RE: **INVESTMENT COMMENTARY FOR PERIOD ENDING DECEMBER 31, 2019**

FROM: **ARGENT CAPITAL MANAGEMENT**

DATE: **JANUARY 16, 2020**

"The two most powerful warriors are patience and time."
- Leo Tolstoy

Wow, what an interesting year. Shall we start with impeachment, the Hong Kong riots, trade disputes with China, tensions with Iran or the general lack of civility among many in the U.S.? In addition, earnings were flat, manufacturing went into decline and the economy slowed. Surely, with all this and more it must have been a tough year for investors. Not hardly. Instead, investors had a laser-focus on the positives, including modest inflation, record low interest rates, the lowest unemployment in over fifty years, strong retail sales to healthy U.S. consumers and a favorable tax and regulatory environment. Those positives propelled nearly all markets higher, led by the S&P 500® Stock Index, which was up over 30 percent, its best year since 2013. Argent portfolios joined in the fun with one of our best years in memory. The good news is we believe the stock market has more room to run.

For the record, while we believe the stock market has more room to run, we don't mean to be *Pollyannish.* We understand that corporate earnings growth has slowed in the U.S., and that some market sectors, such as manufacturing, are more in a recession than recovery. We also worry about the impact on business if tariff relief with China and others fails to progress. Our concerns over policies in the Middle East are growing, not shrinking, and North Korea seems to be regressing (assuming that is possible). However, as we always remind ourselves, when was it never so? To wit, Robert Benchley's comment, "Nothing is more responsible for the 'good old days' than a bad memory."

"They're bred to stare all day."

Investment returns in 2019, as good as they were, need to be kept in perspective. Remember that December, 2018, was the *worst* December since 1931, causing all stock market investors to lose a fair amount in 2018. Thus, the success of 2019 was partly back-filling for those losses. Even after the 2019 surge, the average U.S. company is only trading at around eighteen times projected 2020 earnings – close to fair value in our opinion. Combine that with record low interest rates, the best employment numbers in decades, rising wages and a strong consumer with a propensity to spend and it is not a leap to expect corporate earnings to move even higher. *Thus, valuation and economic fundamentals appear more solid today than they have in some time.*

Argent Capital Management LLC

"The British are leaving, the British are leaving!"

Perhaps what is most frustrating to us is that we feel the markets could be *even better*. Trade agreements, on almost any terms, would provide business leaders a roadmap they could rely on, which would encourage more investment in plant, material and people. In addition, having the President and Congress work together to enact positive legislation on immigration and transportation would be hugely beneficial. We need a growing population to have sustained GDP growth. Similarly, a transportation bill to improve roads, bridges and infrastructure, is one of the few spending measures which we believe leads directly to economic growth.

As we look to the future, the big stories in the U.S. for 2020 will certainly be the impeachment process and the Presidential and Congressional elections. As we have often written, making investment changes on the basis of political events has rarely worked to an investor's advantage. History has repeatedly shown that markets and businesses quickly adapt to a wide variety of changing circumstances. Sure, impeachment hearings will spew venom on both sides and cause much angst, but they seem unlikely to derail investment markets any more than the Clinton hearings did twenty years ago. The election this year, however, just might warrant greater attention, particularly if a significantly higher tax, more stringent regulatory environment seems likely. The main impetus in this country for over 200 years of unprecedented economic growth has been our structural advantages – the consistent application of the rule of law, a generally fair tax burden and a somewhat balanced regulatory environment. Major changes to that model *might* work – but there are huge risks and most stock markets could, it seems, be negatively impacted for some time.

The current bull market is now over ten years old – quite a run – but it has had several hiccups along the way. More hiccups, unquestionably, will happen in 2020, but we believe the positives still outweigh the negatives. Those who can follow Tolstoy's advice to be patient and take a longer-term view should continue to be well-rewarded. Thus, our advice is always to stay the course with stock market investments and keep all eyes on the longer-term horizon.