> "The biggest risk is not taking any risk… In a world that's changing really quickly, the only strategy that is guaranteed to fail is not taking risks." ~Mark Zuckerberg, Facebook CEO

Each year at this time we review the key events that have impacted the financial markets over the prior twelve months. While we are accustomed to twists and turns in the economic landscape, 2016 ratcheted it up a few notches. Using all of the driving metaphors we could muster, there were hairpin curves, a few sharp switchbacks, a washed-out road (at least according to half of the U.S. voting population), and some surprising detours. Recalling a year which started with bewildering pessimism, the **Dow fell 1,000** points in January, the worst ever five-day start to a year. The next jolt came in June with the Brexit vote, wreaking havoc in currencies and quickly tanking global equity markets before an equally fast recovery. Meanwhile, oil threw a few punches, hitting a 13-year low as it fell to $26 a barrel before doubling in price to close the year at $53. Gold, ever the stock market's contrarian partner, benefited during the many "risk-off" moments, but ultimately lost its luster after the election. The party finally ended for the multi-year bond rally, as the ten-year U.S. Treasury peaked mid-summer at an all-time low yield of 1.4%. The Austrian Central Bank was seemingly the last reveler on the dance floor issuing a **70-year bond at 1.5%.** This is no typo, but rather a reflection of the punch-drunk institutional bond investing landscape created by the serial quantitative easing of the world's largest central banks. The laughter from the Austrian Central Bankers proved to be the death knell for ultra-low rates. Finally, there were the improbable U.S. presidential and congressional elections, which helped usher in an equity market crescendo during the last six weeks of the year. By the end of December, many market pundits were shredding their prior year forecasts, when few could have accurately predicted the twists and turns of 2016 with any semblance of a straight face.

As indicated in the chart below, financial market returns were largely positive for equities, although with variation by segment. It turned out that, in 2016, holding more on the risk side of the portfolio ledger was the recipe for success in the financial markets.

Asset Class	2016 Total Return
S&P 500 Index	11.9%
Foreign Developed Stocks	5.0%
Emerging Market Stocks	10.8%
Taxable Intermediate Bonds	3.6%
Muni Intermediate Bonds	0.1%

Looking out to 2017, the much anticipated **Dow "20K"** appears to be a real possibility. Since the U.S. election, the Dow Jones Industrial Average has been on a tear adding almost 10%. While most equity indexes were positively impacted, we would urge our clients to be cautious of thinking the Dow Jones Industrial Average is a practical index for investors. The "Dow," as it has come to be known, is widely recognized as the U.S. market barometer, but is actually composed of only 30 stocks chosen to "represent the broad output capacity" of the U.S. economy. It is very curious that such a narrow set of companies has come to represent the well-being of the entire stock market. Beyond the limited number of companies in the Dow, the other key caution is that it is a price-weighted index rather than a **market capitalization weighted index like the S&P 500**

Index. In a price-weighted index, stocks with the highest price provide the largest performance contribution or detraction. Subsequently, there are situations where a few stocks with high absolute prices can "pull" the entire index performance in a certain direction. Since Election Day, *Goldman Sachs*, at $241 a share, has appreciated almost 40% in value, and happens to be the highest priced stock in the Dow, despite only being in the middle of the pack in terms of market capitalization. This means that *Goldman Sachs* was single-handedly responsible for a full 30% of the Dow's positive performance from early November through late December. As we have experienced before, having one sector, much less one stock, represent a 30% weight in a portfolio is a recipe for a wild ride and potential disappointment in the long run. There are index milestones that are exciting, and it is truly encouraging to see sentiment swing from a multi-year malaise to a more positive outlook. However, a key point to keep in mind is that an index composition methodology can have misleading practical investing implications, and lead to portfolio risks that go well beyond the headline grabbing figures.

As noted on the top of the first page, we took interest in a quote by *Facebook* CEO Mark Zuckerberg on the necessity of taking risks. This was not meant to be worrisome or to push clients further out on the risk spectrum within their asset mix; rather we see this as a means of support for our more personalized process of taking tangible ownership stakes in well-run businesses where many leaders, directors, and employees are painstakingly engaged. Risk, within our confines, is vetted for tolerance to each client's specific circumstances, and then mitigated by size, asset mix, and type of company (historically profitable, historically generous to shareholders, and typically underleveraged) that in combination work to tilt the odds of success in our favor. This does not remove the possibility of loss, but in our experience this formula lessens the risk of life style-altering loss. We do our best to be judicious, thoughtful, and measured, but we are not watching the climbers on the mountain from the safety of an indexed benchmark in the valley. Affirming that point, since our firm's founding five years ago, we have logged more than **130,000 research miles** as part of our discovery and vetting process. This is highly supportive of our philosophy, conducive to professional development, and geared toward long-term profitability for our clients.

As we contemplate the ever changing investment landscape for 2017 and beyond, our firm is also gearing up for the future. In the past six months, we have added **two new employees** to expand our analytical and client supporting capacity. In addition, we have appointed Greg Debski as our **sixth firm principal**.

Of course the political world moves quickly too, with a new sheriff moving into Washington. Only time will tell if his bite turns out to be softer than his bark, but there is confidence that the collective change favors business. Accompanying the Washington guard change is a sense that economic optimism is re-awakening from a long hibernation. There is also the recognition that investable liquidity, which pre-election was at the highest since 2001, is seeking a more permanent home. Pairing those factors should bode well for the global investment landscape as well as for our clients' portfolios.

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