Y O S E M I T E C A P I T A L M A N A G E M E N T

Second Quarter 2018

COMMENTARY

"True happiness is... to enjoy the present, without anxious dependence upon the future." — Lucius Annaeus Seneca

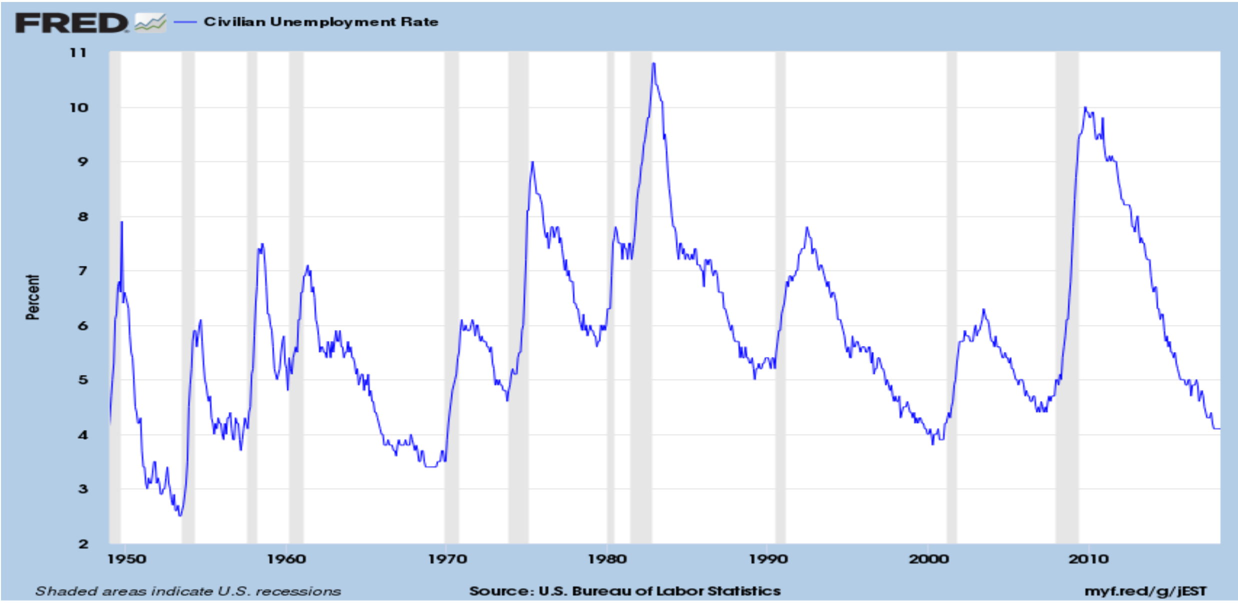
Humans have a natural tendency to think of much of the past in nostalgic terms, fondly remembering good times and reminiscing with friends and family about "the good ol' days". The good things happened so they stick in our minds. We gloss over or even forget the not-so-good, while the bad things that might have happened didn't occur so they don't exist in our memories.

The present is filled with angst, as readily seen in practically any form of news media. The future is unknown, by definition. Human reaction to the unknown is fear, and fear heightens thoughts of bad outcomes. So no matter how good things actually are in the present, people often obsess over the negatives and impending doom.

Today in the United States, unemployment is very low (see Exhibit 1), inflation remains low (see Exhibit 2), the stock market is near record highs on a run that is more than nine years old (see Exhibit 3), corporate profits are rising (see Exhibit 4), technology is amazing, medicine can cure more diseases and alleviate more symptoms than ever before, and options for leisure are continuously expanding. ***THESE ARE THE GOOD OL' DAYS!!***

Exhibit 1, Civilian Unemployment Rate

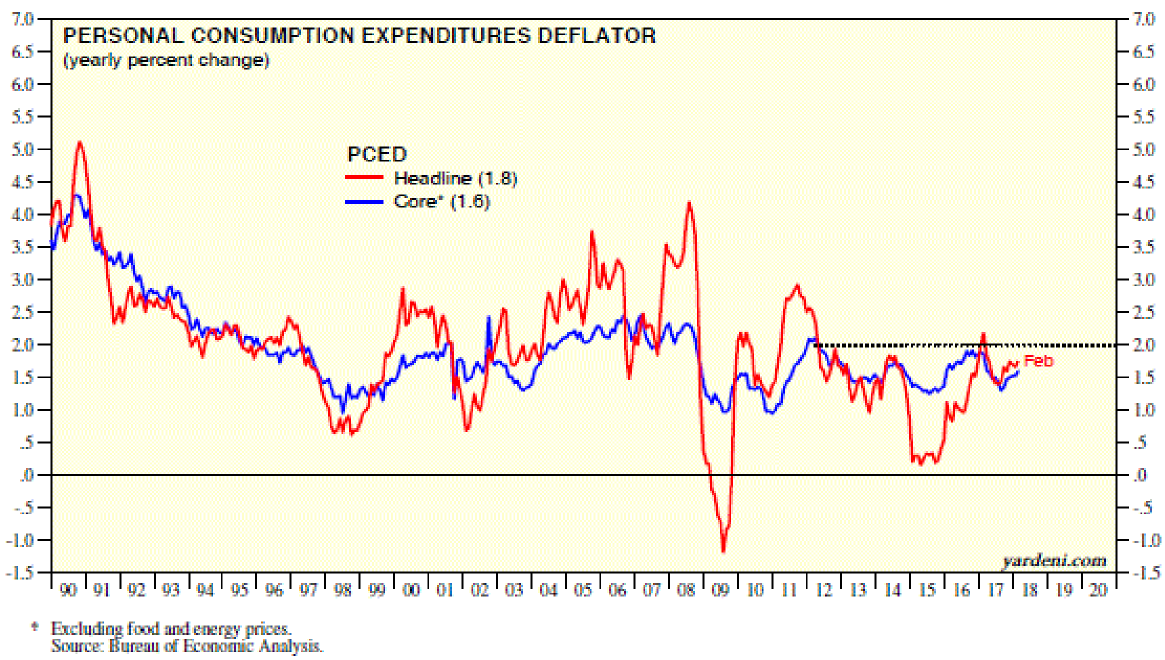
The official unemployment rate is near generational lows



Source: St. Louis Fed

Exhibit 2, Inflation - Personal Consumption Expenditures Deflator (PCED)

The Federal Reserve's preferred measure of inflation remains low

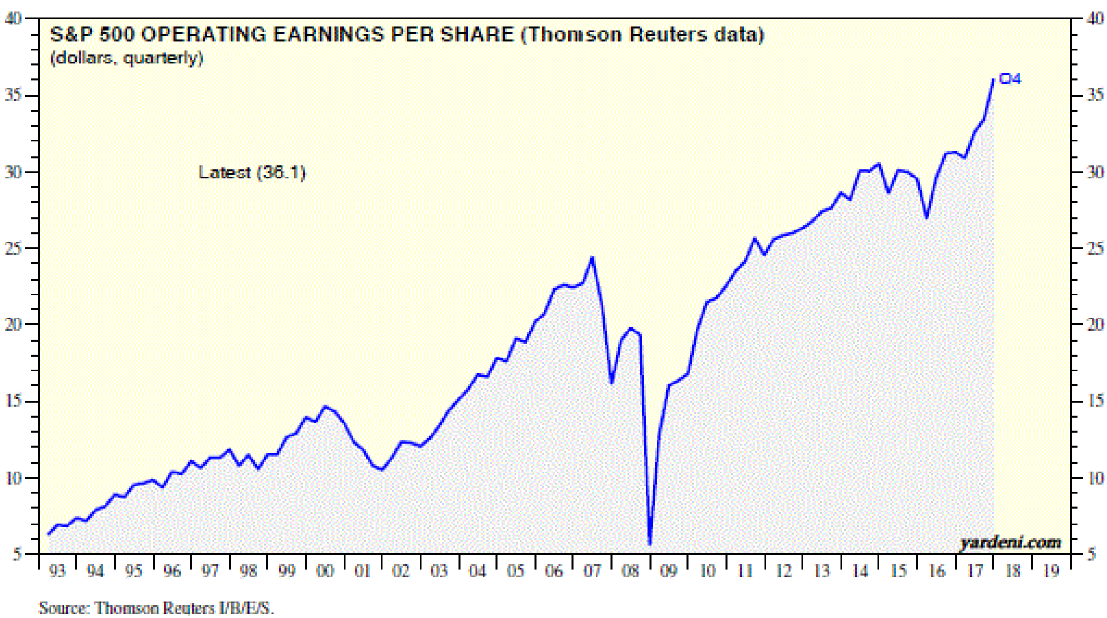


Source: Dr. Ed's Blog

Exhibit 3, S&P 500 since March 9, 2009 (start of the current bull market)
The S&P 500 has had an annualized total return of more than 18% over this time

Source: Morningstar

Exhibit 4, S&P 500 Operating Earnings per Share
Corporate profits are rising, which supports stock market valuations



Source: Dr. Ed's Blog

Yes, of course, averages and numbers don't tell the whole story. There are still many in the country involuntarily unemployed and underemployed. There is much more to be done about social injustice. Standards of living are stagnant for significant numbers of people. The world faces seemingly intractable problems between countries jostling to achieve their best interests. And the good things could quickly come apart. But none of this is new. ***There are ALWAYS problems and the future is ALWAYS uncertain***.

We can practically assure you that sometime in the future there will be an economic recession that will cause unemployment to spike upward and the stock market to fall. Inflation could eventually rise and cause problems. And bad things can happen along the way. When, not if, any of these occur, we could easily reflect upon the years in the mid-to late-2010's as halcyon times. So prepare for the future, but let's ***enjoy and appreciate the positive things while we live them in the present*** instead of realizing what we had after the fact.

Sincerely,

John Kleponis, CFA	Paul H. Heckler
Chief Investment Officer	Managing Director

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The S&P500 Index is designed and maintained by Standard & Poor's (a division of The McGraw-Hill Companies), is a free-float market capitalization weighted index that includes 500 leading companies in leading industries of the U.S. economy, and is intended to be an ideal proxy for the total market. This index is calculated on a total return basis with dividends reinvested and is not available for direct investment.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). This index is calculated on a total return basis with interest reinvested and is not available for direct investment.