

Greetings from your Blueprint team at DA Davidson. We hope this quarterly update finds you well and looking forward to some measure of inner peace and joy in the new year. I'm getting prepared by practicing hitting the mute button on the remote control as we enter into yet another election advertising cycle. I'm not a big fan of resolutions anymore but one I've been working at for the last several years is to be open to, and mindful of, the many simple blessings we receive daily. Of which for us, is the opportunity to work with a wonderful group of clients and their families.

I don't know why we are ever surprised by the investment markets, and 2023 was yet another reminder. As John Galbraith suggested long ago, economic forecasting was invented to make astrology look good. Coming into 2023, it seemed the overwhelming consensus was looking for a recession. Higher interest rates and inflation would slow down the economy and as a result, the stock market would struggle. Instead, the year ended with just about every stock market index rising by over double digits. The consensus today has shifted to a forecast of lower interest rates and inflation and a "soft landing" in 2024. I don't know about you, but I'm tempted to run for the exits! However, we suspect the better approach, which is unfortunately always easier said than done, is to be market agnostic and to ignore the forecasts.

Our old mentor and partner was fond of saying that one's investment philosophy took a number of years to develop, and often mirrored one's philosophy of life. We favor an approach that leans toward attempting to value businesses and to buy and hold them only when they seem to be trading in the market for something less, or not substantially more, than what we calculate they are worth. This differs from the more popular approach of forecasting who has the best growth prospects, whose stock price is rising, and then buying. Some call this "value investing" versus "growth or momentum investing." I suppose the key difference in these strategies is seeking and prioritizing a reasonable margin of safety, based on the price we are willing to pay just in case things don't work out as we have calculated. One element of my old partner's philosophy of life was to "be prepared for a rainy day." Interestingly, I like people who are more inclined toward "carpe diem" (live for today and don't worry so much about what might go wrong) and wish I had more of that in me. Unfortunately, what's that they say about an old dog and new tricks?

A closer look at a couple of our holdings' performance in 2023 is a good reminder that stocks often seem to confound logic. Investing is probably more sociology than physics. For example, we accumulated a little CVS over the last several years with the idea that their vertical integration of various healthcare elements might better contain the ever-growing expenses involved in the health care system. The goal is worthy and the cheapskate in us liked the price. They seem to be making a little progress along these lines, but the challenges are great and earnings have grown very modestly. They actually had a few positive earnings surprises in 2023 yet the stock declined by about 13%¹. Certainly an under performer relative to the overall stock market. On the other hand, another stock we hold, Intel, was up over 90%² in 2023. Ironically, this happened while their per share reported earnings dropped from over \$5 to about \$1 per share³. There seems to be some excitement around the construction of new microchip building facilities in the United States by Intel and some anticipation that their new chips will be attractive for certain artificial intelligence applications. We seem to be in a period not unlike the "internet boom" in the late 1990s. Just mention the words artificial intelligence in your quarterly earnings conference call and your stock price rallies. There is a good saying that in the short run, the market is like a voting machine, and any damn fool can vote. But in the long run, it's like a weighing machine, where true business values are eventually reflected in a stock's price. Psychologically, it is rather difficult not to think you have made a wise decision when you are rewarded handsomely by a stock price rise like in the case of Intel. Alternatively, when a stock price lags, it is difficult to hold on when the rest of the market is not rewarding your thinking. We all like to believe we are quite rational and not particularly swayed by the herd. But if we are honest with ourselves, we recognize an emotional response that can often corrode what is likely a sound investment strategy. We have found that one of the best ways to combat irrational responses and be able to tune out the constant

"noise" designed to attract our attention and stimulate said emotions is to have a sound investment philosophy. A philosophy that simply focuses on a stock's underlying business value and ignoring all else.

So, is it time to add to more CVS or perhaps sell Intel as a result of the optimism, even in the absence of any concrete results? I think we'll hold off on selling Intel. Maybe there's some truth to those forecasts (rumors) about their future role in artificial intelligence. We would hate to miss out on the next big thing!

Finally, we want to introduce you to our newest team member, Jackson Wohlenhaus. Jackson will be taking Sasha's place. She has moved to Virginia to work in our DA Davidson office there and start a new adventure. We want to thank Sasha for her dedication and hard work for our clients over these past years. Jackson worked with us as a college intern and we were very impressed with his work ethic, intelligence and his general pleasant calm demeanor. We were very pleased when he accepted our offer. Jennifer has been working diligently getting him up to speed and he looks forward to getting to know you in the future.

Sincerely,

Your Blueprint Team
Russ, Susan, Ryan, Jennifer, Tien and Jackson

1-Morningstar.com
2-Morningstar.com
3-Valueline.com