Year End Letter December 31, 2019

"The reasonable man adapts himself to the world,
the unreasonable one persists in trying to adapt the world to himself.
Therefore all progress depends on the unreasonable man."

- George Bernard Shaw

What a difference a year can make. I would have never imagined this time last year that 2019 would have produced the best stock returns since 2013. The market as measured by the S&P 500 missed having the best year since 1997 by a mere 20 points or less than 1%. 2019 couldn't have looked any more different than 2018. In 2018, every asset class closed down on the year, except cash.

Stocks around the world closed out one of the best years of the past decade, defying all of the pundits (including me) who began the year expecting the late-stage economy and roaring bull market to be upended by all of the worries we ended last year with. The backdrop was all doom and gloom, as the global economy seemingly was weakening, the Federal Reserve was tightening monetary policy and that in turn would accelerate the slowdown turning the market towards a protracted downturn, versus just a two-month correction.

Now, we close out the year with stock indexes from the U.S. to Europe to Brazil up more than 20%. Considering the decade we just finished, the Wall Street Journal calculates the Dow Jones Industrial average's return was 170% from 2010-2019. This was the fourth best decade in the last 100 years. According to Howard Silverblatt of Standard and Poors, the S&P 500 Index returned over 250% over the decade. S&P data from the time they started tracking it in the 1930's, showed the best decade on record was the 1950's when the market produced 19% average annual returns. It wasn't too long ago that we remember the worst decade of stock performance, the 2000's (2000-2009). Stocks remarkedly fell almost 1% compounded annually, as the decade was bookended by the dot.com tech bubble crash in 2000-2001 and then the financial crisis in 2008.

Considering the fact that I'm finishing my third full decade (1990's, 2000's and 2010's) in the investment business, it's quite enlightening to see the variation of returns over 10-year periods. But never in my 34-year career would I have ever imagined that, conceptually, "money is free" for creditworthy investors. Fixed income investors are accepting negative or very, very low interest rates and don't require having their principal paid back for the foreseeable future. There are over $15 trillion of government bonds worldwide that now trade at negative yields because central banks are buying up financial assets in a futile attempt to produce growth in GDP and other economic activity and get inflation up.

The ultra-low yields globally are sending signals we haven't seen before. Many interpret these signals as proposing that yields are now more affected by sustained demand for long-term government bonds, in part because of demographics and an aging society and deficits. One thing for sure, I think …. is that the ultra-low and negative rates have fueled extra demand for equities. Interest rates are a key input in quantitative, passive "factor" investing strategies who (a machine) picks stocks based on categories such as growth, momentum, quality or value. This year saw another liquidity fueled flow of funds into the growth factor arena. The ultra-low rates have been the rocket fuel for the momentum behind the move up in growth stocks, especially technology (more on this later).

2019 was a very good year for Live Oak Private Wealth, the business. We were privileged to have many new clients join our firm and for the benefit of them especially, I always try and revisit our investment philosophy and write a little about our process in these letters for new readers. Please also see our appendix for additional details about our core beliefs and process.

Our investment philosophy is deeply rooted in a strongly held conservative belief in being very careful with money. We understand the mathematics of compounding and therefore concentrate our decision making around avoiding losses as much as possible. We do that from continued learning and experience we have gained from the study of the world's most accomplished investors, such as Benjamin Graham and Warren Buffett. Graham's key insight and the basis of Buffett's success is that **investing is successful when it's businesslike**. We don't focus on "stocks, bonds or markets"…we look at the businesses these securities represent. Businesslike investing has another important distinction. Most traders and market participants seldom recognize, and typically ignore, the fundamental distinction between price and value. We seek to buy businesses whose value exceeds their price. When we have found suitable securities, we combine them into portfolios. Since there are always factors outside of our control, we try to manage these with some degree of diversification. But, we want to concentrate our capital in a relatively small number of what we believe to be growing and competitively advantaged businesses. These kinds of businesses are rare and are only periodically available for purchase at attractive valuations. With this in mind, we do our best to hold these businesses for the long term, so that our capital may compound as the business grows.

Since our wheelhouse is the public securities market in most part, we deal daily with "the market." We view the public market or exchanges as what they really are….auctions, where money is exchanged for pieces of a business. You don't go to an auction every day and you certainly shouldn't go there if the price of whatever you are considering exchanging cash for isn't to your advantage. The public spends much time talking about "the market." The media (social, print and cable), spews chatter, noise and hype about it daily. All of this stuff about the market is unknowable. Is the market going up or down? What about the impeachment? What about an inverted yield curve? This is the longest bull market in history….yadda, yadda. This is where the distinction between speculation and businesslike investing comes from. Investing, is the craft of the specific and legendary investor John Train, even wrote a book about this titled The Craft of Investing. Therefore, specifically at times, without regards to the level of a market, there can be very good specific intelligent investments to make. We see several presently, even with the U.S. market at an all-time high.

Much of the current market phenomenon centers around the more expensive growth stocks increasing in value while many of the least expensive stocks remain relatively cheaper and more reasonably attractive. As we sit currently, the U.S. market is at an all-time high, yet fewer stocks are contributing to the rally. You may hear about "styles" of stocks that are categorized as either growth or value, and growth stocks outpacing (outperforming) value stocks. We don't spend too much time worrying about style boxes such as these, as we spend much time identifying, researching and hopefully buying extraordinary businesses run by exceptional people with abundant reinvestment opportunities. We look for these great businesses to have copious amounts of excess cash at the end of each year and intelligent uses for that cash for reinvestment. Imagine the concept of "earning money on top of earnings." This is the compounding we speak to. This is how patient investors over the years in companies such as Walmart, TJ Maxx, Southwest Airlines, Starbucks, etc., have made vast fortunes in businesses like these. They continued to compound due to the many opportunities to invest the excess cash flow each year. Many of our portfolio companies have experienced much success as well as holdings such as United Healthcare, CarMax, Apple, Charter Communications and Google have compounded at rates in excess of the public markets.

An experienced and talented money manager I know in Rocky Mount, N.C. asked me recently what I thought of "the market." I replied that it felt a lot like the late 1990s where momentum was very strong. The period from 1997 to 2000 saw growth style stocks outperform value style stocks, like today. There was concentration in a few big tech stocks that powered the indexes, like today. The important distinction between now and then is that the total market is not priced at excessive and dangerous levels as it was in 1999-2000. But, there are some similar dangerous undercurrents we are watching. Consider these statistics: As of September 30, 2019, six businesses – Facebook, Amazon, Netflix, Microsoft, Apple and Google (FANMAG) had a combined capitalization of $4.3 Trillion, representing nearly 14% of the total U.S. market capitalization (according to Research Affiliates). If these six stocks were viewed as a single nation, the country of "FANMAG" would be more valuable than the entire publicly traded markets of the United Kingdom, China, France or Germany. If we were to remove these six stocks from the market's technology sector, we would be left with a sector now "smaller" than either the financial or healthcare sectors. Apple and Microsoft (which we own) combined are worth more than the entire Russell 2000 Index.

We worry that these most dominant companies, 7 of the 10 largest global companies by market cap, all come from just one sector of the market, technology. Interestingly, at the top of the dot.com bubble in 2000, the technology sector was less dominant than it is today. The top technology stocks from 2000 underperformed the S&P 500 over the next decade and two companies disappeared entirely. Many of you probably don't remember a company called Palm. They made the PalmPilot (I had one) which was disrupted out of business by Blackberry who was disrupted out of business by Apple's iPhone. Palm was once more valuable than General Motors. The Live Oak Private Wealth Investment Team is watching the valuations of our large tech stocks very carefully.

Portfolio(s) Discussion and Commentary

Our investment team manages three equity portfolios in addition to our fixed income solutions. Each of these three equity portfolios are unique with different approaches. Please see individual commentary on each at the end of this letter.

- Focused Opportunity
- Select
- International

As the markets rose materially in the fourth quarter, many companies met or exceeded our valuation metrics. We have fairly stringent screens for companies to pass through to remain relevant in our portfolio sleeves. Given the level of the markets and where we feel we are in the economic cycle, as well as the geo-political risks that are still with us….we have combined two of our investment sleeves into one. Equity Income and Select are now one sleeve. Several businesses in these two sleeves were not making it through our price to value filter and from a risk management perspective, we opted to consolidate the 50 or so positions down to 25 by positioning "new" Select in our best risk adjusted businesses. Additionally, we don't want to dilute our research time and efforts by not having the ample resources for our best ideas.

The Live Oak team has been busy during the fourth quarter with other analysis as well. We participated in three "Investor Days" with United Healthcare, Liberty Media and Brookfield Asset Management. After hearing from all levels of management with these companies as well as getting updates and prospects for 2020, we remain very comfortable with these investments.

So we now find ourselves at the dawn of a new year and new decade. Lots of considerations, risks and rewards to contemplate. We had a phenomenal year in 2019. Most all of us find ourselves at a high-water mark with our investment account values. Now is the time to revisit your comprehensive financial plan and asset allocation. It could be an opportune time to rebalance and gain a better position for what may lie ahead. Don't hesitate to reach out to any one of the Live Oak Private Wealth team to schedule a comprehensive financial planning review.

So, what may lie ahead? I have a long list of worries and considerations that our team will be monitoring as we go through the year:

1. A very important political election.
2. Potential effects of tightening liquidity conditions against a backdrop of ever-increasing corporate debt levels.
3. Potential for the economics of the past to result in some wage inflation given the strong U.S. consumer and low levels of unemployment.
4. Continued struggles of "unicorns" accessing the public markets via I.P.O.'s. Private Equity deal making, and venture capital speculation is rampant, fueled by continued low interest rates.
5. Excessive optimism. Most all sources of measuring investors' sentiment are showing extreme optimism (highest in 15 years).
6. Continued cold war of trade globally between the U.S. and China and Brexit with the European Union.
7. My long-standing worry about the markets structure and the risks inherent in quantitative factor investing driven by computers and fueled by the sheer size of ETF's.

I could go on, but I'll stop. I will remind you though that our job is to do the worrying for you and to make as many intelligent investment decisions for you as we can without having a crystal ball. Our job too is to educate you about what we are doing and why. We strive to remind you that one of the most important things you can do to help your chances of success is to take a long-term view. Many times, investors fail to earn the rate of returns the markets produce due to investors letting their emotions (fears) get the best of them and cause them to sell at inopportune times or chase a fad too long.

To continue to be successful creating wealth in the public markets, you have to take a multi-year view. Consider these facts, courtesy of J.P. Morgan…since 1950, the range of stock market returns as measured by the S&P 500 in any given year has been from +47% to -37%. But over any 5-year period the range is +28% to -3%. For any given 20-year period, the range of outcomes contracts still further to +17% to +6%. In short, since 1950, based on J.P. Morgan data, there has never been a 20-year period when investors did not earn at least 6% in the market. Obviously, history can sometimes not repeat, and this historical data is by no means a guarantee of the future, but history has shown that keeping a long-term time horizon pays off.

In conclusion, we had a fantastic year! I want to thank you for your steadfast support of Live Oak Private Wealth. We have worked tirelessly to assemble what we feel is the best team of people, offerings of investment strategies and financial wealth planning. I read several books this quarter but Excellence Wins by Horst Schulze, co-founder of the Ritz Carlton hotel company resonates well where I view Live Oak Private Wealth as we end the year and decade. Horst Schulze's vision for the Ritz Carlton was to strive for the exceptional. He had a vision and he crafted people-focused standards that made the Ritz into what it is. We are trying to create a culture of service modeled after his vision. Under Schulze's leadership, the company committed to the highest standards of professionalism and created systems to achieve them. Our team at Live Oak Private Wealth has made great strides this year refining and executing on our vision of the "best of the best" in the wealth management industry. Our team implemented new systems during the fourth quarter to leverage our service commitment to you. Therefore, our experienced people, skills and innovation is our competitive advantage and we will continue to strive for excellence in all aspects of our relationship.

Thank you for allowing us to innovate and strive to get better every day. We are fortunate to have resources for investment in systems and professional development to get even better serving you. We are grateful and appreciative for your willingness to compensate us for doing something that we love to do and is so meaningful to us all. We are humbled by the opportunity you have given us to protect and grow your family's wealth.

Speaking on behalf of our great team … Missy, Amy, Daniel, Susan, Andy and Connor, we look forward to our continued shared success in this partnership.

With warmest regards,

J. William (Bill) Coleman III

and the Live Oak Private Wealth team

Focused Opportunity Commentary and Thoughts

Our **Focused Opportunity Portfolio** is our signature investment portfolio which carries our highest conviction opportunities. This portfolio has unlimited flexibility to shift among styles and can appear uncomfortably idiosyncratic at times. Bargain investments can usually be found around controversial events on a company, general pessimism or those that have been performing poorly of late. Focused Opportunity invests across the capitalization spectrum and is conviction weighted to our most attractive companies.

In the fourth quarter, the Focused Opportunity Portfolio returned 10.13% (gross) and was up 32% YTD (gross).

*(See disclosure.)

Ten Largest Investments

December 31, 2019

	Year Acquired		Year Acquired
Berkshire Hathaway	1998	United Healthcare	2012
Apple	2011	CarMax	2018
Microsoft	2006	Charter Communications	2007
Bank of America	2013	CVS Health Corp	2018
Google	2008	Abbot Labs	2016

Portfolio Activity: During the fourth quarter, we conducted a tax swap with FedEx and made additions to Dollar Tree.

Performance Attribution

Contributors		Detractors	
United Health Group	+35.00%	Dollar Tree	-17.00%
Apple	+31.00%	CarMax	- 1.00%
HCA Healthcare	+26.00%		
Charles Schwab	+26.00%		
Bank of America	+24.00%		

Focused Opportunity Featured Company:
United Health Group (UNH)

United Health Group is the nation's largest publicly traded managed care company. It operates through two business segments, United Healthcare and Optum. United Health is a diversified healthcare company dedicated to helping people live healthier lives and helping make the health system work better for everyone. From an investor's standpoint, UNH boasts best in class health costs per member, allowing it to price its insurance offerings more attractively to drive above-peer enrollment growth. Their strategy of pursuing scale across multiple healthcare services verticals creates inherent synergies that solidify its competitive position. Strong continued trends should result in $16-$17 per share in earnings in 2020 continuing the trend of solid earnings growth.

Select Portfolio Commentary and Thoughts

Our **Select Portfolio** might be best understood using a sports analogy. Select consists of our "bench players" or our "on deck circle" of companies. These are companies we admire and ones who compliment positions in Focused Opportunity. Select would be considered an all-cap core portfolio that is style agnostic. It invests across the capitalization spectrum yet leans towards growth. Select is also conviction weighted to companies we view have the best price to value relationship.

In the fourth quarter, the Select Portfolio returned 6.99% (gross) and was up 29.04% YTD (gross).

*(See disclosure.)

Ten Largest Investments

December 31, 2019

	Year Acquired		Year Acquired
Google A	2009	Comcast	2004
Fox Corp A	2019	Anthem	2002
Citigroup	1998	Facebook	2019
Lowes Companies	2018	Mohawk Industries	2018
Markel	1998	J.P. Morgan	2009

Portfolio Activity: During the fourth quarter, we performed a deep dive into the appraisals of price to value on all Select and Equity Income positions and consolidated the two sleeves into what we now consider the best of the best.

Performance Attribution

Contributors		Detractors	
Anthem	+27.00%	Boeing	-13.00%
Target	+21.00%	Restaurant Brands	-10.00%
Liberty Sirius XM	+18.00%	American International Group	- 6.00%
Citigroup	+17.00%	Cheniere Energy	- 3.00%
Facebook	+17.00%	Markel	- 2.00%

Select Portfolio Featured Company:

Markel (MKL)

Markel is a financial holding company based in Richmond, Virginia and was formed in 1930 to sell insurance to taxicabs and buses. Today the company underwrites specialty insurance products in a variety of markets around the world. Markel possesses an outstanding investment track record, similar to Berkshire Hathaway. Management, culture, investing acumen and flexibility are all hallmarks of Markel. Markel has compounded book value at 20% since 1980 versus 10% for the S&P 500. Its stock price has compounded at 17% since going pubic 27 years ago. Currently we find its stock price to book value relationship quite attractive.

International Portfolio Commentary and Thoughts

International Portfolio: Our International portfolio is also highly concentrated in what we feel are superior, growing businesses. The portfolio's objective is to expose us as long-term investors to other opportunities worldwide. The mandate allows for unlimited geographical reach and can own any size capitalization business. The majority of the world's growth is outside the U.S. and therefore, we hope to capitalize on that.

In the fourth quarter, the International Portfolio returned 12.75% (gross) and was up 29.29% YTD (gross).

*(See disclosure.)

Ten Largest Investments

September 30, 2019

	Year Acquired		Year Acquired
Nestle	2002	Vivendi	2019
Alibaba	2018	Safran	2018
New Oriental Education	2018	JD.Com	2018
Fiat Chrysler	2018	Ten Cent Holdings	2018
Ferguson	2019	Airbus Group	2018

Portfolio Activity: During the fourth quarter, we initiated a new position: Vivendi and sold Prosus which was spun off from Naspers.

Performance Attribution

Contributors		Detractors	
Alibaba	+28.00%	Safran	- 2.00%
JD.Com	+25.00%		
Baidu	+24.00%		
Ferguson	+22.00%		
Fiat Chrysler	+15.00%		

International Portfolio Featured Company:

Vivendi (VIVHY)

Vivendi is a French conglomerate whose major asset is Universal Music Group. UMG is the largest music label in the world and drives the majority of the earnings of the company and represents the majority of Vivendi's value. Our thesis behind the purchase of Vivendi is somewhat of a sum of the parts story as well as a play on the growth of music streaming. UMG is the major player in the streaming music industry supplying most of the music to the likes of Spotify, Pandora and Apple Music. Growth is robust and Vivendi is monetizing a small piece of UMG and will be buying back shares with the proceeds. We estimate Vivendi is undervalued by 30% or more.

Appendix

Live Oak Private Wealth Investment Philosophy

Three Pillars

We consider potential losses before gains. We think about multiple scenarios that could affect us. We ask how much we might lose before we ask how much we might make.

We focus on absolute returns, not relative returns. Our goal is to lose less than the market. We don't manage to a benchmark.

We do not focus on the macroeconomic environment. We focus on truly great businesses we can invest in at a fair price.

Our Beliefs

We believe your lifetime investment results will be mostly governed by two variables: behavior and asset allocation. We consider the three quotes below by two very famous investors daily in our thoughts, research and work.

"To buy when others are despondently selling and to sell when others are avidly buying, requires the greatest fortitude and pays the greatest reward."
John Templeton

"Be fearful when others are greedy and greedy when others are fearful."
Warren Buffett

"Price is what you pay, value is what you get."
Warren Buffett

Guiding Principles

- A share of stock represents a share in the ownership of a business.
- A stock exchange is nothing more than an auction place that provides a convenient means for exchanging your ownership in a business for cash and vice-versa.
- Our investment approach would be akin to applying a private equity mindset to investing in public markets.
- We limit our search for qualifying investments to good businesses. They have identifiable, sustainable competitive advantages.
- Risks to us is permanently losing capital over a five-year time horizon. Market volatility is not risk to us.
- Our primary return goal is to compound capital at real rates of return (4-5%) in excess of inflation over our five-year time horizon.
- Compounding capital at 7% doubles your assets in 10 years.

Disclosures

1) Past performance is no guarantee of future results and future performance may be higher or lower than the performance shown. The performance results for each equity sleeve are calculated for us by Orion Services and does not reflect investment management fees, custody and other costs or taxes. All of which would be incurred by an investor in any account managed by Live Oak Private Wealth.

2) The performance results for each equity sleeve assumes a full and static investment in the respective sleeve for the periods stated, whereas an account managed by Live Oak Private Wealth may not have a full and static investment in each position and may hold a cash position. A client's actual net performance of their account would most likely be different and generally would be lower.

3) The performance results for each equity sleeve does not and is not intended to indicate past or future performance for any account or investment strategy managed by Live Oak Private Wealth.

4) There can be no assurance that our portfolio management or any account managed by our investment managers will achieve a targeted rate of return or volatility or any other specified parameters. There is no guarantee against loss resulting from an investment.

5) Investment objectives, returns, and volatility are used for measurements and/or comparison purposes only and are only a guideline for prospective investors to evaluate our investment strategy and the accompanying risk/reward ratios.

6) Comparison to any index is for illustrative purposes only. Certain information, including index and benchmark information, has been provided by third-party sources, and although believed to be reliable, has not been independently verified and its accuracy cannot be guaranteed.

7) The information contained here is not complete, may change, and is subject to, and is qualified in its entirety by, the more complete disclosures, risk factors, and other important information contained in Part 2A or 2B of Form ADV. This presentation is for informational purposes only and does not constitute an offer to sell or as a solicitation.

8) Live Oak Private Wealth is a subsidiary of Live Oak Bank. Investment advisory services are offered through LOPW, LLC, an Independent Registered Investment Advisor.

9) Opinion and thoughts expressed are those of Bill Coleman and not Live Oak Bank.