

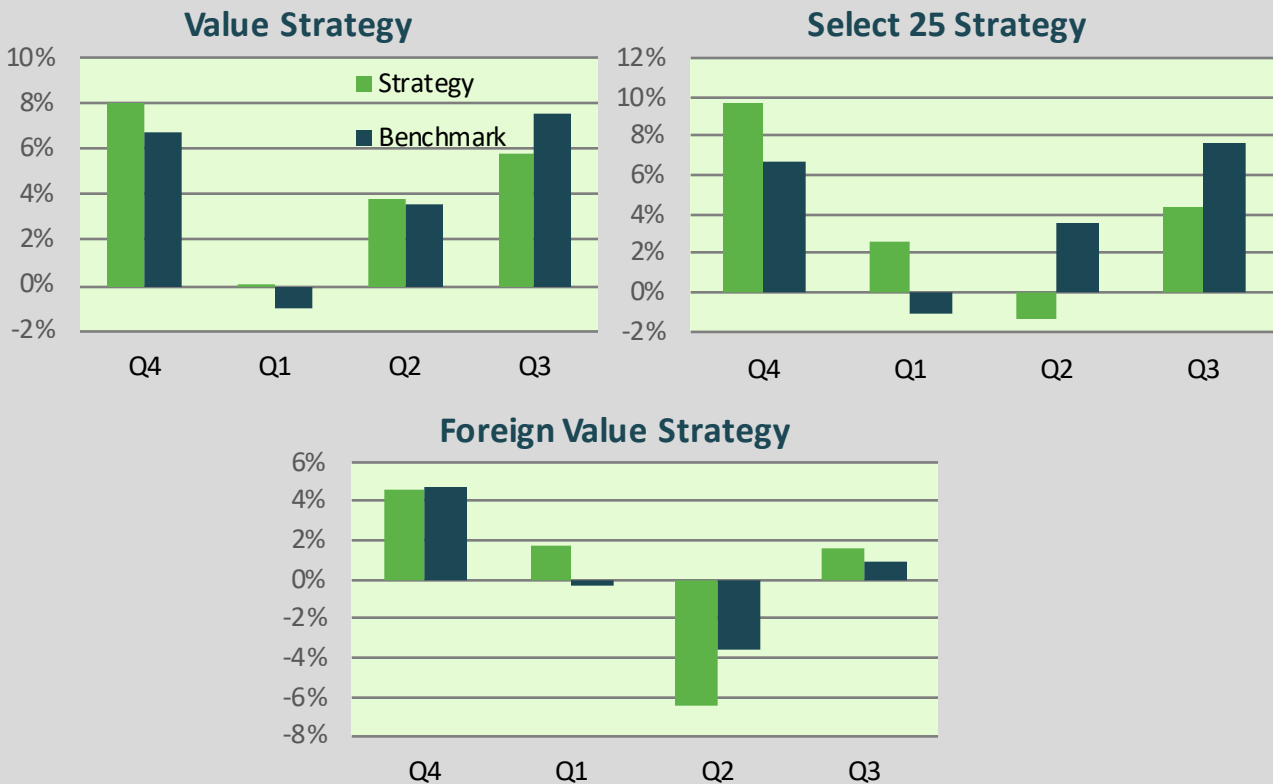
Third Quarter 2018 Performance Review

The S&P 500 had another good quarter, posting a 7.6% return, while foreign stocks returned about 1%. The Value Strategy faced headwinds from small stocks which returned about half of the S&P 500, and the Select 25 Strategy had another challenging quarter. Foreign stocks returned a modest 0.9% and the Foreign Value Strategy managed a slight outperformance. All in all, portfolios saw good returns this quarter.

| | Q3 2018 | Benchmark | Outperformance | Prior 12 months | Benchmark | Outperformance |
|------------------------|---------|-----------|----------------|-----------------|-----------|----------------|
| Foreign Value Strategy | 1.6% | 0.9% | 0.7% | 1.2% | 1.6% | -0.4% |
| Select 25 Strategy | 4.4% | 7.6% | -3.2% | 15.9% | 17.8% | -1.8% |
| Value Strategy | 5.8% | 7.6% | -1.8% | 18.7% | 17.8% | 1.0% |

Strategy returns are before fees

Quarterly Returns October 1, 2017 - September 30, 2018



What Good Performance Really Looks Like

The Haas Value Strategy has been a top performer since its inception about 6 years ago, beating by about five percentage points per year. It's fair to say that, at most, a handful of managers have matched its performance. In addition, virtually all managers would consider its performance "highly successful". But on a day to day basis it's performance is less convincing.

The Bad and the Ugly

Over the past 4 quarters (July 1, 2017 – June 30, 2018) the strategy has outperformed its benchmark by four percentage points (before fees), which is somewhat representative of its historical performance. During this period, the following can be said:

- > 49% of days the strategy underperformed – you would have been better off in an index fund
- > The worst 10 days the strategy lost an average of 1.2% as compared to the S&P 500, each day!
- > In the first two months of the period the strategy lost about 4% as compared to investing in the benchmark, an awful
- > In October alone the strategy lost about 5% as compared to its benchmark

Why it Looks So Bad When it Did Well

There are two possibilities to explain the somewhat wild performance of a successful strategy as compared to its benchmark. First, the outperformance is just plain luck. I estimate that the chances of this is less than 5%, based on statistics and the fact that few funds performed this well. Therefore, luck is a possibility, but not a very good one. Second, good strategies have significant periods of underperformance. This is certainly true in the case of the Value Strategy, what about other managers? Several years ago a study of ten year returns found that of the top 25% of portfolio managers, 79% spent at least three years in the bottom 25%. It seems only logical to conclude that the best strategies have bad periods.

Luck Plays a Role

Stock prices move daily for all kinds of reasons, only a few of which are related to how a stock will do over the longer term. Perhaps a stock falls because an analyst issues a poor report, or it rises because a politician made positive comments about the industry. The market reactions to this kind of news rarely affects long term performance.

Don't Let a Spell of Bad Luck Discourage You

Although it can be disheartening to see your portfolio perform worse than the market, it's futile to try to make investment decisions based on short term movements.