Marshfield Associates

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The odds of selecting a perfect bracket for the men's NCAA basketball tournament are 1 in 9.2 quintillion. To put that in context, the odds of correctly guessing which one of the estimated 7.5 quintillion grains of sand on earth will stick to the bottom of your foot as you walk across a beach actually exceed the odds of creating a pristine bracket.[1] In other words, it is highly unlikely that anyone can perfectly predict the results of this tournament. Just like no one can perfectly predict the precise movements of a stock's price over time, much less those of the stock market as a whole.

This quarter felt like the market — which is always trying to figure out the top seeds — was refocused on the technology sector as the Cinderella story of the season. While the shenanigans in the banking industry may have put paid to that (in part) by the quarter's close, the underdogs seemed clear to the odds-makers throughout, given the depth of economic and interest rate uncertainty: the financial sector and ho-hum old-line stalwarts.

If you'd asked the country's top sports analysts at the end of February whether this would be the first year in history that none of the tournament's number 1 seeds would make it to the Elite 8, it's fairly safe to assume that none of them would have said yes. Likewise, if you'd asked most so-called market experts back in February whether the story of the quarter would be how rising interest rates ultimately led to the demise of the once-high-flying bank of start-ups and tech entrepreneurs[2], a government bailout[3] designed to prevent the collapse of the entire banking system, Michael Jordan-like acrobatics by the Fed as it attempted to balance its on-going fight against inflation with its desire to avoid exacerbating the banking fallout, and the market's gyrations in response to it all, well, it's fairly safe to say they wouldn't have predicted all of that, either.

Which is why we don't try to make any such predictions.[4] That is, rather than trying to predict which companies the market is likely to reward (or punish) in response to specific, and varying, economic indicators, we focus on looking for resilient companies with strong fundamentals — those that are most likely to be able to elbow their way through the ups and downs of each economic cycle, generating substantial returns over the long-term in the process. Which is not to say we ignore economic indicators. Just as we keep tabs on player injuries and suspensions so that we can evaluate how those setbacks are likely to affect our brackets, we read and discuss the latest news

[1] See Baker, Kendall, "The Odds of a Perfect March Madness Bracket: 1 in 9.2 Quintillion," Axios Sports (March 15, 2023) (available at: https://www.axios.com/2023/03/15/ncaa-tournament-perfect-bracket-odds) for these and a couple other mind blowing statistics about the odds of having a perfect bracket.

[2] Along with some questionable investment decisions, poor communications, and the power of social media.

[3] Or not, depending on whom you ask (see, e.g., Smialek, Jenna and Rappeport, Alan, "Was This a Bailout? Skeptics Descend on Silicon Valley Bank Response," The New York Times (March 13, 2023) (available at: https://www.nytimes.com/2023/03/13/business/economy/svb-bailout-questions.html).

[4] We do, however, fill out brackets for the NCAA tournament. But we do so fully aware that our brackets won't be perfect and that it just doesn't matter that they aren't. We're in it for the fun, and no one's capital is at risk.

on interest rates, jobs, corporate earnings, and consumer spending so that we can properly assess how our holdings are handling them.

But what we don't do is allow our courtside analysis of the anticipated macro environment to drive an emotional decision to buy or sell a holding in a moment dominated by stress or fear (or ebullience). Rather, like Christian Laettner taking *the shot* for Duke to defeat Kentucky with less than one second left in that unforgettable game in 1992, we behave just like we would at any other point in a cycle, even in times of extreme stress. We get to know our companies as well as we possibly can, we periodically and methodically revisit their valuations to make sure that they are based on sound fundamentals and long-term performance, and we remain patient and disciplined. Then, when the market gives us an opportunity to buy or sell at our predetermined prices, we follow through and take the shot. Thus, when we had the opportunity this quarter, we added to our position in **Domino's**, taking advantage of what we believe to be the market's temporary aversion to this fundamentally sound name.

March Madness comes only once a year, but the conditions that affect the stock market are ever present, and ever evolving. So in every season, in every environment, we do what we do best — keep our heads up, maintain our focus, and stay ready for the big dance.