Quarterly Newsletter - April 2017

April 15, 2017

Dear Client,

The U.S. has now used cruise missiles to respond to the Syrian serein attack on civilians. The response of the markets has been very muted. What will follow next is unknown. Our method is geared for market unpredictability and turbulence. We will deal with market events as they may occur.

Your twelve-month asset class performance report shows a very good return for the past twelve months ? double digits for portfolio returns and for all equity asset classes save Real Estate Investment Trusts. This is the third consecutive report to show such high rates of return, dating back to the report we sent last September. It is notable in the report that both U.S. and international assets did very well. This might be missed in all the media excitement about the S&P 500 (a U.S. asset) making one new high after the next. In other words, it is true that the U.S. markets have been doing well recently, but so also have the international.

This strong and worldwide investment performance began in mid-2015. It was at that time that the European Central Bank (the ECB) announced a very large quantitative easing and bond buying program. The aim of the bank was to change expectations. And it has worked. Since 2015 we have been looking at a worldwide reflation trade. Inflationary expectations have gradually replaced deflationary expectations. As we have often said, moderate inflation means optimism and confidence. And confidence means spending and investment. Consumer confidence is high. Unemployment is falling. Optimism and investment have come back. Deflation has been replaced by inflation, unemployment by rising employment. All this is very good for equity markets.

We have written several letters discussing the timid policy choices of both the Federal Reserve and the ECB. The Fed has started to raise rates, perhaps frightened by a threat of inflation that remains in fact very tame.The ECB has continued with their low rate policy and it is paying off. Optimism and growth are gradually returning to world markets, and most especially to Europe, China and other Emerging Markets. This is all very good. Long may it continue.

We mention all this because of the difficult start of the Trump presidency. The twelve-month performance report we are sending this quarter divides into two periods. The first nine months, i.e. March 2016 through December 2016, might be called the Trump market. It covers his campaign for the Republican Presidential nomination and his successful campaign for the Presidency. As we all know, his unexpected victory was initially (the first night) met with a sharply falling equity market and then subsequently a strong U.S. market rally. There was market optimism about his promises for a reduction in the corporate tax rate and for deregulation. Our commitment to international investing was questioned at that time. Many other investment professionals recommended investing only in the U.S. due to Trump's promises. During that nine month period U.S. assets did very well and non-U.S did only moderately well.

Since the beginning of January of this year, however, things have changed. The international markets are making up for lost time while the U.S is pausing. Donald Trump was inaugurated on January 20 2017. The Trump administration has had its problems, to say the least. It is not clear that he will be able to get a budget through Congress, much less tax or regulatory reform. As the Trump promises have faded away so also has U.S. equity performance. But as that has happened the international markets have gained strength. They have risen as Europe and China have returned to growth, oil and commodity markets have improved, and unemployment has begun to get better. These improvements have a very long way to run. They have been quite capable of supporting international equity prices even as the U.S. markets slump. This second wind is available only to the internationally diversified investor such as we are.

Putting all this in this way may sound like we are bragging a bit, and perhaps we are. But it does not happen all that often that the benefits of international diversification are so clear as they have been in the past twelve months. The reflation trade arrived in the U.S. first ? and was named by many to be the Trump trade. But it never was the Trump trade. We have been in a world-wide reflation market since all central banks began cutting rates in 2009. The equity rally from the 20009 bottom till now has been very large. We benefited from that market because we remained invested. We are long term investors, investors who do not run from trouble. Diversification helps us remain calm when others are panicked and unsure what to do. That calmness is what has allowed us the benefit from the sudden twists and turns in recent market action, and we are quite confident that it will continue to benefit us in the future.

With this letter we are enclosing a copy of our privacy policy, as required by Federal law. And, as also required by law, we wish to remind you that a copy of our most recent form ADV, our registration with the Security and Exchange Commission, remains available on our website. Should you wish a copy in paper please call or email us and we will be glad to send it to you. And, as always, please call or contact us should you have any questions, or should your financial circumstances change in a way that you believe might influence the way we manage your portfolio.

We would also like to note that we have negotiated a reduction in the Schwab commission rate on mutual fund trades from $25 per trade to $15 per trade. We are pleased that Schwab was willing to do that for us and our clients.

Jim John Richard & Ryan.