



**OPTIVEST**  
WEALTH MANAGEMENT

*Turning Success into Peace of Mind.*

**THIRD QUARTER 2016**

**July 1, 2016**



*To Our Investors:*

By: Mark Van Mourick, CEO  
Leslie Calhoun, CIO/CCO

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## Financial Markets Review by Mark:

### U.S. Economy -

The steep drop in financial markets early in the year aggravated fears of a near-term recession. Since then the markets have rebounded allowing fears to subside, yet we now have warning signs from the U.S. economy itself. Hiring is weak, sales are slipping and new business investments are dropping. Manufacturing remains weak and corporate profits have not gained ground in 3 quarters. All of these are classic signs of an impending economic downturn. Uneven economic growth throughout our 7-year expansion has given us several such scares in the past. The latest excuse is to blame slow growth on the rest of the world: i.e. America would be booming if not for China, which would be booming if not for Europe, which blames Japan, which in turn blames America. With uncertainty increasing from Brexit and U.S. election cycles, we continue to forecast a recession in the next 12 - 18 months.

### Brexit -

Much has already been written and read concerning the "Brexit" decision on June 23rd. It caught the financial markets off guard and sent equities and commodities down (except gold) as bonds and REITs went up; then we had a quick reversal. It is very hard

to plan for binary outcomes (i.e. heads or tails scenarios), however our “all accounts composite” only dipped 5 basis points between the time of the vote and second quarter-end. Our low equity exposure and larger real estate and alternatives allocations resulted in continued gains for the year, despite a weak stock market.

Henry A. Kissinger commented eloquently on Brexit in the June 24th edition of *The Wall Street Journal*: “Too much of the Europe of today is absorbed in management of structural problems rather than the elaboration of its purposes. From globalization to migration, the willingness to sacrifice is weakening. But a better future cannot be reached without some sacrifice of the present. A society reluctant to accept this verity stagnates and, over the decades, consumes its substance. The needed restoration of faith will not come through recriminations. To inspire the confidence of the world, Europe and America must demonstrate confidence in themselves.”

Short term we see a weaker Europe, continued strength in the U.S. Dollar, low inflation and interest rates with further weak U.S. growth until the next recession.



## Portfolio Update by Leslie:

On average, our diversified portfolios continue to outperform the market as measured by the S&P 500 index which is up only 2.7% year-to-date according to *The Wall Street Journal*.

Over the second quarter of the year, our major moves in portfolios were primarily associated with de-risking and bringing down highly appreciated sector exposure,

primarily driven by continuing strong gains in public REIT space and the NSA units many of our accounts acquired through the contribution of the various Optinvest Properties, LLC partnership assets to the NSA REIT (NSA).

To start the quarter, we exchanged some international equity exposure from a historically weaker performer to a peer which we believe has a better style approach and potential for upside. With our inflation sensitive sector exposure continuing to grow and getting over-sized due to the still significant appreciation in our publicly traded U.S. REITs sector, we initiated a tax efficient reduction to the sector. We sold off our remaining MLP exposures (tax loss harvesting) against appreciated apartment REITs, while continuing to hold now unrestricted NSA "National Storage Affiliates" units, convertible to the public stock but with tax consequence in taxable accounts.

For accounts under exposed to high-grade corporate bonds and emerging market equities, we added exposure on dips. We further reduced U.S. and European equities as tight stops were hit on ETF positions during the initial Brexit drop.



## NSA REIT News:

Our one-year lockup has ended and clients with "A" shares are free to sell if they wish. Trading needs to be conducted through Leslie, as Mark is on the public NSA REIT board and is restricted from offering trading advice. On June 28th, NSA announced \$190 million of new acquisitions and a secondary stock offering of about the same amount. The next day the offering was three times oversubscribed and expanded to almost \$250

million. The publicly traded float value has gone from \$300 million up to \$750 million since our IPO in April 2015; this has been remarkable growth!

## Summary:

The U.S. stock market has still not achieved new highs in the year since we sold (wholesale) our U.S. equities in June 2015. We remain cautious on the economy as well as still-high stock and bond valuations. We will continue to nibble on opportunistic market dips yet concentrate our efforts on core stability and non-market correlated income and growth.

Until next time,

*Mark Van Mourick*

*Leslie Calhoun*

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