



*The stock market is a device for transferring money from the impatient to the patient*

—Warren Buffett

At the start of any new investment, our interest is long-term. We focus on finding great businesses who we believe will grow the capital we invest over the years. The first step is finding great businesses in which to invest. The second step is waiting for attractive prices to make the investment. After investing in the business, the next step is allowing the business **time** to compound returns on capital. When the right mix of investment prospects are in place, patience is often well rewarded. Shorter-term trades may have advantages at times, but long-term focused investing remains the bedrock of our investment process.

Last year was a strong year of stock market performance. In hindsight, low trading activity was a wise course of action. Our longer-term holdings continued to perform well. The stock market climbed higher making the shares of many companies less attractive and rewarding the shares of the companies that had momentum at their backs. It was a good year to be intentional and wait for compelling investment ideas. We continue to watch several interesting companies, but the market has yet to offer prices that entice us.

Though some of our newer holdings have yet to have the advantage of time on their side, many of our longer-term holdings continued

to perform well throughout the year. If the original idea was to buy the stocks of great underlying businesses at compelling prices, why would they lose our favor once those prospects materialize? At the end of the day, it could be argued that we should initiate every investment with the hope that it would never be sold. Perhaps only Uncle Sam might disagree.



The notion of letting winning holdings run is most rewarded in a market that favors momentum—and 2019 was certainly one of those years. The market's leaders continued to perform, and it was often the stocks with momentum that attracted the most attention and new investment dollars. Several of our holdings were beneficiaries of this phenomenon.

The advantage of a longer time horizon and letting winners run is even more pronounced

in taxable situations. Given capital gains taxes, the sell decision is made more impactful by the tax burden realized. In taxable accounts, selling existing positions and buying new ideas must clear the higher hurdle of covering the tax incurred. Beginning from a disadvantaged start makes outperformance difficult. If the portfolio's ultimate objective is to be passed on to heirs (rather than spent), the benefits of holding the investments are more pronounced. Our tax code allows descendants to receive a step-up cost basis in the holdings at the time of their inheritance. These instances are win-win. Taxes are avoided for the life of the investor and will be lower for their heirs.

As we start the new year, the market's volatility has increased slightly from last year—though areas of the market are becoming more interesting. While we aimed

to manage tax burdens sensibly last year, new investment ideas may increase trading in the year ahead. Selling may be necessary at times when a holding has appreciated well beyond our view of value, but parting ways with strong performers will continue to be a challenge if the market continues its rally.

We also understand there may be times that favor realizing gains in each investor's situation. One client may currently have a large tax loss carryforward that could be prudently used to offset capital gains from their portfolio, while another may want to use holdings with unrealized gains as charitable donations. Knowing these circumstances gives us greater flexibility in meeting your objectives while managing your investments. As always, we welcome questions and further conversation with you.

