Starboard Advisors

The Navigator, Vol. 5

January 2019

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CHECKING IN

"Life can only be understood backwards; but it has to be lived forwards." -Soren Kierkegaard

For many investors, the final quarter of 2018 brought back selected flashbacks of 1998, 2001, and 2008; respectively representing the Russian Debt Crisis, the Dot Com Bubble and of course the Great Recession. For the majority of the families at Starboard, we have lived through at least one, if not more, of these "downdrafts". As my fellow Investment Committee member, Tom Burnett, will detail further on in our newsletter, it has been an ugly few months in the stock market. In October we released a client commentary specific to the recent volatility and the planning we try to do with families *in preparation* of leaner or negative markets. The following three planning questions merit revisiting as we look to 2019 and beyond:

1) Does your family have the required contingency (i.e. the amount of money in safe harbor you need to tie you over extended periods of time)?

2) Do you have the ability to withstand sustained volatility?

3) Are you a long-term (5 to 10 years) optimist with respect to the stock market?

I have often said that investing is a science, but *financial planning* is an art that needs to be carefully and frequently assessed in a collaborative manner with the families we serve. People, goals, families and circumstances frequently change and/or evolve. Ultimately, at Starboard, we see financial resources providing flexibility in honoring a families' *current intent* and their future wishes. In its most basic form, money is a cornerstone to life planning and subsequent goals. Of course, it's not the only one; which is where the "art" part of our job comes into play.

The beginning of 2019 is as good as any time, as I can remember, to review your tolerance for uncertainty and determining your endurance as an investor.

Where are we with stock valuations?

The generally accepted measurement of "value" for the stock market is the P/E ratio or the price per share of stock divided by the net earnings per share of a stock. The historical average of this ratio, as of this newsletter, is 16.1X (see chart below). Currently, we are trading at 14.4X, slightly lower than the average historical P/E ratio. Also of note, interest rates remain historically low which generally buoys P/E ratios. In short, the market after steep declines this fall is no longer "frothy".

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	14.4x	16.1x	-0.5
CAPE	Shiller's P/E	29.0	26.8	0.3
Div. Yield	Dividend yield	2.3%	2.0%	-0.8
P/B	Price to book	2.7	2.9	-0.3
P/CF	Price to cash flow	10.6	10.7	0.0
EY Spread	EY minus Baa yield	1.8%	-0.1%	-1.0

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1993, and FactSet for December 31, 2018. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.
*P/CF is a 20-year average due to cash flow data availability.
Guide to the Markets – U.S. Data are as of December 31, 2018.

J.P.Morgan Asset Management

Although a more attractive valuation does not shelter investors from further declines, it does provide the perspective that we're not currently overpaying for owning stocks over the long haul. And, in some specific areas, we think equities are over sold, presenting investors a buying opportunity or entry point. As a wise mentor of mine once said, "No one rings a bell at the market bottom." Regardless, our goal is to position families in such a manner that there's no reason to ever make an *all-in* course change. Rather, we try and see families through the more challenging market time periods with secure cashflow, quality holdings, a designated amount of safe harbor/protected principal, and plenty of liquidity. So, while these steps may prevent wholesale homeruns, they are also most often successful in matching a family's risk tolerance with their actual investments over time.

What we're keeping an "eye on" in the markets

As is the case every January, an ocean of market data becomes available and elaborate forecasting is offered to investors. At Starboard, we are most focused on monitoring and managing around three areas of interest:

1) **Global growth:** After a record year of corporate earnings (especially in the U.S. with +17% year over year growth for the S&P 500) concern is taking hold that the global economy is slowing down. *We're certainly in for a profit slow down but I would be surprised to see corporate earnings go from high double digits in 2018 to negative in 2019.*

2) **Interest rates:** Will they continue to rise or slowly plateau in the immediate future? *The latter is preferred in our view.*

3) **Trade war**s: Can our politicians and especially this administration get a deal in place to take the uncertainty of global trade away from investor's minds? *Any progress on this front would be welcomed by investors.*

A positive outcome in any of the above will most likely present the stock market with favorable returns in 2019. In many respects, the 2018 market correction was a catch-up year for stocks that were overpriced, relative to their earnings, while simultaneously the world became a lot more uncertain. As of this writing, the world clearly has not become more certain; however, corporate earnings were delivered in spades in 2018 which brings us to the above-mentioned valuation analysis. If the outcome of the above three concerns remains unresolved or increasingly negative, we believe continued market volatility will carry the day.

I have spent a career in guiding clients through the rigors of all-weather investing. Market forecasting is, at best, an imperfect science. Nevertheless, we are constantly working as a team to help guide the assets we oversee. At Starboard, we spend very little time trying to predict the exact future of the markets, but rather focus on preparing for multiple outcomes. The current environment strikes me as a remarkable one, in that last year we saw corporate earnings advance nearly 20% and the stock market decline by almost -5%. All this has transpired while leaving stock valuations at a newly discounted value and interest rates remaining close to all-time lows. My general advice to those asking is, "trust your instruments" and be wary of your emotions.

What's Next

"In flying, the probability of survival is inversely proportional to the angle of arrival." -Neil Armstrong

With a tip of the cap to Mr. Armstrong, the "arrival" for many of our families' portfolios in 2018 landed in negative territory; however, the "angle" was mitigated through cash holdings, bonds, and other protected funds that are dedicated for the required cashflow families need to go about their business and life in general. The beginning of every year is a time we review, replenish, and reallocate funds for upcoming cash needs; as well as adjust the risk allocation for clients. We'll be working with many families in the coming months on this matter, along with general planning and investment concerns.

Consolidated year end Portfolio Summaries will be sent out later this month and I anticipate seeing or speaking to many families in the first quarter of 2019. From our Advisory Board, Investment Committee, and frontline crew at Starboard, we wish you and your family a Happy New Year.

My very best regards,

Barton Weisenfluh
Founder & President

ON TO THE MARKETS

We are pleased to be partnering with the Kelleher Family and their holding company **[Wall Street Access](#)**. *Together and in collaboration with our* **[Investment Committee](#)** *we will be providing quarterly (and as needed) commentary on the capital markets. Tom Burnett, CFA & Vice Chairman of Wall Street Access, will be helping lead the charge for this portion of our client communications.*

INDEX	% Change for 2018
Dow Jones Industrial AVG. (TR)	-3.63%
S/P 500 Index (TR)	-4.24%
Nasdaq Composite	-3.88%
Nikkei Tokyo	-12.10%
China (Shanghai)	-24.60%
DAX Germany	-18.30%
CAC 40 France	-11.00%
FTSE UK	-16.10%
Gold $ per oz.	-4.50%
Crude Oil	-20.90%
RATE on Ten-Year T Bond	2.70%
VIX Volatility Index Change	153.10%

Sources: WSJ, Bloomberg LP

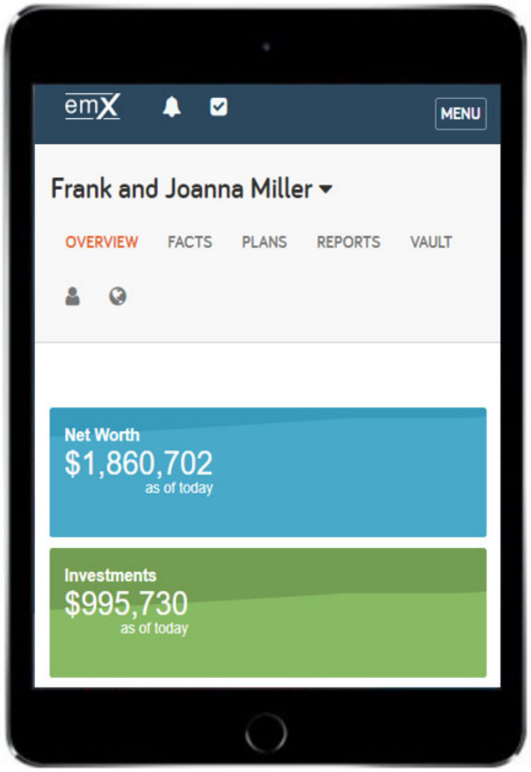
As the Index Table reflects, investors had to endure a difficult year in 2018. Most of the damage took place in the fourth quarter. For example, the Dow Jones, S/P 500 and Nasdaq Indexes all showed positive performance through the first nine months of the year. As measured from their highest level, the Dow ended the year down 14%, the S/P 500 down 15%, and the Nasdaq down 18%. As the year progressed, investors began to fear that global economic growth would slow down enough to threaten a recession which would punish corporate profits. Investors also were keenly aware of the Federal Reserve's stated intention to raise short-term interest rates. In addition, the positive impact of the corporate tax cuts is likely to have diminished in 2019 after a making a meaningful contribution to profits in 2018.

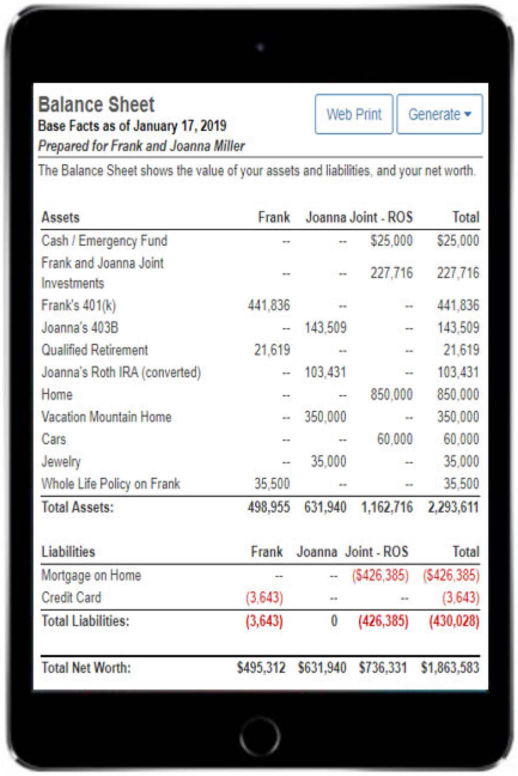
Two market developments stand out as omens for a possible global slowdown in 2019. The first is the collapse of crude oil prices which ended the year down some 40% from their autumn highs. The second event is the sharp drop in interest rates which suggests a weak demand for financing in the residential housing and corporate capital spending markets. For example, the rate on the US Ten Year Bond declined from 3.23% in November to 2.70% at the end of the year. Hopefully, the Federal Reserve officials will monitor these trends and take a more measured approach to raising rates this year. Corporate profit estimates are coming down for the 2019 year and investors need to take a long-term view as volatile market swings are expected to continue. If corporate profit estimates hold up, the market is not 'cheap' or 'overpriced' in the current interest rate environment, but the best strategy remains owning quality stocks for the longer term.

FINANCIAL PLANNING AND DATA AGGREGATION SOFTWARE

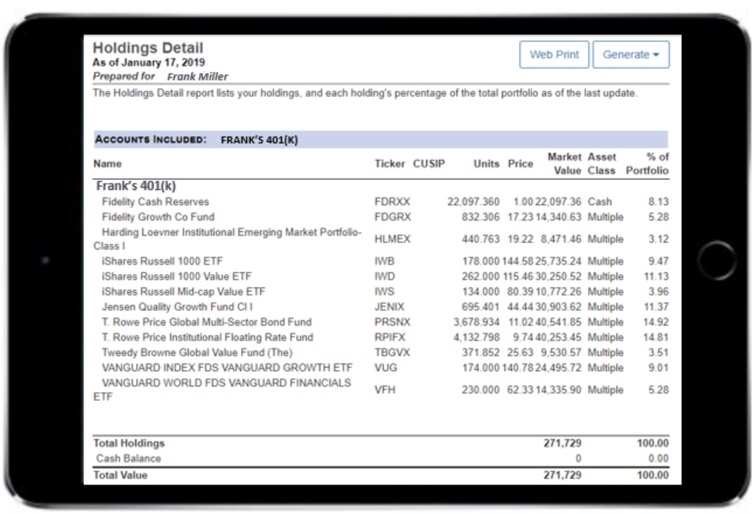
We're excited to share that we've partnered with Fidelity's technology group to roll out our own financial planning and data aggregation software.

This software gives clients and families safe, secure, mobile and desktop friendly access to up-to-date net worth values, real estate holdings, investment account values and more.





Clients and families will also have quick and easy access to updated Balance Sheets, Net Worth Reports, and other key reports.



With the secure data aggregation, clients can have near-time information updates for their accounts not managed by Starboard.

We are currently beta testing the software with a handful of clients, but our goal is to roll it out to all the families we serve, later in 2019.

EVENTS

Portland Business Brews: November 29, 2018

Starboard hosted another successful professional networking event this past November, with over 100 attendees. Portland Business Brews was held on November 29th at **Bunker Brewing Company,** with our co-hosts, **Albin, Randall & Bennett** and **KMA Human Resources Consulting**

Our guests enjoyed bites, brews, and pre-holiday shopping at a pop-up sale from **Alaina Marie.** We look forward to our semi-annual Portland Business Brews events in 2019.

Coming up in 2019!

We are in the midst of planning a client event for this spring. Similar to the one Starboard hosted in 2018, we are forming a **manager round table and fireside chat**. We'll be in touch when more details have been finalized.

STARBOARD'S DAILY REPORT

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October 01, 2018

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Each morning Starboard releases a Daily Report with the latest headlines in Markets & Businesses and Global News. If you'd like to have our Daily Report delivered to your inbox each morning, you can **sign up here.**

ABOUT US

> ***Definition of Star•board:*** *Starboard is the traditional nautical term for the "right" side of a ship's hull and represented by the color green for navigational purposes. In addition, sailing vessels must give the "right of way" to sailboats on starboard tack (where the wind is coming over the right side of the vessel) and be provided clearance for safe passage.*

Starboard Advisors was founded by Barton Weisenfluh in partnership with the Kelleher Family Office and their holding company Wall Street Access. The firm provides a dedicated platform exclusively serving families as a single point of accountability for the stewardship of their financial lives.

The Kelleher Family and **Wall Street Access**, founded by Denis Kelleher, has grown into a diversified financial service firm with a reputation as one of the best managed and best capitalized independent firms in the industry. Today the entrepreneurial spirit is alive and well where the second generation, led by Sean Kelleher, continues to press on with secure and sustained growth with likeminded professionals.