MIDWEST TRUST

PERSPECTIVES

First Quarter 2018

Look for Lessons

By Bill Koehler, CFA

In late 2016, I had an opportunity to visit with Jamaal Wilkes, a player on UCLA's 1972 and 1973 national championship basketball teams coached by the legendary John Wooden. Jamaal, whose nickname was "Silk" for his smooth style of play, ultimately went on to be a member of four NBA championship teams and enshrined in the Basketball Hall of Fame in 2012. Now 64, he is a successful businessman in California. I asked him what lessons from Coach Wooden he most thinks about today. With a warm smile and without hesitation, he said that in his younger days it was, "Make each day your masterpiece." However, he said that as he has gotten older, the one that he most reflects on is, "It's what you learn after you know it all that counts the most."

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The lessons imparted by Coach Wooden decades ago are still being recalled and utilized by Jamaal today. To him, the quote above means staying humble and never thinking that you have it all figured out, even if you have had a run of recent success. Additionally, it means always try to keep learning by looking for the lessons in past experiences, actions and events.

Similarly, we believe there are lessons from 2017's capital market actions that can be identified, reflected upon and used in the future to further strengthen investment programs and client results.

Predictions Defied

As 2017 concluded, the S&P 500 returned nearly 22% (and added an additional 2.5% in the first week of January 2018). The results defied the predictions of virtually all pundits and market observers. For example, in late 2016 many observers thought the incoming presidential administration would be disastrous for the stock market and that a nasty bear market in bonds was imminent. Markets, which often do what they do to humiliate the greatest number of people, promptly went the opposite way. In fact, domestic stocks never had a down month in 2017. International stocks were even stronger than domestic stocks, rising over 25%. Bonds were also positive for the year with the Bloomberg Barclay's Aggregate Index, a broad measure of the U.S. bond market, up 3.54%.

Investor Lessons

Our entire line-up of investment strategies generated extremely competitive results for our clients during 2017. However, that year has passed and while those results will remain part of the investment record forever, we must prepare for future challenges. Our broad and deep 20+ member investment staff met the first week of the New Year and developed the following list of 17 lessons we took away from 2017. Our intention as seasoned investment professionals is to calmly and purposely draw upon these lessons to continue to improve our processes over time.

- Maintain a long term focus
- Focus on what we can control
- Trust in what we know to be true
- Don't let day to day price movements alter what we know about the companies and markets or our confidence in the prior research done
- Balance a sense of urgency with patience
- Continually ask, "Do we own the best companies?"
- Stay disciplined and adhere to the process
- Recognize reversion to the mean is a powerful force

- Keep focused on macro developments in the bond market, not micro
- Add value in fixed income by being opportunistic when spreads widen
- Don't try and time the market
- Sell if you find something better to buy
- Always be looking at long-term processes versus short-term outcomes
- Look ahead for opportunities versus looking back at opportunities that have passed
- Separate political views from investment decisions
- Invest without emotion
- Know what to ignore -- markets ignored political noise in 2017 and focused more on fundamentals

Look ahead for opportunities versus looking back at opportunities that have passed

Adviser Lessons

Josh Brown from Ritholtz Wealth Management recently authored the article below. Josh, who distinguishes himself on CNBC as one of their more levelheaded contributors, contrasts what he terms "professional" investment advisers with "amateur" investment advisers. His insights are worth considering and certainly highlight the type of professional advice we aspire to consistently deliver to our clients.

Pro-Am
By Joshua M. Brown - January 3, 2018

How do professional advisers start off 2018 vs amateur advisers who think they're pros? I can speak to this from experience, having first been the latter and now surrounded by great examples of the former…

Professionals take this opportunity to manage client expectations, pointing out that 2017's returns were above average (by about triple) and unlikely to represent an average annual return going forward.

Amateurs use the returns of last year to raise more money. "I made you 18% in 2017, let's talk about the assets you're still holding away from me. And maybe some referrals."

Professionals maintain allocations through the start of January, with perhaps some rebalancing.

Amateurs turn over positions, incurring commissions and possibly taxes, and start to talk about the "playbook" for the New Year.

Professionals point to the holdings that didn't keep up with U.S. and global stocks as a teachable moment and a reminder that for strategic asset allocation to work, not everything can be going up at the same time.

Amateurs look for replacements for the holdings that are "disappointing" the clients, switch out managers based on last year's performance and cut down exposure to asset classes that aren't "working."

Professionals look at valuations and trends to discern what is currently occurring in the markets.

Amateurs read "10 Surprises" and CIO Outlook pieces to divine what people are predicting will occur.

Professionals review client financial plans and have uncomfortable but essential conversations with households that are falling short of their stated goals.

Amateurs traffic in "Five Hot Stocks for 2018" and send out three-year return charts for funds they want to add to portfolios.

Professionals talk to clients who are far outpacing their goals about reducing equity exposure.

Amateurs talk to clients about adding new hedging strategies and more alternatives.

Professionals admit they don't know what the New Year will bring, and focus instead on the durability of what they're doing.

Amateurs have year-end price targets and can't-miss sector bets.

Professionals will keep clients focused on the important stuff and get the job done in 2018, come what may.

Amateurs will direct client attention to all the wrong metrics and inevitably fall short, which means more prospecting come 2019.

Smooth Journeys

Investing is a challenging endeavor. It is our mission to make the journey as smooth as possible for our clients. It can be easy for even professionals to be distracted at times by noise. That is why it is imperative to go back to the fundamentals on a regular basis and humbly reflect on the lessons that have been learned in the past. What we invariably find, like Jamaal Wilkes, is that there is great value in focusing on these lessons and continually relearning them, particularly after successes.

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