KIRWAN
CAPITAL

13000 CR 348
St. Joseph, MO 64505
Missouri 816-385-5266
Nebraska 402-212-0519
Toll Free 888-666-8117
pk@kirwancapital.com
www.kirwancapital.com

January 14, 2019

The long running bull market started to show signs of ending in 2018, with some corners of the market falling into bear market territory (an arbitrary term usually defined as a 20% drop from the highs). Oil prices plunged from $75 to $55 a barrel starting in October, while in Washington, investigations, a government shutdown, resignations, and the specter of a divided government for the next 2 years all helped raise the level of consternation as 2019 approached. Late in December, the selling accelerated following suggestions from the fed that additional interest rate hikes might be needed in 2019.

Our Kirwan Capital Strategy portfolios lost 10.67% for the quarter** which bested the market as measured by the S&P 500 ETF*, which finished with a loss of 13.52%. For the year, we finished with a loss of 2.93%, versus a loss of 4.56% for our benchmark. Our average compound annual return after fees since Jan 1, 2013 is 11.59%, which would have turned a $10,000 investment into $19,304 in 6 years.

We added to our positions in Molson Coors and Apple early in the 4th quarter (which turned out to be way too soon in the case of Apple), and then late in the quarter we trimmed our Starbucks position and added further to our General Mills and Wells Fargo holdings. Late in the quarter we added a new position in investment bank Goldman Sachs, which had lost roughly a third of its value since spring.

As I write this letter, our composite has already risen roughly 4.5% since the end of the year, highlighting the increased market volatility of the past few months. I would warn investors not to mistake volatility for risk, however, which many do. Risk can be defined as the possibility of the permanent loss of capital, while volatility is a gauge of changing prices in the marketplace. One could argue that we have permanently lost part of our capital in GE, as the truth surrounding the financial standing of the company is now known to be worse than the case that management originally laid out, but I don't believe there are any other holdings in our portfolio that warrant this "permanent impairment" categorization at this time. To quantify that loss, around 2/3 of the 3% or so that we invested has been impaired, so the permanent loss of capital can be estimated at 2% of invested assets. This compares to annual gains of 11.5% that we have seen over the last 6 years, and the market drop of nearly 20% recently. As you can see by looking at these numbers, if volatility scares you into selling at a 20% loss, that single move dwarfs the minimal permanent loss of capital (risk). On the contrary, if we take the dividends paid to us and invest that capital when the market is off 20%, we have increased our expected gain in the future versus doing nothing. As an investor thinking of volatility in the correct light, you should welcome it for several reasons, foremost of which are: (1) it allows a chance to occasionally use cash maintained on the sidelines to purchase equities at a discount to previous prices, and (2) even if you do not have excess cash, almost all of the companies in our portfolios spend some of their profits buying back their own stock, which they now have the opportunity to do at a lower cost (more stock) than is otherwise so. This, in turn, increases your ownership percentage of these firms at a greater rate over time.

While I do not attempt to predict the market and indeed don't believe anyone has the ability to do so with any long-term accuracy, I can watch for volatility and use the opportunity it provides to purchase stock at a reduced price. While in the short run it may be irritating to appear to have mistimed a purchase when the stock continues to go much lower (recent Apple buy), viewed through a long term lens, volatility still allows us to purchase stock cheaper or sell it higher than indicated by average prices. The opposite occurs when an investor mistakes volatility for risk and sells at a discount.

13000 CR 348
St. Joseph, MO 64505
Missouri 816-385-5266
Nebraska 402-212-0519
Toll Free 888-666-8117
pk@kirwancapital.com
www.kirwancapital.com

Although no one knows if the market has bottomed or if another downturn awaits us, viewed through a long-term lens, our position continues to improve as the world continues to steadily grow wealthier and our ownership of some of the largest beneficiaries of this increasing wealth continues to grow concurrently.

It may be hard to believe the world is getting richer if you let the sensationalism bombarding us today guide your thinking, but here are a few statistics that support my view:

- The share of the people worldwide living in extreme poverty has declined from 50% in 1966 to less than 9% today.
- The average human life span has increased from 34 years to 72 in the last century.
- The share of 1 year olds worldwide who have had at least one vaccination has increased from 22% in 1980 to 88% in 2016.
- 65% of people now have a cellphone, while only 72% had access to electricity as recently as 1991.
- There were 200 playable guitars per 1 million people in 1962; this number jumped to 11,000 by 2014.
- The share of humanity living in democracy has gone from 1% in 1816, to 35% in 1980, to 56% today.

Finally, for those of you who remember my crypto currency warning from 1 year ago, a Bitcoin currently trades for $3539, which represents a nearly 74% drop from the $13,500 it was trading for at that time.

Thanks again for your trust, and I wish you the best in all your endeavors during this new year.

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.
** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.