HAAS Capital Management LLC

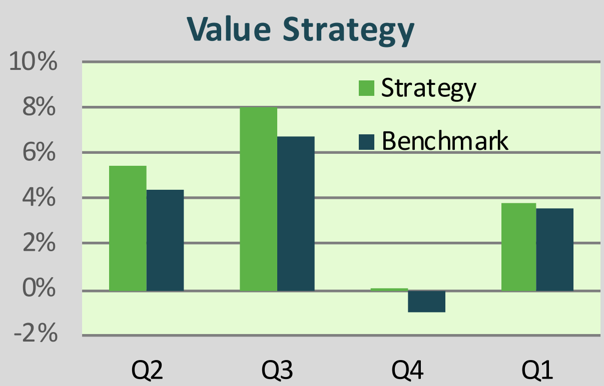
Second Quarter 2018 Performance Review

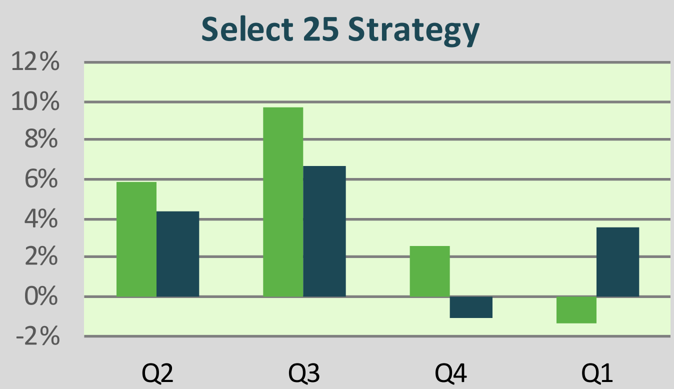
The S&P 500 had a good quarter, posting a 3.6% return, while foreign stocks lost 3.5%. The U.S. market was propelled largely by "hot" tech stocks, such as Netflix and Facebook. We don't own these stocks since their valuation metrics don't fit the "value" philosophy. Despite this, the Value Strategy benefited from small stock holdings which did well during the quarter and posted a slight outperformance. The Select 25 Strategy was not so fortunate and, after three very strong quarters, significantly trailed it's benchmark. The Foreign Value Strategy also had a difficult quarter.

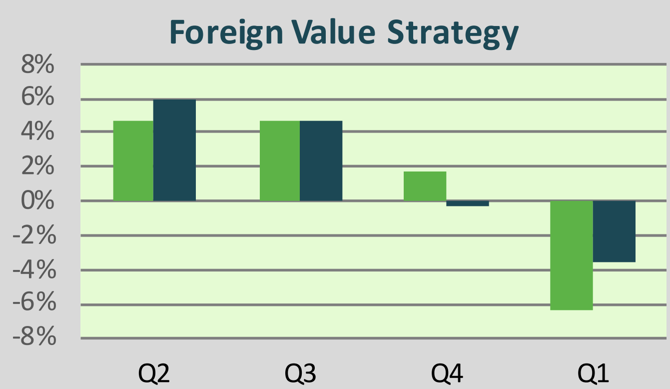
	Q2 2018	Benchmark	**Outperformance**	Prior 12 months	Benchmark	**Outperformance**
Foreign Value Strategy	-6.4%	-3.5%	**-2.9%**	4.3%	6.6%	**-2.3%**
Select 25 Strategy	-1.3%	3.6%	**-4.9%**	17.6%	14.3%	**3.3%**
Value Strategy	3.8%	3.6%	**0.3%**	18.4%	14.3%	**4.1%**

Strategy returns are before fees

Quarterly Returns July 1, 2017 - June 30, 2018







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Value Stocks Have Struggled So Why Has the Value Strategy Done Well?

A recent front page article in the Wall Street Journal ran the headline "Value Investors Face Existential Crisis After Long Market Rally". Well perhaps some value investors are in crisis, but I'm doing just fine, thanks! The article goes on to say "Value stocks…have been stuck in a rut for most of the nine-year rally in U.S. Stocks". Really? From July 1, 2012 to Dec 31 2017 the Haas Capital Management Value Strategy has averaged a 20.5% annual return (before fees). During the same period the S&P 500 averaged a 15.4% annual return. What's going on?

"Value" is Subjective

I ran the current Value Strategy portfolio through a Morningstar portfolio analysis tool. The analysis concluded that 40% of the holdings are value stocks, 12% are growth stocks, and 48% are a blend of both. Of course, I consider all of the stocks to be value stocks. Who's right? Well we both are, it simply depends on your definition.

Indexes Are Imperfect

There's little human intervention when it comes to adding stocks to an index. The value index with poor performance that the Wall Street Journal article referred to simply uses the ratio of a company's book value to it's price. Although this is in line with historical definitions of "value" stocks, it's a poor determination of value. It's also important to consider how profitable a company is (and is likely to be in to future), the dividends that are expected to be paid, and many other factors.

Growth Has Done Well

There's no two ways about it, it's been tough to compete with growth stocks like Netflix, Amazon, Facebook, and Google. Many investors have decided that these companies will keep growing and that they simply can't lose. The stock prices have done extremely well. But I'm not concerned with how they have done in the past, my focus is on what they will do in the future. History has shown that value stocks do better over the long term.

Labels Are Misleading

Take what you see or hear about "value" or "growth" stocks with a grain of salt. There is no standard definition. The Value Strategy is labeled as such simply because I feel the stocks it holds are less expensive (based on a variety of factors) than most stocks. My definition of "value" changes depending on many factors and many of the stocks the strategy holds will not be considered value stocks by others.

Rob Haas **July 1, 2018**