KANOS
CAPITAL MANAGEMENT, LLC

Fourth Quarter 2017 Investor Letter

We have implemented a new tracking and analysis system to better serve you, and your new report included with this letter will list the buys and sells for the quarter. Many parts of the Investor Letter are contained in your customer Performance Report, including your portfolio's performance, composition and make-up and quarterly transactions. It also contains the synopsis of the quarter's market moves and some notes about our portfolio's performance.

Market Analysis - Looking Forward

2018 market events have already led to a lot of excitement. We anticipated there would be a correction in late January/early February, especially after the strong advances seen during January.

Economy

In contrast to earlier quarters, the US (and world) economies appear to have accelerated during the quarter as they experience a time of healthy economic growth and relatively full employment for the first time in years. The US corporate sector has become slightly more confident with the economic and regulatory constructs they currently face so that they are expanding capital expenditures somewhat faster than in the recent past; Boeing's situation illustrates this as the airplane manufacturer has its biggest backlog in history as airlines around the world move to modernize their fleets.

The two pillars of US corporate confidence appear to be the tax reform passed in December and the continued shedding of regulatory constraints led by the Trump administration. The tax reform law lowered corporate taxes to be more competitive with world business tax levels, lowered the tax thresholds for repatriating overseas profits, allowing more corporate cash to be deployed in the US and solidified the tax code so the law's relative certainty allows some tax savings to be passed on to employees and customers. Continued streamlining of regulations has allowed productivity to pick up in several industries, most notably in banking/financial services and industrials.

The improved economy has led to tighter employment conditions for skilled workers, leading to higher wages, as expressed in recent employment and price data released by the government. Tight employment conditions and resulting higher wages have caused investors to worry about increasing inflation. This has been one of the main contributions to recent turbulence in the financial markets.

We look for the economy to keep humming along in the next few months as the effects of taxes and productivity gains continue to help corporate profits. However, rising interest rates will start to crimp revenue growth during the year, and unfortunately, when unemployment gets this low, recessionary winds start to blow; the graph below from the 2/11/2018 issue of the Things That Make You Go Hmmm newsletter (page 17, sourced from the St. Louis Fed) shows this: each time the unemployment

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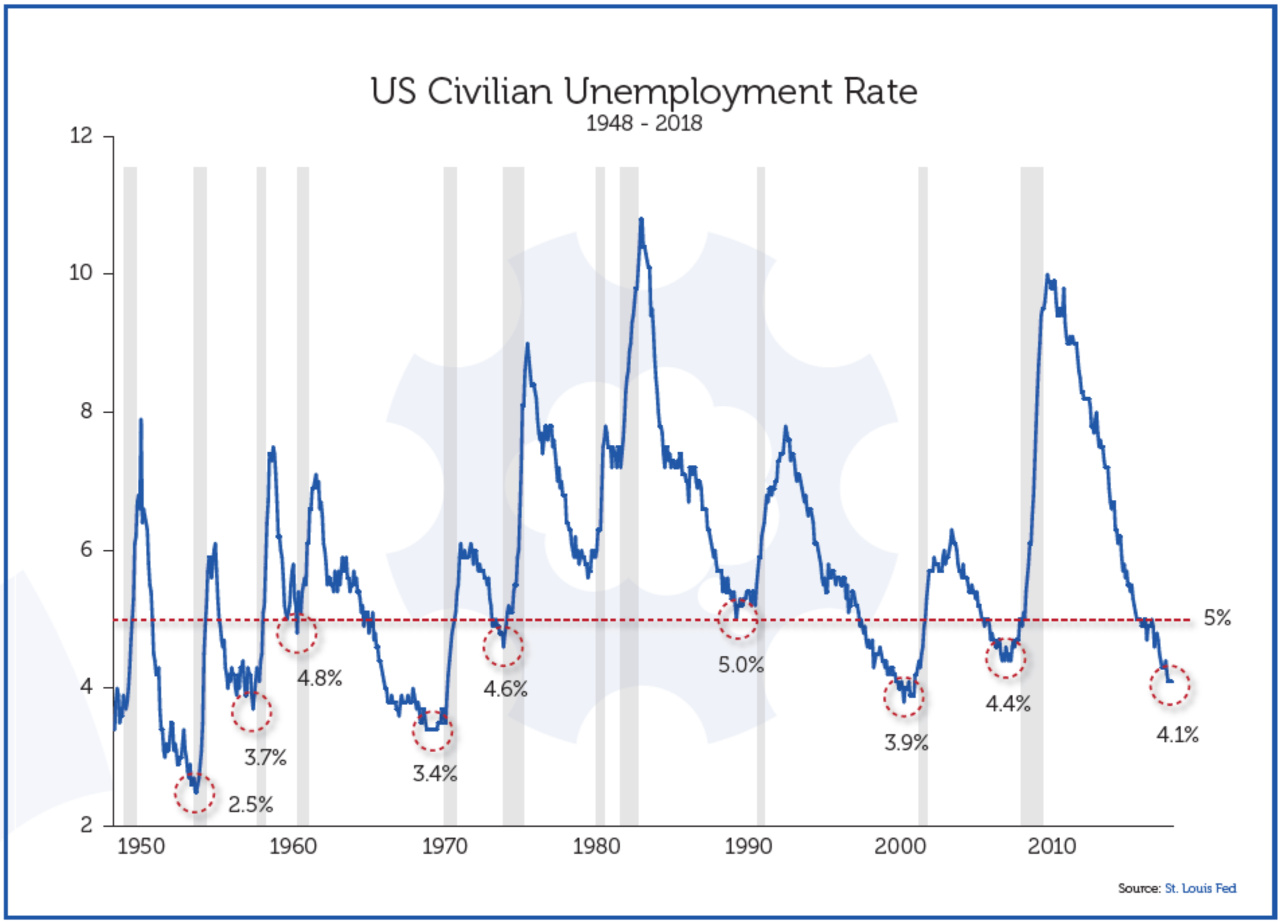
rate has dropped this low, it has marked the top in economic conditions. As the diagram below shows, the light gray columns mark recessions; unemployment reaches a bottom when economic expansions top out (red circles), and in each instance shown below (since the mid-1950s), a recession occurred within months. We are concerned about how quickly this could occur, and the markets seem to be on notice too, judging from the recent volatility in the stock market.



Equities

In January 2018, the S&P 500 rose as much as 6.7% as it and other market indices made new highs on January 26th. Since then, equity markets around the world have experienced corrections and recoveries, with some down days showing volatility not seen in a couple of years. We examine more of the action in financial markets in our Kanos Commentary following this section called "What Happened?". Here we will discuss our concise opinion about where we think equities go from here.

US stock markets rose strongly last year on the promise of smaller government, increased stimulus and promised tax cuts. In addition, the Fed was slow to raise interest rates in the face of a still-anemic US economy, and foreign central banks were still adding reserves through quantitative easing, feeding more fuel into world financial markets – much of which found its way into US financial markets. However, during the fall of 2017, conditions have become less favorable for US stocks: 1) the Fed announced its actual exit from quantitative easing (QE) in which it will let its $4 trillion Treasury and mortgage bond portfolio run off (dubbed "Quantitative Tightening" or QT); QT commenced in October and starting in January 2018 steps up in amount, 2) the Fed tightened rates again in December and signaled there would be 3-4 further rate hikes during 2018, which is a double-tightening along with QT, 3) the widely-anticipated tax bill was passed and the ramifications of the law have now been integrated into markets, 4) the realization that the tax bill and Trump budget will lead to larger deficits, increasing the need for borrowing and further pressuring borrowing costs higher and 5) European and Japanese central banks have eased up on their QE programs and have indicated that they might reduce them further in 2018. These five elements lead to higher risk for reduced earnings and less buying in the stock market.

The new element that threatens this years-old bull market is the advent of inflation. The tight employment situation and rising wage inflation mentioned above in the Economy section were reinforced in the February 2nd Employment Report and the February 14th Consumer Price Index report. Both reports showed rising inflation and a jump in wage inflation. With markets seeing inflation combining with the tighter monetary conditions mentioned above, many are starting to worry we have seen the top of the recent profits cycle, meaning the stock market may be topping over the next few months. In the last few years, the markets have seen profit cycles, and corrections have usually been met with central bank stimulus (Fed QE in the 2011-13 trough and ECB QE in the 2014-15 European profits trough). This time, central banks are facing inflationary pressures, improving economic growth and consumer fatigue toward stimulus for big banks. With no central bank financial stimulus, we think slowing corporate profit growth will lead to less buying appetite for stocks, leading to another correction (or worse) during 2018.

We were expecting a correction in early 2018, but we thought that it would be a shallow correction, taking some of the euphoria out of the market. Instead we got the "Vol-pocalypse", where investors and investor portfolios that were short volatility were the hardest hit. We think investors have, for the most part, "shrugged off" this correction, returning to the markets in force. This is why we only trimmed a little during this past correction. Going forward we think the markets will advance, probably to new highs, as investors interpret the advances of the past few days as being an "all clear" signal.

However, we think that there has been damage caused in investor portfolios (due to "late long" investors putting more money in markets near the highs) that the "next time down" will further expose, causing a much deeper correction. With good-to-great earning news being announced in recent earnings releases, and corporate managements announcing optimistic forecasts, we believe the 2018 earnings picture is set up for perfection, leading to a large chance of falling stocks if and when companies miss future earnings expectations, which will hurt the stock markets loaded investors with the "fear of missing out."

We think the hardest hits from a future correction will damage highly valued tech, consumer discretionary and industrial stocks that have benefitted from the benign conditions of the past couple of years. We have analyzed how our portfolios and several large stocks have fared during the correction and the recovery of February, getting more ideas about how to better position our portfolios to survive and hopefully benefit from future corrections. We will be adjusting portfolios during the quarter to be better positioned. In addition, we think there are many stocks in the biotech sector that are leading-edge companies that will benefit from either further medical and pharmaceutical advances or will be bought out by larger competitors. Some of our more aggressive accounts held Kite Pharma and/or Juno Therapeutics, leaders in Car-T cancer therapies. Both companies were bought out during 2017; we have identified and are investing in some similar companies that we think will benefit portfolios, even in adverse market conditions.

We don't know when the next correction will hit, so we are trying to "stormproof" our portfolios while trying to benefit from the current upward motion and earnings momentum in the market. With diversified portfolios, we think that we will benefit in this upcycle but also be able to limit losses as the next correction develops. While overseas markets have performed well, in many cases outperforming the US market, the events of February show that overseas markets follow the lead of US markets. Thus, we think diversification into overseas markets will not help performance at this time.

Bonds

Bonds are the most worrisome aspect of the financial markets. Bonds have been in a 35-year bull market, having bottomed in 1981-2 and risen over the years until reaching a low interest rate of 1.37% on the 10-year US Treasury in July 2016. Now, the "triple whammy" of 1) the Fed raising short-term interest rates in December and on track for a March 2018 raise, 2) the Fed shedding bonds from its balance sheet (starting in October at $10 billion/mo., at the end of 2018 the rate would be nearly $500 billion per year going forward – <u>half a trillion dollars of tightening</u>!) and 3) the new tax law and government spending adding to an already large budget deficit, meaning even more borrowing must be done by the US Government than originally thought. More supply, especially in these quantities, usually leads to higher rates!

US Treasury rates have risen from the recent 2.40% - 2.60% range and have broken upward in 2018, rising to 2.85% on February 2nd. This rapid rise in long rates partially caused the upset in equity markets in early February with investors unnerved by the prospect of high rates and high inflation. While equity markets have recovered much of their drop, rates have continued rising and are currently around 2.91%, leading to continued pressure on markets. Going forward, larger and larger auctions of long-term bonds are inevitable this year and forward. This increased supply, along with the Fed's raising short-term interest rates to combat overheating the economy, is going to put upward pressure on interest rates for a long time as supply balloons and central bank bond buying is set to moderate. Notably, when the stock markets had large drops during the week of February 6th, Treasury rates barely fell, showing that they were not the natural "safe haven" for scared stock investors that they have been for the last three decades.

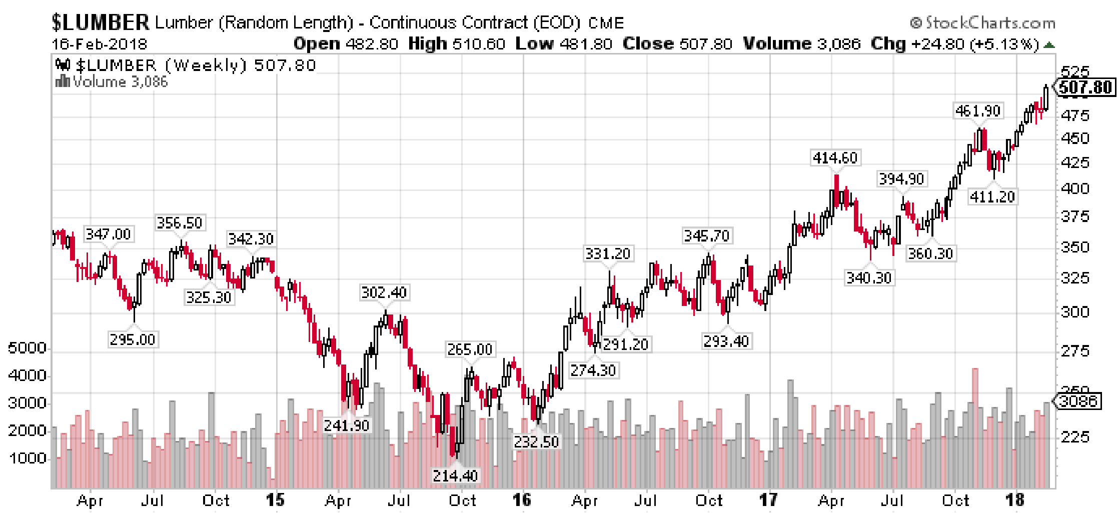
Corporate bond issuers have taken advantage of lower rates over the past few years, but a large amount of junk bonds have been refinanced to come due in 2018-19 and higher Treasury rates could impact HY interest rates and lead to distress among companies that have only survived because of the ultra-low interest rates of the past few years.

Foreign bonds will also be impacted, not only due to rising supplies of US Treasuries, but also because of the ECB is set to cut back on its QE program, which is supposed to end in September 2018. If the ECB does end its program or merely cuts back on it purchase rate again, this will remove another large buyer from world bond markets, putting further upward pressure on interest rates.

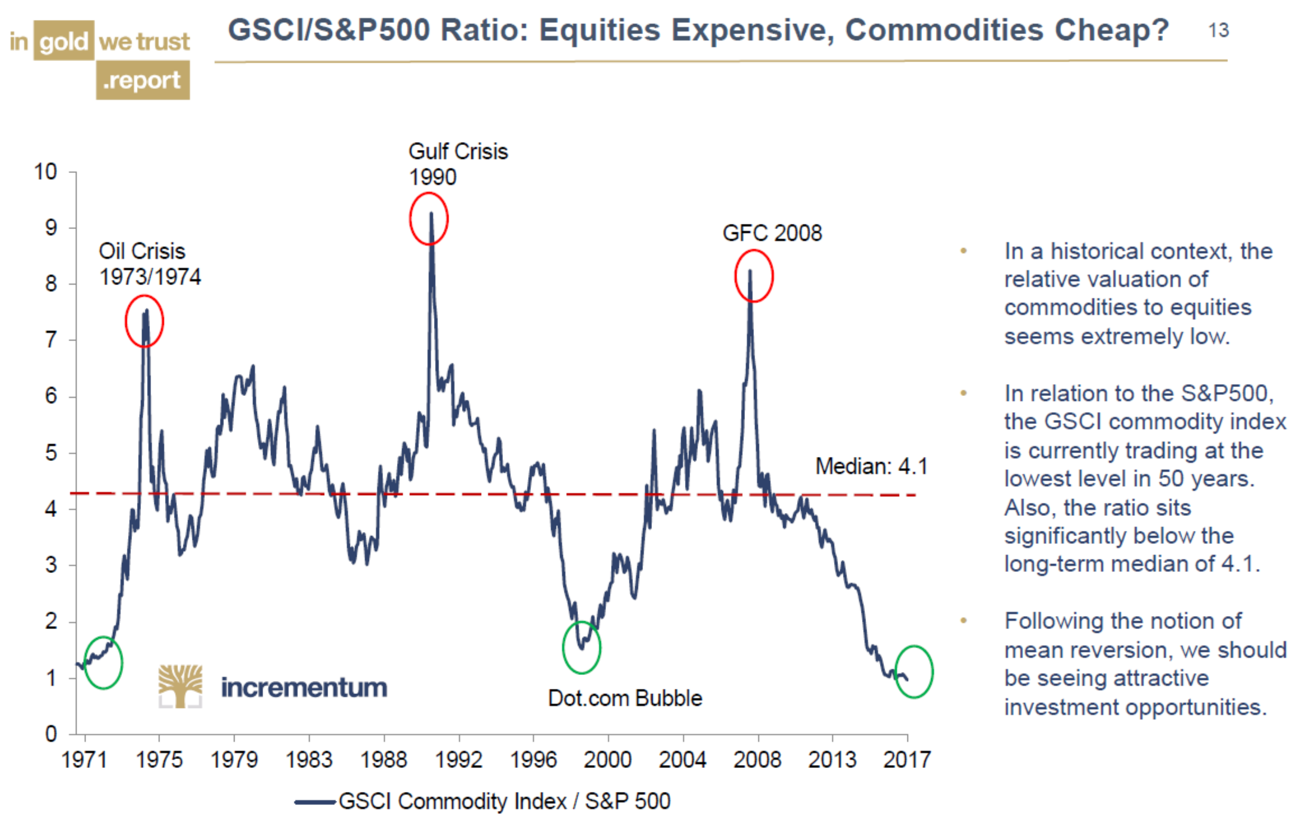
At Kanos, we will not be adding bond investments to our portfolios, and we will be watching our "yield investments" closely to see whether they react in line with dropping bonds or rallying stocks. We believe some of our consumer staples stocks, which have suffered over the last few months from slow growth, will serve as a safe haven of sorts during corrections. We will continue to manage your portfolio to provide yield while minimizing investment that move with bonds and drop as interest rates rise.

Commodities/Precious Metals

Commodities and precious metals appear to be at the beginning of new bull markets. Lumber, copper and gold show definitive bottoms in late 2015 and look to be breaking out or near breakouts:



Swiss consultant Incrementum's October 2017 "In Gold We Trust" Chartbook report shows this attractive opportunity: they graph the Goldman Sachs Commodity Index (GSCI) vs. the S&P 500 Index. The green circle at the bottom right shows commodities cheaper when compared to stocks at an even more attractive level than when stocks were high during the Dot.com bubble!



In the February 8, 2018 Felder Report titled "Gold Fireworks on the Horizon", analyst Jesse Felder has found that the last six years of gold price movements correlate well with the last "pre-bull market period" in gold. He writes: "Since its peak in late-2011 gold has acted very much like it did from 1996-2002 (hat tip, @NautilusCap), at least relative to the broad stock market. There is a 97% positive correlation between the past six years in the gold/SPX ratio and that earlier 6-year period. In fact, it now looks like the gold/stocks ratio could have some serious catching up to do to the upside."

Gold/S&P 500 ratio, 1996-2002 (gold line below) and 2012-present (grey line below):

Thus, as growth stock values peak and tech and industrial stocks become less attractive, we will be pivoting back into some commodity-oriented positions, as markets dictate. Base metals, as shown by copper above, have exhibited some strength, especially post-correction this month, and we believe there will be some attractive, large, dividend-payers which will benefit our portfolios.

We own a number of gold stocks, and we believe those will become big outperformers of our portfolios. Many investors believe gold will suffer as rates rise (due to its lack of dividend or yield of any kind), but as history and the chart below show, gold tends to go up in price when interest rates rise, because they usually do so when inflation is building. As the chart below from "Hotflation Sparks Gold Surge, Dollar Purge, Stocks Splurge" published by Zerohedge.com on 2/14/2018 shows, gold has far outperformed stocks and bonds since the December 2017 rate hike, and it held up very well during the past few days correction, while rising when the recovery in stocks occurred. We anticipate upgrading the precious metals / precious metals mining part of our portfolio to maximize results, income and safety.

Asset Classes (Gold, Dow Jones Industrials and 30-Year Treasuries) Since Last Rake Hike (Dec 2017)

Energy

Oil prices recovered and rose to almost $70/bbl (for Brent) during late 2017. We believe this is due to: 1) rising demand from growing economies around the world, especially in developing countries, China and other strong East Asian economies, and 2) a falling US dollar. The dollar fell for most of 2017, bottoming in September but then falling back to that level in December, and this helped oil prices. The oil price curve also went into "backwardation", meaning current prices are higher than future prices, a condition which only happens when current demand is strong. One of the detriments about investing in oil in the past couple of years was the large amount of crude in storage; with backwardation, crude oil has been bid out of storage for months, reducing the supply overhang even during a time of increasing worldwide production.

We have been skeptics that OPEC + Russia + other producers would be able to rein in their production to limit supplies and keep prices high. Many say that it is Saudi Arabia trying to keep prices high for their later-in-2018 IPO of Saudi Aramco, their national oil company. However, the discipline has been so good that stockpiles have been brought down, even in spite of rising US shale production. We think demand from around the world will continue near its current rate and will keep up with supply, as signaled by continued price backwardation. It seems like most people in the financial world are oil bears, with "everyone" thinking prices must drop. We are happy to join that group if price backwardation disappears, but until it does, we like owning large oil companies with large dividends and cheap valuations.

Natural gas is another subject entirely. Despite a very cold winter in the US and many other parts of the northern hemisphere, US natural gas is still plentiful, and prices have only spiked for prolonged cold snaps, returning to lower prices as cold weather abates. As we write, natgas is at the winter's lows, $2.59/MMBtu, so we will continue to try to avoid exposure to natural gas production.

Currencies and Other Markets

Currencies are going to play an even bigger part of the "story" going forward, mostly because the US dollar dropped through much of 2017 and currently is at its lowest level in four years. Despite Treasury yields rising (which normally would drive world money to the US to capture attractive yields), the US dollar has continued to weaken against the euro and yen for the past several months. No one has very good reasons why except for the uncertainty that the Trump administration brings, as well as the attractiveness of European and Japanese bonds due to their central banks providing a constant strong bid for those bonds, leading to investors favoring liquidity from a large buyer over a Treasury market now subject to increased supply and lack of Fed buying. A falling US dollar has been a boon to US stock prices; if the dollar starts to rise in the future, it could lead to lower US stock prices (and higher Japanese and European stock prices, all else being equal).

China's yuan has actually strengthened all year against the US dollar. If China feels the US dollar is too weak, it may move to influence rates, which could lead to more financial market instability similar to what happened when they acted in August 2015.

Kanos Quarterly Commentary

"What Happened?"
The Story of the Correction that Shook February

A series of large drops in US stock markets during the first and second weeks of February prompted some investors to ask us "What Happened?!" A number of financial publications and pundits have said it was just an "explosion of volatility products" or "technical correction," neither of which is even close to correct. We thought we would give you a "play-by-play" perspective of the week that we hope will give you better insight

The drops that occurred in early February were caused by extended fundamentals which when combined with rising interest rates and rising inflation expectations, led to investor selling, which was then exacerbated by a series of newer financial products not equipped to deal with such a high volatility environment. These volatility-based products will be a focus later in our account.

Prelude

These crises always seem to start with the US Federal Reserve. The Fed, as noted above, has kept easy-money policies in effect since 2008, and the reversal of these (the imposition of Quantitative Tightening (QT) in October 2017) turned a long-time buyer into a seller of Treasuries and mortgage bonds (by letting bonds mature and not reinvesting, as they had done for many years). Combine this bond selling with higher interest rates (the Fed raised rates again in mid-December 2017), and the liquidity in the financial markets was notably tighter, especially as the Fed doubled its "non-reinvestment" amounts in January from $10 billion/month to $20 billion/month. The final piece of reduced liquidity was the tax reform law, which is expected by pundits to add to the federal budget deficit, thus requiring even more bonds to be sold by the US Government to fund its operations than originally thought.

These elements of reduced liquidity immediately started to impact interest rates, and the 10-year US Treasury bond started climbing steadily during January, making bond and stock investors nervous as it surpassed the 2017 high (2.63%) and approached what several bond managers labeled "danger zones" above 2.80%. Interestingly, some more enthusiastic stock buyers, emboldened by bullish earnings forecasts and the promise of higher corporate profit margins (due to lower taxes) bid up stocks, with the S&P 500 rallying almost 7% by Friday, January 26th. The week of January 29th, stocks corrected a couple of percent as investors started to worry about valuation levels and stocks having gone up too much too quickly. Importantly, the rapidity of the rise in interest rates on the 10-year Treasury weighed on the markets, as nervous investors projected much higher interest rates much sooner than they had in December.

The Match that Lit the Fuse

On Friday, February 2nd, the US Government released the January Employment Report, which reported wages had risen at a 2.9% annual rate during January, a noticeable acceleration from earlier months. The markets "believe" wage inflation is the chief driver of inflationary forces that cause reduced corporate profits and push up the cost of living. In addition, investors saw this data as another reason to expect higher interest rates, further crimping corporate profits through higher borrowing costs and making credit harder to manage for individuals.

US stock markets opened down, and except for a brief midday rally which failed, fell all day, dropping badly on the close. When markets close down on large volume on a Friday, Mondays are often days of real concern as potential sellers watch for a recovery or sell positions they wanted to sell on Friday. We at Kanos watched but we were expecting a correction, so while we were concerned, we didn't expect this to be "the big one," instead expecting a "garden variety" 3-5% correction over the next few days, especially after a torrid January. Since we expected higher prices in March, we did not sell any positions so as not to cause taxable events or get "whipsawed," getting out at the wrong time and not getting back in opportunely.

On Monday, February 5th, stocks gapped down at the open but immediately rallied, getting back above Friday's close. Panicked sellers then used this strength as a time to sell, and the selling moved into higher gear until the Dow Jones Industrial Average was down more than 500 points during lunchtime.

Selling begot selling as "late longs" (people who had bought in January at higher prices) tried to get out of their positions and limit their losses, and volume ballooned as selling accelerated.

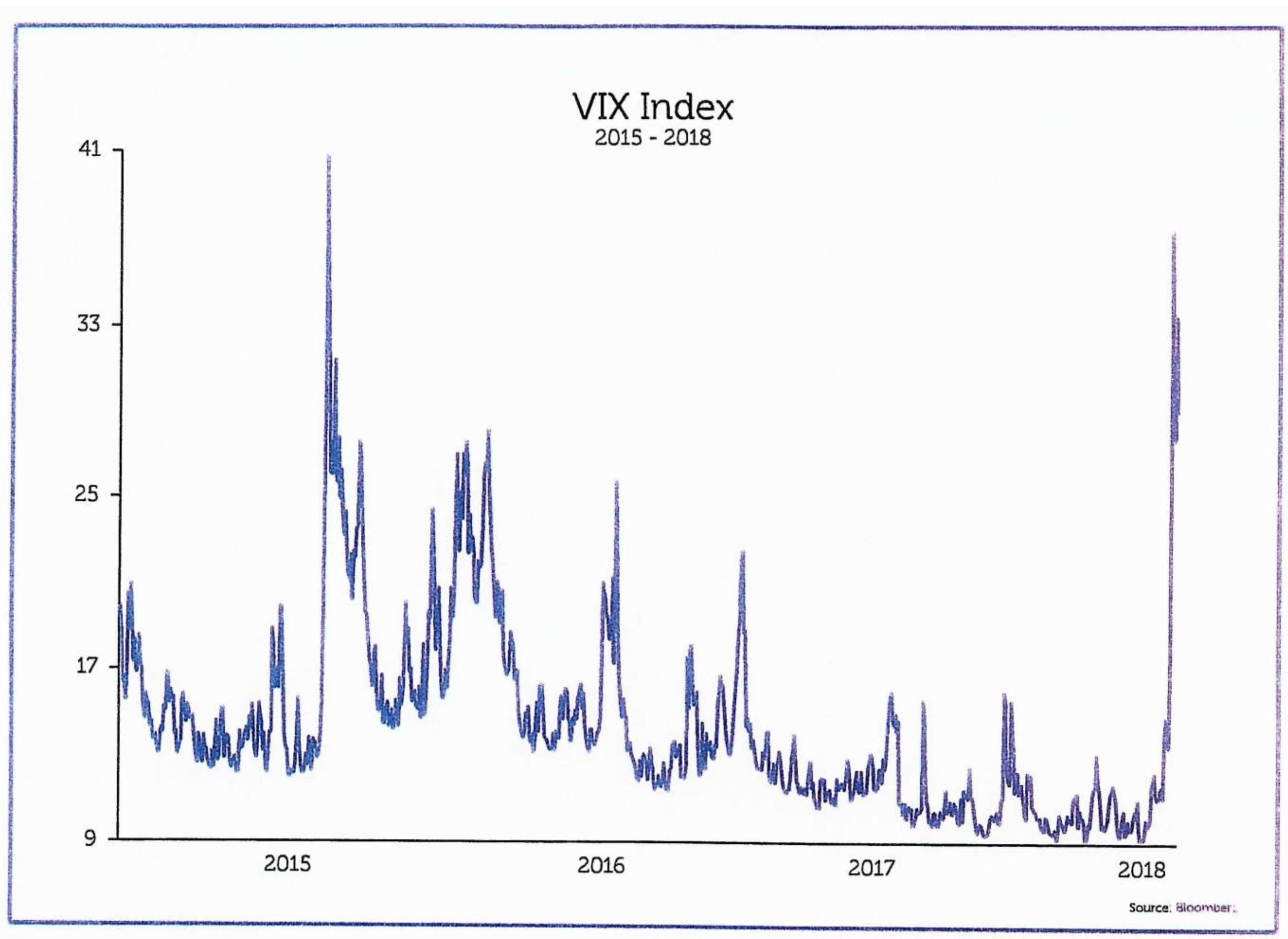
In mid-afternoon, with the market down 700+ points, we at Kanos became a little concerned that the selling could get out of control, and we sold part of our Dow Jones Industrial Average ETFs which had done so well in January, to control risk. Soon afterward, with the Dow down 800 points, an avalanche of selling came into the markets, driving down prices ANOTHER 800 points until the Dow was down more than 1600 points. Bargain hunters jumped in, and the Dow rallied all the way back 800 points within a few minutes, but that brought back sellers, and the Dow Jones Industrial Average closed down more than 1100 points for the first time in history.

Collateral Damage

Panicked sellers characterized the day, but many of those in a panic state were sitting in investments that had never experienced this type of market. The viciousness and rapidity of the drop raised the VIX Index, the short-term volatility measure of the S&P 500 Index (and by extension, the US stock markets). The VIX index (which is calculated from forward option volatility on the S&P 500), had been trading during much of 2016 and most of 2017 in a historically very low range between 8-11, which had only been seen before in the 1960s. The VIX Index usually moves up when stock prices move down, expressing option sellers' nervousness over lower prices. The VIX has spawned futures and options on futures, which has allowed investors and hedgers to use the index as a hedging mechanism, buying a VIX product to hedge stock portfolios (the VIX product will rise with a rising VIX when prices fall, hedging a long portfolio). However, you can also sell volatility, especially when conditions return to normal after a spike. What happened in 2016/2017 is a calmness in the market helped along by a dovish Fed led by Janet Yellen and a recovering economy under the new Trump administration. It was a record stretch of low volatility, coupled with the knowledge that the VIX usually stays in a low range (9-15 in most cases) except in times of market nervousness (VIX over 20) or times of panic (VIX 30-100+, which usually last for very short spurts), after which the VIX falls back to its "normal" range, which led to expanded selling of volatility.

Over the past few years, especially the last two, continued low VIX readings have emboldened a number of institutions and retail "investors" to take advantage of steady VIX readings to sell options based on volatility that don't get exercised (due to a lack of market drops or panics) and pocket the option premiums as profits. Profits from this strategy became so large and constant that more and more people started doing it, and there were even ETFs created to bet on continued low volatility which benefitted by selling volatility. The VIX has also become a trusted product for measurement of volatility used in two large new institutional stock strategies: Risk Parity and Volatility Targeting (which are used by institutions). Risk Parity sizes equity and bond positions in portfolios according to historical volatilities, leveraging up the bond portion since it is almost always lower volatility. As the volatility of the stock portion rises, stocks are sold to "balance" the volatility. If stock and bond volatilities rise, then both must be sold. If volatility drops, the portfolios will expand (increased through an increased use of leverage). These portfolios are almost always margined, especially if stock volatility is low and considered nearly constant. Volatility targeting merely targets a portfolio (with virtually any mix of investments) to a certain volatility range – when volatility rises, the portfolio is cut down to reduce volatility; when volatility drops, more money is put to work in risk assets.

As seen in the graph below from the 2/11/2018 issue of the Things That Make You Go Hmmm newsletter (page 19, sourced from Bloomberg) volatility rose sharply in early February 2018. On February 5th, it spiked with stock market nervousness, rising above 30 for the first time in years. This led to further selling as those risk strategies which balanced investments using the VIX were instructed to sell stocks due to the spiking VIX. This contributed more selling pressure to already panicked equity sellers. In addition, the last few days selling of bonds had raised bond market volatility to the point where stock sellers weren't buying bonds on balance, as they often do in a market rout, since Treasuries have traditionally been thought of as safe havens during stock market turmoil. Treasury bonds' failure to act as much of a safe haven further spooked stock market sellers, contributing to a higher level of concern and volatility.



Near the end of the trading day on Monday, many volatility strategies and products had been wounded as they weren't designed to survive a monstrous VIX spike like the one that occurred Monday. As dazed portfolio managers of these VIX-selling ETFs evaluated the damage and desperately tried to buy VIX futures to preserve value in the funds, these managers found huge imbalances in supply and demand;

this led to a late afternoon frenzy of VIX buying, driving the VIX far higher as panicked VIX shorts fought to survive. One short-VIX fund, the VelocityShares Daily Inverse VIX ETF, symbol XIV, dropped from 99 to 6 on the day, virtually wiping out all value and causing the fund to announce its liquidation. Another ETF, the ProShares Short VIX Short Futures ETF, symbol SVXY, traded down from $106 (yearly high $139.47) to $13. Numerous large institutional strategies took a lot of damage, forced to dump equities when the market was down and to sell more as the market dropped further. This is very reminiscent of "portfolio insurance," the strategy used in 1987 to sell more and more stock futures against portfolios to protect them which is widely credited with causing the Crash of 1987 when stock prices dropped 22.7% on another Monday afternoon, namely October 19, 1987.

The Rest of the Week

The rest of the week showed wild volatility, with the VIX staying in the 30+ range throughout the week. This resulted in continued selling by volatility targeting strategies, while the downswings caused nervous portfolio managers to sell overexposed portfolios. There was buying by bargain hunters, but the uncertainty around when the turbulence would end led many to stay on the sidelines. Tuesday, February 6th saw new lows reached, but the market managed to rally back for a gain by the end of the day. Wednesday was a quiet day, but Thursday saw strong selling, with the DJIA closing at a new low after falling 1,000 points in a day. Friday, February 9th, was the last pivotal day – after starting the day in the green but then falling to a 500-point loss, the Dow Jones Industrial Average rallied for a strong close at the end of the week, as did the other US stock indices. The oversold nature of the markets, coupled with a number of bargain hunting buyers, showed that Friday was the intra-day low, and the Friday afternoon gain provided direction for five "up" days during the week of February 12th.

Kanos portfolios were relatively fully invested, with only half of our DIA ETF having been sold on the Monday, February 5th before the huge afternoon drop. As we monitored the action, we still thought that since the market was less than 10% from a recent strong Friday close at record high levels (January 26th), this was not going to be "the Big Crash" with so much enthusiasm still in stock markets. As the Treasury bond market stopped falling and the VIX stopped rising starting on Tuesday, we moved from worrying about the downside to planning for further upside, and what we might buy. In the afternoon on Monday, February 12th, with Friday seemingly marking the end of the correction, we moved to buying mode and started buying some select stocks in portfolios.

Aftermath

We think this correction was important for a number of reasons (in no particular order):

1) The US stock markets have reached very high levels of valuation, and they are vulnerable to stronger corrections than in recent years;
2) The US stock market climate of the last few years, featuring low volatility, low interest rates and no inflation concerns, is waning, and stock market movements may be much more correlated to past scenarios;

3) The whole new "corner of the investment world" relying on low volatility as a prerequisite (short-vol funds) or as a target (volatility-targeting strategies) is probably in jeopardy to shrink appreciably;
4) Rising supply of long-term Treasuries due to lack of Fed buying, larger issuance by US Government and foreign selling sapped Treasuries' traditional role as a safe haven for selling stock investors during a stock market downturn – this is significant and will lead to investors looking for other places as safe havens, which should benefit gold and precious metals, among other things.
5) Rising long-term interest rates matter, and the pace of the rise matters especially. If we see rapidly rising interest rates or inflation rates or both in the future, we need to worry about the stock market;
6) The almost universal bullishness of January's stock market is a fertile crucible for corrections; the reversion to near universal bullishness just one week after a scary 10% correction means the scenario is reforming for another correction during 2018, which could be larger than this February retrenchment;
7) Such a low unemployment rate, coupled with the stimulus of tax cut legislation and still-low interest rates means the Fed will be at odds with the stock market, continuing to raise short-term interest rates while influencing higher long-term rates through its QT program; and
8) Inflation, the Fed's goal for the last few years, is finally arriving, and it is not as welcome as it once was – it could cause lower corporate profits due to higher costs of labor and materials, which generally leads to lower P/E multiples because of falling corporate profit margins. The US dollar has fallen pretty significantly, and with Treasury bonds being issued in larger quantities in the future, we don't expect this to change.

As mentioned above, we are using the lessons learned from this correction, as well as our market knowledge from past periods, to formulate portfolio changes which we will use to better shape your investments for the future.

The Managers of Kanos Capital Management