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In my travels around the country this year, meeting with clients and advisors, I've been struck by the high level of political passion (both optimistic and pessimistic), similar to what we see both in the political arena and in the media. Inevitably, I'm asked what I think about it all. "Who do you think would make the better president?" My answer usually disappoints: "It doesn't matter what I think." And I really mean that. In fact, it's to your advantage that I and our investment thinkers suppress our political views as much as possible. Why is that? Simply because we don't get to manage investments in the world we wish we had, we only get to manage investments in the world we have.

Investors who get caught up in the euphoria of the world they *wish* they had, or who become depressed by the world they *dread*, often make poor decisions in the world that *is*. The 18th century Scottish philosopher David Hume described this dichotomy as the "is-ought problem." People regularly discuss both current events and future events in a prescriptive way (that is, saying what ought to happen), but in their minds they understand their words to be descriptive (that is, they think they're saying the way things really are). This is an error and the consequences can be great. We try earnestly to avoid thinking about politics in a *prescriptive* way and instead try to be as *descriptive* as we can be. In other words, we are interested in what is, not what ought to be.

How does this work out in practice? In regard to politics, we work hard to understand what politicians and policymakers are actually likely to do if they get power, not what they ought to do. Then we try to accurately analyze what citizens are likely to do when they vote, not what they should do. If we conduct these analyses correctly, we arrive at possible outcomes to which we can assign probabilities. Often those outcomes are not consequential for investments, even if they are of great consequence politically and culturally, but sometimes they can have a very real impact on the economy and investments. Those possible outcomes get our attention.

Bill O'Grady, our chief market strategist, and I often give talks which require analysis of the political situation. As Bill recently said, "I take it as a measure of success if my audience can't determine my political views." I feel the same way, because if our views (what ought to happen) are suppressed, then our analysis (what is) is more likely to be correct.

There is much going on in the world today that can raise our emotional temperature, not just U.S. politics, but instability in the European Union, terrorist attacks worldwide, governmental regimes falling, and economic uncertainty around the world. If our investment decision-makers are "stuck in the mud" of what ought to be done, instead of reaching decisions based on what is actually unfolding, they will make bad choices, which would not be good for you. We work hard to stay on the right side of the is-ought dichotomy.

We appreciate your confidence in us.

Gratefully,

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CEO and Chief Investment Officer

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