The Blumenthal Viewpoint

April 30, 2011

A Race to The Bottom - Politicians, promises and probabilities:

On Monday, April 18, S&P cut its outlook for U.S. government debt to negative from stable due to mounting debt and the deteriorating long-term fiscal health of the U.S. S&P warned that if the current trend continues, the credit profile of the U.S. would be lowered. Brewing beneath the surface is unsustainable debt, unsustainable entitlement programs, and an unsustainable budget deficit. I argue below that the political and economic pressures our policymakers face move them towards one ultimate conclusion/solution – print, print, print and monetize the debt. Default by a different name.

There is no easy way out. Behind closed doors, I believe the decision has already been made. The game plan: continue to inflate our way out of this mess. It is the most probable outcome I see and is tied to broken political courage, history grounded in human nature and some logical common sense. I conclude it will be QE3, 4, 5, and 6 as we print anew to reduce our debt.

We are not alone. Others, dependent on the U.S. consumer and in equal or greater financial distress, will continue to fight to keep their currencies low relative to the dollar. As we print, they print. Apply a world-wide multiplier to this liquidity equation and the problem becomes exponential. As Milton Friedman said, “inflation is always and everywhere a monetary phenomenon”. I don’t believe that this time will be any different. It is from this position that I believe the probabilities favor a lower dollar, higher inflation, and higher interest rates in the years ahead. A currency race to the bottom.

Before I jump in, please know that I am not a bearish person by nature or so called perma-bull; however, I believe today there is cause for concern. I am simply calling it as I see it today. I believe there are a few simple steps that you can take that will dramatically improve the probabilities of avoiding another major downside experience. It involves putting some downside portfolio protection in place (call it a small insurance expense) and increasing exposure to Tactical Investment Solutions that have the ability to profit in both up and down trending environments. I will discuss this in greater detail below.

I can see an argument for a modest upside equity move from here - call it 5%. Yet I believe the probability of a strong sell-off in the equity markets warrants caution – call it -34% downside. So here we go…
My two cents follows: I reflect what I believe is the most critical market related information to get your arms around. We’ll take a look at secular trends, valuations, debt, deficits, and current investor sentiment. Additionally, I provide a link to Chapter 6 of John Mauldin’s new book, *Endgame: The End of the Debt Supercycle and How It Changes Everything*, to provide a more detailed understanding of the debt problem and an important link to Bill Gross’s most recent newsletter titled “Skunked” which talks clearly about our unfunded liabilities (Social Security and Medicare) and the 500% debt to GDP number (yes 500%). Both shape the issue in great detail. The material is relatively long but important. I hope you find it helpful.

1) Secular bull or secular bear cycle?

I argue that we remain in a long-term secular bear cycle. Secular bears tend to last a long time. The shortest secular bear in the last 113 years lasted 17 years (Source Rydex/SGI) yet there are always shorter cyclical bull and cyclical bear periods within the longer-term cycles. It seems to take a number of years to work off the prior secular bull market extremes.

2) Valuations best determine secular bull market entry and exit points

Typically, bear markets end with PE ratios below 10. Currently the median PE is 18. Not bad, but not a bargain. Bull markets historically begin with a PE ratio below 10 and interest rates moving from higher yields to lower yields. For example, in 1966 the PE ratio on the DJIA was 21 but by the end of the secular bear in 1981, the PE ratio dropped to 9. Also important to note is that inflation (as measured by CPI) went from 3% in 1966 to 10% in 1981. Conversely, in the 1982 to 1999 secular bull market, the PE ratio started the bull market run at 7 (an attractive valuation) and finished at an astounding 42. Inflation went from 10% to 2%. You will find the
valuation and inflation patterns (high to low and low to high) repeated in all secular bull market and bear market cycles over the last 113 years. Source: Dow Jones Industrial Average at year-end from the Dow Jones & Company and CrestmontResearch.com).

Although earnings growth is important over time, it is the current valuation level that is the best predictor of future returns. The mean PE today, as measured by Ned Davis Research (“NDR”) is approximately 18 (source: NDR April 2011) and the most recent Shiller PE is 24.04 (source www.multpl.com). The following table shows ninety 20 year periods and the average return based on starting Shiller PE. Conclusion: At a Shiller PE of 19 the return projection over the next 20 years ranges from 1.2% to 4.5% based on Shiller methodology. The average S&P 500 return for the 20 year periods was 3.2%. Current Shiller PE is 24. Expect low average returns moving forward. Be patient and to buy at low PE valuation levels. Until then stay tactical and defensive.

3) From GMO’s James Montier, “This Secular Bear has been more painful than most want to admit”

As time progresses, the markets lull investors to sleep (today – I believe investors are ill prepared for the risk to rising interest rates). In December 1999, I had a client who left our CMG Managed High Yield Bond Strategy and transferred her account to Merrill Lynch. Her new broker told her he was investing her in “safe stocks”. I smiled and asked her exactly what she thought were safe stocks. She said stocks like GE. She was a few years away from her desired retirement. I had grown her $750k to just over $1 million. In December 1999, GE was at $40 per share. Today GE is at $20 per share. Like many, she was drawn to the late bull market by the manic returns and she perfectly timed the top. Had she stayed in our CMG HY strategy, today her $1,000,000 would be worth approximately $2,035,082 net of fees. In comparison, $1 million invested in the S&P 500 Index is worth $1,107,612 through March 2011. “Safe stocks”? 
<table>
<thead>
<tr>
<th>Year</th>
<th>CMG HY</th>
<th>S&amp;P 500 Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>5.20%</td>
<td>-9.11%</td>
</tr>
<tr>
<td>2001</td>
<td>7.94%</td>
<td>-11.88%</td>
</tr>
<tr>
<td>2002</td>
<td>10.04%</td>
<td>-22.10%</td>
</tr>
<tr>
<td>2003</td>
<td>26.73%</td>
<td>28.68%</td>
</tr>
<tr>
<td>2004</td>
<td>0.93%</td>
<td>10.88%</td>
</tr>
<tr>
<td>2005</td>
<td>-1.71%</td>
<td>4.91%</td>
</tr>
<tr>
<td>2006</td>
<td>3.54%</td>
<td>15.79%</td>
</tr>
<tr>
<td>2007</td>
<td>4.20%</td>
<td>5.49%</td>
</tr>
<tr>
<td>2008</td>
<td>-9.32%</td>
<td>-37.00%</td>
</tr>
<tr>
<td>2009</td>
<td>23.61%</td>
<td>26.46%</td>
</tr>
<tr>
<td>2010</td>
<td>5.54%</td>
<td>15.06%</td>
</tr>
<tr>
<td>2011</td>
<td>1.50%</td>
<td>5.92%</td>
</tr>
</tbody>
</table>

* source: CMG Managed HY Bond net of 2.50% fee
* source: Pertrac S&P 500 Index total return

What if that ML broker felt other safe stocks were names like Microsoft, Cisco, Intel and Dell? This from GMO’s James Montier in his great piece titled “The Seven Immutable Laws of Investing”.

“I’ve been waiting a decade to use Exhibit 1 (see below). It shows the performance of a $100 investment split equally among a list of stocks that Fortune Magazine put together in August 2000.

For the article, Fortune used this lead: “Admit it, you still have nightmares about the ones that got away. The Microsofts, the Ciscos, the Intels. They’re the top holdings in your ultimate ‘coulda, woulda, shoulda’ portfolio. Oh, what might have been, you tell yourself, had you ignored all the naysayers back in 1990 and plopped a modest $5,000 into, say, both Dell and EMC and then closed your eyes for the next ten years. That's $8.4 million you didn't make.

“Now, hold on a minute. This is no time for mea culpas. Okay, so you didn't buy the fastest growers of the past decade. Get over it. This is a new era – a new millennium, in fact – and the time for licking old wounds has passed. Indeed, the importance of stocks like Dell and EMC is no longer their potential as investments (which, though still lofty, is unlikely to compare with the previous decade's run), it's in their ability to teach us some valuable lessons about investing from here on out.

Rather than sticking with these “has been” stocks, Fortune put together a list of ten stocks that they described as “Ten Stocks to Last the Decade” – a buy and forget portfolio. Well, had you bought the portfolio, you almost certainly would wish that you could forget about it. The ten stocks were Nokia, Nortel, Enron, Oracle, Broadcom, Viacom, Univision, Schwab, Morgan Stanley, and Genentech. The average PE at purchase for this basket was well into triple figures. If you had invested $100 in an equally weighted portfolio of these stocks, 10 years later you would have had just $30 left! That, dear reader, is the permanent impairment of capital, which can result when you invest with no margin of safety.”
4) Another look at valuations

James continues on the importance of valuations:

“Today it appears that no asset class offers a margin of safety. Cast your eyes over GMO’s current 7-Year Asset Class Forecast (Exhibit 2). On our data, nothing is even at fair value, so from an absolute perspective all asset classes are expensive! U.S. large cap equities are offering you a close to zero real return for the pleasure of parking your money in them. Small cap valuations indicate an even worse return. Even emerging market and high quality stocks don’t look cheap on an absolute basis; they are simply the best relative places to hide.

These projections are reinforced for equities when we investigate the number of stocks able to pass a deep value screen designed by Ben Graham. In order to pass this screen, stocks are required to have an earnings yield of twice the AAA bond yield, a dividend yield of at least two-thirds of the AAA bond yield, and total debt less than two-thirds of the tangible book value. I’ve added one extra criterion, which is that the stocks passing must have a Graham and Dodd PE of less than 16.5x. As a cursory glance at Exhibit 3 reveals, there are very few deep value opportunities in global markets currently.
Bonds or cash often offer reasonable opportunities when equities look expensive but, thanks to the Fed’s policy of manipulated asset prices, these look expensive too.”

**Exhibit 2: GMO 7-Year Asset Class Return Forecasts* as of January 31, 2011**

* The chart represents real return forecasts1 for several asset classes. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Actual results may differ materially from the forecasts above. 1 Long-term inflation assumption: 2.5% per year. Source: GMO

**Exhibit 3: % of Stocks Passing Graham’s Deep Value Screen**

* With additional criterion that stocks have a Graham and Dodd P/E of less than 16.5x. Source: GMO As of 3/29/10

5) Debt and Deficits, Mauldin Chapter 6, The Endgame
http://cmgfunds.net/investments/independent-research.asp

Beneath the surface the storm is building. The big elephant in the room remains unsustainable debt both here and globally. The enormity of the problem is laid out perfectly in Chapter 6 of
“There are examples of countries that have worked their way out of even worse problems and have done so without default. But those examples always came with currency devaluation and higher inflation.” “The problem with having more liabilities than you can service means that someone has to take a loss.” “A report from Arnaud Mares at Morgan Stanley lays out the problem very well. The author of this report highlights that most of the obligations countries now have is to their pensioners and senior citizens. Naturally, governments could cut Social Security or Medicare and reduce the future liability. There is no way that would fly politically. The complication is that as countries grow older, most of the voters also happen to be senior citizens.” As Mares points out, “This means governments will impose a loss on some of their stakeholders. The question is not whether they will renege on their promises, but rather upon which of their promises they will renege, and what form this default will take.”


“The authors worry that one of the real problems central banks may face is that inflation expectations may become unanchored in the absence of a willingness on the part of the government to show fiscal constraint. No matter how much the Fed might like to help in a crisis, they may not be able to do anything effective if the U.S. government does not deal with its deficits.

Our examination of the future of public debt leads us to several important conclusions. First, fiscal problems confronting industrial economies are bigger than suggested by official debt figures. As frightening as it is to consider public debt increasing to more than 100% of GDP, an even greater danger arises from a rapidly aging population. The related unfunded liabilities are large and growing, and should be part of today’s long-term fiscal planning… Second, large public debts have significant financial and real consequences. The recent sharp rise in risk premia on long-term bonds issued by several industrial countries suggests that markets no longer consider sovereign debt low-risk.”

In this way, despite the overdeveloped egos in Washington, the bond market will be the ultimate judge and jury.

6) Is it currently 90% debt to GDP or 500% debt to GDP. This from Pimco’s Bill Gross, “We are out Greeking the Greeks”, entitled “Skunked” http://cmgfunds.net/investments/independent-research.asp

“Others, such as Pete Peterson of the Blackstone Group and Mary Meeker, have shown much better and for far longer than I, the true but unrecorded debt of the U.S. Treasury is not $9.1 trillion or even $11-12 trillion when Agency and Student Loan liabilities are thrown in, but $65 trillion more! This country appears to have an off-balance sheet, unrecorded debt burden of close to 500% of GDP! We are out Greeking the Greeks.
If so, and if the USA were a corporation, then it would probably have a negative net worth of $35-40 trillion once our “assets” were properly accounted for, as pointed out by Mary Meeker and endorsed by luminaries such as Paul Volcker and Michael Bloomberg in a recent piece titled “USA Inc.” However, approximate and subjective that number is, no lender would lend to such a corporation. Because if that company had a printing press much like the U.S. with an official “reserve currency” seal of approval affixed to every dollar bill, that lender/saver would have to know that the only way out of the dilemma, absent very large entitlement cuts, is to default in one (or a combination) of four ways: 1) outright via contractual abrogation – surely unthinkable, 2) surreptitiously via accelerating and unexpectedly higher inflation – likely but not significant in its impact, 3) deceptively via a declining dollar—currently taking place right in front of our noses, and 4) stealthily via policy rates and Treasury yields far below historical levels – paying savers less on their money and hoping they won’t complain.

If I were sitting before Congress – at a safe olfactory distance – and giving testimony on our current debt crisis, I would pithily say something like this:

“I sit before you as a representative of a $1.2 trillion money manager, historically bond oriented, that has been selling Treasuries because they have little value within the context of a $75 trillion total debt burden.

Unless entitlements are substantially reformed, I am confident that this country will default on its debt; not in conventional ways, but by picking the pocket of savers via a combination of less observable, yet historically verifiable policies – inflation, currency devaluation and low to negative real interest rates.”

For now inflation fears and interest rate pressures haven’t been great enough to inflict damage but the longer term risk is for higher inflation. Remember how money was pouring into “safe stocks” in the late 90’s. Today money is pouring into “safe bond” funds. It is important to remain forward looking yet we know from investor behavior studies that the majority of investors tend to be backward looking. To this point, individual investors have poured so much of their portfolios into fixed income bonds funds and I fear they have little sense that an inflation storm is approaching on the horizon. Investors have been lulled to sleep after 28 years of declining interest rates (the 10 year Treasury declined from 16% in 1982 to under 2.50% last year) and little sense of what a change in trend means. Are the low yields worth it? While portfolio risk tied to bond exposure is highest in decades, do they see the risk? I don’t think so.

Conclusion – it is time to get defensive:

For now the risk trade remains on but the cyclical bull is aged. The Fed has been driving the market; however, QE2 ends June 30. Remember there was TARP, Tax Credits, Cash for Clunkers, Social Security payment reductions, Tax Incentives, A Sustained Zero Interest Rate Policy, QE1, and QE2. This period, juiced on steroids, GDP growth is just 3%. In comparison, post-recession GDP growth has historically been in the 6% plus area. Since WWII, this is the only post recession that has failed to see accelerated growth. Let’s see what happens after the policy makers take the QE2 punch bowl away.
Below, I share a portfolio construction idea that ties risk management into your investment process. Part of the solution is driven by investor sentiment. So let’s first look at my favorite investor sentiment chart and then discuss a few ideas.

Sentiment is clearly in the Excessive Optimism zone. Take a look at the annual returns in the chart when sentiment is in the extreme optimism zone – annual gain of 1.3% per year. Also, the recent high in February at 73.0 was higher than the 72.2 reading at the market’s 2007 high.

Noteworthy is the average cyclical bull within a secular bear lasts 26 months according to NDR. May 2011 will mark 26 months from the March 2009 S&P 500 Index low of 666. The best time to buy stocks was at the last cyclical bear market low not at today’s cyclical bull market highs. Also, I want to note that the third year of Presidential cycles is historically bullish; however, the best moves are early in the cycle (November 2010 through April 2011). The current cycle has followed the historical path. The best part of the Presidential election cycle is now behind us.

Risk is high. Optimism is excessive. I believe it is time to get defensive on your long equity positions.

So how does this debt, entitlement and deficit mess logically play out? Unfortunately, I believe there is little political will to cut the deficit and tackle Social Security and Medicare in a meaningful way. As Carmen Reinhart and Kenneth Rogoff have pointed out in *This Time is Different*, there is a statistical tipping point when countries reach a 90% debt to GDP ratio. Yet our true liability is closer to 500% of GDP. This will adjust one way or another. There will be the token gestures that give some political footing in the upcoming elections (I can just picture the nauseating commercials now), but will there be a substantive budget reduction plan? I don’t
think so. Too much pain is required and too many votes are at risk.

Behind closed doors and quietly whispered down congressional halls, the plan is to print, inflate and monetize the debt. Print and buy bonds, pause, and print and buy more bonds as it is the path of least political resistance. The goal: significantly reduce our outstanding $14 trillion on balance sheet debt. “Damn the dollar” our politicians privately say. “We don’t care.” Can they soft land this thing? I don’t think so; there are just too many other players in the game trying to do the same thing (Europe, Asia, developed and undeveloped countries). This will create another nightmare of a problem several years down the road as monetary policy leads to higher inflation (or low growth high inflation stagflation). Debt is a bummer and no small problem to fix. If the print game is resisted, then it is recession and deflation. For now, I believe the probabilities favor slow growth and high inflation in the years ahead.

**Portfolio Construction idea:**

Tied to this view, I believe 60/40 is at a disadvantage for now and that a better balance today is 30 equity, 30 fixed income and 40 alternatives. Secular bull and secular bear cycles simply play out over time. There is no quick fix, no short term solution. I believe the next -34% is in the not too distant future (best guess is the next cyclical bear cycle begins between now and mid-summer). Given current valuation levels, and excessive optimism, risk management is paramount.

Defensively manage the equity and fixed income allocations and find investment strategies with the flexibility to profit in both rising and falling equity and fixed income environments. The key is to think a little differently in secular bear periods. If I’m completely wrong and a new secular bull is at foot, I still believe you can do a good job with 30-30-40 and be well positioned. If you are more bullish than me, perhaps consider a 60-20-20 weighting. If you are more bearish than me, consider 20-20-60. Most important is to have a plan in place and be mentally prepared to stick to your plan. There are new tools readily available for you to use. There has been so much innovative product development over the last ten years. Take advantage of those tools.

Of course, I could be wrong in my risk assessment as there are, what I believe, other less probable outcomes. Whatever those outcomes may be, it is current valuation and interest rate levels that cause the greatest performance headwind. If the investment starting point today was a PE ratio below 10 coupled with higher inflation and high interest rates, I’d feel much better about increasing long-term equity and fixed income exposure and reducing alternative exposure. That just isn’t the case today.

While my current secular and cyclical views are bearish, my intention is to leave you with the very positive thought that there are solutions. Portfolio construction is crucial. Following is a model game plan:

- For the **30% equity exposure**, a relatively simple defensive approach you can implement is to write covered calls and buy put options at points of optimistic extremes. Unwind that protection at points of pessimistic extremes. There are risk managed tactical momentum based strategies and mutual funds that can add value into this portion of your portfolio. [1]
- For the **30% fixed income exposure**, look to shorten maturities to be better positioned in future years at high rates and find sound tactical fixed income solutions with the ability to
make money in both up and down interest rate environments.

- For the 40% to alternatives, seek to add liquid tactical investment solutions that can compliment your other alternative allocations.

If you need our help, please talk to us and get to know us better. We are experts in the Tactical Investment space and I believe we offer some outstanding solutions that can add value to your clients’ portfolios.

Finally, on a sad personal note, I lost my father two weeks ago after his long battle with cancer. He was a sweet, kind, happy, and wonderful man. Post his retirement from his CPA practice in 1994, he worked with me for ten years. Those were great years together. He passed over as peacefully as the life he led.

To Dad, I’m so going to miss you. I will always hold you in my heart. Please come and visit us as often as you can. With your new found freedom, your grandchildren have a lot of soccer, baseball, and lacrosse games for you to attend. They hold your competitive fire. I hope they learn to win and lose with the depth of grace you have reflected throughout your life. There is Brie’s lacrosse game today at 4. I hope you can come. Please celebrate in knowing you are so loved.

The last couple of weeks have been a bit rough and I’m way behind on emails. This week is catch-up week. Please forgive me if your email in sitting in my in box.

Finally, please click on the below link for the CMG Q1 2011 Performance Summary

CMG Q1 2011 Performance Summary

If you are having issues viewing the charts, please click here to view the Blumenthal Viewpoint in a PDF version on our home page.

[1] You can learn more about defensive option strategies at the Chicago Board of Options Exchange website

With kind regards,

Steve

Stephen B. Blumenthal
President, CEO
CMG Capital Management Group, Inc.
150 N. Radnor Chester Road, Suite A150
Radnor, PA 19087
steve@cmgfunds.net
610-989-9090 Phone
Important Disclosure Information: This message (and any associated files) is intended only for the use of the individual or entity to which it is addressed and may contain information that is confidential or subject to copyright. If you are not the intended recipient, you are hereby notified that any dissemination, copying or distribution of this message, or files associated with this message is strictly prohibited. If you have received this message in error, please notify us immediately by replying to the message and deleting it from your computer.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this document will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained herein serves as the receipt of, or as a substitute for, personalized investment advice from CMG Capital Management (or any of its related entities), or from any other investment professional. To the extent that a reader has any questions regarding the applicability of any of the content to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing.

In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise CMG immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investment strategies devised or undertaken by CMG) will be profitable for a client's or prospective client's portfolio. All performance results have been compiled solely by CMG and have not been independently verified. Information pertaining to CMG's advisory operations, services, and fees is set forth in CMG's current disclosure statement, a copy of which is available from CMG upon request.

A copy of CMG's current written disclosure statement discussing our advisory services and fees is available upon request or you can access this information on CMG's website (www.cmgfunds.net/public/adv.asp).

Performance Disclosure:
The CMG Managed High Yield Bond Strategy (“CMG”) composite performance results represents performance results from a blend of continuously managed CMG accounts, which are historically representative of the trading signals for CMG’s high yield bond program during the corresponding time period. Performance from October 1, 1993 through September 30, 1999 was attested to by Deloitte & Touche LLP and reflects the performance of one continuously managed
account. A copy of attestation results is available from CMG upon request. Performance results from October 1999 to December 2003 reflect performance on a continuously managed account held at Trust Company of America (member FDIC) and traded in omnibus form. From January 2004 to the present, performance results are based off a blend of accounts managed by CMG and held at Trust Company of America (TCA). Note: from March 2004 to Sept. 2005 CMG created and managed the CMG High Income Bond Plus Fund. Performance is reflected in the blended accounts held at TCA. Performance results from October 1999 to the present were compiled solely by CMG, are unaudited, and have not been independently verified. CMG maintains all information supporting the performance results in accordance with regulatory requirements. Individual returns may vary substantially from those presented due to differences in the timing of contributions and withdrawals, account start dates, and actual fees paid.

The performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and, net of the current management fee of 2.50% and any separate fees assessed directly by each unaffiliated mutual fund holding that comprised the account. Performance is not net of custodial fees. Different client accounts will generally be comprised of different high yield mutual funds pursuant to which CMG exchanges client assets between the high yield bond mutual funds (or sub-divisions) and money market based upon CMG’s trading signals. Information pertaining to any mutual fund that is current component of a CMG portfolio is set forth in each respective mutual fund’s prospectus, copies of which are available from CMG or directly from the mutual fund company.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal to any corresponding historical index. The composition/percentage weighting of each corresponding CMG index (i.e. S&P 500 Total Return or Barclays High Yield Credit Bond Index) is also disclosed. For example, the S&P 500 Composite Index (the “S&P”) is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard & Poor’s chooses the member companies for the S&P based on market size, liquidity, and industry group representation. Included are the common stocks of industrial, financial, utility, and transportation companies. The historical performance results of the S&P (and those of or all indices) do not reflect the deduction of transaction and custodial charges, nor the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The S&P is not an index into which an investor can directly invest. The historical S&P performance results (and those of all other indices) are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of CMG’s portfolio meets, or continues to meet, his/her investment objective(s). A corresponding description of the other comparative index, the Barclays High Yield Credit Bond Index (i.e., a fixed income index) is available from CMG upon request. It should not be assumed that CMG program holdings will correspond directly to any such comparative index. The CMG performance results do not reflect the impact of taxes.
In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise CMG immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investment strategies devised or undertaken by CMG) will be profitable for a client's or prospective client's portfolio. All performance results have been compiled solely by CMG and have not been independently verified. Information pertaining to CMG's advisory operations, services, and fees is set forth in CMG's current disclosure statement, a copy of which is available from CMG upon request (or on CMG’s website, http://www.cmgfunds.net/).

Data for the Barclays High Yield Credit Bond Index and S&P 500 Total Return indices was calculated using PerTrac Financial Solutions, LLC. It should not be assumed that CMG account holdings will correspond directly to any such comparative index.