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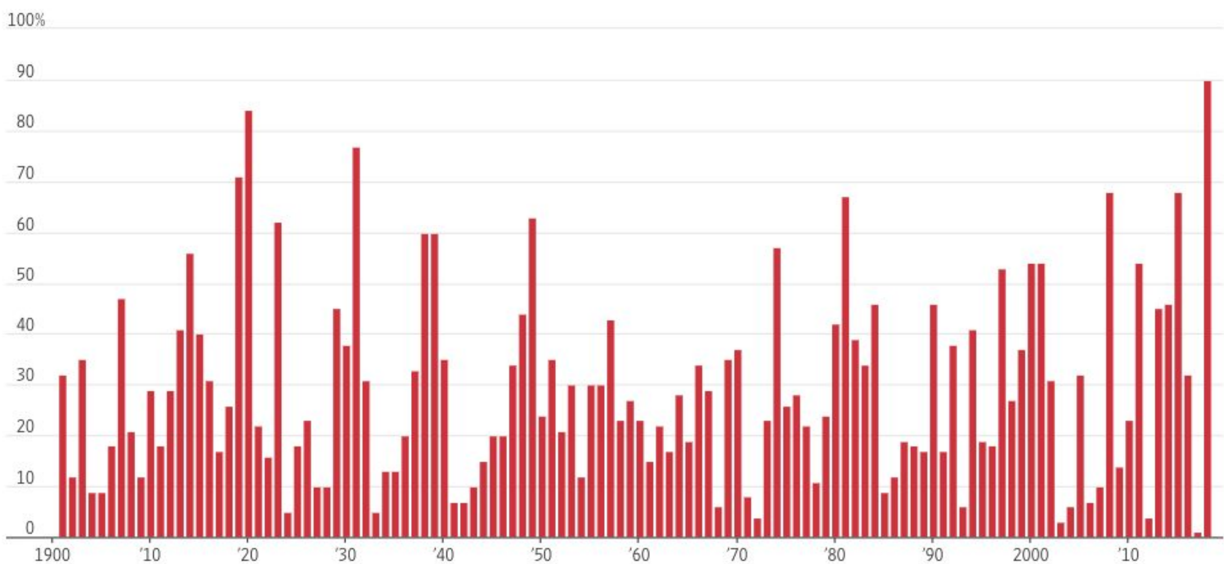
Fourth Quarter Letter
January 10th, 2019

Dear Clients and Friends,

🎵 “Nowhere to run to, baby, nowhere to hide” 🎵

These lyrics perfectly sum up recent investment performance. Q4 wasn’t a very fun time to be the owner of stocks. 2018 in its entirety wasn’t a very fun time to own *any* financial assets. Seriously, have a look:



2018 was also the first year since 1969 to see both the S&P 500 and 10-year Treasury note showing negative returns.

Some 2018 returns from the funds you may recognize:

BND (US Bonds): -0.11%
EMB (Emerging Mkt Bonds): -5.47%
VB (US Small Cap Stocks): -9.33%
VEU (International Stocks): -14.19%
VOO (US Large Cap Stocks): -4.5%
VTEB (US Municipal Bonds): +1.09%

OK, you get it, 2018 sucked. Stocks went down a bit, bonds a little bit less. Those of you with more conservative portfolios -- owning more bonds than stocks -- absorbed only a small hit. Even those with mostly stocks generally saw a decline less than 10%. It’s no cause for panic. Quite the

opposite: We should celebrate a return to normalcy, where gravity once again exists. Just as driving to work non-stop at 120MPH is not sustainable, markets can't go up every year forever.

Taking a breather from unrelenting gains allows valuations to reset to more normal levels while the patient investor is still reinvesting dividends, rebalancing their portfolio and dollar-cost averaging into the positions they already own. This year probably felt like a gut punch because it's been easy to get accustomed to seeing gains every year.

What happened in 2018 is also a perfect reminder that in investing, normal does not mean the same thing as average. On average, stocks and bonds go up in value over most time periods. Take the total performance divided by a given number of years and you tend to get a positive *average* yearly return. But having many years mixed in where returns are actually negative is a perfectly *normal* occurrence. (Here I go, doing it again…) For example, even though the Mariners made a few playoff runs 20 years ago, it does not take away from the fact that they are a horrible, horrible baseball franchise overall[*].

Changing gears: I've started to send out monthly financial planning nudges, AKA Annoying Adult Tasks. What do you think? Are they 'good' annoying or 'bad' annoying? There's a certain amount of financial housekeeping everyone needs to do, and I'm trying to think of ways to help in manners that are bite-size and easy to understand. Please send me any feedback you have!

As always, thank you for your trust.

Sincerely,

Tyler

[*] I'm really sorry for another Mariners reference. I've tried to swear them off in my writing, but when thinking about negativity and losses, how can one *not* think of the Seattle Mariners?