

*Marble Harbor Investment Counsel, LLC
Excerpt from
Fourth Quarter, 2016 Letter*

We are pleased to send an excerpt from our fourth quarter client letter that discusses our current thinking. We welcome your thoughts.

Sincerely,

Paul Davis, L.J. Harrington, Eric Robb and Daniel Rosenblatt

Dear Client:

“Market forecasters will fill your ear but will never fill your wallet.” - Warren Buffet (The Oracle of Omaha), *Berkshire Hathaway 2015 Annual Report*

In *The Iliad*, Calchas was a seer who divined the future by interpreting the flights of birds. His soothsaying acumen, a gift from Apollo, played a vital role in getting those Greek ships to Troy. Nowadays, Calchas would be an economist. Instead of pondering avian migratory patterns, he would be analyzing economic data and global events. No doubt he'd still be making predictions, and, like Calchas, he would have a wide and hungry audience. After 5,000 years, we haven't changed much. Uncertainty still makes us wring our hands with angst, and to calm our frayed nerves, we turn to the Oracle of CNBC and the like, hoping that Apollo will guide our ship to port. Regrettably, forecasts by our modern-day prognosticators are not as reliable as those of their mythological counterparts. Contrary to many pundits' predictions, 2017 is unlikely to be either the best or the worst year in history. No one predicted the highly surprising geopolitical events of 2016 and the one thing we can bet on is that they will be just as far off the mark about 2017. We don't have the foresight of the gods, so we focus on buying quality businesses at attractive valuations. To us, this is the true wisdom of the seers.

The market returned 12% in 2016, but the trajectory was hardly a steady breeze across a wine dark sea: It started the year down 10% and then pulled off a phenomenal bounce back of 22% – with the final 4% propelled by the Trump rally. This upsurge in the stock market may feel nifty right now, but often a few months of good performance can precede several quarters of indifferent returns. Investors have responded gleefully to the fiscal stimulus and corporate tax cuts they speculate a Trump presidency will deliver. Markets are already pricing in all of the pro-business policies a Republican Washington might promise as if they are chiseled in stone. However, there is still a lot of uncertainty as to what these policies will look like, how far-reaching they will truly be, and how quickly they will be implemented. These unknowns blur our vision, and will create continued volatility as reality confronts today's speculation.

In Homeric times interest was paid in crops or oxen. Today, in expectation of increased fiscal spending, 10-year Treasury yields have risen more than 35% since the election. And while equity valuations are fair, bond yields look more attractive compared to both inflation and equities. A migration from stocks into bonds could bring down markets from their Olympian heights.



Corporate tax cuts, fiscal stimulus and slightly higher interest rates are generally supportive of equity prices in the near term. These tenets of the new administration have been warmly embraced by investors, who seem to have chosen to ignore the potential negatives and more complex gives and takes that may accompany these headline changes.

One of the most difficult things that we do as investors is to acknowledge that we don't have Apollo's gift. We can't tell the future. It's profoundly discomfoting to admit that no one knows what is going to happen next year, or even come the rosy fingered dawn. When we invest, we do our best to ignore Calchas and his lot and focus on analyzable elements such as the attractiveness of business models, balance sheets and recurring revenues. These are fundamentals that persist, can be evaluated by mere mortals, and don't require the foresight of the gods.

One final note – Lisa Salvucci will be leaving us at the end of the month. She's decided to make a move out of the world of finance and into the realm of architecture. We know you share our gratitude to her for all her efforts. We wish her the very best.

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