HAAS Capital Management LLC

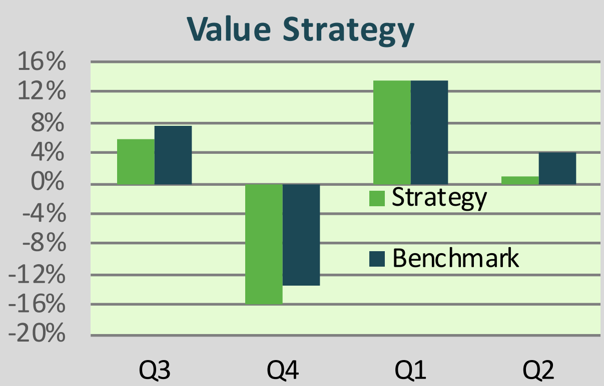
Second Quarter 2019 Performance Review

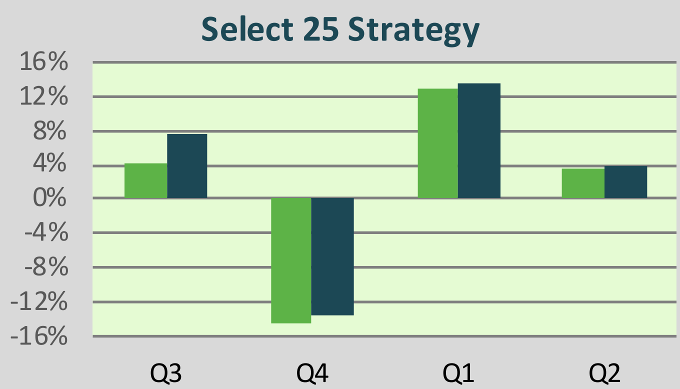
In spite of slightly positive returns, it was a disappointing quarter for the Value Strategy, and value stocks in general. See the second page for a reminder on why we invest in value stocks. The Select 25 Strategy performed better, but slightly trailed it's benchmark. The bright spot was the Foreign Value Strategy. For those with diversified accounts, it's important to note that bonds has an outstanding quarter, returning about 2%.

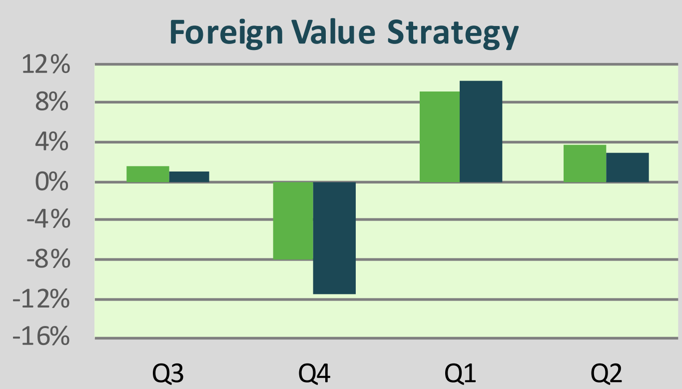
	Q2 2019	Benchmark	**Outperformance**	Prior 12 months	Benchmark	**Outperformance**
Foreign Value Strategy	3.7%	2.9%	**0.8%**	6.0%	1.3%	**4.7%**
Select 25 Strategy	3.6%	3.8%	**-0.2%**	4.5%	9.6%	**-5.2%**
Value Strategy	0.8%	4.2%	**-3.5%**	2.1%	10.1%	**-8.0%**

Strategy returns are before fees

Quarterly Returns July 1, 2018 - June 30, 2019







HAAS
Capital Management LLC

Why Invest in "Value" Stocks?

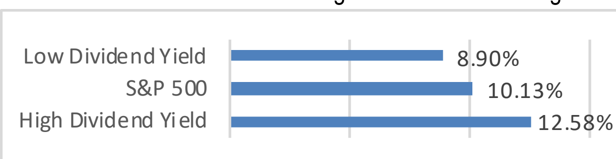
Both the Select 25 and Value Strategies invest in value stocks. I've written before that there is no standard definition of "value", but there are some criteria that many agree on. With this in mind, and in light of the fact that value has underperformed the S&P 500 recently, I think it's important to review why I focus on value.

Long Term Outperformance

Jeremy Siegel's book "Stocks for the Long Run" is a comprehensive look at the historical performance of stocks over more than 50 years. He uses two different criteria to define value stocks. He then computed the average annual returns from 1957 to 2012.

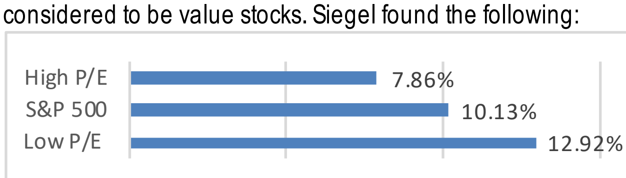
Dividend Yield

Stocks paying higher dividends per dollar invested are considered to be value stocks. Siegel found the following:



Price/Earnings (P/E) Ratio

Stocks with lower prices per dollar earned (low P/E) are also considered to be value stocks. Siegel found the following:



These results are consistent with what other researchers have found: Stocks exhibiting value characteristics how done better than other stocks over long periods of time.

Recent History

Unfortunately, any strategy can underperform for several years. Recently, this has been the case for value. A useful benchmark to illustrate this is a midcap value index fund (IJJ). This fund is up about 2% since the beginning of 2018 (this compares to about 6% for the Value Strategy). Meanwhile, the S&P 500 has risen about 13%. So it was possible to do significantly better investing in the S&P 500 than in value stocks over the past 18 months.

It's useful to look at a few other relatively recent periods. The table below summarizes the results.

	IJJ (Value)	SPY (Index Fund)
2001 to Present	414%	218%
2001 through 2007	107%	25%
2008 through 2009	-13%	-20%
2010 through 2017	179%	182%
2018 to Present	2%	13%

A Good Investment Overall Since 2001

The table clearly shows that value stocks have been the best bet since 2001. However, all of the outperformance is attributable to the period from 2001 through 2009. From 2010 to today value stocks have underperformed overall. Going forward, we cannot know if or when value will outperform. But it's logical to assume it will, and we want to be invested in it when it does.

The "Bottom Line"

I continue to believe in the Value Strategy because:

- Research has shown that value stocks have done better
- It makes sense that stocks with higher earning per dollar should do better than those with lower earnings
- The Value Strategy has performed well when compared to value stocks

Rob Haas June 30, 2019