NOVEMBER 2018

SADOFF

INVESTMENT MANAGEMENT LLC

Independent and Unbiased

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For four decades and counting, Sadoff Investment Management has helped its valued clients achieve excellent long-term results. We are dedicated to providing an unmatched level of service. Our conservative investment philosophy is one that emphasizes reduced risk and a disciplined, common sense investment approach. We have achieved excellent results following our disciplined investment strategy for over three decades.

We manage assets for a variety of investment accounts, including: individual accounts, trusts (all types), retirement plans (all types), corporations, foundations and partnerships. This report provides insight into the decision making process that supports the company's time tested investment strategy.

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SUMMARY AND CONTENT

THE SADOFF TEAM

Bryan, Ronald and Michael Sadoff

ANOTHER BULL MARKET CORRECTION

The October correction marks the 27th 5% or higher pullback within this bull market and the 3rd for this year.

OUR ECONOMIC UPTREND CONTINUES

The Federal Reserve drives our economy. So the very positive recent comments by Fed Chair Powell are very encouraging. He characterized business conditions as "remarkably positive." He further explained:

> "This historical rare pairing of steady, low inflation and very low unemployment is a testament to the fact that we remain in extraordinary times. There's really no reason to thank that this cycle can't continue for quite some time, effectively indefinitely."

The facts supporting his comments: tax cuts, less trade tensions, repatriation of funds and healthy business data including gains in wealth, rising employment compensation, healthy consumer confidence, continued strength in earnings, increased dividends and plenty of available cash.

THE NEXT RECESSION

Of course, everyone knows that a recession and bear market will eventually unfold. We continuously monitor the factors that will give us plenty of advance warning: intensifying inflation pressures and an overheating economy. The onset of these two critical factors will force the Federal Reserve to dramatically tighten their monetary spigot. Currently, inflation pressures are modest and the economy is not overheating.

Two charts, packaged together, have historically given plenty of advance warning of impending trouble. The yield spread between short-term interest rates (the 3 month U.S. Treasury bill rate currently at 2.3%) and Treasury bond yields (near 3.1%) is a great prosperity/recession indicator.

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The four environmental factors, which determine the stock market's major *potential/risk* posture are:

For descriptions of the "environments" listed above, please visit us on the web at www.sadoffinvestments.com/definitions

The current positive yield spread between these two interest rates confirms that the Federal Reserve is encouraging the economy to grow. Money is plentiful and borrowing costs are historically low. Business growth and the bull market are compatible friends.

However, if/when inflation intensifies and the economy overheats, the Fed will push interest rates higher. And if short-term interest rates push above bond yields (an inverted yield curve) a recession/bear market is likely to unfold.

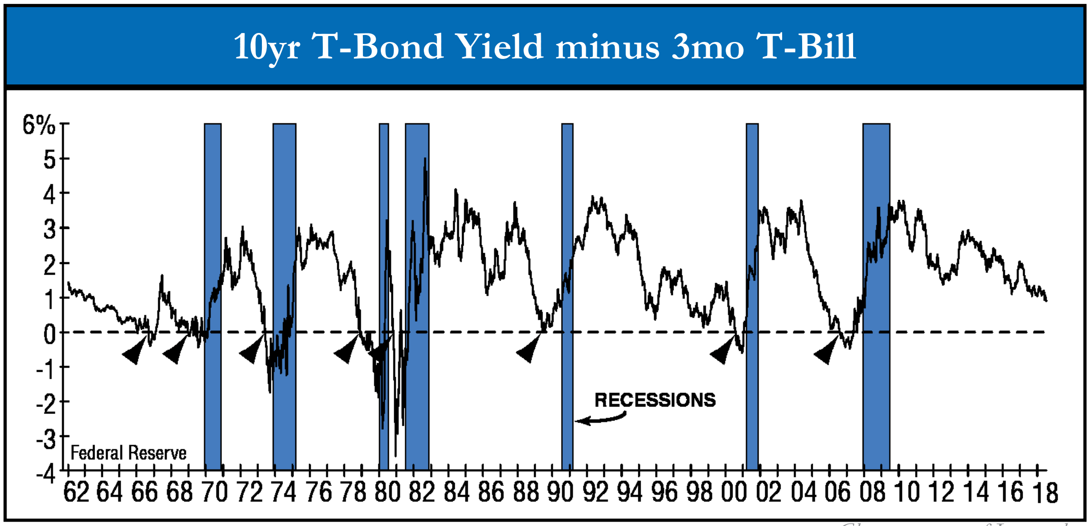

Chart courtesy of Investech

Now package this interest rate relationship with another gauge: the leading economic indicator. The ingredients of this indicator track forward measuring business factors such as new orders, the pace of delivery times, etc. A rising trend for this barometer confirms an improving economy and bull market. A declining trend often forewarns of a recession/bear market.

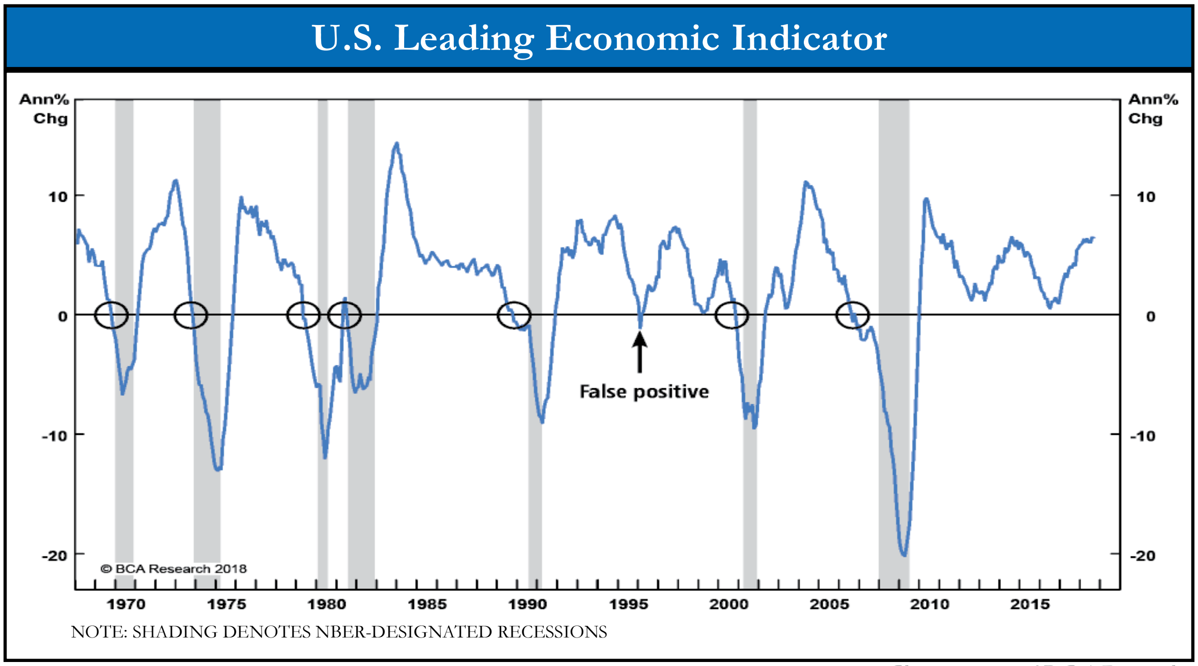

Chart courtesy of BCA Research

Currently both indicators, packaged together, confirm this bull market and expansion are healthy and expanding

AN ECONOMIC HEADWIND

One primary economic headwind is that the global economy remains soft and sputtering.

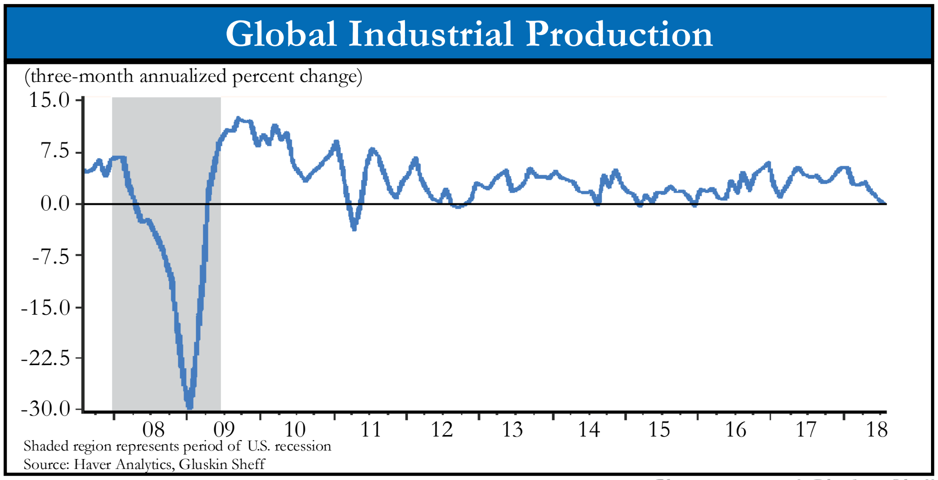

Chart courtesy of Gluskin Sheff

MERGERS AND ACQUISITIONS

Mergers and acquisitions for the first six months of this year surged to a record setting $10 billion.

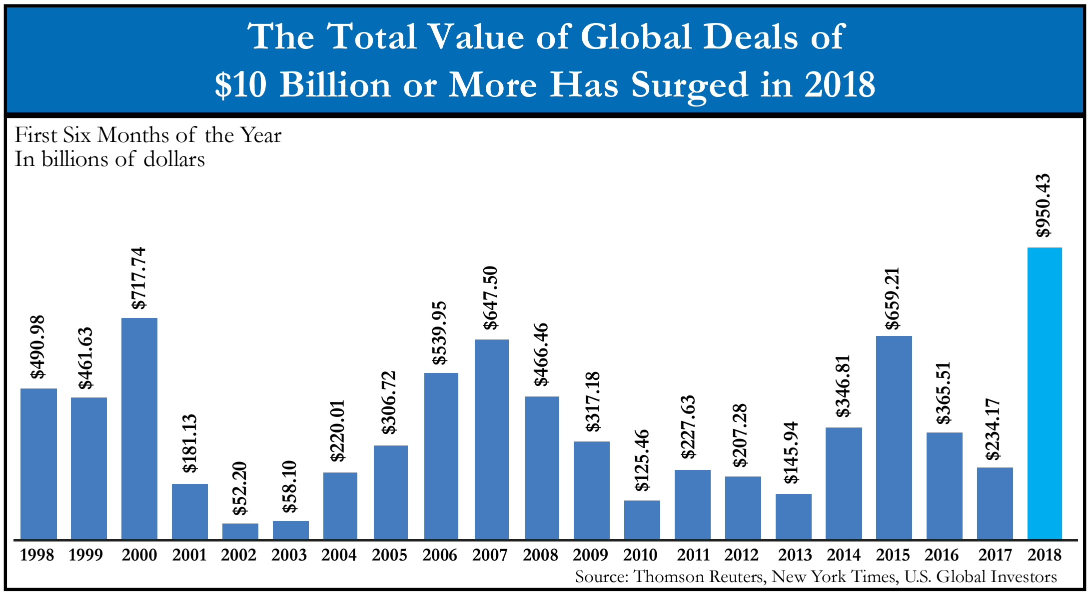

Chart courtesy of Fidelity

Now add in stock buy backs. Very bullish factors.

STOCK MARKET CORRECTIONS

Corrections and pull backs within a bull market are normal. Two steps forward, one back. Most corrections are unpredictable. Some are moderate while others can be severe and volatile. That's just part of the investing process. We've already witnessed many hard hitting corrections during this bull market.

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Panic type sell offs (like in October) often signal the correction is nearly over. We track several panic selling, volatility indicators. One is the VXV/VIX volatility measurement which tracks extreme trading action.

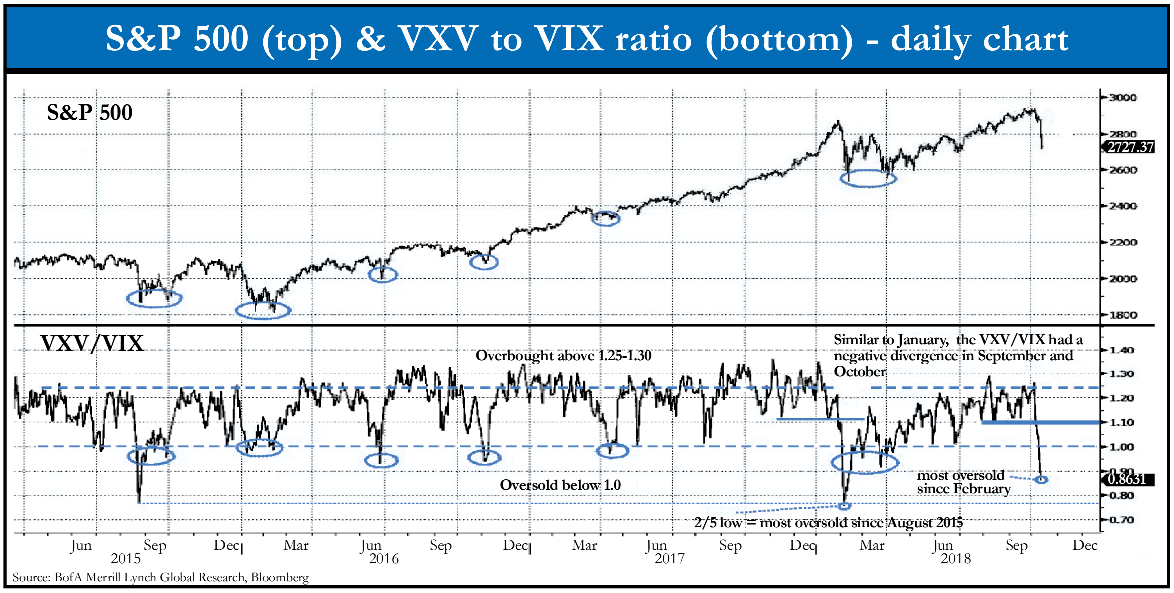

Chart courtesy of Bank of America-Merrill Lynch

Important market lows have occurred when this indicator falls to the 1.10 level. We are at that level now.

Caution: occasionally extreme lows are retested.

One of the causes of this dramatic type price action is the high frequency and hedge fund trading based open algorithms.

Most interesting, during the 1960's the average stock holding period averaged 8 years, 4 months. In the 1980's the average holding period shrunk to 2 years, 9 months. In 2016 the average stock holding period was 4 months. Computer trading has certainly influenced the holding periods.

FEWER PUBLICLY HELD COMPANIES

The number of publicly held companies has declined since 1995. Fewer companies are going public.

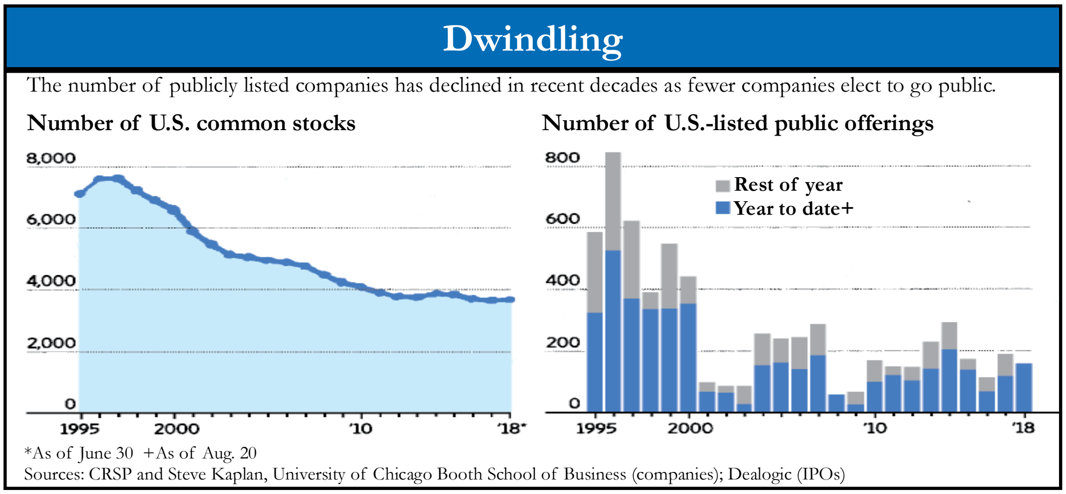

Chart courtesy of The Wall Street Journal

An increase in mergers and acquisitions has also reduced the number of publicly held companies.

RISING LONG TERM RATES

The upside breakout for the price of the Treasury bond confirms that long term interest rates have pivoted into an uptrend for yields (downtrend for bond prices). This trend change is expected as the economy strengthens. Treasury bond yields peaked in 1980 near 15%. Over the last 38 years bond yields have declined (translated: bonds have enjoyed a 38 year bull market). So a trend reversal for bond yields is long overdue.

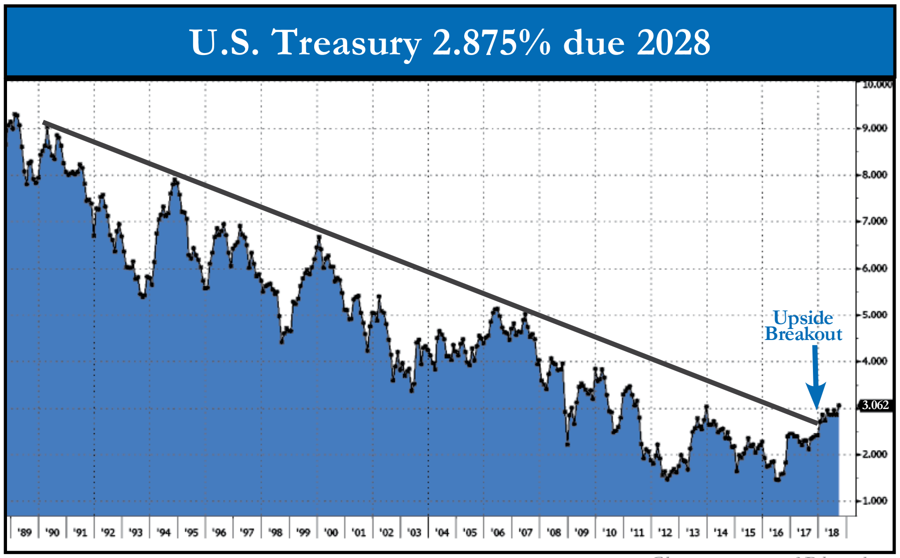

Chart courtesy of Bloomberg

So far inflation pressures are moderate with falling commodity prices and sluggish growth abroad. Also foreign bond yields are extremely low (much lower than our interest rates). In addition the average U.S. hourly earnings rate of growth is quite subdued considering our low unemployment rate. So the unfolding bond yield advance could be moderate. That's just a guess! Whether the economy overheats and the pace of inflation are the influencing factors.

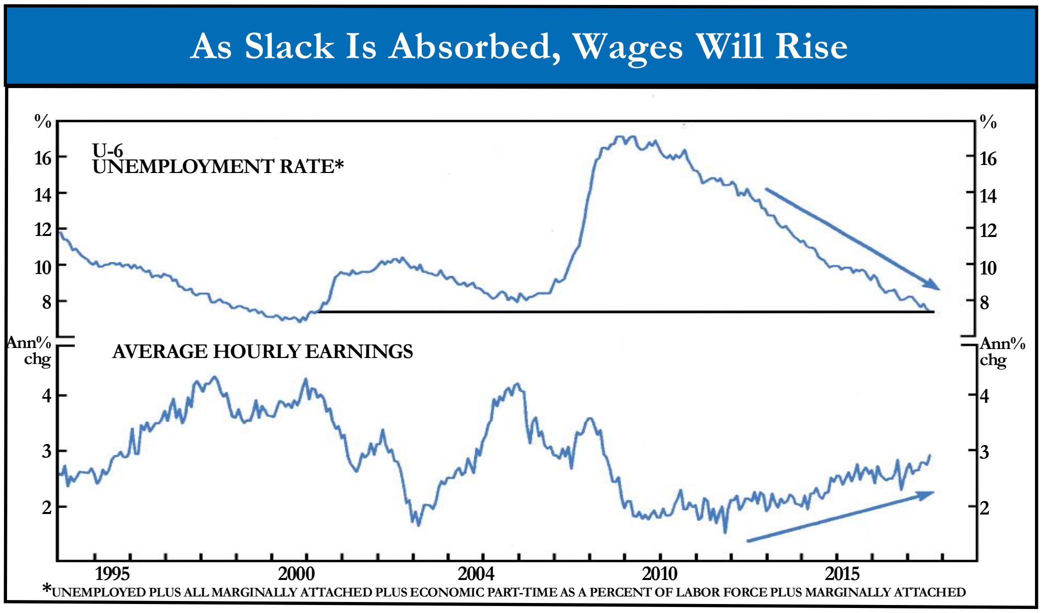

Chart courtesy of BCA Research