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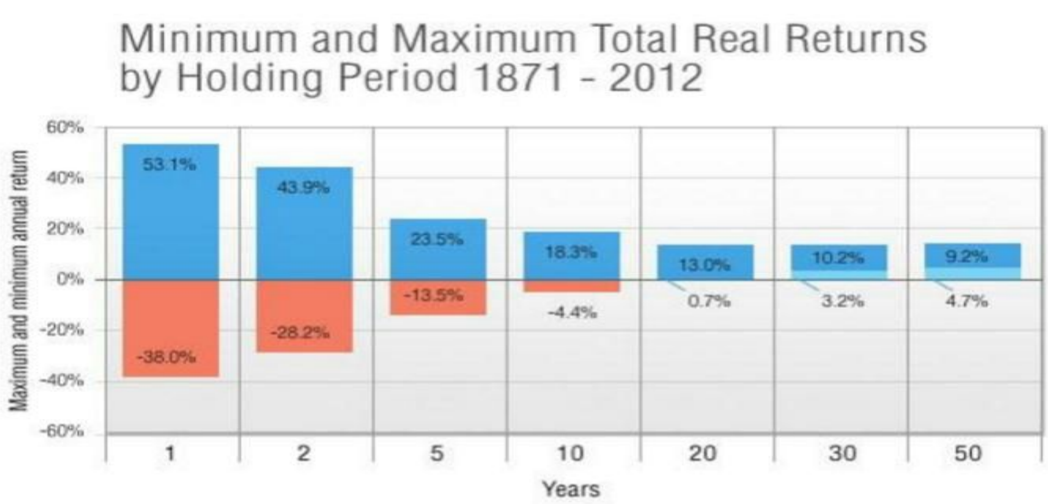
Fourth Quarter Client Letter
January 20th, 2016

Dear Clients and Friends,

The conventional purpose of a year-end quarterly letter is to talk about 52-week performance, price targets and most of all: shameless self-promotion. I'll do none of that here, I promise. This is not only because I'm embarrassed of the routines of the financial people who came before me, but I also think something pertinent is going on: we're finally seeing some meaningful volatility in markets. Particularly, it's been a tough start to 2016.

You might be concerned, nervous or even a little frustrated - and that's OK. The most important thing is that you don't act on any of that emotion. If there's one thing I've tried to convey in quarterly letters and blog posts, it's that emotion and short-term thinking is a destructive force to any financial portfolio.

Still not sold? You're in luck. I have something for you. I harp incessantly on the need for low fees -- I technically push it as far as being a personification of low fees *myself* -- and it's with this spirit I present to you a coupon. There's nothing like getting something for a little bit less, or in this case: free. Redeemable anytime in perpetuity. **All you have to do is place it on your fridge, look at it when the market's down, and you win!**



*Coupon good for unlimited use, expires only when human emotion has and impulse been eradicated.

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The original chart of S&P 500 historical data was tweeted out by Morgan Housel (@TMFHousel), a terrific finance writer at The Motley Fool

As I've said before, patience is a highly compensated activity. This chart, er, coupon, shows that if we take a short-term view of things it can be pretty scary out there. A 38% S&P 500 loss in one year is enough to cause the most hardened investors to question their faith in the invisible hand, but it's when we slowly move to the right our coupon proves its fridge-worthy value.

The further right we go along the x-axis, the less painful the worst-case scenario becomes. Could you survive a -13.8% return per year over five years? It'd be pretty tough, but I bet you could. If you survived the financial crisis then this is roughly the equivalent of what you conquered.

Moving to the 20-year timespan, we see that in no case did the market ever show investors a *loss*, even after adjusting for inflation! Now, past performance is never a guarantee of future results, but if we take this as a rough estimation of what to expect over time then things look pretty bright for those who have the patience to remain committed and stay the course.

Let's move even further right. A 30 year-old looking to retire at 60 has 30 years to invest. Adjusted for inflation, the very *worst* 30-year scenario showed a 3.2% *gain* per year after adjusting for inflation. If we were to live through this worst case scenario starting today, and assuming 3% inflation per year, a 30 year-old depositing $20K per year into this return profile would end up with a portfolio of $1.64 million in 30 years. That's the ***worst case*** 30-year scenario in the data.

Could we see a scenario worse than the worst case scenarios listed above? Absolutely. We should never take a set of market returns and say "it'll never get worse than that," nor should we ever say "it'll never get better than that." The bottom line is that if we think the future will at least be in the same *ballpark* as the past - and I certainly do - then market volatility and short-term losses are something to largely take in stride.

The only thing close to a prognostication I'll make about 2016 is that you'd likely do well by printing out your coupon, mentally cashing it in as frequently as you need and subsequently sleeping easy.

Sincerely,

Tyler