

JANUARY 2, 2017

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

**THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT**

MONEY MANAGER INTERVIEW

BENJAMIN LAU

Apriem Advisors

NOTICE

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that

involve risks and uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers selected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

Founded 1963
Published by Wall Street Transcript Corporation
622 Third Ave., 34th Floor, New York, NY 10017
Copyright 2017 Wall Street Transcript Corporation
All Rights Reserved

Three Strategies for Managing Assets for High-Net-Worth Clients

B E N J A M I N L A U , A P R I E M A D V I S O R S



BENJAMIN LAU is Co-CIO/Principal of Apriem Advisors. Mr. Lau, while overseeing the day-to-day management of client portfolios, works to uncover the global macroeconomic story. Prior to joining Apriem Advisors in 2002, Mr. Lau was with Fidelity Investments from June 1998 to February 2002. He graduated with a degree in economics from the University of California, San Diego.

SECTOR — GENERAL INVESTING

(AGT500) Tell me about the firm and what strategy you use to invest and protect your clients' monetary positions.

Mr. Lau: So Apriem Advisors, we're formerly known as Iwamoto Kong. We were a firm back in 1998 with another name, and we've since rebranded. But Apriem is essentially a registered investment adviser. We are an independent fee-based adviser, and we handle very high net worth families in America. And so those really are our specialties, high net worth entities, people like our parents. We don't do a lot of advising for corporations, pension plans, endowments and such. And so with that we generally manage the whole clients' net worth of portfolio. That's really important for us, because we are not a single-strategy manager; we are not a small-cap manager or a technology stock manager. We manage a whole portfolio. We have three different main strategies.

Our core strategy, our main strategy is our wealth management, our customized strategy, which is a buy-and-hold strategy that buys individual securities, stocks and bonds, and layers on ETFs and mutual funds to get exposure that we don't buy with individual securities, and we have done that strategy since the founding of the firm. About 10 years ago we started an income strategy that was to generate a high level of current income for clients. Right now it's yielding about 4% or 5%, but really because our clients are predominantly retirees, they really wanted our strategy as really a goals-based strategy for those who want income, that have a need for cash flow of the account on a monthly basis to pay the bills, and that's what that strategy is focused on. It generates a high level of current income. That's actually our best-performing strategy this year.

A few years ago we started the Tactical Index strategy; like you mentioned that's probably the fastest growth-strategy, the most popular strategy that we've had. This strategy — the research

for this strategy started back in 2008 when the market started falling apart. And when I say that we manage the whole clients' net worth, it was the client depending on us for their livelihood.

And so coming out of 2008 and 2009, we did quite well. But we were still down. So our technical portfolio was maybe down 15% to 20% when the market was down 40%. But being down 15% or 20% is still a frightening number, right, and it's especially so for those who are retired. And so clients just couldn't take that, they don't — we are not in the business of, OK, we are down 20%, but the market was down 40%. So we still outperformed, but are you happy? No, they are not at 20%, they are not happy. And so that's why we did some research, and we did some tactical analysis based on chart pattern, and we came up with Tactical Index strategies, primarily in index funds to implement this strategy based on what areas of the market we like or don't like.

I think we trade on a technical basis, and so we could be fully invested or we could be completely out of the market depending on what patterns didn't tell us. And really it's based upon their tradition of Wall Street telling everyone just buy and hold, ride out through the waves, and you just buy everything and get diversified, typical CAPM or MPG kind of thinking. And so buy everything and just hold on to it. And Wall Street used to show that, no, no, you should not buy everything. There was a time and a place for you to own certain things,

and there is a time and a place for you not to own a lot of things.

For example, the commodity market was bitten by a three-year bear market. I don't think that I need to own commodities during a three-year bear market, or real estate was in the three-year bear market back in, call it, 2005 to 2009, depending on what's your time frame is. There is always a certain time and a place to own things, and that's why the Tactical Index strategy has been really popular. It's really offered downside protection for a lot of our

Highlights

Benjamin Lau's firm Apriem Advisors uses three main investment strategies for managing assets for high-net-worth clients. The core strategy is a customized buy-and-hold strategy; the income strategy aims to generate a high level of income; and the Tactical Index strategy is the fastest-growth strategy. Companies discussed: [Apple](#) (NASDAQ:AAPL); [Facebook](#) (NASDAQ:FB); [QUALCOMM](#) (NASDAQ:QCOM); [Target Corporation](#) (NYSE:TGT); [Wal-Mart Stores](#) (NYSE:WMT); [Amazon.com](#) (NASDAQ:AMZN) and [Netflix](#) (NASDAQ:NFLX).

clients. So that's been our fastest-growing strategy right now.

“The economy is doing better, earnings are doing better, employment is doing better, and that really was at the end of the second quarter and beginning of the third quarter, and that’s why we have been so optimistic on stocks and so negative on fixed income.”

TWST: So you said that any given time you could be fully in the market or fully out of the market or somewhere in between. And so let’s talk about where you are right now in terms of being fully invested or sitting on a lot of cash. What is the situation?

Mr. Lau: So for the Tactical Index strategies we offer several flavors of them. And the flavors are based on your asset allocation. So in the equity model, in the all-equity model, you are 100% invested right now. We are fully deployed; all that kind of technical indicators are looking good. They look good before the election, they continue to look good after the election, and so we are fully invested.

On the fixed income side of things, we are almost all in cash right now. We are about 80% in cash in the fixed income suite, and I suspect if we close here — we have about another week before the end of the month — I suspect that if the fixed income market stays where it is, the fixed income market will go to 100% to cash or from 80% cash right now. The fixed income market has been just not looking healthy, right, the interest rates are rising at a dramatic fashion, we are seeing selloff across the board in corporates, agencies, non-agencies, RMBS, Treasuries. Everything is slowing off in the bond market.

TWST: Let’s talk about the recent election, and I’ve read some of your commentary leading up to the election and then after. And your analysis is correct: Everything is out of the window, it’s sort of a new world on the political landscape. So what do you see Trump administration affecting how you move forward, or does it?

Mr. Lau: It really doesn’t for us. On a big-scale basis, on a more of a macro high-level basis, it really doesn’t affect our taking on the market and specifically stock market. Before the election, and really I would say closer to the end of the second quarter, beginning of the quarter we noticed a shift in the market. They are about 18 months of earnings, profit decline in corporate America, things started turning around. Q3 could be — is likely going to be a flat-to-slightly-positive quarter for profit growth.

GDP, the economy turned around also about the second quarter this year. And so we saw almost about a four-quarter decline in GDP, and so GDP started to turn around also in the second quarter. And so that was really noticeable and really positive for the market. Also the — after some fit to start, the employment situation in America is actually starting to regain — employers are starting to hire, we are starting to hire here internally. And there is a good — I don’t want to say it’s a bad thing — wages are going up, we are having to offer our current staff more, having to offer current hires more money. And you see that across the board wage inflation is starting to pick up, and the

Fed has really emphasized that in the recent commentary.

So the economy is doing better, earnings are doing better, employment is doing better, and that really was at the end of the second quarter and beginning of the third quarter, and that’s why we have been so optimistic on stocks and so negative on fixed income. And so we cut back all of our longer-term Treasury holdings. We were overweight long-term Treasuries at the beginning of the year; we cut them back at the beginning of the third quarter and overweighted TIPS, Treasury-inflation-protected bonds, early in the third quarter. And so those have been really great trades. And just being fully invested in the stock market, if not slightly overweight, right.

We are going to continue to do well on a grand scheme. And some of our other strategies, some of our aggressive strategies, we have to make some changes, right. Post election, you are really talking about what sectors, what’s in the market that are going to do better or worse during the Trump presidency. And it’s not just the Trump presidency, it’s also interest rates, right, if Trump really does reduce infrastructure spending, fiscal initiative, you have the inflation, interest rates will probably go up coupled with the December Fed increase that’s likely going to have — and bonds are cut, probably not the best place to be. With that, interest rate-sensitive areas like real estate, utilities, consumer staples, we can underweight those, and given that reason you have to be overweight on growth areas.

For us, growth areas continue to be technology sector incumbent **Apple** (NASDAQ:AAPL) or **Facebook** (NASDAQ:FB), **Qualcomm** (NASDAQ:QCOM), a lot of big major players, and I think they have a lot of momentum, and I think they continue to gain momentum. You’re talking about some energy names. The energy price will be decent and then really anything related to the consumer, the consumer discretionary. The consumer discretionary sector has been doing quite well; I think it will continue to do well.

1-Year Daily Chart of Apple Inc.



Chart provided by www.BigCharts.com

Consumers are 70% of the economy, and as everyone talks about, it looks like there’s also signs for holiday spending could be pretty good. People are spending, people are buying products from **Target** (NYSE:TGT) and **Walmart** (NYSE:WMT) and **Amazon** (NASDAQ:AMZN), plus people are buying lots of clothes. So I think it could be a pretty good holiday season, and I think the consumers are

really benefiting from lower oil prices, higher wages like I mentioned, and just the simple lack of crazy fear. We don't have this worrisome fear anymore; I think that the tension or the fear in typical consumers' minds, consumer confidence is actually improving quite a bit.

TWST: I've been surprised how the markets reacted since the election.

Mr. Lau: I guess for us, we saw the tantrum kind of repeat itself. You saw this out there, the recent taper tantrums by the Fed over the last of couple of years, you really saw in Brexit earlier in the year in about what late June, early July. I don't know where you personally fall on Brexit, but I think most people will say the outcome was negative, right, no one thought that they'd vote to leave, and they did, and it caught everyone by surprise.

The polls got it wrong again, and it was this fear of the market, and you saw the pound drop precipitously, but after a couple of days, the FTSE started, the U.K. stock market started regaining some footing and started taking off, and I really contend that it's these unknowns that causes the market to really not know what to do. The FTSE must float six months a year — you got a resolution, go to bed. You got a resolution, and the FTSEs are taking off, and I think hopefully we got to deal with what it looks like what the U.S. market is still after the election.

TWST: Obviously the market hates uncertainty. You mentioned the tech sector in an article. Let's talk about that, because you say the policies of new president could have an effect, and particularly in terms of trade agreements and immigration.

Mr. Lau: We'll see what Trump does. I mean, this is what I was talking about. What kind of Trump is going to show up next year, for the next four years? Is he giving a hard line or being a little more softer or little more middle of the road? But the initial reaction by Wall Street was pretty violent, and it pushed down the FANG stocks. There's a lot: the **Apple**, the **Amazon**, the **Netflix** (NASDAQ:NFLX), the **Facebook**, all the big names because of that initial reaction, and I don't — I agree with Wall Street's concerns about — I think that the reactions were little too exaggerated, and I think that it was more of a gut reaction that was the market pushed these names to be oversold.

And that's how we had to step in when **Facebook** hit certain levels, **Apple** hit certain levels. We had step in. I don't know, I think what Trump is doing could be harmful for these businesses over the short term, but I think these guys are smart enough. They all go to Harvard, right, they go to Stanford, and they're the smartest guys and gals in the room, and they'll adjust, and I think that **Facebook's** business of selling ads, **Instagram's** business selling ads and then **WhatsApp**, I think their businesses are fundamentally strong and growing.

And I think that this immigration thing, this trade deal it could be just short-term noise and give us an opportunity. We still think that those names are great long-term players. But yes, we have to be concerned about what happens with these trade deals, and that's one of my biggest concern. I am not so much concerned about **Facebook**, but what happens at **Apple** if these trade deals don't go through. The Chinese make all the products, ship it here, and then we sell back to them. We've got a long alignment with **Qualcomm** and with a lot of other hardware makers.

TWST: Give me a look ahead where you see opportunities and where you see challenges over the next 18 months to 24 months.

Mr. Lau: I think right now with the economy continuing to be relatively firm and not as volatile and just I guess steady, we're cautiously optimistic, and that's why we have an overweight to these stocks right now. The biggest thing when we talk about — we're talking about sectors for a while, there were technology and consumer discretionary, though I think one of the sectors that we haven't talked about is energy, and that's really what is probably my biggest unknown that we don't know yet, and so what's going to happen with energy prices as we have a good weighting toward energy stocks. Is Mr. Trump going to quash the Iran deal? Because you'd have to think that that's going to be 0.25 million to maybe 0.5 million of barrels of oil off the market really quickly. And Iran wants to get back up to 1 million barrels of oil a day. So I think that could be a short-term pop in oil prices, and that would be really good for our domestic E&P companies.

But then I think though, over the medium term or longer term, what happens if Trump just lets everyone drill? Just drill wherever you want, you want to drill your backyard, you want to drill the school yard, drilling to Alaska, go ahead. And then obviously with the Keystone Pipeline, likely they are going to be made now, it's I think over the more medium or longer term. I can't be too optimistic on oil prices, right. Americans just don't use as much oil as we did 10 years ago. And due to technology, we can pump it quicker and faster underground like nobody's business. So that imbalance is really in my opinion not favorable longer term, but maybe favorable in the short term, but not favorable on the longer term. That's clearly one of my sectors.

TWST: Anything else you'd like to add?

Mr. Lau: I guess when it comes down to it, we talk a lot about stocks, and we talk a lot about bonds, because bonds are big portion of our allocation given that most of our clients are high-net-worth and retirees. Where does inflation go from here? You're seeing rental rates still continue to move up, wages start to go up. I think that inflation could be the — and we've been calling for — we saw inflation rising late last year, and I think that inflation will probably still continue to go up given where wages are and given where just the input into inflation are. I think we've had make the purchasing generation low on interest rates and inflation, and so that's really where we're being cautious right now.

I think inflation is going to go up, thus I think interest rates are going to go up, and then if you have some potential weakness in the credit markets, right, you're still seeing delinquency rates for consumers and delinquency rates for corporations raising. That's not a good thing, and so if we have any sort of — I guess credit hiccup is the kind of way to put it — then we're just worried about where interest rates are and the potential for them to spike higher. They spiked lower on fear earlier this year and can they spike higher on fear of inflation, and that's kind of also dependent with that.

TWST: Thank you. (JM)

BENJAMIN LAU
Co-CIO/Principal
Apriem Advisors
19200 Von Karman Ave.
Irvine, CA 92612
(949) 253-8888
www.apriem.com