

INVESTMENT STRATEGY

October 1, 2023

The final quarter of the year is upon us as we begin to craft strategy and consider tax planning and other year-end efficient portfolio hygiene. We are reminded of a couple of events that took place over the last three months that shouldered influence over the work we do. Of note, the credit rating agency Fitch downgraded the credit worthiness of the United States (and its debt) from AAA to AA+. Fitch cited in its rationale the deteriorating fiscal responsibility coupled with a sense of political dysfunction in the management of our country's fiscal affairs. Simply put, I think they were saying that no one could run a business or a household budget like this, so there must be some accountability, somewhere, at some point. Financial sanity, voiced through the minds of Warren Buffett and Jamie Dimon, were generally dismissive of this move and reinforced the notion/fact that the U.S. dollar has been and remains the reserve currency of the world and should be afforded all of the virtues and benefits of same. Interestingly, Stephen Schwarzman, of the giant investment firm Blackstone, noted that while he agreed with the theory of reserve currency he nonetheless opined "Apparently, we have precious little financial discipline."

As you know, I write often of **Berkshire Hathaway**, as it's the largest position that we own across the board here at the firm. Except for bespoke client's liquidity needs, I cannot recall ever selling a share of the stock from the point of view of investment thesis. To be sure, the shares have done marvelously well for us over the years. My point here, however, does not directly relate to Berkshire Hathaway as an investment. It does, however, relate to *cost of capital* and a *return on investment interest float*. Like it or not, the Federal Reserve has raised the discount rate some five hundred basis points over the last fifteen months, a relatively fevered and unprecedented pace. What seems to be lost in this, however, is the cost of capital not only to borrowers but also to investors.

Back to Uncle Warren and Berkshire Hathaway. During the third quarter he reported record earnings but also reported that his cash hoard had swollen to approximately \$150 billion. This may be a little troubling in that he can't seem to find anything to buy, which is a different conversation. But, more to this point, where he used to earn zero percent interest on this mountain of cash, he now rolls into three and six month Treasury bills and earns approximately 5.35% on his \$150 billion war chest. The point here reflects the government is paying the \$8.0 billion a year to Berkshire Hathaway (and others) that they did not used to have to do. Berkshire is in fact earning an incremental \$8.0 billion per year on what heretofore had been a fallow asset. As admitted cash flow nerds, this is not lost on us in our investment thesis and strategy. It makes sense to take a harder look at who is writing the check and who is cashing it.

We climb the usual ladder of worries: inflation/interest rates, China, and a reliance on the consumer to name a few. Still, we take heart in the resilient and strong operating performance of our core holdings.

Overall, the portfolios are doing well. As mentioned in prior strategies, the very narrow technical leadership, under duress in 2022 but recovering in 2023, has begun to flatten out a bit and market participation has broadened across different industries and sectors of the economy. In sum, I feel this mosaic is treating our portfolios well, especially on a risk-adjusted basis with our bias towards the *high quality end* of the curve. We continue to feel there is a certain elegance in simplicity, consistency of values, and the importance of *peace of mind* as an asset class remains a vitally critical, if not occasionally underappreciated, component of return.

A cautionary note to clients and friends: Here at the shop, we have not had any problems, but continue to hear horror stories around cybersecurity, identity theft, and other tales of modern day piracy. This is ugly stuff. We remain ever vigilant as protective (*guard dog*) shepherds for your privacy, assets, and well-being. We urge you, pleadingly, to also be hyper-vigilant in protecting yourself. We are committed to nourishing and investing in technology, compliance, and assistance to protect and defend your interests.

What follows next is a brief personal essay about Tony Bennett, arts and music, and how the lessons I've learned therein help in the effective deployment of investment strategy and portfolio management. I appreciate your indulgence as this is a bit of departure from our normal content. Please fast forward as you wish as I am sensitive to the value of your time. This said, learning from his genius is a unique pleasure so I pass this along as your schedule and interest permit.

* _____ * _____ * _____ * _____ * _____ * _____ *

The great artist (musical and painting), Tony Bennett, died this quarter, passing away in his beloved New York City on July 21, 2023. Little known fun fact, my relationship with Tony Bennett spans back over 40 years, and it had not only a profound effect on my appreciation for the beauty of music but also an appreciation for the lessons (life and business) I learned from this along the way.

I first heard Tony Bennett sing in January, 1982 on a misty, wintry night on the boardwalk in Atlantic City. In between under graduate and graduate business school, I worked a stint at a bank in Philadelphia. My friend Jim, a native Philadelphian, and I drove to the *shore* (previously I would have called this the *beach*) on a Saturday evening because he had a date there and she supposedly had a friend to go out with me. What a shock, the friend did not materialize and Jim and his date immediately ditched me so I was left to my own devices on a Saturday night. Walking down the boardwalk in the drizzle with the mist suspended in the streetlights, it was a scene from an old black and white movie. And I came upon a showroom at the old Resorts Hotel with Tony Bennett on the marquee.

I had never heard of Tony Bennett before, but I walked in and bought a ticket for \$20.

The striking remembrance of that evening was that the showroom was only half sold out, if that, and yet when Tony Bennett came on he worked as though it was the last performance he was ever going to give.

I became intrigued that a man who has sung professionally all his life could exhibit such passion over his work and the amount of drive to share this passion with others (even only a half-full room of others). This resonated strongly with me. He was just about to release a break-through recording entitled *The Art of Excellence*, which was to transform him to an entirely new, MTV generation of fans and as improbable as it sounded, he now brought this music to the appreciation of millions of young people and not just the (mostly older) handful in that showroom. In any event, my relationship with Tony Bennett was going to extend over 4 decades. I was to see him perform over 30 performances, and I would further meet him and his son/manager, Danny, on many occasions during this period of time.

At this point, you might ask *what does this have to do with an investment strategy letter*. My answer lies in the subtleties and lessons learned. Tony Bennett grew up in Astoria, New York, living above his father's grocery store and his mother was a seamstress. His mother only made fancy dresses, and was known to not deliver one unless it was perfect. As a metaphor, Tony's song list composed the best of the American Songbook and was often referred to as a collection of fancy dresses. Frank Sinatra, commenting in an article in *Life* magazine in April, 1965 plainly said Tony Bennett is the best singer in the world. Not a bad referral. One learns the lesson of earning the respect of one's best peers.

Tony Bennett was not spared of his own trials and tribulations. In the late 70's early 80's he was burdened by a seemingly insurmountable tax obligation that drove him to depression, drug use, and despair. Through it all, however, he remained passionate about the precision of his music. The title of the album, *The Art of Excellence*, was not an accident. He rose up, fought off the demons, and through sheer power of will rose to the top again and, as noted previously, brought this expression of musical art to an entirely new generation. The lesson here, of course, lies in the sweet and hard-earned redemption of overcoming adversity.

During all of this period, during the good times and the bad times, one of the unfailing constants was how he always surrounded himself with the best musical colleagues: Ralph Sharon, his musical director, Clayton Cameron, his percussionist (who incidentally lied about his age so he could perform with Sammy Davis Jr.), the list goes on and they stayed together through thick and thin over the decades. Never compromising on talent, drive, or the contributory dedication to the work, an important message is found here. I started the firm 30 years ago and three of my four talented and passionate colleagues have been together for most of this ride. Another valuable lesson here for me, well learned and the better for it.

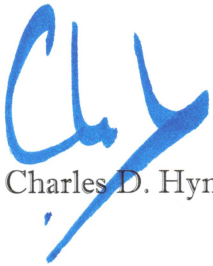
Tony Bennett was originally trained as a painting artist. He studied artistic composition at the New York School of Industrial Art. I always admired his art. Truth is, years ago I could not afford a signed painting of his (although I really wanted one). However, I will never forget my

birthday present at the time when my wife presented me with a limited edition print of an oil that I loved (set in Venice) that was signed by the artist. By the way, we couldn't afford the *unsigned print* either. However, another lesson learned, this one warm and kind.

Unlikely accompanist, Lady Gaga claimed that Tony Bennett saved her musical career and perhaps her life as she was suffering from maladies familiar to him in depression and anxiety. He collaborated with her on numerous duets, to great success, and again, to multi-generational fans. Through all of this, Tony Bennett managed to stay relevant while remaining true to the timeless core values of his art and its integrity of purpose. The lesson of enduring core values resonates well, and so does the notice, and generosity of spirit, in care of others.

Tony Bennett was originally named Anthony Benedetto, but took the stage name of Joe Bari in an effort to be more marketable as he began his career. The iconic comedian, Bob Hope, suggested that he change his stage name to Tony Bennett. This would work well for the next 70 years or so. Sadly, Tony Bennett suffered from Alzheimer's the last few years of his life. Fascinatingly, while his memory faded and he could not remember people or events, he always remembered the lyrics of his songs. Perhaps the passion for one's work can become inextricably woven into the fabric of one's identity. Tony Bennett sang the beloved lyrics beside his piano and at peace, I imagine, the day before he died.

As ever, we keenly appreciate 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.

This letter is confidential and intended solely for the information of the person to whom it has been delivered. Recipients may not reproduce this letter or transmit any of its contents to third parties. This letter does not constitute any recommendation of any particular investment, security, portfolio of securities, transaction or investment strategy. The discussion of specific holdings (i) are included merely to illustrate certain investment processes and strategies utilized by CDH, (ii) are not intended to indicate overall performance that has been or may be expected to be achieved, and (iii) should not be considered a recommendation to purchase or sell a particular security. There can be no assurance that any securities discussed herein that were a part of the reader's portfolio will remain a part of the reader's portfolio. The exposures discussed herein should not be viewed as an indication that future exposures will remain the same.