



Third Quarter Letter
October 31, 2018

Dear Clients and Friends,

Boo! It's Halloween, and things have been spooky out there. The trick-or-treaters (the markets) have opted out of politely asking for candy and instead they've gone straight to being small-time vandals, hurling eggs and coating our homes/portfolios with layers of toilet paper with reckless abandon. They went straight to "trick." They smashed that pumpkin you carved.

For most investors, the urge is to DO SOMETHING after a tough period. "I FEEL PAIN SO I MUST TRY TO TAKE CONTROL OF SOMETHING I HAVE NO CONTROL OVER AND MY THOUGHTS FLOAT ABOUT IN CAPITAL LETTERS."

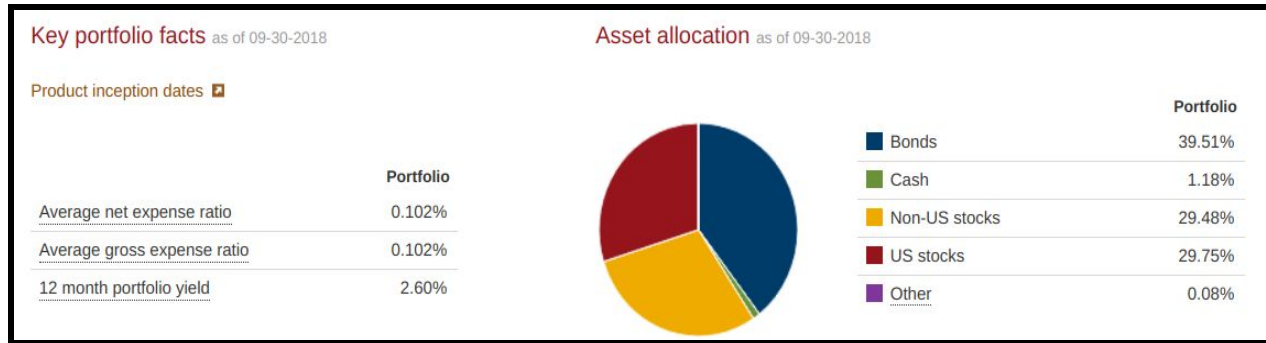
But we aren't most investors. We have this marvelous thing called patience. Little do the ALL-CAPS WORRIERS know, it's really easy to clean up our homes/portfolios. **We do nothing.** The egg is washed away by reinvested dividends and the toilet paper melts down from the constant force of compound interest. And it gets better. The house is not only self-cleaning, it *grows* as long as we don't mess with it. Wait long enough and a new bathroom pops up. Wait even longer and now there's another acre of land.

Patience is the only bona fide advantage the individual investor has over all other market participants. Hedge funds don't have a 25-year time horizon to wait things out. Those ALL-CAPS WORRIES we know, who are always trading the hot stocks of the moment (I'm thinking of cryptocurrency and cannabis as of late), don't get the concept of patience, and you capture what they are passing up. Sitting through the ups and downs is a premium you collect. Doing nothing is a highly compensated activity.

Let's look to the numbers to drive the point home. Most client portfolios are some variation of the following mix of stocks and bonds:

- US Large Cap Stocks
- US Small Cap Stocks
- International Stocks
- US Total Bond Market
- Emerging Markets Bonds

Look at some of the characteristics for a 60/40 portfolio (60% stocks and 40% bonds) of these funds, courtesy of Vanguard:



- The portfolio is almost free: The net expense ratio is .102% per year. This means it costs \$10.20 for every \$10,000 invested. An expensive portfolio, on the other hand, makes investors antsy, expecting immediate gratification for a premium price paid.
- Currently, this portfolio kicks out 2.60% in dividends/interest per year alone. In times of turbulence, this cash flow is invested at lower prices and lowers the cost basis of a position. We also use rebalancing software to divert this cash flow to whatever in the portfolio has become smaller than its targeted percentage weight.

	Portfolio
Americas	54.55%
North America	53.07%
Latin America	1.48%
Greater Europe	23.04%
United Kingdom	5.83%
Europe-Developed	15.25%
Europe-Emerging	0.76%
Africa/Middle East	1.20%
Greater Asia	22.41%
Japan	9.11%
Australasia	2.44%
Asia-Developed	5.02%
Asia-Emerging	5.84%
Other	0.00%

Portfolio statistics	
	Portfolio
Number of stocks	4,627
Number of bonds	15,518

- It's diversified: You can see there are over 20,000 securities owned and nearly 50% are outside of the US. No one company, country or asset class can completely tank this portfolio, especially when stocks and bonds tend to counterbalance each other.



- Perhaps most importantly, this is a simple portfolio. It owns five funds. It is easy to understand and contains no complex products, nor anything with a fancy name with lots of verbs and syllables, like the imaginary Strategic Opportunity Quantitative Commingled Fund, Class Z.

This kind of portfolio is built for the long-term, invites no drama, and most importantly, it's enhanced with patience. October was a rough month but we just need to remember all of the tailwinds working to our advantage. When the trick-or-treaters opt out of candy then at least we'll be able to keep all of the [Reese's](#) for ourselves.

Once again I have managed to write a quarterly letter with hundreds of words about doing nothing. I suppose I'm a Jerry Seinfeld disciple: He had the show about nothing, I have the blog about doing nothing. I'm fine with that if you are, but I'd love to chat about some other topics. What would you like to hear about? Let me know! (For what it's worth, finding different ways to talk about doing nothing might be working, assuming you peruse these letters every once in a while - not a single one of you has REACTED IN TERROR regarding the markets in October, which is pretty darn cool. Pat yourself on the back for that one.)

As always, thank you for your trust.

Sincerely,

Tyler