



O'KEEFE STEVENS  
ADVISORY, INC.

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# The Value Connection

Our mission is to be responsible stewards of our clients' financial lives.

## The Lessons of an Instructive Year

By Justin Stevens & Peter O'Keefe

Once in a very great while, there comes a year in the economy and the markets that may serve as a tutorial. Two thousand twenty was such a year. Investors received a master class in the principles of successful long-term, goal-focused investing.

On December 31, 2019, the Standard & Poor's 500-Stock index closed at 3,230.78. This past New Year's Eve, it closed at 3,756.07. With reinvested dividends, the total return of the S&P 500 was about 18.40%.

From these bare facts, you might infer that the equity market had, in 2020, quite a good year. As indeed it did. What should be so instructive to the long-term investor is **how it got there**.

The market reached its new all-time high on February 19, 2020. News of the greatest public health crisis began to stir in late February. And, over the next five weeks, the market declined by roughly a third. The Federal Reserve and Congress responded with massive intervention. The economy learned to work around the lockdowns. By mid-August, the S&P 500 regained its February high. The rebound was consistent across the equity markets in the United States. Smaller companies and the industries hit hardest by the pandemic surged in November.

The lifetime lesson here: **At their most dramatic turning points, the economy can't be forecast, and you cannot time the market.** Having a long-term plan and sticking to it is what worked. Acting as opposed to reacting, once again demonstrated its enduring value. This is your and our investment policy in a nutshell.

Two corollary lessons are worth noting in this regard. (1) The velocity and trajectory of the market recovery mirrored the violence of the February/March decline. (2) The market went into new high ground, even as the pandemic and its economic devastations were still raging. Both outcomes were consistent with historical norms. Although it was gut-wrenching, staying invested proved to be the best course of action. Investors who tried to "wait for the pullback" once the market recovery began got left behind. And those waiting for the economic recovery are still waiting. These timing strategies turned out to be formulas for significant underperformance, again.

The American economy continues to prove its fundamental resilience. The leading companies of America made necessary adjustments and resumed their advance. All three major stock indexes achieved new highs. Even cash dividends appear on track to exceed those paid in 2019, which was the previous record year.

The development of at least two vaccines received approval in record time. A massive distribution effort is being rolled out as you read this newsletter. The most vulnerable segments of the population could get the vaccines by spring. Everyone who wants the vaccine will have it by the end of the year, if not sooner.

The second great life lesson of this year had to do with the presidential election cycle. To say that it was the most hyper-partisan in living memory wouldn't adequately express it. The devotees of both candidates believed this election was pivotal for American democracy. If elected/reelected the opponent would spell the end for democracy in the United States.

This hyper-partisan uncertainty struck the nerves of many investors. Those who exited the market in anticipation of the election got thoroughly (and almost immediately) skunked. November marked one of the largest monthly rallies of our investing career. The enduring historical lesson: never get your politics mixed up with your investment policy.

Still, as we look ahead to 2021, there remains far more than enough uncertainty to go around. Is it possible that the economic recovery is now discounted in soaring stock prices? Might the coming year be a lackluster or even a declining year for the markets, even as earnings surge?

Yes, of course, it's possible. Now, how do long-term, goal-focused, investors make investment policy out of that possibility? Our answer: we don't, because we can't. Our strategy maintains the same steadfast principles from a year ago – and will a year from now.

The Federal Reserve is ready to hold interest rates near current levels for as long as two or three more years. In the meantime, further stimulus is being issued to keep the economy moving forward. These actions will surely have long-term implications for investors and savers.

As investors, it is hard to see how we can pursue our long-term goals with fixed-income investments. Equities provide us with a more rational approach. Stocks of great companies provide long-term growth of capital. And, they provide long-term growth of dividends. We must tune out "volatility." We act; we do not react. This was the most effective approach to the ups and downs of 2020. We believe it always will be.

We look forward to discussing this further with you in our annual review session. Until then, we thank you for being our clients. It is a privilege to serve you.

## Upcoming Events

Find our list of upcoming events below. Please email Carly Flanigan at [carly@okeefestevens.com](mailto:carly@okeefestevens.com) to register for these events.

### **How to Figure Out How Much You Need to Retire**

Wednesday, January 27<sup>th</sup> at 12:00 PM ET

Monday, February 22<sup>nd</sup> at 4:00 PM ET

Thursday, March 18<sup>th</sup> at 4:00 PM ET

### **O'Keefe Stevens Advisory Value Conversation Quarterly Call**

Wednesday, April 14<sup>th</sup> at 4:00 PM ET

# The State of O’Keefe Stevens Advisory

Each year, dozens of clients ask, “How are we doing as a business?” We are starting a new State of O’Keefe Stevens Advisory piece to address these questions. Each year, we’ll share an update about the business in the first quarter newsletter. Our company is healthy and growing in 2021. This piece should give you an idea of what that looks like, from our perspective.

## 2020 Recap

We started the year with strong momentum from 2019. Our client base and assets managed was the highest it had ever been at the beginning of the year, at \$185m. The early part of 2020 saw climbing markets through mid-February. And then we saw a sharp decline in the markets in late-February through March. The sudden bear market rattled many investors. It provided us with an incredible opportunity. We examined our positions to ensure economic viability. We took action for clients who maintain cash reserves by adding to their investments. Some retirees even pulled from their cash reserves to invest in the downturn. And, we encouraged you to stay the course with consistent communication and updates. In retrospect, this proactivity proved to be well-timed and almost immediately profitable.

The stimulus package proved to be a catalyst for a swift recovery in the market. The hardest-hit industries and companies were slower to regain their losses. These included some companies we own in the Real Estate and Energy sectors. Over 500 public companies filed for bankruptcy protection in 2020. The O’Keefe Stevens portfolio experienced no bankruptcies. (Our position in Loew’s had an investment in Diamond Offshore, which filed for bankruptcy). Our upfront work in selecting companies with strong balance sheets prevailed. We saw excellent capital allocation at the management level of our companies. This mirrored our proactive decision to make attractive investments in tough times. The managers we entrust with your hard-earned savings took action at the exact right time.

Our retribution for the steadfast holding of our portfolio holdings came in November. Small, mid-sized, and deep-discount holdings surged in price following the election. Whoever would have thought that would have happened? Many of these companies’ prices have continued to improve in 2021.

Our team ended the year with another new high-water mark for assets under our care, at \$192m. We did part ways with some clients during the year. Today, we maintain fewer client relationships at the end of 2020 than we did at the beginning of the year. Unfortunately, times of crisis don’t serve the impatient. It was painful to see some great relationships end. But, we are proud of the work we did. Our approach will provide outstanding returns in the long run. The opportunity today is to focus our attention on clients who have bought into our process. Those of you who “get-it” know that our approach is conservative. The rewards of sound planning and investing is a lifetime of growing wealth and income. Our process is a real-life application of Aesop’s fable: the tortoise and the hare.

One major accomplishment in 2020 was the decision to hire Adam Deutsch on April 1st, 2020. You might be thinking, “the timing could have been better.” In fact, we benefited by bringing Adam on during the trying times of April. We’re proud that our organization grew its headcount during the economic shutdown. Adam completed more than half his Certified Financial Planning curriculum in 2020. He plans to sit for the exam in mid-2021. Adam started working with our existing clients to help increase our service level. We plan for Adam to continue with this work and start to forge new relationships in 2021.

## 2021 Plan

We are ready for another exciting year, but in a different way from 2020. Our team’s business plan has four key objectives. Our thought is to share these “Rocks” with you, to let you know the main goals and objectives we have for 2021.

## The State of O'Keefe Stevens Advisory Continued

(1) Client Engagement is the main priority for all members of our team this year. These newsletters and our quarterly calls supplement our review meetings. If you're utilizing these resources, there's a good chance you have a clear idea of what we're doing and why. One goal is to improve the readership of the newsletter and attendance of the quarterly call. We're thinking of some new ways to incentivize the use of these important resources. We will also start offering quicker and shorter videos via email. We know a 30-second video can get a lot more attention in this age of quick information. We are going to experiment and any feedback or suggestions is greatly appreciated.

(2) The next goal is to continue the success of Adam, our Associate Financial Advisor. As explained earlier, Adam is a fantastic addition to our team. He's an integral part of our organization's future growth. Hiring Adam allowed us to plan the template for onboarding new team members. We intend to help Adam build his skillset and reputation as a knowledgeable advisor. Adam is already on his way and 2021 will offer him plenty of opportunity for career expansion. We are confident that Adam's success story will help us to replicate this hiring process.

(3) Adding a Research Analyst to our team is another rock for 2021. Peter's primary function for our organization is the Chief Investment Officer. Over many years, Peter and Justin have worked hard to document our Investment Process. We're putting together the necessary systems to hire and train supporting analysts. These analysts will aid in Peter's research process. This addition to our team will increase our ability to explore new investments.

It will also provide continuity and succession for our organization. Peter plans to work for many more years. This is an early step in our plan to assemble the talent needed to replace his important role.

(4) Mentorship and Leadership Development is our final rock for the year. As we grow, we intend to expand our education, mindsets, and skillsets. Each member of our team has a learning plan and mentorship goal in 2021. Adam will continue his CFP® training and earn this designation. His close work with Justin will continue to develop him as a Financial Advisor. Carly is pursuing the CSCP (Certified Securities Compliance Professional) designation through the St. Thomas School of Law. Marissa joined the New York Women's Leadership Organization to develop her skills and network. Marissa is now our Chief Operating Officer and has expanded roles in HR and management. Justin will start his Master of Business Administration this fall. He is competing in the Simon Games at the University of Rochester. This competition offers the winner a full scholarship to the Executive MBA program. And Peter continues his pursuit of lifelong learning. Peter's curriculum includes reading and re-reading books in the field of investing. Peter is also developing as a person through coursework in mindfulness and meditation.

This reflection helps us to realize how fortunate we are as individuals and as a business. We have our health. We have great relationships. We have strong finances. And, we have optimism and gratitude. Our team is thankful for your continued partnership and support. We look forward to serving as your personal financial advisors in 2021 and beyond. Thank you.

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Please be advised that our disclosure document, Form ADV, is available upon request. As a reminder, always let us know if your investment objectives have changed.

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