

INVESTMENT STRATEGY

July 1, 2023

As I write this, we have hit the mid-year mark of 2023 and we certainly are in the dog days of summer. While the dogs are currently quiet, it has been a somewhat bark-filled half year in the financial markets. Most notably and recently, we somehow managed to avoid defaulting on our debt; watching the political sausage being made is always a distasteful experience. We avoided a default and I am reminded of the sage philosopher Red Foxx who often noted that while almost all closely avoided airplane accidents are referred to as *near misses*, they are in fact *near hits*. It does defy logic that the political machinery runs our economy in a way that none of us could run either a household budget or a business. This said, the lasting words of Churchill about America ring true: “America will always do the right thing. Of course, they will try everything else first.”

Although we somehow weathered this tragic/comedic theater, it does underscore a deeper economic thesis. The United States Treasury security is, in fact, the reserve currency for the rest of the world. In fact, every other economic financial market (essentially *everything*) pivots on it as being the *risk-free* dynamic in global financial markets. And even though the rest of the world stares on blankly in disbelief of our political theater (read: how do you screw up a good thing), it is nonetheless disconcerting that China essentially looks and waits as they anticipate that eventually it may be their turn to have the reserve currency of the world. I note that China takes a 100-year view, and we can't seem to look past next week. China has thousands of miles of high-speed magnetic trains, and we don't have a yard of it. There is a cautionary tale in all of this. While we currently do have sole possession of the reserve currency of the world, it is not necessarily our birthright to have it forever. One would do well to remember that there is danger in complacency.

Moving on, the United States equity market is enjoying a nice rebound off of a horrific 2022. It is worth noting that most of the rebound has found its way into a very narrow set of stocks, largely centered on technology. The technology heavy Nasdaq was down 30 percent last year, only to recover about that much this year. The infatuation and opium-like spell of artificial intelligence (AI) technology is quite captivating and anyone who can somehow get AI into their business description is jumping on the train. This said, earnings have been relatively stable, and business while suffering under some stresses of higher interest rates, a difficult office based real estate market, a stubbornly robust job market and equally stubborn inflation metrics, business nonetheless has exhibited quite a good bit of resiliency. Trying to

assign probabilities to outcomes on the economy is not an easy game, but fears of the deep recession have at least been kept at bay for the time being. I am reminded of the line that economists have predicted 12 of the last three recessions.

Our core holdings continue to perform well on a risk-adjusted basis; our long-standing investment thesis of quality of balance sheet and quality of management continues to provide a good night's sleep. As you know, in our heart we are really sort of cash flow geeks and the investment criteria of predictive and sequentially increasing cash flow (often supported by dividends that provide rent on our invested capital) has generally been nourishing to a favorable risk/return relationship for the hard earned investment capital that you have entrusted to us.

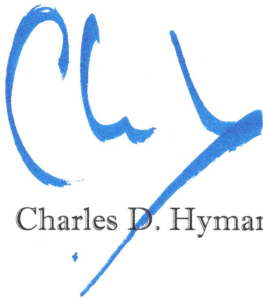
Taking a walk through our holdings and the financial landscape, I would note the following:

1. **Technology.** As noted previously, a lot of the action in the markets has been driven by the technology sector. Last year's dog is in fact this year's darling. We have been very pleased with our central technology holdings, namely **Apple, Microsoft, and Oracle**. Please note that not every account owns all of these names as the portfolio construction often considers other holdings as well as a bespoke allocation strategy. This said, though, these names appear widely throughout our holdings and at least Apple and Microsoft are in our top five holdings firm wide. Generally speaking, these leadership names look to have a lot of positive runway going into the future. While I do not know if this space will find pockets of correction, I would not want to bet against these holdings longer term. Clearly, they have been the adrenaline for positive returns thus far in the year.
2. **Berkshire Hathaway.** Berkshire is the largest holding firm wide. We take great comfort in the way in which they run their business, essentially staying true to the aforementioned notion of fiduciary responsibility and mutual alignment. I still largely believe in a Buffett-esque approach to investing. It is, simply put, a uniquely valuable collection of assets (including a large exposure to Apple). BRKB may not win every inning, but it sure seems to win a lot of games.
3. **Overall Market Breadth.** As mentioned earlier, the fast horses in the market thus far this year have been a fairly narrow field. Again, the jockeys on the horse have largely been technology driven. I again note that last year's heavy weight on the market is this year's buoyancy and elevation. As I write this the broader indices such as the NYSE composite are barely positive and again underscores the very narrow leadership to the upside. This said, I am generally quite pleased with the hand that

we are dealt and feel that the positive returns, recurring cash/dividend support, and the qualitative opinion of integrity of purpose relating to management create the proper balance and theorem for a successful experience over time.

We maintain a strong devotion to a mutual alignment of our respective interests. I own virtually all of our top twenty holdings personally, operating under the logic that if it's good enough for our stewardship of your assets, it should be good enough for me to own. Of deep importance to us, having a fiduciary responsibility to your wellbeing, and aligning our interests together create what we believe to be a wholesome alchemy on many levels.

In closing, I noted earlier that the dog days of summer are upon us, and indeed our golden retriever/spiritual advisor, Murphy, is spending a lot of time sleeping on the cool stone floors of our house. On a personal family note, we are expecting our first grandchild who, with fingers crossed, will greet us any day now. It reminds us of family, the renewal of life, and the sacred reckoning of time. Everyone here at the shop is deeply grateful to be stewards for your trust, and the opportunity to work on behalf of you and your family.



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.

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