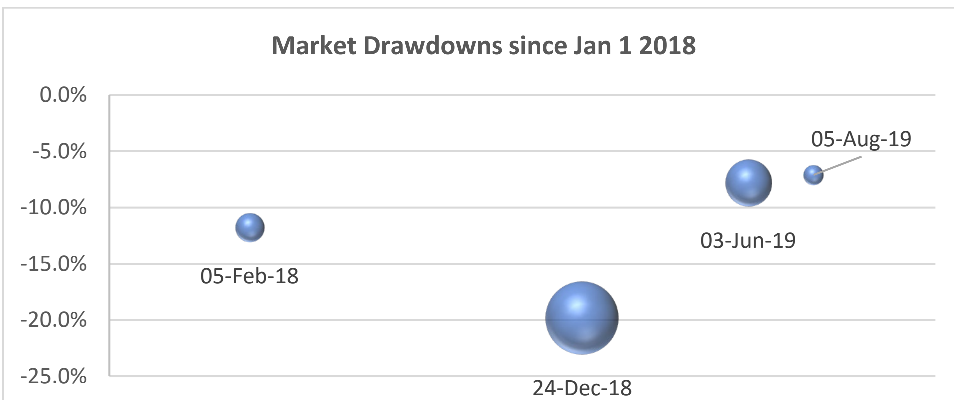
NAPATREE CAPITAL

THE NOT-SO-QUIET SUMMER

So much for the summer doldrums. Volatility hasn't crept back into the stock market; it has roared in like an unexpected hurricane. If you're feeling frustrated, and likely a little nervous . . . it is warranted. But let's put it in perspective.

Since the beginning of 2018, stocks have had a significant pullback (>5%) on four different occasions. Here is an illustration. The size of the bubbles represents number of days the pullback lasted, and the date is when the market made a bottom:



This is a bit atypical. Before the start of last year the largest drawdown had been about 3% going all the way back to March 2017.

Ok Jeff, so what is the good news? Let's quickly refresh our approach to investing which is both fundamental and technical.

Our process centers on three elements: 1) valuation (we are value investors, or value "seekers"), 2)relative attractiveness of one asset to another, and the often overlooked component, 3) investor behavior.

1) **Valuation** – stocks are reasonably valued at this point. Without getting too granular, they are neither expensive nor cheap on a general basis. Some sectors are quite compelling from a value perspective, however. Let's rate this **NEUTRAL**.

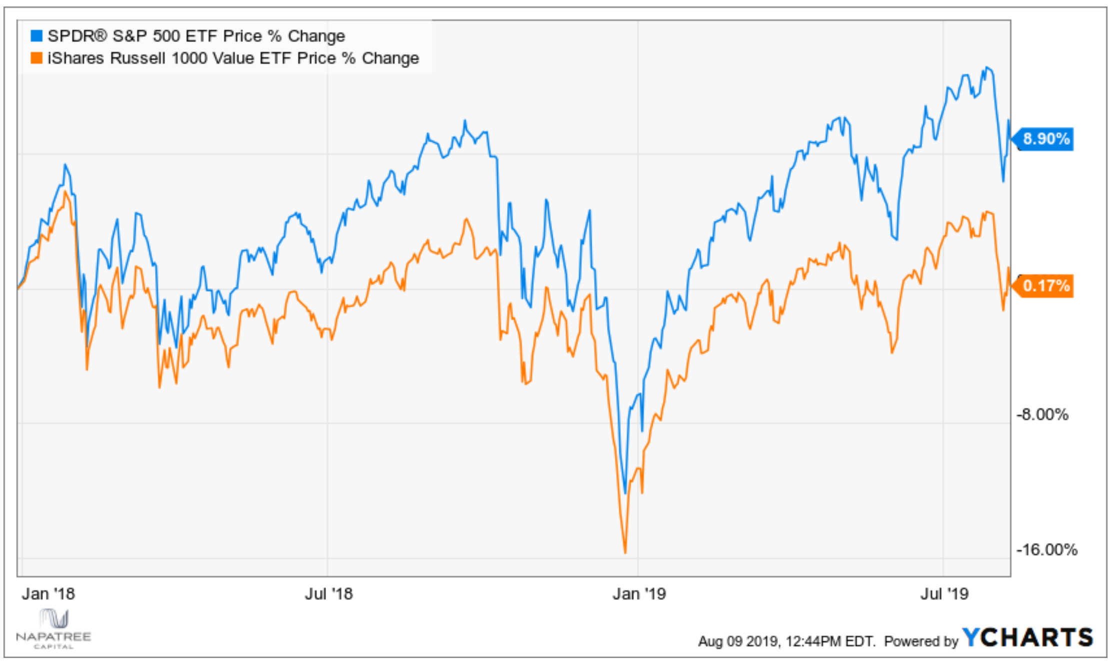
2) **Relative** – the relationships of stocks to bonds is quite abnormal at the moment. We are seeing stocks sell off as bond yields go lower. The yield on a 10-year treasury is at its lowest point since

October 2016 (it was slightly lower in July 2016). From then until January 2018, yields went up considerably as bond prices went lower. Coincidentally the market (S&P 500), went up roughly 31% in that same time period. Could be a coincidence but the lack of yield in bonds tends to push investors to riskier assets. Rate this **POSITIVE.**

3) **Behavioral –** investors are nervous. Optimism in stocks has plummeted in the past week. Remember: successful long-term investors are contrarians. We need to invest when others are scared. There is plenty of data to support that investors are more pessimistic than optimistic at the moment. One is a survey done weekly by the American Association of Individual Investors. The number of bulls to bears (or those positive on stocks vs negative) is at its lowest point since last December. Rate this **POSITIVE**.

Two positives and a neutral on our Napatree Capital "dashboard". We continue to think the market has room to go.

One note about market performance. If you are frustrated by your portfolio's returns (or lack of), here is a chart of the S&P 500 return since January 2018 and an index of value stocks during that same period:



I'll have another note coming out shortly discussing why a value portfolio hasn't been this attractive since the 2000 tech bubble burst.

In the meantime, broaden your view. Ignore the headlines, turn off the TV, and enjoy what's left of the summer!

Jeff