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## First Quarter 2019 Commentary

As investors focus their attention on the *sun rising* over 2019, they're comforted and reassured by the markets beginning the year on a solid and familiar footing.

It was, after all, only a few short months ago that many contemplated what appeared to be the sudden and dramatic *sunset* over a radiant period of reignited optimism and growth.

What could possibly have changed to cause such a reversal in so brief a moment of time?

The simplest answer is: nothing changed.

Fundamentally, the economy was performing well. Productivity continued on an upward slope. Unemployment trended downward. Money was cheap relative to history, and the indicators were not portending a turn for quite some time.

Then emotions took hold.

The drawdown the markets experienced in the fourth quarter of 2018 was largely driven by fear and the herd mentality. Fear of overbought markets, fear of rising interest rates, and fear of falling oil prices, were compounded by fear of a trade war with China, fear of a new Congress, and fear of a decoupled global economy.

It seemed as if Fear du Jour was featured on the menu and we were going back for second and third helpings.

Not that fear, or its close relative apprehension, has no place in our business; because it does. We're prudent to expect and plan for turns in the economic cycle, and periods of muted or even negative growth. We need look no further than our recently increased reliance upon Treasury bills as a bulwark against short-term market volatility.

Yet even with the increase in Treasury rates, which are currently hovering just over 2 percent, they rarely if ever provide the level of returns necessary to outpace inflation and achieve even a modest amount of long-term growth. So during periods of heightened fear, uncertainty and volatility such as what we've so recently endured, prudence dictates that we remain invested in equities to some degree.

Of the many maxims employed in our industry one of the most accurate and instructive is that when markets recover after a bad spell, they often do so very quickly.

Recall the double-digit declines of the major market indices last October and November. As sudden and discomfiting as the fall was, the moves upward this January and February have been equally as dramatic in their magnitude, if not more so in their velocity.

Once again, a simple question: What changed?

One simple answer is: a few words.

Remember when we were told last year by the Federal Reserve to expect a few interest rate increases, and that its target was somewhere near 3 percent? Throughout most of 2018 the task of setting and meeting expectations was being well managed. Then toward year-end investors began *to fear* that the Fed was raising rates based upon its calendar and not upon conditions in the economy and financial markets. This fear, when combined with the others mentioned previously, quickly cascaded into what we know happened in the fourth quarter.

Now recall in mid-January when Fed Chairman Jerome Powell said *in so many words* that decisions to change rates would not be driven by a timetable, but rather would be informed and influenced by circumstances.

The sigh of investor relief and the surge in the markets were palpable.

Throughout all this turmoil, as we do at all points in the cycle, we have sought market leadership in our portfolio holdings, while at the same time reduced positions which were lagging. We continuously monitor portfolio allocations and adjust weightings with an eye to manage risk, while seeking opportunities for growth and income.

As we emphasize in our presentations, and in our meetings together, we can expect flat or down periods from time to time. After all, the markets and the economy are fundamentally cyclical. Contraction can replace expansion. The bear can supplant the bull.

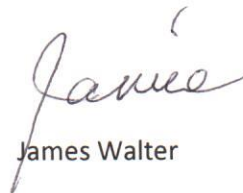
And regardless of whether we are in a trough, at a peak, or somewhere in between, one of our most important roles is to prevent fear from becoming panic and to prevent optimism from becoming overconfidence.

On another note, and as we mention at the beginning of each year, industry regulations require us to offer to send our Privacy Policy to anyone who would like a copy. If you would like a copy please send us a written request and we'll be happy to provide it.

Grant and I appreciate your business. Thank you very much.



Grant E. Buce



James Walter