O.F.O. Partners

Free Solo: Ascending & the Art of Preparation
June 30, 2019

Greetings from O.F.O. Partners. I am excited to bring you an update about our firm, and to share observations that have caught our attention this spring.

My partners and I founded O.F.O. to be a place where families, entrepreneurs, and private investors can achieve new heights in both investment results and peace of mind. The firm has been twenty years in the making and a little under a year in formation. Advising successful families is familiar terrain to us, so we are thrilled to launch a new climb with your support.

Part One: The Boulder Problem

Have you seen the movie "Free Solo"? It's a documentary about climber Alex Honnold and his goal to scale Yosemite's "El Capitan" granite face. He's alone and without ropes, 3,200 feet straight up. The camera work above Yosemite is thrilling and worthwhile all by itself.

The adrenaline of the mountaineering story carries an idea that is important to the work we do at O.F.O. Partners. The film proposes that **consequence** and **risk** are very different phenomena. Without ropes or a harness, the consequence of failure while climbing a few thousand feet up is clear enough. To watch Free Solo is to realize that most of us visualize negative consequences, squirm in discomfort, and then re-assess the goal in the first place. What sane person bets their life that they can wiggle up a half mile of slippery rock with their fingertips? No thank you.

Casual observers perceive risks identically; unknown and therefore uncontrollable. But risks are not the same as consequences or outcomes. If risk is the variability in conditions that affect outcomes, then many risks can in fact be shaped.

> "I like to differentiate between risk and consequence. I think that the risk of me falling off is quite low, even though the consequence is quite high. So how can I take something that seems difficult and dangerous and make it feel safe?"
>
> - Alex Honnold

In the movie, Honnold trains like crazy to prepare physically. He creates a custom route to increase his confidence. Alex uses a toothbrush to discover dimples in the rock for improving his grip. The climber's preparation operates directly on risk, driving it down even as consequence lies beyond his influence.

El Capitan, Yosemite National Park

In OFO's financial domain, preparation doesn't require a toothbrush or abdominal crunches, but the work is still very intentional. We obsess over details for the same reason that the climber does. Preparation, when practiced correctly, drives down risk and makes our clients' outcomes more secure.

Preparation drives down risk

How does Alex prepare?

- Stretch
- Eat well
- Stay super fit
- Practice the route
- Enlist climbing experts
- Hang from a finger board
- Maintain a climber's journal
- Live in a van at the foot of the wall
- Climb lots of different types of terrain

How does O.F.O. prepare?

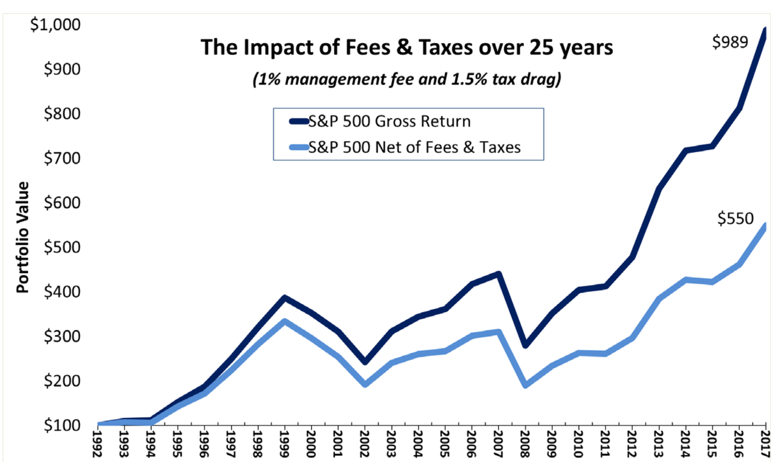
- Diversify
- Watch costs
- Minimize taxes
- Improve reporting
- Enlist related experts
- Anticipate bad markets
- Closely follow cash & liquidity
- Interview lots of other investors
- Include and educate family members

Part Two: "O" is for Outperform

The mission of O.F.O. partners is to serve as a dependable and capable partner for each client's most important asset – their family. This means we provide great independent investment advice while we clean up and simplify everything in the process. The impact of non-investment planning, coordination with other advisors, and professionalized reporting is significant in fulfilling our mission.

However, it feels like a good time to focus on our investment resources here because the U.S. economy has floated into its 41st quarter of continuous expansion (see page 5). You may be looking to evaluate both the risks and the consequences of market changes that lie ahead.

(Figure 1)



When we launched the company, our team took an admittedly nerdy approach to the investment question. First, we looked for what works - not what is popular or recognizable in the financial press. Simple ideas usually pack the most value. Most of the time this means overseeing portfolios that are low cost, diversified, tax aware, and customized around a family's concentrated positions.

Even conscientious investors often stray from these precepts. Complexity, time constraints, sales pitches, opaque statements, and recordkeeping challenges all divert attention. Figure one above illustrates the bite that fees and taxes by themselves can take out of returns.

We are also evaluating clients' managers and securities, stress-testing positions and rebalancing across accounts. In this phase of the economic cycle, applying the right analytical tools and asking basic questions can avoid surprises during rough patches.

Finally, we are passionate about meeting all kinds of professional investors. Nobody has a monopoly on good ideas, and our independence allows us the freedom to seek out talent wherever we find it. We have already sourced more than 25 strategies of many types from our own network and other family offices.

> We designed the Firm to address the single biggest challenge that our clients face, which is that "Significant wealth comes with many moving parts."
>
> -O.F.O. Partners

So what's next? Throughout the year we're excited to introduce you to the team and the tools that we have assembled. In many cases you already know something about our track record and commitment to excellence. I hope that we can be helpful in 2019 and beyond - - either for the first time or to continue our relationship with you, for which we are tremendously thankful.

In the meantime, just ask us for a guest password to https://ofopartners.com

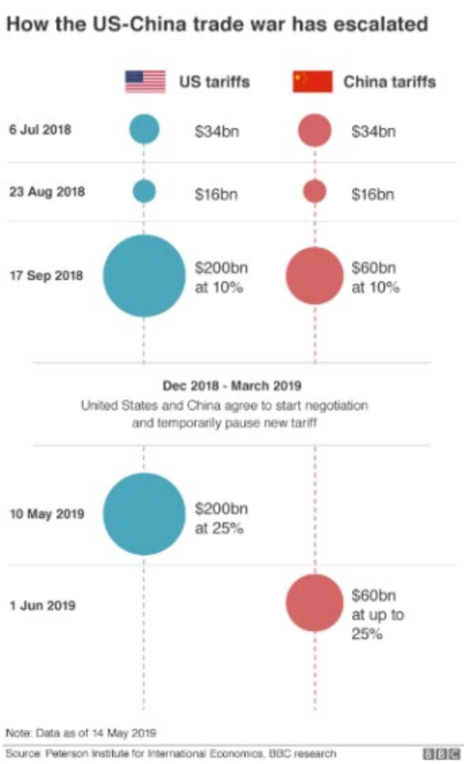
We'll talk to you soon,
Ezra Levine, Christian Connolly, Doug Moon & Karen Sugar

Part Three: Capital Markets in the Second Quarter of 2019

Much of this year's market-moving news has emanated from the White House where policies arrive in tweet-sized packages. On top of that, Investors have been tuned into to the news with heightened attention following last December's declines. Despite this, markets ended the *first* quarter of 2019 up by about 13 percent. The U.S. economy made a new record by crossing into the 41st consecutive quarter of economic growth.

Volatility has since resurfaced with ongoing trade tensions, the possibility of a "tech-war" between Silicon Valley and Congress, and strains in our diplomatic relations around the globe. Economists responded by lowering their U.S. growth forecasts by about one percent. These fears caused a market pullback during the middle of the quarter of nearly seven percent.

The bond market has taken notice. The Yield on the 10-year U.S. treasury dropped from 2.4 percent at the end of March to 2.0 percent at the end of June. The market's interpretation? Slower growth ahead and a belief that the Federal Reserve will intervene by lowering short term interest rates a couple of times this year.



China:

During the second quarter, trade talks with China deteriorated while tariffs are beginning to affect corporate earnings materially. There is speculation that China may cut its shipments of rare earth materials to the United States. China produces 80 percent of the commodities that are embedded in products such as batteries, magnets, and cell phones.

Mexico:

Markets were unpleasantly surprised in June when the administration announced planned tariffs on all U.S. imports from Mexico, representing roughly $300 billion of annual trade. Ultimately, the U.S. gave Mexico a 90-day reprieve contingent on Mexico's progress in slowing immigration into the U.S. The proposed tariffs threaten 25 years of free trade enjoyed since NAFTA was adopted in 1994.

Iran:

The latest chapter in U.S. tensions with Iran is notable. Last November, the U.S. re-imposed sanctions to deter Iran from developing nuclear weapons. However, the U.S. granted several countries a 180-day waiver to continue buying oil from Iran. This waiver ended in April and the re-imposition of sanctions has pushed the country into a sharp recession. In response, Iran has threatened the Strait of Hormuz waterway while reestablishing uranium enrichment activities.

More instability lies ahead, especially in energy markets, as Iran continues to sew discord between the U.S. and nations that were originally aligned in the nuclear deal.

Part Four: Now Hear This

Here are some articles and sounds tied to the questions we've pondered this spring.

Real Estate Qualified Opportunity Zones: Steve Glickman Interview

An audio Podcast with a good introduction to the new Qualified Opportunity Zone legislation, with implications for tax-advantaged investing. *-Meb Faber Podcast*

The Forecasting Business Shouldn't Be This Bad

A good summary and reminder about the limitations of market forecasters and prognosticators' crystal balls. *-Bloomberg*

Fourteen levels of confidence

Another gem in the theme of behavioral investing, this article provides examples of decision-making under different degrees of self-awareness. *-The Collaborative Fund*

What It's Like to Grow Up with More Money Than You'll Ever Spend

Abigail Disney has made headlines recently by calling attention to income disparities at the company founded by her family. This interview details Disney's very personal relationship to wealth and how it has changed throughout her life.

-New York Magazine

Rare Earths: China's Competitive Advantage in The U.S. Trade War

With further detail on our story above, this link takes you to a radio Podcast on trade policy, combining detailed discussions about the issues related to China and how they differ from tensions with Mexico.

-WBUR OnPoint

Important Information