LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"One of the measures of the strength of a mania is the quality of the intellect that succumbs to it."
–Wall Street Maxim

We recently attended the annual conference of the Financial Analysts Federation. The speakers included a number of seasoned investors and strategists with successful long-term records and for whom we have considerable respect. Throughout the conference we were barraged with pessimistic comments from the podium.

Consensus opinion among the participants was that price has become unhinged from value. In fact, Gary Brinson of First Chicago Investment Advisors reminded us that the divergence between price and value is as large today as it has ever been in the post World War II period. Those who find fundamentals such as yield and price to book and earnings important are having difficulty identifying attractively priced securities.

A panel with money managers Dean LeBaron, President of Batterymarch Financial Management; Paul Miller, a Partner of Miller, Anderson & Sherrerd; and John Neff, Managing Partner, Senior Vice President and Director of Wellington Management Company; championed the old style of money management, where one developed a concept that was apart from the consensus and searched out undervalued companies that fit with that view of the world. These respected and successful professionals believe the fundamentals of investing really haven't changed much over time.

Paul Miller provided us with some enduring principles for the money manager. A partial list follows:

1. We remain unable to predict the future.

2. If we cannot forecast the future, we should not pay very much for it.

3. The longer a trend is in existence the more people believe it will continue.

4. Most investors are insecure so they seek company and do what everyone else is doing when they should be exploiting pockets of market inefficiency.

5. There is no such thing as a free lunch—options and portfolio insurance are not without risk and cost.

We have always felt that predicting short-term fluctuations in stock prices, which is beyond our abilities, is wholly unnecessary to a successful investment program. Conversely, historical relationships between earnings, dividend yields, stock prices and subsequent performance are useful in evaluating the risk/reward tradeoff inherent in the market at any given point in time. Presently we agree with those who are expressing caution about this market. However, the fact that many appear to be cautious suggests we have yet to reach the mania stage.

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