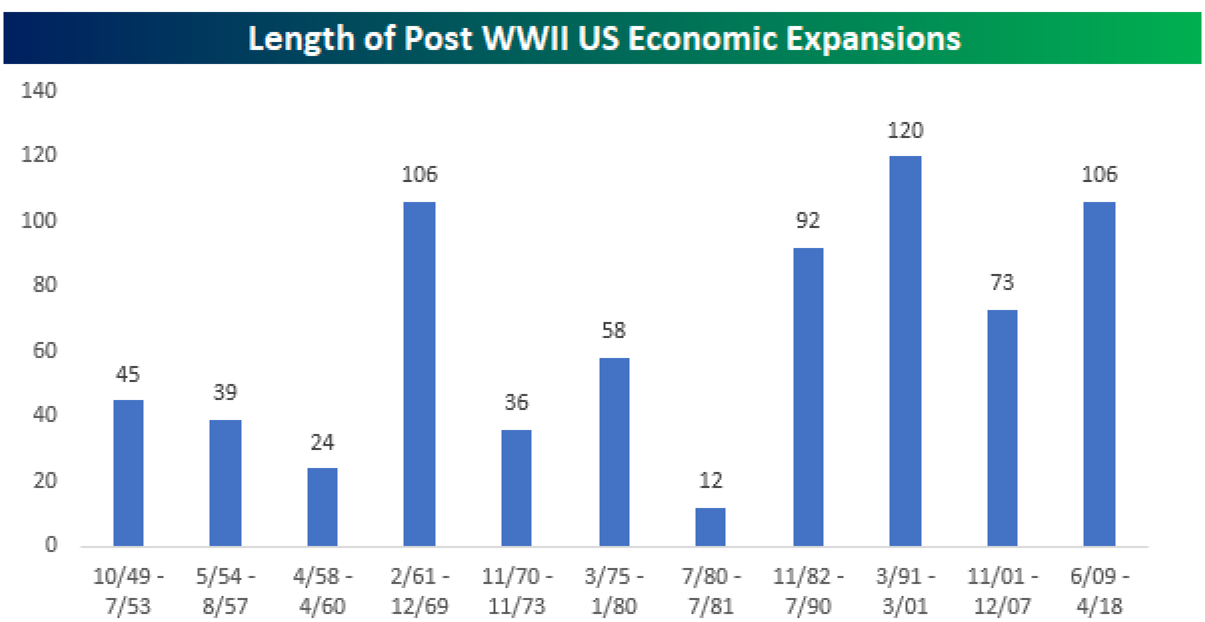
April 2018

The rollercoaster ride since the S&P 500 fell into a correction on February 8 continued in April. For all the volatility, the MSCI ACWI AC, our preferred benchmark, was up .7%, while the S&P 500 was up .5%. Investors naturally want corrections to end as quickly as possible, but that is another of those be careful what you wish for cases. According to SentimenTrader: "... the five times since 1928 that the S&P ended its correction before 52 days passed led to significantly worse returns. A year after those signals, the S&P averaged a return of -0.3%."

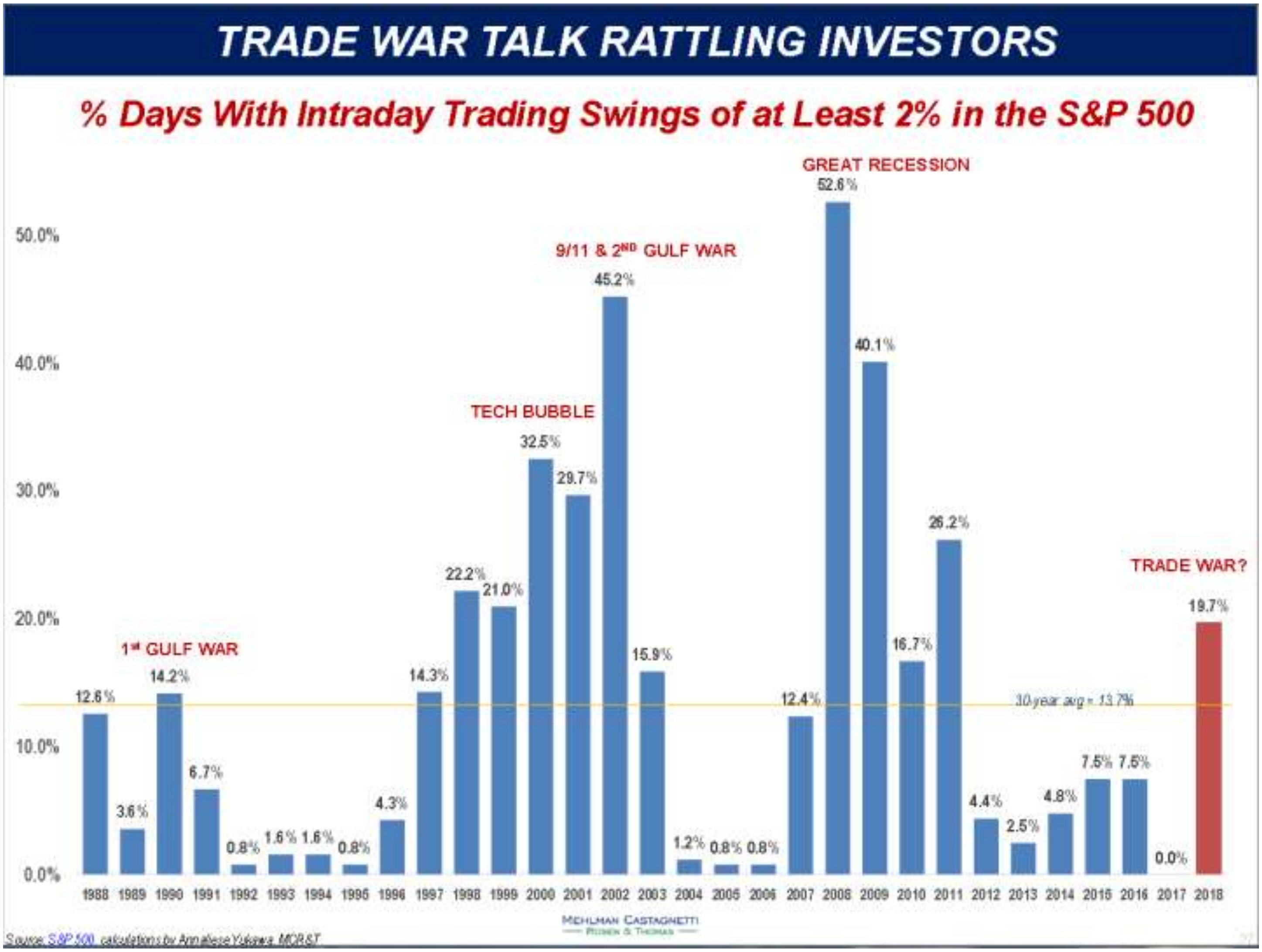
Interest rates continued to climb as shown by Bespoke on April 25th:

As of April our recovery from the Great Recession equaled the 2nd longest economic expansion since WWII. According to Bespoke, "... in order to match the record long expansion for the 1990s/early 2000s, the expansion would have to extend into the second half of 2019."



As of April 27th, that is what BCA Research's Global Investment Strategy continues to predict: "Historically, stocks tend not to peak until about six months before the start of a recession. Given our expectation that the next recession will occur in 2020, global equities could still enjoy a blow-off rally after the current shakeout exhausts itself. But when the music stops, the stock market is heading for a mighty fall."

There is a Wall Street adage that "Markets hate uncertainty". Trump is chaos personified. So while we doubt that a Trade War or Wars is on the horizon, there are plenty of other explanations for why volatility has continued since the panic low of February 8th/9th.



On March 26th ("Worst Week in Years") we wrote; "Has Wall Street finally reached its limit for the mounting chaos surrounding his administration? Besides reportedly calling your boss a "moron" (Former Secretary of State Tillerson), "dumb as shit" (Former Director of National Economic Council Cohn), and an "idiot" and a "dope" (Former National Security Advisor General McMaster) being a good way to get "Former" added to your title, should we be concerned about the latest departures from the circus?" In the latest case of "deja vu all over again" NBC News reported yesterday that former General and soon to be Former (?) White House chief of staff Kelly "has referred to Trump as "an idiot" multiple times ... according to four officials who say they've witnessed the comments."

"The officials said Kelly portrays himself to Trump administration aides as the lone bulwark against catastrophe, curbing the erratic urges of a president who has a questionable grasp on policy issues and the functions of government."

"Kelly now finds himself — just nine months into the job — grappling with diminished influence and a drumbeat of questions about how long he'll remain at the White House."

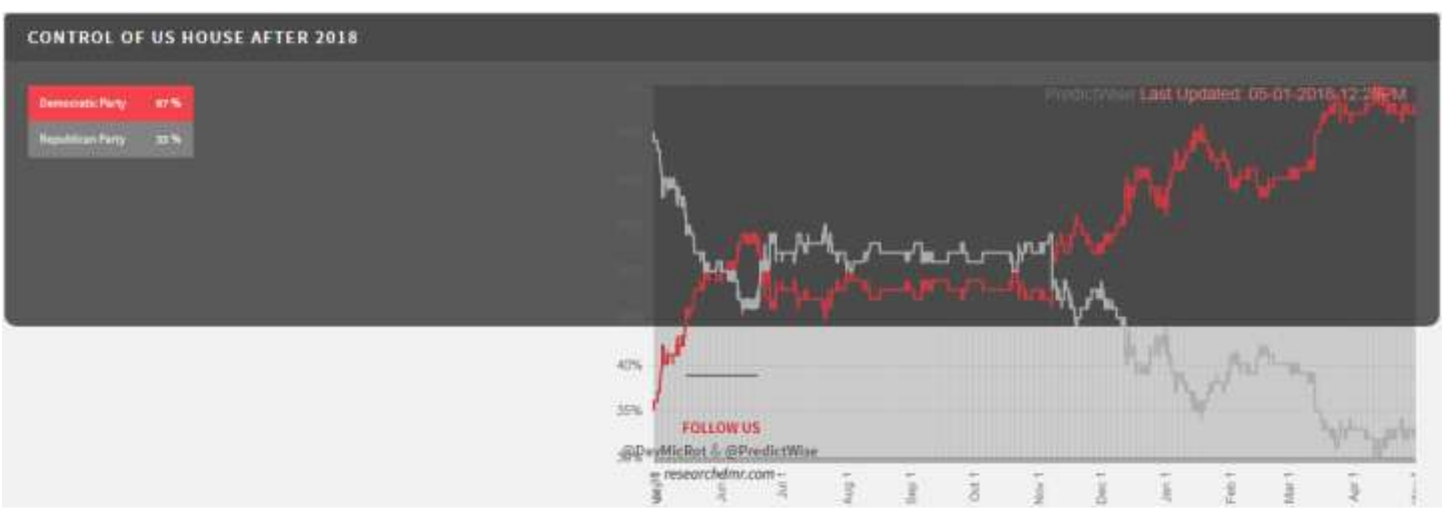
Whether or not the NBC report is "fake news", the swamp Trump was elected to drain is clearly winning:

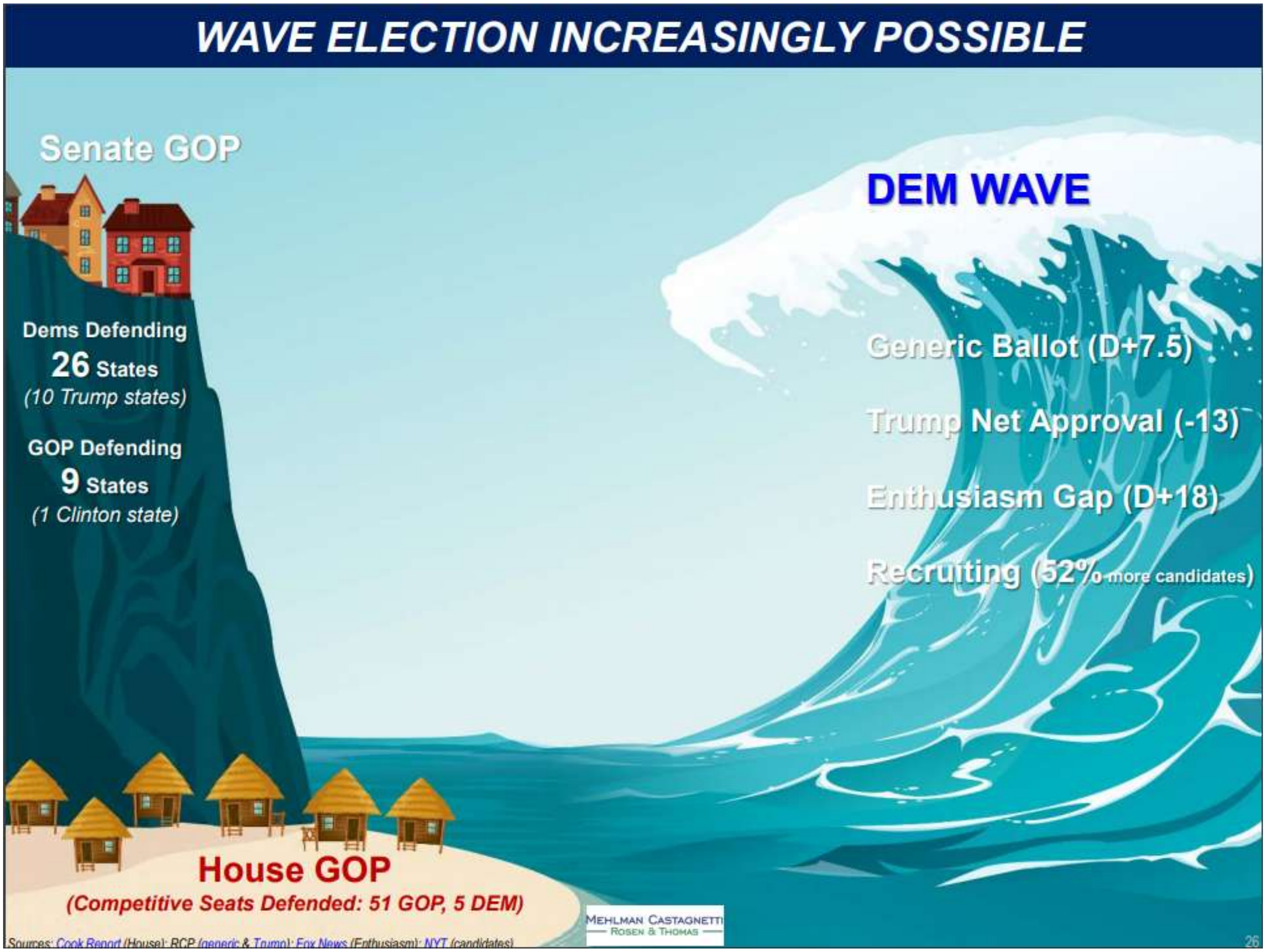
Staffing the Disruptor-in-Chief

SLOWER-ARRIVING ***Confirmations***		PRESIDENT	FASTER-DEPARTING ***Turnover (change jobs or leave)***		
# Confirmed (15 mo)	Avg. Days		Cabinet (15 mo)	WH Sr. Staff (Yr 1)	WH Sr. Staff (Yr 2)
387	84	TRUMP	6	34%	15%*
548	65	OBAMA	0	9%	15%
615	43	GW BUSH	0	6%	27%
619	50	CLINTON	1	11%	27%
520	53	GHW BUSH	0	7%	18%
Data unavailable		REAGAN	1	17%	40%

* Thru 4/12 of 2nd year vs. full-year for others.

With a record number of House Republicans, now including Speaker Ryan, abandoning ship, the odds of the Democrats taking control of the House in November continues to grow:





Impeachment will likely follow. Again, as we wrote on March 26th, "will it matter? We don't know, nor does anyone else, although there will be a multitude of so called experts proclaiming precognition after the fact. What we do know is that if your Risk Profile is accurate you shouldn't be all that concerned and, if you are, then it (your Risk Profile) may need to be adjusted. **“People can foresee the future only when it coincides with their own wishes, and the most grossly obvious facts can be ignored when they are unwelcome.” -** George Orwell

The Trump volatility is spreading. From Bloomberg:

Global Market Volatility Now a ‘Made in the U.S.A.’ Phenomenon

By Luke Kawa

May 2, 2018

The U.S. is home to the world’s largest economy, the global reserve currency -- and now, the rebirth of market volatility.

For the first time since the financial crisis, angst emanating across asset classes has an America-centric genesis. U.S. equity volatility has awoken from a long slumber to outpace its European equivalent, fixed-income traders worldwide are grappling with a 10-year Treasury yield that just cracked a significant psychological milestone, and two-year borrowing costs have reached their highest level since 2008.

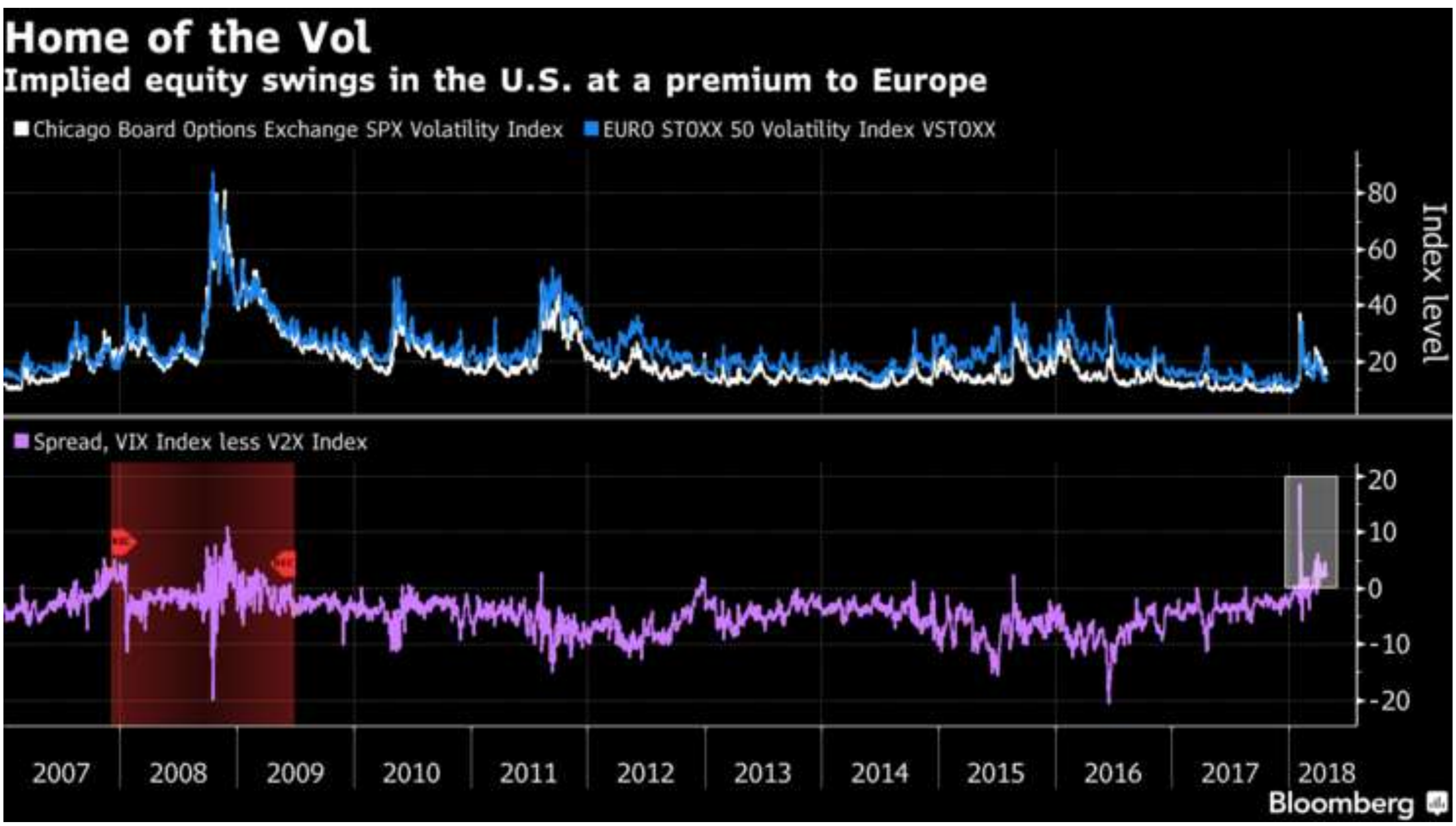
To compound the concern, U.S. President Donald Trump has a unique penchant for commenting on publicly-traded companies, not to mention a foreign policy actively aimed at redressing longstanding geopolitical hostilities and the existing norms of global commerce.

"Minds are very much on the U.S. and how to build positions for the next chapter of market worries," wrote Alain Bokobza, Societe Generale's head of global asset allocation, in the midst of a trip to Singapore.

Stock Shocks

The implied volatility of U.S. stocks over the next month -- as judged by the CBOE Volatility Index -- has typically been running higher than that of its European counterpart (the V2X Index) ever since the market maelstrom in February which wiped out several exchange-traded products betting on enduring calm.

That's the reverse of the long-standing spread between the two geographies, but not surprising according to Barclays Plc analysts led by Maneesh Deshpande, given that markets have been grappling with a trio of U.S.-centric concerns: higher rates, the prospect of a trade war, and a sharp sell-off in technology shares.



"The volatility over the past few months has been driven by negative catalysts, primarily made in the U.S.," said Deshpande. "Some premium is clearly justified."

Realized volatility of the S&P 500 Index has also been at a premium to Japan's Nikkei 225 and the EuroStoxx 50 indexes since mid-April, further underscoring tensions in U.S. equity markets. Adding to the confusion is

Trump's tendency to publicly levy barbs at individual firms, having a meaningful yet fleeting effect on their share price.

"Obviously, Trump has helped create some equity market vol," said Michael Purves, chief global strategist at Weeden & Co.

Yielding to Pressure

Meanwhile, the central role the U.S. plays in interconnected financial markets means that the increase in short- and longer-term Treasury yields can become a global problem, dragging up borrowing costs elsewhere.

"The U.S. is really the front line for the change in the volatility landscape, certainly brought about by the fact that the Fed is the first central bank moving from accommodative to less accommodative and shrinking its balance sheet," said Basil Williams, head of portfolio management at Pacific Alternative Asset Management Company.

Monetary policy normalization, a firming labor market, and rising commodity prices may test whether the market can "easily handle" the increased supply of U.S. debt linked to late-cycle fiscal stimulus, as Treasury Secretary Steven Mnuchin claimed this week.

Given this backdrop, the relatively subdued level of rates volatility "is the anomaly," added Williams. And any chaos in U.S. rates will eventually be transmitted to the rest of the world, judging by the historical relationship between German bunds and Treasuries.

"Though the rates can diverge significantly due to differences in the monetary policy between major central banks, the volatilities tend to remain more closely tied," said Mayank Seksaria, head of macro strategy and research at Macro Risk Advisors.

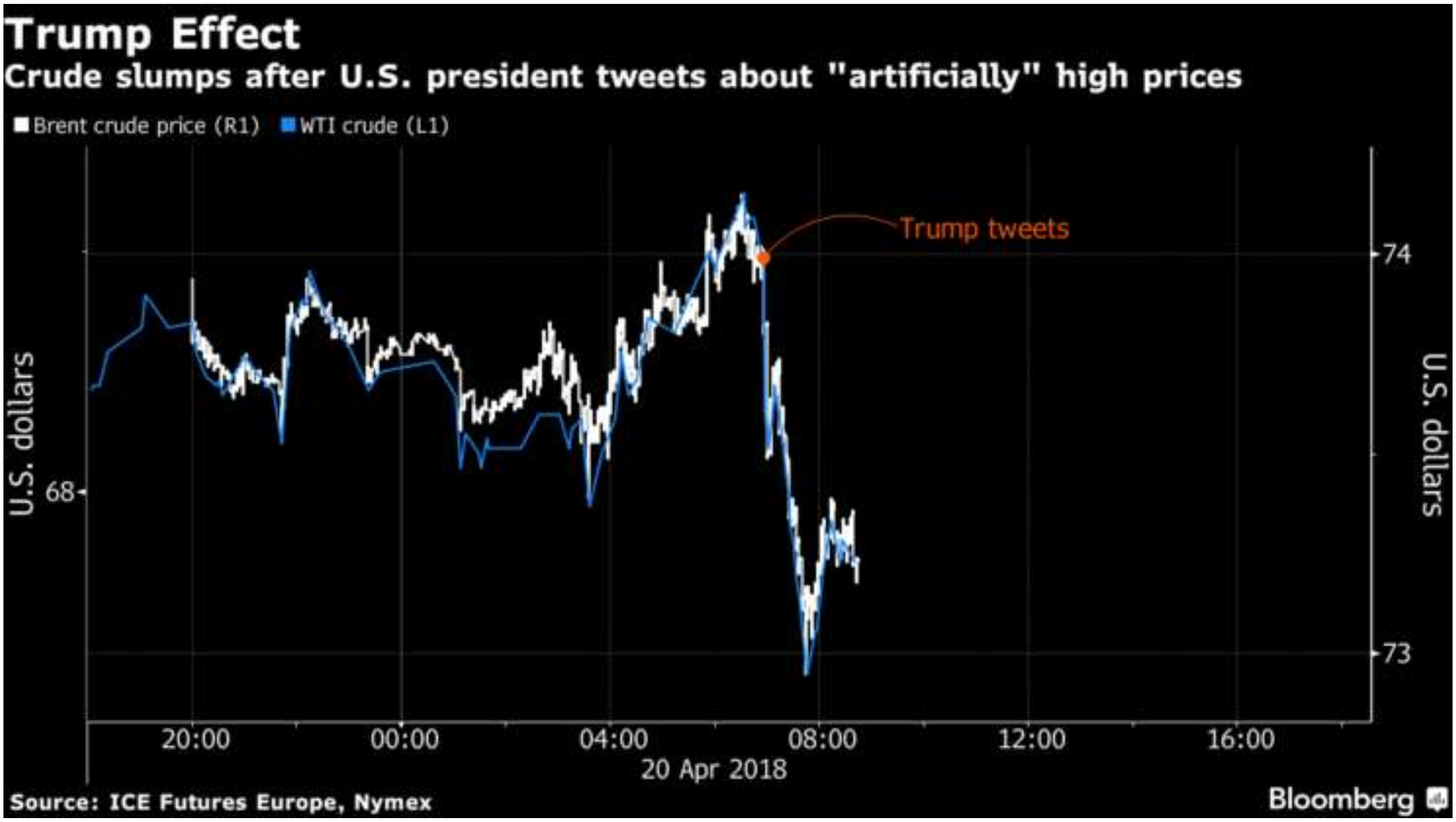
A New Export

Trade and foreign policies stateside, meanwhile, are inciting market turbulence across the globe -- from foreign exchange to commodities.

"The U.S. is driving a larger share of market volatility than the rest of world for once," said Mark McCormick, North American head of foreign-exchange strategy at Toronto-Dominion Bank, who highlighted geopolitics as another means by which the world's largest economy was fostering market gyrations.

The ebbs and flows of NAFTA renegotiations have stoked swings in the Canadian and Mexican currencies. In April, enhanced sanctions on Russia prompted the largest divergence between the ruble and Brent since January 2009.

President Trump's running market commentary in 2018 has also offered opinions on commodities including aluminum and crude, with his remark about OPEC creating "artificially very high" oil prices temporarily dampening the cost per barrel. Since then, uncertainty about whether the U.S. will pull out of the Iranian nuclear accord despite pleas from major allies has added a geopolitical risk premium that helped push up the benchmark Brent to above $75 dollars.



Investors may be left to ponder whether the Trump administration's "America First" agenda to spur domestic production and slim the trade deficit risks the U.S. becoming the primary source, manufacturer, and exporter of volatility for markets worldwide.

Volatility has become a "Made in the U.S.A." phenomenon, Barclays' Deshpande concluded.

While Trump will, sooner or later, exit the stage, the damage our dysfunctional politics is wreaking is real and potentially long lasting:

Both parties have a plan for the debt crisis: Do nothing

By **Robert J. Samuelson** April 15

The Congressional Budget Office last week released its annual budget and economic outlook report, and although the news was gruesome, the report was greeted in Washington with a giant yawn. The assumption among Republicans and Democrats is that the political rewards for curbing runaway budget deficits are too meager to justify the risks. There's a consensus to do nothing — and to hope that nothing goes disastrously wrong.

Just how large are impending deficits? Here are the CBO projections.

From 2019 to 2028, the federal government will run cumulative annual deficits of $12.4 trillion. The deficits — the gap between what government spends and what it collects in taxes — average about 5 percent of the economy (gross domestic product, or GDP). Since 1950, deficits have equaled or exceeded 5 percent of GDP in only six years (1983, 1985 and 2009-2012), and most of these occurred after deep recessions. These reduce tax revenue and boost "safety net" spending (unemployment insurance, food stamps and the like).

By contrast, today's deficits occur with low unemployment and an economy that has been expanding for nine years.

Even the CBO figures may be optimistic if they're based on unrealistic assumptions. Defense spending as a share of GDP is projected to fall; in a dangerous world, that may not happen. Similarly, some personal tax cuts are scheduled to expire at the end of 2025; many observers think Congress will extend them. Adding these amounts to government borrowing would increase the federal debt — the total of all past deficits — to more than 100 percent of GDP, about as large as right after World War II.

No one knows the consequences of these unprecedented peacetime deficits, but the CBO has listed some possibilities:

● They may further raise interest rates, which would increase deficits, squeeze other federal programs and crowd out borrowing by businesses for factories, machinery, computers and buildings. This last effect could imperil living standards.

● Government might find it difficult to respond to national emergencies, whether war, natural disaster or a financial crisis, because more borrowing on top of today's deficits would be harder.

● We could face a full-blown debt crisis. As CBO Director Keith Hall recently testified, "Investors would become unwilling to finance the government's borrowing unless they were compensated with very high interest rates." That could trigger draconian spending cuts or tax increases — and a stiff recession.

There can no longer be any pretense that the deficits reflect the aftermath of the Great Recession or other temporary forces. The main cause is political expediency: It's more popular to increase spending and cut taxes than the opposite. Combined with an aging population, which automatically raises Social Security and Medicare spending, the profligacy becomes self-fulfilling.

The deteriorating political climate is reflected in a small incident showing the deep divide between parties. On March 28, The Post published an opinion piece by five conservative economists from Stanford University's Hoover Institution. They warned of an approaching "debt crisis" if ballooning budget deficits weren't reversed. The savings should come from lower spending, not higher taxes, they said.

On April 9, five Democratic economists issued a rejoinder in The Post, rejecting the Hoover economists' suggestion that spending cuts for "entitlements" — mainly programs for the elderly and the poor — bear all the burden of cuts.

It would be more useful if the rival economists had collaborated to produce a consensus agreement that would — over, say, a decade — balance the budget. Make no mistake: This would be an immensely unpopular document. In today's dollars, balancing the budget would require annual spending cuts and tax increases of about $1 trillion. That's equal to about a fifth of federal spending, which is now being borrowed.

Social Security and other "safety net" programs would have to be reduced, possibly through higher eligibility ages and more means-testing. These entitlements constitute about 70 percent of federal spending; if they're ignored, the entire adjustment would fall on other spending (other domestic programs and defense) and taxes.

Still, taxes would have to rise, too, probably by hundreds of billions annually. Otherwise, spending cuts would be unacceptably severe.

If we are to discuss these choices sensibly, we must know what the choices are. But the vague generalities offered by both the Republican and Democratic economists seem more intended to burnish their partisan credentials than to inform the public. The longer this continues, the riskier it becomes.

On this, the conservatives and liberals probably agree. Say the conservative economists: “There is no current evidence . . . that a crisis is on the horizon. But a debt crisis does not come slowly and visibly like a rising tide. It comes without warning, like an earthquake, as short-term bondholders attempt to escape fiscal carnage.” We have been forewarned.

Positions

NHI - A Health Care REIT purchased on 4/2 @ 66.90 for our newest client. It yields 5.9% and is rated a Buy with a Fair Value of 68 by Forbes Real Estate Investor.

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
02/26/2018	1	MCCABE JR ROBERT A		312
02/22/2018	2	MENDELSOHN D ERIC, SP...		2,500

NMFC - A BDC purchased on 4/2 @ 13.15 for our newest client.

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/16/2018	1	HURLEY JR ALFRED F		1,214
03/15/2018	1	HURLEY JR ALFRED F		3,786
03/14/2018	2	HAMWEE ROBERT A, KA...		21,000
03/13/2018	2	KLINSKY STEVEN BRUC...		102,463
03/12/2018	1	KLINSKY STEVEN BRUCE		182,013
03/09/2018	1	KLINSKY STEVEN BRUCE		95,615
03/08/2018	1	KLINSKY STEVEN BRUCE		105,485
03/05/2018	3	KLINE JOHN R, WOLFGR...		46,255

The Summary from BDC Buzz on April 24th:

- NMFC stock has been rebounding off recent lows. I purchased additional shares on March 26, following management insider purchases the previous week ....
- NMFC reports results on May 7 and I am expecting higher portfolio growth in Q1 2018, including the reported $206million of originations since the end of Q4 2017 through February 26, 2018, offset by only $76 million of repayments.
- On April 18, NMFC announced that its Board has recommended that shareholders approve a proposal to reduce the company’s asset coverage ratio and expects to hold a Special Meeting in June 2018 for its shareholders to vote on this proposal.
- NMFC is considered a ‘Buy’ at these prices, especially when its trading almost 10% below its ST target price and offering a stable dividend of over 10% (covered for 19 consecutive quarters).
- NAV per share increased slightly from $13.61 to $13.63 and there were no additional non-accruals added during the recent quarter. Portfolio credit quality remained stable ...

SLB - The world's largest O&G Services provider was purchased on 4/2 for 4 clients @ 62.60 and 1 @ 63.75, and on 4/3 for a client @ 63.39. It has been in Energy & Income Advisor's Conservative Model Portfolio since 9-16-13, and is considered a Buy under 73. Morningstar's rating is a 3 with a Fair Value of 68 and a narrow moat.

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
03/28/2018	1	MOGHARBEL KHALED AL		3,000
03/26/2018	2	KIBSGAARD PAAL, SCH...		15,000

TCPC - A BDC purchased on 4/2 @ 14.07 for our newest client.

Insider Buying:

Trade Date↑	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)
02/09/2018	1	LEVKOWITZ HOWARD M...		5,000
02/06/2018	1	HOLDSWORTH MARK K		5,000
02/05/2018	1	DRAUT ERIC J		1,000
02/02/2018	1	VIG RAJNEESH		5,000
01/31/2018	1	WRUBLE BRIAN F		5,000
01/30/2018	2	LEVKOWITZ HOWARD M...		11,500

The Summary from BDC Buzz on March 5th:

- BDCs continue to pull back, including TCPC, and I purchased additional shares at $14.22 (around 18% below its ST target) on March 1 with a yield of over 10%.
- The company continues to grow its undistributed/spillover income and I'm still expecting special dividends in 2018.
- I am expecting the company to at least maintain if not improve its net interest margins due to floating rate assets, continued rise in LIBOR and reducing its borrowing costs.
- On February 21, 2018, the Board re-approved its stock repurchase plan to acquire up to $50 million in common stock at prices below NAV and management mentioned “if share prices drop down lower, it will buy more shares”.
- During Q4, NAV per share declined by 0.8% due to markdowns for Green Biologics, Real Mex, and sale of its Contextmedia loan. Realized losses of $9.1 million mostly triggered by the Globecomm recapitalization.