GOLDEY CAPITAL

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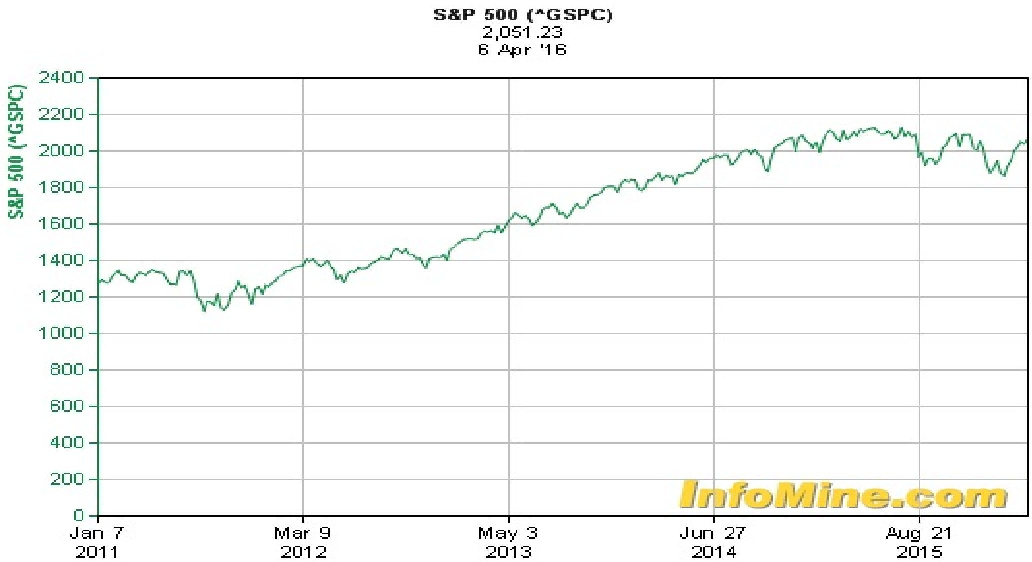
<u>"Place it all on Red or Cautious Optimism"</u>

A gambling metaphor for roulette to start a financial newsletter, where is the correlation? If you did nothing for the last 5 years but stayed 100% fully invested in the S&P, NASDAQ or other similar indexes you made more money than many other choices or styles of investing. Having cash during market volatility has not been the best course of action for maximum return because every selloff has been met with a rally.



2016 had its worst five day start in history and the first month didn't fare much better. Then, we got the rally and experienced one of the best reversals of all time. This is why the mantra "Buy on the Dips" has carried such weight. I understand this mentality of buying momentum and growth and it's great when it works, until it no longer does. As a fiduciary to my clients I have to look at the whole picture for each of them. We recently witnessed a near depression in 2008, later named the Great Recession. With every client being different, comes a separate set of recommendations. The only accounts I have suggested as close to mimicking the pure growth of the S&P 500 and other indexes has been 529 college savings or other starter accounts with younger investors and those with very long-time horizons.

I have been investing in a cloud of cautious optimism for quite some time along with millions of other investors and other portfolio managers. Warren Buffet and Charlie Munger are synonymous with value investing and their stock was down over 12% last year vs the S&P 500 which was down a fraction of 1%.

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I strongly believe in the discipline of value investing and corporation balance sheets and forward ability to generate profit growth. Sometimes I can buy a company with low growth that is trading at a discount to its net asset value, or as Buffet would say "buying dollar bills with fifty cents". Applying the cautious optimism style I have been a buyer of value stocks that pay dividends or beaten-up stocks that once were growth or broken brands. I have a watch list of stocks that I monitor daily called "Fallen Angels".

During the last two months my customized computer program presented many opportunities using covered-call writing. I wrote more covered-calls in this short period than I have in the last two years as the premiums received were very attractive. Many of my clients received copies of the PDF analysis on these trades but their common trait was great potential returns if the stock went higher or stayed flat, and also downside protection in case that position declined. The risk in this scenario of covered-call writing is typically associated with greed as your potential for unlimited profits is capped by the strike price in the option agreement. Covered-call writing is the perfect example of cautious optimism. This style is widely considered a conservative approach to equity investing.

A market that rewards cumulative dividend paying stocks or where options premiums are great is preferential. However the market doesn't care what I like and it has quickly gone back to growth. I like this cautious optimism approach in a nervous market so will continue looking for bargains and opportunities.

In talking with many value managers or reading material they provide there is a common theme of market disconnect to the facts. Example; in many client accounts we own the leading company of single family homes rentals in America. Stats from the USA are showing declining home ownership and a rebound in housing pricing along with rising rents. This company is trading for less than net asset value, has record profits, buying back shares and just merged with another company to take advantage of market disconnect. All the facts are public but the market ignored them until recently.

Planes, trains and automobiles - I often joked should never be bought but I now I own all three in most portfolios because of market opportunity and disconnect. Oil is low and so are interest rates along with a certain German car manufacturing competitor effectively out of the picture. Today we can buy a leading US car company with a 5% dividend yield trading at a forward PE of only 5, whereas the general S&P 500 is trading at 17 times forward earnings. The car company is being priced as though everything is terrible and getting worse, all the while they are recording record profits.

Fiduciary vs. Every other type of advice

A recent ruling by the Department of Labor (DOL) changes the rules financial advisors must make in providing advice in retirement accounts from suitability to fiduciary. Previous to this ruling advisors didn't have to put the client's interest first if they thought a product was suitable. I have been an advisor for almost two decades and a good chunk of my time was spent at major financial firms, and I always had problems with management on this subject. I was consistently the lowest for sales in my office for "Product Oriented Commissions" but the highest in terms of flat fee advice. My entire practice has been built on a fiduciary standard from the start. How can something that pays 5-8% in commissions be that good for the client was my constant question? A broad brush statement I agree and there are instances where certain commission products make sense for estate planning purposes.

Goldey Capital as an RIA (registered investment advisor) and its IAR's (investment advisor representatives) have been legally held to the fiduciary standard since Goldey Capital was formed. Stephen Fallon and I take this role extremely seriously and I would say we are the gold standard for being fiduciaries.

We do not charge any commissionable transactions, in fact we have given free advice on many services for which we would enjoy extra compensation.

- At Goldey Capital we haven't charged a single penny in managed fees to open 529 college savings accounts. We help with paperwork and answer questions for an overall client plan without compensation.
- We consult on clients outside holdings without extra comp.
- We help with client business decisions, home refinances, personal loans, estate planning and many items outside the purview of stocks, bonds, or mutual funds.
- We try and return every client call within an hour and can't recall a single time in 6 years where clients were not called back within 1 business day.
- I make myself available for client reviews on nights or weekends if that is what the clients need for best schedule.
- Every single day Stephen checks account activity to be an extra set of eyes for something the client should be made aware of, or what we might call red flags. We have caught many of these including double checks written, wrong amounts posted in transaction, and other misc. items that warrant the extra care.
- I review managed accounts on a daily basis for cash levels and constant basis for the underlying holdings and rebalancing.
- Stephen tracks every deposit that we are notified of and makes sure the proper amount gets posted to account. This requires a great deal of daily checks and follow-up but it is all part of our internal standard for care.

- We have custom spreadsheets that identify each client's specific needs if there are any; for example not to buy/sell a specific security. Another example is cash levels clients need for feeling safe or upcoming cash spending.
- I personally disclose all outside interests I might have in other ventures and investments.
- We run a clean desk policy at our office where no client info is left out at night and all info is digitally secured and encrypted. There are many other professionals with access to client sensitive materials that may be lax in this area of client data security. In a world of increasing fraud and scams we cannot prevent them all from occurring but we certainly can be pro-active in attempting to reduce the occurrences. We spend an inordinate amount of time and financial resources on this one subject alone which is why we ask all clients to notify us before writing any big checks or other withdrawals.

We take the role of financial advisors very seriously as we realize how hard our clients have had to work for the savings we have been entrusted. It's an honor to be able to serve our clients to the standards we have set and we look forward to constant improvements to continue this line of care.

Sincerely,

Ian Goldey