

Uncle Myron's Afro

Watch an old home movie, and you are likely to find humor in the outdated fashions of the day (unless, of course, they are on you). We are all slaves to fashion in one form or another – in the clothes we wear, TV shows we watch, or diets we follow. Stock market participants are slaves to fashion as well.

Tech stocks, small caps, oil, China, real estate – they're talked up, bid up, and eventually crash, leaving investors looking as silly as Uncle Myron, circa 1974, in an Afro. Following such trends would be all the more silly, were it not for the real business profits that sometimes drive them. In the stock market, trends have steak, and they have sizzle. The steak is predicated on measurable business profits. The sizzle is the chatter that drives stock prices, at times, to absurd levels. *Intelligent investors assess the value of business profits and ignore the sizzle.*

Many market participants attempt to play the sizzle, jumping on when a new trend begins and jumping off before it ends. We believe their prospects are similar to those found in a casino – you may get lucky in the short run, but the house always wins in the long run. Predicting the madness of crowds is difficult at best.

Our approach is to hold a unique stable of under-valued companies regardless of short run trends. One by-product of this approach is that our short run returns can vary widely from the market, higher or lower. While this oftentimes means a smoother ride – our lows won't be as low and our highs won't be as high – bucking market trends requires the courage to be out of step with stock market fashions and returns.

Most importantly, focusing on business value, rather than playing unpredictable trends, leads us to buy under-valued stocks and avoid over-valued stocks whenever a trend is taken too far in either direction. In other words, it allows us to make money and avoid losses in the long run.

Today's trend is to be risky. Riskier stocks in general are over-valued. Conversely, a few high quality stocks are under-valued. Going where the value is, we purchased several of the most high quality companies in the world this past year. Six years ago, these companies were in vogue and over-valued. Today they are bargains – their stock prices are lower than they were six years ago while their underlying business values have grown.

As for today's ultra hip risky stocks, they are likely to suffer the same fate as Uncle Myron's Afro. He got a haircut.

*Nick Tompras
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