SUMMITRY

Quarterly Commentary - January 1, 2024

The markets registered solid gains in the fourth quarter of 2023, driven in part by declining interest rates in reaction to diminishing inflationary pressures and continued growth of the American economy despite significant monetary and fiscal tightening.

For the quarter, the S&P 500 gained +11.7% including dividends, closing out a year when the index produced a total return of +26.3%. The NASDAQ Composite Index produced returns for the quarter and year of +13.8% and +44.6%, respectively. Returns in the US markets during 2023 were extremely strong, but mostly concentrated among a few sectors, and within those sectors among a few names. For context, many of these outperforming stocks began the year with what we saw as depressed share prices (they suffered losses in the prior year) and rank among the best businesses in the world in terms of their earnings power, financial strength and growth prospects.

It seems a distant memory now that the S&P 500 had slipped into a "correction" on Friday, October 27th (a correction is defined as a 10% drop from a previous high), only two months before year end. The strong equity returns of the preceding half year seemed to be melting away in the face of persistent inflation and high interest rates. Sentiment changed 180 degrees the following Monday, launching a 15.8% recovery in the S&P 500 to year-end. For Fed watchers, the discussion shifted from talk of whether the Fed would stop increasing benchmark interest rates, to when the Fed would reverse course and add monetary stimulus through rate cuts. For their part, the Fed effectively declared "mission accomplished" in its inflation battle when it detailed Fed board governors' interest rate and inflation projections.

The improving inflation picture led the bond market higher, with the 10-year Treasury yield dropping by 106 basis points from October 27th, the day referenced above when the stock market reached a technical correction, to December 31st, finishing the year at 3.87%. The Bloomberg Aggregate Bond Index generated a total return of 6.82% and 5.53% for the fourth quarter and full-year 2023, a welcome reversal from the losses earned by bond investors in 2022. With short term market interest rates pegged to the Fed's mandated 5.25%-5.50% Fed Funds target, the yield curve ended the year severely inverted, meaning bond investors earn higher yields holding short-term paper than long-term bonds.

International markets shared in improvement in investor sentiment, albeit to a lesser degree, with the MSCI EAFE index, a broad measure of developed economies outside of the US, rising 4.6% and 13.0%, respectively for the fourth quarter and full year 2023. Domestic small cap markets staged a strong recovery in the fourth quarter after treading water for the first nine months of the year. The Russell 2000 (small cap) index returned 14.0% and 16.9% for the fourth quarter and full year 2023, respectively.

Looking forward

We know from experience that it's not helpful to try to predict the direction of the markets. We would not have imagined that in the face of rising interest rates, a crisis among commercial banks whose asset values were severely impacted by said rising rates, persistent inflationary pressures and significant monetary tightening by the Fed, that the markets would have performed as well as they did in 2023. Fortunately, our approach to investing does not require us to think about near-term market direction. Our faith in a capitalist system that rewards strong management teams and sound business models allows us to focus on the fundamentals of the individual securities we evaluate for ownership. We let market forces do as they will with prices, with the conviction that if our analysis is sound, we will be rewarded in time.

Sometimes whole markets are cheap, typically in times of maximum pessimism among people on Wall Street and Main Street. In our opinion, this is not one of those times. We believe that stock prices reflect a degree of complacency that inflation is well under control, and that an accommodating Fed will lead us back to an easy money environment. While we have no opinion as to where markets will go in 2024, we're less sanguine. By investing in individual stocks instead of broad indexes, we can focus our capital on those companies where we believe there is both room for upside and protection on the downside.

Summitry is 20

Summitry turned twenty in December. We celebrated this milestone with the team, and reflected on what enabled this firm to become what it is today. We're pleased that despite dramatic change in the wealth and investment advisory industry, we've been able to keep pace without changing what is fundamental to the values on which we created the firm. A commitment to serve your interests with care and fidelity, combined with a drive throughout the organization to always seek ways to improve our services, has delivered growth for the business and a platform where we can help our team enjoy meaningful personal and professional growth. We thank you for your faith in us over the years.

A passing of one of the greats

Charlie Munger passed away in November. His may not be a household name for most people, but to investors and particularly to ones who see the world as we do, Munger was a legend. We've invested in him and his partner, Warren Buffett, for years by owning shares of Berkshire Hathaway. We note that if one had owned those shares from the founding of our firm as Golub Group in December 2003, to the end of 2024, those shares would have produced a compound annual return of over 9.6% through a period that featured good markets and bad, enough to turn a $100,000 investment into $636,000, without drama. Charlie Munger's wisdom has been quoted widely, including by Buffett, and his advice has particular utility to people who wish to safeguard and grow their wealth. A few of our favorite one-liners include:

- "The world is full of foolish gamblers, and they will not do as well as the patient investor."
- "Stay within a well-defined circle of competence."
- "Good ideas are rare—when the odds are greatly in your favor, bet heavily."
- "Remember that just because other people agree or disagree with you doesn't make you right or wrong—the only thing that matters is the correctness of your analysis and judgment."
- "An inability to control emotion has caused more financial disasters than anything else I can think of."
- "The best way to measure your investing success is not by whether you're beating the market, but whether you've put in place a financial plan and a behavior that are likely to get you where you want to go."

While these ideas sound a lot like common sense, they're anything but common among investors in practice. It's one thing to parrot the wisdom of someone who has proven success; it's entirely another to live according to these standards. We will try very hard to uphold our end regardless the market environment, and we encourage you to take these pearls to heart as well.

Portfolio Changes

In the fourth quarter of 2023, we didn't initiate any new positions or sell out of any existing holdings. This isn't unusual for long-term investors. In fact, we act only when we see an attractive opportunity. Most of the time, we simply hold on to what we already own. Meanwhile, the research team continues to evaluate new ideas with potential to become future holdings in our portfolios.

New to the team

During the quarter, we welcomed William Berg to the team as a Financial Advisor Assistant. A 2023 graduate of Santa Clara University with a Bachelor of Science degree in Commerce (major and minor studies in Finance and Real Estate, respectively), Will's coursework reads like a perfect prerequisite for the industry he has chosen. While enrolled at Santa Clara, Will held internships with two wealth management firms and one accounting firm, worked for an angel investing firm in Milan while studying overseas, and served in a leadership role on the University's student investment fund. Will, who hails from St. Louis, MO and whose family has deep roots in Spain and Germany, is a Spanish speaker and a world traveler.

As always, we have included with this commentary your quarterly performance figures, management fee invoice(s), and a copy of your portfolio allocation as of 12/31/23. You will receive statements from your custodian as well. We urge you to compare both statements to ensure accurate reporting. Please let us know if you do not receive a separate statement from your custodian.

We look forward to speaking with you, and if you would like to come in for a visit, please drop us a note or give us a call.

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