



It's what you learn after you know it all that counts
– John Wooden

John Wooden coached the UCLA Bruins men's basketball team to ten NCAA national championships in a 12-year period including a record seven in a row. Born in 1910, he favored a style of play (the fast break) that broke all the conventional rules at the time. Over his nearly 30-year career at UCLA, he only narrowly modified his approach (much to the chagrin of his more modern-minded players in the late 60's and early 70's). Wooden's disciplined repeatable process began each season with a lesson on how to properly put on shoes and socks. His implicit message: the basics matter.

The basics matter. Preparation matters. Execution matters. Blue Oak portfolios participated nicely in the strong market performance of the past three months and are well positioned overall. We increased equity exposure after the late 2018 sell-off as dictated by our play book. We were prepared for market volatility to spike and had a plan. We executed to plan. Disciplined and repeatable.

In the first quarter of 2018, the S&P 500 delivered a scorching 13.7% total return – its best quarterly return in a decade. International stocks were close behind with 10.3% for the MSCI International index. Volatility decreased and the Federal Reserve announced plans to scrap interest rate hikes for the foreseeable future as inflationary pressures remained benign and unemployment low. The market rallied unabated despite a continuation of weakening economic indicators.

However, we believe that the strong US growth in 2018, spurred by tax cuts in late 2017, was indeed, a short-term sugar-rush. We are positioning portfolios for weaker US growth in the future. Our concern about future US economic growth was heightened by the inversion of the US yield curve. The yield curve is the graph of US Treasury rates that plots yield against maturity. Since longer maturity bonds should pay more than shorter maturity bonds, the curve is normally upward sloping. When the curve inverts, shorter bonds are paying more than longer bonds. An inverted 3mo 10y yield curve is notable because it has signaled recession in each of the last four occurrences.

Absent another boost from fiscal spending, like the oft-teased infrastructure deal, or a meaningful increase in consumer spending, the economy in the US is likely to meander into recession in 2021. Between now and 2021, we expect a favorable, albeit potentially volatile, environment for investing in stocks. Consistent with

positioning portfolios for weaker US growth in the future, we favor international stocks over US stocks and US stocks over bonds.

The US unemployment rate fell to 3.8% during the quarter and employers are feeling increased pressure to increase wages in order to attract and retain employees. We note that the Worker-to-Consumer Ratio has peaked globally which may result in a decline in global savings and an increase in spending. Higher pay and spending could push inflation and force the Fed's hand to raise short-term interest rates sooner than anticipated. The delicate balance lies in the possibility of a gentle boost in GDP without inflationary pressures thus allowing the Fed to maintain an accommodative (non-tightening) policy.

Throughout his career, Coach Wooden steadfastly believed that his players would triumph over opponents so long as they were better conditioned. At Blue Oak, our opponent takes the form of a permanent impairment of capital. During Q2, we will continue to work on refinements to our play book in addition to reviewing the thesis for each of our current investment strategies. We take every opportunity to learn and better prepare.

Thank you for the trust you place in us.