Three years ago, the Federal Reserve (and Government Officials) unleashed an unlimited amount of money into our economy to stave off any financial misery brought on by the coronavirus. For the most part, they accomplished what they set out to do. Unfortunately, they went a bit too far and must unwind their mess.

The past year we watched the Fed's march to tighten monetary policy (i.e., raise the Fed fund rate) to bring down inflation. This act will slow the economy, but will they go too far in this direction? We won't know until this movie ends, and waiting to act will be too late. So, we will do what we have done for the past two decades… stay the course.

We invite you to revisit our general principles below, proceed to our views on 2022, and end with a recap of new positions added to our portfolio. Happy reading!

General Principles

We are long-term, goal-focused, plan-driven equity investors. We believe that lifetime investment success comes from ***acting continuously on our plan***. Likewise, we believe substandard returns and even lifetime investment failure come from ***reacting in the wrong direction to current events.***

The unforeseen and indeed unforeseeable economic, market, political and geopolitical chaos of the three years since the onset of the pandemic demonstrates conclusively that ***the economy can never be consistently forecast, nor the market consistently timed.***

Therefore, the most reliable way to capture the full return of equities is to ride out their frequent but historically temporary declines.

These are the bedrock convictions that form our investment policy as we pursue your most important financial goals together.

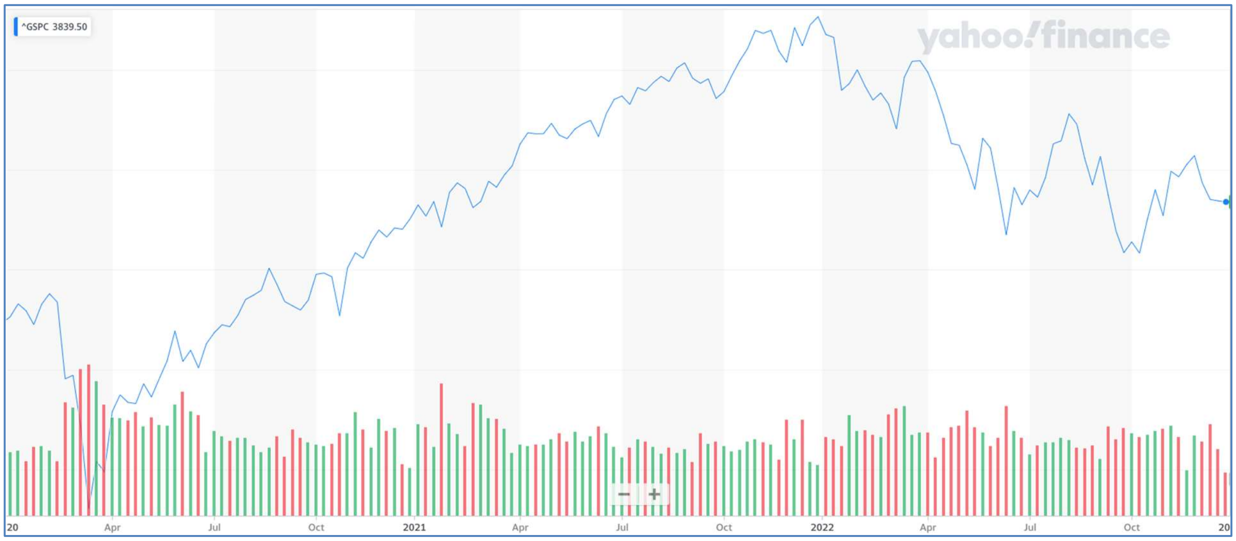
Current Observations

Unrelieved chaos continued in 2022. The central drama of the year—and, it seems likely, of the coming year—was the Federal Reserve's belated but very aggressive efforts to bring inflation under control.

After rising seven times in the nearly 13 years between the trough of the Global Financial Crisis (March 9, 2009) and this past January 3, the U.S. equity market sold off sharply; at its most recent trough in October, the S&P 500 was down 27%. (Bond prices also swooned in response to sharply higher interest rates.)

It seems more than a little ironic that, after the serial nightmares through which it suffered since the onset of the pandemic early in 2020, the mainstream equity market managed to close out 2022 somewhat higher than the end of 2019 (3,839 versus 3,231, a gain of 19%+).

Not great, but not bad for three years during which ***our entire economic, financial, political, and geopolitical world blew up.***



If anything, this tends to validate our core investment strategy over these three years, which—stated—has been: stand fast, tune out the noise and continue to invest for the long term.

The burning question of the hour seems to be whether and to what extent the Fed, in its inflation-fighting zeal, might tip the economy into recession at some point—if it hasn't already done so. Over the coming year, how this plays out may determine the near-term trend of equity prices. We believe this outcome is simply unknowable and that one cannot make a rational investment policy out of an unknowable.

We believe that whatever it takes to put out the inflationary fire will be well worth it. Inflation is a cancer that affects everyone in our society; if recession proves to be the painful chemotherapy required to destroy that cancer, so be it.

Although this may be hard to remember every time the market gyrates (and financial journalism shrieks) over some meaningless monthly economic datum, ***you and I are not investing in the macroeconomy.*** Our portfolios primarily consist of the ownership of enduringly successful ***companies***—businesses that are even now refining their strategies opportunistically to meet the needs and wants of an eight-billion-person world.

We like what we own.

<u>Portfolio Activity</u>

This past year, just as in 2020, more than a few buying opportunities presented themselves, both within our existing positions and companies entirely new to our investment portfolio. For the latter, we always like to share our original thesis for each (at a summary level). Our goal is for these companies to be a part of our equity growth portfolio (and sometimes our income portfolio) for the long term.

One investment theme that has natural long-term appeal is the ***aging of our population***. People are living longer, and through innovation, the way the elderly are cared for will continue to improve vastly. We made two investments that fit this theme… Stryker and Best Buy.

Stryker is a medical technology company best known for their work with hip and knee joint replacements. As we all live longer, there will be a growing need for these procedures. We've had our eye on Stryker for a while and were happy to see the stock trade 30%+ below its 52-week high and enter our fair value range.

Best Buy is the type of investment where we all know what they do very well (i.e., electronics retailer), but then they have a new initiative with the potential for serious long-term growth. In this case, we get the only electronics retailer to compete with Amazon successfully and a company with the new opportunity of in-home healthcare.

As we age, most people would rather stay in their homes than move to an assisted living facility, etc. With its technological capabilities, this company is in the early stages of helping people stay in their homes via their healthcare unit… Best Buy Health. We'll keep a close eye to see how things progress.

Healthy living is a big theme leading to the one we discussed. For several years, Nike has been our stalwart under this theme, but not the only one we've kept our eye on. Thankfully, this past year's correction has allowed us to add Lululemon and Garmin to our portfolio.

Lululemon has become a household name for top-notch athletic apparel. While we appreciate this, we view the true strength of their business as their focus on selling direct-to-consumer (DTC).

Just as Nike has switched to selling more merchandise via DTC, Lululemon has continuously operated in this manner. When done correctly, the DTC sales approach allows for an unmatched business-to-customer relationship. With a stock price decline of 40%+, it finally reached our buy price, and we were happy to pick it up on the cheap.

Garmin, while known in the past for its GPS device, has experienced a rebirth with niche navigation-based products. While participating in several industries, their niche sports business is tremendous. A well-run company with an outstanding track record also traded 40%+ from its highs. This, combined with a favorable valuation, led us to pick up the stock.

For as long as we have been investors, any company selling pet-related products/services is worth a look based on the sole idea (thesis) that ***pet owners treat their pets like their children***. This has continued to increase as people spend more and more on their animals. And just like humans, life expectancy continues to grow.

Therefore, we are always on the prowl for these types of companies, and this time, we landed on Zoetis, an animal pharmaceutical company. We have known about this industry giant for a while, and once again, the market correction of 2022 allowed us a great entry point to begin investing in Zoetis.

Lastly, we added Amazon and Intuit to our portfolio this past year. I don't think either needs an introduction other than saying they fall into our ***traditional to digital reckoning*** theme. Both companies have been at the forefront of digitizing our world for the past decade, and as with many investments we made this year, the stock market correction allowed us to invest in these stocks at great valuations. Both stocks were off just about 50% from their all-time highs at one point during the year.

I don't need to tell you that 2022 was an unusual year on many fronts. As you can see, from an investment perspective, it was a busy year for us. For 2023, we anticipate a more typical year where we might add one or two new positions. But, if the stock market continues to correct, we will be more than happy to expand our portfolio with the addition of more wonderful companies.

In closing, as we always say—but can never say enough—thank you for being our clients. It is a genuine privilege to serve you.

Marcus Jason Andrew