COLBERT INVESTMENT MANAGEMENT

Annual Letter 2019

What a difference a year makes! We began 2019 with stock and bond markets battered from a series of year-end blows. Markets were worried about rising interest rates and slightly slower growth around the world, all of which might lead to an imminent recession. This is what I wrote at the time:

> *While the markets may eventually be right that a recession may happen soon (nobody knows the future), the current economic situation is still positive overall. Many companies are doing much better than their current stock prices are indicating. Over time, stocks tend to reflect the underlying company's actual business performance.*

Although markets had a somewhat bumpy year in 2019, businesses in general, and all our portfolios had a very positive year.

Stock portfolios

We have more than 30 stocks in our stock portfolios which I would love to go into great detail for your benefit, but the resulting letter would resemble a small book, with too much information. I will instead mention a few companies, and in all fairness, some good, some bad. Amongst the top contributors to our stock portfolios' performance were: Charter Communications, Apple, Spectrum Brands, Formula One (with Live Nation Entertainment), and DISH Network. And within the top detractors to our stock portfolios' performance were: TripAdvisor, Qurate Retail, Lions Gate Entertainment, and ViacomCBS.

Readers of our past letters will recognize Charter Communications (please refer to our 2018 and 2019 letters to clients). There had been a vast disconnect between its solid business fundamentals and its low stock price. Charter's intrinsic value exceeded its stock price by a wide margin for several years. Now that the stock has increased substantially in price, the gap between price and intrinsic value has shrunk. Charter is doing extremely well, its business prospects are excellent, the company is repurchasing tons of shares from selling shareholders focused on the short-term, leaving a larger share of a still growing pie to those shareholders (our clients) who remain for the longer term.

Conclusion and Outlook

We entered 2019 with lots of fears about the near future. Stocks and bond prices had just dropped substantially. In the end, the gloomy feelings did not play out as predicted by some pundits. We stood our ground all along, made some adjustments where warranted, and our stock and bond portfolios did well. One could point to several reasons why markets did so well in 2019. But two stand out dramatically: 1) stock and bond prices were low after a dismal year-end to 2018, and 2) much of last year's performance is due to the fact that the U.S. Federal Reserve cut interest rates several times in 2019. Buying at low prices when the Fed cuts rates is usually a magic formula for success.

This combination of factors (low prices and the Fed reducing rates) is now no longer present. Given that the environment is different, my outlook for 2020 is different as well. Most importantly, stock and bond prices are now considerably higher than a year ago. Because we are starting from higher levels in price, my expectations are for much lower, but positive overall, returns for the year ahead.

Thank you for your continued confidence,

Karim Armand
President