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Second Quarter Letter
July 27, 2016

Dear Clients and Friends,

I'm writing you today using Google Docs for word processing, aided by a Logitech mouse connected to a Toshiba Chromebook laptop. The mouse communicates wirelessly thanks in part to USB protocol. It's all transmitted via WiFi provided by Comcast and sent to Google's servers. Later, I'll upload it to my website via Wordpress.

Some more detail on those components:

- Sergey Brin, Google co-founder, was born in Russia.
- Sundar Pichai, current Google CEO, was born in India.
- Giacomo Marini, US-based Logitech founder, was born in Italy.
- Toshiba Corporation, headquartered in Tokyo.
- Ajay Bhatt, credited with co-developing USB at Intel, was born in India.
- Daniel Aaron, Comcast Co-Founder, was born in and fled Nazi Germany.
- Mike Little, Wordpress Co-Founder, is an English web developer.

OK, so what's the point here? Easy: there is a direct connection between immigration, trade, and investment returns. If you're reading this, it's crucial to remember investment returns are likely very important to you. I'll elaborate:

A non-partisan study showed that 51% of the current crop of billion-dollar US startups were founded by immigrants, and these 44 companies create roughly 760 jobs per day in this country. The effect isn't just present in young startups: a 2011 study showed more than 40% of Fortune 500 companies were founded by immigrants or their children. One of the seemingly unlimited statistics supporting trade is approximately 33% of S&P 500 company revenue comes from foreign countries. Restrict or eliminate trade and immigration and, well, you get the picture about what it could mean for the future of business in America and the cascading effect it would likely have on investment returns.

The past gains your portfolio has enjoyed over your lifetime, and the generations before it, combined with the higher standard of living most have experienced, was likely only possible in a scenario where the United States was supportive of both trade and immigration. Big companies achieve their size when smart people take risks, while conveniently providing excellent investment returns along the way - it's quite literally the only way a small company becomes larger, because value is created and gets reflected in rising valuations. Returns are then commensurately enjoyed by shareholders (you).

On immigration in particular: if there had been much tighter regulation then it's unlikely Steve Jobs' Syrian father ever makes it to an American college, Elon Musk likely never heads south of the Canadian border after his South African childhood, William Proctor and James Gamble never make it here from Ireland and England and some guy named Alexander Graham Bell never sets up a Boston lab to conjure inventions that ultimately exist today as AT&T and Verizon. Immigration is a key ingredient when tasked with profiling the success of American business, past and present.

Let's switch gears slightly. Warning: it gets…messy.

As your investment advisor, I'm effectively your numbers guy. It's my job to talk to you about your goals, estimate future returns, crunch the numbers and report back to you regularly so you can hopefully reach those goals. A major part of this process is *managing your expectations* of things like the outlook for investment returns in general, the volatility of your personal returns, how these things relate to your goals and whether or not you need to change your current expectations.

When assessing return expectations, there always seems to be another "possible inflection point" coming, according to pundits - which is why I usually loathe predictions and prognostications - but I'm compelled to state that there's a real issue knocking on the door as we speak: **it's the presidential election.**

If the coin lands the wrong way, I'm frankly fearful of market reactions and that's because there's *nothing* markets hate more than uncertainty. One candidate is a walking, tweeting Uncertainty Machine. Now, I'm not guaranteeing, nor predicting, permanent bedlam given a certain result - in the last hundred years we've weathered two world wars, a global depression, the Cold War, Black Monday, 9/11 and plenty of other fiascos only to be sitting at all-time-highs today - but this possibility is simply something that should be on your radar.

How could one presidential "coin toss" outcome result in lower returns? To start, I'm pointing to the wave of populist sentiment that is increasingly xenophobic and anti-trade. It's downright frightening to see an entire political movement built upon these positions, let alone it being one step from the Presidency. Having already grabbed headlines in the United Kingdom's "Brexit" vote, we are now witnessing a similar, strange phenomenon at home.

Just as the proliferation of negative interest rates has flipped the very fundamental equations and assumptions of finance on its head, something I view as a veritable "Strike One", we are seeing the political system being turned inside out (a potential "Strike Two"). One candidate has their finger on the pulse of an angry and emotional faction and will say *anything* to drum up further support. As the numbers guy, I can't be optimistic about investment returns should this candidate emerge victorious. Just as batters in baseball are uncomfortable hitting with two strikes, I doubt you'll have much fun as an investor if this second strike is cemented in the scorebook.

Reminder: a business, and in turn a diversified portfolio of businesses, is only worth what somebody will pay for it. *Less* new businesses with *less* partners to trade with, earning *less* money while employing *less* people is a pretty sure bet for most stocks to also receive a *lower* earnings multiple, which means red is a color you'd likely see *more* of on your statements. Think Social Security's health thrives in this scenario? Negative. Will state and local government pension plans, already on shaky ground, find their way back to par value if we shut our borders to highly skilled/educated immigrants and we become a closed economy? Think again.

Yes, there are checks and balances within government. Yes, the president's ability to unilaterally enact policy change is also limited. Yes, we've dealt with and succeeded in spite of some less-than-ideal presidents before. What's worrying, though, is the validation of the ideas and tenets

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of this particular political movement. Will Congress have no choice but to cede to the "will of the people" by aligning with this potential-POTUS? Scary stuff, especially in the context of markets.

Put in the most simple terms possible: immigrants and their families have a seriously excellent tendency to start big-ass companies which end up selling their products and services across the world with relative ease, bringing benefit to every US citizen in the form of a massive rising tide of gainful employment for millions, huge increases in tax receipts, an improved standard of living for all, and better returns for investors to boot. Why would we want to screw this up?

For the time being, let's just consider my modified version of a passage from "The New Colossus", the sonnet engraved on the Statue of Liberty:

> Give me your tired, your poor,
> Your huddled masses yearning to breathe free,
> The wretched refuse of your teeming shore.
> Send these, the homeless, tempest-tost to me,
> It will lift my IRA above the golden door!

Sincerely,

Tyler