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WEALTH ADVISORS

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Cyr Financial Incorporated is a Registered Investment Advisor.

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State of The Union

It's been an interesting year. The first 26 days of the year saw the US stock market rocket up more than 7%… an absolutely amazing run. However, in the next 13 calendar days, the market plunged more than 10%. During this plunge, many of our stop-losses kicked in and we sold the majority of our positions. These stop-losses, designed to avoid major drawdowns within client accounts were effective in limiting losses. It wasn't until 30 days later that we re-entered the market. March however continued to be a challenge as we watched the market slip another 2%. The first quarter was a challenge to say the least, but we stuck with it as our indicators told us the market would bounce back (which it eventually did).

With April brought a new chapter to Cyr Financial... or perhaps even a completely new book. Who knows? But before we get into April, it's first important to quickly revisit the basic mantra of our firm.

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Invest in securities that will be moving up and avoid securities that will be moving down.

At it's essence, this philosophy sounds like simple common sense… does it not? Oddly enough however, it is rarely used by investment advisors. Locally in our region, there are at least 25 advisors. I have done my best over the years to invite each and every one of them to our office to have lunch. Surprisingly, most take me up on the invite. At first, when I explain the concepts of our strategies to other advisors they immediately become skeptical. Most often, the response I receive from my colleagues is *"Of course everyone wants to buy investments that go up and avoid investments that go down… But how do you actually do that?"*

There are very few things more joyful to me in life than sitting a colleague down in front of our 7 foot projection screen and showing them how our research-based, quantitative investment models have performed over the last 25 years. It usually takes about 30 to 60 minutes and they typically ask about 5 to 6 questions… Their doubt inevitably changes to a quiet hush. However, at the end of the meeting they shake my hand, walk out my door, and go back to their office and continue to do the same thing they have been doing. Nothing changes.

I always shake my head when *new clients* bring in their *old statements* from their prior advisor. Inevitably, they have owned the same exact investments since they started with the advisor 10 years ago. Sometimes there are some minor changes but never anything meaningful. *Wasn't there anything that occurred over the course of those 10 years which may have warranted a change to investment portfolio?* If the advisor hasn't changed anything in the portfolio for the last 10 years, then what has the advisor been doing? Is this investment management or merely hand-holding?

As unbelievable as it sounds, nearly all financial advisors continue to follow this traditional practice of static buy and hold investing. Static portfolios do well when the market is going up but perform terribly when the market goes down. Static portfolios performed dismally from August 2000 to July 2002 when the stock market lost nearly 50%. Static portfolios performed disastrously from October 2007 to February 2009 when the stock market lost over 55%.

Static portfolios are standard practice in the industry. To Cyr Financial they make absolutely no sense. You are not going to make a lot of money if your portfolio loses half of its value every 5 to 10 yrs.

> **Proof # 1 – The stock market (S&P 500) has averaged a 6.9% return per year over the last 20 years (not the 10% to 12% often quoted in the media). After adding some bonds to balance out the portfolio and some fees, investor returns have been under 5% before taxes.** https://dqydj.com/sp-500-return-calculator/
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> **Proof # 2 – Over the last 5 years, 76% of Equity mutual funds have underperformed their benchmark. The same mutual funds advisors are putting clients into.** https://us.spindices.com/spiva/#/reports

So why do advisors across this great land continue to provide such static portfolios to clients?

1. Traditional static investment theory is still taught at the majority of universities. I myself was a student of these principles. While some institutions have started to break away from these traditional investment theories, most still lean on theories which were developed 75 years ago. Think about the industry you are in (or were in). Has anything changed in the last 75 years? Plain and simple, financial advisors are merely following what the industry has been preaching for decades. Myself and a minority of a new generation believe these traditional theories are outdated. These theories taught us that the market is perfectly efficient. These theories taught us there are no advantages to be had in investing. These theories taught us that monkeys throwing darts at investment opportunities were just as effective as research-based, well thought out investment strategies. However, the evolution of portfolio construction is beginning to change, albeit in the early stages. Despite the fact that these outdated theories have been proven wrong, they continue to dominate the retail investment industry. These traditional approaches to investing using static portfolios are still considered prudent.

2. In the last 15 years, ground breaking research has been completed which contradicts traditional static portfolio management. But this research has not been performed by financial advisors. Instead, traditional investment theories have been disproven by *data scientists, mathematicians and people like me who believe there must be a better way*. The typical financial advisor is not using dynamic, quantitative, research-based investment philosophies because they simply are not capable and/or willing to develop and execute such strategies. This stuff takes work… and smarts… and desire! The average financial advisor is essentially a salesman, trying to meet quotas and collect commissions while placing the actual responsibility of investing client money upon a third-party who also charges a separate fee. They don't want anything to do with this stuff.

3. How often have we justified doing something in our life just because *"everyone's doing it"*? When markets go down, traditional static portfolios go down. How do financial advisors offering such portfolios explain these downturns to clients? The discussion goes something like this… *"Mrs. Smith, I understand you are concerned that your portfolio is down. But everyone's portfolio is down right now."* You see, as a financial advisor, it's ok to be wrong if all advisors are wrong.

The market has gone up 10 years in a row, currently we are in the longest bull market in US history. The next major market correction of 50% is not around the corner… but it is within sight. Static portfolios will fall dramatically when this major correction occurs.

Which now brings me back to April…

Although we wholeheartedly believe our investment philosophies are superior to the traditional norm, we realized they all shared one common trait… *They all relied on picking winners.* And while our strategies do pick winners the vast majority of the time, there are rare occurrences such as the first quarter of this year when most of our strategy picks declined in value at the same time. For this reason, we began looking for something different. And find it we did.

Two years ago, I bought the most popular book I could find on *options*. Options is a largely misunderstood investing tool which is rarely used. However, I wanted to invest in options in my own private investment account to make additional returns. The book I purchased was *Options as a Strategic Investment,* widely considered the "Options Bible". The author, Mr. Lawrence McMillan appears regularly on CNBC and Bloomberg TV, and is the recipient of the prestigious Sullivan Award due to his contribution to the growth and integrity of the US options markets. I figured his book was the best place to start. It's over 1,000 pages and two+ inches thick.

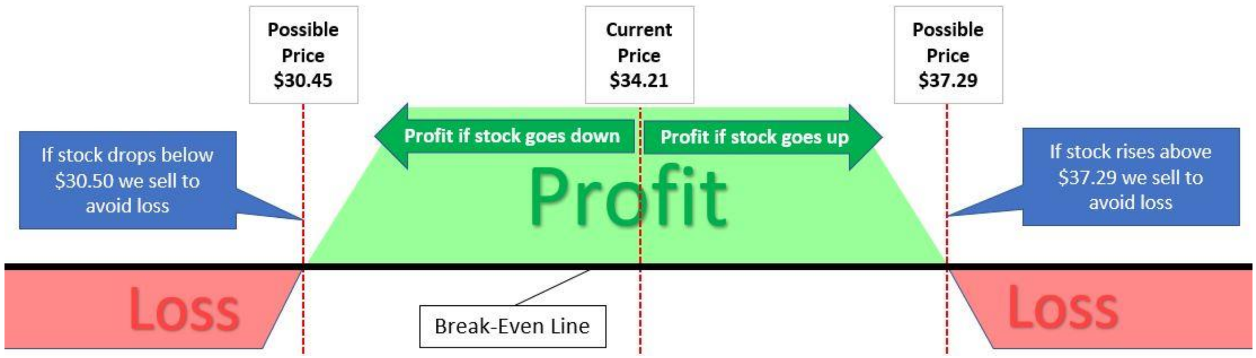
Fast forward to this past April as I attended a conference in Florida sponsored by the National Association of Active Investment Managers. This is the same organization which afforded me the opportunity to present the DynaMax strategy one year earlier. This year however, I was not presenting one of my strategies. Instead I was attending simply to listen to some of the people in my industry who think like I do. On the second day of the conference, you might remember I made a short video in the lobby of the hotel and sent it to all of my clients. Shortly after taping that video, I went down for lunch. As I sat down, we began the obligatory introductions and exchange of business cards with others at the table. It was much to my great surprise when the gentleman sitting next to me introduced himself as Larry McMillan… the man who wrote the book on options!

I spent the next hour talking to Mr. McMillan. When I described the first quarter investment results at Cyr financial, he laughed. It was a common theme at the conference among active advisors. He understood what our firm was going through and explained how he used options over the years to add another dimension to his institutional clients' portfolios. He went on to describe exactly what we were looking for.

Four months later, Cyr Financial rolled out its fifth strategy coined *Option Income.* Whereas all of our prior investment strategies were all based on picking winners and avoiding losers, this strategy was different. **The *Option Income* strategy places trades which can profit *regardless* of the direction of an underlying security.** In simple terms, the Option Income strategy offers clients a victory regardless if the market goes up or down. With this strategy, we do not have to pick which securities will go up.

Once again, the typical reaction we receive when explaining this new Option Income strategy is skeptical. *"How can you make money regardless if the market goes up or down?"* The answer is best described by a picture of an actual trade. On the next page you will see a profitability chart of an actual option trade that most of our clients (including you) are in right now.

At the time of this writing, Twitter (TWTR) is trading at $34.21. This option trade depicted below is known as an "Iron Condor". This trade will result in a profit to our clients of over $250,000, so long as Twitter stock trades between $30.45 and $37.29 on September 22, 2018. This trade statistically has a 70% chance of being profitable. Twitter can decline by 11% and we still make money. Twitter can increase 9% and we still make money. *Making money regardless if the security moves up, or down.*



We can exit this trade at any time but the bottom line is that we have a 70% chance of winning and we don't care if Twitter goes up or down. How does that sound for a strategy?

At this stage, we are only allocating 20% of client portfolios to the option income strategy. For any single option trade, we risk only 1% of the total portfolio balance. That means on average, a household has 20 options trades going, each amounting to 1% of total portfolio value. All of our options trades have *limited* risk (some option trades have unlimited risk, but we are not allowed to make such trades in our clients' accounts). **Accounts which have less than $100,000 cannot participate in the option income strategy as portfolio size limits our flexibility.**

I personally believe the addition of the Option Income strategy will greatly improve overall portfolio performance. Results so far on the options strategy have been very encouraging. Our last six trades have *averaged* an 18% return. The average trade has lasted just 18 days.

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We believe strongly that the next 50% down turn in the market will be when we shine the brightest. 2016 was a good year for us. The markets went up and so did our portfolios. 2017 was a fantastic year for us. The markets went up and our portfolios went up even *higher*. 2018 so far has been disappointing. The first quarter was not kind. However, I have conviction that we will end up on the right side by the end of 2018 and more importantly; I believe our best days are still to come.

Best Regards,

Christian J. Cyr

President & Chief Investment Officer