THE INVESTMENT COUNSEL COMPANY

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Investors everywhere are cognizant that 2019 was a wonderful year for the global financial markets. U.S. stocks led the advance from +25% to over +30%, depending on their market capitalization (company size). Broad international equity markets gained +20% with emerging market equities returning +18%. Even conservative asset classes, such as high quality intermediate-term bonds, had a great year, returning between +6% and +9%. It is customary in the financial services industry each January to recap market performance and related events in the previous year, as well as make new predictions. However, general market information can be accessed through every media source today, and many investors are already well-versed on last year's economic, political, and market events. More importantly, the market doesn't function on a calendar basis. Thus, we regard this exercise as offering limited value.

Instead, our goal is to provide you with the effective guidance, perspective, and judgement necessary to 1) arrive at the best-informed financial decisions, and 2) effectively work together to achieve superior risk-adjusted investment results. So we focus our efforts on sharing what we believe is truly meaningful to our clients and others we care about. What isn't well publicized, overlooked by many, and far more valuable are the important lessons that accompanied the stock and bond market's spectacular rise over the past 10 years. Frequently, experience offers a valuable education for those who are interested in learning.

Investors that understood *the benefits of maintaining a disciplined investment strategy* prospered most. Many failed to keep all their investment capital working in the financial markets during 2019, raising cash never to be reinvested. Unfortunately, they believed what the media and forecasters were promoting…longer-term bond yields temporarily falling below shorter-term bond yields (inverted yield curve) are indicative of a pending recession. It's no secret that recessions are highly problematic for stocks. But they have not yet learned that *many market indicators often mislead investors*, incorrectly forecasting market downturns more often than correctly predicting them. Paul Samuelson, the first American economist to win a Nobel Prize in 1970, agrees with this supposition. He stated, "The stock market has predicted nine of the last five recessions." So it is imperative to distinguish between causation and coincidence in events.

A similar lesson behooves investors to *challenge, not simply accept or disregard, current conventional wisdom (specifically, the views and predictions of economic and financial forecasters)*. Forecasters, and therefore credulous investors, are often overconfident in their beliefs. Our observations have concluded that forecasters predict not because they know, but because they are asked. Respected American economist John Kenneth Galbraith is best known for one particular quote, “There are two kinds of forecasters: those that don’t know, and those that don’t know they don’t know.”

Most importantly, it is not necessary or realistic to assume that predicting economic events and/or changes in capital market trends is a prerequisite for achieving competitive and sustainable results. So please be wary of economic and market predictions and other common beliefs, as the market penalizes people that jump on the bandwagon and overreact to news.

There is much about the coming year that nobody can know, from the Trump-China trade war, to the coming election, to turbulence in the Middle East. Investors who choose to guess about such outcomes will do so at their own peril. Regardless, the most effective investment strategy 1) avoids making costly and irreparable mistakes, and 2) incorporates a contingency plan that can recover and restore competitive results when things don’t go according to one’s basic assumptions or expectations.

We look forward to learning your views and other matters important to you in 2020. Best wishes for a healthy, happy and, prosperous new year.

Sincerely yours,

Randy Garcia
Chief Executive Officer

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