KENDRICK
WEALTH MANAGEMENT

It is my pleasure to provide you with the 2018 edition of our Annual Letter. The purpose of this letter is two-fold (1) revisit the principles which support my advice relating to portfolio management and financial planning. (2) Share a few current observations that I hope you will find relevant and useful.

## Principles

My investment planning philosophy, is simply, that successful long-term investing is goal focused and planning driven rather than market focused and short-term performance driven. This is supported by four key principles:

- The performance of a portfolio relative to a market benchmark is largely irrelevant to financial success.
- The only benchmark we should care about is the one that indicates whether you are on track to accomplish your financial goals.
- Risk should be measured as the probability that you won't achieve your financial goals.
- Investing should have the exclusive objective of ***minimizing that risk*** to the greatest extent practicable.

My observation has been that the more often people trade within their portfolios, the worse their results become. I agree with the Nobel Prize-winning behavioral economist Daniel Kahneman, when he said, *"All of us would be better investors if we just made fewer decisions."*

## Current Observations

**A genuinely great year for equities—with minimal volatility.** 2017 was highlighted not only by double-digit equity returns across the major indices but also by an uncommonly low intrayear price decline of a mere three percent (versus the average, since 1980, of 14%). The recommendation to stay the course and ignore the daily dose of journalistic pessimism was well rewarded in 2017. I remain positive on the equity markets for the coming year, especially developed international and emerging markets. All of that said, it seems unlikely that equity returns in 2018 will match the past year, or that volatility will remain as mild. Equity investing isn't often as easy as it was this past year.

**Year of global growth.** The year 2017 is memorable from an economic perspective, in that for the first time in this century, all the major economic regions of the world were growing simultaneously. Before this, at different times, Europe or Japan or the emerging markets dealt with significant headwinds, and growth here at home was sluggish. I view the synchronization of global growth as somewhat underappreciated at the moment, driven by the constant headlines intended to keep us from focusing on what is actually going well in the world.

**The U.S. accelerates—and feels better about it.** Steady hiring has driven the unemployment rate[1] down to 4.1% as of this writing, putting the economy on track for a potential third straight quarter of 3% growth. The consumer, by all important measures, is feeling increasingly better about things than he has since before the Great Recession. Household net worth in the fourth quarter may have reached $100 trillion, and consumer balance sheets continue to be healthy. Business investment is accelerating. These trends, too, appear to be continuing into 2018.

**The 4.5 trillion dollar elephant in the room.** I've expressed my concern to many of you that the Federal Reserve[2] has been slightly behind the curve of this recovery, and that it should be unwinding its balance sheet and letting interest rates follow their normal course in an expanding economy. The Fed is now reducing its balance sheet, so far without negative effect.

**Hysteria about valuations remains exaggerated.** Valuation isn't a tool for timing the market (either is anything else). I don't buy the idea that domestic equities are significantly overvalued. I also don’t find domestic equities to be inherently undervalued. But when compared to the yields on competing fixed income investments, equity valuations appear pretty reasonable, which is a view shared on more than one occasion this year by Warren Buffett.[3] My firm belief is that this remains a secular bull market and any early year weakness would offer the first real buying opportunity since right before the U.S. presidential election in 2016.

Your continued trust, confidence and the personal introduction of our business to others, is truly appreciated. It almost doesn’t seem possible when you consider that it has been a full decade since facing the beginning of the Great Recession. I doubt I am alone in feeling that the time passed since 2008 feels closer to ten months, than ten years. Let us all focus on what matters most - 2028 will be here before we know it. On behalf of all of us at **K**endrick **W**ealth **M**anagement, I wish you and your families a very healthy, happy and prosperous 2018!

Sincerely,

Noah Kendrick, CFP®
Registered Principal

does not guarantee future results. 1 Bureau of Labor Statistics. 2 Quarterly Report on Federal Reserve Balance Sheet Nov.2017. 3 Buffet and Business, CNBC. The **MSCI Emerging Markets Index** captures large and midcap representation across 24 Emerging Markets (EM) countries. The **MSCI World Index**, which is part of The Modern Index Strategy, is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries