NEPSIS™
INVEST WITH CLARITY™

The POWER OF CLARITY

KNOW WHAT INVESTMENTS YOU OWN AND WHY

www.InvestWithClarity.com

OVERVIEW

WHEN A WORD LIKE *CLARITY* BECOMES THE RALLY CRY OF THE DAY, ONE NEEDS TO TAKE A PAUSE AND CAPTURE THE TRUE MEANING OF THE WORD.

Because the word *Clarity* has become so ubiquitous in its usage, the effect of the word sometimes can be muted or flung carelessly like a bromide. At Nepsis the word *Clarity* is not only etched in our name, it is what we are all about. When one looks at the detail of its definition, one can see how weighty the subject of *Clarity* becomes. Because of that, we felt compelled to share to our story as it pertains to the power of *Clarity* and why it matters.

A detailed definition of Clarity from several web-based sources looks like this:

{ THE QUALITY OF BEING CLEAR AND IN PARTICULAR }

1. THE QUALITY OF COHERENCE AND INTELLIGIBILITY
2. THE QUALITY OF BEING EASY TO SEE OR HEAR
3. THE QUALITY OF BEING CERTAIN OR DEFINITE
4. THE QUALITY OF TRANSPARENCY OR PURITY

Sometimes when touching on a topic, it is more effective to describe what something is not first. Hence, based on the aforementioned definition, we could surmise that if one was placed in a scenario where *Clarity* was not present the following would occur.

{ A CONDITION OF AMBIGUITY AND IN PARTICULAR }

- BEING INCOHERENT OR UNINTELLIGIBLE
- BEING HARD TO SEE OR HEAR
- BEING UNCERTAIN OR INDEFINITE
- BEING OPAQUE OR IMPURE

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AT NEPSIS WE BELIEVE THAT A MAJORITY OF THE INVESTING PUBLIC SUFFERS FROM A CHRONIC CONDITION OF AMBIGUITY WHEN IT COMES TO UNDERSTANDING WHY THEY ARE INVESTED THE WAY THEY ARE.

Using the antonyms of the attributes of *Clarity* just presented, we could say that most of today's investors have an unintelligible knowledge as it pertains to the company ownership in their portfolios.

> "Price IS ONLY AN ISSUE IN THE ABSENCE OF VALUE"

We also believe that today's investors feel very uncertain as it pertains to any sense of control they have over the inner workings of their portfolios. Couple that with a massive overload of news and information hurled their way, investors find it very hard to see the forest from the trees. In our estimation, this bombardment of noise has given rise to both skepticism and fear as investors simply don't know whom to trust.

Research studies show that in situations where human beings face the unknown or feel a lack of control, that the emotion of fear is not only present, it is at heightened levels. The level of fear investors face has caused undo stress on their ability to generate and maintain wealth. This set of circumstances has led to extremely dramatic changes in the way people approach investing. Once measured by the level of purity, care, and trust assigned to a portfolio manager, people's approach to investing is now measured simply by cost. The profound saying of, "price is only an issue in the absence of value" has never rang more true than in today's investing world. Investors at each turn seek the lowest cost alternative believing that cost is their only default mechanism for constructing a portfolio. This impure view of active management is caused by chronic skepticism of our industry where little value is assigned other than price.

Like any pitfall in life, often there is a remedy, and in this case, we believe *"The Power of Clarity"* is the answer. The elixir to stress and fear is both understanding what you can and cannot control as well as understanding what you own in your portfolio and why you own it. Ultimately this type of *Clarity* has a "priceless" tag value. We invite you to continue reading as we make the bold proclamation that not only does *Clarity Matter*, it is essential in creating better wealth and ultimately a better life as we achieve successful investing.

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OWNERSHIP

DO YOU KNOW WHICH COMPANIES YOU OWN IN YOUR PORTFOLIO? AS AN INVESTOR IN A COMPANY'S STOCK YOU ARE AN OWNER OF THAT BUSINESS.

A vast majority of investors have no idea what their number one holding is, let alone the several hundred or thousand they may own. We believe that there is nothing worse than not knowing what you own and why you own it.

When investors are naïve as to what they own and why they own it, they are not properly informed and are therefore ill-equipped to make rational decisions. Due to this fact, they confuse damaged stocks for damaged companies and unload perfectly sound businesses in periods of market sell-offs, which are almost always driven by emotion. If investors are not familiar with the companies behind the stocks they own, they cannot legitimately fully understand their portfolio. More importantly, they lack the *Clarity* to know when they should be buying more shares during market downdrafts and paring gains during market melt-ups.

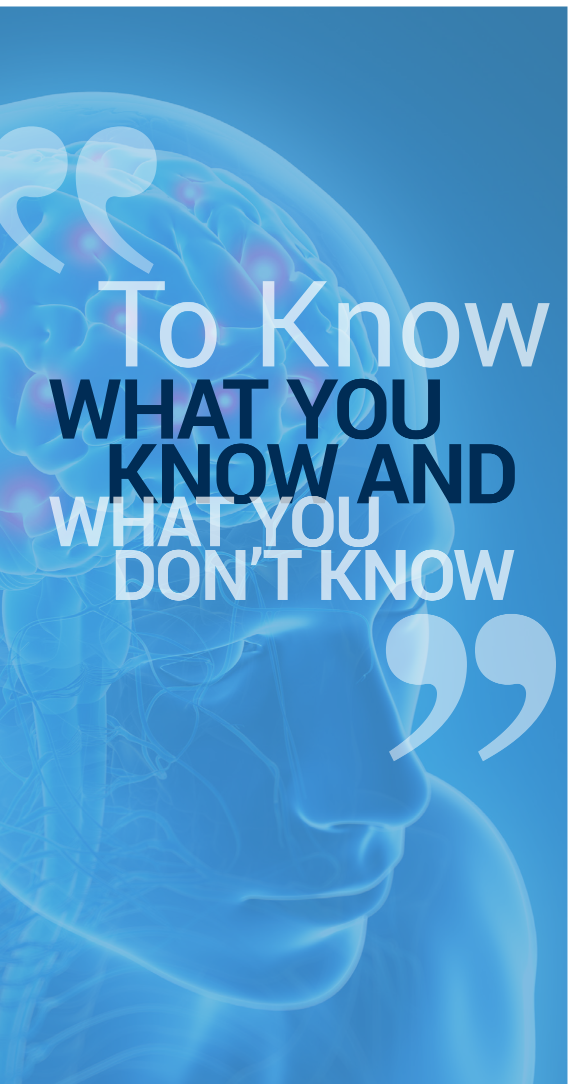
For instance, when a company's stock price unexpectedly goes down, was it due to so called "market forces" or because of fundamental changes within the company? Is the situation one of a damaged stock, which is always temporary in nature or rather, a situation of a damaged company, which is much longer lasting? Stocks are damaged by the stock market and almost always due to emotional swings by investors. Companies are damaged by the firm's management and the long-term decisions they make. Examples today include old-time tech firms that failed to anticipate the shift to cloud-based services and brick and mortar retailers that failed to see the need for a robust online operation.

Legendary portfolio manager Peter Lynch in the 1980s coined the phrase, "Know what you own and know why you own it." He made this simple statement because he firmly believed that the more investors knew about the components of their portfolios, the more likely they were in reaching their goals and objectives. Although a profound comment at the time, little did Lynch know how relevant his statement would become 30 years later.

CONTROL

JUST AS WE BELIEVE THAT TODAY'S INVESTORS HAVE LITTLE UNDERSTANDING AS TO WHAT THEY OWN AND WHY THEY OWN IT, WE ALSO BELIEVE THAT INVESTORS FOCUS ON THE WRONG INFORMATION

This comes in the form of media driven headline stories investors follow to obtain some sense of control that unfortunately do nothing more than make matters worse.



The old saying that, "Greater information does not necessarily equate to greater wisdom" certainly applies in this situation. Psychological studies have found that our brains go into shutdown mode when we are bombarded with too much information. Furthermore, confusion sets in which freezes our brains to further input in an attempt to limit ambiguity. Think about that; our brains are wired to prosper under *Clarity* and not ambiguity. We believe what was intended to be the medicine (create awareness of the inter-workings of the financial markets) has become the poison.

In essence, the remedy (a plethora of data) of the disease (investor ignorance) has actually prolonged the illness. Almost with unintended consequences, the financial news media with its onslaught of information has driven the retail investor into a state of comatose. Famed author Peter Drucker was quoted as saying, "Overload of information leads to information blackout. It does not enrich but impoverishes." Today's investors, in an effort to control the world around them, focus on the things they can't control, such as day to day market price swings, political decisions, and the outcomes of military intervention.

At Nepsis we acknowledge and embrace the idea that we have no control or idea as to what the so-called stock market is going to do today, tomorrow, next month, and so on. However, what we do know and what we can control is our selection process of owning great businesses over time and making ongoing decisions as to their viability of ownership. What we can't control are daily price swings, which are almost always driven by emotion. The Chinese philosopher Confucius said it correctly in two of his famous quotes, "To know what you know and what you don't know, that is real wisdom" and "Real knowledge is to know the extent of one's own ignorance." Peace of mind, freedom, and *Clarity* are obtained through the humbleness of admitting we can't control everything.

STRESS

ONE DETRIMENTAL OUTCOME OF A LACK OF KNOWLEDGE AND A FEAR OF NOT BEING IN CONTROL IS A PHYSICAL UNHEALTHY STATE OF STRESS.

Science has proven that negative emotions harm our internal organs leading to illness and an inability to cope with our surroundings. Worry weakens the stomach, grief weakens our lungs, fear weakens the kidney and stress weakens both our heart and brain.

In addition to the two areas just mentioned that cause stress, we suggest that the undo skepticism and constant comparison are major culprits as well. Skepticism is driven by a cognitive bias humans suffer from called "Anchoring" where we assign emotional attachment to a set of data that appeases our emotions. We then anchor or dig our heels into a belief system so deeply that even when new data comes our way that should change our beliefs, we look the other way. This especially happens to individuals who tend to be highly educated or more sophisticated and is captured in the famous quote by George Santayana who said; "Skepticism is the personal integrity of the intellect and it is shameful to surrender it too soon or to the first comer." Hence, the smarter you perceive yourself to be the less likely you are to admit you are wrong.

Another way in which investors create undo stress is by constantly comparing their investment results to their other portfolios, family members, co-workers, the so-called overall market, style boxes, benchmarks, peer groups etc. Former US President Theodore Roosevelt said it best; "Comparison is the thief of all Joy." In his quote, Roosevelt captures the essence of stealing that which is precious to all people the ultimate emotion of joy when we compare ourselves to others. People who are not joyful live shorter lives, suffer from greater illness while alive and not only create stress for themselves but those who are in their presence. Purity of mind comes in part from relieving oneself from the constant need to compare oneself to others. At Nepsis we shun benchmarking, style box grids, star ratings and peer group rankings as it only confuses investors and turns them away from what should be their only sense of comparison, their own personal and individual investment goals.

How can one determine whether they are on track to meeting their goals? At Nepsis we have developed a proprietary tool we call the Investment Stress Test. Just like a human Physical Stress Test shows how one's health is or is not on track, our Investment Stress Test shows the biggest cause of pain in your portfolio and ultimately how well you are advancing on the pathway to meeting your investment goals. We certainly invite any investor to take our Investment Stress Test.

VALUE

LIKE ANY MAJOR TECHNOLOGICAL ADVANCEMENT, IT BRINGS WITH IT BOTH A BLESSING AND A CURSE.

The internet has served the public quite well in that it provides a single portal where the price of goods and services can be easily compared in a timely manner. The internet certainly is a good tool and almost all of us have used internet rating to compare various services.

> "People's APPROACH TO INVESTING IS NOW MEASURED SIMPLY BY COST"

For the most part, the internet has aided our decision-making process. The only problem for the asset management industry is that it is prohibited by strict regulations from accepting endorsements of any kind. For investors trying to make decisions regarding what investments to use or what advisor to engage, they believe that the only criteria available to use is cost. Investors at each turn seek the lowest cost alternative believing that is their only default mechanism for constructing a portfolio. This impure view of active management is caused by chronic skepticism of our industry where little value is assigned other than price.

We believe that investors deeply suffer from what is referred to as "Availability Bias", which basically states that because I see it everywhere it therefore must be relevant. A great example of this is the price of retail gasoline. It is the only product that has its price plastered everywhere. We don't see the price of toothpicks or light bulbs on signs very much but gasoline price per gallon signs are quite ubiquitous indeed. Despite the fact that less than 5% of the average household budget is spent on gasoline, people brag all the time about finding the station with the lowest price per gallon, yet its value to their budget is nominal at best. As a matter of fact, I would suggest that people probably spend more money on gasoline costs by driving to an out of the way station just to save $0.03/gallon. Think about it, you fill up your 17-gallon tank and save $0.03/gallon which totals a mere $0.51. If one gallon of gasoline costs $2.00 that would equate to one quarter of one gallon and if your vehicle gets 20 miles per gallon in the city that would mean that if your trip one way to go to that gas station was greater than 2.5 miles (5 miles round-trip) your venture was in vain. At Nepsis we believe that just as drivers see value in apparent cost savings by focusing only on price and not on how much gas is burned getting to the cheaper station, investors do the same when choosing a portfolio manager. Because our industry has unfortunately drawn investors into a similar game as our gas station example, people now choose investments primarily by fees and expenses.

VALUE

When you add to these criteria Star Ratings, Peer Group Rankings, and Return Comparisons, today's investor is left with an investment and portfolio manager selection methodology that is void of a cogent philosophy or tactical strategy. The contemporary investor has basically defaulted to past returns and cost as the primary criteria for portfolio construction. Unfortunately, investors forget to take into consideration the most important criteria—the underlying businesses in their portfolio and how those businesses will help them achieve their personal goals. Therefore, they also neglect to evaluate what price points those businesses become overvalued or undervalued and what fundamental ownership criteria is established in their selection process to determine how that business interacts with the other businesses in their portfolio. We would make the argument that a portfolio created on those principals creates true value versus one that focuses just on cost and prior returns.

So how does an advisor or money manager add true value? We believe that a relationship that is built on trust and accountability is the key that unlocks the shackles of faulty comparisons investors are trained to use when assessing money managers. Investors should hold investment managers accountable to sticking to their discipline and never flinching in good or bad times. We call this sticking to the knitting. Top-rated advisors and corresponding money managers hold their clients accountable by demanding they stick to their investment goals and objectives thus allowing no outside forces to penetrate or influence their plan. As long as the investor's goals are being met, nothing should stand in their way.

{ WE STRONGLY ENCOURAGE OUR CLIENTS TO ADOPT THE FOLLOWING THREE SHIFTS IN THEIR THINKING ABOUT INVESTING }

1

I AM A BUSINESS OWNER RATHER THAN I INVEST IN THE STOCK MARKET

We must pledge to harness our desire to follow market news as they create in us an urge to understand that which is not understandable or relevant.

2

I BELIEVE THAT VOLATILITY CREATES OPPORTUNITY RATHER THAN RISK

We must pledge to harness our desire to want to sell when the "market" is falling but rather to stare fear in the face and look to buy great businesses while on sale.

3

I INVEST TO MEET MY GOALS RATHER THAN TO BEAT SOME BENCHMARK

We must pledge to harness our desire to compare our personal portfolio performance to that of no one else including some prescribed benchmark.

We assess the true value we add to investors' lives when they come to realize the freeing effect these principles have in permitting them to understand their investments are doing the best they can. Displacing fear with trust, skepticism with satisfaction, and confusion with *Clarity* is the essence of true value versus the analogy of driving 10 miles to an out-of-the-way gas station just to save a few pennies per gallon.

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CONCLUSION

IN CLOSING, OUR HOPE IS THAT WE HAVE MADE OUR CASE THAT *CLARITY* IS *POWERFUL* AND IT *MATTERS* NOT ONLY IN BUILDING GREATER WEALTH BUT ALSO IN ENJOYING THE FRUITS OF A BETTER LIFE.

Think about a world where you were freed from the constraints of uncertainty, ambiguity, mistrust and fear as it pertains to your finances replacing these constraints with understanding, confidence and *Clarity*. We invite investors and advisors alike to consider partnering with us in our endeavor to change the world one investor at a time.

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