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# Looking Forward and Looking Back

It is both delightfully simple and genuinely compelling to be able to summarize the behavior of the equity markets, not only in the calendar year just ended but over the last two years. We can in fact do it in two sentences:

***In 2022, the Dow, the S&P 500 and the Nasdaq 100 experienced peak-to-trough declines of 21%, 25% and 35%, respectively. A week before Christmas 2023, all three were in new high ground on a total return basis (that is, including dividends).***

Why stocks did this is irrelevant to the wonderful lessons to be drawn from this experience. There are almost as many theories and explanations of ***why*** as there are market commentators, of whom we are happily not one. (We would point out, however, that the number of said commentators who successfully forecast both the market action of 2022 ***and*** that of 2023 is, to our knowledge, plus or minus zero.)

What should matter most to us long-term, goal-focused equity investors is not ***why*** this happened but ***that*** it happened. Specifically, that there could be a pervasive and very significant bear market over most of one year, and that those declines could be entirely erased in the following year. Although not nearly as quick or as perfectly symmetrical as the 2022-23 experience, in the largest sense ***that is how it works.***

As always, then, we break our year-end letter into two parts: first the timeless and enduring principles reinforced by these two years, and then a consideration of current conditions.

## GENERAL PRINCIPLES

- The economy cannot be consistently forecast, nor the market consistently timed. Thus, we believe that the highest-probability method of capturing equities' long-term return is simply to remain invested all the time.
- We are long-term owners of businesses, as opposed to speculators on the near-term trend of stock prices.
- Declines in the mainstream equity market, though frequent and sometimes quite significant, have always been surmounted, as America's most consistently successful companies ceaselessly innovate.
- Long-term investment success most reliably depends on making a plan and acting continuously on that plan.
- An investment policy based on anticipating (or reacting to) current economic, financial or political events/trends most often fails in the long run.

## CURRENT COMMENTARY

- We remain convinced that the long-term disruptions and distortions resulting from the COVID pandemic are still working themselves out in the economy, the markets, and the society itself, in ways that can't be predicted, much less rendered into coherent investment policy.
- The central financial event in response to COVID was a 40% explosion in the M2 money supply by the Federal Reserve. It predictably ignited a firestorm of inflation.
- To stamp out that inflation, the Fed then implemented the sharpest, fastest interest rate spike in its 110-year history. Both debt and equity markets cratered in response.
- Despite this, economic activity just about everywhere but in the housing sector has remained relatively robust; employment activity has, at least so far, been largely unaffected.
- Inflation has come down significantly, though not yet close to the Fed's 2% target. But prices for most goods and nearly all services remain elevated, straining middle-class budgets.

*...continued on back*

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*"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves."*
*~ Peter Lynch*

## Looking Forward and Looking Back
*(continued)*

- Capital markets have recovered significantly, as speculation now centers on when and how much the Fed may lower interest rates in 2024, and whether a recession may yet begin, whatever they do. These outcomes are unknowable—probably even to the Fed itself—and do not lend themselves to forming a rational long-term investment policy.

- Significant uncertainties abound. Trends in the U.S. federal deficit and the national debt continue to appear unsustainable. Social Security and Medicare appear to be on the path to eventual insolvency unless reformed. The serial debt ceiling crisis continues, and a bitterly partisan presidential election loom. The markets will face significant challenges in the year just beginning as indeed they do every year.

Our overall recommendations to you are essentially what they were two years ago at this time, and what they have always been. Let us revisit your most important long-term financial goals. If we find that those goals have not changed, we will recommend staying with our current plan. And if our plan is not changing, there will most probably be no compelling reason to materially alter your portfolio.

As always, we welcome your questions and comments, and look forward to talking with you. Thank you again for the opportunity to serve you and your family. It is a privilege for us to do so.

Sources: Standard & Poor's; Yahoo Finance



**WISHING YOU AND YOUR FAMILY A HAPPY NEW YEAR!**