

the Connection

A Quarterly Review

2nd Quarter 2021

PRIDE AND PREJUDICE

We have reached an interesting place in the current investment environment. For the past seven years our thesis has been correct. We stuck to our guns as a firm, with our clients, and we were rewarded. From the risks of over-valuation (2015-2018) to pandemic risk (not over yet); we have been invested in stocks. Stocks coincidentally have been the place to be. That leads to the usual question, what do we do now?

There are two characteristics that (we think) lead to success. The first is a vision (thesis), and the second is conviction. The vision is obviously important – if an investor cannot see tomorrow, then how can they invest today? The conviction in the vision is just as important. There are events that occur along the way that can shake investor faith in their investments. We think good investors ask themselves daily if they are making the right choices. We need to examine our assumptions on everything from individual stocks all the way up to the general economy to reinforce our belief in said vision.

We have discussed aspects of what we see in the future in every newsletter and email that we send out. A common misconception that investors will throw out is that you cannot predict the future; Thus, you cannot predict the stock market, thus why bother, just index. There are aspects of that uncertainty that are true, we do not know where the market is going. We cannot predict day to day, month to month movement. Honestly, one of the more frightening things in this market is that even people trading with inside information often make the wrong decisions. Richard Burr, Republican Senator from North Carolina, comes to mind. In February and March of 2020, he had intelligence about Covid-19 and the potential impacts to our economy. He liquidated his equities (no charges were filed) and what seemed like a brilliant idea turned out to be the wrong decision within three months.

When people with inside knowledge are failing to make correct decisions, how can an individual or small company make those decisions? Most of the time people think of an investment decision as an action made in a finite amount of time. Investor “A” sold stock “B” in 2007 – “Wow” he locked in a profit “X”. What a genius. The problem with that rationale is that sometimes stock B was Amazon, and it

was sold at \$120, it went down to \$60, and now it is at \$3500. More important than a short-term result is a vision that can encapsulate larger movements economically. Most recently capital has moved towards technology and healthcare and away from financials and commodities. The reason for that movement has been simple; successful tech companies have been able to control their costs and pricing much better than successful coal companies.

Each moving part does not have to be perfect. We can own Microsoft instead of Amazon. Even if Amazon did better than Microsoft, Microsoft did better than every coal company. The vision goes from a broader economic shift down to a very granular individual investment prognosis. If much of the vision is correct, mistakes that were made can be rectified along the way.

Once a vision has been established, the hard part begins. Conviction in a vision often leads to sleepless nights. When that vision is wrong over short periods of time, it is hard to stick to your vision. There is a balancing act between rational self-confidence and humility. As investors, we need enough self-confidence to stick to our investments when doubt creeps in, but not so much so that we cannot change direction or make necessary adjustments if we are wrong.

There is further analysis that needs to be done after a specific thesis has been established. Investors can visualize a future of electric cars and the infrastructure available to charge them on longer trips. That does not necessarily mean that investing in Tesla today will make people a lot of money. There is analysis that goes into the execution of a vision. If the electric car vision is right, you will do better investing in Tesla than you would in Valero (an oil refiner and gas station operator). The better investment, however, may end up being Ford.

The way we invest reflects all of it. We see a future. That future allows us to go from broad strokes (equities over fixed income) to details (Microsoft over Bank of America). Then that framework is stress tested daily. We take in information, we watch price movements, we read, we learn, and we doubt. If the doubt gets strong enough, we adjust and start over. Current equity levels confirm our vision. People realize that Covid is temporary. Interest rates are

going to be low for a while. Equity pricing has reflected a rosy outlook for Corporate America. It is now time for reflection and doubt. We will be examining the assumptions that weighted our portfolios towards healthcare, technology, and industrial stocks. As those assumptions are challenged, expect minor changes in the portfolios.

THE ACT OF GIVING

Below is an updated list of some organizations our clients are helping today.

All Local Food Banks

www.sfmfoodbank.org

www.shfb.org

www.foodbankccs.org

www.refb.org

Bloom Marin

www.bloom.org

Maya's Music Therapy

www.mayasmusic.org

Friends of the Urban Forest

www.fuf.net

Guide Dogs for the Blind

www.guidedogs.com

Doctors without Borders

www.doctorswithoutborders.org

The Nature Conservancy

www.nature.org

National Kidney Foundation

www.kidney.org

Guide Dogs of America

www.guidedogsofamerica.com

Golden Gate National Parks Conservancy

www.parkconservancy.org

Fine Arts Museums of San Francisco

www.famsf.org

Canine Companions for Independence

www.cci.org

Alzheimer's Association

www.alz.org

The Foundation for Rotary International

www.therotaryfoundation.org

Wildcare

www.wildcarebayarea.org

Homeward Bound of Marin

www.hbofm.org

Whistlestop

www.whistlestop.org

FINCA

www.finca.org

Sonoma Land Trust

www.sonomalandtrust.org

Friends of the Earth

www.foe.org

The American Friends Service Committee

www.afsc.org

Amnesty International

www.amnestyusa.org

Eastside College Prep

www.eastside.org

Northern Sierra Partnership

www.northersierrapartnership.org

American Bird Conservancy

www.abcbirds.org

The Cornell Lab of Ornithology

www.birds.cornell.edu

Mono Lake Committee

www.monolake.org

California Trout

www.caltrout.org

Tahoe Rim Trail

www.tahoerimtrail.org

Ocean Conservancy

www.oceanconservancy.org

Global Fund for Women

www.globalfundforwomen.org

Marin Agricultural Land Trust

www.malt.org

Walk to End Alzheimer's – San Francisco, CA

www.act.alz.org/sanfrancisco2019



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