

July 5, 2016

Hello Friends,

We've reached the half way point for 2016 and I wanted to deliver my State of the Union address. As I sit at my desk dealing with severe back pain, I've been contemplating my basic underlying investment philosophy. I follow two basic principles that are fundamental to the investment process. I believe in investing for the long term and I am bullish on America.

Investing for the long term can have a very different definition for many people and there is no one time frame to accurately define long term vs. short term. What long term means to me is that I generally do not react to short term back and forth swings of the market. I prefer to let the volatility play out while holding the highest quality and most profitable US corporations for a period of years. With the benefit of a bit of hindsight, the recent volatility caused by the Brexit vote turned out to be a non-event and those that sold into the panic are looking a bit foolish today.

On this fifth day of July, I've evaluated the rates of returns for the three major market averages. The results are discouraging. Going back to January 1, 2015, for the past 18 months, the S&P 500 is up a mere 2.14%, the Dow is up 0.71% and the Nasdaq is up a modest 2.15%. What's frustrating for me is that five of my top holdings are down YTD in 2016. Apple is down 8.90%, Costco down 3.33%, Google down 8.71%, Starbucks down 5.06% and Tesla has given up 9.80%. These same stocks performed well in 2015, but 2016 has not been kind.

Here's where long term investing comes into play. There's no way that I'm going to sell any shares of any of these five stocks. I've held many of these shares for a decade and longer, and all of these stocks survived a bear market in 2001/02 and again in 2008/09. The problem is that in the short run these stocks are lower and having a negative impact on account valuation totals. Unless I see Sears taking out Costco, or Blackberry beating Apple, or Bing winning search over Google, or Amazon figuring out how to deliver coffee, or GM building a high performance electric vehicle, I'm in all five stocks for the long term. In fact, I'm using the 2016 lower prices to accumulate more shares.

No doubt, there are lots of problems and headwinds that present challenges to our prosperity and wellbeing. In my opinion, we've had poor Presidential leadership for the past 16 years and the choices for 2016 seem just as pathetic. Congress has been dysfunctional for as long as I can remember and both the Federal Reserve and the Supreme Court are dictated by politics. The economy is weak, new job creation is slow and there is virtually no growth in average hourly income. The wealth gap continues to widen and the middle class is shrinking. No one should be surprised that the market averages have gone nowhere for the past 18 months given the conditions that exist in our society.

But as I stated in the opening paragraph, I remain bullish on America. We have a lot of smart people and the nation's universities are graduating millions of brilliant smart young kids every year. Just give our system of capitalism and democracy a bit more time to figure out and correct the wrongs, then stocks will be on the launch pad. By maintaining a long term discipline of investing, I believe there is a high likelihood for dramatic investment gains at some future date, I just don't know when.

I am always available to discuss strategy, investment objectives, or risk tolerance. Just call or email. Enjoy the second half of the year.

Sincerely,

Jim Aljjar



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