LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

No tree grows to the sky
– Old Wall Street Proverb

As a registered investment advisor and portfolio manager we believe we have more responsibilities than just picking good stocks which increase in value over time. A large part of our job is comprised of being a good steward of our clients' financial well-being. This includes the often overlooked responsibility of risk control. Risk may be broadly viewed as the likelihood that one will not meet their financial objectives or goals. It is not just the chance that the market will go up or down or the fluctuation of a portfolio versus that of the market.

Around the office, we like to say that there are two types of investors: those seeking to get rich quick and those looking to preserve wealth. *Make-me-rich* is a strategy that often involves taking outsized risks and has a better chance of either financial ruin or—more hopefully—success. *Hope* may not be the most attractive investment strategy. *Keep-me-wealthy* is an approach that involves applying prudent risk controls to the investment process to protect investments from unexpected events and overconfidence.

We are firm believers that a concentrated investment portfolio of companies which have been thoroughly researched and carefully acquired has the greater potential to generate higher returns with less risk over time than a large number of stocks chosen with little discretion. However, this more concentrated portfolio approach introduces the chance that a single security (or securities) may grow to an overly large percentage of the overall portfolio. No matter how confident we may be in the outlook for a particular company, there comes a point where the risk of being wrong or a random negative event outweighs the potential benefit the oversized position brings. An investor's overall tolerance for risk, portfolio size, and time horizon are all factors that help establish what *too big* a percentage may be, although 10% is a good starting point for consideration.

Selling a great company simply because it has grown to an outsized position in the portfolio may leave some performance on the table. However, this prospect is one we view as the price of prudent risk management. In addition, we have observed that when a holding has grown to an overly large position it is normally due to exceptional outperformance. Except in very rare cases, such overachievement does not continue forever (no tree grows to the sky). Unfortunately, in some cases a tree can come crashing down.

While overall risk management is a broad subject, the specific risk of concentrated positions is one which deserves both attention and discussion—especially when things are going well. Sometimes letting go of a piece of a favorite investment, while difficult, may not only be the prudent action, but one which keeps you from losing all your outsized gains. It also provides funds for the next opportunity.

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