



LAWSON
KROEKER

As we see it

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“One must change one's tactics every ten years if one wishes to maintain one's superiority.”

--Napoleon Bonaparte

Napoleon's words spoken long ago seem particularly apropos to us today. After 10 years in our Regency Parkway location, we are relocating to Aksarben Village. Although our physical location is changing, we remain committed to the same investment principles that have served our clients well over the past 35 years.

Where we work is a relatively insignificant change to spend time talking about, but how we work and its importance in what we do deserves some reflection. The paradox of following the stock market is that the one constant will always be change. In general, analysts spend precious little time today identifying and analyzing the changes that will have far-reaching implications for the investments they make. Too often, investors lose focus amongst the clutter of today's events and those of the recent past and risk failing to undertake the essence of investing – assessing the future. As one analyst recently put it, “successful analysis may be nothing more than the selling of future dreams and illusions.” We do not subscribe to “dreams and illusions,” but we do strongly believe that fundamental analysis must deal with the future as well as with the past. Investing must strive to pinpoint crucial

changes that can significantly alter industry patterns and resultant investor perceptions. In fact, we may invest most successfully when we accurately identify the difference between future reality and current perception, noting that the greater the gap between them, the greater the opportunity.

When looking for investment opportunities, we must ask ourselves what the biggest potential changes are in industries that will significantly alter investor perceptions and review the multitude of factors that might lead to change actually occurring. Corporations that generate unusually high profitability over long periods produce their premium earnings through specialized assets at work in a conducive economic environment. Since it requires time to change the use of specialized assets, a change in the macro environment often produces a long-term change in the profitability of a company. The more specialized a company's assets, the more likely that the company's profitability and growth differ from the average. Whether or not the company has a premium or discount profitability level derives from whether or not the macro-economic environment benefits that set of specialized assets.

Another axiom in the investment world with regard to change is -- *always expect the unexpected*. Its remedy -- *anticipate the unexpected* -- is somewhat a contradiction in terms. Although difficult, an investor must recognize the difference between anticipating change and predicting the future. Anticipation allows for preparation. Prediction is a high-risk endeavor that leads to surprises. Stock markets tend to react to a surprise almost immediately, but less spectacular changes are often met with a lag.

“Those who have knowledge don’t predict. Those who predict don’t have knowledge.”

--Lao Tzu

New ideas can have far-reaching effects on the future. An accurate understanding of that potential often involves discerning the difference between perception and reality. Correctly analyzing the environment that fosters new ideas enables careful observers to forecast its ramifications. As the new ideas begin to show their true colors, they are tested and the results will be apparent for all to observe. As those changes start to manifest themselves the gap between perception and reality narrows.

Although Napoleon thought you needed to change tactics to maintain your superiority -- presumably in the area of war -- we believe no change in tactics is necessary in the

investment field. Rather, a change in approach is likely detrimental to long-term success. A consistent process allows you to identify and recognize the changes that are inevitable and adjust portfolio holdings as circumstances dictate. As Jimmy Dean once said, “I can’t change the direction of the wind, but I can adjust my sails to always reach my destination.”

“The pessimist complains about the wind, the optimist expects it to change, the realist adjusts the sails.”

--William Arthur Ward