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O'KEEFE STEVENS
ADVISORY, INC.

## Inside This Issue



# The Value Connection

Our mission is to be responsible stewards of our clients' financial lives.

## Team Updates

Big News. Well, by now most of you are aware that our business has a new home and a new name. If you are just learning about it for the first time -- SURPRISE! It is with great excitement that we announce our new name and location. O'Keefe Stevens Advisory, Inc. is located at One Bausch and Lomb Place, Suite 920, Rochester, NY 14604.

Our team worked hard to make this move a reality. This massive undertaking demanded our focus, cooperation, and teamwork. We are now a stronger team than ever before because of this task. We believe you will enjoy our new platform with TD Ameritrade Institutional. What attracted us to TD Ameritrade was its top-notch technology. We are sure you will notice the superior technology as it translates into better service for our clients.

You're Invited. We will be hosting a Grand Opening Party in July 2017. We invite you to join us in our new space for a casual event with good food, drinks, music and, of course, tours of our new offices. A formal invitation will follow in May. We hope you can join us.

We are available to talk as often as you need during the next few months as we settle into our new groove. Our configuration will allow us to spend greater time researching investments and managing your portfolio. Our trading will be more nimble and your time will be saved because we no longer have to call you about each trade. This should lead to improved long-term results. Our upcoming in-person meetings and phone calls will focus on your customized Investment Policy Statement and configuring your preferences on our new system.

Should you have any questions please contact any member of our team. If you want to stop by our new digs prior to the party just let us know. We'd love to have you visit and are excited to continue our work together at O'Keefe Stevens Advisory.

# Investment Process: Our Beliefs

## Expanded from the Value Conversation Call

Written by Justin Stevens

Our most recent investor conference call honed in on three of our investment principles. During the call, we focused on: Be Patient, History Matters, and Don't Forecast. We chose these principles because of their relevance in today's market situation. It's worth elaborating on these ideas that drive our process, so we can review them whenever we are tempted to let emotions influence our investment behavior.

Patience is a virtue. We are all aware of this, and yet it is routinely violated in the world of investing. The work we do together often focuses on this core belief. For example, it might have played out like this in 2015: "My investments in energy stocks are performing terribly. Should we sell them, cut our losses, and move on?"

Advanced studies in neuroscience show that humans are programmed to be averse to loss, and experience financial losses in the same way they experience pain. The natural response is to alleviate pain by putting a stop to whatever is causing it. The downturn in the energy sector, driven by the steep drop in oil prices, hurt holders of energy stocks. It was even more costly for those who sold out at low prices in a state of panic. Yet, it proved to be a fantastic opportunity for buyers as oil prices recovered.

Few people start out with the patience required to continually buy into a declining market. This makes complete sense when you consider that monetary loss is experienced in a comparable way to pain. Who willingly subjects themselves to the source of pain, thinking it will lead to the cure of the pain itself?

The answer is: it would only be a person who possessed knowledge and context of the situation coupled with an enormous strength in their discipline. These are important characteristics that can be practiced and developed. As your advisors, we care about your financial wellbeing and are always working on our skills so we act competently under the most trying circumstances. Furthermore, we work hard to pass information on to you in meaningful and manageable ways so that your skills are groomed as our investment partners.

History and forecasting were both relevant during the 2015 energy sell off example as well. I attended a conference in October 2015 and listened to a speaker, Bobby Tudor, from the investment bank Tudor, Pickering, Holt & Co. Their specialty is in providing services to the energy industry. One key takeaway that stuck with me from the lecture was Bobby's humorous statement: "We have a policy in our firm that if we catch anyone saying 'This time is different', we fire them on the spot". Historically, energy prices move in cycles, yet financial journalism attached itself to the story of the glut in energy supply which would surely lead to a sustained period of low, and even dropping energy prices. These news stories spooked many energy investors and the prices of some great energy companies got hammered during the period of low oil prices.

The historical knowledge of energy cycles proved valuable as 2016 produced outsized returns in the energy sector. Oil prices recovered (yet still have not returned to their highs) and investors who maintained discipline and continually added to strong, well-financed companies reaped rewards for their patience.

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Looking back on this situation, it's easy to say it was the right time to add to these stocks and not to sell them. In practice, this proves to be easier said than done. Forecasts were gloomy, and our opinion of energy was that it could take a long time to see a price recovery. The decisions we made were not efforts to time the recovery. The forecast didn't matter.

Our analysis was: we own great businesses and those businesses are attractively priced (albeit more attractive than when we made our first purchases). The only evidence we cared to acknowledge was the historical results from buying stocks under these types of circumstances.

When we look at the market today, we find ourselves near the opposite end of the spectrum. Prices are continually rising across many sectors and new highs are being reached. Nevertheless, investors are concerned and feel we have reached unsustainable prices in the market. How we behave in times like this should be dictated by our understanding of history. There are long-term result producing disciplines. Patience remains central to our beliefs. We may see the gap between price and earnings of companies continue to widen. We may see a period of stagnation in the growth of stocks. We could experience a correction in prices as people recognize they paid too much for the future earnings of many businesses.

Our current efforts are to continue to identify great businesses, buy them at a discount, and patiently wait for the market to recognize their value. Great values come in many different varieties. Today there are fewer value candidates than we typically screen. Therefore, we'll be taking our time to identify the good ones and can withstand a little underperformance while holding cash. Paying "up" to keep up with the market doesn't suit us. This strategy will play to our favor when others realize they placed outsized bets on underperformers.

Let us know if you have any questions or want more information. We have articles and books to share that help us maintain focus. We are open to talking with you if you need reassurance. Wealth building takes time, it takes patience, and it takes discipline.

## The Securities Industry Institute

March 2017 marked the final year of Justin's educational experience at The Securities Industry Institute. In its 66th year, this program is the longest running executive professional education program of its kind. Justin is recognized as a graduate of the program. Classes were taught by top business school professors from Wharton, Harvard Business School, UC Berkeley, and top industry speakers in the field of investments, leadership, and professional development. These week long sessions over the past three years packed an incredible amount of education into a condensed and workable format. Justin did a diligent job taking notes during these sessions and is happy to share his work with you if you're interested. Send Justin an email at justin@okeefestevens.com or ask about it in your next conversation.

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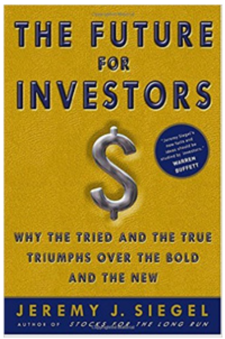
# Book Review

***The Future for Investors: Why the Tried and the True Triumph Over the Bold and the New (2005) by Jeremy Siegel***
Written by Justin Stevens




One of the greatest benefits of attending classes at The Wharton School was the opportunity to learn from market guru, Jeremy Siegel. Professor Siegel is known for his extensive research on market returns and analytical insights which have proved to be right on the money at pivotal times in recent history. Siegel made the case for ownership of stocks in his 1994 text, *Stocks for the Long Run*, and furthers his work in this book with insights about how to select the best stocks that will build long-term wealth.

Too often investors are lured into the story of fast-growing industries and rapidly expanding companies. While these businesses may expand quickly, it is not always a recipe for outstanding investment returns. Instead, Siegel's research shows that slow-growth industries, with mundane business outlooks, are typically the best performers over the long-haul. These companies tend to perform best because of their dividends, especially when they are consistently reinvested. The key take away from this book was "The basic principle of investment return" which states:

***"The long-term return on a stock depends not on the actual growth of its earnings, but on the difference between its actual earnings growth and the growth that investors expected." pg. 41***

The book goes on to discuss fascinating demographic shifts that will occur as our population ages and wealth needs to be spent by the baby boomer generation. As this generation sells its accumulated assets, there will be a need for buyers of those assets. Siegel makes the case for globalization as the only cure for this transfer of wealth. He is bullish on developing markets and makes the case for investing in the companies that will be able to envision global change and capitalize on it, no matter where they are headquartered.

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