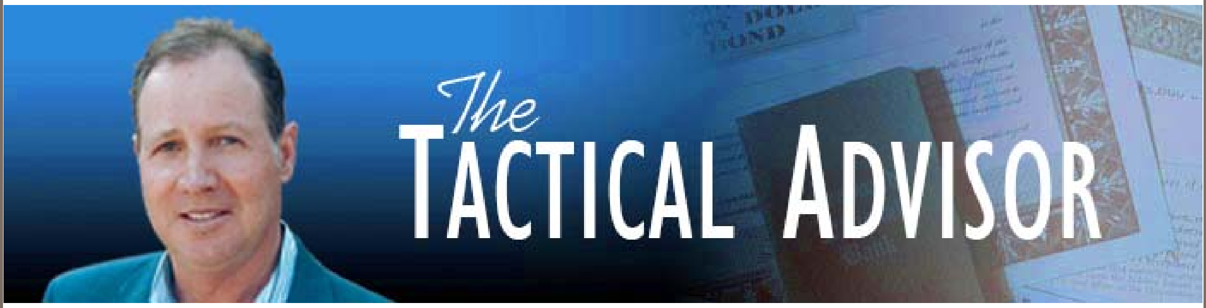


Second Quarter 2018

Cycles and the Financial Markets

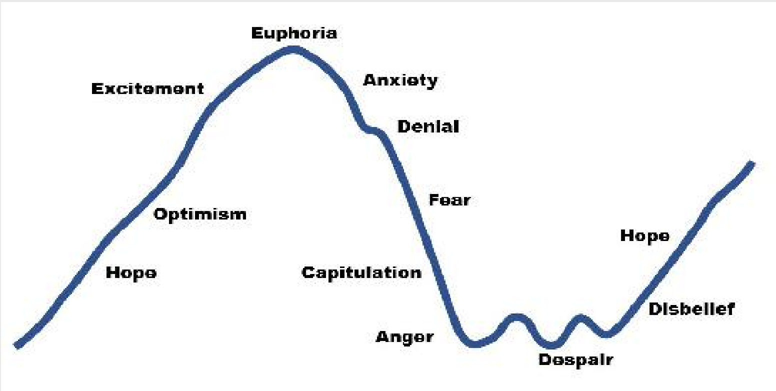
One of the best insights into human nature may well be financial markets throughout the world. Stock markets are fascinating in their ability to condense into very succinct time periods the cyclical nature of human behavior. While larger social patterns may take decades to play out; within a 10 to 15-year bull to bear cycle, financial markets vividly demonstrate the pendulum swing of the human behavior over time from one extreme to the opposite.

Every lesson of past market history tells us that the cycle from bull to bear, and repeat, is inevitable. There is something in the human psyche that pushes us to extremes, from extreme optimism to extreme pessimism; from overbought to oversold; from rise to fall of enthusiasms.

Market data allows one to look back over 100s of years and across geographic boundaries to trace over and over the transition of investors from optimism to belief, exuberance, and outright greed before the overextended hot investment of the period starts to lose momentum and anxiety sets in. From there the pattern moves inevitably from denial and fear to despair."

While the future can never be predicted, as the saying goes, all too often it rhymes. Market data allows one to look back over 100s of years and across geographic boundaries to trace over and over the transition of investors from optimism to belief, exuberance, and outright greed before the overextended hot investment of the period starts to lose momentum and anxiety sets in. From there the pattern moves inevitably from denial and fear to despair.

By accepting the cyclical nature of financial markets, we can put in place plans to mute its impact on one’s net worth and to exploit the opportunities it offers when others despair.



The Investor Sentiment Cycle

Cycles and their impact on financial markets are the rationale and reason for the use of active investment management.

"Bulls make money, bears make money, pigs get slaughtered" is an old Wall Street saying that warns investors against letting greed get the better of their judgment. Risk is always a part of the financial markets. There are opportunities to make money in both bull and bear markets, but only if one manages the risk of uncertainty and is willing to admit very early if an investment is not working out as anticipated or the trend is shifting.

Active investment management approaches are never perfect. Not every buy or sell decision will be profitable. But the active manager starts with a considerable advantage over passive or buy-and-hold approaches. We know that cycles are a part of investing and that human nature tends to push a trend or belief to extremes, at which point the pendulum begins to swing back to the opposite extreme. Between those extremes are opportunities for profit - as long as risk is also managed.

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