Dear xxxx;

Wall Street advisors have for years told investors to “sell in May and go away.” From 1950-2013 the Dow Jones Industrial Average (DJIA) has had an average return of 0.3% from May to October as compared to 7.5% from November to April. As with many quarterly stock market anomalies since November 2016, the most recent quarter once again proves that old adages can be wrong. Amazingly, the DJIA was up 9.3% and the S&P 500 was up 7.2% during the third quarter. Unfortunately, most of these gains were found in a few large cap companies. The rest of the investible universe: small & mid cap US equities (+3.9%), international equities (0.0%), commodities (+1.3%%), and the bond market (0.0%) had relatively muted gains. In this letter we will provide a brief synopsis of the major geopolitical and financial events that shaped the performance of the market in the third quarter:

The Largest US Companies Drive The S&P 500 Higher

While pundits have historically used the DJIA as a proxy for the US stock market, today most investors typically prefer the S&P 500. This preference is in part due to the inclusion of additional names (500 versus 30) and the dispersion in the weight of the components of the index. Currently, the four largest components of the DJIA comprise 27.67% of the index while the four largest components of the S&P 500 comprise 12.7% of the index. The total weight of the top four names is up 50% since 2013. This is disparaging for many market watchers. The gains generated by the top four companies in the third quarter equated to 25% of the total gains enjoyed by the S&P 500. YTD, these four companies are responsible for 60% of the gains enjoyed by the S&P 500.

Company	**Weight In S&P 500**	**3rd Quarter Performance**	**YTD Performance**
Apple	4.12%	20.3%	31.0%
Microsoft	3.56%	14.7%	33.4%
Amazon	3.30%	17.3%	69.1%
Berkshire Hathaway	1.72%	15.6%	10.2%

We were surprised that this summer’s 20% decline in Facebook, the 5th largest company in the S&P 500, didn’t cause contagion among the other members of FAANG. As we look toward the fourth quarter and into 2019, we remain cognizant that a sharp drop in one of the top four companies could trigger a broad decline in the S&P 500.

Weed Stocks: The New Bitcoin Bubble

In late 2017 and early 2018 it seemed that everything related to cryptocurrencies was on fire. Crypto-mania spread across the world and everyone from traders to grandmas started to believe it was surely the Return of the Messiah. Publicly traded companies added coin lingo to their names and instantly their stock prices soared to the moon. The euphoria was short lived as the price of the major coins (bitcoin, ripple, lite coin) dropped by 70%. Most of the peripheral coins and publicly traded companies that adopted coin related names have plummeted by more than 95%.

Fast forward a few months and the ever-soaring US stock market has found itself a new craze, marijuana stocks. Once again it seems like the stock price of any company with weed, cannabis, or marijuana in the title, or any company that makes the news talking about their new marijuana related product, immediately doubles, triples, or more. Take for example, Tilray Inc. After the company's CEO spoke about medical marijuana on CNBC, the stock price jumped 100% in a single day. We understand the need for medical and even recreational marijuana, however, the valuations of these companies do not make sense given the nascency of the laws related to this industry. We foresee a bursting of the current marijuana bubble which will be very similar to the recently witnessed bursting of the cryptocurrency bubble.

Tariffs - Continued from Q2

For a while the tariffs implemented by President Trump in the second quarter looked like they would be successful. In August, the threat of tariffs helped to bring China to the table to renegotiate old trade agreements. Unfortunately, President Trump was unhappy with the negotiating process and decided to increase the pressure in the form of additional tariffs. President Trump has levied $250 billion worth of tariffs on Chinese goods at 10% going up to 25% on January 1, 2019. In addition, on September 17th he said he was prepared to "immediately" place tariffs on the remaining $267 billion of Chinese goods not yet effected.

Similarly, the proposed auto tariffs placed on the European Union helped to bring the EU to the negotiating table in late July. During these talks, the European Union offered to remove their tariffs on US manufactured cars. Unfortunately, this did not appease President Trump and on Tuesday, August 21st, he said, "We're going to put a 25 percent tax on every car that comes into the United States from the European Union."

When the original steel and aluminum tariffs were first introduced, we believe most companies thought it was a short-lived tactic to negotiate outdated trade agreements. These companies likely felt they could weather the increased prices and the tariffs would disappear before the tariffs started impacting profits. Now that companies realize the tariffs are not idle threats, and they are not going away, these companies will raise prices across the board. Companies recently in the news discussing price hikes include Target, Walmart, Apple, Harley Davidson, and many more. If these tariffs remain in place they will cause inflation, they will harm the average American, and they will lead to the next economic pullback.

Global Debt on The Rise

In 1999 US citizens owed $90 billion in student load debt. Today that number has soared 1600% to $1.5 trillion. Most of this debt will cripple its holders for the remainder of their lives. More than 50% of the debt comes from for-profit colleges who targeted low income families with promises of better lives and in many cases lies about graduation rates and job prospects after graduation. We believe that high interest student loan debt, wildly expensive tuitions, low wage growth, and limited job opportunities due to older employees not leaving the workforce will come to a head in the next US recession.

On a larger scale, the US national debt and the US national GDP are both approximately $21 trillion. US citizens owe an additional $13 trillion with mortgage loans making up about two-thirds of the personal debt. According to McKinsey, total global debt is $217 trillion, and has increased by 50% since 2007. This is almost three times the global GDP of $80 trillion. This is a terrible sign for not only the US economy but the entire global financial system.

Today, September 30th, 2018, we are standing in the middle of a booming US economy, and still we are adding to our debt. As individuals and as a country, we must begin to pay down our obligations. If the US wishes to remain a world superpower, we must lead by example. If we continue our current trajectory the eventual outcome may destroy prosperity as we know it.

Conclusion

We remain apprehensive of President Trump's use of tariffs and we continue to be worried about the rising personal and national debt levels. We believe political turmoil stemming from the midterm elections will lead to sizable swings within the equity markets. We maintain a watchful eye on macroeconomic news and indicators to ensure that your portfolio is always in the best position possible regardless of the direction of the market. Given the dramatic outperformance of US large cap and the diversification present in your portfolio, your quarterly returns may look lower than one would expect. Consistent with our mean reversion algorithm we believe next quarter's returns will be significantly stronger when compared against the benchmark indices.

Performance Calculations

As you are aware, GA Pincus Funds has spent the last two years developing custom software to automate out business. Your performance is now calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures on your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

I am always available to answer any questions you may have.

Best wishes for a happy and healthy 4th quarter of 2018,

Gabriel

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