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TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

Tilia Now Registered In Washington State

Most states require investment advisors to register with them when they exceed five clients. Tilia is registered in North Carolina, South Carolina and now Washington State. Each state has specific requirements but they agree on the essential elements of client rights. These include full disclosure of fees, business scope and full disclosure of conflicts of interest, should any exist. Tilia welcomes the scrutiny that comes with the state-by-state registration process. It makes us review and improve our business practices each time we do it.

With Tilia's Julie Sanders hailing from Enumclaw, Washington, we plan to grow our business in the Pacific Northwest in the coming years. While we are still big believers in face-to-face communication, modern connectivity allows us to effectively advise clients throughout the United States. The Tilia client base is now spread across eleven states.

The Market Environment

"Bull markets are born in pessimism, grow on skepticism, mature on optimism & die on euphoria." - Sir John Templeton

All market participants can benefit from remembering these famous words by John Templeton, the renowned investor, businessman & philanthropist. We are currently enjoying one of the great bull markets in history. Financial assets have gained considerable value from the depths of the financial crisis, real estate is thriving in many zip codes, and renewed demand & confidence has led to sustained job growth in the United States. Like most professional investors, the higher stock prices rise, the more nervous we become. We start to look for the cause of the next downturn. The truth is, it can be extremely hard to identify the seeds of the next downturn before they become full-grown problems, and devoting much of one's time and energy to doing so can really hamper investment returns. We've seen this year-after-year since the downturn as more and more investors become bearish and find themselves on the wrong side of this resilient market. It rarely pays to be a pessimist on U.S. stocks. Below are a few of the reasons we believe this bull market may have more room to run:

1.) <u>Skepticism amongst market participants is still abundant.</u> The euphoria John Templeton describes was present in the roaring 20's, the Tech Bubble of the late 90's, and in real estate and associated financials in the mid 2000's. All of those periods had this in common - the average person came to believe that prices would go up indefinitely and believed strongly enough to speculate heavily with borrowed money. Nothing resembling that sentiment exists in this market.

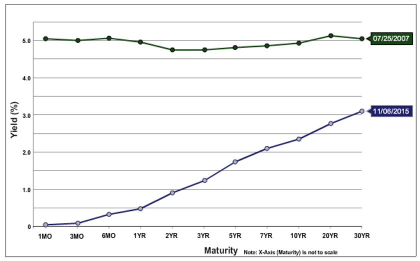
2.) <u>Consumer debt took years to rebound following the crisis & lending standards have just started to relax over the last couple of years.</u> Another trait that market peaks share, eluded to above, is the use of abundant debt. The depth of our last recession resulted in several years of consumers tightening their belts and lenders being extremely picky about who could qualify for a loan. The expansion we've seen in debt utilization is far behind what it typically is 7 years into a bull market.

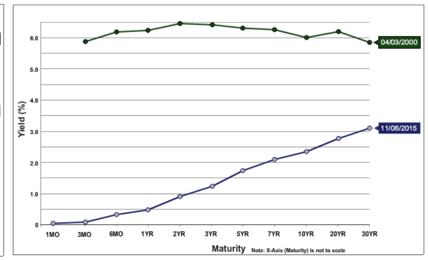
3.) <u>The yield curve remains steep.</u> The yield curve represents the

The Amazon Effect

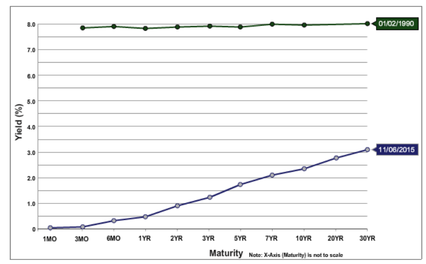
Outside of the internet and mobile smartphones, one could easily argue that Amazon has had a broader impact on commerce in the U.S. than any other singular force in the last 20 years. Amazon's rise from it's humble beginnings as an online bookstore has been nothing short of stunning. Recent disappointing results from several brick & mortar retailers provides further proof of the consumer move towards convenience, simplicity & lowest possible cost. The staggering amount of cardboard boxes floating through the mail system has even lead several universities and large mail-rooms to stop accepting them. If Amazon's total domination of retail wasn't enough, the company's move into cloud infrastructure via Amazon Web Services (AWS) has catapulted the stock to new highs. AWS is annihilating the competition and is now a 5 billion dollar per year business, growing at a 40+% clip. Amazon's heavy spending on expansion, coupled with slim margins has made the stock one of the toughest well-known companies to value. The market currently assigns Amazon a value in excess of 300 billion dollars, while the company barely makes a profit. It may be difficult to understand the valuation, but there is no denying the effect Amazon has had on competitors in numerous lines of business. When we consider new investments or re-evaluate existing ones, we always have to ask ourselves - Are they in the crosshairs of Amazon? If that answer is yes, or could soon be yes, than it is probably best to steer clear. While the exact effect will never be known, the ultra low inflation numbers we've experienced over the last decade have certainly been a by-product of Amazon's dominance, to some degree. Business students will be studying the rise of Amazon for generations to come.

difference in interest rates an investor can expect from a bond by purchasing longer-term maturities. The blue line represents the current yield curve for U.S. Treasury bonds, while the green line represents the curve in 1990, early 2000, and late 2007. One of the few indicators of a looming recession that has held up historically is the flattening or inverting (downward slope) of the yield curve. In that scenario, investors





seeking the safety of bonds have nothing to gain in yield by buying a 30 year bond, versus a 3 month bond. Ironically, this happens to be precisely when investors should be loading up on long-term bonds.



4.) <u>Stocks are still attractive versus other mainstream investable assets.</u> This is a point we talk about quite a bit. Investment dollars find their way to the most attractive asset class. Bonds are the asset class that we view as the most direct competitor for stocks. Until stocks get considerably more expensive relative to earnings or interest rates for high-quality bonds move markedly higher, the uptrend in stocks is likely to persist.

5.) <u>The economic data here in the states remains positive, on balance.</u> Pessimists point to the drop in commodity prices and weakness in manufacturing as a sure sign of a looming recession. While both of those are notable and not to be ignored, 80% of the U.S. economy is service-based, and the services data is very strong. Even in the face of weakness in that 20% of the economy, job growth has remained consistent.

We have little to gain and much to lose from adhering to blind optimism. For investors that are deep into the accumulation phase, nearing or into retirement, we're erring on the side of caution when it comes to how much of your portfolio is invested in stocks. It is important to remember that risk comes in all forms. Just as it may be too risky to invest the lion's share of one's wealth in stocks, equal or greater risk exists within a portfolio that devotes too little capital to stocks, especially if the alternative is long-term low-interest bonds or fee-hungry annuities. Until we see change in the 5 points laid out above, the risk could continue to be sitting on the sidelines, devoid of a long-term investment plan.