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## VIEWS FROM CAMELBACK MOUNTAIN

### *If You Want Equity Returns, You Have to Own Stocks Long-Term*

We have always tried to use our year-end letter to address long-term trends that are likely to impact the economy, country, and investment landscape. The big trend to call out this year is what we've been writing about for most of 2021, and that's inflation. Inflation headlines and articles are likely to permeate the pages and sites of most business reporting outlets the majority of days in 2022. Unfortunately, the Federal Reserve and politicians on both sides have pursued radical, unsustainable monetary and fiscal policy for the bulk of the past 20 years. Most basic laws of economics don't get repealed very often. Sometimes they get delayed due to globalization, a greater mix of technology products, and other factors. Delayed, but not repealed. The Federal Reserve is significantly behind the current economic situation and will gradually be forced to tighten monetary policy and raise interest rates. This, in turn, will impact the economy and investments ranging from interest rate sensitive industries (like home builders) to the everyday budgets of consumers. This is a significant societal problem as folks at the lower end of the economic spectrum incur the greatest damage from inflation. If our average client pays a little more for food or gasoline, it really doesn't matter in most cases. On the other hand, there are many folks in lower paying jobs that simply can't afford to pay more for gasoline to get to work or childcare to enable one or both parents to work outside the home. Our government needs to find a way to help these people who are being ravaged by the inflation caused by foolish policies.

As of late December, everyone here at L. Roy Papp & Associates is healthy and safe. Rose and I have observed numerous times over the last few years that our current team is far and away the best lineup that we've had in our 40+ year history with the firm. We are so very proud of everyone at the firm and their commitment to provide whatever services our clients need as quickly and efficiently as possible. Working with custodians, outside service providers, and other organizations can sometimes be a real hassle, but I hope that you find that the folks at our firm are happy, ready, and able to help navigate these potentially frustrating situations.

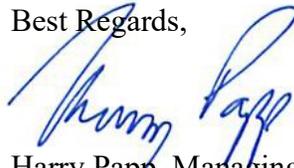
Rose and I are not planning to retire anytime soon. More importantly, our firm has made a decision to stay independent long-term. There are many firms around the country acquiring smaller registered investment advisors, often on attractive terms. Most of the formerly independent firms in the Phoenix area have been sold recently and, in some cases, multiple times. Once a firm sells out, it can be hard for them to maintain dedicated, personalized service and tailor-made portfolios and investment plans for each individual client. Rose and I are in the fortunate position to own the majority of the firm, which allows us to remain independent long-term and eventually have L. Roy Papp & Associates owned by the other investment professionals currently working here. This will give the partners great alignment with the clients, and it should minimize disruptions. Rose and I have arranged for our assets to remain under the control of L. Roy Papp & Associates long after our tenure with the firm.

2021 was another phenomenal year for U.S. stocks in general, with the S&P 500 producing a total return of roughly 29%. After such a strong 2019, we originally expected positive, but muted returns for 2020 and 2021. The markets continue to teach us that it is nearly impossible to predict how stocks will perform in any short-term period, like one year. Roy's long-term saying that *if you want equity returns, you need to be in the market*, has been proven true again.

Looking into 2022, we are coming off of three years of spectacular returns and, as we have mentioned, the Federal Reserve is going to have their hands full over the next several years dealing with inflation, labor shortages, and other challenges. We expect healthy U.S. economic growth during 2022 and relatively good earnings reports for most companies. The economy should be able to withstand the higher interest rates that most everyone already knows are coming. We are particularly confident in the outlook for the companies that our clients and we own. Currently, the market overall is at a high valuation level and the same is true for some of our holdings. Even if market prices have gotten ahead of themselves, most of our companies should be able to produce fairly consistent earnings growth which should allow them to grow into current valuation levels over time. This should help to partially offset any market weakness and volatility that could result from higher interest rates.

All of us at L. Roy Papp & Associates wish you and your loved ones a healthy and prosperous new year. Please let any of us know if there is anything you'd like us to help you with.

Best Regards,



Harry Papp, Managing Partner  
L. Roy Papp & Associates, LLP  
December 31, 2021