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The market continued its upward climb in the 4th Quarter, powering the S&P 500 to returns of nearly 31.5% for the year. While some of that gain was a recovery from the large drop we had at the end of 2018, it still made the year quite impressive. In fact, every major asset class finished higher in 2019, from crude oil and commodities to bonds, real estate, precious metals, and even Bitcoin. This was the result of ample amounts of investable cash sitting in safe haven assets and the switch back to a risk-on attitude that prevailed for most of the year. U.S. large cap stocks continued their dominance over the rest of the world, although some pockets of foreign strength began to pop us as the year came to a close. The market more than tripled during the decade, and rose more than 10% in seven years out of ten.

Our Kirwan Capital Strategy portfolios gained 6.62% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 8.99%. As I have noted previously, when the market has a very bullish run we are likely to underperform the averages in the short-term, as our relatively low volatility produces less marked swings. Mathematically, however, lower volatility with equal average returns creates a greater end result in the long-term. For the full year, the same phenomenon was at work, and we earned 29.73% versus 31.23%. Our average compound annual return after fees since Jan 1, 2013 is 14.01%, which would have turned a $10,000 investment into $25,044 in 7 years.

Our portfolios became somewhat more conservative late in the third quarter by selling Phillips 66, and more so early in the fourth quarter when we sold a portion of our General Mills. Finally, midway through the quarter, I had seen Molson Coors Beverage Company (they have a new name to reflect more focus on non-alcoholic beverages) fall too far in price due to growth concerns and couldn't resist buying this company with a refreshed focus and ample cash flow generation capability.

I have been talking now for a year or so about the bull market growing long in the tooth, while it has continued to steadily march higher. The truth is, no one knows how long it will last. It could go on for several more years, or be over tomorrow. Since I don't believe anyone has found a foolproof way of predicting tomorrow's stock prices, I find it more productive to try and determine the most likely probability for equity returns going forward. Over the long-term, returns from the stock market are ultimately determined by three factors: interest rates, long-term growth of corporate profitability, and market valuations. On the interest rate front, most economists don't currently envision any near term catalysts to move rates either sharply lower or higher. Studies have shown, however, that interest rate forecasts from the most esteemed economists in the world have less value than a coin toss, so a look at the facts and history may prove more useful. A review of the historic record of interest rates and extremely simple math would indicate that the range of possibilities from today's level includes more room for upside to rates than downside. While this observation is very simplistic and offers little specificity, if history is any indication, it nonetheless would suggest that the pressure on future stock prices have the potential to be greater in a negative direction than a positive one. "Strike One." Regarding the second factor, corporate profitability, overall corporate profits have actually declined since 2014 according the St. Louis Federal Reserve. If you find this data point to be an unsatisfactory proxy for equity stock holdings, you could look at the per share earnings of the S&P 500, which on average, have lagged market prices by about 2% annually over the past 10 years. Even if using the latter data point, I would still likely chalk that up as "Strike Two." Lastly, on valuations, Warren Buffett has stated that the best single measure of where valuations stand at any given moment is the ratio of the Total Market Capitalization to GDP. Unfortunately, that ratio has now reached a 50 year high of 153.5%. On March 30, 2000, this ratio hit its

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previous high, and the market subsequently fell 44% over the next 2 1/2 years. Another often used barometer of the exuberance level in the markets is the Shiller PE ratio, which currently stands at its highest point in the last 140 years except for that same period at the turn of the millenium. "Strike Three?"

While this doesn't necessarily foretell a market crash, it does suggest that it may be difficult to realize the same percentage gains over the next decade as we have seen during the last one. Unfortunately, I don't see any other asset class with a clear cut path to larger gains, so let's just hope I am wrong. In any case, owning a piece of American business has been an outstanding endeavor for nearly all of this country's history, so we will continue in our efforts to own the best performing businesses to help maximize our returns versus the market as a whole.

Thanks again for your trust, and I wish you the best as we embark on the third decade of the 21st century.

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.