NORTHSTAR CAPITAL ADVISORS

Plan Well. Invest Well. Live Well.

Annual Letter to our Clients & Friends

January 7, 2022

As we commence the new year, we continue our enduring mission to help you **articulate, plan out, and live your best life** through thoughtful financial planning and diligent investment management. We are profoundly grateful for this opportunity to serve you.

We've divided our annual letter into two parts: (1) a restatement of the timeless principles undergirding our philosophy of advice and (2) a review of the current situation with a studiously non-predictive look at the year ahead.

General Principles

You and I are long-term, goal-focused, plan-driven equity investors. We believe that the key to lifetime success in equity investing is to **act continuously** on a specific, written plan. Likewise, we believe substandard returns and even investment failure proceed inevitably from **reacting** to (let alone trying to anticipate) current economic/market events.

Thank you for your referrals!

Each year roughly one-third of our new clients come as a referral from our existing clients. Due to our specialty of working almost exclusively with retirees (or those close to retirement) our services are not a good fit for everyone. That said, we are always glad to talk with any of your friends or family who have any kind of financial question. Even if we are not a good long-term fit, we will always give them our best advice and do whatever we can to get them introduced to the right specialist.

In addition to having time to answer any questions from your family and friends, we have capacity this year to add about 8 new clients while still delivering massive value to all our existing clients, like you.

On our website, **RetireNorth.com** you can find our 'sleep on it' process that helps potential clients make an educated and informed decision about our firm. This process includes the requirement that before they pay us a dollar in fees or trust us with a penny of their nest egg, they sleep on the decision.

Our sincere thanks for your ongoing support of our firm.

We’re convinced that the economy cannot be consistently forecast, nor the markets consistently timed. Therefore we believe that the only reliable way to capture the full long-term return of equities is to ride out their frequent but historically always temporary declines.

Just in the last four decades or so, the average annual price decline from a peak to a trough in the S&P 500 exceeded 14%. One year in five, the decline has averaged at least twice that. And on two occasions (in 2000-02 and 2007-09), the Index has actually halved. Yet the S&P 500 came into 1980 at 106, and went out of 2021 at 4,766; over those 42 years, its average annual compound rate of total return (that is, with dividends reinvested) was more than 12%.

These data underscore my conviction that the essential challenge to long-term successful equity investing is neither intellectual nor financial, but temperamental: it is how one reacts, **or chooses not to react,** to market declines.

These principles will continue to govern the essentially behavioral nature of my advice to you in the coming year...and beyond.

Current Observations

It would seem to be counterproductive to look at these past 12 months in isolation. They were, rather, the second act of a drama that began early in 2020, the precipitant of which was the greatest global public health crisis in a hundred years.

The world elected to respond to the onset of the pandemic essentially by shutting down the global economy -- placing it, if you will, in a kind of medically induced coma. In this country, we experienced the fastest economic recession ever, and a one-third decline in the S&P 500 in just 33 days.

Congress and the Federal Reserve responded all but immediately with a wave of fiscal and monetary stimulus which was and remains without historical precedent. This point cannot be overstressed: we are in the midst of a fiscal and particularly a monetary experiment which has no direct antecedents. This renders all economic forecasting -- and all investment policy based on such forecasts -- hugely speculative. I infer from this that **if there were ever a time to just put our**

heads down and work our investment and financial plan -- ignoring the noise -- this is surely it.

If 2020 was the year of the virus, 2021 was the year of the vaccines. Vaccination as well as acquired natural immunity are in the ascendancy, regardless of how many more Greek-letter variants are discovered and trumpeted to the skies as the new apocalypse. This fact, it seems to me, is the key to a coherent view of 2022.

In general, I think it most likely that in the coming year (a) the lethality of the virus continues to wane, (b) the world economy continues to reopen, (c) corporate earnings continue to advance, (d) the Federal Reserve begins draining excess liquidity from the banking system, with some resultant increase in interest rates, (e) inflation subsides somewhat, and (f) barring some other exogenous variable -- which we can never really do -- equity values continue to advance, though at something less (and probably a lot less) than the blazing pace at which they've been soaring since the market trough of March 2020.

Please don't mistake this for a forecast. All I said, and now say again, is that these outcomes seem to me more likely than not. I'm fully prepared to be wrong on any or all of the above points; if and when I am, my recommendations to you will be unaffected, since our investment policy is driven entirely by the plan we've made, and not at all by current events.

With that out of the way, allow me to offer a more personal observation. To wit: these have undoubtedly been the two most shocking and terrifying years for investors since the Global Financial Crisis of 2008-09 -- first the outbreak of the pandemic, next the bitterly partisan election, then the pandemic's second major wave, and most recently a 40-year inflation spike. You might not be human if you haven't experienced serious volatility fatigue at some point. I know I have.

But like that earlier episode, what came to matter most was not what the economy or the markets did, but what the investor himself/herself did. If the investor fled the equity market during either crisis -- or, heaven forbid, both -- his/her investment results seem unlikely ever to have recovered. If on the other hand he/she kept acting on a long-term plan rather than reacting to current events, positive outcomes followed. It was ever thus. I expect it always will be.

As always, I welcome your comments, questions and concerns. As always, I can’t predict, but I can plan. And as always, thank you for being my client. It is a privilege to serve you.

Sincerely,

Chris Mullis

Chris Mullis, Ph.D., CDFA®
Financial Planner & Founding Partner