DEVKOTA CAPITAL ADVISORS

(PRESERVE AND COMPOUND)

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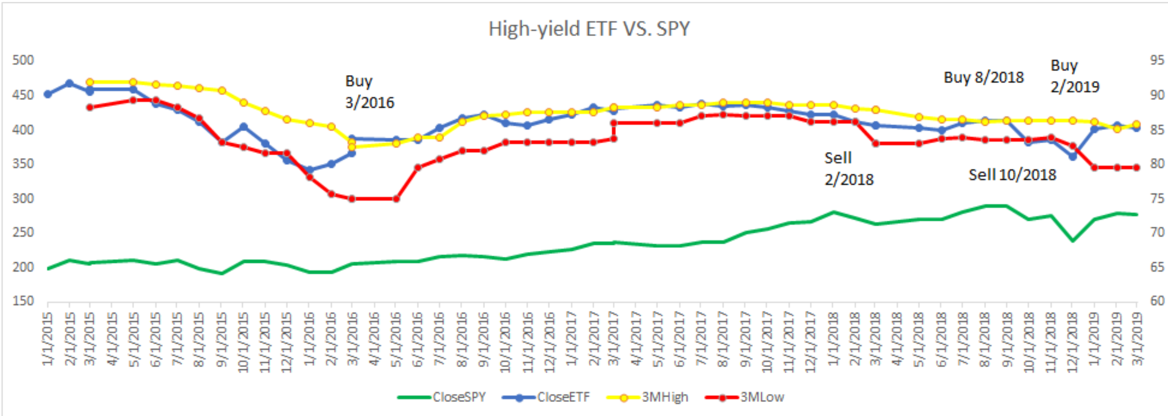
Right now, our research is pointing negative returns for the equity market. We believe that we are in the initial stage of this bear market and the high we saw in September 2018 will be the high for 2019 too. There are few things that make us bearish.

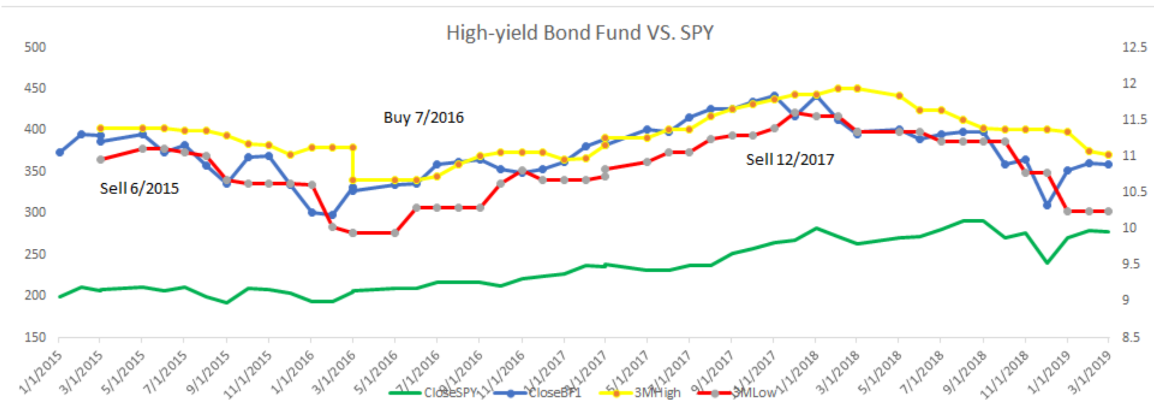
One of the indicators is the relationship between high-yield ETF vs. high-yield bond fund. There has not been any rally or decline in S&P 500 where high-yield instruments did not participate. Historically when both high-yield ETF and high-yield fund close above or below prior 3 months high or low that signals a start of the rally or decline.

We are seeing high-yield ETF make new 3 month high but high-yield funds are not participating in the rally with the same strength. This tells me that the currently rally is due to fear-of-missing-out rather than due to fundamental improvements. ETFs are more liquid so it brings plenty of short-term participants that will exit at the first sign of trouble.

As you can see in the charts below, in February 2019, we saw high-yield ETF make a new 3 month high but high-yield bond fund was unable to make a new high which tells me that this rally that we saw in 2019 may be coming to an end soon. There were 2 other instances when the bond-fund's last signal was "sell" and the ETF gave us a "buy" signal and those signals turned out to be false.

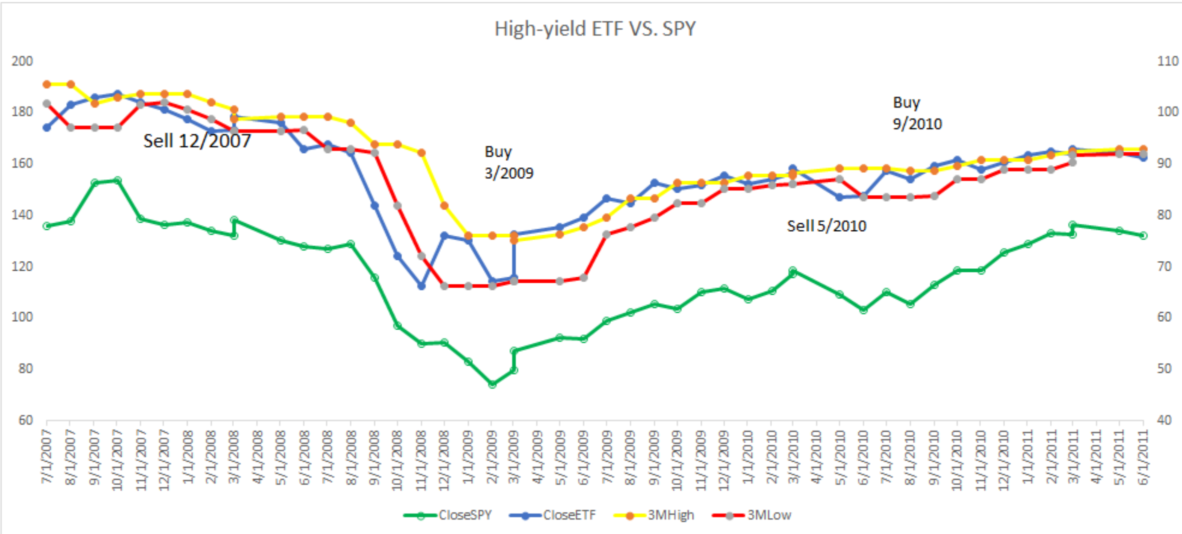
On 3/2016 the ETF model gave us a buy signal and SPY was trading at $209, we got a buy signal from the bond fund on 7/2016 and SPY was at $217 so for those 4 months SPY went up 4% only. Here is where it gets more interesting the ETF model gave us a buy signal on 8/2018 when SPY was at $290 and we did not have a buy signal from the bond-fund. As of this writing SPY is at $275 but it went down as low as $234 which was a decline of -19%.

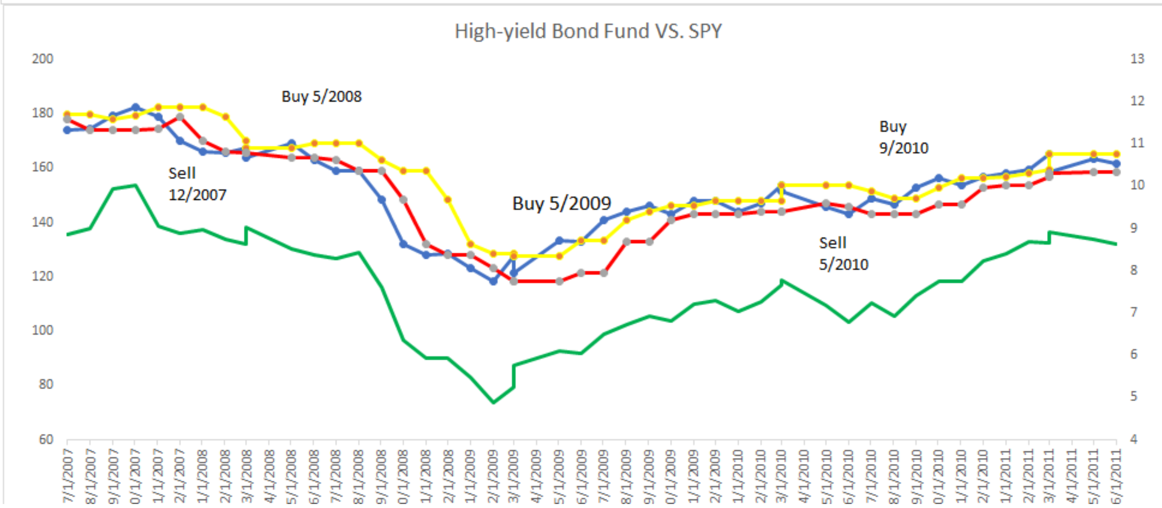




Before we look at some other indicators let's look at what happened in 2007 when high-yield funds and high-yield ETFs both went up or down at the same time.

In the charts below, you will see that both managed to get below its 3-month low in 12/2007 and both of those did not go up till 5/2009. Have we followed the signal we would have been completely out of the market during the bear market of 2008. SPY was at $136 in 12/2007 and by the time we got a buy signal in 5/2009, it was trading at $92.50 which is a decline of 32%. It is important to know that not all models give true signals all the time but when our model have given us a false signal the downside is very limited. On 5/2010 both the models gave us a sell signal when SPY was at $109 and the next buy signal was on 9/2010 when SPY was at $113. In this instance we missed out on 4% gain. Historically there have been 10 signals since 2001 and the average gain is 32% where as the average loss is 6% and the signals have been correct 70% of the time which provides us with great odds.

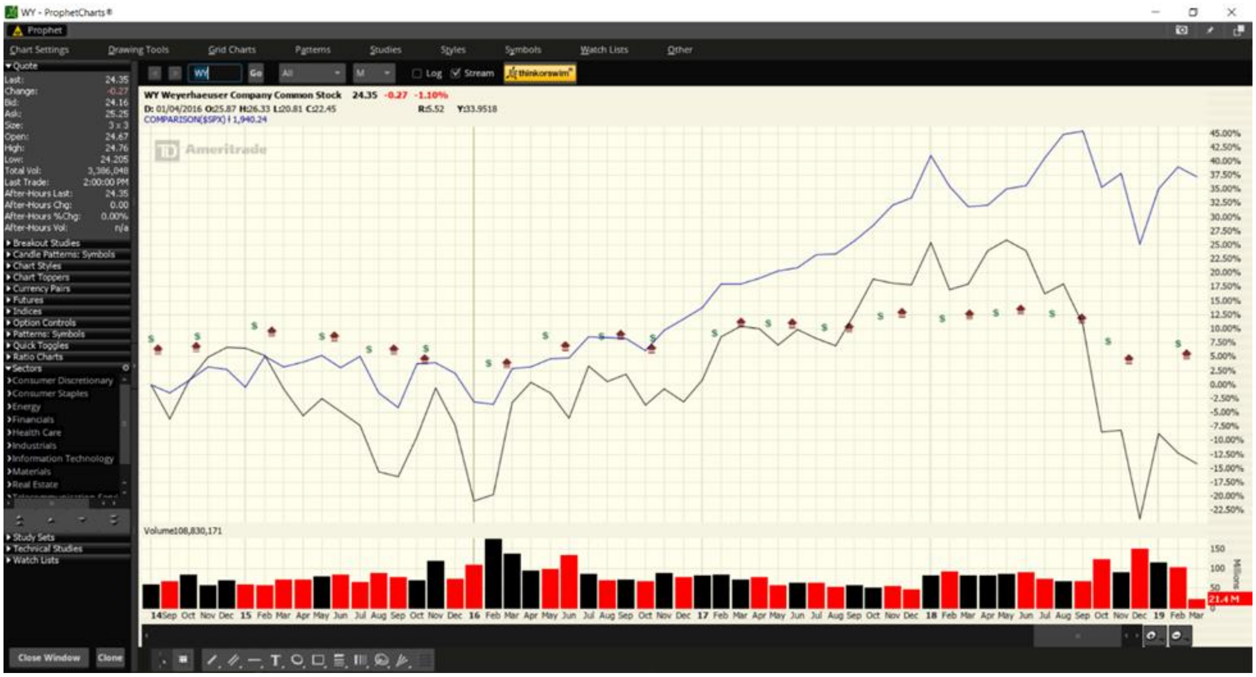




The other indicators that we look at is the strength/weakness of lumber prices and global shipping industry. It is difficult to get a bull market going without lumber prices and global shipping industry participating in the rally. Right now, both lumber prices and ETFs that track global shipping industry is showing weakness. Either these factors need to show strength and go up or the overall market needs to go down. At some point they have to converge and move together.

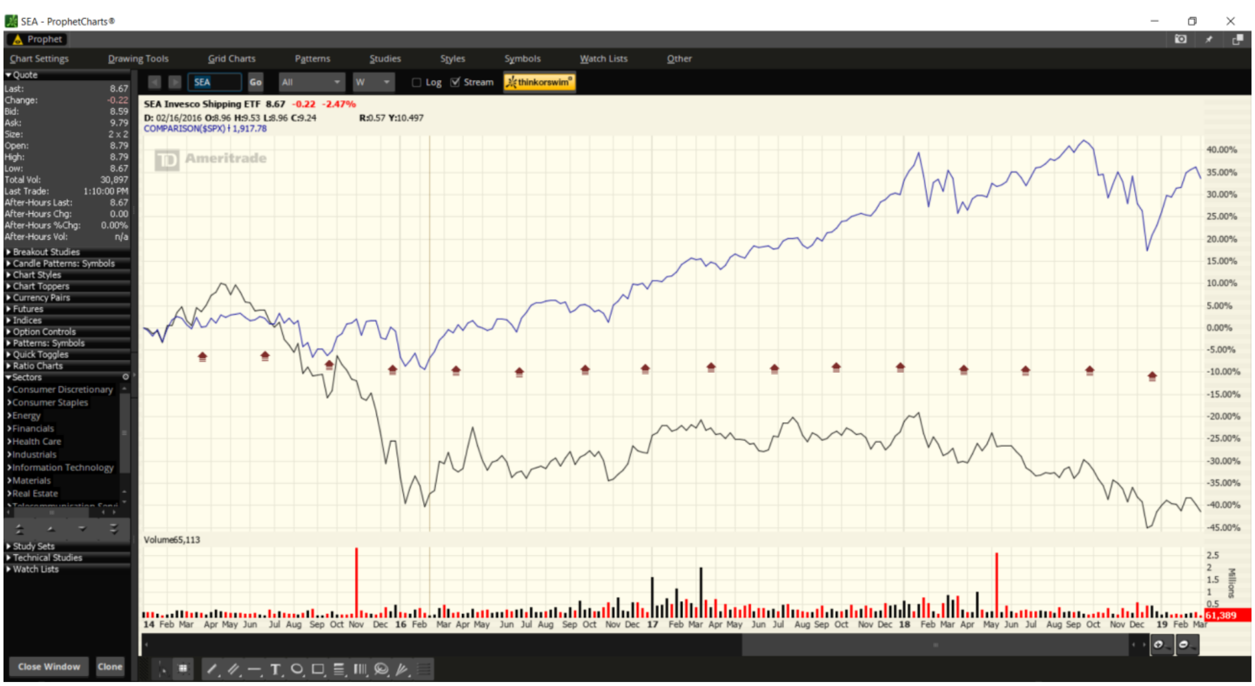
As you can see from the chart below S&P 500 is not able to keep a sustained rally without lumber prices/companies participating in the rally. Lumber prices made a high in May 2019 and was in a free-fall by September 2019. September 2019 happened to be the high for S&P 500 too. (Blue line is S&P 500 and Black line is lumber company).

Lumber Company



The chart below is the ETF that tracks global shipping. It has to perform well for us to have a sustained bull market. Recently we saw it make a high in early 2018 and it has gradually declined and I believe that this combined with all the other factors that I mentioned earlier will take the market down.

Global Shipping Chart



What's Next?

What we are seeing right now is something similar to what happened in 2001 and 2007, when it is all said and done, I believe the market will be down 40%. Markets usually do not go up or down in a straight line so whether we are bullish or bearish it will have counter-trend moves. In Q4 2018 we saw one of the worst quarters since the bull market started and it has rallied very strongly in the first two months of the year.

The main thing to know here is that many of the largest gains have come in bear markets so what we are seeing right now is very normal. I will be taking this rally as an opportunity to sell few holdings at a better price and hedge part of the portfolio. We had a great 2018 as we may be one of the few people that was up in 2018 when S&P 500 was down. I am expecting 2019 S&P 500 returns to be worse than 2018 so my current goal is to protect what we have.

About Our Strategy

We use a quantitative and fundamental process to select individual stocks that we believe will grow their revenue, earnings and margins in the future. We have a long-biased strategy. We are long stocks and short index ETF when necessary. Our main goals in order are to protect capital, compound capital and minimize drawdowns.

We had a fairly good February. We are up 4% for the month vs. 3.25% for S&P 500. I consider this to be good as we were partially hedged (15%) and had 15% of the portfolio in cash. The stocks that we owned went up significantly higher than the average as they came out with great earnings and guidance. This brings our year-to-date return to 9.4% (net) vs. 11.5% for S&P 500.

Sincerely,

Aalok Devkota

Founder and CIO

Devkota Capital Advisors

Model Performance (Net of 1.9% fees)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Model	S&P 500
2019	5.13%	4.04%	-	-	-	-	-	-	-	-	-	-	9.38%	11.48%
2018	6.13%	-0.82%	1.50%	4.93%	9.68%	2.74%	-2.08%	3.33%	0.58%	-10.26%	0.15%	-5.05%	9.71%	-4.38%
2017	2.80%	3.74%	4.12%	3.68%	0.20%	-0.26%	9.02%	0.43%	0.63%	0.97%	-0.11%	1.03%	29.18%	21.83%
2016	-0.58%	2.80%	1.67%	2.87%	-3.37%	6.34%	3.35%	-2.74%	5.29%	2.69%	-1.14%	-0.87%	16.97%	11.96%
2015	0.40%	6.43%	3.54%	-2.90%	0.47%	3.17%	7.82%	-4.45%	-3.21%	5.32%	1.74%	-1.47%	17.22%	1.38%

Disclosures

- Devkota Capital Advisors LLC (“Devkota”) is a registered investment adviser with the State of California and Texas.
- All of the performance returns above represent a hypothetical model that was created by Devkota.
- This model has been applied to actual client portfolios from 03/01/2017 and the above results represents net performance after a management fee of 1.9%.
- The results of the back-tests shown (prior to 03/2017) do not represent the results of actual trading using client assets but were achieved by means of the retroactive application of a model that was designed with the benefit of hindsight and should not be considered indicative of the skill of the adviser. The results may not reflect the impact that any material market or economic factors might have had on the adviser’s use of the back tested model if the model had been used during the period to actually manage client assets. The performance calculations for the back-tested results deducted a management and trading fees of (1.9%) per year.
- Past performance is not indicative of future results and any investment strategy involves the risk of loss.
- Performance shown represents total returns that include income, realized and unrealized returns.
- Devkota’s investment strategies involve a moderate level of portfolio turnover. Portfolio turnover affects transaction costs and lower returns. Any level of portfolio turnover will have tax consequences for an investor.
- The performance of an actual client account will likely vary from Devkota’s investment model for several reasons including custodial costs and other fees, actual transaction costs in a client account being higher or lower than the model transaction costs, market conditions during trading, investment selection availability, and/or other factors.
- You should not assume that future performance results will be profitable or equal to Devkota’s past model performance.
- Please see Devkota’s ADV Part 2 for a description of the risks associated with this portfolio and investing in equities.
- The use of Devkota’s investment model and strategies may be appropriate for certain investors as part of their overall investment strategy. However, the use of investment models is not a substitute for personalized investment advice and investors should consult with an experienced financial advisor before investing or implementing any investment strategy.
- The result for the benchmark S&P500 does not include reinvestment of dividends or any estimated trading fees.
- Investment advisory services offered through Devkota Capital Advisors, a registered investment adviser.
- Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.
- The Standard & Poor’s 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock’s weight in the index proportionate to its market value.