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O'KEEFE STEVENS
ADVISORY, INC.

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The Value Connection

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

OSA Annual Letter

Happy New Year! We hope this publication finds you off to a fresh start in 2019. If you are embarking into the new year with resolutions, we wish you the best! If we can help further your goals, please let us know. If you're still hoping to set some goals, we're also happy to help! Charting a course for your success is what we're all about and while that typically manifests in a financial format, we're happy to be a sounding board in other areas of your life.

As you know, the primary purpose of these newsletters is to keep you informed about our process and philosophy. A secondary intent is to provide you with timely observations, so you know our perspective about the events happening in the world around us. With those objectives in mind, we present you with the following:

Part One: General Principles

It is always worth restating our overall philosophy of investment advice. We are first and foremost, goal-focused and planning-driven, as opposed to an approach that is market-focused and current-events-driven. We've studied dozens of the most successful investors of all-time and have the benefit of working with countless retirees who have succeeded at accomplishing their lifetime goals. The common denominators ring loud and clear: those investors who stick to their approach and those retirees who are acting continuously on a plan are the most successful. Failed investors, in our experience, get that way by reacting to current events in the economy and the markets.

While it may seem counterintuitive, we neither forecast the economy, nor attempt to time the markets or predict which market sectors will "outperform" others over the next block of time. We gravitate to the areas of the market where we can see quantifiable disparities in price and value. These gaps might continue for an extended period, which enables us to continue purchasing securities at discount prices. Our patience and intimate familiarity with our investments is what allows us to stay the course. And, our insistence on planning versus prognosticating is what makes our working relationship with our clients work over the years.

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OSA Annual Letter Continued

When our clients have a plan in place – and have funded it with what have historically been the most appropriate types of investments – we hardly ever recommend changing the portfolio strategy so long as your long-term goals haven't changed. As a general statement, we've found that the more often investors change their portfolios (in response to the market fears or fads of the moment), the worse their long-term results.

To summarize, our principles of portfolio management are fourfold. (1) The performance of a portfolio relative to a benchmark is largely irrelevant to long-term financial success. (2) The only benchmark we should care about is the one that indicates whether you are on track to accomplish your financial goals. (3) Risk should be measured as the probability that you won't achieve your goals. (4) Investing should have the exclusive objective of minimizing that risk.

Part Two: Current Observations

2018 was perhaps one of the strangest years we've experienced in a long time. More importantly, it was one of the truly great years in the history of the American economy, and by far the best one since the Global Financial Crisis of 10 years past. Paradoxically, it was also a year in which the equity market could not get out of its own way.

It is almost impossible to cite all the major metrics of the economy which blazed ahead in 2018. Worker productivity, which is the key to long-run economic growth and a higher standard of living, surged. Wage growth accelerated in response to a rapidly falling unemployment rate. Household net worth rose about $100 trillion for the first time, yet household debt relative to net worth remained historically low. Finally, for the first time in American history, the number of open job listings exceeded the number of people seeking employment. By way of all these metrics, 2018 truly was a remarkable year!

Earnings of the S&P 500 companies, paced by robust GDP growth and significant corporate tax reform, leaped upward by more than 20%. Cash dividends set a record, as did share repurchases. These increases are important components to the long-term objectives we set forth for your retirement income. Dividend increases are the fuel to your lifestyle-sustaining income stream. Share repurchases create a dynamic where the distribution of the future earnings of the businesses are allocated to us in greater amounts (i.e. greater returns on investment).

Despite these good events in 2018, the equity market had other things on its mind. Having gone straight up without a correcting throughout 2017, the S&P 500 came roaring into 2018 at 2,674 – probably somewhat ahead of itself, as it seemed to be discounting the entire future effect of corporate tax cuts in one gulp. There ensued in February a 10% correction, followed by several months of consolidation. The advance resumed during the summer months, with the Index reaching a new all-time high of 2,931 in late September. It then gave way to a second correction during the fourth quarter, with volatility that lasted straight through the very end of the year.

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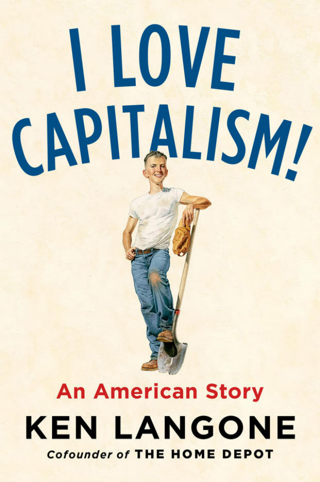
The major economic and market unknown as we enter 2019 remains trade policy, which in the larger sense is an inquiry into the mind of the President. I think it fair to say, as the economist Scott Grannis recently did, that "Trump has managed to reduce tax and regulatory burdens in impressive fashion, but his tweets and his tariff threats have created unnecessary distractions and unfortunate uncertainties, not to mention higher prices for an array of imported consumer goods."

These and other uncertainties – perhaps chief among them Fed Policy and an aging expansion – were weighing heavily on investor psychology as the year ended. For whatever it may be worth, our experience is that negative investor sentiment – and the resulting equity price weakness – have usually presented the patient, disciplined, long-term, value investor with enhanced opportunity. As the wise and witty Sage of Omaha wrote in his 1994 shareholder letter, "Fear is the foe of the faddist, but the friend of the fundamentalist."

We invite you and encourage you to raise any questions prompted by this brief summary. That's what we're here for. We wish you the best in 2019.

Book Review: "I Love Capitalism"



"Optimism is the only realism" is a phrase that's resonated with me since the beginning of my career. I credit those words to Nick Murray, who also deserves the credit for bringing this outstanding autobiography to our attention in his monthly newsletter to financial advisors.

The story of Ken Langone is your quintessential American rags to riches tale. It's told by Langone himself, and all throughout the book I found myself day dreaming about how amazing it would be to have dinner with this guy. He's mastered the art of telling you his story from his humble beginnings on the wrong side of town in Long Island, to his masterful deal working to take his company, The Home Depot, public. And in between those events, he's rubbed elbows with some of the most influential people in the United States.

Ken's story is easy to read, full of historical context, and written in the first person to help the reader identify with his emotions through his experiences. Ken's life has been neither easy nor served to him on a silver platter. He's candid about the amount of help he had in his career to plant the seeds for his success. He's also passionate about returning his gifts to society through massive philanthropic efforts.

Ken passes almost all my "tests" for character traits. I'd love to have him as a mentor. I'd love to have him as a business partner. I'd want to work for him. I'd want him to work for me. He would make a terrific spouse. The only area where he could stand to improve is as a father. And even Ken wishes he would have had more time in this area, although he does not regret pursuing his career dreams.

Langone's message for readers, specifically our younger generations, is that America's best days are still ahead of us. Surely there will be new challenges to face as technology changes jobs and our nation's demographics shift to supporting an aging population. He's right on the money in our opinion.

Notice to Clients

Our team will be attending TD Ameritrade's LINC 2019 Conference in San Diego, California from Tuesday, February 5th to Friday, February 8th. We will be back in the office on Monday, February 11th. We have our phone system set up so that you can leave any member of the team a voicemail. We will be checking voicemails and emails frequently and will get back to you right away. Our team will have the ability to process any distributions or requests you may have during that time.

We look forward to this opportunity to interact and learn from our custodial partner, TD Ameritrade. The conference continually provides us with ideas on how to better serve our clients and incorporate new technology into our service. If you have any questions, please contact our team.

Save the Date!

O'Keefe Stevens Advisory Value Conversation Quarterly Investor Call

When: Wednesday, March 6th at 4:00 PM ET

Details on how to join the call will be emailed to you at a later date.

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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.