Subject: November 20, 2018 Conference Call

Dear client,

The conference call on November 20th was held as an informal call. Steve provided updates in regards to the current market conditions and the impact of the recent economical and political events on the overall market and SFP portfolios. For the remainder of the call, Steve answered many excellent questions and topics raised by our clients. A recording of the conference call audio file has now been posted on our website. Please see below for the overview of subjects that Steve discussed:

Brief Market Update

- 2018 market gains are essentially gone
- NASDAQ has dropped 15.05% from its peak on 08.30.18
- DOW has dropped 8.8 % from its peak on 10.03.18
- S&P 500 has dropped 10.13% from its peak on 09.21.18
- Barclays Capital Global Aggregate Bond Index is also down 2.79%
- SFP Global Report Net Equal Weighted Return is down 1.20%

> *This essentially means that if we combine all the portfolios under our management, the return year to date has been -1.2% (net of fees). Of course, this is a general overview and each portfolio's return varies* and past returns are not indicative of future returns.

- Every sector is getting slammed
- Bonds are not faring well either and they are down
- There is no safe haven
- Market correction is usually at about 20% mark

What caused the recent market drop and volatility?

- Market fear of raising interest rates! However, 10-year treasury declined from 3.2% to 3.05%
- General Electric (GE) credit situation freaked the market out
- Ongoing trade concerns with China
- Robert Muller investigation into the election interference
- WHO KNOWS WHAT THE FLAVOR OF THE MONTH IS!!

My Thoughts

- I suspect interest rates are the cause of the downturn as we have seen in the past, in 1987, 2000, and 2007.
- Typically, overvalued stocks get hit first which has been the case this time for Facebook, Amazon, Netflix and even Apple. This is similar to Dotcom era valuations. People think these one decision stocks go up forever and when the market gets scared, they are the first to drop.

  Apple peaked at $233 and now it is trading around $176
  Netflix peaked at $423 and now it is trading around $266
  Amazon peaked at $2,050 and now it is trading around $1,495

- People blindly pile in because everyone else does. Chasing the herd!
- Apple is still the Apple telephone company, in my opinion, and 80% of its revenue is attributed to iPhone sales. Apple's market share is in danger because of Chinese companies such as Xiaomi, Lenovo and Huawei producing similar products at a fraction of the price.
- When market goes up, it is actually riskier than when the market goes down.
- We increase stock position when the market is down and decrease our stock position when it is up. We don't shoot for the moon. Our job is to preserve capital which is achieved with mix of stocks and bonds.

This could be the start of a down market or a bear market. If interest rates increase significantly, it wouldn't be the former but the latter. In the event of a bear market, we will reduce our allocation to 40-50% stocks. However, we are not going to panic and sell great stocks such as PayPal, CSX and NSC as they have great future growth potentials. We will stay on the train to get you to your individual goals!

Strategy

- Bear market signal? We will reduce stocks by 10%.
- Market drops by 20-25% cumulatively, we will increase stock position.
- Stocks we currently like? Chinese stocks such as Baidu and Xiaomi, but not just yet.
- Buy more bonds.
- Buy more gold if the price drops to around $1,200.

On behalf of all of us at SFP, we wish you a Happy Thanksgiving!