



February 2020

Dear Clients and Friends:

Buongiorno. Amanda and I were fortunate enough to take our first vacation across the pond recently when we spent 2 weeks in Italy during the first 2 weeks of October culminating with Amanda's 40th birthday. I could write on and on and talk at length about how amazing the trip was. We started in Venice, then to Florence, then the hills of Tuscany, on to Rome and we finished in Positano on the Amalfi Coast. For those of you who have been, you understand the magic of Italy. My amazing Aunt Brenda told me something before our trip that was 100% right. She said, "Italy changes you", you will come back a different person. I now know what she meant. I came back as Italian Pat. Italian Pat enjoys an espresso or 2 each day and an Aperol Spritz in the afternoons. He wears bracelets and white pants. His pace is slower and less stressed. He truly lives in each moment. Honestly, Italian Pat only lasted a month or so after we got back, but parts of him remain. So, consider this my love letter to Italy, with some investing commentary mixed in for good measure.



Italian Pat

If I had to focus on one thing from Italy that stuck with me the most, it would be the people's appreciation for their traditions and how to live life. Everything has meaning to them. That deep-



rooted Italian culture is nowhere near as evident as it is with the culture of Italian coffee. To say Italians coffee rituals are different than ours is quite the understatement. There are just over 30,000 Starbucks on the planet, but there is currently only 1 in Italy-in the entire country. Apparently it opened a year or so ago in Milan and is a fancy Starbucks Reserve Roastery. In Italy, coffee or "caffè" (espresso) is not something you get in a to-go cup and drink at your desk, or in the car, or walking down the street. Coffee is meant to be enjoyed and savored and as a brief break or "intermezzo" to the hustle and bustle of the day. In fact, you drink your espresso in a real espresso cup while you stand at the bar or counter, maybe with a little something sweet to eat. The whole process has you in and out in a couple of minutes. Check out [this short BBC video](#) on the Italian coffee culture. Truly, even at train stations there will be a line of people waiting to get an espresso and you wait in line until the



person or people in front of you drink their coffee at the bar, then pay then leave. Nobody is angry about this, it's crazy and amazing at the same time. Coffee shops are everywhere in Italy, but they serve a variety of roles. They may have a name, but the names are never important since they mostly just have a sign that says "Snack Bar". People may visit their bar multiple times a day. A few times for "un caffe" for roughly \$1, and maybe later for a panino or aperitif. Yep, coffee and alcohol and sandwiches all in one non-descript hole in the wall. There is basically no difference in any of them. In the afternoons (and that is a broad term), it becomes Aperitivo time. You stop back in the snack bar and order a Spritz. A Spritz is typically an Aperol Spritz, a very basic drink which quite possibly might change your life. I implore you to have one this afternoon if you have not before, and here is a [funny video link to the recipe](#). In Italy they will probably give you something salty or savory with your spritz (free of charge) like some potato chips or fresh olives. Why you ask? You might not be in the mood for potato chips right then, but they wouldn't dream of serving you an aperitivo without something salty to bring out the flavor of the drink. Again, it is just a break in your afternoon, intentionally put there to slow your pace and take a breath during the day. Technically aperitivo time is to prepare your stomach for dinner which may come a couple of hours later. Aperol and similar liquors are digestifs of course. Literally everything we encountered in Italy has meaning and purpose.

What do we all need to take from this Italian culture? I take it as a great lesson in slowing down and appreciating the moment. We are all moving at ninety to nothing chasing our next deadline or event and we could all use an Intermezzo. Tune out the noise, maybe don't have the news on in the background all day, be willing to say no to things you don't want to do and yes to those you do.



Amanda & I w/ Catia at Scarpelli Mosaic

Among the many highlights of the trip, a standout was a visit to a very specialized and unique shop in Florence. Scarpelli Mosaic practices the art of Comnesso Fiorentino a type of mosaic also called "paintings in stone". Originally popularized by the legendary Medici family during the 16th Century, it is now only done by a very small handful of artisans (like less than 10 worldwide). Unlike any other mosaic style, comnesso fiorentino is essentially finding rocks and stones in nature, then cutting them with a bow saw into pieces that then are assembled into "painting like" works of art. Each one is totally custom and unique. Renzo Scarpelli has spent nearly 50 years in his craft and now his son works with him as well. We were lucky enough to be shown around by Renzo's daughter Catia and were totally amazed at the intricacy and beauty of the process. [Here is a video of her describing their art](#). We ended up purchasing one of the smaller pieces they had available (all we could afford) since even a small one



like ours probably took a few weeks to make. Here is a photo of one of the most impressive pieces. It depicts the famous Ponte Vecchio bridge in Florence. Look at the detail, this is not a painting. The entire thing is made of hand cut pieces of stone with each color or shape you see being an individual piece. As I am typing this I am realizing that words do not do it justice. It goes without saying that this is a dying art. Catia told us that while they have interest in bringing in an apprentice, nobody is willing to commit the time needed to properly learn the trade. It would take years. She is hoping her son, who is a young teen, will have the desire and the natural gift to continue on the family tradition. If not, the world may no longer have anyone create this incredible art anymore. The Scarpelli family have such an amazing passion for their art and they clearly love to share it with interested visitors.



No Paint, Only Rocks and Stone

Ok, where is Italian Pat going with this? Well, as you know if you have read my letters over the years, I love creating an analogy or finding a commonality between something in my personal experience with a topic of investing. There are many dying arts and among those is the art of active management as an investing strategy. Simply put, active management is the process of a portfolio manager or team of managers using in depth analytical research, industry and economic analysis and their own experience to determine what securities to buy or sell in a portfolio. The opposite would be index investing. Index investing is cheap, easy and run by a computer. Also, index or passive investing has been dominant over active management for the past decade. It is true that the vast majority of active managers will not outperform their index, but there are absolutely periods where active management is more in favor than passive. I believe that people and experience and a process add value. The active managers I use have decades of experience and education and spend countless hours working to select appropriate investments for their portfolios. I think of David Marcus at Evermore who travels the world in search of misunderstood smaller international companies with a catalyst for growth, or of Finny Kuruvilla at Eventide





who uses his Harvard Medical degree and Chemistry PhD to identify healthcare and biotechnology companies he feels are attractive long term for his fund. Or even the huge bond team at PIMCO who consistently add strong performance in what is typically considered the boring bond market. All of these managers believe that their process will provide investors with success. This is a learned skill, with intelligent apprentices being taught a process that was passed on to them years before.

But active management is without question much less in vogue now than it has ever been. Smart college kids aren't looking to get into investment management like they once were. They now look to work in industries that didn't exist 20 years ago. Who is going to be the next Benjamin Graham, Warren Buffett, Peter Lynch or John Templeton? Sitting at a desk as an analyst crunching numbers on company financials is not near as sexy as working at Facebook or Tesla. I argue that the future continues to be bright for those willing to put in the work to uncover investment opportunities.

*In the business world, the rearview mirror is always clearer than the windshield. -
Warren Buffett*

It's not an investment letter without a quote from the Oracle from Omaha, but Warren is right. We know the S&P 500 has gone almost straight up for 10 years and outperformed virtually every global investment out there. Why should we expect it to do the same for the next 10 years? Maybe it will, but I sure like having money managers working with my clients to find those hidden gems, unloved opportunities or even market hedges that could provide benefit in the years to come.

We moved around Italy by train during our trip. The train attendants would come by and offer us a drink and snack like we are all used to on airplanes. If I remember right, they would ask if we wanted a cookie or biscuit. Well, a biscuit is basically a bag of crackers. Let me tell you, those crackers were perfect. They had the most amazing flavor, lots of crunch with just the right amount of salt. Amanda and I were obsessed with them, I mean, what in the world was in those things. I looked; 3 total ingredients--whole wheat flour, white wine and salt. That's it. Simple, limited ingredients and they have probably been made the same way for a long time. Why change it? Lot's of lessons in that bag of crackers to me. They weren't following some new trend or food fad, they were just perfectly done with pride according to a process that was probably passed down over time. I am going to continue to work to uncover those amazing biscuits out there for my clients portfolios. I know they are out there. Oh, and I found the biscuit/crackers online from Amazon. [Check it out and try them.](#)

So, Buongiorno. It is both good morning, good day and good-bye, but more like a "until I see you again".

Full disclosure: Several cups of espresso and quite a few Aperol Spritz were harmed in the writing of this letter.

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