Wealth through ingenuity.

MAULDIN SMART CORE

How the Coronavirus Accelerates the Endgame and the Great Reset

For several years now, we have been educating investors on debt supercycles and the coming Great Reset. The period that I call "The Great Reset" (to read about The Great Reset, please click on the following links to Part 1 and Part 2) will be defined by how we deal with the largest twin bubbles in history: global debt and unfunded government promises. The Coronavirus Pandemic moves us closer to this scenario.

Investors need to understand that The Great Reset is not a relatively short period of time like a recession. It will take several years at a minimum and maybe longer to completely "rationalize" the imbalances created by staggering debt, ever increasing deficits, the all too rapid growth of unfunded liabilities. It will seem like one continual crisis after another. And it will no doubt cause political upheaval and changes. It's guaranteed to make everyone uncomfortable.

While I do think answers will be found and the economy will eventually be stabilized and move forward, it is not going to happen in the first few months or years.

The answers/solutions are difficult and will be painful for everyone, both taxpayers and those dependent upon entitlements. There will be no good choices. I believe that investors will have to think differently about their investments, in particular, their core allocations that have for years benefited from a bull market in bonds.

In response to the global pandemic, governments and central banks have taken unprecedented action to support the economy. The hope is that aggressive fiscal and monetary measures taken now will prevent the global economy from going into a depression and increase the likelihood that a market recovery is immediate, a V-shaped recovery.

While there is reason to be optimistic, the longer-term impact will be an increase in government debt burdens that brings us closer to The Great Reset scenario and face to face with difficult decisions.

The world will not be the same and we believe there are a number of current trends that bear watching and historical lessons that need to be re-learned from prior periods.

- The cost of this bailout will be legendary and will bring debt levels to staggering amounts. While central banks are prepared to do everything in their power to support debt markets, some countries will end up defaulting nonetheless.

- For smaller, emerging economies, this will mean approaching international institutions like the IMF for a bailout or looking for relief through other methods, such as currency depreciation.

- The global monetary dollar-based system will be under strain as countries fight harder for growth and will seek to manipulate their currencies. Countries will struggle due to dollar funding crises.

- Global powers, such as Russia and China, will attempt to create alternate systems -- financial and geopolitical -- to undermine U.S. power.

- The risk of inflationary or hyperinflationary periods increases.

- The U.S. will look more like Japan after the current crisis: slower growth and more debt. Higher debt servicing costs will crowd out private investment.

- De-globalization: The trade war between China and the U.S. and the pandemic will spur de-globalization and a redesign of supply chains, bringing critical industries closer to home, either domestically or regionally like Latin America. This would lead to higher costs, as supply chains are redesigned, and will create inflationary pressures.

- Mercantilism: In a de-globalized world, countries are more likely to pursue mercantilism. Attempting to maximize exports and minimize imports will increase competition between countries and could lead to currency wars.

- Bond yields will continue to remain low and fixed income assets will no longer serve as the risk diversifier to equities as they have for most of our lives. Additionally, investors seeking income will have to look in unconventional places like high dividend paying stocks to meet income needs.

- Fingers of Instability: In the August 31, 2018, *Thoughts from the Frontline*, I discussed complex systems and their inherent instability. The current crisis is an example of how a complex system can be impacted by an exogenous shock. A world of slow growth, high debt and an increased winner-take-all approach to global trade will lead to numerous Minsky moments: stability leading to instability and more frequent changes between the two states. The result will be increased market volatility and periods of breakdown in historic asset class correlations.

While we don't have a crystal ball, history provides us with many lessons that can help us prepare for the difficult periods that lie ahead. After a record long bull market run, it's time for investors to prepare for a different market that requires a different approach to asset allocation and portfolio design.

Mauldin Smart Core Manages Risk During Pandemic

We are living through unprecedented times and, as the Coronavirus pandemic spreads across the world, the global economy is at great risk. The bull market that began after the Global Financial Crisis has come to an end as equity markets have plunged while economic activity has slowed to a crawl.

Fixed income markets have also been volatile and bond yields have reached record low levels, no longer offering a reasonable level of income for conservative investors approaching retirement.

Risk management and tactical investment strategies have never been more important. Investors need a seasoned investment manager with a laser focus on risk management.

The Mauldin Smart Core Strategy provides a risk management solution that removes the stress of having to make asset allocation changes to your portfolio in the middle of a crisis under great emotional strain.

One of the keys to navigating the current crisis and the coming Great Reset is to **minimize losses during market declines**. The Smart Core strategy takes to heart Warren Buffett's two rules of investing:

- Rule No.1: Never lose money.
- Rule No. 2: Never forget Rule No. 1.

While we recognize that every manager, even Warren Buffett, has losing periods, we believe that by diversifying among trading strategies that are unconstrained and can selectively decide which asset classes to own, investors have a better chance of protecting against large market declines.

The Smart Core Strategy attempts to de-risk during bear market declines, limiting losses, while preparing to re-enter the markets once a recovery has begun.

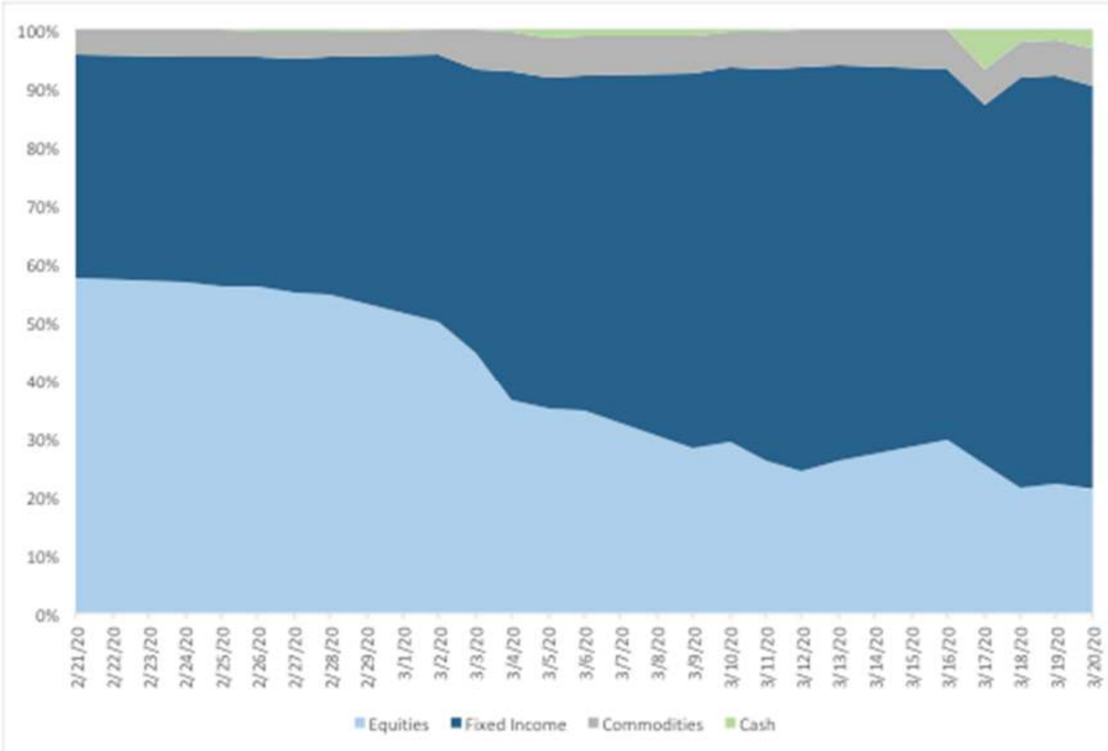
Let's take a look at how the Smart Core Strategy does this in real life under the current adverse conditions.

Risk Management in Real Time

Below we present visual representations of our portfolio allocations from the end of February through March 20th, the heart of the current equity market decline. The heat maps show the Smart Core's asset allocation amongst equities, fixed income, commodities, and cash. The tactical, unconstrained design of the strategy has allowed us to preserve capital better than traditional investment strategies such as buy-and-hold.

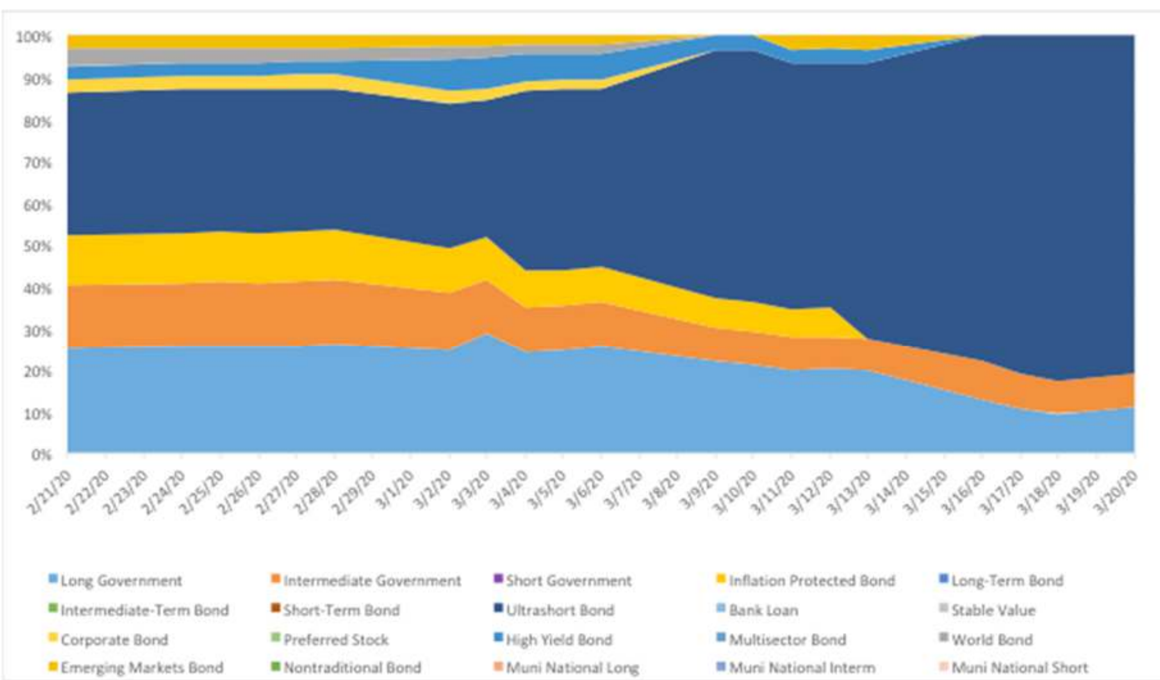
Since the last week of February, when the current equity market decline started to accelerate, the strategy has meaningfully reallocated the portfolio amongst asset classes.

Portfolio Asset Allocation Heat Map



- Reduced equity exposure from approximately 57% to 21%.
- Increased fixed income exposure from 38% of the portfolio to approximately 70% of the portfolio.
- Increased the allocation to gold from 4% to over 6%.

Portfolio Fixed Income Allocation Heat Map



- Fixed income exposure increased materially and reallocated from corporate and emerging market bonds to U.S. government bonds.
- The strategy meaningfully shortened duration and increased holdings in ultra-short bond positions from 34% to over 80%. Furthermore, exposure to short duration corporate bonds was reallocated to 1-3 month T-bills in response to credit market volatility.
- Exposure to long government bonds has helped to reduce the portfolio drawdown and benefited from investors flight to safety, driving bond prices up and yields down.

Preparing for Opportunities

By preserving capital during a market decline and avoiding large drawdowns that take years to get back, the strategy is well positioned to capture upside opportunities.

The Smart Core Strategy's tactical unconstrained approach means that wherever opportunities arise, in any asset class, the strategy has the ability to capture market gains and generate outperformance.

Risk Manage Your Wealth Today: How to Access CMG Mauldin Smart Core

We don't want to see investors suffer through another 40% drawdown. There is a better way. The CMG Mauldin Smart Core Strategy is available in a managed account or mutual fund.

Do You Have a Plan When Markets Bottom?

Big stock market declines, whether it is the current Coronavirus Pandemic or the Great Financial Crisis from a decade ago, challenge investors in many ways.

- **How do you manage risk effectively when markets are declining?**
- **Have we hit the bottom yet?**
- **Is it safe to invest in equities again?**

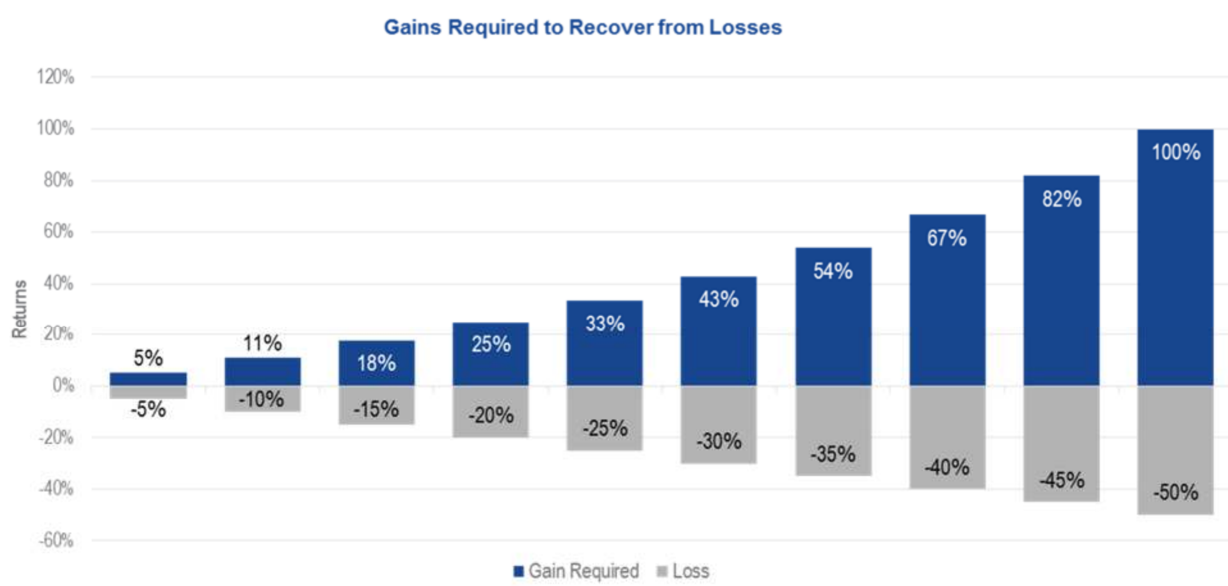
As difficult as it was to watch investors lose money during the financial crisis, it was just as difficult to watch so many individuals miss out on the market rebound that started in 2009.

For both individual investors and professional money managers, **the key is to have a plan and deploy your portfolio to a variety of managers** that can provide diversified exposure by asset class and by investment strategy.

Long-only investments are a critical component of any investor portfolio, particularly in bull markets. However, during bear market periods, the patience that is required to stick to a plan at the most critical points most often eludes individual investors and professionals alike. Human behavior is such that most people are not capable of making the right decisions at the most chaotic and difficult of times.

The CMG Mauldin Smart Core Strategy provides a solution. By allocating to a diversified group of trading strategies, ***the Smart Core strategy has the ability to tactically allocate to areas of opportunity as they emerge.*** One of the keys to growing wealth in the long term is to prevent large drawdowns and let the magic of compounding work in your favor.

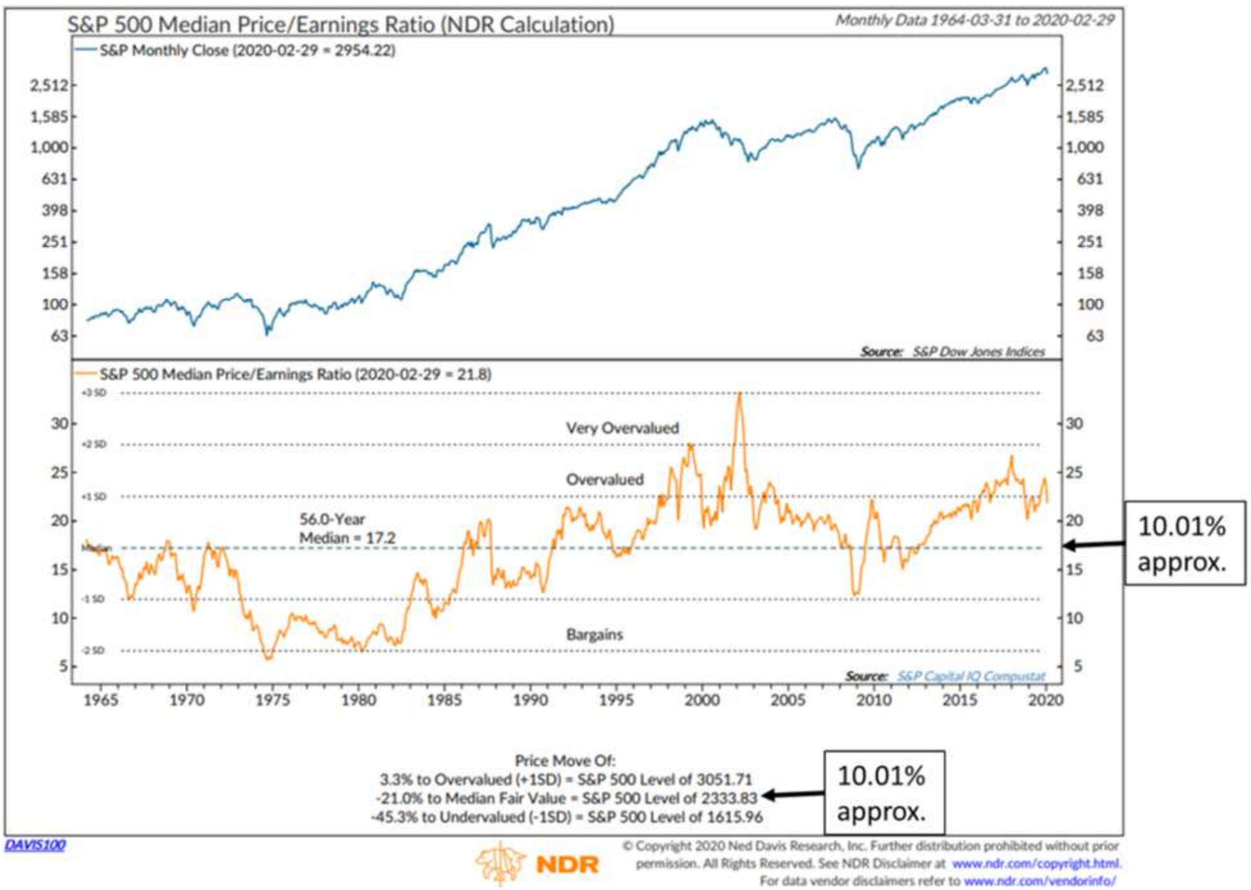
In the chart below, we show the impact of large drawdowns on a portfolio and the return an investor needs to get back to even. It illustrates the importance of protecting capital in preparation for investment opportunities that inevitably come at lower valuations once bear market declines end. Managing the risk of deep and extended periods of loss is critical for long-term success and peace of mind, and avoiding losses could help increase market participation by reducing the amount needed to recoup.



When will the market bottom? How do you take advantage to grow wealth?

Valuations, as measured by a price-to-earnings ratio, are a way of determining whether equity markets are expensive or cheap, overvalued or undervalued. Although valuations are a useful measure for stocks, the cumulative human emotion that drives markets tends to push things to extremes and timing market entries, even for professionals, is very difficult.

In bull and bear markets, valuations tend to move to extremes before reverting and moving back towards more reasonable levels. Additionally, human behavior tends to get in the way. Most investors cannot overcome their fear to buy at attractive valuations and conversely tend to bid up expensive markets when data suggests its time to take chips off the table. Just like the financial crisis a decade ago, the current market decline has shown these excesses.



For most investors, particularly individuals, it is impractical to try to asset allocate their entire portfolio actively, shifting in and out of stocks and bonds during these types of markets. We believe that a better solution is to include active, tactical management as an allocation within a well-diversified portfolio. The Smart Core strategy does just that.

By combining unconstrained trading strategies into one portfolio, the strategy provides investors with meaningful risk management combined with the flexibility to invest in opportunities across numerous asset classes.

Rather than worrying about whether we should be "in the market or out of the market," this strategy is designed to move with the market whether the trend is up or down.

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