
*Dear present and future clients:*

*We've always believed that an important part of the service we provide to our clients is to monitor the comments of numerous economists and market strategists in order to help sort through the confusion and clutter of opinions. Unfortunately, their views are often conflicting and – when compared – simply don't make much sense. Over the past two decades, we've identified those we value and those we don't. One of the experts we respect is Warren Buffett. His plain talk and common sense approach to investing is inspiring and no one can argue with his consistent success over many, many years. We think you'll appreciate some of his recent commentary and outlook.*

*Let us know if there is anyone you care about that might want to receive these monthly emails and we will be happy to add them to the list.*

***"Someone is sitting in the shade today because someone planted a tree a long time ago."***

***- Warren Buffett***

It's common practice for the president or CEO of a company to include a letter to shareholders in the annual report. Berkshire Hathaway's chairman and CEO, Warren Buffett, doesn't buck the trend.

His annual letter (http://www.berkshirehathaway.com/letters/2018ltr.pdf) captures plenty of attention, and this year was no exception. The focus is on the investments and operating performance of Berkshire Hathaway, but the Oracle of Omaha also includes many sound principles for wealth creation as well as his general thoughts about the U.S. economy.

**Buffett's Record**
From 1965-2018, the market value of Berkshire Hathaway has posted a compounded annual gain of 20.5%, more than double the S&P 500's advance, which averaged 9.5%, including reinvested dividends.

In case you're wondering, Berkshire Hathaway's overall gain has been 2,472,627% versus the S&P 500's still-impressive 15,019%.

**Focus on the Forest–Not the Trees**
As Buffett opines (and we agree), "I have no idea as to how stocks will behave next week or next year. Predictions of that sort have never been a part of our activities." That said, how did the 19.8% drop in the S&P 500 Index (September peak to Dec $24^{th}$ trough) sit with you? With your input, we do our best to gauge your tolerance for risk. If you found yourself fretting over the volatility, let's talk. On the other hand, if you slept soundly, it would suggest your investment mix in relation to risk is on target.

**The American Tailwind**
Warren Buffett is bullish on America.

In 1942, he invested $114.75 in three shares of Cities Service preferred stock. At the time, the country was mobilizing for what would be a massive war effort. If Buffett had invested his $114.75 into a no-fee S&P 500 index fund, and all dividends had been reinvested, his stake would have grown to $606,811 (pre-taxes) on January 31, 2019 (the latest data available before the printing of his letter).

The U.S. was victorious in WWII, but challenges never cease. Since then, we've endured the cold war, the divisiveness of the 1960s, OPEC's oil embargo, double-digit inflation, soaring interest rates, a rising federal deficit, the tragedy of 9-11, the war on terrorism, the financial panic of 2008, the ensuing Great Recession, falling home prices, and more.

Let's say that you had had the foresight to see the oncoming explosion in the federal deficit, one that is up 40,000% over the last 77 years. "To 'protect' yourself," Buffett said, "You might have eschewed stocks and opted instead to buy three ounces of gold with your $114.75. And what would that supposed protection have delivered? You would now have an asset worth about $4,200." Compare that to the performance of the S&P 500!

What is this nation's secret sauce? The answer is complex and difficult; yet, the overarching theme lies in front of us.  The experiment called the United States has birthed and attracted the best and the brightest. Freedom and opportunity are its calling cards. Today, we are the wealthiest nation on Earth, and we continue to ride the wave of innovation and enjoy the benefits.  But, is that wave about to crash on the shore?

A recent piece by Morgan Stanley entitled*, Millennials, Gen Z and the Coming 'Youth Boom' Economy,* complements Buffett's optimistic viewpoint. The population of the Millennials will overtake the Baby Boomers this year, and "Gen Z, born between 1997 and 2012, will overtake the Millennials as the country's largest cohort by 2034," it said. For the U.S. economy, "The demographic tailwinds created by these high-population cohorts could be significant, delivering the kind of 'youth jolt' that the Baby Boomers were famous for."

Sure, we can't know when the next recession will ensue or some of the challenges we'll face as a nation in the coming years. Yet, as Buffett sums up his annual letter, "Over the next 77 years, the major source of our gains will almost certainly be provided by The American Tailwind. We are lucky–gloriously lucky–to have that force at our back."

As we've repeatedly said, your investment plan incorporates the unexpected detours. The disciplined investor, who divorces the emotional component from the investment plan, chooses the best path to meet his or her long-term financial goals.

That said, the 2019 view is reasonably optimistic:

- A flexible Federal Reserve has taken its finger off the rate-hike button,
- The economy continues to expand, albeit the pace has slowed, and

- We've been treated to headlines saying the U.S. and China are making progress toward a trade agreement.

There are no guarantees a deal will be inked, but a March 4 headline in the *Wall Street Journal* summed up recent sentiment:

> **"US, China Close In on Trade Deal"**
> Both countries could lift some tariffs imposed last year, and Beijing would agree to ease restrictions on American products.

A trade deal that pries open Chinese markets to U.S. products and services, protects U.S. intellectual property rights, and ends forced technology transfers (and one with strong enforcement provisions) would not only benefit the U.S. economy, but a deal between the world's largest economies would sweep away one cloud of uncertainty that has plagued investors.

We are in the latter stages of the economic cycle and much will depend on the economic fundamentals going forward. With the Fed on hold, inflation contained, and the economy moving forward, the fundamentals are currently sound.
But never discount volatility. Stocks seem to take the stairs up and the elevator down.

Let's look at a partial list of the worries that temporarily sidelined the bull over the last ten years, but didn't sideline those with a long-term view:

> *The European debt crisis…Greece... global growth worries…U.S. growth is slowing...China is slowing...the dollar is too strong...Japan earthquake/tsunami/nuclear disaster...U.S. debt downgrade...fiscal cliff...Obama will be re-elected...Trump will get elected...Hillary will get elected...the Fed will end bond buys...Fed will start hiking interest rates...falling oil prices...Ebola scare...Russia invades Ukraine...North Korea...ISIS...Syria...Brexit...trade tensions...acrimony in D.C....and stocks have risen too quickly.*

Shorter-term risks never completely abate. But Warren Buffett's message has been consistent. Don't bet against America.

Let me emphasize again that it is our job to assist you! If you have any questions or would like to discuss any matters, please feel free to give any one of our team members a call.   As always, we're honored and humbled that you have given us the opportunity to serve as your financial advisors.

We appreciate your business and are always here for you!

All our best,

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