

Tactical Income Solution, Tactical Growth Solution, & Spectrum Updates

September 15, 2022

Thank you for your continued trust and confidence. We would like to inform you that we placed some trades in the Tactical Income Solution, Tactical Growth Solution, and Spectrum portfolios last week. We sold The 3M Company (MMM) and replaced it with Lockheed Martin Corp (LMT) in the respective portfolios.

The United States bankruptcy court recently denied 3M's request for preliminary injunction seeking a temporary halt of its Combat Arms Earplugs litigation, significantly reducing the probability for 3M to quickly settle these cases via a settlement trust. This adds further litigation liability risks to the company, considering the company's separate litigation case surrounding its handling of PFAS chemicals. We believe that the potential liability risks could adversely impact 3M's financial position, dividend safety, and management execution. Additionally, such uncertainty could remain an overhang on the stock, removing any near-term catalyst for appreciation. Finally, 3M is viewed as a GDP-plus business, and potential weakness in global growth may also hurt earnings growth in the near term.

Lockheed Martin is one of the largest prime defense contractors in the world. Contract structures and product complexity create a high barrier of entry for new entrants which allow Lockheed to protect its strong economic profits. Its F-series jet program has a multidecade long product cycle that make up a good portion of the defense budget and have good long-term revenue visibility. Ensuring cost discipline throughout the product cycle allow for generation of excess returns, which Lockheed has proven the ability to execute. Additional secular growth projects such as modernization of space, and hypersonic missiles programs could be strong drivers of future returns. We view the heightened geopolitical tensions today catalyzed by the Russia-Ukraine war as an opportunity for an increasing global defense budgetary environment, that would be beneficial for strong reputation defense firms like Lockheed Martin Corp.

In summary, you nor your clients need to act at this time.

If you have any questions, please don't hesitate to reach out to us. Thank you for your continued trust and confidence.

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