



PORTFOLIO NOTES

SEPTEMBER 2021

To our Business Partners:

- **DOES THIS SEEM RIGHT?"** There are always unusual things going on in the financial markets, which we have seen plenty of over the years. But a recent *Wall Street Journal* article by Andy Kessler, "The Stock Market Fails a Breathalyzer," caught our attention. Here are just a few of his observations:
 - The company Beyond Meat, manufacturer of a plant-based substitute for animal meat which is made with pea protein, is worth more in stock market value than the entire global pea market.
 - Joby Aviation, an electric aerial taxi service which plans to begin service in 2024, has a stock market capitalization larger than established carriers Lufthansa, EasyJet, or JetBlue.
 - Carvana, an online used car sales platform, is remarkably worth more than either Ford or Honda.
 - In June, an Italian artist auctioned an invisible statue – an empty box which he claimed to be a space full of energy – for a whopping \$18,000.

He cites several more examples of price vs. value, new vs. old, but perhaps you get the idea. The fact that interest rates have remained near essentially zero for an extended period has shepherded "investors" toward equities, because TINA – "there is no alternative." It's been a significant factor in producing such bizarre financial relationships between new and seasoned companies.

Like the lack of a moral compass, the financial markets develop an "anything goes" attitude, where valuation and other proven standards of investment no longer seem to matter. Of course, such environments can continue for quite a long time, as we've seen, before crashing back to reality. These types of behavior occur in periods of market extremes, in both bull and bear markets. Only in bear markets are comparisons of the "less than" variety. With decades of history as a guide, we know these anomalies do get corrected. We just never know when, or to what extent.

- **VALUATION.** Stocks generally remain expensive. The Herd has been programmed to "buy the dips," after small setbacks in prices during the last 18 months of relentlessly higher highs in the popular averages. Meantime, stocks are nowhere near undervalued. The little 5-10% pullbacks in the averages have done little to improve the future returns of the stock market. At the same time we're still searching for any undiscovered companies that are financially sound, decently profitable, that have had larger-than-average setbacks in price. The lower the price, the greater the future investment returns.
- **RECENT RESULTS.** Stock market indexes were higher in August, within a range of 1-4%, with no significant differences based on capitalization. Year to date, the smaller company indexes maintain a slight advantage, with returns of 20-22%, while the large company indexes have risen 15-19%. The same holds true over the last twelve months, as the smaller cap indexes are up 45-50% versus 25-30% for the large company indexes. Our group* of portfolio stocks compare favorably with the market indexes over the past month, year-to-date, and 12 months.
- **BONUS LINK.** <https://streaming.mu.edu/Watch/Xb4t7G5H>
Above is a link to an interview by Steve's friend, Marquette University Professor Michael Browne. The 12-minute discussion of Value Investing will be presented to Michael's Master's-level "Introduction to Business and Investing" class this fall semester. We're very flattered to have been invited to share our philosophy with his students.

Steve Nichols, CFA Bill Warnke, CFA

*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.

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