

January 12, 2017

When you make something, when you improve something, when you deliver something, when you add some new thing or service to the lives of strangers, making them happier, or healthier, or safer, or better, and when you do it all crisply and efficiently, smartly, the way everything should be done but so seldom is—you're participating more fully in the whole human drama....(Y)ou're helping others to live more fully, and if that's business, all right, call me a businessman.

Phil Knight

Toward the end of his memoir of a life spent building Nike, Phil Knight sounds surprised to be calling himself a businessman. The name of the book is *Shoe Dog*, and his account of the decades of grunt work, worry and frustration that he and his coworkers spent battling tight-fisted bankers, cutthroat competitors and even each other makes for a read that is hard to put down. It became obvious early on in his life that he possessed a degree of fanaticism that only a few people have, and it was not about accumulating a huge amount of money, although he did just that in the latter part of his career. Instead, Knight has the indefinable quality that drives one to pursue a goal that no one else had thought of or even cared about and to keep at it in the face of seemingly insurmountable odds. But as rare a bird as Knight is, he has company at the upper levels of the corporate world. David Cote, the Chairman and CEO of Honeywell, recently said, "The reason the country lives as well as it does and has the standard of living it does is because of business....(A)t the end of the day, we're the reason the country is so innovative and the standard of living is so good." But he also is defensive about being labeled a businessman, and he attributes this to having started his career in the 1960s, when many of his peers began to view business in a negative light. This can be partly attributed to the Vietnam War, which Phil Knight vehemently opposed, and to the political climate that led to Watergate and the general antagonism on college campuses toward "the military-industrial complex."

Given that some of us at Peak are from the same generation, it may be surprising that we find comfort and stability during times of market upheaval by listening to what a select group of people like Cote and Knight have to say and by focusing on the details of what these exceptional business leaders do on a daily basis. For example, our recent presidential election caused investors all over the world to rush for the exits during a period of about eight hours, from midnight on November 8th until the stock market opened the next day. During that time, the Tokyo stock market plummeted 5% and in the U.S., Dow futures dropped almost 900 points. Respected stock market experts predicted that there would be a 10% drop in the next day or two. Driving to work that morning I reminded myself, as I have many times before, that the excellent and well run companies in our Model Portfolio* will be doing the same thing they were doing yesterday and will continue to do tomorrow, and that their executives will maintain the progressive and level-headed approach to their businesses that we hired them to do. And in fact that is what has happened. Add in some investor optimism about President-elect Trump's pro-business stance, mix with a dash of wishful thinking and the result is that the S&P 500 has climbed over 6% from election night to the day of this writing.

Our economy continues to expand and its rate of growth is increasing. Banks such as our Wells Fargo holding should be able to loosen the reins on their lending as interest rates gradually rise, and it appears likely that the new administration will adopt a less onerous regulatory posture toward banks while at the same time cutting their corporate tax rates. The industrial sector may see a more beneficial business climate, allowing it to increase its capital spending and investment in physical assets like buildings, equipment and computers, whereas in the past few years companies mainly hoarded cash or spent money on buying back their often overpriced shares. Automakers are shifting their assembly lines to produce fewer sedans and are now struggling to keep up with heavy demand for pickups, SUVs and crossover vehicles, which bring higher profits. Partly as a result, our ConocoPhillips holding and other energy producers are benefitting from a 45% rise in crude oil prices in the past year.

This sounds like an optimal scenario to many investors, which is why the stock market is nearing all-time highs. And yet financial commentators caution that the Trump administration's influence on the economy and the markets is likely to be surprisingly modest. Those of us who manage money need to keep our emotions in check and not politicize our investment decisions, because, after all, the President of the United States is not a dictator.

In 2017 we will continue to do what money manager Seth Klarman calls "productive worrying," thinking about what can go wrong and how we might benefit from it. Striving to overcome biases that can impair our objectivity remains a crucial ingredient for long-term investment success. Such worrying may not make us and our clients money but it does enable us to hang on to what we have accumulated, and to take advantage over time of price disparities in the markets when other people's decisions are out of line with reality. Klarman said, "Losing money is perhaps the only thing that makes most investors worry about losing money," and when things are going badly there is indeed a heightened risk of making the wrong decisions. That was the case on the night of November 8th.

In the New Year, optimism is back in control of the stock market, as it has been with only modest interruptions since early 2009. We have been taking advantage of select bargains by adding Gilead Sciences to our Model Portfolio and by turning some half positions in our more reasonably priced stocks into full ones. The beaten down sectors in which we saw the best bargains for most of the last two years, energy, banking and metals and mining, have rebounded, and while we regret we did not take greater advantage of those opportunities, we are pleased with the two investments we did maintain in those areas—Wells Fargo and ConocoPhillips, with other holdings such as Emerson Electric and Berkshire Hathaway indirectly participating also. Looking forward, our overall position is one of wary optimism: positive about the quality of our companies and their leadership, but with the benefit of much experience we are aware of the elevated risk of making costly mistakes during those rare times when everything is going satisfyingly well.

We appreciate the trust you place in us and we will continue to work hard to earn it. Please consider passing on our contact information to anyone you know who needs help in building and maintaining financial security. We are happy to share our perspective with them and to explore if there would be a good fit for working together.

Best regards,

Noel F. Bennett

**The Model Portfolio is not a real cash portfolio. It represents the core direction of our portfolio management strategies. Individual client portfolios are managed in accordance with the clients' specific investment objectives and constraints. Historical results are available upon request.*