

July 2, 2018

Hello Friends,

Lately, we've all been hearing quite a bit about "The Art of the Deal". With that theme in mind, the topic of this quarterly letter will be titled "The Art of the Portfolio". With apologies to Donald Trump, I'd like to summarize the decision making and thinking process that goes into building and maintaining an investment portfolio.

If you were to meet with five different Financial Advisors with your stated investment objective and risk tolerance, I'm confident that each of the Advisors would have radically different views and opinions. I'm also confident that no other Advisor would build a portfolio anything close to the portfolios that I manage on behalf of my clients.

I have a different interpretation of risk than most. When stocks decline, others call this market risk. My view is that this isn't risk at all, it's just normal and expected volatility. My five largest positions, in order are Google, Amazon, Apple, Costco and Netflix. These five stocks have extraordinary long term gains and all are up strong in 2018. Here are the YTD gains for each: Google 7.19%, Amazon 45.35%, Apple 9.38%, Costco 12.28% and Netflix 103.90%.

But it hasn't been up and away each and every year. There have been prolonged periods of decline for each of these five stocks. Ignoring 2001/2002 and 2008/2009 when everything got crushed, Apple lost 41% from September 2012 to June 2013, Google gave back 13% from February 2014 to December 2014, Amazon retreated 22% from December 2013 to December 2014, Costco sunk 9% from November 2015 to October 2016 and Netflix declined from \$38 to \$8 from July 2011 to September of 2012.

Since I have large positions in each of these five stocks, during periods of decline it causes statement values to erode and can create unhappiness and financial stress. In order to soften this volatility, I add CDs and Tax Free Municipal Bonds into the portfolio. I don't buy bonds so much for the income, but instead for the safety and relative price stability of the assets. Some of my clients have 70% of their portfolio in this category, others at 50%, some are at 20%, and my clients with an aggressive profile have zero.

I know with absolute conviction that the Dow Jones Average will have triple digit up days and triple digit down days. It's difficult to impossible to predict those swings with regular consistency so I just take the price swings in stride. I like to buy on the down days and sell on the up days. When I sell, it's usually those stocks that have underperformed. I prefer to cut losses early and let profits run long term.

So in a nutshell, if you have a substantial amount of money under my care, you already own Apple, Google, Costco, Amazon, Netflix, plus Salesforce, Lockheed Martin, Northrup Grumman, Tesla, Stryker, Boeing and Visa. I've balanced the inherent volatility of these securities with CDs and Muni Bonds. You won't find mutual funds, annuities or ETFs in any of my portfolios.

Please call or email anytime if you have questions about risk or want to review your investment objectives. I'm willing to discuss the Art of the Portfolio with anyone at any time. Happy 4<sup>th</sup> of July, proud to be an American.

Sincerely,

  
Jim Aljian