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Warm greetings to you wherever you are. I hope you are safe and healthy and coping with the adjustments to daily life. Thank you for taking the time to read my letter. Feel free to skip to the parts you find interesting, and please let me know what you think.

Economic and Valuation Update

This year has been a wild ride in the markets and in life in general. A predictable world quickly became a vague memory. The US stock market responded with one of the most rapid drops in history, followed by a staggering rebound¹, making the shortest bear market in history. Massive fiscal and monetary responses can be credited with holding off a much greater recession and reflatting the stock market. Where do we stand now and where do we go from here?

Economics

Much has been made of initial unemployment claims improving, but this focus may be somewhat misguided. Under normal times, conditions getting worse at a slowing rate can be seen as a leading indicator of improvement. In the current situation, where the economic damage is done by a well-known factor exogenous to the economy, this may not be the case. When business owners saw that their businesses were non-viable either due to government mandate or customer behavior change, they quickly reduced their payroll, resulting in a record of over 6,000,000 initial unemployment claims in one week. After a few weeks near this level, the rate of new claims dropped quickly, but this does not mean the situation was getting better. As tens of millions of people in vulnerable jobs became unemployed, there were fewer remaining candidates for reduction. The situation is very dynamic, and to use an overused word, unprecedented. It appears that continuing unemployment claims has stabilized, as states lift lockdown measures (though in some cases reverting to them) and as businesses try to reopen. The labor situation may have finally hit bottom and started to recover. The DOL² reported 30.2 million total unemployment claims July 11, down from 31.8 million the prior week.³ This gets confusing because there are so many different programs, and some reports only capture some of them. Further, the data is noisy as states move in and out of shutdowns. The bottom line is that unemployment is higher than it has been since the Great Depression. This may be short-lived, as much of the job loss is due to temporary measures to try to control the virus.

One would expect that with tens of millions of people out of work, and many businesses operating at reduced capacity, that disposable personal income would be significantly impaired.

¹ (Felder, One For the Ages, 2020)

² Department of Labor

³ (Labor, 2020)

Instead, massive government stimulus, including enhanced unemployment benefits that paid many people more than their jobs had, led to year over year inflation-adjusted growth of disposable income of around 15% in May and 8% in June. In sixty years of data that I have, this has never been higher than about 7%. Coinciding with the record increase in personal income is the cancellation of conferences and other events, the closure of many businesses and travel becoming potentially dangerous. This led to a record personal savings rate of over 32%⁴ (financed by government borrowing). The theory is that a transfer from future taxpayers to current consumers will help the economy recover more quickly. The problem is this does not lead to anything being produced. It is unclear whether this fiscal policy will lead to a faster recovery, and what the long-term cost will be, but current spending is likely much better than it would have been without this wealth transfer from the future.

The economy contracted 9.6% in the second quarter, the sharpest decline on record. (Headlines showed a 32.9% decline, but this is the annualized rate, meaning the economy would contract by that much in a year if each quarter were the same as this one. Clearly that is not expected. With many states reopening during the quarter, the trend should get somewhat better. It remains to be seen how much so. The Payroll Protection Program (PPP) was a tremendous help to many businesses, carrying them through June.⁵ Unfortunately, the virus did not go away in that time. Federally enhanced unemployment benefits expired at the end of July. More government help is likely to come, but it will be on a smaller scale than last quarter. There is now pent-up demand from deferred purchases and people staying at home. I have read accounts of restaurants being busy. This may not be sustainable, especially as re-openings are rolled back in some of the most populous states. Social distancing mandates will make many businesses that were low-margin under normal circumstances non-viable. Many people will curtail their normal activities to be safe, regardless of government mandates. Even though we have seen the greatest contraction in our history in the US (in intensity, not in total) the situation could get worse, or at least not recover as quickly as many expect. When people have money in their pockets due to government payments and when they believe the disruption will be short-lived, they are not as conservative with their money as when the government assistance runs out or declines and the reduced employment income drags on. Spending on consumer durables and housing sales have not declined as much as I expected. Apparently being stuck at home is good motivation to do home improvement projects. If jobs fail to quickly come back, consumers may need to cut back further. On the other hand, if jobs start to recover quickly and people feel confident in the economy, spending could quickly revert to prior levels and extra savings could be spent. Some economists have pointed out that the greater part of the job loss has been among lower paying professions. White collar workers are more likely to work remotely. Construction and manufacturing are generally conducive to social distancing. Public employees continue to get paid. Healthcare is a mixed bag, as it experienced declines initially, but should resume approximately normal levels quickly. Dining and hospitality tend to be lower pay and less likely to keep their jobs. This makes for a very difficult time for those who already may have been on tight budgets, but it also dampens the impact from so many jobs lost.

In conclusion, we are in the steepest recession since the Great Depression, caused by a virus that has defied attempts at prediction. Going forward, we do not know when the virus will subside and business will have an opportunity to try to return unencumbered. We do not know how behavior will

⁴ (Mislinksi, 2020)

⁵ Essentially, the PPP covered most of the cost of payroll, up to \$10mm for two months, forestalling layoffs and business failures.

change after months of telecommuting and social distancing. Many changes may become permanent at least in part, and spending patterns will change, creating new opportunities, but leaving stranded assets (e.g. urban centers, travel infrastructure, auto manufacturing, oil refining, retail real estate, etc.). We do not know how long it will take to recover from a rash of business failures and Depression-level joblessness, nor what the impact of added trillions to the National Debt will do to long-term economic growth.⁶ Add in the unknown of elections. At best we have a high level of uncertainty, and at worst a long slow road to recovery, with a permanent drag on growth from higher government debt.

Market Valuation

Robin Hood is a beloved character who stood up to those who were oppressing the common man, bringing fairness. Today, Robin Hood is a stock trading platform that allows people to invest their money without paying high fees and commission. It is part of the trend toward democratization of investing that has seen fees and commissions falling such that a small investor can invest in a broad and diversified basket of companies for zero commission and almost no fees. Unfortunately, not all of these do-it-yourself investors take the time to educate themselves about investing. Jesse Felder has a great [article](#) explaining this. New investors with extra cash from government stimulus and nothing to do with their money (or time) are trying their hands at stock speculation. Quick wins reinforce the supposed easy profitability of the scheme and they look for new bets to reinvest their profits.⁷ Investors with decades of success are speaking out against the euphoria, but they are seen as simply obsolete and out of touch at best and envious at worst. Case in point: the number of Robin Hood users has surged 73% from the start of the lockdowns.⁸ These small investors are focused on stocks that have gone down a lot and on stocks with a compelling story, but not on valuation or fundamentals. Examples of stocks trading at valuations that seem incongruent with the underlying fundamentals are many. Lebowitz and Roberts found 34 stocks that traded at or above 10x sales⁹, which is an extremely high valuation¹⁰. A bankrupt company saw its worthless stock soar in value so much it tried to do a new share offering, which would have been used to pay off its creditors. The demand for the shares was there, but the government stopped the offering. A company with no sales, no products, no assets and plans to make an electric truck went public at a valuation that briefly eclipsed Ford Motor Company. Another company has become the most valuable automaker despite being a small niche player with annual losses every year. Investors are focused on stories, not fundamentals. There are now numerous money-losing companies with eleven-figure valuations. Growing revenue should not be hard when selling \$1.00 for \$.75, but investors do not want to fuss about these details. Some of these may eventually justify their valuations,

⁶ The [estimated](#) cost of the coronavirus aid spending is \$2T, or \$6,000 per citizen, as of July, with more certainly to come. This does not include state and local programs including state unemployment insurance, nor does it account for lower taxes from reduced income. These are real costs born by taxpayers and funded by debt.

⁷ In 1999, I had a little extra money for the first time and tried day trading tech stocks. My first couple of trades were big winners and I had grand visions of what I would do with all the easy money from my new hobby. Subsequently I lost a multiple of what I had made. This valuable (and expensive) lesson started my journey of studying investing. I remember the confidence that comes from the dangerous mix of ignorance and success.

⁸ (Felder, One For the Ages, 2020)

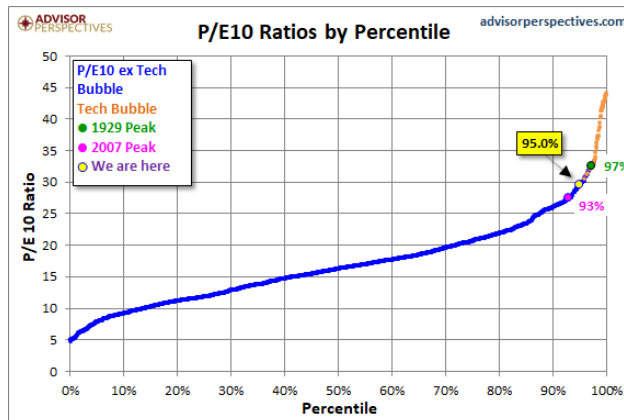
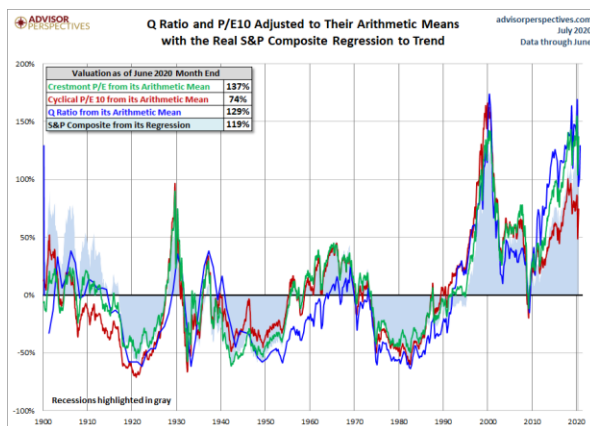
⁹ (Roberts, 2020)

¹⁰ Over the last twenty years, the average valuation for the S&P 500 is 1.6x revenue (source: multpl.com, calculations mine).

but the point is investors are willing to disregard fundamentals in speculating in stocks that sound interesting, pushing stock prices in these securities to levels that baffle professionals.

Investors (or speculators) are looking past this year’s earnings, which are clearly not representative of the future due to pandemic interruptions. What is an appropriate timeframe to use to assess value? In what I think is the best [article](#) explaining today’s market situation, John Mauldin looks at three years forward expected earnings and found that the current multiple is the highest since the tech bubble at 21x. He also notes that the market strength is losing breadth, with just 37% of stocks above their 200-day moving average¹¹ in late July down from about 70% in January. A handful of stocks are driving the returns of the S&P 500. The bottom 490 stocks lost about 10% through mid-July while the top 10 stocks gained 35%.¹² The S&P 500 is market capitalization weighted, meaning each company has a share of the index equal to its stock value divided by the total stock value of all 500 companies. The top five companies make up 22% of the index, while the other 495 contribute 78%. This allows the market to rise on just a few giants increasing price. This level of concentration is the highest in at least thirty years, and the last peak was during the tech bubble.¹³ The NASDAQ is even more concentrated, with five tech stocks plus Tesla making up 49% of the NASDAQ 100 and 41% of the total NASDAQ vs. 59% for the other 2,700 listed companies.¹⁴

Market valuations briefly touched historically average levels in March, before running back to overvaluation. Measures that I track are currently showing valuations at 18-54% above their twenty-year averages, and they are backwards looking metrics, so they have little to no COVID impact yet.¹⁵ The exception is the market risk premium (E/P – US treasury yield) which is at an average level. This means investors are willing to accept a lower return going forward because relative to the safe alternative the expected return is normal. This is known as TINA – there is no alternative. The problem is an eventual rise in interest rates would need to push equities lower. Other measures that have historically been good predictors of long-term return are rebounding back toward levels only seen in the tech bubble, right before the Great Depression, and in the last couple years.



Source: Advisor Perspectives

¹¹ This is the most common metric for whether a stock has positive or negative momentum or trend.

¹² (Mauldin, 2020)

¹³ (The Real Heisenberg, 2020)

¹⁴ (Levy, 2020)

¹⁵ These metrics are P/B, P/E (ttm), P/E 10 yr, P/S. Source: www.multpl.com, calculations mine.

Jesse Felder notes that from 1953 to 1993, US household net worth/GDP (the value of real and financial assets divide by the size of the economy) mostly ranged from 3.7-4.5. In the tech bubble of the late 1990's it approached 5, in the housing bubble of the 2000s it approached 5.5 before falling back below 5, and now it is almost 6 in what he and others are calling, "The Everything Bubble."¹⁶

Risk metrics are generally positive. The high yield spread (the premium investors charge to invest in riskier credit risk companies) has cut in half from its peak at the start of the shutdowns and is around a multi-year low. The government is committed to keeping businesses from failing.

The combination of an uncertain economic environment and historically high asset prices makes for a tough investing environment. Since not everything has risen equally, there are opportunities for selective investors. Like during the tech bubble of the late 1990's, value stocks have not participated in the euphoria. This has been painful for those of us who adhere to the value philosophy – our "good deals" become even better deals while irrationally expensive stocks only become more so. Quantitative Investing legend Cliff Asness [sees](#) the current value spread at the 100th percentile^{17 18} The value of value matters. Portfolio strategist Larry Swedroe [believes](#) the record underperformance of the value strategy is unsustainable. I do not recommend timing the value factor necessarily, but investing when the value spread is wider than normal has been found to yield greater results than when the spread is narrow.¹⁹ If history is a guide, value stocks are set up well, at least relative to the more expensive companies.

Personal Update

This quarter has been challenging for almost everyone, with the novel coronavirus ravaging the health of some of the population and threatening everyone, the economic damage arising from the response to the pandemic, and the social unrest across America. Just keeping up with the news and trying to understand its impact has been difficult. Even more challenging is being cut off from friends and family. A big part of a rich life is close relationships with friends and family and involvement in a community. I am thankful that this is still somewhat available on a limited basis via wonderful technology such as phone calls, video chats and video conferences. It is not the same, but it is something. This quarter my travel was all canceled, live church meetings were canceled, and all my regular groups moved to online only. I can see how people get depressed with prolonged periods of isolation, uncertainty and being cut off from normal life. While it is appropriate to mourn what is lost, I choose to spend most of my time being grateful for what I still have. I am thankful for the opportunity to work at home where I can be closer to my wife and save commuting time. I am thankful to live close enough to family that we can still see each other face to face and for the technology to see family and friends and meet in regular groups, even if it is virtually. I am thankful to live in a place where I can still go for walks or hikes or go enjoy the beauty of the beach. I am thankful that my work is still able to continue, and that through this time I have learned how to better work independent of location.

¹⁶ (Felder, 2020)

¹⁷ This is using a composite of P/B 100%, P/S 83%, P/E trailing 100%, P/E forecast 99%. The current standard deviation is 4.3. I suspect the reason P/S is "only" 83%ile is because margins are currently well above average. The timeframe for this study is 12/31/67-3/31/20.

¹⁸ (Asness, 2020)

¹⁹ (Rabener, 2020)

This year, the Life Camp board and I made the difficult decision to cancel our sessions this summer. This is the first time we will not hold Life Camp since it was started in 1997. I am sad that it can not happen this year but am already looking forward to next year.

One of the things I like about living in California's Central Coast is that we are fairly isolated from what is happening in the world. Things here are calm and peaceful. The last few months were an exception to this. One morning I noticed the sound of a helicopter circling for a long time. Curious, I checked the website of the local news station and found out the horrible news that a gunman had attacked a couple of police officers, shooting and injuring one in the middle of the night. The shooter was still at large. This happened about two miles from my home. I correctly surmised that he was probably hiding in the riverbed which runs a half mile from my home. A shelter at home due to active shooter warning was issued for Paso Robles. Another man was murdered. The manhunt continued for two days, culminating in a shootout with law enforcement with three more officers shot. Fortunately, they all survived. I am thankful for the brave men and women who risk their lives to keep the rest of us safe. About a week later, Nour came with me to the office. I have mostly been working at home since the pandemic started, but occasionally go in. It is rare that she goes with me. That day I got a call from my neighbor that there was a wildfire and our neighborhood was evacuated. The wildfire started in the riverbed and jumped a street about a quarter mile from my home. That was another stressful day. My plan was to stay at my parents' home, about three miles from my home if I was unable to get back into my neighborhood. The fire moved fast, but it moved away from my home and toward theirs. Their neighborhood got evacuated as well. I invited them to my office, and when I learned that the roads in my neighborhood were open I came home and got some food and a board game and we spent time together in my office until we saw that it was safe to return home. It is odd to get a shelter at home order and an evacuation order in about a week's time. Again, I am thankful for the brave men and women who battled the blaze and contained the damage. I am grateful my home was safe, and sad for the two families that lost their homes and the few others who suffered damage to their homes. These events vividly showed me how fragile our belongings and even our lives are. We are wise to carry appropriate insurance and to take measures to protect our belongings and ourselves, but ultimately we are not in control.

Business Update

This quarter saw a big change in the business. After more than three years of helping me with compliance and operations, including researching and implementing new technologies, Hannah Lique Naitove is moving on to pursue other opportunities. I am thankful for all that Hannah has done over these last three years to organize our processes, build up our compliance system, improve our efficiency, help our clients, and elevate our client experience through technology implementation. Hannah will be missed, and I wish her the best of success in her future endeavors. Among other things, Hannah is going to continue to build out her custom date business in which she helps couples create memorable experiences together. Check her out at [Project XO](#).

In addition to bidding Hannah farewell, RIM is excited to welcome a new intern, Franko Jira. Franko is a great addition to the firm, and is going to do great things. I will let him introduce himself:

My name is Franko Jira and I am a rising junior at Harvard. I was born in Ethiopia, but I lived in Germany for 6 years, and now I live in the central coast of California. I graduated from Atascadero High School in 2018, where I was involved with the Rotary Foundation, the cross country and track teams, as well as several Christian clubs. I am majoring in Economics, with a secondary in mathematics. Outside of the classroom, I work as a research associate for Harvard Business School, am part of Christian organizations, and volunteer around the community. I look forward to a career in asset management, private equity, or real estate. However, in anything I do, I want to help other people. I believe that it is very possible to help others through the field of finance, and combining those two areas of interest has been my goal ever since I started college. I am very happy to be able to intern for Jake and help him and his clients in any way that I can.



RIM Intern Franko Jira

Personal Improvement

I continue to work on improving my focus. This has been a very trying three months, as distractions are relentless. My focus this quarter has been day planning. I have been doing weekly planning for a while and find it to be very helpful and foundational. Day planning comes next and involves taking the activities scheduled for that day through the weekly plan and blocking time for them throughout the day. I use 30 minute blocks. Some activities take multiple blocks, some can be combined with others into one block, and some are quick tasks that can be done whenever I finish another activity and have a little time left in the block. While the concept is fairly simple, execution takes practice. This has been helpful to improving my focus – especially ignoring emails and other distractions while trying to finish a task in its allocated time. I have a long way to go to be very proficient at this and am committed to continuing to work on this. I am also starting to incorporate Steven Covey's role/purpose approach to fourth generation planning from his classic, "First Things First."

Educational Spotlight: Working Remotely

The world has abruptly changed in the last few months, as we adjust our lifestyles to reduce our risk to the novel coronavirus. One drastic change is the sudden shift to working from home. Those of us with jobs that can be done remotely are blessed that we are not among the tens of millions of Americans who have lost their jobs. It is important to remember to be grateful for this as we navigate the new challenges that come from doing our work differently. Following are some tips on making the most of working remotely.

Set up a dedicated and efficient workspace. When I worked from home one day per week, I used my laptop on the kitchen table, but when remote work became full time I switched to a bedroom-turned-office with a dedicated desk and real office chair.²⁰ The space should be large enough to lay out your work, and comfortable enough to work all day without negative health effects. I suggest adding a second computer monitor²¹, which is inexpensive and can improve efficiency.

Maintain a normal work routine. There may be a temptation to mix personal and work time, and to some extent that can work (see below), but generally it is advisable to transition to and from work mode. Keeping regular hours is helpful, as it is easy to greatly prolong the workday since you do not need to leave your office. Some suggest having a beginning and end of day routine like getting dressed for work, which helps to feel more professional.²² Do not just roll out of bed in your pajamas and open your laptop. At the very least, rise at a predetermined time, shower and get dressed and get in the right mindset.

Enlist the help of those you live with. At first, working at home can seem like vacation, at least to those in the house who are not responsible to get the work done. Working from home can be a blessing to all if done correctly. Be explicit about expectations. I like to work with the door closed, but my wife likes to check on me from time to time, or tell me something about her day or bring me food or coffee or water. We established a signal that if I am doing deep work and need to not be disturbed, I hang a hat on the outside doorknob. If the hat is there she leaves me to focus, and if not she can come for short breaks. A Forbes article suggests that people with children at home would do well to plan their children's schedules together with their own.²³ Be sure to let others in your home know when you will have meetings and will need it quiet and want to avoid any potentially embarrassing [interruptions](#).

Take regular breaks. This happens more naturally in an office setting where people drop by each other's office for a quick chat or have a conversation while getting coffee or water. Working from home requires intentionality about refreshing your mind. In *Limitless*, Jim Kwik notes, "Research suggests that our natural ability to concentrate wanes between 10 to 40 minutes."²⁴ If we spend any longer on a given task we get diminishing returns on our investment of time because our attention starts

²⁰ This was my wife's idea and she set up the space for me. It turned out to be the most important adjustment to achieving office-like efficiency at home.

²¹ Since you will likely spend more time in front of the screen, I suggest a low blue light monitor to reduce the harmful effects of prolonged exposure to blue light.

²² (Hering, 2020)

²³ (Castrillon, 2020)

²⁴ I've found the exception to this is when "flow state" is achieved and the mind is fully engaged and energized by the project itself. In these cases it is best to eliminate distractions, skip breaks and continue as long as the state persists or until the project is done.

to wander.”²⁵ He, and other productivity writers I’ve read suggest the [Pomodoro Technique](#), which uses a timer set to twenty-five minutes for intense concentration followed by a few minutes of break. Home is a great environment for this, with no coworkers to drop in at random times. Use break times to check email or voicemail, get some coffee or water, or do something active like pushups or squats. A Flexjobs [blogpost](#) shares that the American Optometrists Association suggest the 20-20-20 rule: take a twenty second break to look at a (non-screen) object at least twenty feet away every twenty minutes. This will reduce the risk of Computer Vision Syndrome (apparently a real thing) that causes muscle tension, blurred eyes, headaches and eye discomfort.²⁶

Be clear with your team members about when and how to communicate and then over-communicate. An Inc. [article](#) points out there are a plethora of communication tools available, but most people prefer some over others. Since you will not run into people in the hall, and cannot just drop into their office, it is a good idea to establish regular avenues of communication. Don’t forget that the phone is an effective means of discussion to resolve issues. Clarify expectations and update team members on your progress.²⁷

Plan interaction with others. Socializing is healthy and relationships are important. Do not overlook the need for human interaction. High functioning teams are comprised of people who trust each other and work well together, which requires human understanding. Be deliberate about maintaining these personal relationships. Arriving early to conference calls to chat with others is one option. Another is scheduled social meetings.²⁸

Find the good in the situation. Focusing on the positives makes everything better. Enjoy the increased flexibility, skipping the commute, more time with family, time saved from greater efficiency and fewer distractions and any other positives you can find. While keeping to a work-like schedule and environment is the rule, small exceptions can be very healthy. Use breaktimes to enjoy meals with your family or tackle small household chores. Take a break from the desk and work outside. (I’m writing this article from my deck, enjoying the view and the cool morning air.) An occasional change of scenery is refreshing to the mind. Our forced isolation is challenging, but it can be a generally positive situation if we make it so. Finally, if you are in this situation, remember to be thankful that you still have a job.

²⁵ (Kwik, 2020)

²⁶ (Hering, 2020)

²⁷ (Coombes, 2020)

²⁸ (Hering, 2020)

Book Review: The Advantage by Patrick Lencioni

The book starts with its powerful premise: “The single greatest advantage any company can achieve is organizational health. Yet it is ignored by most leaders even though it is simple, free and available to anyone who wants it.” Lencioni distinguishes being smart from being healthy. The value of being smart is obvious, but organizational health is often overlooked, though no less important. An organization is healthy “when it is whole, consistent and complete... when its management, operations, strategy and culture fit together.”²⁹ An unhealthy organization not only fails to live up to its potential, but it takes a toll on workers.³⁰

Lencioni presents a four-discipline model for organizational health: 1) Build a cohesive leadership team. 2) Create clarity. 3) Overcommunicate clarity. 4) Reinforce clarity. These same principles apply to departments and teams within an organization³¹.

Leadership teams must be kept small so everyone has a voice and they must work toward a common goal. Both advocacy (making a case for my ideas) and inquiry (asking probing questions about your ideas) are important, but the latter is especially difficult in a large group. The first, and foundational behavior for building a cohesive leadership team is building trust. This is done via vulnerability and getting to know and understand each other. Sharing personal backstories and doing personality assessments are two powerful tools. The leader needs to lead in vulnerability³². Once trust has been established, the team must manage (not avoid) conflict. Conflict arises when people of different opinions seek to find the best way forward and can be very productive in a high-trust environment. The trick is to endure the discomfort up to a point, to try to resolve rather than avoid conflict, but to not let it go too far or become personal³³. Once trust is built and team members have had an opportunity to work through conflict, it is time for the third behavior, which is to achieve commitment. This comes not from everyone on the leadership team completely agreeing, but from everyone having been heard. The team members need to understand that whether they completely agree or not, they must commit to promoting the decision in their own teams. This avoids the common response of passivity or even passive aggression³⁴. Leadership meetings should end with taking a few minutes to confirm everyone’s understanding of and commitment to decisions reached³⁵. The next behavior is embracing accountability. Peer accountability is the primary and most important form of accountability. Peers will hold each other accountable when the team leader holds others accountable (ironically) and creates an accountability culture. Leaders who are afraid to hold their people accountable will create a culture where no one wants to take on that task³⁶. Finally, a cohesive leadership team will focus on getting results, which means accomplishing organizational goals. Often, leadership team members lead their own teams or departments and prioritize the success of their group

²⁹ (Lencioni, 2012), p.5

³⁰ (Lencioni, 2012), p. 13

³¹ (Lencioni, 2012), p. 15

³² (Lencioni, 2012), pp. 27-37

³³ (Lencioni, 2012), pp. 38-44

³⁴ (Lencioni, 2012) pp. 48-50

³⁵ (Lencioni, 2012), p. 51

³⁶ (Lencioni, 2012), p. 54-57

over that of the whole. Leadership team members must have and spread a company first attitude that seeks the overall good of the organization³⁷.

The second discipline is to create clarity. Leaders often blame their people for not understanding, but the responsibility is on the leaders to be clear. Small disagreements at the top will be amplified through the ranks³⁸. Communication from the leadership team should answer six important questions: 1) Why do we exist? This should be answered truthfully. It is not a differentiator, but important to understand to guide the business³⁹. 2) How do we behave? Identify the core 2-3 values that the company would never compromise. Then parse the permission to play values necessary to exist in the industry, the aspirational values the organization would like to have and the accidental values that could be changed⁴⁰. 3) What do we do? This is just a simple description of the business. 4) How will we succeed? This is the strategy. "An organization's strategy is nothing more than a collection of intentional decisions a company makes to give itself the best chance to thrive and differentiate from competitors."⁴¹ A strategy not only informs what to pursue, but also which opportunities to avoid.⁴² 5) What is most important, right now? Lencioni has noticed that most organization have long lists of "top" priorities, which ends up with mediocrity and failure for most of them. An organization should only have one top priority at a time and everyone should know what that is. This can become a thematic goal or rallying cry. It should be singular, qualitative and temporary⁴³. 6) Who must do what? Each person in the organization needs to be clear about their role in accomplishing the work of the organization, and there should be no gaps⁴⁴.

The third discipline is overcommunicating clarity. People tend to disbelieve, forget or deemphasize what they only hear once. Communication is more emotional than intellectual. Saying the same thing over and over is not fun, but it is effective. Communication should cascade throughout the organization. The three keys to cascading communication are consistency across leaders, timeliness and real-time communication. Email is generally less effective than in person, though sometimes unavoidable⁴⁵.

The fourth and final discipline is to reinforce clarity. This shows up in the recruiting and hiring process. Organizations should define what the right and wrong people for the organization look like, and should be rigorous in their hiring processes. People involved in hiring should have processes for strategic selection. Orientation should focus on the six critical questions, not technical training⁴⁶. Performance management should be "almost exclusively about eliminating confusion." People want to succeed. Help them to do so⁴⁷. Lencioni asserts that meetings are dreaded because they aren't properly and purposefully done. Meetings should be focused and have a single purpose. He suggests four types

³⁷ (Lencioni, 2012), pp 65-68

³⁸ (Lencioni, 2012), pp. 74

³⁹ (Lencioni, 2012), p. 90

⁴⁰ (Lencioni, 2012), p. 93

⁴¹ (Lencioni, 2012), p. 107

⁴² (Lencioni, 2012), p. 116

⁴³ (Lencioni, 2012), pp. 119-121

⁴⁴ (Lencioni, 2012), pp. 132-135

⁴⁵ (Lencioni, 2012), pp. 144-147

⁴⁶ (Lencioni, 2012), pp. 156-161

⁴⁷ (Lencioni, 2012), p. 163

of meetings: short (5-10 minutes) administrative daily check-ins, tactical weekly meetings of 45-90 minute duration, strategic meetings on an ad hoc basis to deal with specific issues (2-4 hours) and quarterly developmental off-site reviews that last 1-2 days each. He acknowledges this is a lot of time in meetings, but has seen this structure be very effective. Tactical and strategic issues are focused and can be resolved when not mixed together with many other things⁴⁸.

Summary: Running a healthy organization is simple, but not easy. It costs nothing, but is often overlooked. When done effectively it can create an advantage over other organizations because most do not commit to these disciplines. A healthy organization is one where everyone in the organization is working together with everyone else toward clearly defined goals in an environment of high trust. The four disciplines needed to build a healthy organization are building a cohesive leadership team, creating clarity, overcommunicating clarity and reinforcing clarity. When these are consistently done, the leaders will work together to develop a vision and will communicate consistently across the organization so that everyone knows why the organization exists, how it operates, what it does to succeed, what the most important thing is right now and what their individual role is.

⁴⁸ (Lencioni, 2012), pp. 175-186

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