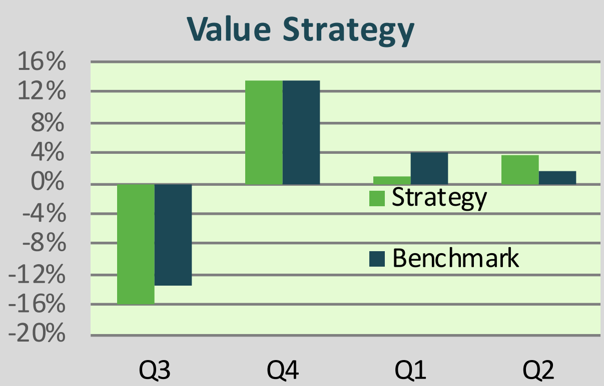
## Third Quarter 2019 Performance Review

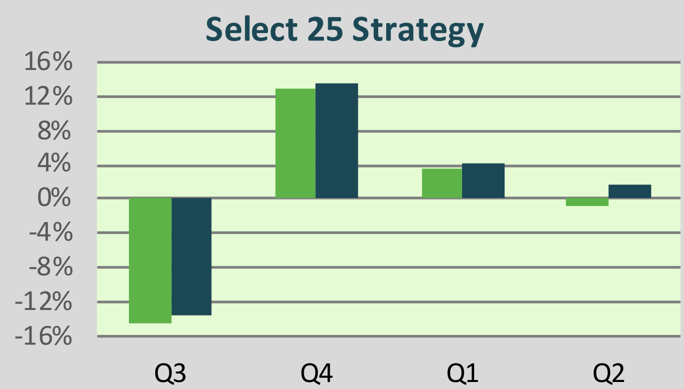
U.S. stocks had a decent quarter with returns nearing 2%, while foreign stocks lost by about the same amount. The Value Strategy had a strong quarter and overcame the poor performance of small stocks to beat it's benchmark by about 2%. Select 25 struggled however and the Foreign Value Strategy slightly trailed it's benchmark.

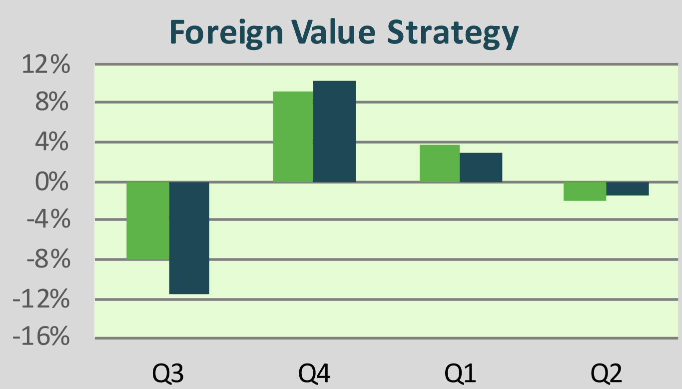
| | Q3 2019 | Benchmark | **Outperformance** | Prior 12 months | Benchmark | **Outperformance** |
|---|---|---|---|---|---|---|
| Foreign Value Strategy | -1.8% | -1.5% | **-0.3%** | 2.4% | -1.1% | **3.5%** |
| Select 25 Strategy | -0.7% | 1.8% | **-2.5%** | -0.6% | 4.1% | **-4.7%** |
| Value Strategy | 3.9% | 1.8% | **2.1%** | 0.2% | 4.1% | **-3.9%** |

Strategy returns are before fees

## Quarterly Returns October 1, 2018 - September 30, 2019



HAAS Capital Management LLC

## Major Market Declines

There have been many moderate market declines with relatively fast recoveries over the years. Although concerning at the time, these market gyrations don't have lasting impacts on portfolios. Our real concern should be directed to more severe declines that last longer.

## The Great Depression

There's a reason that we call it "Great", and that is because the market fell a whopping 86% in just 34 months and it took about 20 years to recover. During the 20 year recovery period the market was unstable and had two more substantial declines.

## The 1960's and 1970's

America's post war boom came to an end in 1966 as the market started a slow decline that lasted until 1982 and ultimately resulted in a loss of about 73%. The market didn't fully recover until 1995 and continued to produced strong returns until 2000.

## The Dot-com Bubble

The S&P 500 fell about 47% over the course of 3 years largely as the result of the overpricing of internet stocks in the years prior. The decline was much worse on the NASDAQ, where most of the internet stocks were listed. Stocks took about 4 years to fully recover their losses.

## The Great Recession

In spite of a 50% loss in the S&P 500, what made this recession "great" was the effect on the overall economy. Although the losses came quickly as compared to other declines, the loss of 50% wasn't as severe as we've seen in the past. In addition, the market recovered in just 4 years.

## What's Next?

In my view, we have a 50/50 chance of the next decline being relatively short, or more serious like the ones described. It depends on inflation. Throughout recent memory the Federal Reserve has been able to "print money" to stimulate the economy without the side effect of inflation. Additionally, the Federal government has also been able to borrow without stimulating inflation. But if inflation were to become an issue then the Fed's options would be much more limited, and the federal government would be forced to reduce borrowing and spending in order to cover rising interest payments. In addition, housing prices may fall as the result of higher interest rates. In a high inflation scenario the market would liklely not recover quickly.

## Investing in TIPS

I recommend holding some amount of savings in U.S. Treasury Inflation Protected Securities (TIPS) in order to partially protect a portfolio from inflation risk. These securities are structured so that they rise in value as inflation rises. If you have a portion of your portfolio that I manage in bonds then some of this is already in TIPS.

## Be Proactive

Ensure that you're able to "weather the storm" should it come. This means that you can cover a few years of living expenses without withdrawing from your account(s). Additionally, your asset allocation should be such that a 50% market decline would not cause you to sell stocks. For many, this means that 40% of your portfolio is in bonds, CD's, fixed rate annuities, and other non-stock investments. Please feel free to give me a call if you would like to discuss this further.

**Rob Haas October 2, 2019**