



JOHNSON BENDER
ASSET MANAGEMENT

2016 Year End Review

As the year comes to a close, we wanted to thank each of you for making the transition to Johnson Bender Asset Management and also encourage you, if you haven't yet seen our new office, to stop by for a visit. As an added incentive, we would note that Helen makes an amazing cappuccino – it's free and there is no line!

2016 has been a very strange year indeed; and between Brexit and the surprise election results in the U.S., you begin to wonder what, if anything, is truly predictable anymore. We would argue that at least one thing continues to be predictable: investors' desire for immediate results. For instance, there are over 10,000 hedge funds operating today, up from about 500 in the year 2000. These funds apply a tremendous amount of technology and human talent to try and uncover small inefficiencies in hopes of outperforming the market on a quarterly basis. This short-term bias is inherent where managers are frequently judged on their quarterly or one-year performance. Unfortunately, despite the impressive resources possessed and frenetic trading strategies employed, the great majority of these funds have routinely underperformed their relevant market benchmarks.

Because of this underperformance, more and more investors have opted to simply "throw in the towel" and instead invest in index funds that are designed to mirror the market. The basic argument is that the market has become so efficient that it is virtually impossible to beat the market. In the short term, we would tend to agree with this conclusion, which is why we are not and have never been focused on the short term.

In the short term, it is exceedingly important to be able to predict the unpredictable. For instance, in the short term, stock prices are strongly influenced by macro factors, such as geopolitical events, interest rates, exchange rates, commodity prices, inflation, and other factors. If you listen to the market pundits on a daily basis, you start to believe that these factors are, in fact, predictable. However, a quick look at 2016 reinforces that these factors are not predictable, as the pundits were wrong on most things, including their prediction that commodity prices and interest rates would stay "lower for longer," that Brexit would never pass, and that Trump had almost no chance of winning, and that, if he did, the markets would likely decline over 1,000 points.

We could not be happier with the myopic focus of most professional investors on the short term, as we believe it provides us with a greater opportunity to succeed in the longer term. We invest in companies with the expectation of holding them for many, many years, because we believe that if we select the right companies with exceptional and opportunistic management, these companies will have a very high probability of succeeding over a full economic cycle. We believe that if we can acquire the stock of these companies at reasonable prices with an acceptable margin of safety, we will generate compelling long-term returns for our clients. This approach makes a lot more sense to us, as we believe we have

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the ability to assess the quality of management, the longer-term prospects of an industry, the competitive landscape, and the cash generating ability of a company; while on the other hand, neither we, nor anyone else to our knowledge, has ever proven successful at consistently predicting short-term macro factors, such as interest and exchange rates.

Our dilemma this year has been what to do with excess cash. In 2009, pundits declared “cash was king,” and today, pundits have declared “cash is trash.” In retrospect, they were wrong in 2009; and unless markets continue to go straight up in 2017, they will be wrong again this time. We look every day for appropriate long-term opportunities for our clients, and we are willing to “pay up” for the right opportunities since we strongly agree with Warren Buffett’s declaration that “it is better to buy a great company at a fair price, than a fair company at a great price.” By most measures, the market appears to be fully valued today, but we suspect 2017 may afford us plenty of opportunities to deploy cash into attractive situations; and rest assured that we are ready to pull the trigger when the right opportunities arise.

We wish you all the happiest of holidays and look forward to working with you in 2017.

Best regards,



Jim Johnson
Partner



Bear Bender
Partner

Past performance is not a guarantee of future performance.