

April 12, 2019

Dear Friends,

“Stocks Surge to Cap Banner First Quarter” – The Wall Street Journal 31 March 2019

Do we really need to write more? How about this from the same article? “U.S. stocks notched their biggest quarterly gains in nearly a decade...” and as you can see from the attached Quarterly Fact Sheet your portfolio benefitted from the rebound of 2019 even after strong relative performance in 2018.

Our focus on growing companies with reasonable valuations allowed your portfolio to benefit from the upturn in the first quarter despite having declined less than the S&P 500 in the fourth quarter. As more and more money is invested passively, and therefore without regard to valuation or future prospects, it is a great time to benefit from this lack of competition and pay fair prices now for businesses with superior prospects in the future. Stock prices will fluctuate, but if a company’s earnings grow eventually that value will be realized.

**The questions all investors have.** Thanks to the internet we are bombarded with facts, figures and opinions every minute of the day, but information is cheap and insight is dear. So let me distill all the economic and stock-market commentary that we have read over the past three months to answer the three questions that all investors have: What happened in the quarter? What might happen going forward? And how are we positioned given that outlook?

### **What happened in the first quarter of 2018?**

**Stocks surged to cap banner first quarter.** The S&P 500 had its best quarter since 2009. Why? The market snapped back from its worst fourth quarter since 2008. And it was all driven by interest rate expectations. At the end of 2018, the market feared that the Federal Reserve would tip the economy into recession by raising interest rates too quickly. This quarter the Federal Reserve indicated that in light of global economic and financial developments they would no longer increase the federal funds rate, but would instead be patient.

### **What will happen over the next 12 months?**

**Low interest rates will keep the market stable.** The S&P 500 has come back strongly from its 4th quarter swoon. Valuation is now fair and stocks with growing earnings will rise as the market looks forward to next year’s earnings. Volatility will be driven by the slowing global economy and policy proposals from Democratic presidential hopefuls.

**Given that outlook how are we positioned?**

We are keeping the portfolio focused on businesses that are operating in sectors of the economy that will inevitably grow like healthcare, electronic payments, financial exchanges, and mission critical software. We are highly confident that over the next decade that baby boomers will spend more on healthcare, more payments will move online, more futures contracts will be traded and more data will be monetized by the largest financial exchanges, and that companies will become more dependent on their software providers.

Investing in companies with a great 10-year outlook allows us to stay remain confident when others are worried about the 3-month outlook like in the fourth quarter. Ironically it's easier to make a prediction about the next 10 years than the next 3 months.

It was a good quarter thanks to the Federal Reserve's policy shift and we expect more good quarters to come over the next decade as the earnings of our portfolio companies grow.

With all best wishes,



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Founder and Principal