

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 in equity investing is to act continuously on a specific plan. Likewise, we believe substandard returns and even investment failure proceed inevitably from reacting to (let alone trying to anticipate) current economic/market events.

- We are convinced that the economy cannot be consistently forecast, nor the markets consistently timed. Therefore, we believe that the only reliable way to capture the full long-term return of equities is to ride out their frequent but historically always temporary declines.

- Just in the last four decades or so, the average annual price decline from a peak to a trough in the S&P 500 exceeded 14%. One year in five, the decline has averaged at least twice that. And on two occasions (in 2000-02 and 2007-09), the Index has actually halved. Yet the S&P 500 came into 1980 at 106 and went out of 2021 at 4766.18; over those 42 years, its average annual compound rate of total return (that is, with dividends reinvested) was more than 12%.

- These data underscore our conviction that the essential challenge to long-term successful equity investing is neither intellectual nor financial, but temperamental: it is how one reacts, **or chooses not to react**, to market declines.

- These principles will continue to govern the essentially behavioral nature of our advice to you in the coming year...and beyond.

CURRENT OBSERVATIONS

- It would seem to be counterproductive to look at these past 12 months in isolation. They were, rather, the second act of a drama that began early in 2020, the precipitant of which was the greatest global public health crisis in a hundred years.

- The world elected to respond to the onset of the pandemic essentially by shutting down the global economy—placing it, if you will, in a kind of medically induced coma. In this country, we experienced the fastest economic recession ever,

and a one-third decline in the S&P 500 in just 33 days.

- Congress and the Federal Reserve responded all but immediately with a wave of fiscal and monetary stimulus which was and remains without historical precedent. This point cannot be overstressed: we are in the midst of a fiscal and particularly a monetary experiment which has no direct antecedents. This renders all economic forecasting—and all investment policy based on such forecasts—hugely speculative. We infer from this that ***if there were ever a time to just put our heads down and work our investment and financial plan—ignoring the noise—this is surely it.***

- If 2020 was the year of the virus, 2021 was the year of the vaccines. Vaccination as well as acquired natural immunity are in the ascendancy, regardless of how many more Greek-letter variants are discovered and trumpeted to the skies as the new apocalypse. This fact, it seems to us, is the key to a coherent view of 2022.

- In general, we think it most likely that in the coming year (a) the lethality of the virus continues to wane, (b) the world economy continues to reopen, (c) corporate earnings continue to advance, (d) the Federal Reserve begins draining excess liquidity from

the banking system, with some resultant increase in interest rates, (e) inflation subsides somewhat, and (f) barring some other exogenous variable—which we can never really do—equity values continue to advance, though at something less (and probably a lot less) than the blazing pace at which they've been soaring since the market trough of March 2020.

- Please do not mistake this for a forecast. All we said, and now say again, is that these outcomes seem to us more likely than not. We are fully prepared to be wrong on any or all of the above points; if and when we are, our recommendations to you will be unaffected, since our investment policy is driven entirely by the plan we have made, and not at all by current events.

- With that out of the way, allow us to offer a more personal observation. To wit: these have undoubtedly been the two most shocking and terrifying years for investors since the Global Financial Crisis of 2008-09—first the outbreak of the pandemic, next the bitterly partisan election, then the pandemic's second major wave, and most recently a 40-year inflation spike. You might not be human if you have not experienced serious volatility fatigue at some point. We know we have.

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*"It always
seems
impossible
until it's done."*

NELSON MANDELA

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(continued)

- But like that earlier episode, what came to matter most was not what the economy or the markets did, but what the investor himself/herself did. If the investor fled the equity market during either crisis—or, heaven forbid, both—his/her investment results seem unlikely ever to have recovered. If on the other hand he/she kept acting on a long-term plan rather than reacting to current events, positive outcomes followed. It was ever thus. We expect it always will be.

As always, we welcome your comments, questions, and concerns. As always, we cannot predict, but we can plan. As always, thank you for being our clients. It is our privilege to serve you.

Sources: Standard & Poor's; Yahoo Finance; J.P. Morgan Asset Management "Guide to the Markets" (p. 16); S&P 500 Return Calculator with Dividend Reinvestment, DQYDJ.com.

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**WISHING YOU AND
YOUR FAMILY A BLESSED 2022!**