

October 4, 2019

POETRY IN INVESTING

Dear Clients and Friends:

The first five lines of Rudyard Kipling's classic poem *If* captures the ethos of being a successful investor:

If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired by waiting [...]

By looking past our 24-hour news cycle and social media feeds, which are nourished by the most panicky of those around us, an investor can focus on what's truly important: the ability of a company to generate quality earnings over time. Responding to the unpredictable flows of global capital is likely to sow doubt in even the most thoughtfully structured financial plan, ignoring the fact that the plan is based on your needs and no one else's. And, succumbing to our culture of immediate gratification makes it difficult to benefit from those investments whose value is created over the longer term.

The events of the third quarter illustrate these lessons remarkably well. The headlines trumpeted constant threats: economic, social, political and environmental. While there is no discounting the importance of many of these issues as they impact our daily lives they have a much more muted influence on the market. In the face of a trade war with China, a strong dollar, and subdued global GDP growth, the S&P 500 ultimately ended the quarter up 1.2% - proving once again that a "wall of worry" is often a time when "you should keep your head [...]"

During the quarter, we saw money shift around the globe and into and out of asset classes. Longer term interest rates fell and rose again here in the US, while short term rates dropped as the Federal Reserve eased monetary policy. Negative yields persisted in parts of Europe and Japan. The price of oil rose on supply concerns only

to fall as those worries passed. An individual investor might have questioned what actions they should take while the market was telegraphing everchanging signals. However, the thoughtful investor, who has structured their strategy around their individual goals, could step back and see that much of the perceived risk was just that: perceived.

While we would all like to win the lottery, we also know that get rich quick schemes (of which the lottery is a legal form) rarely work. Time and effort are needed to achieve long term success. Whether we are talking about an investor riding out the August dip in the stock market or a portfolio manager waiting for a company's growing earnings and cash flow to be appreciated by the rest of the market, patience is a critical ingredient in the formula for successful investment outcomes. The cooling (crashing?) of the "Unicorn" IPO market, where companies without earnings were priced with lofty valuations, illustrates this well. In contrast, Peter B. Cannell & Co. continues to invest in companies with strong balance sheets, reasonable valuations, and managements with whom we are familiar. Ultimately, we are seeking to capitalize on the difference between price and value. This process allows us to compound our clients' wealth over time as opposed to hoping that we bought a winning lottery ticket.

By sticking to our principles, we have been able to navigate the current investment landscape thoughtfully for clients. When we look to the future, we see this market environment persisting. As such, we intend to keep our heads, trust our analysis, and be patient.

We thank you for your continued trust in Peter B. Cannell & Co. We are available to speak with you about your individual circumstance as needed.

Best Regards,

The Partners of CANNELL & CO.