

October 11, 2018

Dear Friends,

It was a great quarter for our clients invested in our All-Cap and Mid-Cap composites as both the S&P 500 and our composites hit new highs. At a time of both domestic and international political stress, we hope you take comfort that your portfolio is focused on business trends that are certain to grow over time – payments, healthcare, and non-bank financials, among others.

What Has Happened in the First Three Quarters of 2018?

U.S. stocks hit new highs while bonds and international stocks went down. U.S. stocks hit new highs as earnings for many companies remained strong, but it has not been a good nine months for diversification as the Barclays U.S. Aggregate Bond Index was down 2%, European stocks were down 2%, and emerging markets were down 8%. My first mentor on Wall Street told me, “Always be a bull on America.” And that advice has served me well. It is no accident that the U.S. is the largest economy in the world. Given that most of you live in the U.S. and pay your bills in U.S. dollars, we are very happy with our portfolio of U.S. domiciled companies.

What Will Happen Over the Next 12 Months?

Short-term rates will likely go up; long-term rates might go up. If long-term interest rates go up too much the stock market may go down. The Federal Reserve hiked short-term rates 3 times in 2018 and has indicated that it will continue to tighten monetary policy for the next 12 months at least. Sales of houses and autos are slowing down as rising interest rates make these big-ticket items less affordable. That is why we own no housing or auto related companies in the portfolio.

At the end of the quarter the 10 year treasury yielded 3.05%, hardly a rich yield, but up substantially from the 2.41% it was yielding at the beginning of the year. If yields rise enough, stock market volatility will increase.

Given That Outlook How Are We Positioned?

We are still positioned for a volatile market with predictable business. This quarter we had the opportunity to add two new recession resistant businesses to your portfolio: Mexican beer and video games. So now the portfolio is focused on payments, healthcare, non-bank financials, enterprise software, dating apps, beer and video games.

It is, without a doubt, a crazy world, but we remain confident that your portfolio will benefit over time as people charge more transactions on credit cards, spend more money on video games, begin more relationships online, drink more Mexican beer and use more healthcare as they age.

Wishing you a great autumn,



Manny Weintraub, CFA
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