The Narwhal Letter
Fourth Quarter 2017
January 19, 2018

Dear Reader,

In our last quarterly letter, we referenced the long-lost bear markets of years past. Partially in jest we observed, "Down markets aren't fairy tales." At this juncture we should probably echo that sentiment a bit more emphatically: seriously, they really do exist, and they really do hurt. Following another large run by stocks last quarter (the S&P 500 was up 6.64% over the year's final three months) and a quick start for equities in 2018, reality doesn't seem all that sobering.

Ultimately, we're still on the fence as to how *sober* we really need to be when thinking about this market. In our quarterly macroeconomic webinar (available January 23 at YouTube.com/TuskMediaLLC), we discuss these notions with much more detail, but we're trying to avoid being too focused on flippant forecasts and persistent punditry.

You see, many forecasts made by the media at the beginning of 2017 were ultimately proved wrong. The Trump administration, as volatile as it may be, was not synonymous with stock market volatility. Equally surprising to some, bonds performed better than expectations and inflation was largely kept in check. We're not here to hand out "Fake News Awards" like President Trump, but we'd be remiss to not acknowledge the misses by many pundits over the past year. We'd be equally misguided to buy too deeply into such surface-level posturing in 2018.

So, do all-time highs necessitate a steep crash and hard landing? It's possible, but how many folks pushing that narrative were also alarmed by the Dow Jones Industrial's quick rise from 20,000 (on January 25, 2017) to 21,000 (just 42 days later)? And how much money did those market-timers leave on the table now that the Dow has crossed 26,000?

Truthfully, in times like these we find solace in our approach—frustrating as it may be to readers. There's something comforting in answering questions about the next 12 months with a calculated and informed vagueness. At Narwhal, we're at a cozy cross-section between knowledgeable and non-committal when it comes to a market call for 2018 and that's not new positioning. We're happy to be in that spot. That's home for us.

If you want a case for a bull market, we can give you that. Did you know that practically everyone—the U.S., Europe, China, Russia, etc.—bested estimates for GDP growth last year? Did you hear about these corporate tax cuts? That money has to go somewhere, right? Government spending could spur the economy through infrastructure and all of this should trickle down to consumer spending. This is all good stuff and it could all come into play.

Want to be a bear? We don't blame you; you're overdue! Corporations have used cheap access to cash to buy back stock and accomplish very little since the financial crisis so why would they actually deploy cash from a tax cut now? Isn't that upside—if there is any—already priced in? Expectations have risen for the economy as a whole and represent a higher bar than in years past. Further, bullishness by some sentiment measures (like Investor's Intelligence) is approaching highs not seen since 1987.

Ultimately, our objective still lies in individual investment analysis and selection. A core component of this is obviously the wherewithal to understand the economy and what's going on globally, but thematic guesstimates are not our compass.

As for putting a bow on 2017, here are some brief observations as it relates to Narwhal portfolios:

- As long-term, value investors the year was a challenge on the equity side. Beating a market that was up nearly 22% for the year (the S&P 500 posted a total return of 21.83%) is not *exactly* our wheelhouse. We remain value-oriented and we remain committed to lessening the blow of the next fall—whenever it may come.

- The run-up of fixed income wasn't exactly something we would have called to coincide with a stock market run of 20+%, but we'll take it! As we move forward, we are reevaluating tax-equivalent yields based on the new tax code, will continue to pursue opportunities in municipal bonds and will dabble into the corporate space when it makes sense.
- Most of our clients hold precious metals exposure through gold ETFs, which had a nice year. We are exploring other metals (primarily silver and platinum) and looking to slightly increase exposure in this space.
- Our direct/private real estate exposure performed well in 2017, but those returns were dwarfed by the stock market! I suppose that's a good problem to have. We continue to vet opportunities as they are presented.

As we move into 2018, Narwhal remains committed to pursuing three objectives:

1. Strong Risk-Adjusted Returns for Client Portfolios: Given each individual client's risk-tolerance, we want to maximize performance in each asset class.
2. Increased Client Education: We will continue to publish content through The Investing Podcast (higher-level investing topics) and Young Bucks (introductory financial topics), and we remain committed to developing useful resources (like our quarterly macroeconomic presentation). We also hope to establish more frequent one-on-one meetings with the sole purpose of education.
3. Improved Client Service: We have invested in systems that will make our financial planning process more robust and will continue to hire personnel so as to be more proactive to client needs.

As always, we appreciate your trust in us. We are grateful to work alongside you for what is sure to be an eventful 2018.

Sincerely,

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