



Third Quarter Letter
October 10th, 2017

Dear Clients and Friends,

This is uncomfortable. It's not you, it's me.

I am a steward of your hard-earned capital and I constantly preach the need to ignore the news, short-term performance and prognostications of any kind. Yet, it's technically my job to do the opposite: I need to be at least somewhat well-versed in the happenings around the investing world, be aware of where markets are going and know how influential movers and shakers are positioned.

It's this task of being a human filter that has brought my comfort into disarray. Right now, it's really tempting to let more through to you. To let the headlines dictate your investment allocations. To tell you to get in your investing bomb shelter where the shelves are stocked with Treasury bonds and CDs. To call an audible even though the playbook has worked so well. But I won't, your filter is not malfunctioning. That said, if I wasn't uncomfortable then I wouldn't be a very good advisor.

"Is he ever going to get to the point? He always does this."

Yes. My point is that we are in the midst of an incredible run for markets. Valuations are stratospheric, and volatility -- how much your investments bounce around - is effectively non-existent. I worry about both, which I'll explain below.

The valuations of stocks -- not simply their price, but how much investors pay for the underlying earnings compared to historical norms -- are so high it's hard to see a scenario where returns are anything but muted in the next few years. Whether or not this culminates in tears remains to be seen, but a tempered outlook feels prudent. I dare say this is a prognostication I am letting slip through the filter to you. We've climbed this same wall of worry for eight years of the current bull market, so if you dismiss this prognostication from the anti-prognosticator, I wouldn't blame you.

Volatility is the one I worry about more. My assumption is this period has given you many mini-moments of digitally-induced bursts of "oh, that's nice." Maybe you check in on your accounts every few weeks. Without a doubt you glance at your account values and lo and behold, "oh, that's nice." We're going straight up! What's not to like?

Oh, that's nice, alright. But not for me, *necessarily*. It makes me uncomfortable. It makes me worry you've forgotten what pain markets can inflict. It makes me worry your expectations could be out of whack. It's like we're in the middle of December and haven't



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seen a day of rain since spring. One could not be blamed for forgetting to keep an umbrella handy.

My simple request is one of visualization: Take a few seconds and picture red numbers instead of green on the screen. Remember what it's like to have months of consecutive losses. Put the umbrella in the car. This won't last forever.

This letter's over. "Oh, that's nice." -you, probably?

As always, thank you for your trust.

Sincerely,

Tyler

P.S.: No, I don't think you should buy Bitcoin.