SCHAFER CULLEN

CAPITAL MANAGEMENT

December 19, 2017

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Chairman & CEO

Year End Note

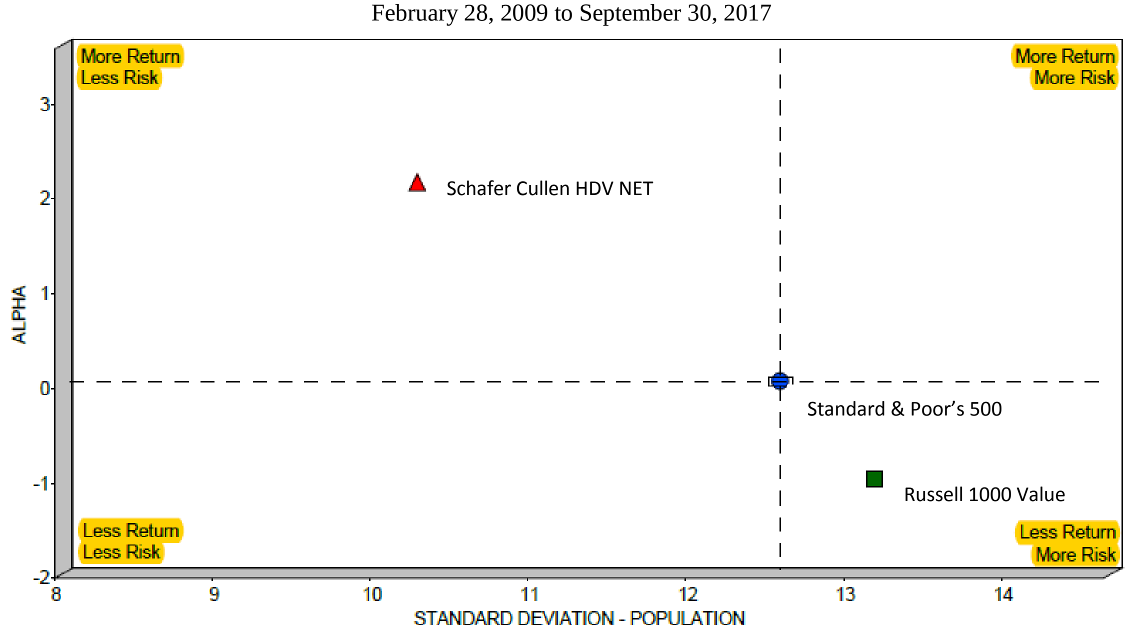
Don't Forget Risk

This year's most popular and well-attended institutional investment conference was called SEEKING ALPHA. The term alpha is commonly understood to mean return in excess of a benchmark index. But outperforming a benchmark has been a major challenge for active managers in markets like the one we've had, among the longest uninterrupted market advances in history. **But the move up is hardly unique; in fact, it resembles the Nifty Fifty market of the late 1960's and the Tech Bubble of the 1990's. As we know, the aftermath of both devastated many investors.**

And as before, the current danger is the temptation to try to generate alpha by buying the most speculative, high multiple stocks -- among them of course the FANG companies. Equally dangerous is investing in the index funds that get increasingly heavily weighted in the same high multiple stocks as the market goes higher.

From an investment perspective, the objective is to generate alpha, but to do it with less risk. A way to measure that can be seen in the chart below, which shows the alpha of our High Dividend strategy. You can see that it outperforms the S&P 500 by 200 basis points and the Russell 1000 Value by 300 basis points. **So looking at the market on a risk adjusted basis gives investors a perspective completely different from the one that just looks at performance on an absolute basis.**

RISK ADJUSTED ALPHA
February 28, 2009 to September 30, 2017



	ROR	Std Dev Pop	Alpha	Beta
Schafer Cullen HDV	15.39	10.25	2.09	0.74
Standard & Poor's 500	17.91	12.54	0.00	1.00
Russell 1000 Value	17.16	13.15	-1.03	1.03

*Schafer Cullen HD Composite is after fees (net) *Source: SCCM, PSN Informais 2017*

A New Paradigm… Not Again, Please

For the first time in this long rally, commentators in the financial press have begun to talk about the possibility of the market showing evidence of a new paradigm. But remember that the same term, "a new paradigm," became a major rallying cry for investors during the tech boom of the late 1990's.

That boom was not unique for excesses, even though the term, new paradigm, was new. **In our last market letter we talked about similar periods in market history when the prospects for investment in certain areas were regarded as so extraordinary that the belief developed that stocks in them could be bought at any price. Such did not turn out to be case.**

Interestingly, for all of the once high-flying companies, earnings kept going up while their stock price kept going down for the next five and sometimes ten years. The drop resulted strictly because of valuation, not fundamentals. Below is a table that highlights what happened.

Major Expansion	Top Stock	P/E Multiple at Peak	Return 5 Years Later	Return 10 Years Later
Roaring 20's				
	Radio Corp of America	73.0	-99%	-99%
Nifty Fifty				
	International Business Machines	42.5	-28%	10%
	Xerox	254.1	-70%	-83%
	Polaroid	26.9	-79%	-87%
Tech Bubble				
	Cisco	230.4	-78%	-67%
	Intel	50.8	-66%	-76%
	Microsoft	79.9	-55%	-48%
FANG				
	Facebook	52.4	?	?
	Amazon	243.5	?	?
	Netflix	471.3	?	?
	Google	38.2	?	?

Source: Bloomberg ,December 2017

Market Strength

With the market at its present elevated levels, many investors are wondering why stocks continue to show so much strength. One reason is that November and December tend to be two of the seasonally strongest months of the year. This is because fund managers don't like to show a lot of cash in their portfolios at the end of the year and feel pressure to get fully invested.

Similarly, the danger of the present market strength is that many investors, especially new investors, feel pressure to get invested and find ETF's (index funds) to be an easy way to get exposure to stocks. **As mentioned above, the catch is many of the ETF's, especially if their performance has been good, are heavily exposed to the most expensive areas of the market.**

Summary

Bull markets like we are experiencing tend to go on for a lot longer than many would expect. **But in the present environment, we believe investors should be extra careful about what they are buying.**

Jim Cullen
Chairman & CEO

Happy Holidays to everyone and best wishes for the New Year. We invite you to visit us at our offices here in New York. A tour and coffee are free!