



August 2018

Dear Clients and Friends:



Parking lot at Augusta National

I have written before ([August 2015](#)) about my brother in law, Patton Kizzire, who plays professional golf. Back when I wrote about him last, he had just secured his card to be on the PGA tour. Fast forward to now and he is just finishing his 3rd year on the tour and had a real breakout year this year by winning 2 PGA tour events. Pretty cool stuff and it has been fun for our family to watch this success. His wins earlier this year gave Patton an invite to play for the first time in The Masters in Augusta. We were able to go to The Masters this year to watch, which is a bucket list event for any sports fan or maybe even human being. It

was amazing to be there and watch and soak in all that is August National Golf Course and the Masters. The grounds were immaculate, the scenery was iconic and we were literally standing next to some of the most famous golfers in the world. I ate tons of \$2 pimento cheese sandwiches, bought way too much merchandise and watched some amazing golf from some of the most famous vistas in the world of sports. I wish I could show you all the photos I took, but as you may know, The Masters does not allow cameras or cell phones on property during the tournament. In fact, I honestly only took 1 picture the entire time I was in Augusta (see above). In today's world of Instagram and Facebook, if we can't show a photo of it did it really happen? Honestly, it made the experience even better. We were able to live in the moment. We could soak in the experience with our eyes and not our phones. My emails and status updates could wait until the end of the day.



Tiger Woods before iPhones above, after below

The etiquette at The Masters is unreal. When it is time to be quiet it is truly quiet. No phones buzzing or pictures being snapped. The eyes are on the player and not the player



through the screen on a phone. I am guilty of going to a music concert and trying to take videos of the music so I can remember it later. While I love my videos from some great concerts over the years I wonder how much more I would have enjoyed the show if I was living in the moment. Wouldn't it be great if life was more like The Masters? What if we could ignore or tune out the noise and really be present in the moments of life. I for one would love to have a few days where I didn't hear about some sort of scandal or impending crisis. We have all conditioned ourselves to be constantly consuming information and trying to adjust our behavior and actions because of it. Paleo or Keto diet the new fad-- then we have to stop eating carbs; tropical wave off the coast of Africa, then we better buy plywood for the windows or a new scandal in DC--we better post about it on Facebook.

I want to reiterate my call from 2012 that the stock market recovery is in the 9th inning. Have you ever been to a baseball game? They take forever! –Ben Carlson on Twitter Aug 21, 2018

As for ignoring the noise out there, let me give you a little noise to consider. I have preached about diversification in portfolios ad nauseum. True diversification means you will always own winners and losers and even more importantly you want the funds you own to all be working to achieve their goals using their own unique opinions. At times, some of the money managers you won will be very bullish on certain markets and invest accordingly and others will be bearish and invest along those lines. The blend of those opinions is what achieves a more optimal portfolio.

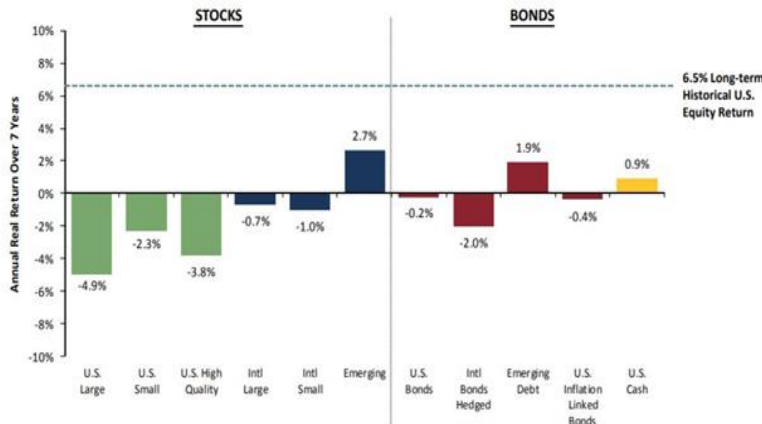
One of the funds that I use is Wells Fargo Absolute Return. This unique fund has the ability to invest in any asset class in the world where they feel the best reward is. They are often quite contrarian. In fact, they currently own no US stocks. They are allocated to Foreign Stocks, Cash and Hedges. The fund is managed by GMO in Boston. They are a highly regarded money manager and the founder, Jeremy Grantham, is known for his forecasts and that he predicted the tech bubble and financial crisis. But it is safe to say that their current allocation is probably much different than the average fund out there. At a time when US Stocks are at all time highs, they have absolutely no exposure in that area. Sure, in hindsight, they might have wished they did, but I would much rather a manager act in line with their convictions on the current market, vs the popular opinion.

I don't want to scare any of you in showing the current views of GMO, but they absolutely don't shy away from showing with hard numbers what they think the future holds.



7-Year Asset Class Real Return Forecasts*

As of July 31, 2018



Source: GMO

*The chart represents local, real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. Inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

GMO puts out a 7-year forecast that they update monthly that is their prediction of how various asset classes will perform over the next 7 years. The most recent one is quite unique. As you can see, based on their detailed analysis they see US large cap stocks having a near -5% return (after inflation) over 7 years. In fact the only area they show with a positive return is Emerging Markets and Cash. Sounds crazy right? Talk about sobering.

Columbus did not seek out a new route to the Indies in response to a majority directive-Milton

Being unique can be an advantage. I am not here to say if GMO is correct in their forecast or to tell you to be cautious. I do not think it is time to run for the hills or start putting all of your money under your mattress. I just love the fact that they are different and are working to invest based on their convictions and that the way they are investing may be a great compliment to how other managers I use are currently invested. If everything in your portfolio looked the same you really wouldn't have a unique portfolio would you? I think Monty Python described it best in The Life of Bryan with this clip linked here "[We Are All Individuals](#)". You are not allowed to go to the next page unless you watch the video I just linked. It's just too funny not to.



GMO may be right with their forecast and if they are we have them and other managers who can work to navigate that market properly. They may be wrong and if so, they can adjust their model based on the new conditions. As we know with the weather, forecasting is not an exact science. Like any good meteorologist the people managing your money take all the available data to them and then interpret that data to produce their views on where best to allocate capital. My job is to choose those managers that have a proven process and success in multiple cycles of the market. I give props to GMO because what they are doing right now by going the opposite of the crowd and being against the grain is a very tough thing to do.



“I have mostly conservative investments in my retirement portfolio, plus a few riskier, short-term performers tossed in as a hedge against extinction.”

CartoonStock.com

It stinks that the one photo from the parking lot before we walked into The Masters would be the only photographic evidence I would have for that experience. Don't get me wrong, I left with plenty of other memories. I could have a shirt that said something like “I was at The Masters in 2018 and all I got were these 7 Polo Shirts, 2 Wine Glasses, 2 t-shirts, 4 Hats, 2 Koozies and 1 Umbrella”. It was an event to remember. Patton will be at more Masters in Augusta and I will get more shirts and hats, but not photos. I will soak it all in as much as I can. I urge you all to do the same. Ignore the headlines and try to ignore the hot new investment your neighbor is telling you about. Focus on the long view. Luckily, we did get one pic from inside the gates at Augusta. Patton's wife was able to take a quick picture of all of us after his last round. Maybe it was a contraband photo, but at least now I have that extra Kodak moment to remember the week.



Group with Patton and Caddie at Masters

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