

# Comus Investment, LLC

Dear Partners,

July 1<sup>st</sup>, 2017

In the second quarter of 2017 our investments experienced a total return of 1.31% before fees and 0.68% after fees, versus 3.09% for the S&P 500 index. Year to date, we have generated a total return of 11.94% before fees and 10.54% after fees, versus 7.86% for the S&P 500 index.

Firstly, I would like to say that our results must be judged over a period of multiple years. This is not to downplay our lackluster performance this quarter but we will experience fluctuations in both directions over any period of weeks and months. We must remain composed no matter what happens in such short time periods. As you know if you have read our 2016 annual letter, it is to our benefit when prices decrease in the short-run as it leaves us with purchasing opportunities. These price decreases will harm our temporary results on paper, but I assure you they are of great value to our long-term performance. With this in mind, you should know that stock price changes in the short-run mean next to nothing and speak little of true changes in business values.

Frankly, I would have preferred if the market value of our holdings decreased rather than remained flat. Given that I am fully confident in the value of our investments, volatility is our friend and so three months of flat performance was rather frustrating. This was not unique to our portfolio as the CBOE Volatility Index, a measure of future expectations of volatility, reached all-time lows this quarter. Of course, I do not expect this record-low volatility within the stock market as a whole to become the new norm. As stated in the last letter, the market is in a period of 'irrational exuberance' as Robert Shiller would say, and prices have only been higher in 1929 and the late 1990's. This state of affairs cannot continue indefinitely and as Buffett says, when the tide goes out, we will see who has been swimming naked. It is my opinion that we will be well prepared for any outcome.

As the prices of most companies in our portfolio flat lined this quarter, we continued to make purchases. Once again, it is my belief that the companies we own are irrationally cheap and provide us with both significant protection from loss and the potential for excess returns relative to the market. Given that these companies are worth far more to us than the price at which they can be bought, it makes no difference to me how the low the market chooses to price them and will happily make purchases at such prices until their valuations are corrected.

The companies we own are generally flush with liquid assets and generate cash flow on a continuing basis. When I am able to purchase companies for us which are both significantly undervalued relative to the assets owned and future cash flows likely to be generated on a conservative basis, it makes me extremely comfortable with our future

prospects. Any true private owner would find it highly irrational to sell their own companies at such prices- only on the stock market will owners willingly give the companies they own away without regard to valuation. The impatience of these public owners, along with their inability to properly value their holdings allows us to profit tremendously and is what will sustain our results.

I will provide more details in our annual reports and would like to keep these quarterly letters short, but if you have any questions please reach out.

Best,

Aaron J. Saunders

Owner & Manager, Comus Investment, LLC.

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