

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

May 8, 2018

CWS Annual Partners Meeting
New Location
Hotel Irvine (Irvine, CA)

May 28, 2018

Memorial Day Holiday
CWS Offices Closed

June 15, 2018

2nd Quarter 2018
Est. Tax Payments Due

July 4, 2018

Independence Day Holiday
CWS Offices Closed

July 27, 2018

2nd Quarter 2018
Quarterly Packages Mailed

September 3, 2018

Labor Day Holiday
CWS Offices Closed

September 17, 2018

3rd Quarter 2018
Est. Tax Payments Due

October 15, 2018

2017 Tax Return Extensions Due

October 26, 2018

3rd Quarter 2018
Quarterly Packages Mailed



www.cwscapital.com

LESSONS FROM THE EAST



By Gary Carmell

One of the mantras we like to say at CWS that is borrowed from Buddhist thought is "Eat when we're hungry and sleep when we're tired." We want to design our company and be positioned to do what is smart independent of external forces such as envy and financial pressures. This requires independent thinking and conservative financial management to improve the odds of acting in this manner.

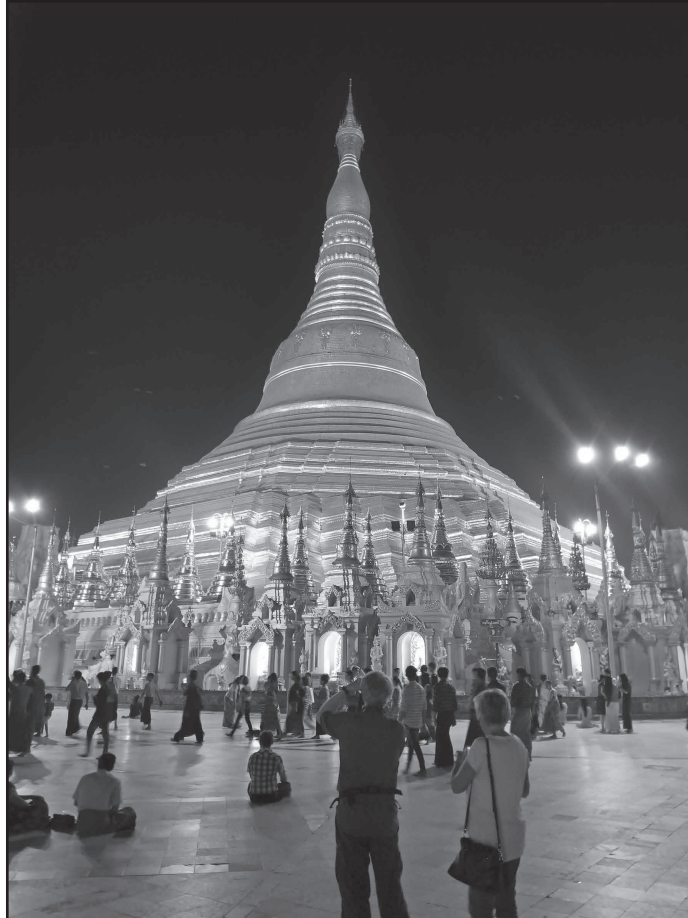
I am a big fan of timeless wisdom that has proven itself over many years. Unless the source is someone quite evil, I am usually open to taking the best of what anyone has to offer to gain more insight and wisdom. To paraphrase Deng Xiaoping, "Black cat, white cat, whatever gets the rat." I only care about what has been proven true on a repeatable basis over a long period of time.

My curiosity and openness to new ideas is particularly acute when I travel since this gets me outside of my normal environment and comfort zone and offers me great

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opportunities to observe and learn from other cultures and their ways of life. I recently came back from an extended vacation that took me to 10 countries in Africa and Asia. One of the countries I visited was Myanmar, and while in the capital city of Yangon I had the privilege of seeing Shwedagon Pagoda which is one of the great Buddhist temple compounds in the world. It is truly spectacular.



Over the years I have read my fair share of books on Buddhism as well as the other important religions and spiritual schools of thought. After my visit to Myanmar I decided to review some of what I have read on Buddhism via my notes and highlights on my Kindle. That is why I love my Kindle because I can so easily go back and re-read what I highlighted to recapture the main ideas of the books I have read awhile back. One of the most important teachings of the Buddha is the Eightfold Path. He believed that the nature of existence is suffering due to clinging and grasping onto people, things, and outcomes which are all impermanent and

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inevitably leads to unhealthy mental and emotional states. There is a way out and it is through the Eightfold Path, which if practiced diligently can lead to a state of enlightenment and joy.

In reviewing the Eightfold Path I realized there was so much application to CWS and to other similar investment firms with a highly ethical and long-term orientation. Although CWS, approaching its 50th year since it was founded, has not yet had the staying power and global impact that Buddhism has, as it is still practiced by many millions from around the world for over 2,500 years, we are unusual in terms of American businesses by still existing and prospering after nearly a half a century.



The essence of this path to enlightenment is the following model.

By leading a life of **Virtue**, this leads to **Non-remorse**, which in turn can lead to **Gladness & Joy**. This can then lead to **Serenity & Happiness**, which paves the way for **Dispassion & Concentration**, and finally we can achieve **Knowledge, Vision, and Liberation**.

If we act ethically then we can avoid all of the problems that not doing so engenders. Having a clean conscience can catalyze positive mental states and feelings which can create a strong sense of self and something we want to protect such that it can allow us to take a step back from

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the crowd and act dispassionately with full concentration such that we position ourselves for insight, wisdom, breakthrough ideas, and independence by directing our lives and businesses in ways that are right for us. This is how we want to run CWS. It's not easy but as Scott Peck said in *The Road Less Traveled*, "Life is difficult." Anything worth striving for is usually difficult to attain.



If we take a look at the Eightfold Path we can see that it offers a powerful road map to living and designing and managing an investment management firm like CWS. At the end of the day we want to have the intellectual capabilities and financial resources to tread an independent path to allow us to generate competitive risk-adjusted returns. This usually requires independent thought to not follow the crowd and to have the financial resources not to be in the unenviable position of having to "buy or die". It starts with acting ethically which can ultimately lead to freedom and independence.

The first step of the Eightfold Path is **Right View** which means having a set of core values that guide you to live ethically for without this trouble will inevitably follow. At CWS we have

values that we have been operating from for over 30 years and they have served us well. They are:

Honoring Our Word
Ethical Dealings are Paramount
A Demand for Excellence with a Sense of Urgency
A Requirement for Profitability and Sustainability
A Respect for People



We then turn to **Right Intention/Thoughts**. The goal here is to do no harm and do all we can to respond to life with loving-kindness and compassion. This is immensely important in our business as we deal with three of the most important parts of people's lives: their money, where they live, and their careers. It is inevitable that our customers will be under stress and there will be times that these pressures will manifest themselves in disrespectful ways. Nevertheless, we must do our best to remain compassionate and respond in a supportive manner. This is not always easy but so important to put into practice.

With a strong set of values to keep us within the guardrails of ethical behavior and the intention to always do no harm, we can then turn to the third part of the eightfold path and that is **Right**

Speech. This one is especially important to CWS as the essence of this is to say only what is true, useful, and timely while expressing it without harshness or malice. We endeavor to deliver news that is timely, accurate, and relevant whether it be positive or negative. We want to communicate to our investors how we would like to be communicated to ourselves. We take what we say and write very seriously and we endeavor to be precise and forthright so our investors can better understand our thought process and to manage their expectations about future performance so they can plan accordingly.

All businesses and individuals must gravitate to the world of action and this is number four which is **Right Action/Conduct**. The goal of this is to avoid one from getting caught in one's wants, emotions, judgments, and views. This is very challenging because it requires deep introspection to do one's best to avoid self-delusion and confirmation bias. We all have a tendency to see what we want to see when it suits our needs or we have an incentive to do so. For this reason it's vitally important to create incentives for open dialogue and challenging the status quo and to make sure various points of view are taken into consideration before making a decision. Firms that don't require a lot of external validation and take great pride in thinking independently and staying out of the emotional fray when there are uniform emotional extremes are best positioned to have the most clear headed understanding of cause and effect. This in turn should allow them to position themselves accordingly based on future conditions they believe will unfold in ways they believe will generate sufficient returns for the risk borne.

It's vitally important that one engage in a career and be in a business that they feel good about. It is a terrible feeling to go to a job you dislike and work for a company that you don't believe in or trust. As such, number five is **Right Livelihood** and requires not being exploitative of others. This is vitally important to CWS as embodied by our purpose statement which is:

Enhancing Lives
The CWS Way

We strongly believe that we have the opportunity to enhance the lives of our investors, residents, and employees through their interactions with CWS. Nothing is more gratifying for us than helping people enhance their lives as a result of the investments they have made with us, the flexible housing options we are able to offer, and the satisfaction, growth, and financial well-being of those who work for us. I come to work knowing I work for a company that puts our customers first and if we can continue to do that and deliver value to them, then we will prosper as a result.

The sixth step on the path is **Right Effort** which is directing our attention and thoughts skillfully such that one is able to cultivate the ability to shift away from obsessive thoughts to much more wholesome thinking. By building up this ability and skill, this can lead to sustained attention with the following beneficial byproducts:

- Avoiding unhealthy mind states
- Abandoning unhealthy mind states once they have arisen
- Moving the mind to healthy mind states
- Maintaining the mind on healthy mind states that have already arisen

The most successful people and businesses are highly focused and eliminate distraction while having the ability to say no to things that are not part of their core competency or that can get in the way of where they want to go. We have made the decision to focus on serving individual investors and directing their capital into apartment investments that we manage from beginning to end. This focus has served us well so far. While other firms have been able to be successful in multiple asset classes, so far having had a laser sharp focus on apartments has been the approach with which we feel the most comfortable.

I like to remind myself that "Now" spelled backwards is "Won". In other words, if you can be intensely focused on the now, then you have won because we can't change the past and the future is speculative. All we have is right now and how we can direct our attention and actions here and now. This is the seventh step and is known as **Right Mindfulness**. It represents a clear understanding of your experience in the present moment and sets the stage for powerful insights that can lead to even more fulfillment in your life as well as avoid unhealthy states. This wisdom creates insight and clarity that lets you see the characteristics of life that confuse the mind. These include:

- Constant change
- Stress of clinging
- Existential fact that the ego self is illusion

Change is truly the one constant in life and we can either accept and embrace it or fight it. The latter is a losing strategy because it will only serve to generate upset and stress while the former can help us roll with the punches and enjoy the ride. When we attach ourselves so much to people and outcomes we are bound to be deeply disappointed. This does not mean we don't invest all we have and can into our relationships and achieving our goals, we just

need to be prepared for outcomes that don't meet our expectation and adapt accordingly. If we do not then we will be wracked by unhealthy states such as anger, resentment, remorse, jealousy, envy, greed, guilt, shame, etc. Every setback, disappointment, and outcome that turned out differently than what we expected is an opportunity from which to learn and gain more wisdom as opposed to letting them control you by stimulating unhealthy mental and emotional reactions.

The ego wants what it wants right now and does not want to hear anything about delayed gratification. And yet so much of life's rewards come from delaying immediate gratification and being able to invest today such that one can compound their financial, mental, and physical assets over time so they can enjoy life through all of its phases. We all want and need the financial, physical, spiritual, emotional, and cognitive resources to tap into over time and to do this we need to always be growing our asset base and this means subordinating the highly greedy and all-consuming ego to our higher selves and future selves.

The eighth and final step is **Right Meditation** which is intended to focus one's will on the Buddha, his life, and his teaching. This is obviously for the serious practitioner but the notion of looking at every moment in life as a meditation where we can be fully present and put ourselves in a position to take the next right action and be available for the next powerful insight is a great guide for living. Of course it's not easy, but worth it in the end. I think of it like playing tennis and being fully prepared and ready to return the ball that was hit to you but also be prepared to adjust as necessary when your opponent or the ball reacts in unexpected ways. One must be in strong physical shape, practice consistently and effectively, maintain a healthy positive but realistic attitude, be fully present, and know that in order to win you have to play the long game and that the past is irrelevant, the future is speculative, and all you can control is your preparation for the next shot or serve and the shot or serve itself.

This is how we hope to continue to design and run CWS. We strive to always do what's right by being guided by our values and then use our higher and future selves to guide our decision making as opposed to our insecure egos so that we can make good long-term decisions such that we are able to compound the capital entrusted to us over long periods of time so that the returns we generate sufficiently compensate our investors for the risk borne.

I encourage everyone to see the world and how other cultures live and what influences their lives. You never know what life changing insights and experiences may result.