

The Optimistic Investor

FOCUS ON WHAT REALLY MATTERS



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MAINTAINING FOCUS

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Welcome Back

There is much to be optimistic about as we wind down the holiday season and prepare to close the books on 2023. This year saw many positive developments that bode well for the future. To name just a few of the most notable:

- The recession widely predicted by “experts” throughout the year never materialized. Instead, inflation declined markedly, the economy remained on firm footing, and equity markets largely recovered from the bear market of 2022.¹

¹ As the economist John Kenneth Galbraith famously said: “The only function of economic forecasting is to make astrology look respectable.”

- Artificial intelligence (AI) exploded into public view after the release of ChatGPT. This stimulated largescale investment and adoption, and we can already see the tremendous potential that AI has to enhance medical diagnoses, speed the development of new drugs, and increase efficiency across a wide range of businesses.
- Medical treatments took huge steps forward with many of the advances highlighted in our prior editions. Most recently, the FDA approved the first treatment protocol based on gene editing (*see Innovation & Good News*).
- The energy sector experienced major achievements with confirmed fusion reactions and innovations in carbon capture technology.

It wasn't all smooth sailing in 2023, however. The ongoing wars in Ukraine and Israel have brought much destruction and loss of life, there is an immigration crisis at our southern border, our federal government continues to experience partisan discord and dysfunction, and concerns about China's global ambitions still loom.

Against this backdrop, there seems to be a general sense of heightened uncertainty as we head into a presidential election year. Our goal for this quarter is thus to reassure you that you're prepared for 2024, so you can continue to focus on your long-term goals without worrying about any short-term uncertainties.

We hope you enjoy this edition of The Optimistic Investor and wish you good health and much happiness in 2024!

Maintaining Focus in an Uncertain World

You'll hopefully recall that our last edition focused on the equity premium. We established that people who invest in companies through stocks (*i.e.*, owners of companies) have historically experienced much better returns than those who invest through bonds (*i.e.*, lenders to companies). We discussed the fact that we **need** those higher returns to keep our long-term plans on track (to outpace inflation and the need to spend money in retirement). And we emphasized that we **earn** those premium returns by consistently demonstrating a superior temperament. In other words, the equity premium flows from our willingness to tolerate the constant uncertainty that hangs over global markets and the world more generally.

It's hard to overstate the importance of that last point. Investor temperament is the primary driver of the long-term growth of wealth. That's why we constantly stress

that good investors create a plan based on their lifetime goals and consistently act on that plan over time. Successful investing is **always** goal focused and plan driven; and focusing on current events and short-term market dynamics is **always** a recipe for worse long-term outcomes.

Reminding ourselves of these axioms is especially important as we enter the New Year, because it's likely that our temperaments will be tested in the coming months. Presidential election years always bring heightened uncertainty and anxiety. Major issues are debated, partisan rhetoric reaches a fevered pitch, unrealistic promises are made on the campaign trail, and candidates and pundits predict catastrophic outcomes if the "wrong" leaders are elected. There's no reason to think that 2024 will be any different.

In addition, just a few weeks into the New Year we'll be faced with yet another potential government shutdown. The political debate around the looming deadlines will likely be heated, and many important matters like national security, the crisis at the southern border, and the national debt will be part of the conversation. Not to mention the geopolitical considerations associated with wars in Ukraine and Israel.

We should expect the political quarreling to be rife with exaggerated claims, the media to highlight the **possibility** that any of these situations could turn into a major problem, and the financial media to relentlessly emphasize the **possibility** of economic turmoil and broad market declines as events unfold.

It is therefore critical that we mentally and emotionally prepare ourselves for a steady stream of negativity in the months ahead. We all know that we can't base our lifetime investment policies on short-term **possibilities**. Rather than letting ourselves get caught up in **reacting** to current events, we must endure the uncertainty and put ourselves in a position (and headspace) to **continue acting** on our long-term plans. We hope the following three points will help you do that as we enter 2024.

We can't base our lifetime investment policies on short-term possibilities.

We don't need to predict the future to be successful investors.

In 2024 there will be plenty of opinions on what the future holds, especially around the federal budget negotiations and

presidential election, but no one actually **knows** what the coming months will bring. And, as it relates to investing, no one **knows** how financial markets will react as current events and the election play out. The markets cannot be reliably forecast or timed, and trying to do so will inevitably hurt you in the long run.

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It's important to remember that we're not trying to predict what's going to happen next in the world or how those potential events will impact markets. Rather, our job is to maintain a state of constant preparedness for the two great inevitabilities of investing. First, that the future is always bright. And second, that we will inevitably hit some rough stretches on the way to that bright future. This leads to our second point.

You're prepared for whatever happens in 2024.

Uncertainty can be a scary thing, especially when it relates to important issues like those described above. But you don't need to be worried, because you have a plan for dealing with uncertainty.

Your portfolio was created using a framework that accounts for your unique needs and the specific risks (both short- and long-term) presented by your financial plan. As we discuss in every client meeting, we know that markets routinely go through temporary rough patches on the way to long-term growth. We fully expect that to happen, and we maintain appropriate holdings of cash reserves and

quality bonds, so we're prepared for when it does. Those of you who've been clients for several years experienced this preparedness as we endured bear markets in 2020 (pandemic) and 2022 (inflation).

It may be the case that 2024 brings nothing but smooth sailing and markets continue to rally on lower inflation, strong corporate earnings or other goods news. We could also see equity markets perform well despite some negative developments, as they "climb a wall of worry" in the face of increased uncertainty. Or, as a third alternative, we might see one or more issues evolve in a way that markets react negatively to. Regardless of how things play out, you're already prepared and can continue acting on your long-term plan without regard to current events.

We need to tune out the politics.

As noted above, the rhetoric around the federal budget negotiations and presidential election will likely intensify as next year unfolds. We all have opinions about what's best for our country and how various policy issues should be addressed, but as Warren Buffett has wisely cautioned: "you do not want to have a political view in investing."²

To be sure, it's essential to a healthy democracy that we all have the opportunity to express our political views, but the place to do that is the ballot box and not your investment portfolio. After all, we're not investing in the federal government or a specific presidential administration to grow our wealth; we're investing in companies run by professional managers who are tasked with making a profit in all political

environments and without regard to which party controls Congress or the White House.

We invest in companies to grow our wealth, not the federal government or any particular administration.

On this last point, earlier this month we saw a presentation from a former CIA case worker who now works in the tech sector. The presentation was about the geopolitical threat the USA faces from China and how our ability to prevail will ultimately turn on whether we can maintain technological superiority. When asked about the role the federal government needs to play, the speaker said she had "little hope" that our politicians will rise to the challenge, but she added that her experience gives her "great hope" in American enterprise recognizing the need and accomplishing what must be done.

That seemed like the perfect thought to close out The Optimistic Investor's first year, because it brings us back to our very first edition. We began in March with a discussion of how innovation flows from people and companies seeking solutions to the world's problems. Although politics and government policy certainly matter, over time the forces of human ingenuity and private enterprise are stronger than the political cycle and advancement continues in any event. As that happens, history shows there is tremendous economic value

² This quote comes from a CNBC interview on February 25, 2019, in which Buffett talked about having successfully invested during the tenures of presidents from both parties. We encourage you to watch the entire video, which you can access at <https://www.cnbc.com/video/2019/02/25/warren-buffett-you-do-not-want-to-have-a-political-view-when-investing.html>.

created for those who can look through the uncertainty of **how** we'll move forward and maintain their faith that we **will** continue to do so in one way or another. That is the

superior temperament that allows us to earn the equity premium, and it's what we'll need in full measure in 2024.

Financial Planning News & Updates

In the spirit of the holiday season, our planning updates this quarter focus on changes to the rules for giving in 2024.

Qualified Charitable Distributions – so-called QCDs can be an excellent (and tax-efficient) way to accomplish charitable giving. For those of you who do so, the per person limit on QCDs is now indexed to inflation and will be \$105,000 in 2024.

Gifted limits increase – the federal limits

for gifting to individuals and trusts will also increase in 2024.

- The gift tax “annual exclusion” (*i.e.*, the amount you can give to anyone without having to file a gift tax return) will be \$18,000; and
- The “lifetime exemption” for federal gift and estate tax (*i.e.*, the total you can give away in life or at death without owing any gift & estate tax) will rise to \$13.61 million.

Innovation & Good News

1) The first gene-editing medical treatment was recently [approved by the FDA and regulators in the UK](#). The treatment uses CRISPR to permanently cure sickle cell disease, which is a debilitating, painful and potentially life-threatening hereditary blood disorder.

2) Last month another promising CRISPR-based therapy was shown to [permanently lower high cholesterol](#). This may eventually eliminate the need for people with hereditary high cholesterol to rely on daily medication.

3) Contrary to initial fears, abandoned oil rigs off the coast of California [have become oases](#) for local marine life.

4) California also saw its first [commercial “carbon sucking” facility](#) open last month. The facility’s capacity is still too small to have a major impact, but the technology shows great potential for reducing greenhouse gases.

5) A medical team in France successfully installed a spine stimulator in a Parkinson’s patient that [restored the man’s ability to walk](#). The patient was largely housebound before the procedure and can now walk for miles!

6) Scientists in Brazil have developed a vaccine that may be able to [treat the chemical dependency](#) that forms the basis of drug addiction

Happy New Year!

KOOMAN & ASSOCIATES

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- If you would like to impose, add or modify any reasonable restrictions on our investment advisory services.

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Please also remember to advise us if you have not been receiving account statements (at least quarterly) from your account custodian.