1st Qtr. 2019 Investment Counsel Report

Market Summary

In a strong rebound from a negative fourth quarter last year, stocks enjoyed a buoyant turnaround in the first quarter of 2019. S&P 500 stocks rose 13.6%, and the smaller stocks of the Russell 2000 Index rose 14.5% as well. International stocks measured by the EAFE Index lagged these gains, rising 10.1% for the period, a reflection of ongoing economic malaise and unresolved Brexit concerns.

This recovery in stock prices is refreshing, and can largely be attributed to the ongoing strength in corporate profitability that US companies continue to enjoy. Earnings of the S&P 500 companies increased at roughly 19% last year, significantly higher than historical rates of 7-8%. While some of this is due to the favorable (and non-sustainable) tax code revisions, in truth companies are growing and are fundamentally healthy. Investor concern heading into this New Year is geared to estimating and accepting a positive, but reduced rate of earnings growth. Uncertainties regarding foreign trade (China, Europe), Brexit, US budget deficits and rising rates, and political strife are to be weighed against exceptional labor conditions, healthy consumer spending, and historically high operating margins for corporations. In sum, we see a favorable economic climate for companies to operate within.

Our Outlook

Valuation of stocks is an important objective for investors, and it takes myriad forms and approaches. Valuing the hard assets of one company, and perceiving the prospects of another company's technology are among the different exercises that ultimately deliver a market judgement on the value of a company's stock on any given day. While most would agree that on average, and for most of the time, the market gets things right- it is far from perfect and can be out of line for sometimes longer periods than we prefer. Stock prices follow earnings, and while simple and true, there are wide enough chasms between investors to allow for success and failure between discerning investors.

One changing aspect of our markets today is that there are fewer and fewer discerning investors. That is to say, there is a significantly higher number of "passive" stock holders than in years past. Index investing has grown among institutional stock buyers who are primarily concerned with cost and diversification, as opposed to asset pricing and company assessment. Retail investors who are enamored with the ability to quickly buy and sell, and who prefer to focus on "factor" investing are seeking exposure to baskets of stocks with certain traits. ETF investors also are more exposed to short term supply/demand currents because these vehicles are bought and sold to middle men out of inventories, rather than redeeming the actual share interests.

The point is that index membership and ETF participation for stocks is a more important driver of short term valuation than in the past. Given the much higher proportion of capital deployed into the narrow list of stocks in these vehicles, there can be a large effect on a given stock's price in the interim- especially on smaller and less liquid stocks.

Consider the following chart in light of what we perceive is a narrower list of owners in the narrower list of index/ETF included stocks. This chart is showing the difference in P/E levels between the highest quintile of stocks in the S&P 500 and the lowest P/E stocks of the Index. There exists a 25 turn gap between the most expensive stocks and the cheapest, approaching the highest spread since the year 2000. Being an aged and experienced investor, Aurora remembers those heady days and the stratosphere values given to the Internet darlings and other "concept" stocks. We also remember the risk that grew and the severe correction that took place in the following years.

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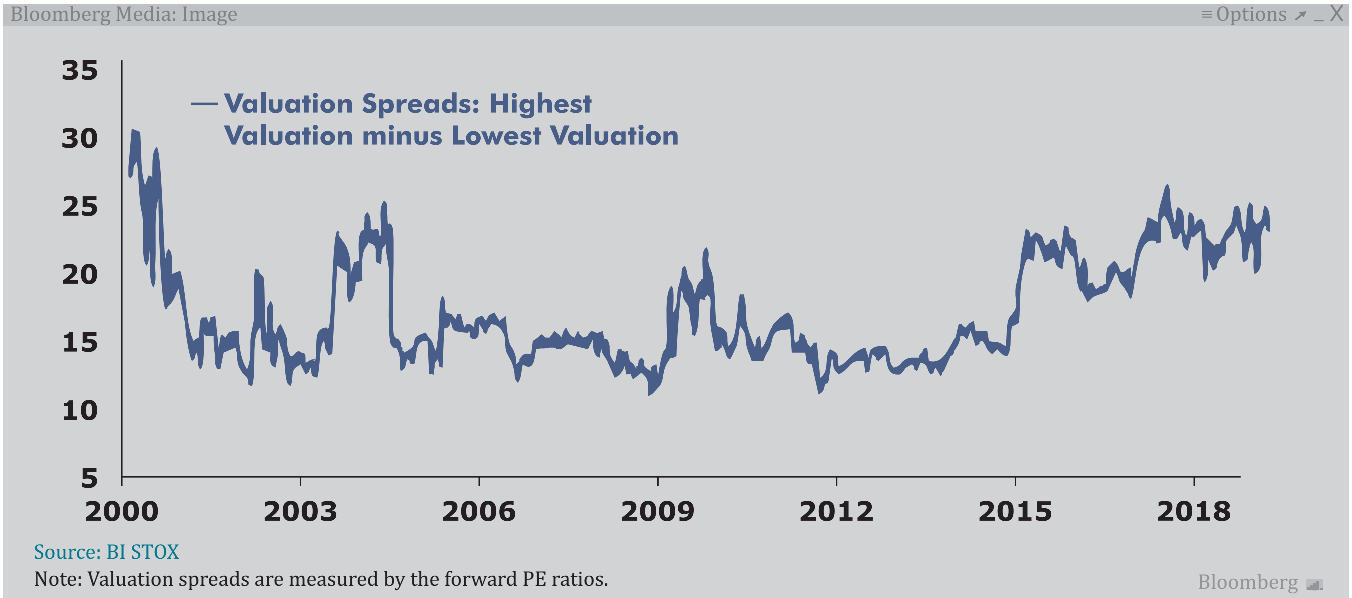

Aurora Approach

Aurora's Growth At a Reasonable Price (GARP) discipline is geared towards prudent wealth accumulation over full market cycles. By design, our idea of pursuing faster growth simultaneously with cheaper valuations leads us away from extremes. We typically don't own the very cheapest stocks because those stocks typically are facing problems and awaiting turnarounds. We also don't own the newest and sometimes highest growth "unicorns", or those that enjoy nosebleed valuations. Aurora's discipline is to focus on proven, tangible earnings and cash flows, and on equity prices that provide some risk reduction and opportunity if given room to improve.

Aurora also actively analyzes and assesses the qualitative components of a company's value. We scrutinize accounting estimates and conventions, we compare Returns on Capital among peers, and consider market share trends and industry competition, among other things. As active investors, we also are more interested in the long term viability of a business model, and are less concerned with index membership or other supply/demand trends for a stock. It is our stance that we are avoiding some short term influences to partner with long term business objectives, and hopefully reducing risk in the interim.

***Source: Bloomberg**

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