January 2016 Commentary

At first glance, 2015 was a fairly uneventful investment year. The Dow Jones Industrial Average started the year at 17,832.99 and ended the year at 17,425.03. Notwithstanding many predictions of substantially higher interest rates, the 10-year US Treasury started 2015 at 2.17% and closed the year at 2.27%. When investors look back on 2015, the focus likely will be on the huge drop in commodity prices. A barrel of WTI Crude started 2015 at $60.48 and ended the year at $37.04 While we all have enjoyed watching the amount we pay to fill up our tanks drop significantly, the drop in prices has not jump-started the economy as many predicted.

The first two weeks of 2016 have been the worst start to an investing year in history. The main cause has been attributed to the continued slowdown in the Chinese economy and continued concern regarding the impact of lower oil prices. During these negative periods, it is extremely important to keep a long-term perspective. We thought it might be beneficial to share some wisdom from a few of the most highly-regarded investors of our time.

Warren Buffet, Chairman of Berkshire Hathaway

“A market downturn doesn’t bother us. For us and our long-term investors, it is an opportunity to increase our ownership of great companies with great management at good prices. Only for short-term investors and market timers is a correction not an opportunity.”

Jack Bogle, The Vanguard Group

“The idea that a bell rings to signal when investors should get into or out of the stock market is simply not credible. After nearly fifty years in this business, I do not know of anybody who has done it successfully and consistently. I don’t even know anybody who knows anybody who has done it successfully and consistently.”

Charles Munger, Vice-Chairman, Berkshire Hathaway

“A lot of people with high IQs are terrible investors because they have terrible temperaments. That is why we say that having a certain kind of temperament is more important than brains. You need to keep raw irrational emotion under control.”

Peter Lynch, Former Manager of Fidelity Magellan

> "More money has been lost trying to anticipate and protect from corrections than actually in them."

Rob Arnott, Pimco Funds

> "In investing, what is comfortable is rarely profitable."

We agree with the experts that being a successful investor requires emotional discipline and fortitude. Our experience is that investors who understand and are committed to an investment philosophy are more likely to keep a long-term perspective during market downturns. We feel our investment strategy of owning high-quality businesses that have a history of paying and raising their dividend is simple, intuitive and one that we remain committed to during times of market volatility.

Please feel free to contact us if you have questions about the markets or how you are positioned for 2016. We wish you and yours a healthy and prosperous new year!

Sincerely,

Robert

Dan

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Did You Know . . .

Wealth

1. **WHO OWNS WHAT** - The top 10% of American households control 77% of the wealth in the country, up from 64% in 1986 (source: Bank of America Merrill Lynch survey).

2. **LUMP-SUM NEEDED** - A present value (PV) amount of $1.96 million in a pre-tax retirement account is required today to fund a future payment stream of 30 years of $100,000 annually (with a 2.5% increase for maintenance of purchasing power) assuming that a 6% rate of return (ROR) can be maintained into the future. If the ROR falls to 5%, the PV amount rises 13% to $2.21 million. If the ROR rises to 7%, the PV amount falls 11% to $1.75 million. These calculations do not account for the payment of federal income taxes which would be due as a result of withdrawals from any pre-tax retirement funds (source: BTN Research).

3. **DOLLAR CUT-OFFS** - To rank in the top 10% of taxpayers required a minimum adjusted gross income of $127,695 during tax year 2013. To rank in the top 1% of taxpayers required a minimum adjusted gross income of $428,713 during tax year 2013. To rank in the top one-tenth of 1% of taxpayers required a minimum adjusted gross income of $1.861 million during tax year 2013 (source: Internal Revenue Service).

Education

4. **CRAZY NUMBERS** - A child born in 2015 that begins kindergarten in the fall of 2020 would attend college between the years of 2033 and 2037. If that child attended an average public in-state 4-year college and if the annual price increases for public colleges experienced over the last 30 years (+5.6% per year) continued into the future, the aggregate 4-year cost of the child's college education (including tuition, fees, room & board) would total $224,887 or $56,222 per year (source: College Board).

5. **IN THE HOLE** - Students finishing medical school graduate with an average debt of $176,348. 84% of new doctors have accumulated some amount of education debt (source: Association of American Medical Colleges).

6. **PAID TOO MUCH, GOT TOO LITTLE** - Only 38% of college graduates in the last 10 years (2006-15) "strongly agree" that their undergraduate education was worth the cost (source: Gallup Polls).

Miscellaneous

7. **THE GRASS IS GREENER** - The average American worker will hold 9.9 jobs between the ages of 25 to 48 (source: Bureau of Labor Statistics).

8. **IMPACT** - Since revenue from the sale of oil and gas accounts for 80% of Saudi Arabia's sovereign revenue, the drop in oil prices is expected to create a budget deficit equal to 20% of GDP for the Middle East country in 2015. By comparison, the USA's fiscal year 2015 budget deficit was 2.5% of GDP (source: International Monetary Fund).

9. **MONEY BALL** - The major league baseball teams with the 3rd (Nationals), 4th (Tigers), 5th (Red Sox), 6th (Giants) and 7th (Angels) highest 2015 opening day payrolls did not qualify for postseason play. But the teams with 25th (Pirates) and the 29th (Astros) highest 2015 opening day payrolls did make the playoffs (source: Major League Baseball).