

January 5, 2024

Dear clients and friends,

Well, *that* was interesting. During 2023, the total return of the S&P 500 index was 26.3%, the MSCI All-Country World Index (ex-US) advanced 16.2% as measured in US dollars, and the Bloomberg US Aggregate bond index advanced 5.5%. While these results are welcomed, they are also surprising considering significant headwinds at home and abroad. Examples include restrictive monetary policy and the prospect of a resultant recession, war on multiple fronts, and massive sovereign debt and deficits. Of course, there is more to the story. Without seven large- and mega-cap technology stocks that represented nearly 30% of the S&P 500 index at year-end, “the market” would have produced a single-digit annual return. And, during 2023 the bond market recovered only somewhat from 2022 – its worst year in history. These observations may be high quality material for cocktail party chit chat, but a one-year lookback at broad market indices does not inform our investment process.

In our investment work, we ask ourselves, “WWCD?” That is, “What would Charlie do?” Charlie Munger, who died in November at the age of 99, was Warren Buffett’s acerbic sidekick – and, arguably the person who deserves more credit than he received for the meteoric rise of Berkshire Hathaway. In the parlance of the investment bankers he reviled, Charlie’s wit and wisdom had few *comparables*. Prior to meeting each other, Buffett focused his sites on investing in cheap assets, irrespective of quality or lack thereof. Munger convinced Buffett to adopt a new mantra: “A great business at a fair price is superior to a fair business at a great price.” This simple statement serves as the foundation of our philosophy at Sapphire and when applied successfully, is expected to produce superior investment results while mitigating the risk of permanent loss.

We also ask “WWCD?” as we grow our business. “Choose clients as you would friends,” Munger advised. Soon after its founding in 2021, Sapphire was hired to manage investment portfolios for friends and family members who knew us well – we joke that some of them “didn’t have a choice!” Since then, Sapphire has welcomed new clients that have selected us despite the myriad of competing options. You might wonder, “Why? The answer lies in several key factors: fiduciary duty, dedication to investment research and results, exceptional responsiveness, and our evident love for the work we do. Our clients benefit from our care and our loyalty. Friends and family know that these traits are in our nature, and new clients take comfort in the fact that, as a fiduciary, we have a legal obligation to act in



their best interests. Free from bureaucracy that is commonly found at larger institutions, we have more time to work on what matters to our clients. With respect to investment management, it is the results that matter. We keep it simple. Anticipated cash flows, risk management, and tax considerations inform portfolio construction. Competitive advantages, quality, expected growth, and valuation inform security selection. While our approach is not immune to the vagaries of “the markets,” we believe that our clients’ portfolios will benefit from the eighth wonder of the world – compounding.

Please contact Sapphire at any time if you would like to discuss your portfolio or to learn more about how we can be of service to you, friends, and family.

Respectfully,

A handwritten signature in black ink that reads "Paul Stropkay". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Paul Stropkay, CFA

Sources

- J.P. Morgan Asset Management *Guide to the Markets*® U.S. 1Q 2024 as of December 31, 2023

Disclosures

Past performance is no guarantee of future results. No guarantees are implied. The views in this letter are intended to assist investors in understanding the firm’s present investment methodology and do not constitute investment advice. For more information including additional disclosures, please visit our website.

Advisory services are offered through Sapphire Fiduciary Advisors, LLC (Sapphire), a registered investment adviser.

Investment advisor representatives of Sapphire offer advisory services through Sapphire and not through affiliation with any bank. Products and services offered by Sapphire:

are not insured by the FDIC;
are not deposits or other obligations of a bank and are not guaranteed by a bank; and,
are subject to investment risks, including possible loss of principal.