "Central bank signals rate rise later this year is on track, as it begins shrinking bond portfolio". Since then the U.S. 10-year Treasury Bond yield is once again attempting to march higher, as shown in the Bespoke graph to the right. From Capitalist Times' September 29th issue:

"For much of the past three months, expectations for the Fed to hike interest rates by 25 basis points at its Dec. 13, 2017, meeting have steadily fallen from north of 55 percent at the end of June to a low of under 22 percent just prior to the Fed's Sept. 20 meeting.



The main pushback for raising rates again this year appears to be that inflation continues to run under the central bank's 2 percent target rate with the core personal consumption expenditures (PCE) index rising just 1.4 percent year-over-year in July.

However, we believe below-target US inflation is partly the result of secular factors including technological advancements and an aging US workforce.

In addition, in the latest Fed meeting minutes released in mid-August, there was considerable discussion about "elevated" asset prices–including an extended stock market and low volatility priced into most financial markets. There's well-placed concern that the prolonged era of near-zero interest rates and several rounds of quantitative easing have contributed to stretched valuations in financial markets.

Concerns about asset prices suggest the Fed will continue to raise rates even if inflation remains below target near-term.

And, perhaps most importantly, US economic data continues to support our view that the economy is picking up steam or, at the very least, continuing to grow at a healthy pace.

Many investors and the financial media tend to get bogged down by volatility and "noise" in economic data releases. We prefer to look at a handful of big-picture indicators that have stood the test of time. Two of our favorites are the US Leading Economic Index and the Purchasing Managers' Index (PMI).

These indicators point to continued strength in the economy.

Historically, the LEI logs six or more negative month-over-month readings in the 12 months before the US enters recession. That pattern is clearly visible in the LEI data in late 2006 and through 2007. That was just before the S&P 500 topped out in Oct. 2007 and the economy entered recession in December of the same year.

However, over the past 12 months, the month-over-month change in LEI has never been less than +0.2 percent. And in seven of the past 12 months, the reading has been +0.3 percent or better, typically consistent with an economy that's doing well.

Meanwhile the Purchasing Managers' Index for manufacturing stands at 58.8, a six-year high. That's a strong sign of ongoing strength in manufacturing activity from a lull at the beginning of last year.

Even better, and unlike much of the post-crisis era, the US economy's strength is part of a concerted global cyclical upturn that includes Europe, Japan, China and other emerging markets.

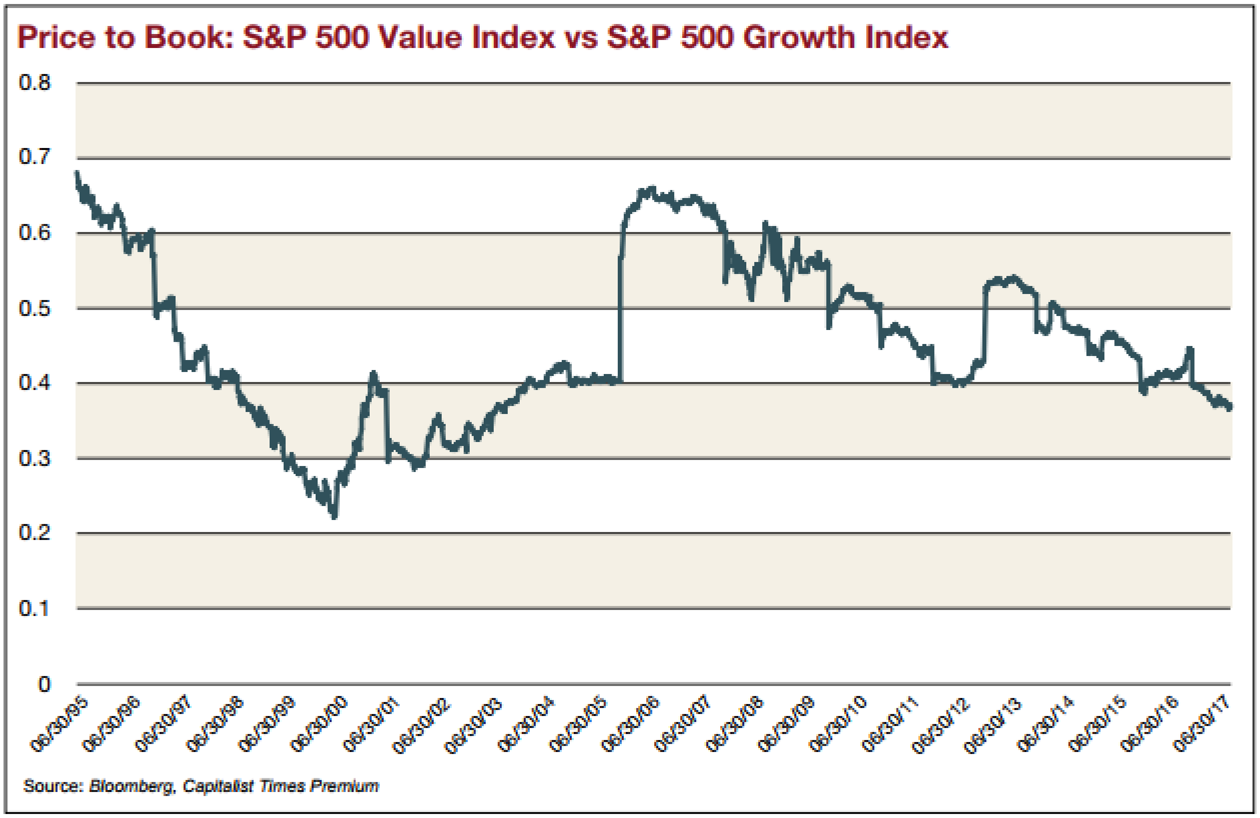
The eurozone PMI, for example, stands at 58.2, a level indicating strong economic expansion. Likewise, China's PMI is doing well and stands at a five-year high.

We believe the market is just starting to come to grips with this reality and the fact that the Fed is likely to continue hiking interest rates, albeit at the historically glacial pace of three to four times per year.

The bond market also reflects the shift–the yield on 10-year US government bonds recently jumped from an early September low of 2.04 percent to north of 2.20 (2.3, as of Friday's close) percent. We see more upside for yields ahead.

The most important implication of this economic and interest rate outlook: The US stock market is in the early stages of a historic rotation that will power significant upside for value-oriented groups and act a as headwind for some classic growth stocks.

Our chart (below) shows the price-to-book ratio for the S&P 500 Value Index divided by the price-to-book ratio on the S&P 500 Growth Index. When this ratio is relatively low, value stocks are cheap relative to their growth counterparts and vice-versa.

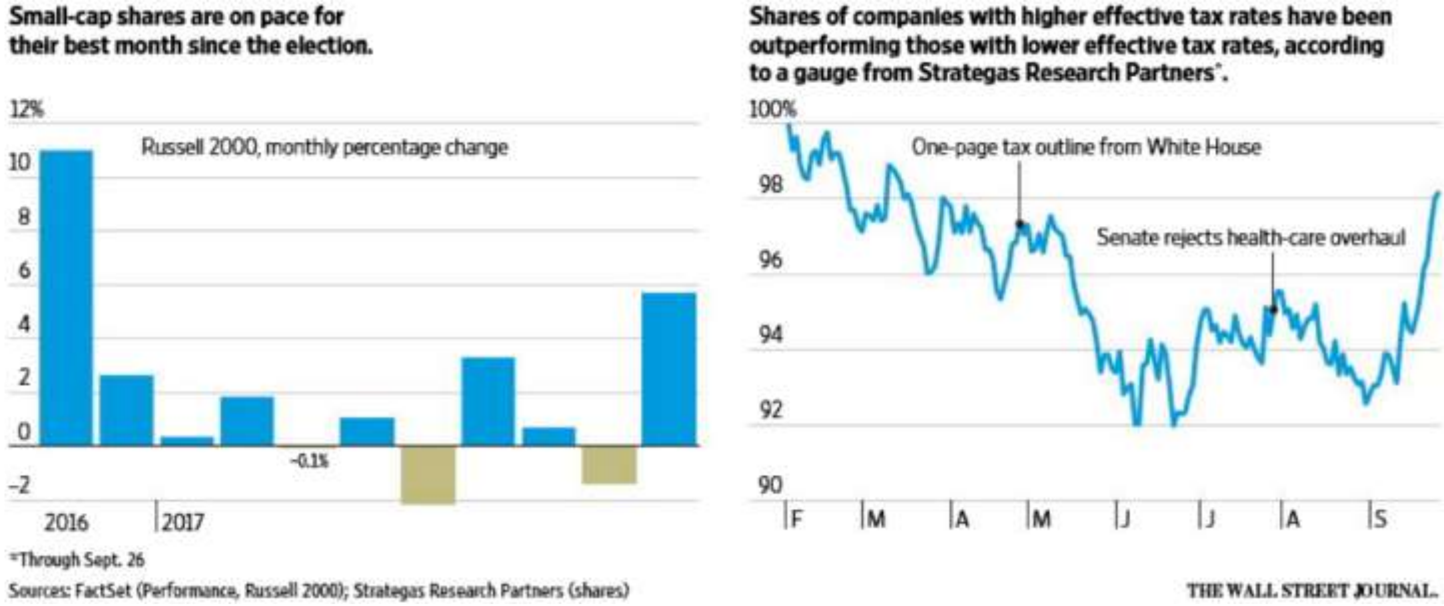


The key takeaway: With the exception of the height of the technology bubble in late 1999 and early 2000, value stocks have rarely been this cheap relative to growth stocks in the S&P.

In the last value cycle, a period that stretched from 2001 through 2006, the S&P 500 Value Index returned 54.1 percent compared to a gain of just 17.7 percent for the S&P 500 Growth Index. The current stretched valuation of growth stocks relative to other sectors will lead to a similar-sized period of outperformance over the next two to three years.

Growth stocks can generate upside to earnings without help from US and global economic expansion. While value groups tend to be more cyclical and economy-dependent. Therefore, growth has historically outpaced value in periods when the economy is sluggish (such as last year) while more cyclical value groups assume leadership in periods of stronger economic growth."

Momentum matters. According to SENTIMENTRADER's September 29th Daily Report, when the S&P 500 has had "8 out of 9 positive months through September": "The risk/reward over the next 3, 6, and 12 months was ridiculously skewed to the upside. There was virtually no downside (using daily closing prices) and impressive upside. The sample size is small, so the usual caveats apply, but when the results are consistent, even a small sample can be compelling." As shown below, Small-caps have finally rejoined the party. With the Republican's repeated efforts to "repeal & replace" Obamacare having come to a dismal end, Mr. Market may have concluded that the odds of corporate taxes being cut have increased as Republicans are desperate for a legislative win. With SENTIMENTRADER's "Smart Money/Dumb Money Confidence Spread" composite indicator not flashing a warning, and, as we have previously shared, valuation levels having no predictive history, we remain bullish on our clients' portfolios.



Positions

UNIT - This infrastructure REIT was purchased for a client focused on Capital Appreciation that didn't already hold LMRK:

Insider Buying:

Insider	Transaction	Type	Value	Date	Shares
SOLOMON DAVID L Director	Purchase at $19.10 per share.	Direct	24,830	Aug 22, 2017	1,300
GUNDERMAN KENNY Officer	Purchase at $19.25 per share.	Direct	19,250	Aug 20, 2017	1,000
SCHUHMACHER BLAKE Officer	Purchase at $18.98 per share.	Direct	9,490	Aug 17, 2017	500
GUNDERMAN KENNY Officer	Purchase at $19.51 per share.	Direct	19,510	Aug 16, 2017	1,000
GUNDERMAN KENNY Officer	Purchase at $18.94 per share.	Direct	18,940	Aug 15, 2017	1,000
HEARD DANIEL L Officer	Purchase at $18.54 per share.	Direct	100,116	Aug 14, 2017	5,400
GUNDERMAN KENNY Officer	Purchase at $18.75 per share.	Direct	56,250	Aug 14, 2017	3,000
GUNDERMAN KENNY Officer	Purchase at $19.48 per share.	Direct	48,700	Aug 13, 2017	2,500

An 8/24 Update from The Dividend Hunter:

"Dividend Hunter recommended stock **Uniti Group Inc. (Nasdaq: UNIT)** has declined by 25% over the last month. The drop was triggered by the dividend suspension announcement from **Windstream Holdings, Inc. (Nasdaq: WIN)**. UNIT was spun off by WIN in 2015.

The master lease with WIN provides about 70% of UNIT's revenue.

The move by Windstream to stop paying dividends was a good one. The company's telecom business is in transition from traditional landline services to modern residential and business internet service. The changes are painful, but Windstream is not in serious financial trouble. For the quarter WIN reported operating income before depreciation and amortization (OIBDA) of about $500 million. From my reading of the income statement, the approximately $150 quarterly lease payment to UNIT is a cost of business expense above OIBDA. UNIT owns the fiber and wireline assets that are essential to Windstream's business.

Bottom line: UNIT is doing as expected financially and its lease payments from Windstream are very secure.

I want you to also see these recent Wall Street analyst ratings on UNIT:

- Bank of America Corporation lowered Uniti Group, Inc. from a "buy" rating to a "neutral" rating in a research note on Tuesday, August 15th. This rating change helped propel the UNIT price further down.
- J P Morgan Chase & Co reissued an "overweight" rating and set a $31.00 target price on shares of Uniti Group, Inc. in a research note on Monday, August 14th.
- Citigroup Inc. cut their price target on Uniti Group, Inc. from $30.00 to $27.00 and set a "buy" rating on the stock in a report on Monday, August 7th.
- Cowen and Company restated a "buy" rating and set a $33.00 price target on shares of Uniti Group, Inc. in a report on Friday, July 28th.

- Two research analysts have rated the stock with a hold rating, nine have assigned a buy rating and two have issued a strong buy rating to the company. Uniti Group, Inc. currently has an average rating of "Buy" and an average price target of $29.44.

It is my opinion that UNIT shares have been hit by short sellers and computer trading programs. It is faster for traders to make money on a falling stock, and the combination of these groups all short-selling at the same time can push a share price down quickly and significantly. Eventually these short positions must be covered by Buy orders and the UNIT price will start a recovery. It’s the nature of the stock market that while the fall is short and painful, the recovery will take its time.

For buy-and-hold investors, at less than $20 per share, UNIT yields 12% with a very safe dividend I too rate this stock a **Strong Buy**."