A FRUSTRATING TWELVE MONTHS

What you see isn't always what you get. Despite the stock market hitting all-time highs, the reality is that there has been little appreciation in the prices of stocks, as measured by the S&P 500, in the past year. Excluding dividends, the market has returned just 1.5% from October 1, 2018 to September 30, 2019. Including dividends paid, the return is just shy of 4%.

Most investors do not simply buy and hold a basket of the S&P 500 stocks and reinvest the dividends. Though the variety of portfolios and investment solutions are innumerable, let's examine how one sample portfolio with exposure to the most recognized investment categories, beyond simply the United States (S&P 500), has performed in the past year.

First, layer in international exposure – both developed countries and emerging economies. Adding the performance of those indexes to the above chart displays a less compelling picture for stocks, with both markets generating negative returns of more than 4% in the past twelve months.

[1]

Now let's add in commodity exposure, using the Bloomberg Commodity Index, which is a diversified index of a broad array of commodities. Any exposure to that index further weakens returns of a portfolio as seen below, with that index down nearly 10% since October 1, 2018.

And lastly, we will add in performance of small companies (U.S. only) and gold. Those indexes returned 8.9% and 24.9% respectively. One caveat: the Bloomberg Commodity Index consists of precious metals, including gold. In this chart gold is its own category because it resonates with many investors. However, it is *not* a strategic holding in Napatree Capital's asset allocation[2].

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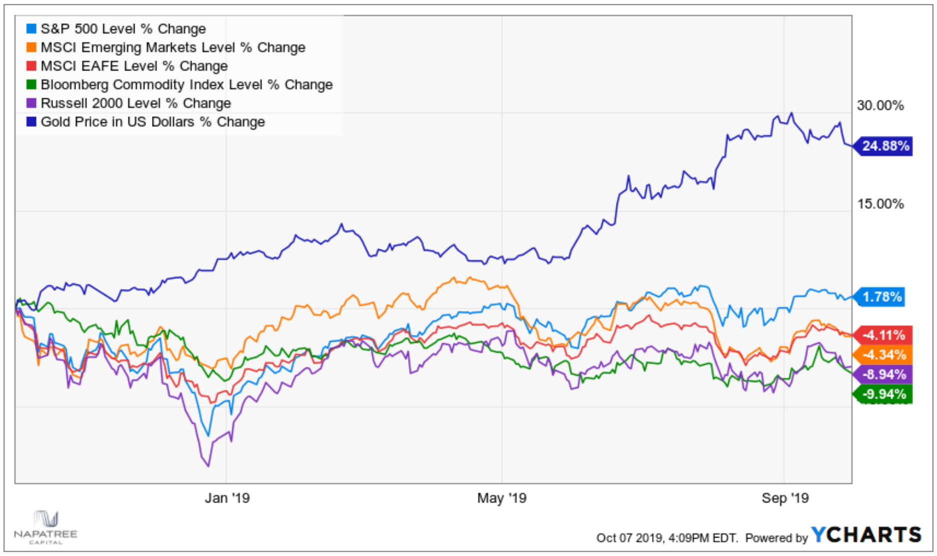
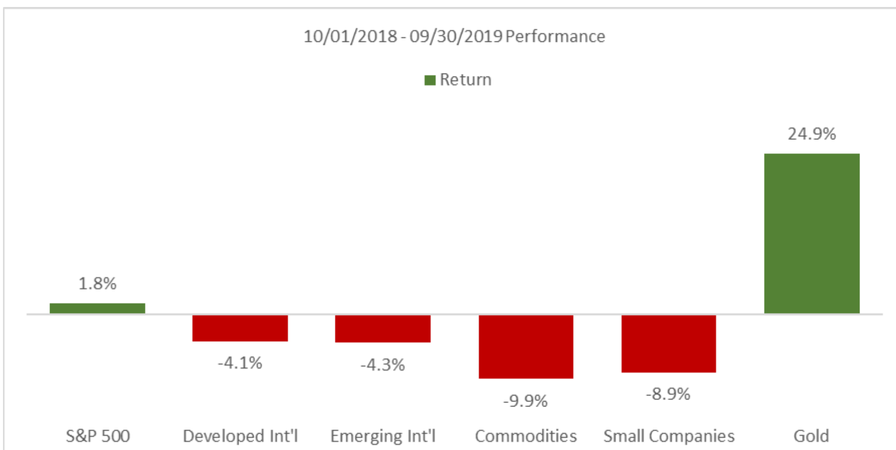
[1] We've removed the total return of the S&P 500; most clients of Napatree Capital do not reinvest dividends.

[2] Illustration only. Not intended to be a comprehensive study on portfolio construction or representative performance of Napatree proprietary strategies.



To recap:



Now let's assign arbitrary weights to each and see how this portfolio would have performed in the past year:

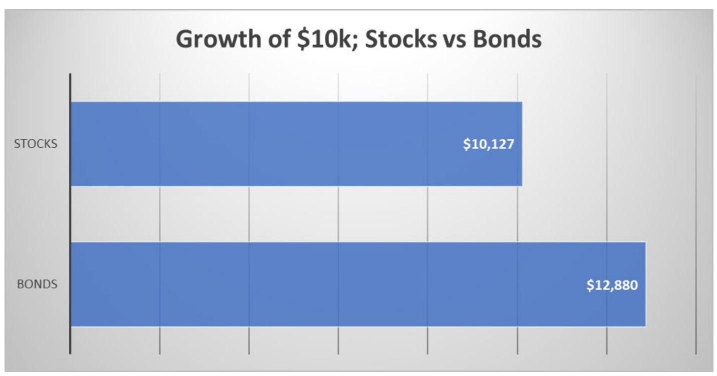
Index	Weight	Return	Weighted Return
S&P 500	40%	1.8%	0.71%
Developed Int'l	20%	-4.1%	-0.82%
Emerging Int'l	10%	-4.3%	-0.43%
Commodities	10%	-9.9%	-0.99%
Small Companies	10%	-8.9%	-0.89%
Gold	10%	24.9%	2.49%
	100.00%		**0.06%**

A diversified portfolio would've barely managed to post a gain in the last twelve months. Of course, this does not consider dividends, which would have pushed performance into the low single-digits. For practical purposes, however, most investors pay some level of fees, and many draw down their investments, which would also negatively impact performance.

The goal of the above exercise is to illustrate that in the face of some very strong returns year to date -- most of these indexes are up double digits -- you may feel justifiably frustrated. I chose intentionally to ***not*** use the Napatree Capital strategies because every client has some type of nuanced or idiosyncratic situation. Academics would likely not appreciate my approach as it is less than scientific, but it speaks to the practical nature of building an investment portfolio and measuring results. There is a discipline, almost a science, behind a thorough investment process. It should have defined parameters and be repeatable. I like to call that the 'math' part of the process. Actual investing is holistic and artful in nature, with distinctive elements of risk that vary by client. And then of course there is general market volatility. As I said to a group of senior finance students at the University of Rhode Island, math is easy, investing is hard.

A word about bonds...

Any exposure to bonds in the past year has been beneficial to investors. Interest rates continue to fall on fears of a slowing economy and uncertainty around global markets, due partly to burgeoning trade wars and Brexit negotiations. We often hear that the bull market in stocks is long in the tooth, now into the 127th month (depending upon your start date)[3]. What is not discussed nearly as much is that the bull market in bonds is entering its 457th month, beginning in September of 1981. The performance of a long-dated treasury bond, meaning one which matures 20 years or more, has returned nearly 29% in the past year. You read that right. Here is the difference in a $10,000 investment from October 1, 2018 to the end of September[4]:



Maybe we are all a bit too focused on the wrong market. After all, in the U.S. alone, the market for bonds is around $40 trillion in value, roughly double the size of the market for stocks in this country. Globally it is even larger. Our belief is that both markets are discounting a recession and continued weakness overseas, making investors in stocks less than comfortable. Markets tend to die on optimism, and at major turning points, euphoria. That nervousness, stemming partly from the frustration of low returns, is a far cry from optimism and should support higher stock prices in the next twelve months.

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[3] March 9, 2009 is commonly held to be the bottom of the bear market during the 2008 financial crisis.

[4] SPY and TLT as proxies for stocks and bonds respectively.

EXCITING DEVELOPMENTS AT NAPATREE CAPITAL

When Peter, Jim, and I sat down with our lawyer to form Napatree Capital LLC, we had a comprehensive business plan and thoughtful approach to attracting clients and growing our business. After nearly 17 months, we are pleased to say that we've exceeded our projections. We have been extremely fortunate to have Jody directing our client service and administrative efforts. The team is solid, sharing a philosophy of client first, full transparency, and disciplined investing.

A new face in the crowd

We recently added another senior investment professional, Mike Moses, to our firm. Hiring proved to be a challenge -- not due to a lack of qualified individuals, but a desire to protect the culture we've built. It is critical for continued success. Mike brings more than 25 years of broad investment experience to Napatree Capital, from trader to technical analyst to client advisor, and most recently as a senior member of Fidelity's education team, where he built programs to help demystify investing for retail investors. Many years ago, Mike and I sat side by side on an active Nasdaq trading desk for a Boston investment banking boutique. Mike's insight into markets and risk management greatly add to the capabilities of the investment team. Mike will also be advising all clients of the firm alongside the rest of the team. Look for a press release in local newspapers very soon!

Back to the beach

As you may know, the name of our firm is derived from one of the most beautiful beaches on the eastern seaboard, Napatree Point. Located in Watch Hill, part of Westerly, RI, Napatree Point is the southwestern most point of RI, and technically separates Block Island Sound from Long Island Sound. Truly a magnificent stretch of seashore. (I may be a bit biased, having grown up there.)

The southern part of the state is important to our firm for more than just picturesque beaches. We are excited to announce the opening of our newest office in downtown Westerly, located at 18 High Street in the historic Brown Building. Our goal is to be able to meet with clients as frequently as they'd like. A second location enhances our client service and business development efforts.

As always, we appreciate your confidence in our firm. Never hesitate to contact us; we welcome your questions.

-Jeff