

The Dusty Market

January 23, 2020

I received an email this morning from my 15-year old son, Dusty, as the market was in a bit of a sell-off. You've met Dusty before in our letters. He's my sophomore in high school. The youngest of my four kids. He's a golf nut who when he isn't dreaming about being the next Tiger Woods or Dustin Johnson (DJ) has developed an interest in the stock market.

During the past few months, Dusty has had me invest in a couple of stocks both of which have gone up as the market has. In the past few days, he gave up some of his gains in those stocks and sent me a frantic email:

"All of my stocks are plummeting. Will you sell my shares?"

Now there are a couple of problems with this. First of all, he did it during the middle of the school day and I would be much happier had he been paying attention in class rather than to his stock portfolio. But Dusty is probably a good indicator of what we fear: What will happen when the stock market has a more material pullback? The market has not closed down more than 1% since last October.¹

Because of this, we came up with an acronym for Dusty:

Down 5%? Uh oh. Selling Time. Yikes!

Fortunately, Dusty was the only client who contacted us to sell his stocks. We do worry, though, that the average investor is like Dusty; he or she will get scared when the markets begin to sell off. That is not an IF, it is a certainty. When? We do not know. For now, we are comfortable with the investment environment: low interest rates, nascent inflation and a solid -- but not great -- economy where companies are earning a greater return on capital than their cost of capital. The election looms large for investors. We acknowledge that gains from the past few years could disappear quickly.

During dinner tonight, I'm going to remind Dusty of the advice he is given when he takes a bad shot in golf: He has an "emotional zone" around his swings to get his frustrations out. His email to me was just like that. It was part of his zone. Your calls to us can be part of your zones (just remember to ask for Stuart or Alissa and not me).

I'll also remind him of Dr. Bob Rotella's book "Golf is Not a Game of Perfect". Neither is investing. Building and managing a portfolio for Dusty or for you is like a round in golf. We do the best we can, and we evaluate our round not shot-by-shot, hole-by-hole or stock-by-stock but by the overall score or performance. Dusty will have some bad rounds in golf; we will invest in some stocks that disappoint us.

When Dusty plays in his tournaments, I tell him not to worry about how the other players are doing and instead just focus on his score. Your investing perspective should be the same. We all know the braggers at the cocktail parties. Your portfolio is created and managed by us for you not for the guy at the party. Your needs and interests are not

the same as his or hers. You may need growth; you may need income; you may need protection of capital. We know you can't have all three. What you can have is a portfolio that aligns with your long-term objectives and hopefully the patience to withstand the inevitable 5% or more correction when one comes.

Now if I can only get this across to Dusty.

Sincerely,



Peter Karmin
Managing Member



Stuart Loren
Director

Citations and Disclosures

¹ Bloomberg January 24, 2019