

At this time one year ago the stock market was beginning to recover from a precipitous drop that started three months before in September 2018. It had seemed possible that the decline might lead to the first bear market in a decade, but as it turned out the S&P 500 reversed course and climbed 31.5% during 2019, including dividends. Those of us who participated in that surprising rebound succeeded in overcoming a lengthy list of worries that posed a threat to market confidence, including but not limited to: a hard Brexit; escalating trade tensions with China; the upcoming presidential election; an inverted yield curve in U.S. Treasury bonds, often seen as a harbinger of a recession; a lack of growth in corporate earnings; and a general sense of unease about the leadership of the world's foremost economies. But the bull market continued, and once again investors were taught that their biggest risk was themselves. Those unfortunates who ordered their brokers to get them out of the market last winter found that the most negative influence on their portfolios had been their own fears.

At Peak, in both down and up markets we focus on the businesses in our Model Portfolio\* and on the companies whose shares we don't yet own but would like to at the right price. Our belief that we have made some good decisions was reinforced when the Wall Street Journal in November published its list of "Management Top 250," a ranking of U.S. companies by the Drucker Institute evaluating them on customer satisfaction, employee engagement and development, innovation, social responsibility and financial strength. Four of the top five were in our Model: Microsoft, Apple, Alphabet and Cisco Systems. These were followed by more of our companies: Pepsi (12<sup>th</sup>), Visa (21<sup>st</sup>), Oracle (43<sup>rd</sup>) and S&P Global (50<sup>th</sup>). Disney, ConocoPhillips, Raytheon, Wells Fargo, Emerson Electric and Stryker also placed among the top 160 out of the 250.

It is not lost on us, however, that no matter how outstanding these companies are, they exist in a world that has become increasingly challenging, and their executives need to be able to see around corners to survive. Take the impact of tariffs, for example. A recent Wall Street Journal editorial said, "Tariffs are taxes and those taxes impose costs that distort trade and production, and often end up hurting the industries and companies they are intended to help." And that is exactly what has happened with the nation's aluminum and steel companies and the manufacturing sector in general. The December ISM manufacturing index was 47.2, the weakest number in ten years, with new orders, production and employment all contracting. Along with that, CEO confidence has plunged to levels not seen since the darkest days of the financial crisis of 2009. Now that the positive impact of the corporate tax cuts of 2017 has settled in, the honeymoon is over between CEOs and the current administration, with worry about trade and tariffs leading to uncertainty and increased difficulty in making projections and capital allocations.

As a long-ago history major in college, I am interested in the influence that narratives have on the course of events in both politics and economics, and while our President may not have much influence on the companies we follow, it is obvious that he is having an impact on the stories on everyone's minds. Other wealthy and successful business people have understood and harnessed the power of creating brands out of themselves: Ralph Lauren has had tremendous success at conjuring a high quality, old-money look to his clothing and home furnishings. Elon Musk, defying consistent and universal gloom-and-doom forecasts about his business, disrupts automotive markets worldwide with his ubiquitous Tesla cars. In fact, he seems to relish the role of disrupter. But there are negative examples too: Adam Neumann, once head of WeWork, created and then imploded a company estimated to have once been worth \$47 billion and that is now valued at around \$7 billion, taking with him a large exit package and consulting fee. And Elizabeth Holmes, who almost single-handedly created Theranos, a now-defunct health care company, faces trial this year for fraud and may serve time in federal prison. Her story was the subject of the fascinating book, "Bad Blood: Secrets and Lies in a Silicon Valley Startup."

We know books will be written about the narratives being spun in this election year. While there is no doubt the results will be fascinating, our job at Peak in 2020 is to be focused on the basics of investments, strategy and discipline. As always, we appreciate our clients' loyalty and trust, and we will continue to do everything we can to earn it.

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.*