January 3, 2020

Quarterly Commentary and Opinion

Dear Clients of Kondracki Advisory,

We have achieved very solid returns in 2019. Our composite total return was a **positive 18.20%**, which includes our 70% equity position, cash and U.S. Treasury Notes of approximately 26%, along with gold and platinum positions of approximately 4%. Our equity position returned a **positive 24.46%.** The total returns on the DJIA and S&P 500 were 31.49% and 25.34%, respectively.

As was mentioned in our last Commentary, there is increased risk in today's stock market and caution is warranted, particularly for those investors who ignore expensive equity valuations, decreased dividend yields, historically high corporate and consumer debt levels, potential inflationary pressures, global unrest, the real possibility of anti-trust actions against a handful of the largest surveillance-based social media and ad-tech companies, political outcomes, and the potential for slowing U.S. and global economic growth. In addition, the stock market now trades at a valuation that is **153% greater than that of the entire United States GDP**, and is more expensive by this measure than markets were just prior to the "tech-wreck" beginning in March of 2000 and the Financial Crisis of 2008 - two very difficult periods for most equity investors - that saw markets decline by nearly 50%. I believe the decision to remain more defensive is the correct one.

Our balanced approach to achieving a reasonable return and protecting against the downside has been successful and should allow us to continue to participate in much of the upside of the stock market, while better protecting against the downside should markets become more difficult. Since the inception of the firm in October of 2012, our conservative approach to equity investing has achieved its stated objective of growing and protecting our wealth as safely and effectively as possible. Importantly, our average annual composite return of **10.10%**, since inception, has been achieved with one half the volatility of the market.

Investment performance is most appropriately measured through **full market cycles**. Most likely, we will all be investing, retiring, drawing income and paying taxes in challenging market conditions. Investing is a life-long proposition and it is important to be prepared.

The Companies in which we are invested: MoneyMorality™

Our world is full of many excellent investment opportunities. We live in a country where we can own shares of the great companies from which we buy goods and services every day. The truly valuable companies have a long-term track record of creating value for their shareholders while providing a significant, quantifiable benefit to society. They create good jobs, provide necessary products and services, innovate and improve our way of life. A moral company's job is not just "to make money," but to create financial **and** societal wealth. They concern themselves very much with how the money is made and the effect that their actions have on investors and non-investors alike.

As investors and advisers, the stock market provides us with many investment opportunities, but it is up to us to decide which companies are appropriate long-term investments, both financially and morally. At Kondracki Advisory, LLC, we utilize a rigorous financial and moral screening process to make our company selections. We will not invest in any company whose business or financial practices we find objectionable. Monopolistic and anti-competitive business practices are, in our opinion, morally objectionable. Over the past ten years, markets have become increasingly concentrated and have disproportionately rewarded a number of companies that rely on monopolistic, surveillance-based business models. Since the inception of our firm, we have avoided investments in these types of companies – at a cost to our investment returns. Society and its governments now seem to have recognized the negative aspects of these businesses. Fundamental changes to business models and practices, which could include anti-trust action, could restore a competitive landscape that will benefit consumers, businesses and the economy.

In the nearer term, share prices of the affected companies could come under significant financial pressure, but a less concentrated market that distributes profits more broadly (through increased competition), should lead to a wealth effect that benefits a far greater percentage of society, and should lead to more sustainable long-term growth.

The great news is there are many wonderful investment opportunities in companies that are trying to do the right thing by their shareholders and society, every day. Through our rigorous financial and moral screening process, these are the companies that we always try to own.

We had quite a number of **standout performers** in 2019, including, **Apple**, **Cummins**, **Procter & Gamble**, **Nestle**, **Union Pacific**, **Walmart** and **Intel**, with total returns of **89%**, **45%**, **41%**, **37%**, **34%**, **34%** and **32%**, respectively. During the fourth quarter we also added a new equity position in **Cisco Systems**.

All **22 companies** in which we are invested are performing very well in their respective industries. They are generating high returns on invested capital, strong earnings and dividend growth, significant revenue growth, notable market share gains, tremendous cash and free cash flow, and have low debt to capital ratios relative to industry averages and to their peers. Importantly, our equity position has a current **dividend yield of 2.95%**, which is **50% greater** than that of the S&P 500.

Markets and the economic and political environment do not always operate in a smooth fashion. It is important to be prepared for more challenging markets. Our careful company and sector selection, along with our increased U.S. Treasury Notes and cash position can achieve outstanding investment results during such periods. In fact, it is usually during periods of heightened uncertainty and volatility where the truly valuable, time-tested companies and investment approaches, shine brightest and demonstrate their considerable worth. I believe that our all-weather investment approach is especially timely right now. Challenging markets are the true test of a portfolio and investment approach, and the best long term returns are usually realized not by achieving the highest return in up markets, but by holding onto gains, and losing less in down markets.

Sincerely,

Chris Kondracki, Principal and Portfolio Manager

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