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2019 was a banner year for the stock market, with U.S. stocks returning +31.5% (although a portion of this gain was a rebound from the market sell-off in the fourth quarter of 2018).[1] International stock markets also fared well, with developed markets up +22.8% and emerging markets up +18.6% for the year.[2] Returns in international stock markets continue to trail returns in the U.S. stock market (driven in part by the strong dollar). At some point we think this trend will reverse, but we don't know when or the potential magnitude of the reversal. Bonds also had a fine 2019, returning +5.2% as interest rates dropped throughout the year.[3]

25th Anniversary

AMI opened its doors on June 30th, 1995, meaning we turn 25 in 2020. When Mike founded the firm, he utilized a simple guiding principle in establishing how we would do business: "Treat clients the way we would want to be treated if our roles were reversed." This ethos meant that we would align our own interests as closely as possible to those of our clients, evidenced by the following practices:

- We would operate as a Registered Investment Advisor (RIA), meaning we would be regulated by the Securities and Exchange Commission (SEC) and held to a strict fiduciary duty, requiring us to always act in the best interest of our clients.
- We would be a fee-only investment firm, eschewing commissions or other payment structures that might cause us to favor one investment over another.
- We would eat our own cooking, purchasing the same investments as our clients.
- We would remain independently owned and operated, so that we could serve our clients in the way that we judged best, not subject to bureaucratic oversight, outside interests or external management from an outside owner or department.
- We would focus solely on doing what we think we can be great at – providing investment management services and financial advice to our clients.
- We would continue to independently research and select the investments that went into our investment portfolios, ensuring that we understood what we were buying.

All of these principles and practices remain in place today after twenty-five years in business. This approach was revolutionary in the 1990s and our commitment to alignment, independence and research remains unique today.

At year-end AMI managed over $600 million in investment assets for institutional and individual clients. We believe that our growth and success has been fueled by a number of factors, including the principles and practices outlined above. We've tried to combined the research and expertise of a national firm with the alignment and stewardship of a local firm.

But most importantly, we've been blessed with a truly outstanding client base. It is hard to overstate how important great clients are to achieving success. We don't do things *for our* clients, but instead we do things *with our* clients. This makes deep trust and a mutual commitment to long-term partnership between us and our clients a requirement for success.

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[1] As measured by the S&P 500 index.
[2] As measured by the relevant MSCI international indices.
[3] As measured by the Citigroup 1-10 Year Government Bond index. The 10-Year U.S. Treasury rate fell from 2.66% at the beginning of the year to 1.92% at the end of the year.

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We are also blessed with intelligent, committed and – most importantly – ethical employees. Jacob worked for AMI as an intern in 2001, rejoined the firm full-time in 2008 and became a partner in 2017. Ryan joined AMI in 2014 and brought a unique and complementary skillset. Our front office team – Erica (2008) and Shelby (2016) – does an amazing job working with and on behalf of our clients. Our employee base will continue to grow in the coming years, but we take a lot of comfort in the core team that we have in place today.

Investment Principles: Back to Basics
What have we learned about investing during our twenty-five years of operation? It is easy to make investing overly complicated. But as we reflect on the last twenty-five years, we are drawn back to two simple, foundational principles.

[1] Stocks for the long haul: We believe that the best *long-term*[4] investment remains a diversified portfolio of high-quality, reasonably-priced stocks and stock-like investments. From the day our doors opened to the end of 2019, the U.S. stock market returned 9.6% per year.[5] That would have turned $1,000 into nearly $9,500 over that time period. Unfortunately, many investors succumb to various temptations and fail to participate in this growth. They try to time their participation in the stock market, particularly by buying high during a period of euphoria (e.g. 1999) and/or selling low during a period of despair (e.g. 2008). They chase investing tips, fads and bubbles, buying overpriced or low-quality stocks in the hopes of getting rich quick. Or they pay excessive fees and expenses.

There is no guarantee that stocks will continue to outperform various investment alternatives in the future and there are reasons to believe that stock returns during the next twenty-five years may not match the returns seen during the past twenty-five years. But we believe there is a strong probability that over the long-haul, high-quality stocks will continue to provide the best and most efficient investment vehicle for long-term investors.

[2] The importance of alignment: There's an old saying – "You can't make a good deal with a bad person." Most people nod their heads in agreement with the wisdom of this quote. But we've learned just how important it is to work as hard as we can to build long-term relationships with good people. This includes our clients, our employees, our suppliers and the managers of the companies and funds that we invest in. Not only does this improve long-term results but it also leads to a happier and less stressful life. This effort includes focusing on relationships built on a deep alignment of interests so that every party shares the same goals and objectives.

If we commit to these two principles and work as hard as we can to honor them, we believe that we will continue to grow and succeed alongside our clients.

Thoughts on the Current State of the Market
A lot has changed over the past twenty-five years. The internet has dramatically altered business and reshaped the investment industry. Transaction costs for investors have fallen drastically.[6] Economies have become increasingly globalized, impacting both macroeconomic realities and industry dynamics. Global debt has marched steadily upwards yet inflation and interest rates remain incredibly low. Political polarization has risen. Dangerous new risks have materialized, such as cybersecurity, bioterrorism and gene editing.

But a lot has stayed the same. Investors are still prone to bouts of euphoria and despair and markets still occasionally produce bubbles and crashes. Stocks remain the workhorse investment vehicle. Aligned and talented management teams continue to produce strong results. And at the end of the day, the most important variable in any business is the strength and durability of its relationships with its customers.

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[4] Stock prices can move around a lot over shorter time periods. Accordingly, monies that will be needed near-term, such as in the next five years, probably shouldn't be heavily invested in stocks given the chance for a market sell-off. Longer-term, however, these sell-offs should even out and the probability of a major impairment greatly recedes.
[5] Results are for the S&P 500, per Bloomberg Finance.
[6] During 2019, our primary custodian Charles Schwab eliminated commissions on stock and ETF trades. Many of Schwab's competitors quickly followed suit.

The next twenty-five years will see recessions, panics and crises. These will largely be unpredictable, especially with regard to timing (although many commentators will argue they were perfectly predictable *after the fact*[7]). We've used the analogy of forest fires before to explain how we think about the market environment: We can't predict when and why the next fire might occur, but we can make on-the-ground observations to determine how severe a fire might be if one were to ignite.

The investment environment at the end of 2019 faces several challenges that worry us with regard to how the markets might handle future "sparks":

- Interest rates are near all-time lows. This has in turn led to elevated valuations on other investment assets such as stocks, corporate bonds and real estate. If this situation were to reverse, there would be an adverse impact on investment returns.
- Venture capital for new business models remains easy to access and new technology continues to challenge existing industries. The pace of change and disruption within industries has increased, making long-term investments more difficult to understand and underwrite.
- Public policies toward corporations and capital are generally favorable at the moment (including the corporate tax rate). If this situation were to reverse, there would likely be an adverse impact on investment returns.
- Given the currently low level of interest rates, central banks around the globe may have limited tools to fight the next recession or panic. More experimental monetary tools may result in unforeseen risks. The same could be said for governments, where debt levels are well above historical averages.
- Geopolitics has always been a potential source of concern for the markets, and the current time is no different, with tensions between the U.S. and China, Russia, Iran and North Korea; tensions within the European Union; etc.

These are all things to worry about. Taken together, they suggest that caution is more appropriate today than aggressiveness. But we believe none of them currently rise to the level that would cause us to abandon our commitment to stocks within long-term investment portfolios. Stock prices are expensive, but they don't seem too expensive, especially in light of current interest rates. Changes in public policies and geopolitical tensions remain a risk, but that's not an entirely new phenomenon. There will no doubt be many unforeseen challenges in the decade ahead, but the current environment does not seem to be such an outlier that we should make drastic changes to our investment portfolios. The great investor Peter Lynch made an astute observation in a recent interview: "More people have lost money anticipating corrections than in the actual corrections."[8]

We can't help but include some thoughts from Warren Buffett (written several years ago but just as applicable today):

> Of course, the immediate future is uncertain; America has faced the unknown since 1776. It's just that sometimes people focus on the myriad of uncertainties that always exist while at other times they ignore them (usually because the recent past has been uneventful).
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> American business will do fine over time. And stocks will do well just as certainly, since their fate is tied to business performance. Periodic setbacks will occur, yes, but investors and managers are in a game that is heavily stacked in their favor. (The Dow Jones Industrials advanced from 66 to 11,497 in the 20th Century, a staggering 17,320% increase that materialized despite four costly wars, a Great Depression and many recessions. And don't forget that shareholders received substantial dividends throughout the century as well.)
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> Since the basic game is so favorable, Charlie [Munger] and I believe it's a terrible mistake to try to dance in and out of it based upon the turn of tarot cards, the predictions of "experts," or the ebb and flow of business activity. The risks of being out of the game are huge compared to the risks of being in it.

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[7] As the old saying – which will probably become really popular in 2021 – goes, "Hindsight is 2020."

[8] Interview in *Barron's*, December 20, 2019.

> My own history provides a dramatic example: I made my first stock purchase in the spring of 1942 when the U.S. was suffering major losses throughout the Pacific war zone. Each day's headlines told of more setbacks. Even so, there was no talk about uncertainty; *every* American I knew believed we would prevail.
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> The country's success since that perilous time boggles the mind: On an inflation-adjusted basis, GDP per capita more than *quadrupled* between 1941 and 2012. Throughout that period, every tomorrow has been uncertain. America's destiny, however, has always been clear: ever-increasing abundance.[9]

Thank You
When we reflect on our twenty-five years in business, one thought comes to mind: *gratitude*. Thank you to our employees for helping us serve our clients. Thank you to our partners for helping us execute for our clients. Thank you to our community for providing us such a warm and supportive home. Thank you to the management teams that have ably-managed our best investments. Thank you to our families for their love and support. And above all thank you to our clients for being true partners and allowing us to serve you.

We are in the process of planning our 25th Anniversary Celebration with our clients for the fall of 2020. We will keep you updated as details are finalized. We wish you all a Happy New Year and look forward to our next twenty-five years in business!

Sincerely,

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Jacob D. Benedict, CFA
Ryan A. Kay, CFP®, AIF®

[9] Berkshire Hathaway 2012 Annual Report.