STILLWATER
INVESTMENT MANAGEMENT, LLC
Counselor • Advocate

"Gratitude makes sense of our past, brings peace for today, and creates a vision for tomorrow."

Melody Beattie
American Author

COMPANY NEWS, FINANCIAL MARKETS, AND THE YEAR AHEAD

By James K. Tonrey, Jr., Chief Executive Officer

Company News

Every so often we feel it is important to take the time to bring you, our client, up-to-date on some company news and, more importantly, to take a moment to say a simple *thank you.*

Stillwater Investment Management, LLC is coming up on our 13 year anniversary. We started in July, 2004, with $27M of assets under management and a collective vision to operate a firm with the highest standards and transparency in the Twin Cities area. We now close the books on 2016 with $325M of client assets under management and almost 300 valued clients. Sounding like a proud parent, I would put our growth, competitive performance, fee structure, and client satisfaction track record over that same period up against any firm, not only in the general area, but also the Upper Midwest as well. And, quite frankly, *we owe it all to you.* You have placed your faith and trust in us over these years. Amy, Dana, Eric and I want you to know how humble and grateful we are and to reaffirm how serious we take our work on behalf of your family.

The next bit of news we would like to share is to announce that Eric has been named a partner of the firm. Amy, Dana and I would like to congratulate and welcome him as an owner. Eric joined us in 2008 and over these years has added great depth to all areas of the firm, especially new business and client service. A good coach knows that you cannot coach intangibles like athletic ability, speed, and quickness. You simply try to put those gifted players in a position to succeed and then get out of the way. Eric came to us with the unique capacity to connect with people, to listen and empathize, and, at the end of the day, to truly care about our mission. We are all very proud to have Eric as one of our business partners.

With growth comes opportunity. We are in the process of adding to the depth of our staff. Over the next few quarters look for some announcements as we continue to evaluate our needs to offer the highest level of service to you.

Financial Markets

Benjamin Graham, considered the father of value investing, summed up investing by saying that in the short-term the financial markets are like a voting machine but in the long-term they act more like a weighing machine. In the short-term, emotions can play a greater part in determining the price of a financial asset. Momentum can play a larger role as companies and sectors can go in and out of vogue rather quickly. Investing day-to-day and month-to-month can be a popularity contest. Over a longer period of time, however, asset pricing tends to revert to a mean or an average. The mean can act like a magnet and eventually will be determined by *real* underlying financial performance and execution of the company. Warren Buffett, a student and disciple of Benjamin Graham, built his fortune on buying companies with this long-term perspective.

In early November, the widely used S&P 500 index was up around 3.5% for the year. Growth was slow and corporate earnings were not anticipated to be all that great. It seemed like we were in for a flat to "up a little" year. After some very good years in the markets, this was what the majority of market strategists forecasted for 2016. We all know that the presidential election changed this outlook. The S&P 500 index ended the year up a healthy 12%, over 8% more than it was just prior to the election. As Benjamin Graham said, in the short-run, human emotions can play a significant part in the pricing of securities. Obviously, the underlying thesis of slow corporate growth and somewhat muted earnings didn't change in this very short period of time. So what did, in fact, change to make the markets move so dramatically? Well, perception changed. Given the outcome of the election, investors bought stocks in advance of what is perceived as a better environment for companies and therefore a higher probability of increased earnings. Consumer confidence also soared in both November and December due to these increased expectations. The point is that, as investors, we have to be very careful not to get too caught up in the short-term. When expectations move this quickly, prices can get extended or exaggerated, both to the upside and downside. The markets can and *will* act like a popularity contest in the short-run.

This reminds me of a book I read many years ago by Burton Malkiel, a Princeton economics professor, titled *A Random Walk Down Wall Street*. He argued that financial asset prices were subject more to randomness than fundamental and/or technical analysis. Obviously the book was not well received by Wall Street. In today's environment, a few points from the book are very important for the average investor to keep in mind. The first is simply that we must take a long-term, disciplined approach while at the same time attempt our best to tune out short-term noise in the markets. Do not get too euphoric when things are going great and do not get too nervous when markets turn down. The second lesson is that we must control what we can control. Markets will do what markets do in the near-term but over time, like Warren Buffett and Benjamin Graham emphasize, markets will find equilibrium and asset prices will eventually reflect fair value.

The Year Ahead

One thing for sure, markets will test our patience as we can expect volatility to continue this year. We will have a new administration, interest rates seem to be heading higher, corporate and individual tax and health care reform are on the horizon, and on-going global tensions and political unrest are in the headlines. Generally speaking, we live in a world more interconnected than at any other time in history. Financial markets do not like uncertainty. The good news is that the unemployment rate is low, people are working, consumer confidence is at an all-time high (some would argue due to the anticipated reforms highlighted above), and our economy and banking system appear stable. I would say we are positioned at an interesting inflection point. Gravitational financial and political forces could force us one way or the other making for another very good year in the markets or an unwelcomed negative one. Not much of a prediction. So our advice is the same. Stay the course with a balanced, thoughtful approach, manage risk, and communicate to us any changes in your life. Oh yeah, one more thing……..forget about the markets today and take the time to be grateful for all you have.

In accordance with SEC regulations, we ask that you contact us in the event there have been any material changes in your financial circumstances or investment objectives, or if you wish to impose any reasonable restriction on the management of your accounts or modify any existing restrictions.