

2019 Year in Review

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Happy New Year!

2019 was a very good year for investors. The S&P 500 was up 28.88% while the Dow Jones Industrial Average rose more than 5000 points for a 22.34% gain.¹ The New York Times said it was an easy year to make money: "Buy almost anything!"² At a New Year's Eve dinner, my neighbors regaled me with stories of their own investment successes. High Fives All Around!

Investors entered 2019 with a very cautious outlook, largely because stocks had fallen by 20% in the prior three months. The global economy was weakening³ CNN's "Fear and Greed" Index is a daily read on investor sentiment. On the first trading day of January 2018 it was 10, a level which signifies "Extreme Fear" and up from record low two the week before⁴ (by the way, today the reading is 91, signifying "Extreme Greed").⁵ However, the market experienced a fairly steady climb over the entire year, helped in part by the Fed's promise to stop raising interest rates. Throughout the year, the market shrugged off the normal collection of random fears. In August, following some negative economic reports, many analysts and strategists came to the conclusion that we were headed into a recession: "Not if but when" and "The clock is ticking" they said. But as we entered the fourth quarter, the reports started getting better, the recession was forgotten, and the year ended at an all-time high.

The investment decisions that we made in 2019 were largely successful. We continued our strategy of overweighting stocks (vs. bonds or other assets) and overweighting technology stocks, both of which added to our investment performance.⁶ Stocks outperformed bonds by a large margin, and technology—particularly large capitalization tech stocks—was the leading sector in the stock market.⁷ Our turnover was relatively low; while we made some small portfolio buys and sells, our dominant investment strategy continues to be finding good, high quality stocks and holding them for a long time.

Yes, a very good year. But keep in mind that the big 2019 gain (ranking along with 2013 and 1997 as the best annual performance in 25 years) was primarily a quirk of the calendar. The market's 29% gain in *calendar 2019* is mostly due to the fact that it is being measured off of such a low point at the end of 2018. Let's look at it another way: in the almost two years from late January 2018 to year end 2019, the market is only up 12.5%.⁸ Solid, but hardly the stuff of high fives.

That's why Grant and I don't pay too much attention to performance over short time periods. We remind you that equity investing is mostly appropriate for longer time horizons—say five years or more. In the five years ending December 31, 2019, the market is up 56.91%, which is a compound annual rate of 9.4% per year.⁹ Since 1926, the market's annualized compound gain has been 6.26%.¹⁰

Going forward, we continue to believe that the equity market can produce attractive long-term returns. We don't believe that the 2019 results are especially predictive of the future, or that our stocks are at excessive valuation levels. We plan to spend more time in 2020 looking for opportunities outside the US, as many foreign markets and foreign economies have lagged domestic performance. As always, we'll monitor economic and geopolitical developments.

Thanks for your support. Please call or e-mail with any questions or comments, and we please accept our best wishes for a happy, prosperous, and safe New Year.



¹ All market performance statistics are from UBS and Bloomberg LP unless otherwise noted. Index returns are calculated solely on index price change, without regard to dividends.

² *The New York Times*, "A Simple Investment Strategy That Worked" December 31, 2019.

³ *The Wall Street Journal*, "The Bull Market is Charging into 2020" January 1, 2020.

⁴ CNN Money (<https://money.cnn.com/data/fear-and-greed/>) January 4, 2018.

⁵ CNN Money (<https://money.cnn.com/data/fear-and-greed/>) January 3, 2020.

⁶ Per Bloomberg and UBS, the S&P 500 was up 28.88%, while the Barclay's Aggregate Bond Index was up 8.58%.

⁷ Bloomberg, Morgan Stanley Research January 3, 2020.

⁸ Bloomberg, UBS.

⁹ Bloomberg, UBS.

¹⁰ *The Wall Street Journal*, "It's the Hottest Thing in Life Insurance", January 3, 2020.

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