

Sound Investments Inc.

4th Quarter 2019

Summary

DJIA - 28538.4 S&P 500 - 3230.8 Nasdaq - 8972.6

Earnings are projected to decline 2% from a year ago in this quarter. But investors expect a turn around in 2020 ... Why? A turn-around is expected this year thanks to world growth and easing trade tensions. Also, the U.S. dollar is forecasted to fall, which normally lifts commodity prices, which will in turn strongly favor worldwide growth, now estimated to be 3%. (see chart on back of page 2). According to FactSet, earnings are expected to grow 4.6% in the first quarter and 6.4% on the 2nd quarter over last year. An earnings pick up often happens after we go through a slower period, as was the case in 2013 and 2016.

We had a great year but if you look at the return for the last 2 years it's a different story. The S&P 500 went from 2700 on Jan 1st 2018 to 3222 on Dec 31st 2019. This a gain of 522 points or 19.3% (522 divided by 2700) over 2 years. Over one year, this works out to 9.6%.

Year in Review

It doesn't get much better than 2019 with the S&P posting gains in 10 of the last 12 months. The S&P 500 posted one of the highest yearly returns in two decades, up 31% and the Dow was up about 25%. Stocks were less volatile than usual. The S&P 500 largest drop peak-to-valley, was a decline of -7%; historically the index has fallen about -10% about once a year. Foreign markets were up over 18%.

Many investors were on edge for much of the year, worried that every pullback was a sign that the longest bull market in history would come crashing down. There was ample reason for concern with the yield curve inverting, the unresolved trade war with China, the president being impeached, and the technology industry facing greater regulation worldwide.

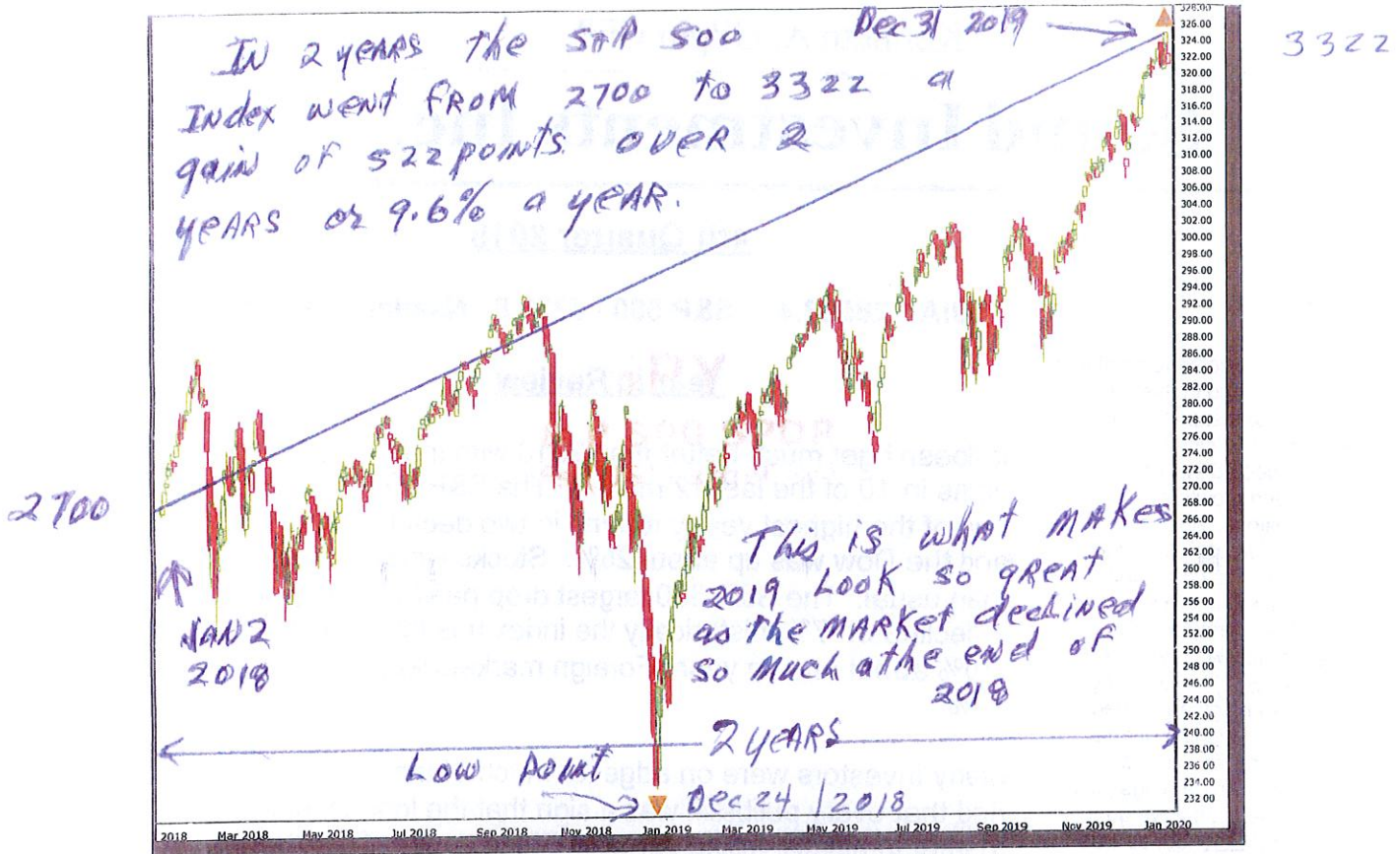
To be sure, we had a great year but if you look at the return for the last 2 years it's a different story. The S&P 500 went from 2700 on Jan 1st 2018 to 3222 on Dec 31st 2019. This a gain of 522 points or 19.3% (522 divided by 2700) over 2 years. Over one year, this works out to 9.6%. (see chart on back of this page)

All Eyes on the Consumer

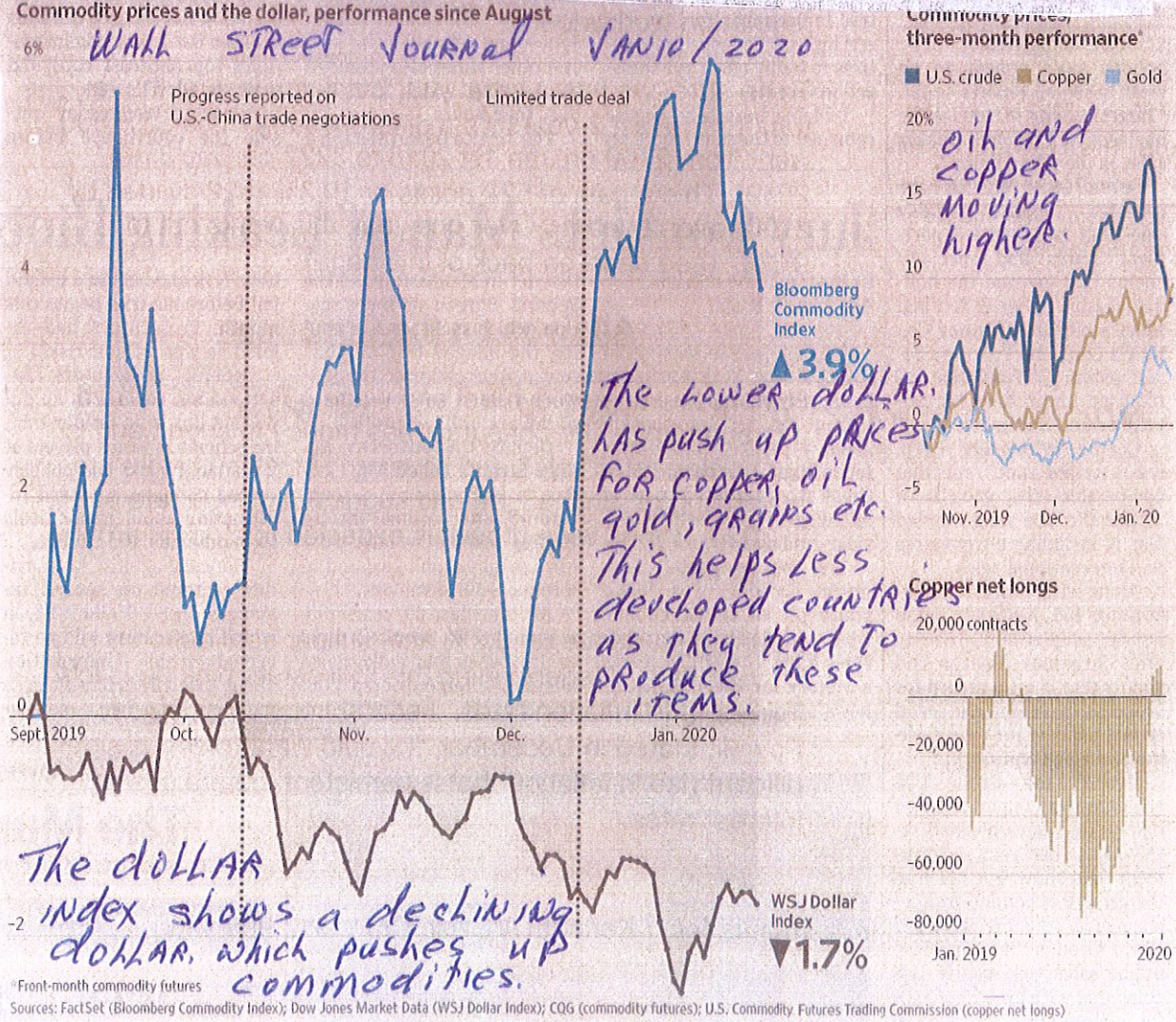
Record low unemployment and wage gains have carried this economy. The consumer has money to spend and is supporting retail sales and housing. Most indicators are advancing or unchanged and suggest a growth rate of 2% in 2020. World wide growth is expected to clock in around 3% in 2020.

Housing starts are up 3.2% and Builder confidence is at a 20 year high. Underpinning this real estate pick up is low interest and inflation rates. Federal reserve chief, Jay Powell, stated in December, "I would want to see a significant rise in inflation that is persistent before raising interest rates."

This investment letter is mailed quarterly to our clients and friends?



Dollar Forecast to Fall and Lift Commodities



Sources: FactSet (Bloomberg Commodity Index); Dow Jones Market Data (WSJ Dollar Index); CQG (commodity futures); U.S. Commodity Futures Trading Commission (copper net longs)

OK Ken, It's Full Speed Ahead, Right?

Not exactly. I follow a number newsletters and here is what they are saying:

- **Charles Akre who manages top performing, Akre Funds (AKRIX)** say Stock Valuations remain high or uncondusive too generating above average long term returns. **It is unusual for this exceptional stock picker but he has 17% in CASH.**
- **Jim Cramer**, who is seen on Squawk Box each morning on MSBC and hosts his Mad Money Show, is also wary of the markets. I subscribe to his service and on a recent member only call. **He advised that was waiting until the market actually comes down to commit capital.** He has been selling off small stock positions but is still 80% invested. Basically, he likes the economy but is looking for a lower price.
- **Abby Joseph Cohen of Goldman Sachs** stated their forecast for the S&P 500 was 3400 and we are now within spitting distance of that now; she thinks by most measures the market is fully valued. **She spends a lot of time thinking about what could go right and what could go wrong and currently thinks a lot more could go wrong.**
- **Todd Ahisten who manages the \$4 billion dollar Parnassus Equity Fund** was to the point. He thought the market was fully priced and it is a year to be more defensive. **He expects more volatility and tepid economic growth**

As if to confirm the above, earnings are projected to decline 2% from a year ago in this quarter. But investors expect a turn around in 2020 ... Why? A turnaround is expected this year thanks to world growth and easing trade tensions. Also, the U.S. dollar is forecasted to fall, which normally lifts commodity prices, which will in turn strongly favor worldwide growth, now estimated to be 3%. (see chart on back of page 2). **According to FactSet, earnings are expect to grow 4.6% in the first quarter and 6.4% on the 2nd quarter over last year.** An earnings pick up often happens after we go through a slower period, as was the case in 2013 and 2016.

None of the above experts are negative on the economy but are concerned about high valuations.

Conclusion

While growth may be slowing, the U.S. economy remains resilient and, as a result, we **remain bullish in our mid- to- long-term outlook on the market.** We are cautious in the near-term, viewing the market as more sellers than buyers. At the moment, as we continue to believe that while many reasons exist for the market to continue going higher, we acknowledge that we are coming off of a very strong 2019 and a broader pullback would not be out of the question.

Please see attached a Morningstar report on the T. Rowe Price Capital Appreciation Fund (PRWCX) which has more than kept up with the market averages with less risk or volatility.

T. Rowe Price Capital Appreciation

Benchmark 1: Morningstar Mod Tgt Risk TR USD
Benchmark 2: Morningstar Mod Tgt Risk TR USD

Morningstar Analyst Rating 11-05-19



Morningstar Pillars

Process	High
Performance	—
People	High
Parent	High
Price	—

Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

Gold Silver Bronze Neutral Negative

Pillar Spectrum

Low Below Average Average Above Average High

Performance 12-31-19

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2015	3.21	0.48	-2.77	4.54	5.42
2016	2.04	3.09	2.73	0.15	8.22
2017	5.35	3.62	2.66	2.95	15.38
2018	0.42	2.11	4.72	-6.31	0.62
2019	11.91	4.92	0.58	5.52	24.61

Trailing	Total	+/- Bmark	+/- Bmark	%Rank	Growth of
	Return%	1	2	Cat	\$10,000
3 Mo	5.52	0.29	0.29	32	10,552
6 Mo	6.13	-0.07	-0.07	48	10,613
1 Yr	24.61	5.58	5.58	3	12,461
3 Yr Avg	13.10	3.97	3.96	2	14,465
5 Yr Avg	10.54	3.79	3.79	1	16,503
10 Yr Avg	11.84	4.12	4.12	1	30,621
15 Yr Avg	9.30	2.67	2.68	1	37,975

Tax Analysis	Tax Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	11.01	3	1.85	73
5 Yr (estimated)	8.47	2	1.87	81
10 Yr (estimated)	9.95	1	1.69	88

Potential Capital Gain Exposure: 19% of assets

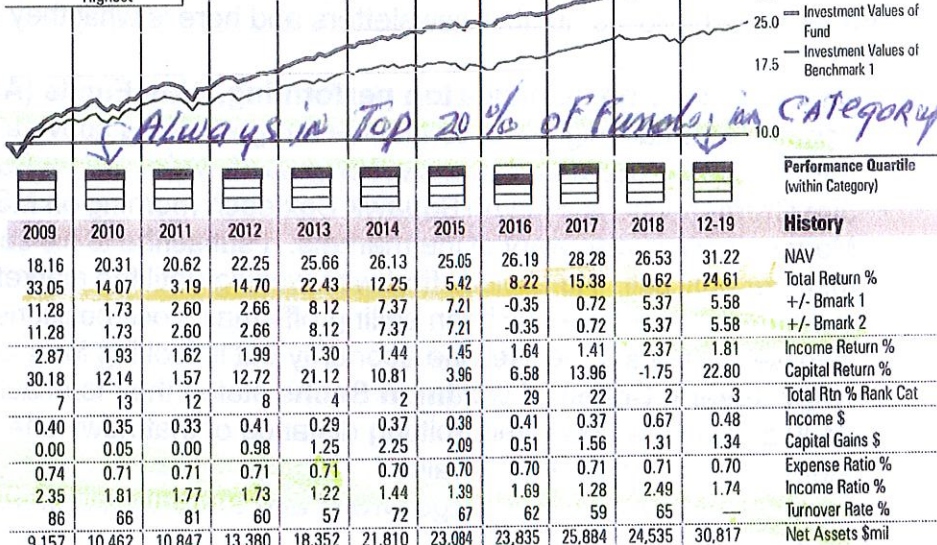
Morningstar's Take by Leo Acheson 11-05-19

A highly talented manager and topnotch process give T. Rowe Price Capital Appreciation an edge. All of its share classes receive a Gold Morningstar Analyst Rating.

David Giroux has led the fund since mid-2006 with incredible skill. He uses an opportunistic and highly disciplined approach, making asset-allocation shifts and picking securities to capitalize on market inefficiencies and overreactions. Equities have ranged from 57% to 72% of assets, with Giroux upping risk after drawdowns, such as those seen in 2008 and 2011, and becoming cautious in the late stages of the economic cycle, as he has recently. He manages the rest of the portfolio, which may include high-yield and investment-grade debt, leveraged loans, convertibles, preferreds, covered calls, and cash, in a similar way.

Giroux's execution sets the fund apart. He stays a step ahead of the market, acting on opportunities before most competitors. In 2018, perceived risks and market complacency led him to buy Treasuries for the first time in five years and add heavily to utilities. Both beat all other bond and equity sectors, respectively,

Historical Profile
Return High
Risk Average
Rating ★★★★★
Highest



Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	24.61	High	Avg	★★★★★
3 Yr	13.10	High	Avg	★★★★★
5 Yr	10.54	High	Avg	★★★★★
10 Yr	11.84	High	Avg	★★★★★
Incept	11.41	5 STARS FOR 10 YEARS		
Other Measures		Standard Index	Best Fit Index	
Alpha		3.3	3.3	
Beta		1.05	0.94	
R-Squared		91	92	
Standard Deviation		7.47		
Mean		13.10		
Sharpe Ratio		1.46		










Portfolio Analysis 09-30-19

Total Stocks: 38	Share change since 06-30-19	Sector	YTD Ret %	% Assets
④ T. Rowe Price Gov. Reserv		Technology	57.12	14.74
④ Microsoft Corp		Hlth Care	49.50	4.00
④ Danaher Corp		Industri	57.34	3.13
④ Fiserv Inc		Industri	50.07	3.05
④ General Electric Co		Finan Svcs	41.88	3.00
④ Marsh & McLennan Company		Hlth Care	23.97	2.94
④ PerkinElmer Inc		Finan Svcs	43.21	2.80
④ Visa Inc Class A		Hlth Care	22.08	2.47
④ Becton, Dickinson and Co				

Total Fixed Income: 159	Date of Maturity	Amount 000	Value \$000	% Assets
-------------------------	------------------	------------	-------------	----------

Equity Style	Style: Growth	Size: Large-Cap	Fixed-Income Style	Duration: Limited	Quality: Low
--------------	---------------	-----------------	--------------------	-------------------	--------------

Value Measures	Rel Category	Avg Eff Duration ¹	2.7	
Price/Earnings	23.76	1.38	Avg Eff Maturity	6.3 Yrs
Price/Book	4.07	1.61	Avg Credit Quality	BB
Price/Sales	3.26	1.80	Avg Wtd Coupon	5.12%
Price/Cash Flow	17.32	2.04	¹ figure provided by fund as of 09-30-19	

Dividend Yield %	1.23	0.51	Sector	% of	Re	
Growth Measures	%	Rel Category	Weightings	Stocks	Bmark	
Long-Term Erngs	11.83	1.27	 Cyclical	23.85	0.59	
Book Value	-0.85	0.38	 BasicMat	0.46	0.10	
Sales	2.04	0.96	 CnsmrCyc	7.02	0.72	
Cash Flow	5.41	0.70	 FinanSvcs	15.41	0.87	
Historical Erngs	13.00	1.04	 Real Est	0.96	0.12	
Market Cap %						
Giant	36.4	Small	0.0	 Sensitive	41.83	1.13
Large	53.3	Micro	0.0	 CommSvcs	0.00	0.00
Mid	10.3	Avg	76,096	 Energy	0.41	0.08
	\$mil:		 Industrl	16.35	1.44	

Composition - Net

● Cash	14.9	→ Defensive	34.33	1.49
● Stocks	56.8	■ CnsmrDef	1.36	0.17
● Bonds	23.0	■ Hlthcare	19.79	1.76
● Other	5.3	■ Utilities	13.18	3.43
Foreign (% of Stock)	1.7			

Address:	T. Rowe Price Capital Appreciation Fund Baltimore MD 21202 800-638-5660	Minimum Purchase:	\$2500	Add: \$100	IRA: \$1000
Web Address:	www.troweprice.com	Min Auto Inv Plan:	—	Add: \$100	
Inception:	06-30-86	Sales Fees:	No-load		
Advisor:	T. Rowe Price Associates, Inc.	Management Fee:	0.30%, 0.15%A		
Subadvisor:	None	Actual Fees:	Mgt: 0.59% Dist: —		
		Expense Projections:	3Yr: \$229 5Yr: \$400 10Yr: \$894		
		Income Distribution:	Annually		