

LOOKING BACK AND LOOKING FORWARD

GENERAL PRINCIPLES

- We are long-term, goal-focused, plan-driven equity investors. We believe that the key to lifetime success comes from **acting continuously on our plan**. Likewise, we believe substandard returns, and even lifetime investment failure, come from **reacting to current economic/market events**.
- The unforeseen and indeed unforeseeable economic, market, political and geopolitical chaos of the three years since the onset of the pandemic demonstrates conclusively that **the economy can never be consistently forecast nor the market consistently timed**.
- Therefore we believe that the most reliable way to capture the full return of equities is to ride out their frequent but historically always temporary declines.
- These will continue to be the bedrock convictions that inform our investment policy, as we pursue your most important financial goals together.

CURRENT OBSERVATIONS

- Unrelieved chaos continued in 2022. The central drama of the year – and, it seems likely, of the coming year – was the Federal Reserve's belated but very aggressive efforts to bring inflation under control.
- After rising seven times in the nearly 13 years between the trough of the Global Financial Crisis (March 9, 2009) and this past January 3, the U.S. equity market sold off sharply; at its most recent trough in October, the S&P 500

was down 27%. (Bond prices also swooned in response to sharply higher interest rates).

- It seems to us more than a little ironic that, after the serial nightmares through which it's suffered since the onset of the pandemic early in 2020, the mainstream equity market managed to close out 2022 somewhat higher than it was at the end of 2019 (3,839 versus 3,231, a gain of nearly 19%). Not great, but not at all bad for three years during which **our entire economic, financial, political and geopolitical world blew up**.
- If anything, this tends to validate our core investment strategy over these three years, which – simply stated – has been: stand fast, tune out the noise and continue to work on your long-term plan. Needless to say, that continues to be our recommendation, and in the strongest possible terms.

- The burning question of the hour seems to be whether and to what extent the Fed, in its inflation-fighting zeal, might tip the economy into recession at some point – if it hasn't already done so. Over the coming year, the way this plays out may determine the near-term trend of equity prices. Our position continues to be that this outcome is simply unknowable, and that one cannot make rational investment policy out of an unknowable.
- That said, we continue to believe strongly that whatever it takes to put out the inflationary fire will be well worth it. Inflation is a cancer that affects everyone in our society; if recession proves to be the painful chemotherapy required to destroy that cancer, then so be it.

...continued on back



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*"If you really
look closely,
most overnight
successes took
a long time."*

- STEVE JOBS

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(continued)

- Although this may be hard to remember every time the market gyrates (and financial journalism shrieks) over some meaningless monthly economic datum or other, **we are not investing in the macroeconomy**. Our portfolios largely consist of the ownership of enduringly successful **companies** — businesses that are even now refining their strategies opportunistically to meet the needs and wants of an eight billion person world. We like what we own.

As we always say — but can never say enough — thank you for being our clients. It is a genuine privilege to serve you.

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**OUR OFFICE WILL BE CLOSED
MONDAY, JANUARY 16TH IN HONOR OF
MARTIN LUTHER KING DAY.**