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Quarterly Newsletter - April 2018

April 15, 2018

Dear Client,

Volatility is back ? obviously. The Dow Jones Industrial Average moves around by hundreds of points on a regular basis. Some days up three or four hundred points and then right back down again. It is all very unnerving.

The reason for this volatility is crystal clear. We have a volatile President. Policy on enormously important issues is announced, apparently just on a whim, via Twitter. And then often reversed the next day or week. And policy volatility is matched by market volatility. The equity markets are volatility magnifiers. Think of how equity markets function. The daily price of a share of IBM, a very large company with hundreds of millions of shares, is not determined by the weighted average of all the shareholders' opinions about the value of the company. Far from it. The vast majority of owners of the company do not trade each day. They sit still. In any given trade the price of IBM is determined by the most motivated buyer, or seller, the seller or buyer who just must get his/her trade in immediately ? no waiting about. The value of the company is determined by the marginal, not the average, trader. And these marginal traders are not typically motivated by long term rational calculation about the value of the company ten or fifteen years from now. Hardly. The marginal trader is more often motivated by emotion, not by reason. And emotions, as we all know, or learned from the Scottish philosopher David Hume, are vastly more powerful than reasons.

Equities must be expected to do better than bonds over the long term exactly because they are more volatile, more risky, than bonds. If investors knew for sure exactly what the price of a given stock would be one day or one year or ten years from now then that stock would go to that price immediately, adjusted for the expected cost of the money necessary to buy and hold it. No waiting around. It would go there and then just sit and wait for the pre-ordained price to arrive. And holding it for that predetermined period of time would pay exactly the cost of the money necessary to buy it. Such securities exist. They are called bonds. Stocks do better than bonds exactly because they are volatile. Exactly because the future price of the stock is (very) uncertain. The expected return of the stock must be higher than the cost of the money necessary to own it or no-one would buy it.

The action of the equity markets cannot be predicted. This is really a simple truism. Pure directional trading cannot work. If stocks were to rise or fall today exactly because they had risen or fallen yesterday then clearly there would be no limit. Prices would blast off to infinity or down to zero and that would be that. Equities don't just go up. They go up and then some reasons are given and they go down. Then some other reason appears and they go up again. Over the longer-term the reason equities produce a positive return is profits and thus dividends. And profits are fruit of the rational world of the long term, not the fantasy world of short term timing.

Market volatility is a phenomenon of nature ? human nature. Fear and greed. Back and forth. And we believe the only way a rational person can deal with this is to be a long-term investor. Just sit. Wait. Do not react to the volatility. The markets will go down exactly so long as they feel like it. And then back up again. Markets are long term rational. And short term pretty insane.

With this letter we are enclosing an article on volatility from Dimensional Fund Advisors, the firm we favor for many mutual fund investments. Please pay close attention to Exhibit 2. Let's just say the market goes down a lot on a given day and in response the investor sells out entirely. Then the next day the market goes up a lot. And the investor buys back in at the close of that next day, thus missing all the gains of that one big day. Or the market goes gradually down for a month or two, and the investor, discouraged or perhaps frightened, sells out. Then a big up day, or up week, arrives, and then the investor buys back in after this big up day, or up week, thus missing the gains from the up move. We have seen this pattern several times recently. A big move down and then the next day a big move up. Some of those big moves up are going to be among the single best days of the year.

The material from Dimensional shows the result of missing these big days. The compound annual return for the S&P 500 from 1990 through 2017 has been 9.81% per year. Miss just five of the single best days of the thousands of days in that 27-year period and the investor's return is reduced to 8.21% per year. This is shocking. Clearly much of the total gains happens on those big days. Anyone who times, who sells out after a big fall and then doesn't buy back in till after a big rise, is going to miss many of those big up days

and is thus going to make less money than disciplined investors such as we are.

We believe it is emotionally impossible to time markets. Any success of a market timing investor is down to simple luck. If a person believes he can predict market action he/she will eventually buy only to watch the market fall, or sell and then watch the market rise. This may lead to discouragement and withdrawal from equity investing totally which would be a gigantic error. Equities provide good return for long term investors willing to sit still and absorb the risk of volatility. This is what we are. We are disciplined. We sit. We do not fret. You expect this of us and we are pleased to do so. On your behalf.

Jim John Richard & Ryan

Addendum: as required by law we are enclosing with this report our Privacy Policy statement.

And as also required by law, we wish to remind you that our SEC disclosure document, form

ADV, has been updated and is available at all times on our website. If you would like a copy on paper please call or email us and we will be glad to send it to you upon request.