INVESTMENT STRATEGY

January 1, 2024

A couple of days ago, coinciding with a new all-time high in the overall stock market, a headline appeared in a periodical that said *bulls just wanna to have fun*. Ironically, on the same day an actual live bull, horns and all, was on the loose and running around on the subway tracks of New Jersey. The metaphorical implications of this second event are not lost on me. This is the kind of stuff that happens when stocks get giddy. Although euphoria is not a wonderful emotion for long-term equity stability, I note with some comfort that sentiment remains (through all of this) relatively sanguine.

Nonetheless, the same periodical mentioned above declared that the market was heading off a cliff just sixty days earlier. So as they say, enjoy it while you can. The stock market has had an extremely strong V-shaped recovery in the last 45 days of the year (as I write this just after Christmas). In fact, the emotional swing from November (*I've had a wonderful evening. Unfortunately, this was not it. ~ Groucho Marx*) to year-end (*Hallelujah Chorus, interestingly written by Handel in its entirety on just one fevered afternoon)* was a wild yet wonderful ride. It is worth noting that the live bull running around the subways of New Jersey was rescued safely and returned home to his rightful owner. One can only hope that this, too, is a positive metaphor of things to come.

Our equity portfolios are fully participating during this stampede, pleasantly with less than market risk. I am encouraged that the operating performance of our major holdings remains strong. Cash flow, near and dear to me, continues to be relatively predictive and sequentially increasing. In my heart, I am a cash flow nerd because I believe it has the greatest veracity. Earnings can be massaged and the numbers can be tortured to admit to almost anything, but it is really hard to lie about cash. So, in sum, I am leaning back and enjoying this lovely Christmas gift; Chairman Powell has benevolently been nicknamed St. Jerome as he continues to navigate the proverbial soft landing. From my point of view, the plane is not yet down but clearly the pilot visibility has improved to the upside. I continue to be quite comfortable with the hand that we have dealt in our investment holdings.

Charlie Munger passed away this quarter, shortly before his 100th birthday. Vice chairman of **Berkshire Hathaway** for decades and decades, Tonto to Warren Buffett, and just generally regarded as an aging lion with wonderful values, perspective, and insight. Rather than extol the virtues of Charlie and my beloved ***Berkshire Hathaway***, I will leave you with his advice, "Choose clients as you would choose your friends". My last thought is that the investing world, and the world in general, was better for having known Charlie Munger.

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The mercurial nature of markets was nowhere more evident than the wicked volatility that took place with interest rates, especially over the last half of the year. Paranoia fears about inflation drove rates higher, buttressed by the most rapid Fed tightening in history. Very data sensitive, signs of easing inflation and the aforementioned soft landing led to a dramatic softening in rates. This in turn led to less concern that the world was coming to an end, and money that had been generated from a coordinated selling of both stocks and bonds (ballooning cash reserves) allowed fear to give way to *animal spirits* and this money got put back to work, driving yields lower and equity/asset prices higher. I caution that the mercurial nature of markets cuts both ways, but with this said why not have a little bit of holiday cheer and toast the northbound performance of the portfolios over the past twelve months.

As noted above, I remain quite pleased with the *operating earnings and performance* of our major holdings. The fundamental analysis of this performance is both encouraging and comforting, nourishing highly coveted *peace of mind*. To this end, I continue to believe that peace of mind is an important and widely underappreciated component of overall portfolio return. Although the fickle nature of the market is a funny duck, I am quite pleased with the management and operating performance of our holdings; it nourishes a sense of comfort about the economic health of the portfolio.

This said, I feel that most of the risk concerns are essentially related to *macro* worries. Political dysfunction here at home, war and terror, political/rational instability in the inherently unstable parts of the world are where I believe most of the upcoming risk lies. Ironically, jolts in the macro environment tend to drive asset prices lower, but then are often followed by a flight to quality which normally (admittedly after a lot of anxiety) leads to capital inflows back to the relatively safe harbors of the United States. Still, it's a journey that can give you motion sickness.

A quick observation on *benchmarking* and the S&P 500 Index. This is a misleading game. Market capitalization weighted, the top ten names in the index account for 42% of index performance. This can help or hurt depending on the market. Suffice it to say, this is quantitatively meaningless unless you own 42% of the top 10 names. There are other indices that may make more sense, such as the equal weighted S&P 500 (*RSP*) or total NYSE composite.

Here at the shop, we continue to embrace core values that have guided us over the past thirty years. We believe in a relationship centric approach to investing the hard earned and precious capital of our clients and there is a truthful elegance in simplicity. We remain steadfast in our belief that an alignment of interests, a fiduciary responsibility, and full transparency and disclosure are the cornerstones for an enduring and nourishing relationship. To this end, we try to understand the stars that align and shape the constellation of the unique and bespoke objectives of the families that we work for. As such, please know that we are always available to review portfolio strategy, any personal/familial dynamics that influence this strategy, or simply to chat further about any or all of the above.

On a personal note, everyone here at the shop remains healthy and well and we cherish our very longstanding (decades) journey of working together. For me and our family, we continue to wonder at life through the innocent eyes of Sophie Jane, our new granddaughter. Murphy, our beloved golden retriever and spiritual adviser, has been facing some significant health issues of late, but it is comforting to watch him face these events in his good and peaceful spirit as always. I guess, my point here relates to it's a wonderful thing to live in a country where we are able to worry about babies and dogs without threat of tyranny and war. Something for which to be thankful.

In closing, we reflect on the past year with gratitude and look forward to the coming one with optimistic anticipation. Another trip around the sun; we are ever reminded of the gifts in our life, among which are your treasured trust and the opportunity to work on your behalf.

Charles D. Hyman

Note: Please know we are always available to discuss your portfolio and any of the issues that may be taking place within the fabric of your life that would influence our strategic design, your liquidity needs/reserves, or really anything else orbiting the life financial.