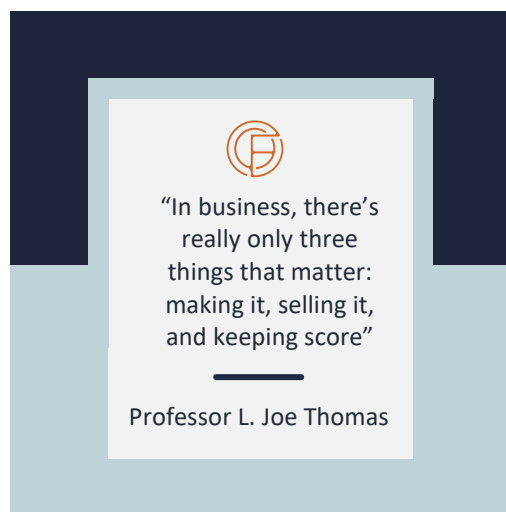

O.F.O. Partners



Keeping Score December 31, 2019

Joe Thomas is a tall, thin Midwesterner. He successfully guided thousands of MBA candidates like me through the bruising parts of financial statistics. At the start of every class, he would glide among us, offering folksy advice to put us at ease. One of Joe's best quips appears above.

Professor Thomas reminds us that we often see a fuller picture when we take a step back. Far too often, our lives are complicated by overthinking.

In this letter we will consider Joe's idea of "keeping score" as a premise for financial reporting for successful families. Our busy clients want clarity. Effective reporting can help clients earn higher investment returns and achieve greater peace of mind.

Part One: Is there daylight among the data?

For successful families, establishing a meaningful reporting process can be challenging. The rise of big data makes some people feel like they are drowning. Canned reports, technology changes, and old habits conspire to thwart improvements in keeping score for most investors.

At O.F.O., we constantly analyze investment research as well as clients' primary records like those listed to the right. It's our mission and passion. Clients should be comfortable navigating such documents too, but many conscientious investors abandon the practice either out of boredom or from the sheer volume of paper. I know a family that rented a post office box just to divert the never-ending flow of bank, brokerage, and financial statements that were coming to their mailbox.



Account Agreements
Custody Statements
Disclaimers
Disclosures
K-1's
Subscription Documents
Tax Returns
Trade Reports

Well, if we are keeping score, are we winning?

Many investors are as competitive as athletes. They follow their investments, not just to see how they are doing, but to see how they measure up to other investors.

Families with significant wealth can get distracted when they evaluate results competitively. First, it's surprisingly easy to choose the wrong opponent. Investment results pegged to a benchmark – often with a confusing series of time periods – are common in most reports. This side-by-side method crowds out alternatives that could be more personally meaningful than just a running score. For example, how have recent developments affected the family's ability to meet future philanthropic plans? How do changes in the portfolio impact the human capital of children who may inherit wealth? Surprisingly few families define and track their success against the real challenges that they encounter every day.

Frustrating Documents



Professor Thomas is a basketball fan

Competitive investors would do well to adopt strategies that give them an edge based on reliable data. Professional basketball provides an example. The three-point shot was introduced to the NBA in 1979. But it took about five years for teams to get to about 2.4 three-point attempts per game. Nowadays, teams average 29 attempts per game. Why take so many threes? Because it's an efficient shot. Vigorous data collection and analysis changed team perceptions and eventually changed the game.

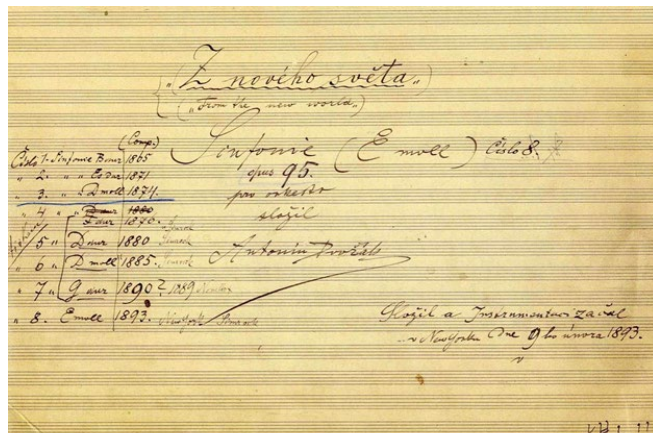
Our research tells us that taxable investors can succeed shooting the three. High-quality indexing is efficient and can add points by lowering costs. Investors can also pick up easy baskets by integrating their income and transfer tax planning. Robust cash-flow analysis will minimize cash drag. It's

possible to win games, and eventually to win championships, by applying information that's relevant and adjusting practices to meet the investor's unique situation.

Going to the symphony

Rather than a box score, an effective financial report can be compared to a musical score. A symphony is a complex performance, but the sheet music describes what the various parts are doing. Sections of instruments can collaborate effectively. Through different movements, members of the audience can follow the piece as it develops through stages.

These days, families with assets above \$500 million often create private family offices so that they can consolidate and coordinate their assets into something like an orchestra. Otherwise family groups forfeit significant time and money when they fail to integrate tax, investment, legal, banking, risk, and real estate reporting. We believe that all clients deserve concise financial summaries that make complex activities easier to understand and manage. This type of score keeping helps families to enhance communication, and improve financial education, from generation to generation.



Title page of the autograph score of Dvorak's ninth symphony



Katrina Wincor of the Dallas Symphony

Symphonies usually have four distinct movements that identify, explore, and resolve distinct themes. Mozart's Symphony No. 40 has been a joy for 230 years. The ability to sustain family wealth through generations depends on a similar system to identify, explore, and resolve financial milestones as a unit. Usually, this includes a combination of technology on the one hand, and relationships with trusted partners on the other. One method is to create periodic reporting reviews that emphasize different aspect of the family's wealth:

liquidity, cash flow, risk, decision-making practices, to name a few. Setting aside meetings for education across generations is often a priority. In this model, investment returns are reviewed regularly but not made the focus each time. Members of the family can mutually reinforce good habits, while addressing shared goals that evolve over time rather than just looking at the most recent results.

Is your wealth governed by informed decisions?

A survey of 124 family offices revealed surprising reporting practices:

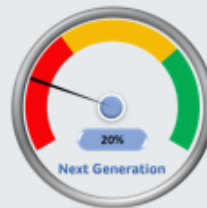
Families that receive a quarterly update



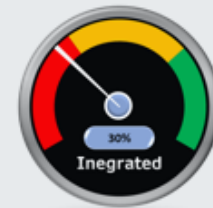
Families receiving a consolidated year-end summary



Custom reporting to the next family generation



Integrated report with tax analysis, goals review, or estate summary,



Source: "Financial Reporting in the Family Office: *Elevating the Conversation*". 2012 Family Office Exchange.

The Payoff

Good reporting has many benefits. With effective practices, family members can communicate with advisors and work together better. A forward-looking process can be more profitable than merely tracking backward-looking results. Risk can be reduced through preparation and regular updates.

In our daily work for clients, the knack for technical details sets us apart. Families hire O.F.O. for our unique expertise in going through the numbers. But we are here to make complex details simple for the benefit of our member families. Like Professor Thomas noted, we want to employ good reporting practices so that our clients can conduct the game – or the symphony – with clarity.

In January, O.F.O. Partners will proudly assemble an annual Family Almanac for our clients. This Almanac is both a repository of vital information and a planning document. It contains a concise but comprehensive plain English guide to your family's entities.

Please let us know if you would like to review a sample copy of the Family Almanac. Best wishes for the start of the new decade,

- Christian Connolly, Ezra Levine, Doug Moon & Karen Sugar



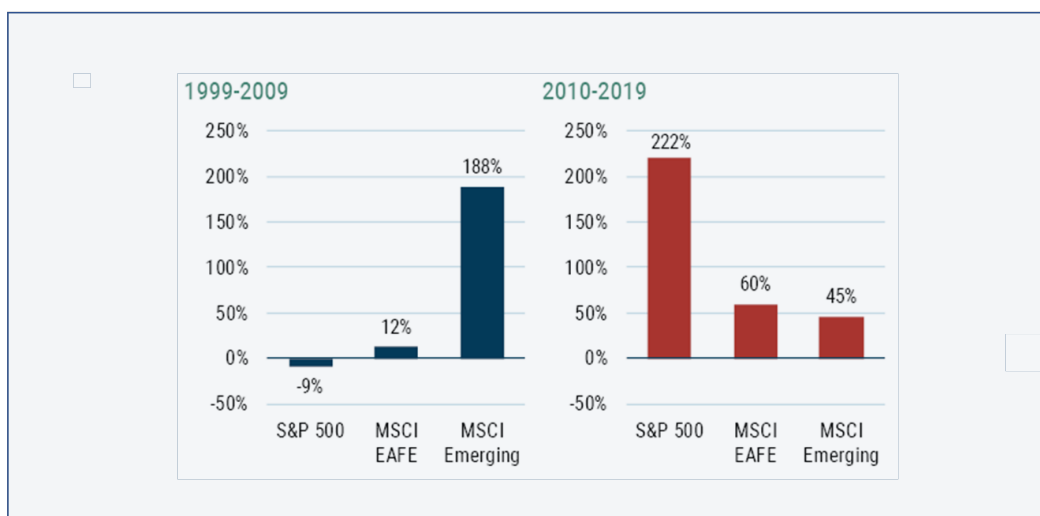
Valuable Reporting

Part Two: The decade behind us and the decade ahead of us

The entire decade of the 2010's was generally favorable to investors – especially those in the U.S. With a rocky start following the Global Financial Crisis, markets of all types were supported by declining interest rates, low inflation, rising corporate profitability, and rising employment.

With our theme of keeping score, it's worth highlighting proven practices to consider at the start of the year. After a quick celebratory “huh-rah” (for past success), take the time to return to your process (for future success). **Rebalancing positions** toward agreed-upon targets is a good start. It's also useful to evaluate **credit conditions and rates** - whether you are a borrower, or an investor in income-producing assets. An assessment of the **new tax rules** may reveal changes that affect you in surprising ways. This is true both for the 2017 Tax Cuts and Jobs Act and the newly passed Secure Act that took effect with December's budget deal. Last, look closely at **changes that have accumulated** slowly during the market's rise. We wrote about this topic in our last quarterly letter (see [Sailing Along, Part One: Ship of Theseus](#)). For now, we will illustrate the point by looking at how different the 2000's were, in comparison to the 2010's, across several equity markets.

Enthusiasm shifts...and will likely shift again



As of 06/30/2019. Source: GMO

Finally, to usher in the new year, we decided to reflect on market-moving changes that emerged during the 2010's that we believe will continue to influence the coming decade. You can find the PDF-version of this piece by [clicking here](#).

Part Three: Now Hear This

Here are a few of the articles and sounds tied to the questions we pondered this quarter.

[Making Decisions with Data. Invest like the Best podcast.](#)

This is an interview with Jeff Ma, the M.I.T. poker player and data analyst made famous in the book “Bringing Down the House”.

[How Measuring the Wrong Thing Drives Immoral Behavior. Coffee & Junk Blog.](#)

Charles Goodheart’s law reminds us that when a measure becomes a target, it ceases to be a good measure.

[Metrics Don’t “Run” Without Targets. The Key Performance Indicator Library.](#)

This short article provides a simple review of effective target-setting.

[The Three-point Boom is Far From Over. The Ringer Sports Blog.](#)

This is an in-depth look at the NBA’s move towards integrating big data into on-court decisions.

[The 2010s – The Decade of the Family/private Investment Office. Family Capital Blog.](#)

Here’s a summary of the growth in influence of family offices during the past decade.

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