



***“Nobody Goes There Anymore, It’s Too Crowded”***  
**– Yogi Berra**

January 31, 2017

To Our Clients and Prospective Clients,

In retrospect, last year was filled with an abundance of global economic and political uncertainty, but the year finished with a resounding bang, and at least from the investment vantage point, some degree of political clarity. The year proved to be a wonderful time to relaunch our firm and reaffirm our convictions around dynamic asset allocation and value-driven investing. It was a record year of growth for our firm by all accounts. Our asset allocation decisions proved prophetic as stocks outperformed bonds, domestic markets trounced international investments, and asset selection added value. We benefited from the reflationary environment and steepening yield curve. Moreover, this backup in yields during the fourth quarter sent many investors into a dither and yield-oriented stocks finally repriced, all of which benefited our approach. Although, the rotation happened quickly and markets are now trading near historic all-time highs, we believe valuation and sentiment remain supportive of our outlook.

As I shared in the past, when it comes to managing money, investing with a boutique firm like ours has several distinct advantages, supported by empirical research. There is overwhelming evidence that boutiques tend to produce better investment returns than larger competitors, which I am delighted to share with you. As financial institutions have grown ever-larger and more concentrated, particularly since the “too big to fail” legislation, success becomes self-defeating, particularly as it relates to managing money and identifying opportunities for clients.

The research is consistent in finding that smaller and organizationally younger asset managers outperform larger and older firms with more assets. The larger the fund, the more performance tends to erode over time. As firms grow and invest more money in the same recipes, it becomes harder to maintain nimbleness and transaction costs mount, eventually retarding performance (Beckers and Vaughn<sup>1</sup>). For example, in small-cap investing there is a distinct inverse relationship between assets under management and performance results (Christopherson, Ding, and Greenwood<sup>2</sup>). In fact, this same small firm advantage holds true during up markets as well as down markets and across most major asset classes, particularly more illiquid categories like hedge funds and private equity (Jones<sup>3</sup>), but even among traditional fixed income firms. Higher returns for core bond managers and high-yield managers most frequently accrue in the early years of a firm as opposed to the later years (Newsome and Turner<sup>4</sup>).

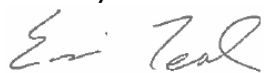
As assets grow, it becomes increasingly difficult to add value because implementation and execution become slower and more difficult to manage at larger organizations (Beckers and Vaughn<sup>1</sup>). Thus, it should stand to reason, that if you believed Bill Gross was a savvy bond manager while at PIMCO overseeing a \$270 billion fund, he should be an even more promising investor at Janus managing a \$10 billion fund. Constraints around asset size, firm tenure, etc. can be so limiting that some of the most successful money managers are not identified because they have moved from larger firms to smaller boutiques in order to seek more independence and less bureaucracy.

Moreover, since these investment boutiques tend to have fewer employees and a more manageable number of client relationships and assets, it should not be surprising that many tend to deliver not only better performance but also superior service. Since assets at most boutiques are held in custody at large banks and financial institutions, security concerns for clients are also dispelled. Thus, I strongly believe the investor goal should be superior performance and service rather than “safety in numbers.” If a boutique is skillful and able to deliver, then clients are better off (all else equal) if the firm manages less assets rather than more. In short, if clients can invest with skillful managers with solid risk controls, they should overindulge rather than pursue moderation.

Finally, the election and forthcoming changes in fiscal and monetary policy have brought on a new investment challenge, and our asset allocation approach and investment strategies have adjusted accordingly to maintain their competitive edge. At Queens Oak we will continue to apply our value-oriented mindset to those areas of the marketplace that are most inefficient. Our process has served investors well during the bear market stretches and bull market recoveries, and we anticipate they will continue to be effective in the current political and economic environment. Like the studies indicate, we firmly believe that clients and prospective clients searching for superior performance potential, should pursue a boutique firm like Queens Oak.

As always, we appreciate your support and look forward to visiting with many of you in the near future to update you on our firm and share with you our economic and investment outlook.

Sincerely,



Eric M. Teal  
 Managing Partner  
 Chief Investment Officer

#### References

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