

Celebrating PASI's 40th Anniversary – *It's Surreal*

by Ken Ligon III

Each year dictionary publisher Merriam-Webster identifies a word with the most online searches. Considering the stunning victory of President-elect Donald Trump, it's probably not too surprising that this year the word is *surreal*. As I sit back and reflect on our forty years in the investment business, I can't think of a word that better sums up our journey. Today PASI proudly oversees approximately \$770 million in assets while serving clients in 30 states, with a growing population of second and third generation clients. We are grateful and humbled by the trust and confidence that has been placed in our firm.

It was an exceptional year in 2016 for the U.S. stock market, with the PASI stock portfolio producing a total return of 13.01%, while our benchmark, the S&P 500 Stock Index, gained 11.96%. Considering things went so well, we thought clients might enjoy a detour from the economic news and statistics, and travel with us back in time as we recount and reminisce on a forty-year odyssey.

In the mid 1970's, our founders, Ron Jaffe MD, a successful anesthesiologist, and Ken Ligon II, a manufacturing executive, met while playing tennis in Vero Beach. Ron's passion from the time he was a youngster, outside of medicine, was investing. He'd taken on the task of managing his medical group's retirement plan and was building the reputation that he was pretty darn good at it. He was soon approached by his peers, seeking investment advice.

Shortly thereafter, Ron and Ken joined their wives on a trip to Las Vegas; rather ironic that this would be the genesis of PASI. Neither of them cared to gamble, a mindset that proved invaluable to our clients through the years as they steadfastly stuck to their investment discipline during the inevitable periods of market uncertainty. Thus, while the ladies played the slots, they took a day trip to visit the Hoover Dam, where Ron laid forth his idea to start an investment company. Ken liked what he heard. I often wonder how they thought they could pull this off; what made them believe they could compete with major brokerage houses, banks, insurance companies and mutual funds? Perhaps they didn't know what they didn't know. Most likely though, hard working, intelligent, entrepreneurial spirits are destined for success.

On a single sheet of paper, they sketched out the ideas and philosophies that still guide PASI today:

- Treat people the way we would expect to be treated, with utmost integrity and respect
- Create a fee-based business to prevent conflicts of interest with clients (a rarely used model at the time)
- Present clear and concise investment reports with relevant benchmarks
- Produce competitive investment returns while minimizing risk and volatility

- Maintain client assets with an independent third-party custodian to ensure asset security and peace of mind
- Minimize expenses to the client

In the spring of 1977, they set up shop in Ron's spare bedroom and opened a handful of accounts at an independent trust company, with \$600,000 in assets under management. The founders often recalled keeping ledger books where they logged in trades and account information by hand. The company lore was always, "With four green notebooks on a kitchen table..." The photograph below validates that remembrance.



Kenneth Ligon II and Ron Jaffe MD

Slowly and steadily they grew the business, until they could financially justify leasing a small office where they literally sat across from each other and shared a desk. Located adjacent to a discount brokerage company, they negotiated a small opening between the two offices so they could access a nearby stock quote machine.

They soon needed more help and hired a part-time bookkeeper/secretary, Phyllis Schulke, who would stay aboard for the next 20 years. Next came Jean Clinton, whose administrative and operational talents shaped the early years of PASI as much as Ken and Ron themselves. After a few years, she approached them to suggest they buy a computer. Their response at the time was "what would we do with it?" But Jean prevailed and forged ahead, building our IT infrastructure. Back in the early 1980's there weren't any off-the-shelf investment software programs, so Jean taught herself *relational database* programming and created our own in house system. Jean finally retired two years ago, after 31 years with PASI. Her work serves as the foundation for our terrific portfolio management system, now enhanced by today's technology and our expert IT professionals.

While Ron and Ken deserve a huge amount of credit for our success, we gratefully acknowledge all of the talented professionals who've helped us along the way. Through forty years PASI has employed 30 individuals, each bringing a unique skill set to the team. Today we have thirteen employees and, when you include management, the average tenure is 13 years. This longevity is a testament to the firm and the founders and a reflection on how we value our employees. We've recently upgraded our website which includes investment team bios and photos of the entire PASI staff; we hope you check it out at www.pa-services.com and welcome your feedback.

There's a saying that timing is everything and it didn't hurt that when PASI was formed, the Dow Jones Industrial Average was hovering around 800. Ron, the eternal optimist, put a license plate on his car that read DOW 2,000. As the market climbed he continued to update his tag; the final one he owned stating DOW 20K. With the stock market perched at 20,000 today, I'm sure he would be proudly targeting his next market milestone.

For the first decade, the stock market climbed steadily until October 19, 1987, when the market crashed and the Dow dropped nearly 22.6%; still the largest single day *percentage* decline in market history. Ron was overseas traveling and out of contact, leaving Ken alone to man the phones. He spent the day counseling fearful clients, reminding them of the high quality of our companies and telling them that selling into the decline was a recipe for financial ruin. Finally, the day ended and Ken slumped back in his chair. He later wrote in our newsletter that he happened to look out the window and noted the sun was shining and birds were chirping. A car drove by with an older gentleman and a young boy, perhaps heading out for ice cream. It really wasn't the end of the world, life would go on, and people would still need the goods and services our companies provide.

The following year, 1988, I received a call from the founders telling me they were up to \$50 million in assets under management and planning for the future of the company. They determined three courses of action; a merger, sale or continue to build from within. I had a BBA in business from Stetson University and my name came up and I was offered an entry level position. I put my house in Clearwater, FL on the market that Friday and sold it Saturday. I've now been here over 28 years, hard to believe (and scary) how time flies.

My first few years in the business I arrived early, stayed late and absorbed as much as I could. I recall 1990; the Nikkei had been soaring and the founders decided to sell all of our Japanese investments, representing nearly 15% of our portfolio. They didn't call the market peak, but the Nikkei was at lofty levels after hitting an all-time high on 12/29/1989. Fast forward nearly 27 years later and the Nikkei is still selling 50% below that historic high.

We continued to prosper and needed more help in the business, at which point Ron informed us that he had been working to convince his son, David Jaffe MD, to leave his medical practice. He joined PASI in 1992, becoming President in 2004.

Along came the mid 1990s, when the Internet and personal computers became mainstream, ushering in a tremendous leap in technological innovation and setting off the largest U.S.

stock market rally in history. From 1995-1999, the S&P500 Stock Index rose in excess of 20% every year; previously this had only happened two years in a row. In the midst of these heady times, Ken's daughter and my sister, Carol Bieber, joined PASI. Eighteen years later, she serves as a portfolio manager, corporate treasurer, chief compliance officer, and office manager; we're fortunate to have someone so capable and dedicated.

The tech led bubble eventually burst and the stock market dropped for three years from 2000-2002 and for the first time in PASI's history our portfolios showed negative returns. But once again stocks recovered and started climbing, this time fueled by one of the largest credit binges the world has ever seen. Wall Street figured out ways to leverage everything to the hilt using exotic derivative investments, not only fueling the market but also wildly inflating real estate values. In 2008, we made a bold move to sell most of our financial services bonds and many of our financial services stocks, recognizing the risks being taken in this industry had the potential to bankrupt even the strongest players. In late 2008 it all came to a head, and the financial industry was decimated, requiring government bailouts to keep from crippling the entire global economy. With hindsight, we now acknowledge that those leaders made the right decisions; we survived the credit crisis and the economy has since recovered and steadily grown, albeit at a very slow rate. This is in stark contrast to what happened after the stock market crash of 1929, when government policy errors turned what would have been a recession into the Great Depression, the effects of which lingered until the United States entered World War II in 1941.

When I look back on my career, in my wildest imagination I never could have envisioned the insanity of the tech bubble when companies without any sales, let alone profits, saw their stock values soar to astronomical heights. Then along came the credit bubble, where mortgages were approved with a zero down payment, no credit check and no income verification; even the monthly payments could be interest only. You can't make this stuff up; truth surely is much stranger than fiction.

We are very proud of the investment results and services we have provided to our clients over the forty years. However, we never rest on our laurels, always pushing forward and looking for the next opportunity for our clients. Along the way, you can't be this involved in people's lives without developing very strong personal bonds and friendships. This relationship motivates us even more; we want to do well because we want our clients to do well. Together we've shared the many highs and lows that life brings. We've seen the client's joy with the success of their families and businesses. We've also seen the difficult times and shared the sadness when a client's health declines, divorce happens, or a loved one passes away. We here at PASI are not immune to the cycle of life. It has been 12 years this Christmas season since Ken Sr. passed away, and we lost co-founder Dr. Ron Jaffe almost nine years ago. We couldn't have gotten through the tough times without your prayers and support, and we are pleased to be able to help you, above and beyond our business relationship.

Since 2009 the stock market has steadily climbed and our clients have enjoyed eight consecutive years of stock gains. Our investment team believes the global economy faces slower growth over the next 5-7 years. Primarily this is the result of aging demographics in

developed countries and economic imbalances in China and Europe. Coupled with fairly high stock prices, slow growth will likely lead to modest equity returns. Our analysts estimate that PASI's 30 stock portfolio will grow earnings in the mid to upper single digits, versus low single digits for the overall market. Meanwhile, the PASI stock portfolio has a similar valuation to the market. It stands to reason, although not guaranteed, that our higher quality, faster growing companies will outperform the market for the remainder of the decade.

The Trump Presidency has the potential to stimulate the economy through infrastructure spending, lower tax rates, repatriation of overseas earnings, and decreased regulations. However, we remain skeptical about how much of an impact is possible, as discussed in much greater detail by our senior equity analyst, Nathan Polackwich, CFA, in the article that follows.

None of our success happens without you and for that we say thank you. Thank you for trusting us with your hard-earned capital, thank you for believing in us through good times and bad. Thank you for the personal friendships. May the New Year bring each of you much health, happiness and of course a decent rate of return on your portfolio.