

• Firm Update by Jim Steffen, CFP®, President



2020 has a nice ring to it. Maybe because it has been 101 years since the first two digits matched the last two. As easy as 2020 rolls off the tongue, I just can't get my mind around the fact that we are 20 years (or 20%) into this century! Do you remember where you were on December 31st, 1999? Getting ready to party like it's 1999, perhaps?! I vividly remember that night. Lauren was 25 days old and Lisa and I were brand new parents. We decided we

would bundle Lauren up in her car seat and make a quick appearance at a New Year's Eve party a few blocks away. We introduced Lauren to some friends and were home by 9...not quite what Prince had in mind! That night was also significant because of something called "Y2K." Of course, it wasn't long after the strike of midnight that it became clear that all the fears associated with the turn of the century were for naught.

As investors, we were enjoying huge market gains resulting from speculation about the new internet age. Little did we know that three months later the dot com bubble would become the dot com bust. And a few months later, Lisa, Lauren and I moved from Robbinsdale to our current home in Ramsey. Good timing? Probably not as the next three years in the stock market were sharply negative. Regrets? No way! Had we not made the move, surely Trott Brook Financial would not exist today and the friends and clients we've developed over the last 20 years would look very different.

The following year was 9/11 and the beginning of the war on terror that continues today. 2002 brought us our son, Tommy, and the founding of Trott Brook Financial above our garage in the backyard. Good timing? Not really! Just a short five years later the financial crisis began leading to the Great Recession and collapse of the stock and real estate markets. Oh, and in the middle of that crisis, I decided to move the business out of the garage and into real office space in Ramsey. Good timing? Terrible. When the dust settled, the stock market had fallen 50% (for the second time) in the decade. And as Ted points out in his article, the 00's ended with negative performance. One of the few times in history that a rolling 10-year period ended with a return in the red.

As challenging as the first decade was, the next decade was the opposite with strong returns and market tailwinds all the way to the present day as Ted goes on to explain. It's amazing to think how our lives have changed over the last 20 years. I ran across a poll of the 10 best things of the last 20 years: internet, smartphones, online banking, online shopping, wifi, Google, digital cameras, text messaging, email and flat screen TVs. All technology! More amazing than technology is the growth of our family and our business. Lauren is now 20 (plus 1 month) and is flying back to Virginia to start her 2nd semester of sophomore year. Trott Brook counts 192 households as part of our Trott Brook family. Thank you for your trust and confidence through the ups and downs of the past two decades. I can't imagine what I'll be writing about in the 2040 Newsletter!

• Commentary by Ted Erhart, CFP®, Chief Investment Officer



The end of 2019 caps one of the most robust decades in stock market history. The Dow Jones Industrial Average opened in 2010 at a level of 10,428. It closed out 2019 at 28,538. When you include dividends, the Dow has comfortably increased in excess of three times. Will this trajectory continue? To answer the question, one needs to consider the factors underlying the tremendous run.

First, the last decade began just nine months after the markets bottomed amidst the wreckage of the financial crisis. From the peak in October 2007, to the bottom in 2009, stock prices dropped by roughly 50%. Although the recovery began in March of 2009, stocks prices were still quite depressed beginning in 2010. If you're measuring investment performance, it always helps to begin at a low level.

Think about how that contrasts to the previous ten-year period beginning in 2000. That period had the misfortune of starting just as the dot-com bubble was beginning to burst. Marking off this high point surely contributed to the dismal returns experienced from 2000-2009 when stock prices were negative. The Dow ended the year 1999 at 11,497. A decade later it closed at 10,428. Ouch!

Once again, we're starting a new decade with the major indices essentially at their peaks. Fortunately, stocks prices, as measured by traditional metrics such as price to earnings or price to sales, don't appear as rich as they were in the year 2000. But they are a long way from cheap, as was the case in 2009. That said, marking the current 10-year period off the 12/31/2019 levels will certainly make generating comparable returns difficult.

Another factor that has provided a massive tailwind to the markets since the financial crisis is the proliferation of major technology companies, some of which didn't even exist 20 years ago. A handful of these were coined the "FANG" stocks in recent years: Facebook, Amazon, Netflix and Google. We shouldn't forget about others including Apple, Microsoft, Salesforce and even Tesla. I would love to see a study highlighting how much market value the top 10 or 20 companies alone created over the 2010s. It is well into the trillions (Amazon, Apple, Google and Microsoft are all worth about \$1 trillion each).

Other major tailwinds during the last decade included rock bottom interest rates, money printing via the Federal Reserve and massive deficit spending by the US government. These huge sources of stimulus collectively created some of the most ideal conditions for stock and real estate investing in history.

All that said, investors must be cautious extrapolating the most recent period into the next. With interest rates already very low, and deficit spending already very high, it seems likely that the traditional tools for economic stimulus will be less effective going forward. This doesn't mean returns will be dismal, but if I had to make a prediction, I would bet the next 10 years will be tougher.

The good news is the United States remains the most innovative country in the world. Think about the list of companies a few paragraphs above. There simply is no other nation that comes close to creating the volume of great businesses. Even if we enter a period of more challenging economic conditions, our world leading innovative and entrepreneurial spirit will remain a great tailwind over the long haul.

UPCOMING EVENTS...

State of the Markets

Tuesday, February 4th at 7:30am

Fountains of Ramsey

Contact Nikki at 763.213.1000 to reserve your spot



Jim & Lisa Steffen

Summer turns to fall quickly at the Steffen house. We flew Lauren back to Liberty University in Virginia on August 15th to start her sophomore year. We shed a few tears, but it was much easier than the freshman year goodbye! She continues to enjoy college life and made the Dean's list for the first semester. Tommy is a junior and played soccer in the fall and now he's into the basketball season. Legacy is 11-1 and there are already whispers that they could be a state qualifying team! We made our annual trip to Chamberlain, South Dakota for the pheasant hunting opening weekend. Dakota, our 11-year-old lab, found plenty of birds for us. Tommy is starting to consider his college options. All he knows for sure is he is leaving Minnesota in search of warmer weather! Jim found his warm weather in Mazatlán in October and enjoyed four days of bass fishing. They grow big fish south of the border! The theme of warm weather continues in Arizona where we sold the investment property we had owned for five years and bought a new one. The twist is the new property happens to be a Bed & Breakfast and we've decided that rather than shut it down, we would continue to operate the business. Since October 15th, we (mostly Lisa) have been busy cleaning, remodeling, and getting ready for our grand opening this month. Lisa has the place looking amazing and we are excited for this new adventure. If you are looking for a winter getaway and need a place to stay, check out www.fullcircleranchaz.com. 2020 is sure to be a busy year!



Ted Erhart

The second half of 2019 was mostly consumed with raising young kids while trying to sneak in some personal time. That will surely be a recurring theme for the years to come. My 3-year old daughter is turning into a little person. Lots of running, jumping, singing and yelling. Our newest addition, Julia, is doing well. So far I'd say she's more laid back than her big sister. If only she would sleep through the night! My wife Kelly made it to the big horse show at the state fair grounds at the end of September just before returning to work from maternity leave. We brought the entire family down for a one-night stay in the horse trailer which, shall I say, proved a bit challenging. I did some hunting this fall but it was definitely curtailed relative to the past several years. My focus was much more on some land management projects that I've had underway in Pine County. It's amazing how easily a season can slip by and this one almost did because of the wet weather. Fortunately, in November I was able to take advantage of a dry streak and made some progress toward the wildlife mecca I'm working to build. In December, everyone at home took their turn being sick. I always hear about these episodes from friends and clients; finally, it was my turn! As of this writing, we seem to be clear (at least for now) from colds and the flu at home. On a positive note, I did take advantage of being tied down much of December and knocked out a few books that have been sitting around. Wishing you the best and a healthy 2020!



Nikki Cellette

Happy 2020! I'm very much looking forward to starting a fresh new year. I hope for myself and for everyone it is filled with new adventures, new friendships, health and happiness. In October, a friend and I escaped to the beautiful Florida Keys for a much-needed girls' vacation! It's amazing how the ocean views, sunshine and palm trees can take away so much stress and rejuvenate your spirit. One of the days we took a quick drive from Marathon to Key West to check a few things off my bucket list. I absolutely love water so a dolphin tour on a catamaran followed by snorkeling was the perfect day! If ever visiting Key West, I would also recommend renting a golf cart as your transportation. Golf carts are legal to drive on all roads and so much fun! This year Brooklyn is on the Elk River U12A hockey team. We are so proud of her, yet the season has been very challenging as getting a "W" has been few and far between. It's unfortunate but with the love of the game and having awesome teammates she's been able to learn the life lesson of losing in stride. Zach is busy working and saving money in hopes of someday purchasing rental property. He has taught me a new appreciation for all those that choose a profession working outside in these frigid temperatures. They all deserve raises! He's such a hard, dedicated worker that I hope his dreams will become his reality. George recently accepted a position as Operations Manager with a new company after being with his last employer for 12 years. He has been working extremely long hours so we are hopeful that we can both sneak away this winter or early spring to find some sunshine and much needed R & R. So excited for what's next for him in his career! Stay warm!

A more balanced approach