



PORTOLACREEK

A California-Registered Investment Advisor

Q3 2018 Quarterly Commentary





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Cover: Peninsula Open Space Trust, Portola Valley, CA.

Left: Portola Creek's San Francisco Office.

Environmental Resolutions in Action

HP Inc. and Ikea are joining a growing group of companies scooping up ocean plastic to feed their supply chains.



Image: Sustainable Brands



Wespath and Blackrock have launched a low-carbon “Transition Ready” investment approach that seeks to direct capital to companies best positioned for a greener economy.



Microsoft has developed a risk-management tool to protect corporate clean power buyers from electricity prices that vary with the weather.



Mondelēz International announced that it would make all packaging recyclable by 2025.



Honeywell has designed a new eco-friendly refrigerant aimed at lowering costs and significantly cutting the carbon footprint of its freezers. Refrigerant management is one of the top solutions to cutting greenhouse gasses.

Social Responsibility in Action

Nike online orders rose after its controversial ad
starring quarterback-turned-activist
Colin Kaepernick.



Image: Nike



Image: PBS

Amazon raised its minimum U.S. hourly wage to \$15 effective Nov. 1, affecting more than 350,000 full-time and seasonal workers.



Image: competitionpolicyinternational

Aetna and Baxter International will review whether they're paying men and women equally for the same work and report their findings after prodding from New York City's \$195 billion pension funds.



Image: End Slavery Now

The **U.S. Department of Labor** released its annual list of goods produced by child and forced labor. The report found that 152 million children worldwide work to produce goods that include clothing, carpets, and diamonds.



Image: University of California

The share of **women** stepping in as U.S. CEO replacements is up, with about 22% of the top posts at 716 companies and non-profits going to a woman.

Corporate Governance in Action

Support for shareholder proposals from large institutional investors is up almost 29% on average. Big institutions such as Blackrock, Vanguard, and State Street are now twice as likely as individual investors to back shareholder advocacy on environmental and social issues.



Image: Bloomberg



Image: WBUR

On October 1, **General Electric's** board of directors voted to remove John Flannery as Chairman and CEO. He will be replaced by H. Lawrence Culp who will be the first outsider to head GE in the company's history.



Image: The Towerlight

At a “**PRI in Person**” conference in San Francisco last month, former U.S. Vice President Al Gore said, “If you do not integrate sustainability into your investment decision-making, you are violating your fiduciary duty.”



Image: In Corp

Companies that report sustainability information are most likely to put a monetary value on greenhouse gas emissions, water use, employee training, and workplace accidents, according to a study by **The Conference Board**.



A bipartisan resolution was introduced in the **U.S. House of Representatives** to bar members of the House from serving on corporate boards.



Quarter in Review

US equities fared well in the third quarter, benefiting from strong economic growth and earnings data, which overshadowed political uncertainty and trade concerns. The Technology and Healthcare sectors in particular had robust earnings reports. Materials and Energy stocks struggled with the tariff talk in the background.

The stability in growth and economic figures allowed the Fed to comfortably raise the Fed Funds rate by 0.25% in the quarter. The committee dropped its “accommodative” description of monetary policy, and reaffirmed its outlook for further gradual hikes into 2019.

Foreign stocks were a mixed bag. Japanese equities were up 5.9% due to a weakening yen against the dollar and greater clarity on policy coming from Prime Minister Abe. European gains were modest, but the bank stocks fell due to worries about their exposure to emerging markets. Emerging markets and the Greater

China region were hit the hardest by the tariff dispute between the US and China. Gold fell by about 4% in the quarter due to headwinds from a strong dollar and rising real interest rates.

During the third quarter, we witnessed continued strong stock performance by Facebook, Amazon, Apple, Netflix, and Google (Alphabet), often referred to as the FAANG stocks. When you add Microsoft to the group, they account for the entire performance of the S&P 500 during the first nine months of the year.

The narrow breadth of the market is common when investors are chasing performance. The herd mentality of investors kicks in when they feel that they need to own those winners to keep up with the index, which is true. The challenge is knowing when to part from these clearly over-priced stocks and move to more of the less popular, and therefore attractively-priced stocks.

Investment Outlook

The domestic economy appears robust across most measures, but we remain incredibly concerned about trade. China's retaliatory tariffs hurt revenues for our companies making agricultural and industrial goods going to China, of course. But we cannot ignore the adverse effects of our own tariffs on our own manufacturers, construction firms, farmers, retailers, wholesalers...just about every sector of our economy. For a thorough explanation of our position on tariffs, please refer to our [previous newsletter](#).

There may be times when bonds are perceived as a relative safe haven from equities and provide us with short-term positive returns, but we expect those times to be far and few between. We are keeping bond maturities in check and generally expect to hold our bonds until they either mature or are called.

We expect domestic stocks that rely less

on foreign earnings to fare better than their multi-national counterparts. Market breadth should widen to include positive performance outside the FAANG + Microsoft group. At some point, the Greater China region, and emerging markets as a whole, will be an attractive buying opportunity. With that said, the upcoming midterm elections and the chaos in Washington means the market is likely to experience larger swings of volatility.

Our private real estate investments are nearing the end of what has been a long selling cycle. Private company investments have always had a place in our portfolios and this time is no different. While gold has been a disappointment this year, we like the non-correlating characteristics of the metal and expect its price to stabilize and eventually rebound.

Portfolios aligned with your personal values and an intelligent investment strategy.

Schedule a Call

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Can we help you?

Let's schedule an introductory meeting so that we can learn more about your objectives.

[Schedule a Call](#)

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