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I recently had the opportunity to give a talk to a large group of investment advisors, many of whom were longtime friends. Even though we knew each other well, given the times we're in I felt compelled to begin with a two-part preamble concerning investing that I sometimes give when speaking to people whom I've not previously met.

First: *we don't invest in the world we wish we had, we only get to invest in the world we have*. These days people have such definite ideas about the way the world *should be* as to economics and politics that every thought they have about investing is colored by the same biases. Such thinking is deadly to successful investing. No one invests in the world that *ought* to be, but only in the world that *is*. (See David Hume's *is-ought fallacy*, a common logical flaw.) Rather, figure out what is going on *now* and invest according to the *present*. Neither the utopian ideal nor its dystopian alternative are friends to successful investing *today*.

Second: *successful investors are not forecasters, they are odds-makers*. In other words, they do not *see* the future, but rather they invest according to *probabilities*. So many people who wouldn't dare to believe in fortune-tellers easily believe those who claim to see the future of economics and markets. Economic and stock market forecasters don't claim clairvoyance or dress like Merlin (except when they are granted their Ph.D.s), but many seem happy to have the rest of us believe they have such abilities. In fact, the demand for knowledge of the financial future is so great that there will always be a market for such seers.

Of course, *no one can see the future*. (I shouldn't have to write that.) The best that anyone can do, whether in business or investing (or any other pursuit), is to estimate the probabilities of various outcomes and invest in favor of the highest probable outcomes. That is easier in some professions than others, depending on the degree of regularity and the role of randomness (luck). For example, it's much easier to predict how many Americans will brush their teeth in 2020 than it is to predict whether America will have a recession in 2020.

Unfortunately for us in the investment business, market performance and economics are affected by a high degree of randomness. Don't let anyone tell you differently. Our investment processes are geared to our estimations of the highest probability outcomes, not a prediction of the future. That's an important distinction. Even though we at Confluence may occasionally use words such as "forecast" or "expected return" in our communications, rest assured that we have not gained any special resource for fortune-telling. We are just using the conventions of language.

In his *Divine Comedy*, Dante discovers that fortune-tellers are in the fourth trench of the Eighth Circle of Hell. (By Dante's geography, that's far down there.) Their eternal punishment is to have their heads mounted backwards on their bodies, so that they can only see behind them and thus can only walk backwards. In Dante's Hell, sinners receive as punishment the logical outcomes of their actions. Indeed, it's my experience that those who get lucky with a stock market forecast that turns out to be correct begin thinking they really do have the "skill" to forecast market action. They then become slaves of the past, forever living off past glories and looking for history to repeat itself.

It's our desire to keep our eyes and feet pointed in the same direction.

We appreciate your confidence in us.

Gratefully,

Mark A. Keller, CFA
*CEO and Chief Investment Officer*

*This letter was prepared by Mark Keller of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change. This information does not constitute a solicitation or an offer to buy or sell any security.*