

April 1, 2020

Hello Friends,

I've been communicating with everyone each quarter since launching the business in 2013. Without a doubt, this is the toughest and most difficult letter to compose. For the past several weeks, I've gone back and forth in my mind about different topics and what advice and guidance that I might be able to offer to my many clients. So here goes....

The stock market has experienced this same kind of decline over and over throughout the history of our country. Since my start as a commodity broker in San Francisco in 1987, I've experienced three ugly and difficult markets. The first was October 1987. I only had a handful of clients at the time, but I remember the panic well. Next was 2001/2002 caused by 9/11 and the internet stock bubble. And more recently, there was the collapse of the banking system and housing market in 2008/2009. There was a fourth bear market decline in 1990 that was a result of the Gulf War against Iraq. I can barely remember that decline, only that it happened.

Without providing the precise details of each of those declines, please know that every time, without exception, the market eventually made a low, then moved higher to again make an all-time high in the future. Occasionally the new high came very quickly, like 1987, and sometimes it took a few years. But it's important to realize that 100% of the time, the market recovered and again made a new all-time high at a future date.

You would think that when the market has a 3000 point down day, that there must be an abundance of sellers. But the market is an "Exchange". For every seller, there is a buyer on the other side of the trade. Stock shares are simply exchanging hands from one owner to a new owner, or from a seller to a buyer. We don't know the identity of those buyers, but my hunch is that the buy side of that trade ends up going to Warren Buffet, or a hedge fund or some other sophisticated investor who is willing to take a risk.

If you listen to the TV pundits, you're likely to succumb to the prevailing wisdom and sell stocks, then wait for a period of greater confidence and re-enter the market. In my opinion, anyone deploying that strategy will experience a sell low buy high outcome. As I've mentioned in my letters, my strategy is the exact opposite. I like to buy into the panic. On each of the 1000+ point declines that started in February, I was buying stocks on each of those days.

It's just amazing that the investing public keeps making the same mistakes repeatedly. When people feel euphoric, they buy. And when they feel despair, they sell. I have no idea if the market low is behind us or in front of us, but it doesn't matter. I've acknowledged to myself that I'll never have that answer in the present. But I'm a buyer since I have confidence that the market will recover. Many of the stocks that I purchased in February and March declined further, then declined again after that. But I know that history favors my decision.

The message that I'm trying to convey is that it is perfectly appropriate to take a risk and buy stocks on the day of a steep decline. Unbelievably, four stocks that I hold across many accounts are all up year to date. Microsoft is up 0.01%, Amazon has advanced 5.51%, Netflix has gained 16.05% and Nvidia is up 12.03%. Although Apple and Costco are down a bit YTD, these two stocks are still up over 33% and 19% respectively for the past 12 months. These six stocks all outperformed when the market was moving higher in 2019 and January of 2020, then have held up surprisingly well when the market got crushed. I've added substantially to all six stocks in the past few weeks and will continue to do so for the remainder of the year.

I do have several concerns. First, it seems that 1000+ point swings is the new normal. I used to think that 300 Dow points was a huge move and now the market has showed us a 3000 point move. I fear that this is the new normal. I

expect that we will continue to see four digit moves in both directions. This volatility can wreak havoc onto an investment strategy and will test our resolve to hold our ground on the day of a steep decline. My second worry is the proliferation of computer program trading that is decided by a machine, not a human. These computers trade massive quantities of shares, both long and short, based on algorithms and not on traditional fundamental analysis. Computers don't care about dividends or P/E ratios but make buy or sell decisions based on a predetermined program. These algorithms based trading platforms exacerbate the volatility.

Another worry is what will happen when the next new virus surfaces and creates widespread serious illness. There has been a constant flow of virus that has inflicted serious illness. We've had the Bird Flu, Hong Kong flu, West Nile, Zika, Swine Flu, MERS, SARS, Ebola, Spanish Flu, Cholera and I'm sure that there are others. My fear is that the market will sell off substantially on the first day of any new reported illness. You can be assured that there will be another new flu or pneumonia virus that erupts again in the future. I just hope that we haven't established a new global protocol for the next outbreak.

I believe the important thing to remember is that the financial markets will continue to be extremely volatile. Even if the stock market recovers in a short amount of time, there will be more sharp declines in the future. It will always be this way. The path to successful wealth creation is not smooth and steady, it's an extremely jagged back and forth process.

In my opinion, March of 2020 offered a generational buying opportunity. I took a risk and put quite a bit of cash to work. I promise that my letter on 4/1/21 will look back to the results of the trades that I have initiated in the past month. Stay tuned.

Here are the 3/31/2020 closing prices of the six stocks previously mentioned:

Apple 285.13

Nvidia 263.60

Netflix 375.50

Amazon 1949.72

Costco 285.13

Microsoft 157.71

I'll report back to you on 4/1/21 on how these six stocks performed.

This is a good time to review your investment objective and risk tolerance. If you have questions or concerns, please let me know and I'll do my best to schedule a meeting. I have a great group of clients and I want to thank everyone for having confidence in my ability to guide you through this turbulent time.

Mama said there'd be days like this.

Happy Easter.

Sincerely,



Jim Aljian