Dear xxxx;

The second quarter of 2018 continued the overall choppiness that was present in the first quarter of the year. While commodities and bonds ended the quarter relatively flat, small caps jumped almost 9% and emerging markets dropped more than 9%. This dispersion of returns coupled with intraday market volatility helped to boost the performance of your portfolio. The following is a brief synopsis of the major geopolitical and financial events that shaped the performance of the market in the second quarter:

Q1 Earnings Reports

After the massive Tax Cuts and Jobs Act passed in late 2017 it had been expected that companies would report stellar first quarter earnings; however, the actual reports were in many cases even better than had been anticipated. The earnings for blue chip companies like Caterpillar and Boeing as well as technology companies like Amazon and Microsoft blew analysts' estimates out of the water. While not all companies were confident their first quarter good fortunes will persist through the remainder of 2018, these initial reports were enough to keep the market bulls bullish.

North Korea

After years of publicly calling for the annihilation of the United States and its allies, North Korea opened a dialogue with South Korea which led to a meeting between Donald Trump and Kim Jung Un in Singapore on June 12th. Late June reports from the Korean Peninsula showed North Korea continuing to improve their nuclear capabilities, which calls into question what if anything was accomplished by the meeting. Neither the back-and-forth before the event nor the event itself had much of an effect on the US stock market; however, somewhat surprisingly the South Korean market dropped about 7% during and right after the event.

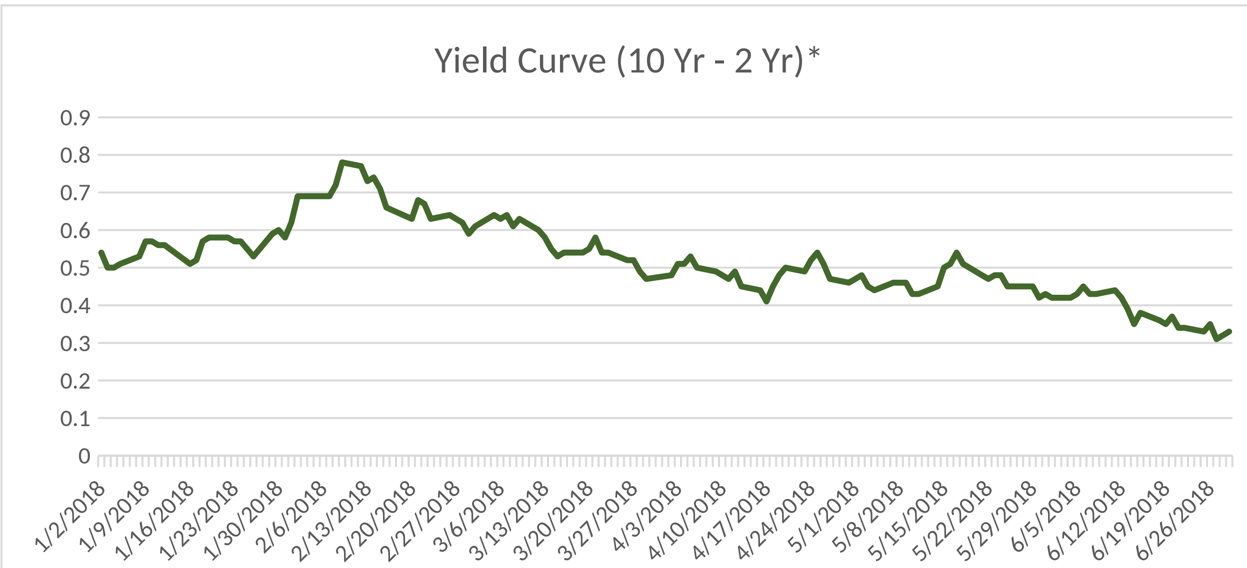
Tariffs

This quarter helped bring to light the ongoing debate as to whether global trade is fair for all parties. President Trump has been complaining that the US imports more than it exports, and while he is 100% accurate, this deficit isn't the problem. The problem lies in the regulations that other countries place on American businesses: the Chinese require local partners, and in many cases those partners require access to the US company's IP and technology, the EU taxes American cars, Canada has a huge dairy tax (which is almost always waved), etc. Trump's solution to fix the trade deficit problem he perceives, is to announce gigantic tariffs on billions of dollars of imports from other countries. Trump believes these countries will cave to his threats and will remove their predatory trading. Up until now, countries have responded to Trump's threats with tariffs of their own.

The market reaction each time tariffs are brought up has been overwhelmingly negative. The US market is strong with rising corporate earnings, but the remainder of the world is far weaker. If these markets do not concede to Trump's threats they will likely fall. They may fall harder and faster than the US, but because of how interconnected the world is, these tariffs will ultimately push the US into recession as well.

Yield Curve Narrowing

Many market participants rely on patterns to forecast the future of the market. One important subject is the yield curve. It is said that, “Almost all recessions begin 6-24 months after the yield curve inverts.” Yield curves invert because investors become worried that a recession is on the horizon, and the Fed will lower rates soon. In masse, investors sell short term treasuries to buy long-term treasuries. The selling of short term treasuries causes the price to drop and the yield to rise while the buying of long-term treasuries causes the price to rise and the yields to fall. The US Yield Curve (10 Year Treasury Minus 2 Year Treasury) decreased by 31% during the 2nd quarter. While the decrease in the yield curve does not signify a recession, it is none-the-less something we keep our eye on. The below chart shows the year-to-date change in the yield curve:



**Deregulation*Data from www.treasury.gov*

Deregulation

History tends to repeat itself. Many of the financial regulations put in place after the 2008 recession are being adjusted and many members of the republican party believe these regulations should be repealed altogether. In Mid-May, Dodd-Frank was modified to limit the scrutiny placed on small and medium-sized banks. The SEC also proposed rewriting the Volker Rule so that small and medium sized banks can trade for profits (under the Volker Rule they had only been able to trade as a hedging operation). Finally, the hotly debated Department of Labor (DOL) Fiduciary Rule has been officially shelved.

GA Pincus Funds believes that these moves towards deregulation will start off as a positive for the economy but will ultimately help the US begin its next recession. By reducing regulation on small and medium-sized banks and by not requiring these banks to serve as fiduciaries for their retirement clients, it will only be a matter of time before the best interest of these banks no longer aligns with the best interest of the broader US economy.

M&A, IPOs & Tech High Fliers

The balance sheets of US companies have been huge beneficiaries of the Tax Cuts and Jobs Act of 2017. These companies are using their bankrolls to explore additional merger and acquisition targets. The DOJ's approval of the AT&T Time Warner deal helped launch the bidding for Fox by Comcast and Disney. In addition, there is speculation that Disney might seek to purchase Twitter to better compete with the FAANG stocks. Microsoft has been busy with its GitHub acquisition and just a few days ago, Amazon entered the online pharmacy market with their acquisition of PillPack.

We would be remiss not to mention the eerie similarities between the high-flying tech names of today and the bubble of 1999/2000. There were 18 tech IPOs this quarter which raised a combined $4.6 billion. The stock of these IPOs increased by an average of 61% after their debuts. FAANG stocks were up 8-32% for the quarter and are now up 5-95% for the year.

Conclusion

Each of the events that took place in the last three months has affected the world equity and fixed income markets. We maintain a watchful eye on all macroeconomic indicators to ensure that your portfolio is always in the best position possible regardless of the direction of the market. Given the performance of the market as a whole, we are pleased with the performance of your account this quarter.

Performance & Management Fee:

As we continue to work towards an automated quarterly process, we have taken steps to standardize our quarterly letters. Your individual performance and management fee information can now be found within your account statement which is attached to this email.

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 3rd Quarter of 2018,

Gabriel

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