



October 8, 2018

Quarterly Commentary & Opinion

Dear Clients of Kondracki Advisory,

The year to date total returns on the S&P 500 and DJIA through September 30th were 10.56% and 9%, respectively. Bond market performance as measured by the Bloomberg Barclays U.S. Aggregate Bond Index was negative through September 30th at (1.60%) and international stocks as measured by the MSCI EAFE Index were also negative at (3.76%).

Our year to date composite total return through September 30th was a **positive 4.70%**. This solid performance was helped by a very strong third quarter where we achieved a **6.70%** total return.

With the start of this fourth quarter, markets have become more volatile. Our cautious, value-oriented approach is performing very well in this environment and we are gaining significant ground on the S&P 500. As market performance becomes less concentrated, more rational, and begins to account for the significant business, financial and valuation risk in certain technology, digital advertising and social media market leaders, I would expect to see our high-quality portfolios continue to be rewarded on an absolute and relative basis.

We had quite a number of standout performers through the first three quarters of 2018, including , **TJX Companies, ConocoPhillips, Apple Computer, Archer Daniels Midland and Union Pacific**, with total returns of **49%, 42%, 34%, 28% and 21%**, respectively. Recently, we have been opportunistically adding to our positions in **Cummins, FedEx, Intel, and AbbVie**, at what I believe to be very favorable prices.

TJX Companies, Inc. owns **TJ Maxx, Marshalls, HomeGoods, HomeSense and Sierra Trading Post**, and is one of the leading off-price retailers of apparel and home fashions in the U.S. and worldwide, with greater than **\$38 billion** in annual sales, 4000 stores and 250,000 associates. We purchased their shares in June of 2017 at a time when e-commerce was experiencing tremendous growth. Many brick and mortar retailers, which were household names for decades, were not adapting to this explosive growth, resulting in significant loss in sales, profits and market share. The market's broad-based fear at this time drove down the share prices of most retailers. But, what we saw in TJX Companies was a company that was growing comparable and total sales well ahead of its peers, adding stores, gaining market share and investing heavily in the future of retail. There are many factors that we look at when making company selections, but **price to earnings ratio (P/E)** and **return on invested capital (ROIC)** are particularly informative and important to us. Whenever we can identify a superior company with an exceptionally loyal and growing customer base that trades at a P/E nearly half of its ROIC (16 vs 34%, at the time of purchase), we look to invest. We have achieved a nearly **65%** total return on our TJX investment.

We have generated very solid absolute and relative returns this year. Our balanced approach to downside protection and the achievement of reasonable returns continues to provide us with much of the return of the S&P 500, but with far less risk. Since the inception of the firm in October of 2012, our clients have achieved average annual returns of **10.80%**.

Also, I am incredibly excited to announce that Brian T. Kondracki, CFA, has joined our firm as an Investment Adviser and Research Analyst. Brian is an MIT graduate with degrees in Finance and Mathematics. His investment insights and expertise bring great value to our firm. In addition to our Hingham, Massachusetts office, we will also have an office in Billings, MT.

Sincerely,

Chris Kondracki, Principal and Portfolio Manager

Brian T. Kondracki, CFA, Investment Adviser, Research Analyst

