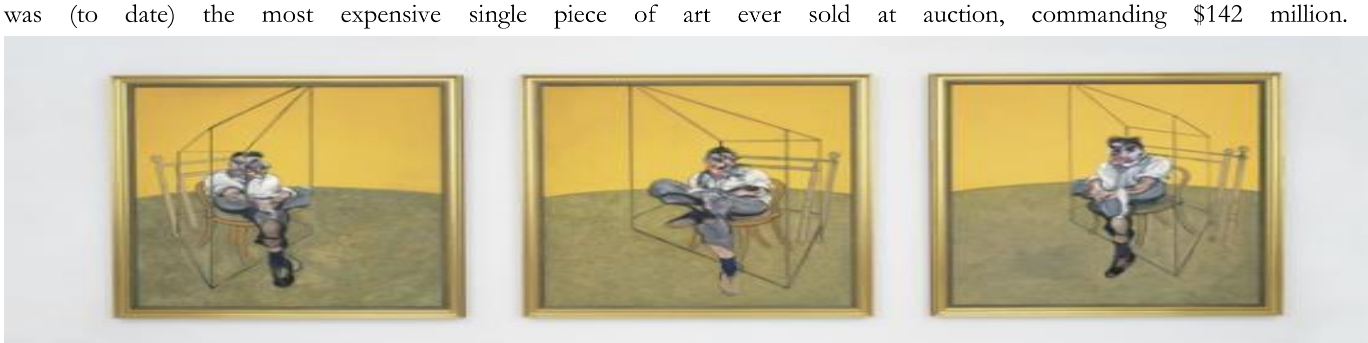
VERO BEACH GLOBAL ADVISORS
Registered Investment Advisor

"The market is not an accommodating machine; it won't give you returns because you need them."
Howard Marks, CEO of Oaktree Capital

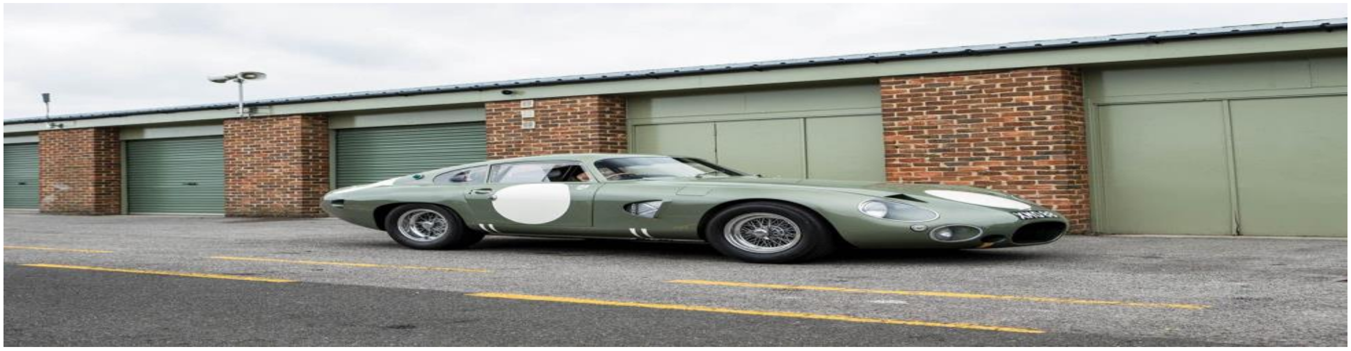
After a favorable 2017, investor expectations were lofty with the corporate tax tailwind boosting bottom line earnings and an improving employment picture. While those factors panned out, rising interest rates, heated trade disputes, and recessionary fears played spoiler, stifling returns in the financial markets. *BlackRock* noted that 2018 was one of only two years over the past thirty where both global stocks **AND** bonds lost ground. Echoing Howard Mark's comments above, capital markets are under no obligation to respond to investor's needs, hopes, or specific retirement dates. So while we make plans around historical averages, market returns for a particular period may deviate from the mark by a wide margin. Our view from the field of play last year involved a record number of 600 point same-day swings in the Dow, which served to fully test our resolve. It was a stormy year.

Throughout the entirety of my investment career, now well over thirty years, not a single client has ever enjoyed seeing their portfolios decline in value. Not one…Responses have varied greatly, but without exception it remains universally unpleasant to watch declines in our net worth. Still, we remind ourselves there is stability and repeatability in the businesses that we own, (we personally invest right alongside with our clients) and the capacity to make the interest and/or dividend payment is not in question. We have found a helpful antidote is to not dwell on today's snapshot of value, instead reconsider, Warren Buffett's sage advice; "In short, bad news is an investor's best friend." We take solace in Buffett's comments as quality cash flows from great companies are once again "on sale." Furthermore, consider the amassed global liquidity that is perched on the sideline, awaiting an attractive entry point. *Blackstone's* President, Jon Gray, recently confided that his firm has over $100 billion of investable liquidity. Bob Saada of *Price Waterhouse* estimated that U.S. corporate liquidity has accumulate to a record $2.5 trillion, while private equity firms have $1.5 trillion of "dry powder" awaiting investment.* A meaningful portion of these monies should find a path into the public markets via corporate share repurchases or merger and acquisition activity.

There is an interesting new documentary on HBO titled, The Price of Everything. It deals with the contemporary art world and the associated eccentricities. There were many entertaining scenes that are far away from our everyday work life. What ultimately stood out were the record breaking prices being paid for art pieces. The triptych artwork shown below, painted by *Francis Bacon* in 1969, was (to date) the most expensive single piece of art ever sold at auction, commanding $142 million.



At the time of the *Bacon* sale, *Christie's* auction house achieved a record $691 million at a single art auction, which had bested a prior year contemporary art sale record of $495 million. According to Arts Economics**, the combined sales for art in 2017 totaled $64 billion, up from $56 billion in 2016. Beyond art, record amounts of liquidity have also poured into automotive collectibles, with the auction sales at the 2018 **Pebble Beach Concourse d'Elegance** totaling $367 million, surpassing the 2017 total of $328 million. The 1963 *Aston Martin* DP215 (shown below) while beautiful, fetched an astonishing $21.4 million in 2018 at the Sotheby's auction. These are meaningful figures, and, when viewed in totality, amount to billions of dollars changing hands for non-traditional assets. So, is seeing the arguably staggering prices of illiquid alternatives assets, perhaps



without "an anchor in objective reality," worrisome or supportive of financial markets? We see it, first, as evidence of the massive amounts of liquidity that the worlds' banking and economic systems create. Secondly, we see the trend speaking to the large amount of truly discretionary capital in search of diversification. And thirdly, we see it simply as the manifestation of subjective preferences for specific types of tangible assets over financial assets. Regardless of the intent, the ability to purchase a $142 million painting or a $21 million car is going to fall within a small echelon of the global population. However, the scope of spending isn't all relegated to the ultra-high net worth. The 2018 Christmas season reported spending levels that topped $850 billion, a 5% increase from the prior year.*** Ultimately, that level of consumption, whether for gifts or for illiquid alternatives, further strengthens our conviction of reasonable economic vitality and for our long term premise of owning shares of cash generating businesses. For better, and at times for worse, those businesses just happen to get revalued in the market each business day.

At the same time, we understand there are worrisome trends at hand that mandate consideration. Global hostility and trade wars are real. Income inequality (juxtapose a picture of the migrant train caravan against a $21 million dollar car) has a direct connection to politics, and those sentiments are leveraged in the media and then find a way into financial markets. There are still unknown consequences tied to automated trading, and the massive passive investment binge that we think leads to significant pricing gaps and extreme single name stock volatility. To top it all off, there is the Federal Reserve hiking interest rates in the face of a slowing global economy. Today, the speed and reach of media may work against stabilizing financing markets. Being "fully informed" 24/7 is perhaps harmful at times when monies start following a trend or a herd. Given the collection of issues, we fully understand why investors want to stay "safe and liquid" when markets swoon and nerves are frayed.

Still, as we wrap up a challenging 2018, we can't help but be encouraged. Case in point was the recent successful landing of a *NASA* space probe on the surface of Mars. The *Lockheed Martin* built craft traveled some **301 million miles** over a six month period, before landing on Mars. This is the second Mars landing and, within eight minutes of landing, the craft sent a signal back to the U.S. with clear photos (shown above). We stand in awe of the engineering genius and creativity that is at work today. While we can't yet define the commercial breakthroughs likely to germinate from this specific mission, we are optimistic there will be many for both *Lockheed* and *NASA*. Yes, yes, pessimism toward a likely recession or political impasses are real and easy to find; just switch on the news or thumb through your social media. We challenge you to think longer term as over the last 60 years the average recession has lasted about 10 months. Painful in a world of short attention spans, but it certainly should not be debilitating. While many are daunted by the "wall of worry," we see attractive capital investments aplenty, with valuations at enticingly cheap levels by both relative and historic standard. Warren didn't send us a text, but our gut tells us that Mr. Buffett, at the ripe old age of 88, is licking his proverbial chops. As he said, "fears regarding the long-term prosperity of the nation's many sound companies make no sense."

*Bob Saada, *Price Waterhouse Cooper* deals manager Bloomberg Interview 12/17/2018

***Arts Economics 2018,* "Sales in the Global Art Market 2007-2017"

***Tyler Durden, "Americans just blew $850 billion on Xmas but here's why that's not a good sign."