CB3 Financial Group

cb3financialgroup.com
312-513-7486

CB3 on 3

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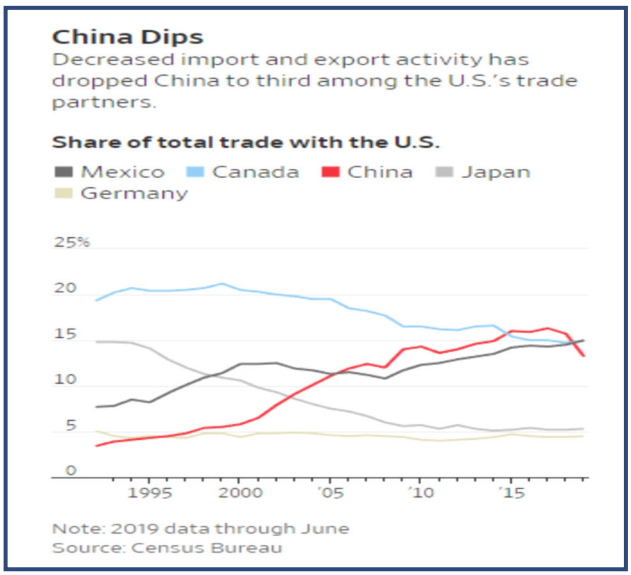
SUMMARY: The standoff between Washington and Beijing has cost China its position as the U.S.'s top trading partner, a shift that could accelerate as President Trump moves to ratchet up tariffs even more. Data released Friday showed that Mexico was the top trading partner for the first half of the year, followed by Canada. And *this* is the story of the summer — when the markets should be focused on 2Q19 earnings reports. Let's take a look at what's moving the markets as we head into Autumn.

Political

President Trump moved Thursday to extend tariffs to essentially all Chinese imports, escalating a trade conflict that is poised to hit U.S. consumers in the pocketbook and roiling financial markets. The new tariffs would take effect Sept. 1 and cover $300 billion in Chinese goods—including smartphones, apparel, toys and other consumer products. They would come on top of tariffs already imposed on $250 billion in imports from China. "If they don't want to trade with us any-more, that would be fine with me," Trump said last Friday.

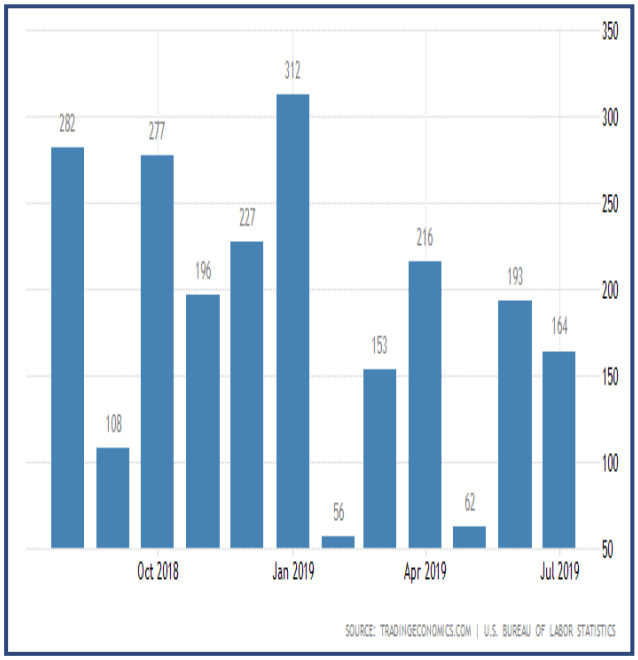


Here's my take:

Much is at stake as the China trade negotiations accelerate then wither, re-accelerate, then re-wither. The market just experienced its worst week in 2019, and is down again as we open into the first full week of August. Why all the market angst? Simple: Markets hate uncertainty and it hates surprises even more (if that makes sense…) Remember that August is traditionally the second-weakest month for stock market performance. It's holding true to form.

Fundamental

The Fed cut its benchmark rate by a quarter percentage point on Wednesday to a range between 2% and 2.25% citing concerns about global growth, trade and muted inflation. Chairman Jerome Powell left the door open to another cut later this year. "I would love to be more precise about the economic outlook," Mr. Powell said at a news conference Wednesday. "But with trade it is a factor that we have to assess in kind of a new way." Worries over escalating trade tensions definitely more than offset any comfort Federal Reserve officials will take from the latest indication of a healthy U.S. labor market.



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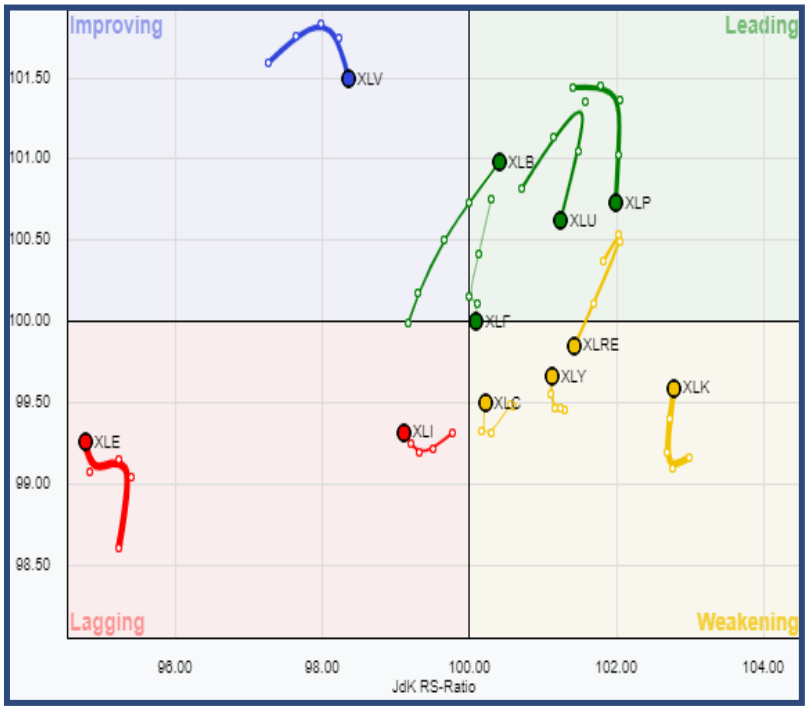
July's Non-Farm payroll number provides comfort that, while job growth may be slowing in 1H19, it came in just where it was expected to for the July Non-Farm payroll. Normally when the economy has expanded for many years, officials might expect hiring to slow because there are fewer workers to draw off the sidelines. But the recent cooling of wage growth raises doubts over whether that is happening. I am pretty confident that the AUG employment report will not disappoint, just like July did not …

Technical

When I look at the eleven sectors in the S&P 500, I see confusion between the "risk on" and "risk off" sectors on the Relative Rotation Graph. The weakest sector all year has been energy, and you can see it "languishing" in the red "Lagging" Quadrant on the chart — meaning energy stocks are seriously lagging the other sectors. Industrials have also moved into Lagging, but are not too "deep" in the red zone. I like seeing Consumer Discretionary and Technology turning back up trying to head back into the Leading Quadrant. By the September newsletter, we'll know if one or both succeeded. These are truly the dog days of summer, and probably nothing too exciting will happen this month is regards to sector leadership

Please call or e-mail with any questions you may have. See you in early September! Enjoy the rest of your Summer!



About the CB3 Separately Managed Accounts (SMAs):

Capital Growth (CG)

CG uses advanced technical analysis to identify stocks with attractive momentum characteristics, targeting an investment objective of capital appreciation. These stocks must also have a growth "story." The portfolio is comprised of 20-40 equities and ETFs across all market capitalizations. Up to 50% of assets may be invested in cash. International and alternative asset positions may be used. **Benchmark: iShares Russell 1000 Growth (IWF)*

Organic Value (OV)

OV invests in stocks of established companies that are attractive on a technical basis and may be fundamentally undervalued. These stocks are returning capital to their shareholders through dividends and stock buybacks. The objective is capital appreciation. The portfolio is comprised of 20-40 individual positions. Up to 50% of the assets may be invested in cash. **Benchmark: iShares Russell 1000 Value (IWD)*

Dynamic Income (DI)

DI utilizes dividend-paying equity securities to generate income per its investment objective. The portfolio is comprised of 20-40 holdings, primarily in U.S. companies, with equity holdings concentrated among large-cap stocks. Favored stocks have an increasing three-year net growth in payout. The portfolio may contain up to a 10% weighting in international and 60% in cash. **Benchmark: iShares Select Dividend (DVY)*

Conservative Yield (CY)

CY invests in fixed income ETFs and CEFs, aiming to produce a total return exceeding its benchmark, but also protecting its capital base. The portfolio can invest in anything from U.S. Treasury, short and long term corporate, international, emerging market, domestic and international high yield, and leveraged bonds. Holdings range across durations and bond sectors. Up to 60% cash can be held. **Benchmark: Vanguard Total Bond Market (BND)*

Small Cap (SC)

SC invests in small and micro-cap securities with the goal of capital appreciation. Dividends are merely incidental in this program. The portfolio is comprised of 20-40 holdings, almost exclusively U.S. companies. Capitalization of equity holdings is limited to small- and micro-cap stocks. Favored stocks have technically favorable attributes within sectors that are also technically strong. SC stocks may contain up to a 10% weighting and up to 60% in cash. **Benchmark: Russell 2000 (IWM)*

222 West Erie Street | Suite 2303 | Chicago | 60654
Office: 312-471-1630 | E-mail: cb3@cb3.com | Website: cb3financialgroup.com