



“Sir Isaac [Newton] might well have gone on to discover the Fourth Law of Motion: For investors as a whole, returns decrease as motion increases.”

-Warren Buffett

I’ve never believed, as a general philosophy, that life is a zero-sum game. Yes, there are certainly winners and losers in life. It’s just that it doesn’t stand to reason that a winner exists solely because a loser is on the other side of the proposition; or that there’s even a proposition on the table to begin with.

But sometimes, just sometimes, one will - albeit inadvertently - profit off the misguiding of others. And that is the best description I can conjure for what happened in 2019. December’s (2018) rampage of panic selling provided the opportunity for the rational, cool-headed investor to stock up on discounted shares, as did the May-June 7% pullback; if not by raw cash infusions, then by a simple autopilot *dividend reinvestment program* (DRIP).

If you are among the stout-hearted who remained calm after December’s five minute bear, and the ensuing summer hiccup – and if you’re reading this I suspect you are- perhaps it’s time to draft a heartfelt thank-you letter to those who chose not to maintain the same temperament as yourself. After all, many of these reactionary speculators are, at least in part, responsible for much of the gain you enjoyed in 2019.

BY THE NUMBERS

So, here is where we found ourselves for the year at the close of business on December 31, 2019. The US stock market, as measured by the S&P 500, finished up **31.49%**, which incidentally was the second-best return that I’ve witnessed during my 18-year career. Foreign stocks, as measured by the MSCI EAFE were up **22.66%** and emerging markets (MSCI Emerging Mkt Idx) ended up **18.88%**.

It was a good year for fixed income as well. US Bonds rose by 8.7% (Bloomberg Barclays US Aggregate Idx) while Global Bonds were up 6.8% (Bloomberg Barclays US Aggregate Idx).

The best performing US sector was Information Technology which went up a whopping 50.3%, and the worst sector was Energy, but still increased 11.8%.

A DEEPER DIVE INTO 2019

This past year was, in important ways, the mirror image of the previous year. 2018 was a dramatically outstanding one for the American economy-and for corporate earnings-despite which the equity market couldn't get out of its own way and ended on a terrific downbeat; to wit: a 19.8% peak-to-trough decline through Christmas Eve. This past year was the exact opposite: an exceptionally good year for the market – up 31%, – even though the economy slowed somewhat, and the earnings of the S&P 500 trailed those of 2018.

Without laboring the market's course over the entire year, it was in essence a sequence of three important forays into new high ground. **First**, it made up all of 2018's drawdown. It then corrected sharply, about which I'll have more to say in a moment. **Second**, a series of new highs followed in June-July and consolidated into the fall. The **third** and most dramatic breakout took place at the end of October and persisted until New Year's Eve.

These three successive waves of new highs seem to have attended upon a **slowly growing realization that widespread fears of major disaster -trade wars tipping the economy into recession, a significant year-over-year downtick in earnings, and the impending impeachment – were overblown**. This was particularly true, I think, with respect to the last October breakout and the melt-up that followed. That upswing was ignited by not one but two successive blowout monthly job reports.

With all those rather dry facts out of the way, I'd like to return to the above-mentioned May-June drawdown, which lasted about a month, and took the S&P 500 down about 7%. Technically, this can't even be classified a "correction," as the Index didn't close anywhere near 10% down. It was, nonetheless, a full-blown panic attack, set off by one of President Trump's bellicose tweets regarding China.

It is the way investors reacted to this relatively brief, relatively shallow drawdown which captured my attention. Simply stated, net liquidations of US equity mutual funds and ETFs – absolutely contrasted with bond fund inflows – soared to levels not seen since the Great Panic of 2008. I repeat: **a one month, 7% drawdown set off a flight from equities commensurate with the existential crisis of our time.**

Although the figures are incomplete as I write, 2019 almost certainly saw the greatest equity fund/ETF net liquidations on record going back to 1992, according to the data provider Refinitiv/Lipper.

Set aside momentarily, if you can, the headline issues of the day: trade situation, aging economic expansion, impeachment, Iranian tensions, and the like. These are not merely imponderable, they ought to be entirely irrelevant to long-term, goal focused investors.

Instead, I invite you to focus on what seems to be the default setting of the investing public, which I would describe as pessimism verging occasionally into sheer panic. My experience suggests that very meaningful market setbacks have not historically occurred during huge waves of public pessimism and fear. ***Quite the contrary.***

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This is not to be taken as any sort of market forecast. As I’ve always vociferously stated, I’m a planner, not a prognosticator. It is simply an invitation, as we look into the new year, to take some comfort from the rampant fear abroad in the land, even after a decade and more of stellar returns. There will be plenty of time to begin worrying when the stock market once again becomes a cocktail party conversation, and everyone around us is excitedly bullish. Perhaps then we might harbor some concern.

The fact – or, more properly, the truth – is that we goal-focused, planning driven investors had an exceptional year in 2019. We did so not by forecasting this year’s returns – nor by jumping into the market just in time to get them – but by patiently holding to our long-term discipline. That, to me, is the great lesson of this genuinely great year. Now, let’s start drafting those thank-you letters!

WHAT’S NEXT?

I always hate writing this section. I fear that it will give you the idea that I’m entering the world of predicting. I am not (as if the previous section hasn’t convinced you that I have not the interest nor the aptitude in making such predictions). But I do think there’s value in examining the data as to where we currently stand and what it *might* mean for the future.

The operative issue on most people’s mind is pertaining to the next recession and to the timing. When is the next recession likely to arrive? With many of you I keep hearing the “this can’t continue” argument. And in effect I agree. But as I summarized in a previous newsletter, expansions don’t die of old age. Or said another way by economist Darrell Spence, ***“Recessions aren’t just about the amount of time that’s gone by, they are about excesses and imbalances that have built up in the system that ultimately must be corrected.”***

Let’s take a look at what we do know. **First**, we are nowhere close to the excesses that typically appear prior to a recession. Unlike the 2001 bear market, the increase in valuations are actually linked to underlying earnings. Companies are making money today. Presently, the S&P 500 P/E

ratio is at 24.24 (High? Yes, but not crazy high). **Second**, the economy and equity markets don't always move in tandem. Of course, there is, at the very least a soft correlation between the two, but by no means is it perfect. Markets are forward looking animals meaning that economic expectations are priced in well before they become manifest. **Third**, even when all the conditions for a recession are present, there typically needs to be a catalyst. Currently, most economist aren't seeing anything that could serve as such. However, people smarter than me seem to think that, most likely the triggering event would be a rise in interest rates caused by increasing inflation. But the Fed has made it clear they don't intend on raising rates in the near future.

So, let's try to not fret. It is overwhelmingly probable, as financial journalism has been shrieking of late, that 2020 will not match the returns of the past year. Few years ever do; **that is both manifestly true, and wholly irrelevant.**

A WORD ON THE UPCOMING PRESIDENTIAL BID

Elections matter. They have significant cultural, social, and to a lesser extent, economic consequences. Now let's stop right there. Let us not conflate the aforementioned implications with that of your long-term investment portfolio. *A diversified investment portfolio of mainstream equities is, in the long term, gloriously indifferent to who holds political power.* Yes, there may be a short-lived market spike/drop depending on the election results, but it is just that. . . *short-lived.*

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This is mainly because the largest, most well-funded institutions in the world will find a way to make money, **despite of** the political landscape and/or the corresponding tax or trade policy. If companies don't like what's going on in Washington DC, they could do a host of things . . . move business overseas, cut their domestic workforce, or simply sit on cash until the political winds change. No matter the case, corporations are brutally innovative when it comes to profitability. They can't help it.

I may author a more detailed essay regarding the various historical impacts of general elections on one's investment portfolio, or the lack thereof, as November 2020 draws closer. But in the meantime, **let us aggressively dispatch with the notion that whoever gets elected will absolutely demolish or exalt (choose one, depending on your political leanings) your long-term investment portfolio.**

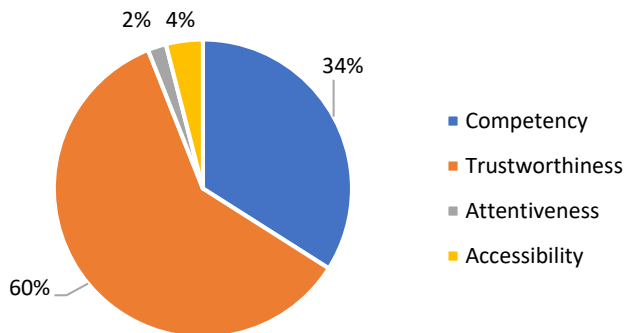
CLIENT SURVEY RESULTS

Although my client survey has no real bearing on your life, I thought it might be of interest, nonetheless. So, I decided to share some of your opinions.

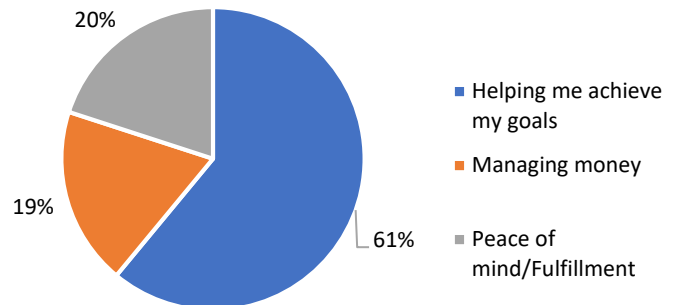
On a side note, I’m highly grateful for everyone who participated. I’m serious. I’ve never asked for direct and brutally honest (and let’s not forget, anonymous) feedback from the very group of people who employ me. And let me tell you, it was frightening. Immediately upon pressing “send” on the survey email, I suddenly felt as though I was standing naked in Times Square.

We sent the survey out to 250 people, which accounts for all my active investment clients excluding my family (I knew my mom would give me perfect marks and I didn’t want to skew the results). I won’t comment on the parts where you rated me directly, as this could be construed as testimonials – strictly forbidden by the regulatory agencies. But I will share your responses on the two parts pertaining to what you value in an advisor.

WHAT IS MOST IMPORTANT TO YOU WHEN WORKING WITH AN ADVISOR?



WHAT DO YOU BELIEVE TO BE THE MOST IMPORTANT ROLE OF A FINANCIAL ADVISOR?



THOSE WITH HARVESTED LOSSES FROM 2018

For many advisory accounts, we capitalized on the December 2018 market drop by harvesting losses, which came in quite handy at tax time. To avoid a wash sale violation, I took the proceeds from the liquidation and placed them into another fund of similar allocation until we passed day thirty (the threshold for something to no longer be considered a wash sale). As luck would have it, the market surged in January before passing the thirty-day mark and I was therefore unable to reinvest the funds back to the original allocation without subjecting the funds to short-term capital gains. And let’s not forget, *short-term* capital gains are not tax friendly. This is because you must hold an appreciable asset for a full year before it is taxed at the more favorable *long-term* capital gains rates. Got it? Clear as the Mississippi?

In any case, we now find ourselves approaching the 1-year anniversary of these security exchanges and will be crossing the long-term capital gain threshold. Therefore, I plan to analyze

each of the affected accounts during the first quarter of 2020. If action is taken on your account, you will at the very least receive trade notifications and possibly a phone call from myself.

LOOKING FOR A CPA?

I realize that many of you have a great working relationship with your accountant and in no way do I wish to disrupt that. However, I find that I'm being asked more and more to provide a recommendation to a CPA. So, if you are actively looking for a tax advisor, I have made the decision to affiliate with a Certified Public Accountant (by affiliate, I do not mean partner or employ, as we each have our own separate private practices).

Norman White CPA, or Norm as we know him, specializes in tax reduction strategies and believes that minimizing taxes paid today can greatly increase one's wealth tomorrow.

After graduating from East Tennessee State University, he received his Certified Public Accountant (CPA) designation in 1988 from the State of Tennessee and was in the top one percent of all test takers in the state for that year.

He then worked for several different CPA firms in both Tennessee and North Carolina, where he developed an inquisitive nature which serves him well in seeking out solutions for our clients. In 2011, Norman decided to go into private practice, and opened two local CPA firms, where he spends his time now.

Norman started the game of tennis at age five. In high school he was a standout player for Science Hill. He then played for the University of Tennessee before finishing his career at East Tennessee State University. His claim to fame is that he once took a pro set off Rod Laver during an exhibition in Winston Salem, NC. He still has a love for the game today. You can find him on the courts in the summer, giving lessons, and developing local talent.

When he is not on the tennis court or working, he's spending time with his wife, Amy and his children, Noah and Grace. They attend Buffalo Ridge Baptist Church.

In my experience, he has always done great work. But the primary reason I have chosen to connect with Norman is that I have always known him to be a man of integrity. Furthermore, we've always worked well together with our mutual clients. And that's important to me. When I have a question regarding someone's situation, he's always willing to discuss it with me. In a world of ever-increasing complexity, I find it invaluable having relationships with other competent and caring professionals, and Norman, in my experience, fits the bill.

A GREAT READ

Over the Christmas Holiday I had a chance to read a book that I've had on my reading list for a few years now, but just hadn't taken the time. ***Fortune's Children, the Fall of the House of Vanderbilt*** was utterly fascinating. Arthur T. Vanderbilt did an exquisite job of describing what life was like among the ultra-wealthy during the Gilded Age, and an equally good job explaining how the family's vast fortune was essentially squandered within just a couple generations after the patriarch's (Cornelius Vanderbilt, aka "The Commodore") death.

Imagine this: When the Commodore died in 1877 his estate was worth more than the entire U.S. Treasury. **As a percentage of total US GDP, Cornelius Vanderbilt was nearly twice as wealthy as Jeff Bezos (currently the wealthiest man in the world). Yet, in 1973, 120 of the Commodore's descendants gathered for a reunion at Vanderbilt University, and there was not a millionaire among them.**

Aside from providing ample entertainment regarding the details of the absurd level of opulence and excess surrounding the family's every moment, I did take some life lessons from the book. Namely, that we should rethink the impact of large and lavish endowments on our children. Simply stated, money just means more if it's earned. As William K. Vanderbilt (the Commodore's son) said towards the end of his life, "Inherited wealth is a real handicap to happiness. It is as certain death to ambition as cocaine is to morality."

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-William K. Vanderbilt

IN CLOSING

I'd like to take this final section to thank everyone for the continued business. It was my absolute pleasure in 2019 to guide your portfolios and tell you the truth as I see it regarding your financial condition.

I was asked in a meeting last week if I had given much thought about when I might retire one of these days. My answer was "Why would I want to retire?" This stuff is way too fun for me to voluntarily bail out. **I can't think of any other career that the Deity could have better tailored for me- and I thank him for that regularly.**

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I believe that every human encounter either lifts us up or brings us down, as there's nothing static about the experience of human interaction. And with rare exception, I find myself more fulfilled and overall happier after a well-spent hour at my conference

table, working face-to-face through a client's financial plan. **And that, in large part, I have to say, is because of those sitting on the other side of that conference table.** It is a genuine joy to work with you all!

All my best in 2020!



Matthew J Trivett CFP® CLU® ChFC®

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