



**PORTFOLIO NOTES**

**June 2021**

*To our Business Partners:*

- **INVESTING OR ... WHAT?** We are regular readers of Jason Zweig's Wall Street Journal column "The Intelligent Investor," named after Benjamin Graham's\* book of the same name. The June 11<sup>th</sup> column was titled "You Can't Invest Without Trading. You Can Trade Without Investing." Mr. Zweig finds it troublesome in the media that anyone who buys a stock, for any reason, is called an INVESTOR. He thinks it is important to make a distinction between INVESTORS – who buy at a discount to intrinsic value with the expectation of satisfactory long-term returns; and SPECULATORS – who trade in and out of stocks with no regard to underlying value, for no reason other than to turn quick short-term profits.

Zweig goes on to say that INVESTORS depend on *internal* sources for return: revenue growth, increasing earnings, and rising asset values. SPECULATORS rely on *external* sources for return: stock price momentum, newsworthiness, cocktail-party-scuttlebutt, or sales to some greater fool willing to pay a higher price.

We could not agree more! Knowing the differences is important and likely to have a significant impact on your long-term investment returns. While SPECULATING involves a short-term focus on stock price movements, INVESTING involves a long-term perspective, concentration on business fundamentals such as profitability and financial soundness, extreme patience, and no fear of volatility.

These days, many seemingly safe mutual funds are moving more and more into the SPECULATIVE camp, as average holding periods for stocks have declined substantially, not to mention over-diversifying among the number of stocks held. For example, in 1960, the average holding period for stocks in mutual funds was over *eight years*. In the recent past, the average holding period has shrunk to *less than a year*! This frenetic activity rarely improves long-term investment returns. There are many good examples of successful long-term INVESTORS. On the other hand, we know of few successful long-term SPECULATORS.

\*(A bit of trivia: this past May 9 marked the 127<sup>th</sup> anniversary of Benjamin Graham's birth.)

- **VALUATION.** We sound like the proverbial "broken record" as we continue to note that stocks generally are expensive and will yield unsatisfactory future returns until prices are marked down.
- **RECENT RESULTS.** Stock price movements in May were mixed. The widely-followed S&P 500 rose less than 0.6% while the tech-stock-heavy NASDAQ declined 1.5%. For the first five months of the year, smaller company indexes continue to outpace all others with 18-20% gains versus 7-12% for the big-cap indexes. Likewise, over the last twelve months, smaller company indexes continue to outperform the big three: Dow, S&P, and NASDAQ. Year-over-year gains range from 36-70% off the depressed prices last summer. Our group of widely held stocks\* continues to perform well versus the indexes over all the time periods discussed above.
- **NEW MAILING ADDRESS.** Please note our new business address: 440 Wells Street, Suite 203, Delafield, WI, 53018.

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\*The group of "portfolio stocks" -- our Equity Composite for the purpose of evaluating investment performance -- consists of 18 stocks that are held in our clients' accounts. Portfolios might hold some or all of these stocks, depending on investment guidelines unique to each client, the timing of purchases and sales, and start dates of accounts. The performance of this group of stocks is a good proxy for our equity performance but might vary widely among accounts. Of course, past performance is not necessarily indicative of future results.

We hereby offer to deliver to you without charge a copy of our current Form ADV Part 2, in accordance with the U.S. Securities and Exchange Commission's "Brochure Rule." Please contact us if you would like us to send you a copy.

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