APRICUS

I hope this note finds you safe and that you are being thoughtful about your personal safety over the next few months.

In this issue, my goal is to explain how opportunity and loss are two sides of the same coin, and why it makes sense to manage opportunity and risk of loss together as part of one process. –JC

APRICUS UPDATE

In the last ten weeks:

- We have secured office space in Beaufort, South Carolina.
- Apricus Wealth LLC was approved by the State of South Carolina as a Registered Investment Advisor (RIA).
- The USPTO has provisionally approved the Apricus Wealth LLC trademark.
- Our website apricuswealth.com is open.
- We have begun the verification process for our firmwide claim of compliance with the Global Investment Performance Standards.

NEW STATEMENT FORMAT

The new format was designed to give you an overview of your investments, followed by more detailed information on individual holdings. We hope you find the new format a good balance between accessible and informative. We are looking forward to your feedback about the presentation.

07.20

ONE COIN / TWO SIDES

When most people think about risk they usually focus on loss. But, in academic circles, investment risk is a symmetrical outcome. Here is an example of why most professors think this way. I spoke recently with a young couple who are saving for their family's future. The couple had been counselled to limit their risk of loss by making changes to their portfolios that ultimately reduced their long-term return. They wondered how much opportunity they had exchanged for protection from falling prices. They defined "loss" as lost opportunity and, in every way, the future profits they gave up are the same loss as if their portfolio had declined in value. **In investing, one person's gain is their counterpart's opportunity lost and one person's loss is their counterpart's safety.** When we think about risk in portfolios, we balance the risk of actual loss with the risk of missing out on future returns.

While our ultimate goal is to seek positive long-term returns, we prioritize managing risk of loss because consistent returns are preferable to inconsistent returns. When two portfolios have the same average annual returns, the portfolio that is more consistent will win. For example, a portfolio that returns 5% for each of two years will have a better return, 10.25%, than a portfolio that has a 2% and 8% return for the same two-year period, 10.16%. The more annual returns fluctuate, the larger the drag on performance.

FIRST AVOID DANGER

Our strategy is to first focus on reducing the risk of loss by identifying an opportunity set of enduring businesses. We do this by eliminating from our search businesses that are unlikely to be profitable, have borrowed excessively, are unlikely to grow, and are in other ways capital-constrained. We say that our process is exclusionary because we search for the best businesses by eliminating companies that, in our view, increase our risk of loss. We eliminate over 80% of all investable businesses through this screening process.

LONG-TERM RETURNS

We compare the companies in our opportunity set based on their valuation, operating consistency, and reputation. Our portfolios own a diverse combination of world-class businesses with solid reputations and positive long-term prospects. We spend much of our time valuing these enduring businesses because we believe the principal driver of long-term relative portfolio performance is valuation.

In the end, the dollar that could be lost represents the same risk as the dollar that might not be collected. We have found that, by eliminating companies that don't meet our definition of enduring businesses, we can focus on using valuation and portfolio management to capture long-term opportunity.

IRA REQUIRED MINIMUM DISTRIBUTION NEWS

The Coronavirus Aid, Relief, and Economic Security Act allowed retirement account owners to skip their 2020 required minimum distribution (RMD) from retirement accounts. The act was recently amended to allow distributions made early in 2020 to be "returned" to the IRA. If your 2020 RMD has been completed, we will be reaching out to you to discuss your options.