ANTARES
INVESTMENT MANAGEMENT

QUARTERLY REPORT

*For investors who care as much about the return **of** their principal as the return **on** their principal*

Nobody Knows Nuttin'

The debate rages between market bulls and bears. Both camps have good arguments.

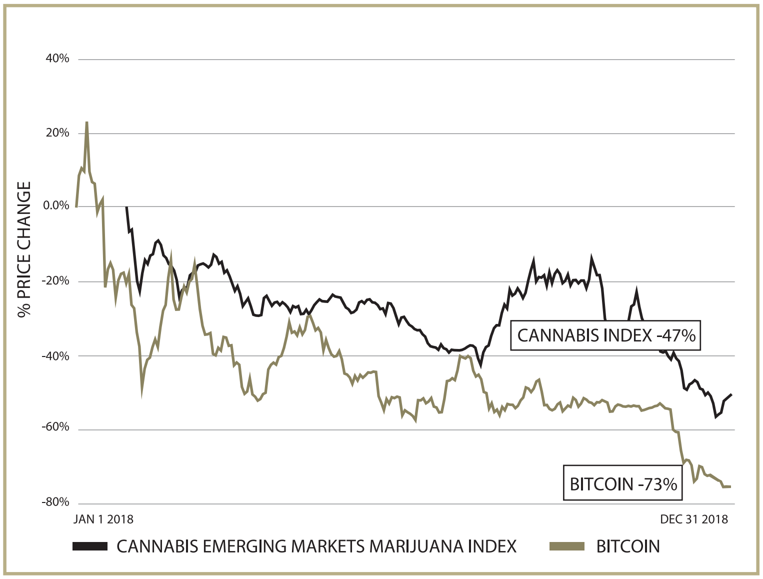
The year 2019 begins with a raging debate between two camps, both with good arguments but opposite conclusions. After a 14% pullback in the S&P 500 during the final quarter of 2018, the bulls argue that the path of least resistance remains upward. The U.S. economy is in growth mode, with historically low unemployment. Rising interest rates, the argument goes, create incremental uncertainty but are a reflection of a robust economy, which they believe should support continued growth in corporate profits and good returns from equities. On the other side, the bears point out that the stock market is one of the better leading indicators of the economy, and that the harder hit sectors were those that are economically sensitive: tech hardware, energy and retailing declined significantly; transports and banks slid as well. If "the inside of the market is the best economist" (Stanley Druckenmiller interview, *Bloomberg*), it is telling us that corporate profits are poised to slow down and a recession looms.

Financial media are experts at triggering emotional responses, which tend to lead to high trading activity, not long-term wealth.

It is no wonder that many investors find the uncertainty unsettling. As usual, the financial media, especially television media, are doing their best to attract eyeballs by appealing to viewers' emotions. It is helpful to keep in mind that their advertisers include brokerage firms that make money when clients trade. They aren't paid if portfolios are up or down, they are paid when there is *trading activity* that generates commissions. High emotions are good for their business, which is why we recommend that investors throw Nerf bricks at the screen when investment pundits are on-air.

Two speculative "no-brainers" from last year, Bitcoin and cannabis equities, experienced sharp declines.

Figure 1 - Bitcoin and Cannabis in 2018



Source: Bloomberg, Antares Calculations

One year ago, the media were abuzz about Bitcoin and cannabis stocks. We were reminded of historic investment bubbles in which investors became speculators and underestimated risk, to their detriment. In 2018 (Figure 1), Bitcoin tumbled from U.S. $13,850 to $3,709, while units of a new index for emerging cannabis stocks fell from 894 to 470. Ouch. Our point is that there are no "no-brainers" out there. As a general observation, a rising chorus of voices all saying the same thing is a sign that one should seek out opposing viewpoints, if only to have a balanced position from which to make a decision. When excited media pundits extolled the virtues of Bitcoin and cannabis stocks, it was a good time to take a deep breath of fresh (not smoky) air.

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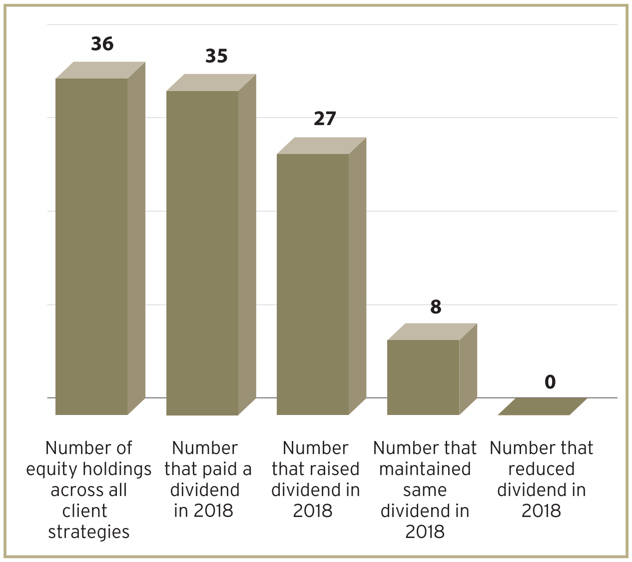
> The near-term future is inherently unpredictable; no "expert" has a special ability to "get it right."

All of that said, clients may wonder where we, at Antares, stand on the current investment debate. Do we think the pullback in equities is a temporary setback, and that the likely course going forward is onward and upward? Or do we think the pullback is an indication that a recession looms, with more bad times ahead for equity markets? The honest and humbling answer is that *what we think* is unimportant. The fact is that nobody knows what lies ahead. Those who speak with great confidence about what is going to happen (strategists with PhDs, TV commentators) ought to be the wealthiest people on earth: they are not. So we won't rely on them, or anyone, to guide our actions. Conversely, many of the wealthiest people (Buffett) embrace the fact they do not know what is going to happen, and they get on with business, i.e. managing their capital in an always-uncertain environment.

> Investing is about deploying capital for the long term in an always-uncertain environment; it is not about making short-term calls on the market.

In the absence of a reliable short-term prediction tool, we try to keep things simple, focusing on individual companies. Our research follows a process that we employ whenever we make investment decisions. We focus on facts and data. We work hard to keep our emotions, such as greed, fear, and pride, in check. We are in the business of managing your capital amidst uncertainty – and we invest our own personal capital right alongside you. To mitigate against the risk of unpredictable outcomes, we diversify among multiple companies and we aim to own quality businesses, as shown by their dividend record (Figure 2). When we analyze a company, we contemplate different scenarios – positive and negative – so that we are thoughtful about how much to own and the conditions under which we will add to, or reduce, your holdings. Finally, when certainty is required or desired, we hold bonds or cash on your behalf.

Figure 2 - Dividend Activity Indicative of Quality in Antares Portfolios



Source: Bloomberg, Antares Calculations

> In an uncertain environment, it is best to ignore the noise, minimize emotional responses, and focus on process.

As we enter 2019 in the face of fear in the air, we remain focused on the task at hand (in fact, it is an ongoing task): staying rational. When people make emotional decisions about their investments, it is frequently the case that fear or greed is doing the driving, and furthermore that the driver is looking in the rear-view mirror. Investing is a long-distance trip in heavy traffic: the odds of reaching one's destination safely are increased when all of the little decisions – accelerating, slowing down, changing lanes – made along the way are executed with care.

Thank you for your continued trust,

Your Portfolio Management Team

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