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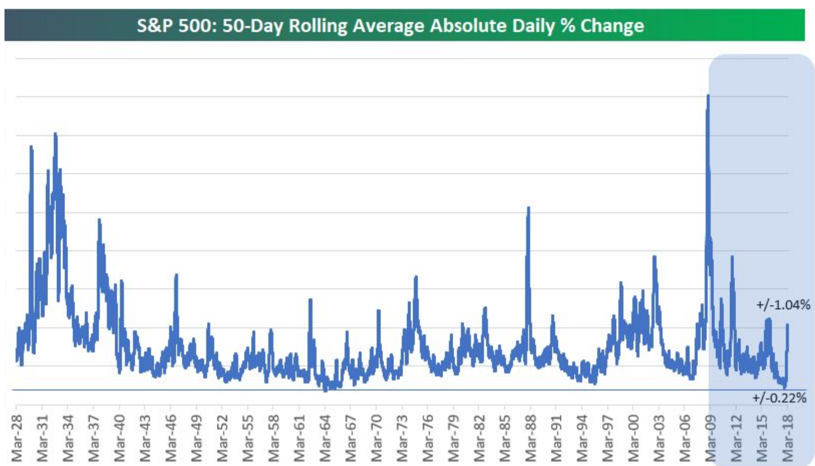
First Quarter Letter
April 30th, 2018

Dear Clients and Friends,

IT’S BACK.

No, not another probably-disappointing Seattle Mariners baseball season. That’s back, too. I’m talking about normalcy. The normal way markets operate -- violently whipsawing *some* participants into submission, letting the patient investor scoop up the spoils (you, hopefully) -- is what I’m referring to.

Nothing about what happened to markets in the first quarter is particularly notable when looking at historical figures for volatility, which is a fancy word for stocks moving up and down:



Source: [Bespoke]

So why doesn’t it *feel* normal? That’s because we’ve been spoiled rotten. Not like “got every present you wanted on your birthday” rotten, but more like “every day over the last nine years has felt like your birthday because we’ve seen practically non-stop gains” kind of spoiled rotten. As you can see, we went from the average daily move on the S&P 500 at 0.22% per day recently to 1.04% in a pretty short timespan. That’s nearly five times more volatile, and has been driven by some big moves to the downside.

Any uptick in volatility now will naturally feel more painful than it would normally feel because we’ve gotten comfortable with seeing such positive momentum on a daily basis. The most important thing to remember is a bedrock term from Finance 101: Holders of stocks receive an equity risk premium. This means that investors are compensated for taking the risk of owning something that can, from time-to-time, feel like it takes the path of a bouncy ball that’s been shot from a cannon in a china shop with no windows. Thankfully, all you have to do is remember that eventually the ball runs out of momentum and the chaos will end. As long as you stay the course, you win.

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I’m running out of ways to say “don’t do anything” in my quarterly letters and I struggle to think of recommending anything but looking long-term, diversifying, staying low-cost and simplifying above all else. One thing you certainly should *not* do is “Sell in May and Go Away,” which is a real thing that some people believe in. Market myths like this lead to poor investor behavior and only benefit the patient investor, as ill-informed traders once again leave money to be scooped up by the boring long-term holders. Somehow we’ve been trained to think that investing success requires really smart ideas. It’s almost as if a group of people (rhymes with “jokers”) have worked hard to profitably perpetuate that thought.

In conclusion, we’re simply back to normal and we all have a vested interest in keeping a healthy perspective on markets. It’s when expectations get out of whack that bad decisions suddenly come into play. It may not feel like normal, but the days of no volatility had to end sometime. Keep doing nothing, own everything, pay minimally and sell complexity.

As always, thank you for your trust.

Sincerely,

Tyler