Churchill Management Group

Monthly Market Update

October 9, 2017

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

The total return on the S&P 500 index extended its positive winning streak to 11 months. September was one of the least volatile months in history, inside of 2017, which is one of the least volatile years in history. The average daily trading range in September was only 40 basis points and so far 50 basis points for the year. The historic average is over 150 basis points! The low volatility and positive bias from the S&P 500 total return index being up in 18 out of the last 19 months has aided the general markets in marching into record new highs month after month. The positive gains in September, however, were not uniform. The Small Cap indices, which have underperformed, played catchup and saw a 6% gain to close the gap for the calendar year against the blue chips. The NASDAQ, which has led the market for most of the year, was up only 1%. Tech however, led by the FAANG stocks, is still comfortably ahead of the major indices for the year. In general, little has changed in our view. The markets continue to benefit from the accommodative monetary policies of central banks around the world while the prospects of potential positives from the administration's efforts, especially tax reform, have been icing on the cake. The list of concerns has not changed and includes: geopolitics, tightening by central banks, and valuations.

The search for the next Fed chairman is currently underway. Will Trump re-nominate Janet Yellen for another term? If he does, will she accept? If not, who are the candidates and what kind of effect on monetary policy will it have? These are all important questions and the result is likely to give us a clue about monetary policy over the medium term. The list of potential candidates is short and for the most part we do not see a material difference between Yellen and any potential successors as monetary policy would likely continue to err on the side of accommodation. The exception is Kevin Warsh, who happened to be Ben Bernanke’s right hand man during the 08 crisis. He left the Fed in 2011 after QE2 due to ideological differences on what the role of central banks should be. He did not believe in the long term effectiveness of asset purchases and viewed it as an interventionist approach that distorted market signals and blunted free markets. The bottom line is his nomination would put a cloud over monetary policy as it would represent a regime change at the Fed. The view is that he may speed up the balance sheet reduction which could be a negative for the markets but also reduce regulations, which is a positive for financials. It is a development worth keeping an eye out for.

We continue to view the market as being in a later stage technical rally. That description has been apt as the technical indicators remain steadfast and have shown little signs of deterioration. The breadth on the NYSE has consistently confirmed the major indices in making new highs and the participation has been very broad. In addition, just like the indices, there have been pauses in the rally in leading stocks but they have mostly held at areas of support that include bases, trendlines, and moving averages. The bottom line is the technical action continues to lead this market. Until we see some deterioration in the form of divergences and/or the leading groups and stocks breaking down, there is little reason to change our bullish bias.

TACTICAL OPPORTUNITY

We have a mixed bag in the portfolio, and specifically a mixed result from the computer-data storage holdings. While Western Digital held steady for the month, Micron Technology surged 24%. Both have been solid holdings in the portfolio. Some weakness was found in Carnival Cruise Lines, most likely as a result of the Florida hurricanes. Meanwhile Home Depot benefited from anticipation over re-building. All in all, the portfolio remains in a good place.

FULLY INVESTED

ETF SECTOR ROTATION

It was a strange month that started with Value handily outperforming the market, followed by Technology surging to end the month. As a result, only three sectors performed better than the market, those being Energy, Financials, and Tech. All but Utilities were up in what continues to be a rather steady market. Our model remains overweight Tech, Financials and Health. Additionally, the market's recent positive action triggered us to remove our defensive position in Consumer Staples and go overweight Materials and Industrials. For the broad markets it was a Small-Cap month. Small-Caps were up a little over 2.5% compared to the markets 0.68%. Mid-Caps were a push and Large-Caps slightly lagged, but all groups were up. By the end of the month, Growth and

Value ended up pretty much the same. For Internationals, Europe was up, but only about as much as the S&P 500, and Emerging Markets stepped back, slipping a little over 1.25%. The green light remains on, however, for Internationals in our model.

EQUITY GROWTH AND VALUE

Light activity remains the norm and continues to pay off. Some weakness was found from big names such as Apple, Pepsi and Broadcom but not enough to force sells. Otherwise some strong months from the likes of Applied Materials, Home Depot, Textron, and others kept the portfolios enjoying the positive market.

EQUITY DIVIDEND INCOME

Dividend somewhat unexpectedly spiked nicely during the month of August. The group has spent most of the year treading water, but saw several holdings have a nice run over the last several weeks. Names such as Abbvie Inc., Lyondellbasell, Valero Energy, Intel, and Boeing all posted strong gains during the month. Please note that one or more of these names may not be in every portfolio due to the variation in opening dates.

For a full description of each strategy, please click here.

Best regards,

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