

October 17, 2017

Enclosed is your 3Q17 Investor Report and my quarterly narrative.

**Behavioral Economic & The Power of Irrational Behavior:** I thought we were all generally self-centered beings, driven by some dialed up sense of logic and morality: Evidently, Richard Thaler, the 2017 Nobel prize winner in economics, and acclaimed author of “Nudge”, a book about helping people make better decisions, believes differently... “people are predictably irrational”. I suppose that when it comes to investment decisions, retirement plans, reverse mortgages, life insurance, annuities, private jets, college tuition, charitable contributions, etc., don’t necessarily fit the model of rational behavior. According to Professor Thaler, the mental gymnastics behind a lot of important investment decisions fall way outside the confines of what is considered sane or predictive, and that in order to do good economics, you have to keep in mind that people are human but fundamentally driven by a sense of fairness. Standard economic theories do not value actual human behavior. What is fascinating about his insight is the realization that most people make irrational decisions all the time, and yet this behavior can be modeled and eventually predicted based on some sort of moral compass. Of course, not all economists, or even a majority, are wedded to this view, as Thaler is constantly encountering antagonism and real animus towards his research, and taken to the intellectual woodshed for not abiding by the more accepted practice of modeling human behavior based on some mathematical calculus. Nonetheless, it’s a head scratcher when many personal and professional investment decisions are made on intangibles, like the mood of your cat- decision data which can be fed into the computational beast of machine learning and spit out predictive behavioral patterns!! This topic is relevant as evidenced by all the hoopla around e-commerce, artificial intelligence, virtual reality, consumer analytics, delivery drones and driverless cars that are constantly bombarding our pursuit of intelligent and defensible real estate investing strategies.

**The Bull Market of Things (BMT):** “The Intelligent Investor”, a classic written in 1949 by Wall Street guru Benjamin Graham, shared his secret of safe investing into three words, “margin of safety”. The essence being that the price paid or “trade” should allow for human error. Currently, asset class valuations are over the moon, including cryptocurrencies like Bitcoin, the S&P 500 and grocery anchored real estate. Should we be cheering or worried? Is this another crisis in the making with bulls pouring more feel-good juice, fueled by low single digit interest rates and the largesse of the Fed’s monetary policy in the party bunch bowl? Not all bad for DJM considering a number of public companies have expressed strong interest in several of our grocer-anchored/daily needs properties at valuations that would have grandma rising from the dead; “SELL!” No kidding... Nonetheless, Eurobonds issued by Iraq, Ukraine and Egypt are trading at 7%; let me understand this—the DJM Net Lease Retail Fund I pays 8%, 50% leveraged and the most risk averse, conservative “margin of safety” strategy in the history of the company. What’s in your wallet-Iraqi bonds or DJM LP interest? I like our margins...

**Margaritaville & Kicking Back with Fellow Parrot Heads:** Who needs to be serious when it is time to hang it up and marinate in the “secret sauce” of retirement. Jimmy Buffet comes to mind, and someone who understands adult behavior bound by a good margarita and parrot head reunions at his newest retirement community in Florida. Call it “Margaritaville Economics” and brilliant marketing. Change your attitude at “Latitude Margaritaville”. Buffet’s pitch: “Escape to island-inspired living as you grow older, but not up.” Buffet is not alone in targeting baby boomers as the wealthiest, most active, and most physically fit generation, with an expectation of changing the world for the better over time. Boomers are estimated to bequeath over \$30 trillion over the next 30 years. This cohort of 76 million has been criticized for excessive materialism-no generation’s perfect, and they do know how to party! Buffet’s songs, like “A Pirate Looks at Forty” (1974) to “Oldest Surfer on the Beach” (2013), have long been concerned with aging gracefully. Buffett himself is 70. His fan base, along with many DJM investors, is getting up there, too.

Little wonder that the largest chapter of the Parrot Heads in Paradise, with more than 1,000 members, is in the Villages, a sprawling, 55-and-older (“55-and-better,” in industry parlance) community in central Florida. That tantalizing alignment of brand and product helps explain why news of the first Latitude Margaritaville generated a lot more interest than the typical retirement community. Wonder how parrot heads are navigating e-commerce, particularly when it comes to “Wasted away again in Margaritaville, Searchin' for my lost shaker of salt.” We call that “experiential retail”, if you can remember where you are!!

**Give Us Our Daily Bread & Gasoline:** Our focus on the fundamentals remains unchanged, as DJM continues to generate above market returns from both its multi-tenant and single tenant net lease retail platforms. One simple reason for this success is our commitment to retail properties that are working, providing the last mile of service, daily needs with an omni-channel “bricks & clicks” retail presence. And, we are very fortunate to have long term, well diversified capital partners. Life goes on as time passes by, as the successive generation of early DJM investors become part of the DJM family; three of my very early investors and very good friends, Gene, Stanley and Mel, who all passed away in the last two years, had no use for predictive analytics to make decisions; I suspect their gut was their guide, as well as being very high integrity human beings, with a great sense of humor. In today’s investment world, tools abound to analyze the millions of data points collected on our every move, habits and behavior. Nonetheless, nothing beats intelligence and a strong emphasis on equity when dealing in a market that seems to have lost its wits. Or, take Buffet’s word for it; “Don't know the Reason, Stayed here all Season, With nothing to show but this brand new tattoo. But it's a real beauty, A Mexican cutie, how it got here, I haven't a clue.”

Take care,

DJM Capital Partners, Inc.  
Asset Manager

By:



D. John Miller, Founder & CEO