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THIRD QUARTER 2018

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## Positioning for a Downturn

As the fourth quarter of 2018 begins, we are beginning to position the portfolio for what we predict will be an extremely difficult period for the US markets. We are increasingly adding names we feel will be defensive in an upcoming downturn in the market.

The combination of increasing government debt and increasing friction with China - holders of \$1.7 trillion in US debt as of July - leaves the US exposed to severe economic consequences. We fear that rapidly rising US debt is a threat to the US markets, the US dollar and ultimately US treasuries.

We feel the growth stock driven rally of the past 3 years is reaching the end. A shift towards a more value oriented market will favor our style of stock selection.

## Portfolio Analysis

The Triboro All Cap Portfolio had a poor third quarter. Large cap stocks continued to outperform small cap stocks and growth continued to significantly outperform value. The strategy was -1.08% (gross of fees) -1.450% (net of fees) vs. +7.71% for the S&P 500 Index.

## Positive & Negative Contributors to Performance

Our best performing sectors in Q3 were Health Care and Industrials. In both sectors performance was led by large cap value names that were recovering from poor performance in previous quarters. Caterpillar, Celgene and Cummins were all in this category.

Premier Inc (PINC) helps healthcare companies lower their costs through purchasing services and analytical software. The stock increased 25% during the quarter as earnings and revenues exceeded analyst expectations. We will be reducing the position in Q4 as the stock is up 40% since we purchased it in February and it is becoming overvalued.

CVS Health Corp (CVS) operates 9000 pharmacies and is also the second largest pharmacy benefit management company in the US. In May the company announced the purchase of health insurer Aetna. The stock was up 23% in Q3 and is now one of the top 3 holdings in the All Cap portfolio.

The worst performing stocks in Q3 were Applied Optoelectronics (AAOI -45%) and Extreme Networks (EXTR - 31%). Both companies reported earnings and revenues that beat estimates but guided down earnings for Q4. Both stocks were sold in the first week of October.

We will continue to purge underperforming value stocks from the portfolio.

## Executive Summary

- Diversification will be key for the remainder of the year. We will continue to examine factors that affect the portfolio across industry sectors to reduce risk.
- We continue to search for any new tools and strategies that can improve how we execute the investment process.

We appreciate your business and our team is always available to assist with questions or to explore a deeper conversation.

Regards,

Philip Mendelsohn, CFA  
Portfolio Manager

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