February 22, 2020

Dear clients and friends,

The Core portfolio rose +33.2% in 2019 versus +31.5% for the S&P 500 Total Return Index for a total outperformance (excess return) of +1.7%.

Core vs. S&P 500 TR Index		**Annualized Returns as of December 31, 2019**					
	YTD	**1 year**	**3 years**	**5 years**	**10 years**	**All years**	**Total**
Core (net of fees)	**33.19%**	**33.19%**	**24.19%**	**21.64%**	**18.74%**	**14.48%**	**905.52%**
S&P 500 TR Index	31.49%	31.49%	15.27%	11.70%	13.56%	9.75%	389.05%
Excess Return (+/-) vs. S&P	*1.70%*	*1.70%*	*8.91%*	*9.94%*	*5.18%*	*4.73%*	*516.47%*

2019 Results in Detail

For the period ending December 31, 2019, the following are highlights from the year:

- The Core held 12 positions with about 2% of the portfolio in cash at the end of 2019. Over the course of the year I neither added nor subtracted any positions to or from the portfolio (although I occasionally rebalanced our current holdings).
- All 12 positions recorded positive returns for the year.
- Of the 12 positions, 6 produced returns greater than the return for the S&P 500. Those 6 stocks represented 36% of total portfolio assets at the end of 2018 and 42% by the end of 2019.
- If those 6 market-beating positions were a portfolio unto themselves their return would have been +60.8% in 2019, while the positions that did not beat the market would have returned a still respectable +22.4%.
- The best performing position in the portfolio returned 196.4% for the year however it was also our smallest position, so it did not add materially to the overall return. The most impactful position was our fourth largest which provided about a quarter of the portfolio's profit in 2019 with a return of 93.9%.
- Over 3-years, the Core's annualized return was +24.2% versus +15.3% for the S&P 500,
- Over 5-years, the Core returned +21.6% versus +11.7% for the S&P 500,
- Over 10-years, the Core returned +18.7% versus +13.6% for the S&P 500.

The following table indicates how an initial investment of $250,000 would have fared in the Core versus the S&P 500:

What $250,000 Became in the Core vs. S&P 500 as of December 31, 2019				
	1 year	**3 years**	**5 years**	**10 years**
Core	$332,984	$478,795	$665,695	$1,392,501
S&P 500[1]	$328,732	$382,924	$434,662	$891,654

[1] A market index measures the performance of a "basket" of securities, which is meant to represent a sector of a stock market, or of an economy. You cannot invest directly in a market index, but because index funds track a market index, they provide an indirect investment option. An investment of $250,000 in the Vanguard 500 Index

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BUILDING WEALTH ONE BRICK AT A TIME

2019 Results in Context

The Core is unconventional when compared to the typical mutual fund or hedge fund in that it holds only a few positions. And, loosely speaking, the positions within the portfolio are held proportionally by the conviction I have in each which leads to yet more concentration in just a few names. You can assume I am more comfortable with the prospects of our largest position than I am our smallest.

When examining the results of 2019 in this context, a couple of observations come to mind. First, most of the contribution to the Core portfolio's market beating return was produced by a minority of the assets. Second, most of the return was produced by our *lower* conviction positions. So, it is comforting to know our largest, *high* conviction positions don't always have to be our best performing positions and in the end, the Core can still produce competitive returns. Presuming my decision-making has been good regarding which positions show more promise than others, the portfolio should do even better in the future when the high conviction positions pan out.

Those observations aside, I am satisfied though not elated with the Core's performance in 2019. Do not confuse the tenor of this statement with a lack of gratitude. An annual return above +30% is a pleasant and welcome occurrence. It's hard to be upset with growing cash by a full third in one year's time.

My demeanor can be better explained by my awareness I am not investing your funds irrespective of alternatives available to you. One, and likely the best alternative of many, is to simply put your money to work by buying the market itself through a low-cost S&P 500 or total stock market index fund. Investing that way has proven hard to beat. Therefore, it's important to make it outrageously obvious your current and future funds are better off invested in the Core than anywhere else.

Yes, the Core had a stellar year of +30% returns. But in an environment where the S&P 500 also delivered +30% (something it has only done 18 times in its 92-year history), the Core's return sort of loses its luster. Satisfied but not elated. Quite honestly, I would trade 2019's performance for a year where the Core had a slightly lower absolute return (though higher is better too) but with a more decisive relative return over the market. Consider 2018's results. The Core returned 13.5% versus the S&P 500's loss of -4.4% producing an excess return of +17.9%. Better still were 2015's results when the Core provided +36.1% on the year while the S&P 500 returned +1.4% for an *excess return of nearly +35%*. Alas, the portfolio doesn't always have years like these.

In any one year, our typical experience would have played out like the years mentioned above. When the market is down or performing poorly the Core does better, on a relative basis, than when the market is doing well. Specifically, since the inception of the Core there have been 194 rolling 1-year periods, 27 in which the S&P 500 has lost value. In those years the Core produced +8.0% better than the market on average. By contrast, there have been 39 rolling 1-year periods where the market delivered +20% returns or greater. In those years the Core delivered returns +3.7% better than the market. Hypothetically, if the S&P were down -2.0% for a given year the Core should be up +6.0%. If the S&P were up +25% or more, the Core's relative performance will likely be respectable but subdued.

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fund (VFIAX) would have resulted in $888,518 before taxes but after fees for the 10 years ending December 31, 2019, not the hypothetical $891,654 represented in the chart were direct investment into the S&P 500 possible.

Excess Return When S&P 500 Performs Poorly and When S&P 500 Performs Well, 1-Year Periods as of December 31, 2019				
	S&P 500 Performs Poorly		S&P 500 Performs Well	
	S&P < 0%	S&P < 5%	S&P >= 15%	S&P >= 20%
Total Rolling Return 1-year Periods	27	45	81	39
Periods Core outperforms S&P	25	40	58	27
Core "winning percentage"	93%	89%	72%	69%
Core Avg. Excess Return (+/-) vs. S&P	*+8.0%*	*+8.5%*	*+4.6%*	*+3.7%*

Something also worth noting is history has shown the poorer the market performs in any given 1-year period, the more likely the Core is to outperform. In 1-year periods when the S&P lost value, the Core beat the index 93% of the time versus 69% of time when the market returned +20% or more.

Risk: Performance in Declining Markets

The table above provides a nice segue to my thoughts on risk. By my way of thinking the risk of an investment cannot be captured in measures like standard deviation or beta; measures heavily relied on in the investment business. Those measures are attractive because they lend themselves to precise mathematical calculation. That precision offers a false sense of security though. For better or worse, we humans have the tendency to overweight the importance of things that can be precisely measured and underweight the importance of things that cannot.

I think of risk in much the same way Warren Buffett does. Buffett summarizes nicely in a few statements his views on risk in his 1993 letter to Berkshire shareholders. He says,

> "...we define risk, using dictionary terms, as 'the possibility of loss or injury… Academics, however, like to define investment 'risk' differently, averring that it is the relative volatility of a stock or portfolio of stocks - that is, their volatility as compared to that of a large universe of stocks… In our opinion, the real risk that an investor must assess is whether his aggregate after-tax receipts from an investment (including those he receives on sale) will, over his prospective holding period, give him at least as much purchasing power as he had to begin with, plus a modest rate of interest on that initial stake."

Even early in his career, Buffett was (and is still) acutely aware portfolio risk should be measured at the business level of the positions held in a portfolio. Great businesses at fair or low prices are safe while fair business at high prices are not safe. However, Buffett acquiesced, measuring the risk of your investments at the portfolio level if possible, could be useful. In lieu of volatility measures, Buffett suggested in a letter dated January 18, 1965 to his clients of the Buffett Partnership, the following:

> "We don't think this comparison is all important, but we do think it has some relevance… evaluation of the conservatism of an investment program or management (including self-management) should be based upon rational objective standards, and I suggest *performance in declining markets to be at least one meaningful test*. [emphasis added]"

In his letter dated January 24, 1962, he described his goal in down markets:

> "Specifically, if the market [Buffett used the Dow] should be down 35% or 40% in a year (and I feel this has a high probability of occurring one year in the next ten – no one knows which one), we should be down only 15% or 20%."

Buffett thought if his portfolio was down only half as much as the market when the market was down, it was an indicator his portfolio was conservatively invested. Recall from the table above, there have been 27, 1-year periods in which the S&P 500 has lost value and the Core has typically done +8.0% better than the S&P 500 during those years. The average loss for the market over those years was -17.2%. On average, the Core portfolio was down only half as much. The Core has thus far met Buffett's test of conservative investment.

Core vs. S&P: "Buffett's Test of Conservatism"	
S&P Average Loss During Down Years	-17.2%
Core Avg. Excess Return (+/-) vs. S&P in Down Market	+8.0%
Hypothetical Return of Core in Down Market	*-9.2%*

However, do not be alarmed. I have no desire to manage the portfolio in a way where it acts in automatic sympathy with a down market. The exercise above simply illustrates it is my goal that the Core's losses will not be as severe as the market's.

Risk: The Probability of Outperforming the Benchmark

Risk can also be viewed as the probability of outperforming the market over our investment horizon. This is difficult to predict, however. Although past performance is helpful in this regard, using year-to-year increments are not enough. Results in any one year can be erratic and unpredictable.

So, what is the ideal time frame to measure performance? From the investor's perspective it would be the time measured from "right now" to the date he needs the money for his financial goal. If he is investing to secure his retirement in 20 years, then the ideal time to measure an investment manager's performance is 20 years. Obviously, this is impractical. Few of us have 20 years to wait to see a manager's track record unfurl before we invest our money. Even if we did, statisticians would say even 20 years is not long enough to get a statistically significant number of observations to determine with certainty whether the investment manager is demonstrating true skill or if the performance is due entirely to luck[2].

Thankfully, investing never involves absolute certainty nor is it required to do well. Evaluating an investment manager's performance can be viewed in much the same way. Absolute certainty about his or her future performance is neither possible nor necessary. But the problem remains; how do you discern luck from skill. In this case, skill being the investment manager's decision-making ability and its effect on outcomes years from now. Investor and writer, Howard Marks, offers insight.

[2] Edesess, M. (2018, February 13). Here's how much a fund manager would have to gain to be truly superior. Retrieved from https://www.marketwatch.com/story/heres-how-much-a-fund-manager-would-have-to-gain-to-be-truly-superior-2018-02-22

In Marks' latest memo to his clients titled "You Bet"[3], he recalled a book he read in college, *Decisions Under Uncertainty: Drilling Decisions by Oil and Gas Operators* by C. Jackson Grayson, Jr. The book taught him,

> "…you can't tell the quality of a [single] decision from the outcome.
>
> As Grayson explained, you make the best decision you can based on what you know, but the success of your decision will be heavily influenced by (a) relevant information you may lack and (b) luck or randomness. Because of these two factors, well-thought-out decisions may fail, and poor decisions may succeed. While it might seem counterintuitive, the best decision-maker isn't necessarily the person with the most successes, but rather the one with the best process and judgment. The two can be far from the same, and *especially over a small number of trials* [emphasis added], it can be impossible to know who's who."

Warren Buffett also realized the dilemma in accurately predicting an investment manager's decision-making ability. He wrote his investors in 1962,

> "You will not be right simply because a large number of people momentarily agree with you. You will not be right simply because important people agree with you… You will be right, *over the course of many transactions* [emphasis added], if your hypotheses are correct, your facts are correct, and your reasoning is correct."

Thus, to make the best guess about an investment manager's future performance the following are needed:

1. The results of many transactions over time. Said another way, the examination of a series of decisions, using the results those decisions produced as a proxy, and
2. The process by which the decisions were made.

The Results of Many Decisions

In the case of examining the decisions of an investment manager, rolling returns[4] over periods of five years or more are a reasonable lens. Ten years would be ideal, and three year rolling returns are the bare minimum. Rolling returns provide a particularly vigorous analytical tool for evaluating management performance. Rather than *point-in-time* results anchored by the end a calendar year or quarter, rolling returns offer up *flow-of-time* results representing many decisions made over time.

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[3] Marks, H. (2020, January). "You Bet". Retrieved from: https://www.oaktreecapital.com/docs/default-source/memos/you-bet.pdf

[4] Rolling Returns: Annualized returns in overlapping cycles. A five-year annualized rolling return accounts for all of the five-year returns beginning at a given inception date, usually on the first day of a month at market open OR the last day of the previous month at market close (the prices will be the same in these two instances) and ending on the last day of a month market close, five years hence, and advancing one month sequentially. For example, the five-year rolling return might cover Dec. 31, 2011 market close through Dec. 31, 2016 market close. Subsequent rolling returns could cover Jan. 31, 2012 to Jan. 31, 2017, and so on. Rolling returns provide a particularly robust analytical tool for evaluating manager performance, especially during volatile periods.

We can think of a stock portfolio as a pear tree orchard and each of the businesses we hold in the portfolio as an individual tree. Pear trees typically produce their first fruits three years after planting and a full crop after five to seven years. And it's a funny thing about pear trees. They do not produce fruit every year, more like every two to three years. But if those trees are planted under the right environmental conditions each will bear fruit for many years.

Similarly, evidence suggests in the stock market at least, the correlation between price and value begins to strengthen at around three to five years and becomes significantly meaningful after ten years. Allowed the proper time (at least five years), and assuming I have made good decisions in stock selection (tree planting in the right conditions), the positions in our portfolio should produce satisfactory returns (pears) for many years.

Core vs. S&P using Annualized Rolling Returns as of December 31, 2019

	1 year	3 years	5 years	10 years
Total Rolling Return Periods	194	170	146	86
Periods Core Outperforms S&P	141	149	146	86
Core "winning percentage"	73%	88%	100%	100%
Core Median Excess Return (+/-) vs. S&P	*+5.53%*	*+4.39%*	*+4.40%*	*+4.64%*

In periods of 1-year, the Core outperformed the S&P 500, 73% of the time with a typical outperformance of an annualized +5.5%. *In periods of five years or more, the Core has never lost to the S&P 500* with the typical outperformance being +4.4% or greater.

How predictive are five-year rolling returns of future performance? In the table below I compared the performance of the Core to the Center for Research in Security Prices (CRSP) capitalization-based, value and growth style indexes and ranked each by their last 146, 5-year rolling returns. The Core was ranked 1st in 90 of 146 instances (62%) with an average rank of 1.9. The annualized return for the Core was 14.5% over then entire period. By comparison, the CRSP U.S. Small Cap Value Index averaged a ranking of 3.9 with an annualized return of 11.2%. It was first among the style indexes only bested by the Core portfolio. As the table shows, the average ranking of five-year rolling returns is highly correlated to the annualized return of each portfolio/style relative to the others.

Core vs. CSRP Style Indexes by Average Rank of 5-Year Rolling Return Periods as of December 31, 2019

	Return	Average Rank	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Core	**14.48%**	**1.9**	**90**	**17**	**13**	**14**	**8**	**4**	**0**	**0**	**0**
Small Value	11.17%	3.9	22	32	26	17	9	13	8	8	11
Mid Growth	11.51%	4.7	12	18	22	22	20	17	7	26	2
Small Growth	11.75%	4.7	21	29	18	15	13	3	7	1	39
Mid Value	10.63%	5.0	0	16	28	25	12	10	43	11	1
Large Growth	10.73%	5.1	0	0	31	21	35	25	26	8	0
Mega Growth	10.56%	5.3	0	33	7	13	15	33	18	11	16
Large Value	9.06%	6.7	1	0	0	13	17	29	21	65	0
Mega Value	8.56%	7.7	0	1	1	6	17	12	16	16	77

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It is not easy to outperform the market. According to the S&P published SPIVA® U.S. Scorecard, for the 1-year period ending in June 2019, 71% of all domestic equity funds *underperformed* the S&P Composite 1500 index[5]. Additionally, the majority of large-cap (70%) and multi-cap funds (72%) funds lagged their benchmarks.

Over the previous five years, 82% of all domestic equity mutual funds underperformed the S&P Composite 1500, 79% of large-cap funds failed to beat the S&P 500 while 83% of multi-cap funds failed to be the S&P Composite. Over longer-term horizons (10 and 15 years), at least 80% of active managers underperformed their respective benchmarks across all domestic equity categories[6].

Not only do most mutual funds have difficulty outperforming their benchmarks, the ones that manage to outperform have very little consistency in doing so. S&P also publishes a series titled "*The Persistence Scorecard*". In its summary it states, "The S&P Persistence Scorecard attempts to distinguish a manager's luck from skill. One key measure of successful active management lies in the ability of a manager to outperform his peers consistently."

The findings of the Scorecard reveal:

- Few fund managers consistently outperformed their peers.
- For funds categorized as top performers in September 2017, 47% maintained their top-quartile performance the subsequent year. However, there was a dramatic fall in persistence afterward—just 8% of domestic equity funds remained in the top quartile in the 3-year period ending September 2019.
- An inverse relationship exists between the time horizon length and the ability of top-performing funds to maintain their success. Less than 3% of equity funds in all categories maintained their top-quartile status at the end of the 5-year measurement period. In fact, no large-cap fund was able to consistently deliver top-quartile performance by the end of the 5th year.
- For the 5-year transition matrix - performance over two non-overlapping 5-year periods - 32% of top-performing equity funds in the first period remained in the top quartile in the second period. However, nearly one-third of top-quartile funds also either moved to the lowest quartile, were merged, or closed (indicating poor performance).

Core vs. U.S. Equity Mutual Funds, Annualized Returns as of December 31, 2019				
	1 year	**3 years**	**5 years**	**10 years**
Core (net of fees)	**33.19%**	**24.19%**	**21.64%**	**18.74%**
All US Equity Mutual Funds[7]	28.24%	12.11%	9.09%	11.84%
(+/-) vs Mutual Funds	*+4.95%*	*+12.08%*	*+12.55%*	*+6.90%*

[5] The S&P 1500, or S&P Composite 1500 Index, is a stock market index of US stocks made by Standard & Poor's. It includes all stocks in the S&P 500, S&P 400, and S&P 600. This index covers approximately 90% of the market capitalization of U.S. stocks.
[6] SPIVA® U.S. Scorecard, Mid-Year 2019.
[7] The All U.S. Domiciled Equity Mutual Fund data is from Lipper Research and is published in The Wall Street Journal.

And as bad as mutual funds have been, long/short hedge funds' performance has been even more dismal.

Core vs. Hedge Funds, Annualized Returns as of December 31, 2019				
	1 year	**3 years**	**5 years**	**10 years**
Core (net of fees)	**33.19%**	**24.19%**	**21.64%**	**18.74%**
HFRI Equity Index	13.73%	6.16%	4.56%	4.68%
(+/-) vs Hedge Funds	+19.46%	+18.02%	+17.08%	+14.05%

The Decision-making Process

In addition to *or* in the absence of meaningful performance yardsticks, you should rely on other methods to evaluate an investment manager. Since it is adherence to a sound decision-making process that will lead to market beating performance, the lion's share of your attention might be spent evaluating whether the process itself is correct. The following gives a bird's-eye view of the process I follow in pursuit of market beating returns:

- Commitment to a long-term investment horizon.

Once purchased I intend to hold positions in the portfolio for at least three to five years; long enough for the business thesis of each holding to play out in most cases (pear trees to producing pears). Over the years the Core's average holding period has been more than seven years. This long-term philosophy extends many benefits, not the least of which is it acts as a check on rationality and temperament. It forces a patience that otherwise might not be present, preventing buying and selling positions for market reasons as opposed to business reasons. And, although I do not make buy/sell decisions strictly for tax considerations, being long-term holders has the benefit of lowering our potential taxes to a capital gains rate instead of our highest personal income rate.

- Manage a concentrated portfolio.

I aim to have somewhere in the range of 10 to 35 positions in the Core portfolio. Although over the years more evidence mounts that fewer positions are superior to more. By the end of 2019 the Core held 12 positions with 77% of its funds in the top-6 holdings. Additionally, should a position do so well it becomes an outsized portion of the portfolio, I will allow it to run. Managing a portfolio this way gives a decided advantage over portfolios that carry hundreds of positions (a requirement in mutual funds) because this way, winners will have a meaningful impact on results.

In the Buffett Partnership, Buffett often only held six to eight positions at time, almost all in small companies, and allowed for the occasion where one position might account for as much as 40% of assets. The caveat was the position had to represent facts and reasoning that were clear with little chance of drastic negative changes to the business. My objective is to have the same confidence in fortunes of the Core's largest holdings.

A byproduct of a concentrated portfolio is increased volatility in the short-term. Of course, with a long-term view beyond five years, volatility becomes a virtual non-factor. Further, studies show holding a relatively concentrated portfolio in the range of where I intend to (10 to 35 stocks) eliminates over 90%

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of the company-specific volatility. Adding positions beyond this number does little to reduce volatility any further and only serves to reduce return.

- Own quality companies that generate high degrees cash and generate high returns on capital/equity.

Ownership of high-quality businesses is the aim. A good indication of whether a business is top notch is whether it generates high returns on its capital. The companies in the Core portfolio all maintain high returns on invested capital of at least twice that of the average business. And each of the companies is the leader in its area of operation.

- Adhere to a value-oriented approach to investing.

There is no one true way to determine the value of a company, but I endeavor to do so with each company in the portfolio. In aggregate, the companies in the Core have been purchased for well below what I estimate is their true value. Keep in mind, I have invested in companies with high multiples like price-to-earnings and like. But I maintain those measures are only indicators of value and not determiners of value.

- Concentrate on investing in businesses, not the investment vehicle or strategy du jour.

It might surprise you to note I am agnostic about the investment vehicle of choice. However, what I know best is evaluating a publicly held business and deciding whether it is worthy of investment. I am cognizant other investment vehicles may have a place in an asset allocation strategy, or a hedge strategy, and things like margin can boost returns. And I am not opposed to using those approaches in the future. However, unless I can say with unwavering confidence something other than direct investment in companies by way of purchasing their publicly traded stock will help, I will not bother.

- Be forthright in communicating both successes and failures with the same degree of candor.

I hope that in your experience with me you have found when I do not know the answer, I will say so (then work to find it) and when I am wrong, I will admit it. I hope I am communicating to you that while the investment performance I have produced on your behalf in the past has worked out well, I never offer guarantees of future success. My decision-making may fail at some point or the market may just not agree with me in a timely fashion, and results may suffer as a result. So much of investing is out of the control of the investor, hubris has no place in the process.

There is nothing about what I do or my approach that is uniquely mine. All of what I have learned, I have learned from great investors that have been kind enough to share their experiences with the world. From those lessons I have attempted to develop a simple yet effective process that will produce consistently favorable results. There is beauty in simplicity. And although this process is available to anyone, most will muck it up with unnecessary complexity. For whatever reason, human nature wants to make simple things difficult. I do not suffer this illness. Point me to the one-foot hurdles, I'll leave the ten-foot hurdles for the rest.

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Going Forward

In an appearance on CNBC early in 2019, Nobel Prize winning economist Robert Shiller was asked whether there would be a recession next year. He said,

> "Economists are like weather forecasters. Weather forecasters can go out a few days… but going out a year or two, they get really iffy."

Obviously, there are many factors that *could* influence markets and the economy in the short-term. The rise of populism, historically low interest rates, job displacement resulting from fast moving technological advances, income and wealth inequality, racial strife, pandemics for which we are unprepared, etc. But assigning undue importance and/or prognosticating the direction of stocks or the economy in the short-term based on these events and conditions, is folly.

For instance, let me share some headlines from the past few years where pundits were alarmists about what a disaster the next potential president may be to the market:

- "If Trump wins, stocks will crash 50%"[8]
- "First Obama, Then Trump, Now They Say Warren Will Crush Stocks"[9]
- "Here's why the stock market will 'definitely decline' if a Democrat wins the 2020 presidential election, according to one billionaire"[10]

The truth of the matter is, despite what the above headlines might suggest, the stock market does not care about who sits in the White House nor what party he or she might belong to. Wharton Professor Jeremy Siegel's book, *Stocks for the Long Run*, documents the returns of the Dow Jones Industrials under every presidential administration since Grover Cleveland in 1888. During that time, we have had 24 presidents and only under four administrations did the Dow fail to produce positive returns above the rate of inflation. Additionally, Siegel points out,

> "…investors generally prefer Republicans to Democrats… many Republican policies are perceived to be favorable to stocks and capital formation… Yet the stock market has actually done better under Democrats than Republicans."

Of the four instances where the Dow lost value, three of those administrations were Republican and two of those instances included the Great Depression under Hoover and the Great Recession under Bush II. Yet the conventional and short-term wisdom will tell you, it matters to the stock market who is in the White House. It doesn't. The stock market and the economy chug along either way. This country has seen wars with guns, wars through trade, wars on poor and brown people disguised as wars on drugs

[8] Rosenberg, Alex (March 16, 2016), "If Trump wins, stocks will crash 50%", Retrieved from: https://www.cnbc.com/2016/03/16/if-trump-wins-stocks-will-drop-50-wedbush-pro.html

[9] Ponczek, S. (October 30, 219), "First Obama, Then Trump, Now They Say Warren Will Crush Stocks", Retrieved from: https://www.bloomberg.com/news/articles/2019-10-30/obama-will-kill-stock-market-no-trump-will-no-warren-will

[10] Watts, W. (November 19, 2019), "Here's way the stock market will 'definitely decline' if a Democrat wins the 2020 presidential election, according to one billionaire", Retrieved from: https://www.marketwatch.com/story/heres-why-the-stock-market-will-definitely-decline-if-a-democrat-wins-the-2020-presidential-election-according-to-one-billionaire-2019-11-13

and “protecting our borders”, civil unrest, massive climate disasters, terrorist attacks, the rise and fall of nations, and the market and the economy just keep on going. Given enough time, each has shown a remarkably stubborn resilience.

Conclusion

I will end with this. I have zero ability to predict with any degree of confidence the near-term direction of stocks or the economy. Good news is prophecy is not a requisite for doing well in stocks over the long-term.

If you have any questions about the material presented here, please feel free to reach out to me. All clients should have my personal cell phone number. A text there is the best way to reach me and the fastest way to get a response. Also, my new email address is ben@brickfinancial.com

I will be migrating to the use of Mailchimp.com to handle general newsletters and announcements. If you are interested in receiving announcements from me add you email address to my list at the following link: http://eepurl.com/b44OwX

Thank you for allowing me to help you reach your financial goals. And please share this material freely with anyone you think might benefit from these services.

Sincerely,

Ben

Note: Past performance does not guarantee future results. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product.

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BRICK FINANCIAL MANAGEMENT, LLC
BUILDING WEALTH ONE BRICK AT A TIME

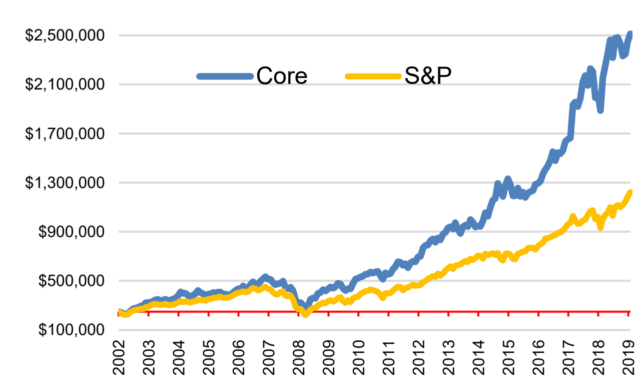
The Core Portfolio is the implementation of a value oriented stock selection process, resulting in a portfolio of 10 - 35 stocks. The Core has two interconnected performance objectives, which are to increase invested capital consistent with reasonable risk and outperform select broad stock market indices over long periods of time.

Core vs. Various Indices	**Annualized Returns as of December 31, 2019**						
	YTD	**1 year**	**3 years**	**5 years**	**10 years**	**All years**	**Total**
Core (gross of fees)	35.71%	35.71%	26.58%	24.04%	21.21%	16.97%	1353.10%
Core (net of fees)	**33.19%**	**33.19%**	**24.19%**	**21.64%**	**18.74%**	**14.48%**	**905.52%**
S&P 500 TR Index	31.49%	31.49%	15.27%	11.70%	13.56%	9.75%	389.05%
Excess Return (+/-) vs S&P	*+1.70%*	*+1.70%*	*+8.91%*	*+9.94%*	*+5.18%*	*+4.73%*	*+516.47%*
HFRI Equity Index	13.73%	13.73%	6.16%	4.56%	4.68%	5.58%	152.99%
(+/-) vs Hedge Funds	*+19.46%*	*+19.46%*	*+18.02%*	*+17.08%*	*+14.05%*	*+8.90%*	*+752.53%*
All US Equity Mutual Funds	28.24%	28.24%	12.11%	9.09%	11.84%	na	na
(+/-) vs Mutual Funds	*+4.95%*	*+4.95%*	*+12.08%*	*+12.55%*	*+6.90%*	*na*	*na*

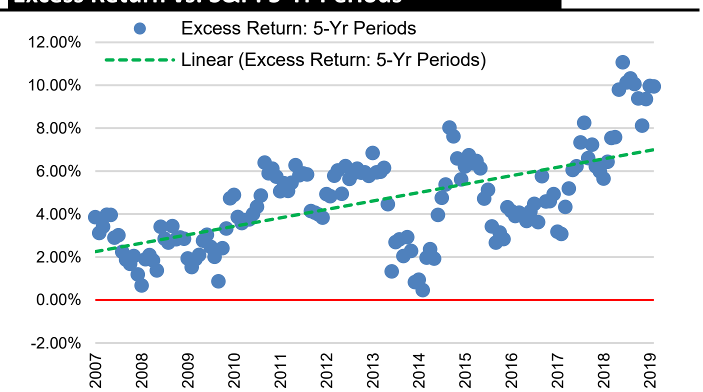
Core vs. S&P using Annualized Rolling Returns as of December 31, 2019							
	1 month	**3 months**	**1 year**	**3 years**	**5 years**	**10 years**	**15 years**
Total Rolling Return Periods	205	203	194	170	146	86	26
Periods Core Outperforms S&P	117	129	141	149	146	86	26
Core "Winning" Percentage	**57%**	**64%**	**73%**	**88%**	**100%**	**100%**	**100%**
Median Excess Return (+/-)	***+0.61%***	***+1.38%***	***+5.53%***	***+4.39%***	***+4.40%***	***+4.64%***	***+4.92%***
Avg. Excess Return when Outperforming (+)	*+2.44%*	*+4.40%*	*+9.94%*	*+4.87%*	*+4.34%*	*+4.43%*	*+4.73%*
Avg. Excess Return when Underperforming (-)	*-1.87%*	*-2.90%*	*-6.16%*	*-0.97%*	*na*	*na*	*na*

Volatility and Risk Measures	**5-Yr Trailing**					**5-Yr Annualized**	
	Standard Deviation	Annualized Return	Sharpe Ratio	Sortino Ratio	Capture Ratio*	Gain Frequency	Max Loss
Core	17.10%	21.64%	1.20	1.87	1.60	97%	-4.79%
S&P / VFINX*	11.98%	11.70%	0.89	1.12	0.99	89%	-6.64%

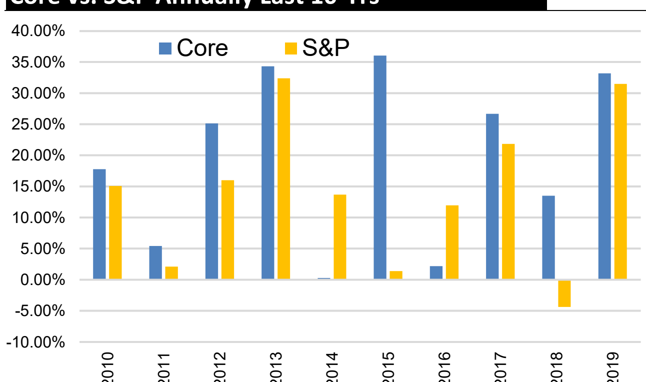
Value of Initial $250,000 Investment



Excess Return vs. S&P: 5-Yr Periods



Core vs. S&P Annually Last 10-Yrs



Disclosure and Definitions on following pages.

Information

Minimum Investment	$250,000
Annual Management Fee	2.0% of AUM

Bio

Ben Taylor has many years of experience in the financial services industry including research, security analysis and portfolio management. He began his career as a consultant with KPMG. After KPMG and prior to founding Brick Financial, Ben worked for several years at the investment banking firm of Lehman Brothers. Ben is a graduate of Lehigh University.

The Core Portfolio returns represent the net weighted average returns of the model portfolio based on our Core investment style. The returns presented do not represent actual trades of client portfolios although client portfolios are based on the model portfolios. Returns reflect the experience of an investor who came into the portfolio with $250,000 on its inception date of December 6, 2002 and did not add to or withdraw from the portfolio through the end of the most recently reported period. The reported net return figure includes the impact of all fees. Clients may have different fee arrangements. Depending on the timing of a specific investment, client cash contributions or withdrawals, and/or other factors, actual individual client returns may be lower or higher than the model portfolios. The model portfolios are presented here for informational purposes only. Although Brick Financial believes the information and data in this report were obtained from sources considered reliable and correct, their accuracy or completeness cannot be guaranteed. Neither this commentary, nor any opinions expressed herein, should be construed as an offer to sell or a solicitation of an offer to acquire any securities or other investments mentioned herein. Persons associated with Brick Financial may own or have an interest in securities or investments mentioned in this presentation. Their positions may change from time to time and they may buy or sell such securities or investments. Past returns are no guarantee of future performance. Portfolio data is maintained at Foliofn.com. The index and mutual fund data come from several sources including Standard and Poor's, Hedge Fund Research, The Wall Street Journal (mutual fund data), CSRP and Vanguard. The S&P 500 TR Index (S&P 500, S&P) is a market capitalization weighted index of 500 large-sized stocks. The index is designed to measure changes in the economy and is representative of most major industries. The ALL U.S. Domiciled Equity Mutual Fund data is from Lipper Research and is published in The Wall Street Journal. The HFRI Equity Hedge Index in maintained by Hedge Fund Research, Inc and is an index of Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. The Vanguard 500 Index Fund Investor Shares (VFINX) invests in the components of the S&P 500 Index thus serves as a reasonable proxy for the performance of the S&P 500 Index minus the fees associated with owning the fund. Index and mutual fund returns include dividends and are presented for illustrative and comparative purposes only.

<u>Fees</u>: Fees include both management and custodial fees and are charged monthly (1/12 of annual fee) in advance and are based upon the account's asset value on the last day of the previous calendar month. Management fees for the Core portfolio are tiered and range from 2.0% down to 1.5% based on AUM. Custodial fees are tiered and range from 0.4% to 0.2% based on AUM.

<u>Assets Under Management (AUM)</u>: Total market value of all assets managed by the investment advisor.

<u>Total Return</u>: The full amount that an investment earns over a specific period of time, usually expressed as a percentage.

<u>Annualized Return</u>: The geometric average return over a given time period, rescaled to the period of one year.

<u>Excess Return</u>: A security's return above or below that of a benchmark. Excess return is simply the portfolio's or security's return minus that of the benchmark. If an actively managed portfolio returns 11%, and its benchmark returns 10%, the portfolio's excess return is 1%.

<u>Rolling Returns</u>: Annualized returns in overlapping cycles. A five-year annualized rolling return accounts for all of the five-year returns beginning at a given inception date, usually on the first day of a month at market open OR the last day of the previous month at market close (the prices will be the same in these two instances) and ending on the last day of a month market close, five years hence, and advancing one month sequentially. For example, the five-year rolling return might cover Dec. 31, 2011 market close through Dec. 31, 2016 market close. Subsequent rolling returns could cover Jan. 31, 2012 to Jan. 31, 2017, and so on. Rolling returns provide a particularly robust analytical tool for evaluating manager performance, especially during volatile periods.

<u>Standard Deviation</u>: A basic statistical tool, is widely used to measure the degree of fluctuation in a portfolio's return. The larger the standard deviation, the greater the magnitude of the fluctuations from the portfolio's average return. Consider a portfolio with an average return of 10% and a standard deviation of 15%. Its returns should fall between –5% and 25% in 68% of all observations.

<u>Sharpe Ratio</u>: A representation of the risk-adjusted return of a portfolio or security. The Sharpe ratio measures how much return is being obtained for each theoretical unit of volatility. To calculate a Sharpe ratio, an asset's excess return versus a risk-free asset such as Treasury bills is divided by the standard deviation of the asset's returns. <u>Sortino Ratio:</u> Similar to the Sharpe ratio is the Sortino ratio. But the Sortino ratio is unlike the Sharpe ratio in one key way. The Sortino ratio differentiates harmful volatility from total overall volatility by using downside volatility/deviation. Since this ratio uses the downside deviation as its risk measure, it addresses the problem of using total volatility, or standard deviation, as upside volatility is beneficial to investors. Like the Sharpe ratio, a higher Sortino ratio is better. The Sharpe and Sortino ratios for the S&P 500 TR reported here may differ from the ratios reported elsewhere (i.e. Morningstar) due to differences in the risk-free rate used in the calculation.

<u>Capture Ratio</u>: The ratio between up capture ratio and down capture ratio. An overall capture ratio greater than 100% or 1.0 means the investment went up more than the market (benchmark) when the market had positive returns than when the investment went down when the market had negative returns. For example, if the up capture ratio is 130%, and the down capture ratio is 125%, the overall capture ratio is 104%. The capture ratio for the Vanguard 500 Index Fund (VFINX) as calculated by Morningstar is reported here. The ratio for this fund will tend to be 99% as it will closely capture 100% of both the up and down movements of the market (S&P 500 TR Index) prior to accounting for the cost of owning the fund, which amounts to about 1%.

<u>Gain Frequency</u>: The number of times the portfolio registered a gain over the time period expressed as a percentage. <u>Risk of Loss</u>: Although there are many forms of investment risk, risk loss here is the likelihood the portfolio will lose market value over the designated period. It is calculated as (1 - gain frequency) expressed as a percentage. <u>Maximum Loss</u>: The maximum loss in market value of the portfolio over the time period.

<u>Value of Initial Investment</u>: Returns reflect the experience of an investor who came into the portfolio with $250,000 on its inception date of December 6, 2002 and did not add to or withdraw from the portfolio through the end of the most recently reported period and includes reinvested dividends.