



Global Markets

Energy Sector and Commodities

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Agenda

- Investing Philosophy
- Asset Allocation
- Tools
- Energy
- International
- Changes Since 3 Years ago
- References

Investing Philosophy

Makes me a long-term investor

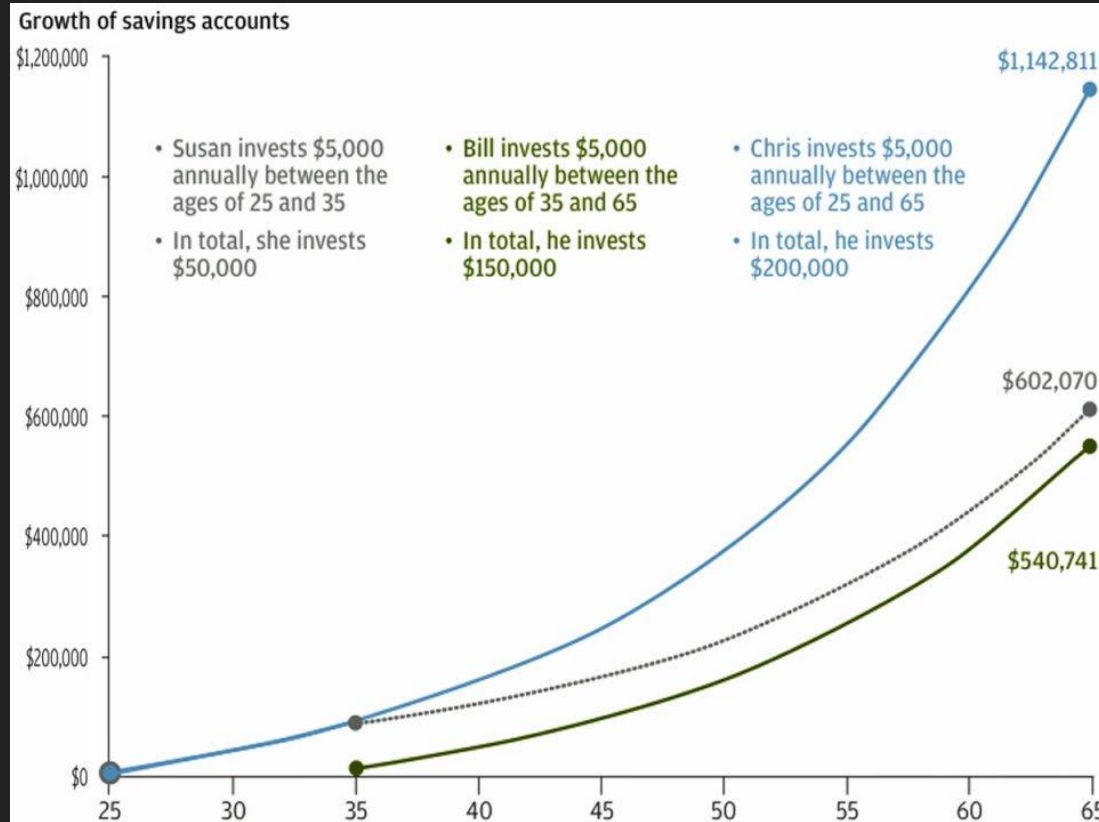
Time Frame	Positive	Negative
Daily	54%	46%
Quarterly	68%	32%
One Year	74%	26%
5 Years	86%	14%
10 Years	94%	6%
20 Years	100%	0%

"a portfolio is like a bar of soap, the more you handle it the smaller it gets."

- Most people should just invest in an S&P 500 ETF (or slight variation) and be done with it. The important thing is to put savings on “autopilot” and let the invisible power of compounding grow your wealth (see chart). But, if “seeking alpha”.....
- Stocks: I am buying part of a business. My intention is to buy a stock “forever”. I will sell if management makes repeated bad decisions or business fundamentals change. I am mostly a value investor (GARP), but am open to other perspectives that would help me achieve financial goals (diversification, etc.).
 - OK to pursue individual stocks but you may be irrationally catering to your ego (seeking alpha) or satisfying intellectual curiosity -both or which are OK within reason- but you are up against experts that take advantage of individual investors LIKE YOU.
- The one (maybe only) “edge” I have over the experts is a longer time horizon. I do not have to meet quarterly (monthly) return metrics or deal with Clients scrutinizing my investments / trades

Power of Compounding: Invest early and “let it ride”

Susan vs. Bill



Investing Philosophy (2)

- I spend A LOT of time reading about businesses I own or may like to buy. When timing / pricing is right, I “ease in” incrementally.
 - Start with macro view / interest / opportunity and research companies from there (Energy, China)
 - Enter opportunistically if / when circumstances arise (Apple)
- ETF Investing: I like a fair amount of S&P 500 as “ballast”.
 - I have recently sold a lot of this for family reasons.
 - Past few years, I have felt the US market to be overpriced and have “evolved” into more of a “stock picker”.
 - Would increase position in S&P 500 if valuations fell.
- Commodity and International (ex China stocks) have proven not to be a big part of the portfolio. I feel I cover international exposure with investments in multinational stocks
 - USA the best place to invest (rule of law, market system, geography, demographics, etc. etc.)

Asset Allocation

Spreadsheet “Allocation”

Tools

- Seeking Alpha
- Y-Charts
- Fast Graphs

Energy / Commodity Sector (19%)

- Following since 2015
- USA energy “explosion” is for real
 - Swing producer, arguably largest. USA will soon be a net exporter
 - Nat Gas / NGL / Chemical production will be massive
- Energy \$ downturn has been longer than anyone expected. World demand growth (1+% annually) is as expected.
- American E&P (Permian) have been carelessly prioritizing production volume over profits. There will have to be some sort of shakeout before prices rebound. Even then, technology has opened up a huge supply of new energy. We may be lower for much longer.
- Other commodities (precious metals, LIT) “static” and diminished in portfolio
- EPD, XOM, SU, SLB, ET, RDSB

International (18%)

- China (10%)
 - Great possibilities but hard to “trust” the PRC government or “business ethics”
 - Exposure is to a few individual stocks:
 - TCEHY, BABA, JD, YUMC
- ETF : Europe, Japan, India, S. Korea, Taiwan, China (total <7%)
 - I’ve tried but haven’t felt comfortable with emerging markets. Mexico, Brasil, Argentina, Turkey
 - May look at Vietnam, Thailand (other SE Asia) if China can’t / won’t become more “world friendly” (Hong Kong)

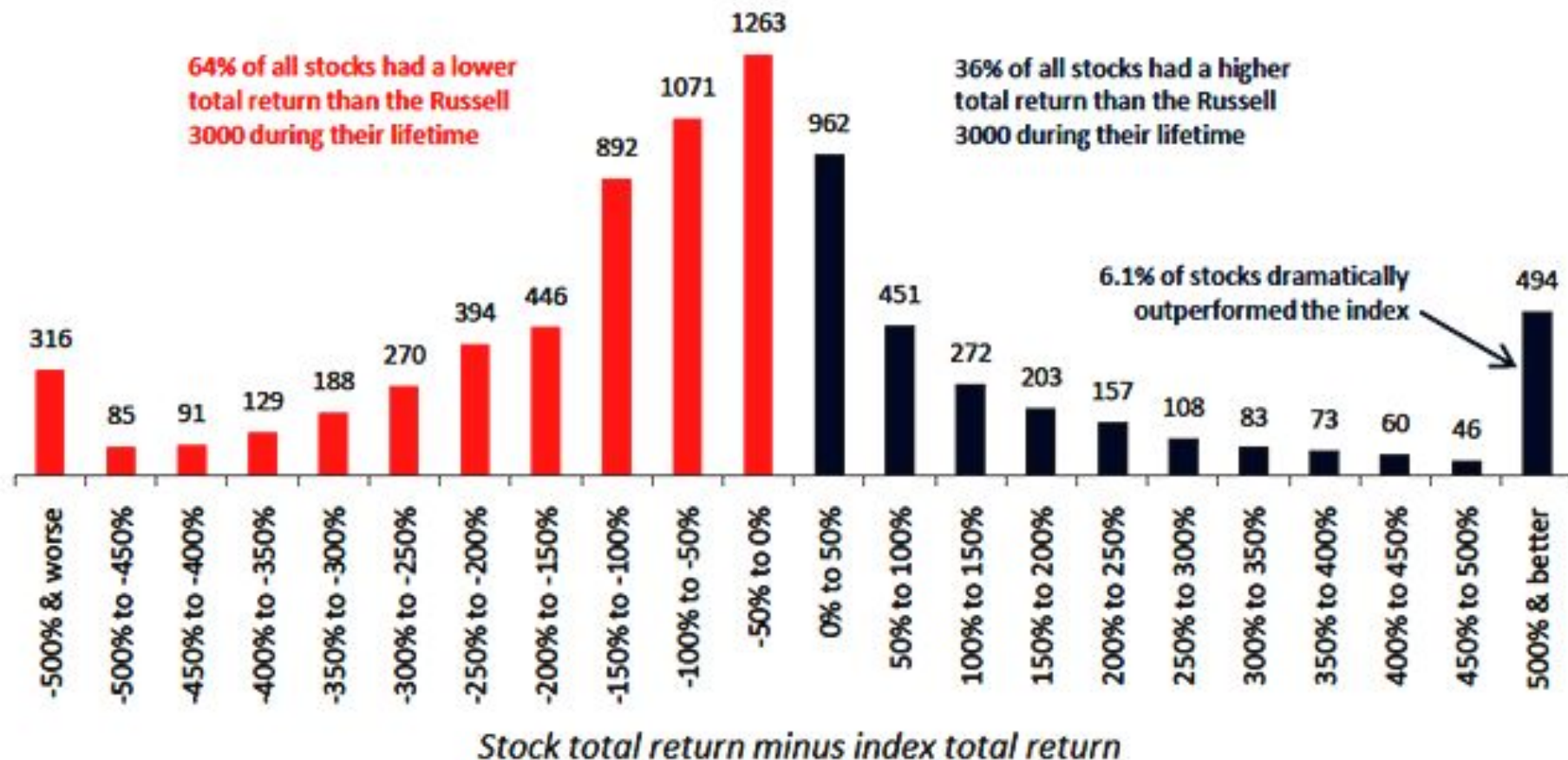
Changes since 3 years ago

- Diversification may preserve wealth but concentration builds wealth. -W. Buffett
 - 25% of stocks provide ALL the net gains over past 100 years (see chart next page)
 - Increased stock ownership at expense of ETF
 - I have reduced # stocks I hold (increased concentration) but I know more about what I hold
- Rebalancing: Asset allocation from basis, not market value. Let winners ride: A form of buy and never sell.
 - Do not sell “winners” to rebalance with “losers” (convention assumes reversion to mean)
 - Avoid paying taxes (taxable accounts). That money continues to work for you.
 - Portfolio does become unbalanced with “winners” taking a disproportionate share
- Prefer individual stock selection over index funds (some exceptions). Commodity/ International exposure via energy / foreign stocks rather than ETF (38% -> 20%)
- Cash 13% -> 18%

Total returns of individual stocks VS. Russell 3000 index

64% of all stocks had a lower total return than the Russell 3000 during their lifetime

36% of all stocks had a higher total return than the Russell 3000 during their lifetime



References

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THANK YOU

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