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<u>What we look for</u>

I recall in a televised interview several years ago, (I think it was Ed Bradley on 60 minutes interviewing George Burns), that Burns told Bradley he found money on the ground every day. Bradley wasn't exactly incredulous but asked the aging and aged actor how that rather unusual personal attribute came to be. Burns with only a slight pause, replied "I look for it." I've scoured the internet without success for corroboration of the exchange. I may have the wrong identities but hang with me; it makes a nice point.

We tend to see what we are looking for. Also, we tend to not see what we are not looking for.

In a semi-famous study, researchers asked participants to watch a video of 6 people, 3 in black shirts and 3 in white shirts pass a ball back and forth. The participants are instructed to keep track of how many times the white-shirted players pass the ball. During the video, a woman in a gorilla suit walks onto center stage, thumps her chest, and walks off. About half of the participants report not having seen the gorilla. There is a writeup at Smithsonian.com about this study at https://www.smithsonianmag.com/science-nature/but-did-you-see-the-gorilla-the-problem-with-inattentional-blindness-17339778/.

I don't agree with the Smithsonian writers that selective attention is a "problem". It is an "is" thing. It is part of being human and being able to tune out the noise can be immensely helpful at times and at times can be quite important. It seems to me that the key to selective attention is to know and acknowledge that it is a part of each and every one of us, to one degree or another. In addition to being able to moderate and select those areas of focus that will move you to your overall goals, we must be aware of those times when our attention is being drawn or pushed or focused by someone other than ourselves. Even then, we may be willing to allow another to sharpen or intensify our focus on one thing or another. Recognize the relinquishment of control implicit in that circumstance, and as a useful tonic, consider the motivations of the influencer. For me, the most memorable early lesson on focus was "keep your eye on the ball". For eight-year-old baseball, this is a fundamental component of catching and hitting a baseball. It seems to me the ability to train our minds to focus on what we deem important is an essential element of being human. We can choose.

We think the area of investment management is highly susceptible and shot through and through with forces aimed at re-directing investor's focus and attention. Market volatility is sometimes unpleasant and can be used as a boogeyman to prompt costly and wasteful strategies to make the unpleasantness go away. This can include anything from gold to indexed variable annuities to all kinds of other exotic strategies where "magic happens" and somehow risk and return are magically de-linked and you are led to believe that the upsides are all yours and the downsides are shunted away.

A core component of that re-direction can be simple reactivity. Social media platforms have become quite adept at stimulating reward centers in the brain as an inducement for users to return repeatedly and frequently to the platform. Publication-type and broadcast media are masters at triggering fear and anxiety responses as key to prompting repeat visits of the eyeballs that drive their revenue streams. This stuff works at the lizard-brain level and it can sometimes take a good bit of conscious work to get past that.

This has been a consistent theme of ours. When it comes to investment decisions, almost all of the chatter, clatter and commotion you hear related to financial markets is nothing but distraction <u>if your investment goals and strategies are properly structured</u>. I'm not saying none of it is true. I'm saying that virtually all of it is irrelevant. The word from the 80s and 90s is "actionable". The noise is not actionable. This is fundamentally and systemically true because by the time you hear about it, you can be assured that it is fully discounted in the market and reflected in prices.

Imagine you are at an art auction with about 200 people bidding on various works of art. Now an art piece comes up for auction that you, and you only, know you can sell the following day for $100,000. Bidding starts at $10,000. How much do you suspect you'll have to pay for the piece (remember you and only you know the true value)? Probably closer to $10,000 than $100,000. Now assume just one other person in the room knows what you know. How much will you have to pay for the piece? I say it will be closer to $100,000 than $10,000. To me this illustrates the power of markets and illustrates that it is not sufficient to be smarter than average, or even smarter than most, to beat the market. You have to be smarter (or have better knowledge) than everyone. That seems a pretty high bar.

We think the phenomenon of selective attention feeds into several well-known biases identified in the study of Behavioral Finance, including Confirmation Bias, Familiarity Bias, and Framing Bias. We believe a key to managing the investment consequences of various biases and the adverse effects of selective attention is to use a sound, evidence-based investment strategy that stands as a defense against decision-making-led-astray. Think of this as decision architecture, where the actual decisions are made well in advance of the point of market unpleasantness. This approach has proven very effective in warding off poor investment choices.

We are here to help with this.

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The table below shows the returns through December 31, 2018 for selected investment asset classes. In most cases, the results below are appropriate benchmarks for the related mutual funds in your investment portfolio.

Asset Class	Data Series	YTD	1 Yr.	3 Yrs.	5 Yrs.
Ultrashort Bonds	ICE BofAML US 6-Month Treasury Bill Index	1.92	1.92	1.18	0.78
Short Term Municipal Bonds	ICE BofAML 1-3 Year US Municipal Securities Index	1.76	1.76	1.02	0.91
Short Term Corporate Bonds	ICE BofAML 1-5 Year US Corporate & Government Index	1.40	1.40	1.43	1.37
Short Term Global Bonds	FTSE World Government Bond Index 1-2 Years (hedged to USD)	2.03	2.03	1.33	1.01
Intermediate Term Municipal Bonds	Bloomberg Barclays Municipal Bond Index 7 Years	1.66	1.66	1.86	2.98
Intermediate Corporate Bonds	Bloomberg Barclays U.S. Credit Bond Index	-2.11	-2.11	3.16	3.22
Intermediate Global Bonds	FTSE World Government Bond Index 1-5 Years (hedged to USD)	2.12	2.12	1.58	1.53
US Marketwide Core 1 & 2; Vector	Russell 3000 Index	-5.24	-5.24	8.97	7.91
US Large Cap Market	S&P 500 Index	-4.38	-4.38	9.26	8.49
US Large Cap Value	Russell 1000 Value Index	-8.27	-8.27	6.95	5.95
US Small Cap Market	Russell 2000 Index	-11.01	-11.01	7.36	4.41
US Small Cap Value	Russell 2000 Value Index	-12.86	-12.86	7.37	3.61
Real Estate Investment Trusts	Dow Jones U.S. Select REIT Index	-4.22	-4.22	1.97	7.89
International Marketwide Core & Vector International Large Cap Market	MSCI World ex USA Index (net div.)	-14.09	-14.09	3.11	0.34
International Large Cap Value	MSCI World ex USA Value Index (net div.)	-15.06	-15.06	3.36	-0.73
International Small Cap Market International Small Cap Value	MSCI World ex USA Small Cap Index (net div.)	-18.07	-18.07	3.85	2.25
Emerging Markets	MSCI Emerging Markets Index (net div.)	-14.58	-14.58	9.25	1.65

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