

Market Commentary First Quarter 2018

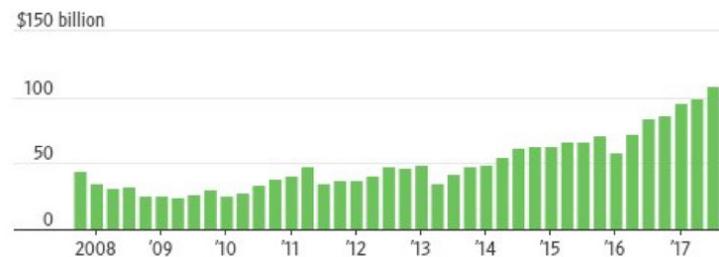
Dear Clients,

Warren Buffett has a simple formula for getting rich: "Be fearful when others are greedy. Be greedy when others are fearful." The question is, are investors now so fearful that it's time for Buffett--and 7Summit Advisors--to start buying in a big way?

Buffett's answer and ours is, "Not yet." In his annual letter to shareholders, published at the end of February 2018, Buffett revealed that Berkshire Hathaway is sitting on \$116 billion in cash and short-term Treasuries because he could not find anything cheap enough. As the chart below illustrates, Buffett has increased Berkshire's liquidity as the stock market has gained value.

So yes, the S&P 500 Index was down 1.10 % in the first quarter of 2018 and yes, volatility is back in a big way, causing white-knuckle swings in stock prices, the likes of which haven't been seen since 2008. But the market still looks expensive to him--and to us. As of

BERKSHIRE HATHAWAY'S CASH AND SHORT-TERM INVESTMENTS, QUARTERLY



Source: FactSet

this writing in early April, the Shiller price to earnings ratio stands at 31.9. That's 89.9% higher than the historical mean of 16.8. Like Buffett, we're contrarian investors in search of undervalued securities, which means that we'll be keeping some cash on the sidelines until prices return to historical norms.

ANOTHER, MUCH WIDER, PERSPECTIVE

Those of us in the game of following the stock market day-to-day and minute-by-minute find it useful to get a wider perspective. The widest perspective I know of is the Kardashev Scale. It not only covers the entire physical universe, but it also spreads out over eons of time. It's named after an 85-year old Russian astrophysicist, Nikolai Kardashev who, in 1964, wrote an article in a Soviet journal, "Transmission of Information by Extraterrestrial Civilizations." Kardashev came up with the idea that the status of a culture depends on two primary things: Energy and technology. He theorized that a civilization's technical advancement runs parallel to the amount of energy that the civilization can harness and manipulate. Essentially, the more energy that a society can produce, the more technologically advanced they are (this was originally just tied to energy available for communications, but it has since been expanded). He envisioned three levels of civilization which has been expanded to seven civilization types.

A Type I civilization harnesses energy from the its planet--plants, solar, wind and all other earth-based sources to run its cities and machines. Type II controls a star's energy using a Dyson sphere

or Dyson swarm. First proposed by theoretical physicist Freeman Dyson in 1960, a Dyson sphere is a hypothetical swarm of satellites that would surround a star in order to harness its energy, gathering and storing it to meet the energy demands of a growing population. Think Federation of Planets, as seen on Star Trek or possibly Tabby's Star. We would need to boost our current energy production over 100,000 times to reach this status by controlling all-natural forces-- volcanoes, the weather, and even earthquakes. A Type III civilization would harness the power of an entire galaxy. It would be clean and efficient energy.

Right now, the earth is a lowly Type 0.7 civilization, relying on archaic sources of fuel like dead plants, wood and coal. We can harness most but not all planetary energy resources. Assuming the Kardashev Scale is the correct way to grade civilizations, as we progress, we will require vastly greater amounts of energy. An intergalactic space ship, for example, would require more energy than a space shuttle—or an airplane or a car. The good news is that each year, the planet generates 3% more power than the one before, which puts us only about 100 years away from becoming a Type I and a 1,000 years away from being a Type II civilization.

Sometimes focusing on the more distant future allows us to be more sanguine about the human race than if we think only about tariff wars. We do seem to be progressing gradually to Type 1. The Kardashev Scale might not have much to teach us about how to invest for the next quarter. But it allows us to have perspective on where we stand in relation to the long-term trend. All of us sometimes find it hard to see the forest for the trees. Arguably, if you believe Nicolai Kardashev, we should be looking far beyond the forest and far beyond the earth to other planets and even other galaxies.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang