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The fourth quarter of 2020 witnessed an increase of 12.15% in the S & P 500, with the full year registering a resounding upsurge of 18.40% in the Index.

We are reminded of the classic TV commercial advertising luggage (remember luggage?), featuring a gorilla "handler" doing its best to smash an American Tourister suitcase. As in the ad, 2020 threw everything it had at the stock market, but nothing could dent its smooth upward trajectory for more than a short time. After an initial sharp decline in March when news of the pandemic first hit, the market rebounded boisterously, feeding on a diet of low interest rates and the reemergence of speculative trading. Nothing—neither murder hornets nor an aggressive gang of blood-thirsty squirrels in Queens nor anything else that was hurled at it during a wild year—could dampen its exuberance. While there was some discrimination among names (based largely on how well a company was believed to be able to exploit the current circumstances to its advantage), the ebullience extended well beyond the expected Internet, home improvement, and take-out restaurant stocks.

All markets carry baggage. But those whose robustness is based largely on ephemeral considerations without particular reference to sustainable (and critical) things like cash flow over time are especially subject to rupture, later if not sooner. A market like we had in 2020 invariably raises our valuation hackles, notwithstanding its appearance of imperviousness. Pursuant to our discipline, therefore, we focused on selling when we thought a stock moved beyond a reasonably optimistic set of assumptions and on buying only when we concluded that we had a margin of safety in the price to buffer us against the hits a company might be forced to sustain. For, as the ad reminds us, "it's not just how good it looks, it's how long it looks good".

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