# *It Don't Come Easy-*
# *A Look Back at 2019*

GARCIA HAMILTON & ASSOCIATES, L.P.

My favorite band is The Beatles. The most underrated Beatle is Ringo Starr. Ringo was an excellent drummer and went on to have his own brilliant solo career. When I think of managing money, Ringo's song "It Don't Come Easy" comes to mind.

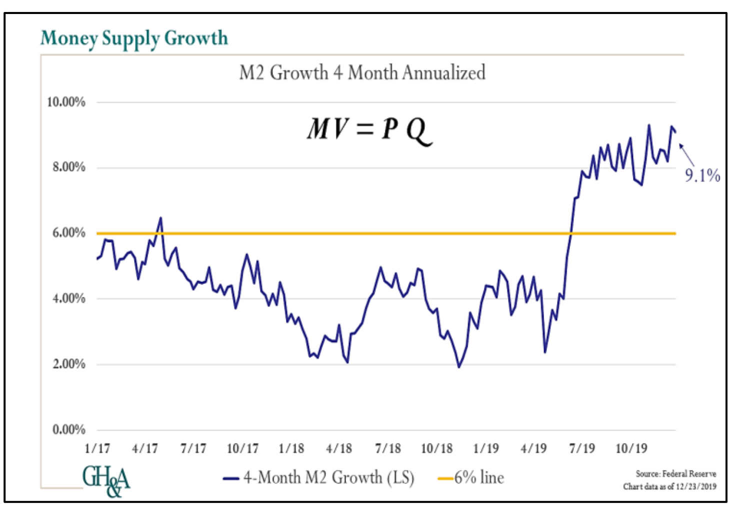
Of course, if it were easy, everybody would do it. And if it just took mathematics and formulas, the perfect black box would have already been invented, just google "Long Term Capital." Managing money is hard because the markets are still made of people with their imperfections, biases and fears, combined with different accounting practices, tax rates and other needs. The key to managing money is to stay disciplined and focused on the fundamentals.

It's hard to stay focused on the fundamentals with CNBC, social media and other general media hype bombarding us with hysteria. It's the hysteria that captures the public's attention. It reminds me of the cab driver talking to me about his tech portfolio during the tech boom. Similarly, my mother-in-law asked me over the holidays if she should be worried about the inverted yield curve. She didn't know what it was but knew the media told her it was bad!

Media hype often facilitates market overreactions. Look at the hype last year around Brexit and trade wars that caused the overreaction in treasury yields. We've been on the wrong side of this overreaction leading to a challenging performance year for us in 2019. We greatly appreciate the patience of our clients and consultants. It was not our first performance challenge and I'm sure it won't be our last as all great teams go through adversities over time.

Treasury yields plummeted in 2019 signaling a severe recession. Normally, recessions lead to lower treasury yields combined with lower stocks/wider spreads. Not last year. Therefore, we see two paths for us in 2020. Either economic growth continues and rates will return near their recent highs; or we enter a recession and stocks/credit will deteriorate, BBB's will lock up and high yield will implode. Either way, we expect strong alpha.

We think the big surprise this year will be a continued economic growth and the Fed reaching its 2% inflation target. Don't be surprised to hear talk of the Fed raising rates by year end. The primary reason is the rapid growth of money supply. See below.




The quantitative theory of money is MV=PQ (money supply times the velocity of money equals prices times economic growth). In the chart to the bottom left, you can see that money supply has been growing well over 6%, historically an inflationary rate, since early 2019. So with the money supply growing so rapidly and the economy already at full employment, higher inflation is inevitable, along with stronger economic growth.

While the importance of money supply in the economy is constant, Wall Street keeps changing. Some of the largest institutions are now run by inexperienced professionals. That brings me to our recent dealings with a large broker. We sold them a callable bond, which they in turn sold to a trillion dollar client, Brand X. Timing is everything and the bond was called. We heard that Brand X forced them to change the price to par after the fact. The Broker then contacted us demanding that we change our price to par, even though the bonds had settled and with no basis to change the price. They claimed that Bloomberg made an error but they were unable to produce any evidence. The amount at stake ($160,000) is insignificant to them. And while it matters to us, we could sustain the hit. But in my 35-year history of trading billions of bonds, I was shocked by their demands, threats and bullying behavior. One senior member of their team cavalierly suggested I just take it out of our clients' accounts.

I wonder what role our being a small, privately held MWBE firm had in their behavior. In a previous letter, I mentioned the dreadful experience we had with a major West Coast consulting firm. Some people thought I was exaggerating until they read the *New York Times* article "This is What Racism Sounds Like in the Banking Industry." https://www.nytimes.com/2019/12/11/business/jpmorgan-banking-racism.html). My partners and I agree to stand up to unfairness and injustice in any form. So we brought a declaratory judgment asking the courts to determine the facts. While it is a type of "litigation lite," we will never be bullied into taking money from clients under any circumstances. For additional information, contact me directly at 713-853-2323.

On an uplifting note, the firm is just under $15 billion in assets. We thank our clients, families and friends for believing in us! We had over 25 interns, donated almost $400 thousand to great causes and received wonderful recognition in 2019. I was appointed to the newly formed SEC Asset Management Advisory Committee and named among *Houston Business Journal's* Top CEOs. The firm was named *P & I Magazine's* Best Places to Work, our fourth year in a row, and *Emerging Manager Monthly's* Fixed Income Manager of the Year. Stephanie Roberts was elected to the Board of Directors of NASP (National Association of Securities Professionals.) And, Ruby Dang was featured by her alma mater, University of Houston Downtown, both with a feature story and her own billboard (https://news.uhd.edu/hard-work-focus-on-education-keys-to-alumnas-success/)! Lastly, we made two new partners, Don Elsenbrock and Morgan Doyle. They are both six year veterans of the firm with Don serving as our strategist and Morgan playing a senior role in client service. While "It Don't Come Easy," sticking to the fundamentals is always the best way to outperform net-of-fees over time. Here's to an amazing 2020!

*Gilbert Andrew Garcia, CFA*
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*January 6, 2020*

A copy of our Form ADV, Part II is available upon request.
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