



“Around here, I would say that if our predictions have been a little better than other people’s, it’s because we’ve tried to make fewer of them.”

*--Charlie Munger*

Whenever the markets become volatile, suspicions grow that the end of a bull market may be near. History may provide a good example of what might happen when speculation runs rampant in the market – as it has been recently. Looking back at the Tech Bubble that ended in 2000, internet stocks were all the rage. At the time, many internet stocks had little or no earnings, and the environment became so illogical that companies were even being taken public with no revenues or fully vetted business plans. Comparing today to this period, we see that Tech is in favor again as are new creations such as SPACs, crypto currencies, NFTs (non-fungible tokens), and “meme” stocks. The question remains whether any of these new assets have any underlying fundamental value -- but they certainly have plenty of speculative value. Speculative value only pays when you purchase something that someone else (colloquially referred to as the “greater fool”) will pay you more for at a later date. In many areas of investing, speculative value reigns supreme. To paraphrase Warren Buffett, “a rising tide may lift all boats, but it’s only when the tide goes out that you learn who’s been swimming naked.”

Of all the current areas of speculation, the most questions come from those interested in

cryptocurrencies. However, many questions are largely asking for explanations to the unexplainable. While the blockchain technology underlying cryptocurrencies could have many practical uses, the jury is still out on the ability of cryptocurrencies to fully replace established currencies. Given it is not tied to any asset, its value is so far purely speculative rather than fundamentally driven. Whether tulips in Amsterdam or beanie babies in the states, cryptocurrencies values do not yet reach past their ability to generate interest rather than solve an economic solution. Many would argue cryptocurrencies value is purely speculative. Remember, while fortunes were made in prior speculative endeavors, many were lost.

Even in speculative markets, the most important factor in investing remains patience. Patience requires only making a few good decisions and holding them long rather than making many mediocre decisions through frequent trading. Value takes time to be uncovered. When you can purchase shares in a strong company at a good price, there is no reason to sell because the market is ignoring the stock. Eventually, the market will take note and the shares will track the company’s increasing value.

Recently we have seen the signs of shift of market favoritism from higher-multiple growth stocks to lower-multiple value stocks. Tech stocks appear to be coming down from their high valuations as they did in the early 2000's - though not as quickly. If higher levels of inflation and higher interest rates persist, we could expect companies with more reasonable valuations to be in favor. Our thoughts on owning stocks are as they always have been - buy good companies with strong management teams at reasonable prices and wait as the underlying value grows. The best companies will always adapt to changes, whether it be taxes or inflation, and the stock price will eventually move to reflect the value of the business.

If the economy continues its current track, we will continue to have a backdrop that would further reward patience. Fourth quarter 2021 GDP increased at a strong 6.9%. While increases in inventories did boost the reported numbers for growth, the economy continues to grow almost two years in to a pandemic and global supply chains still not operating at full capacity. Consumer demand and business productivity appear to be shrugging off the latest round of lockdowns. Inflation remains on the horizon, but it does not dampen the prospects of all enterprises equally. So far, we have been pleased with many of our holdings' ability to withstand higher inflation and continue generating strong cash flows and higher earnings.

As we begin the new year, we remain mindful yet encouraged for the prospects of the companies we invest in. The market's shifting preference away from the big tech firms and small caps relatively lower

valuations should bode well for the areas of the market where we often search for new opportunities and have found many of our holdings. Undoubtedly challenges remain for investors. Inflation continues, the stock market has not fallen sharply and interest rates have nowhere to go but up. However, equity investments continue to have bright prospects for increasing wealth, generating income and outpacing inflation.