



January 2024

As the US economy closes the year on a pleasingly upbeat note, the S&P 500 climbed its own wall of worry to finish either satisfyingly or nerve-wrackingly high, depending upon one's point of view.

Of course, we'll take it when we get a year like this in the market, even though our historical pattern of performance in strong up-markets has once again been borne out (hint: we typically lag). And while it's both pointless and self-defeating to attempt a diagnosis of what propelled these boisterous results in a world gone seemingly haywire, it's nonetheless interesting to identify some of the challenges and opportunities we are facing at an Everything Everywhere All at Once moment. To do that, we will focus on two noteworthy Americans, one who helped usher in this great nation of laws and ideals, publishing a provocative pamphlet in 1776 called *Common Sense*, and one who died this year, having manifested common sense and integrity throughout his life.

To our minds, Thomas Paine is the apotheosis of the American idea. "Tyranny, like hell, is not easily conquered, yet we have this consolation with us, that the harder the conflict, the more glorious the triumph. What we obtain too cheap, we esteem too lightly: it is dearness only that gives everything its value." [Editor's note: except for stocks and off-price apparel.] As tyranny, in the form of authoritarian movements encircling the globe today, fills the void left by fading memories of the hard-won battles of last century, we do well to remember that strong men and iron fists can be easy for disgruntled people to embrace, but immensely difficult to displace once enthroned. While these may not yet be "the times that try men's souls", we are aware that the world has ways of delivering such times periodically, producing an environment that challenges both the best of companies and the most robust of free markets.

Speaking of free markets, Charlie Munger knew how to apply common sense to an only intermittently rational stock market. A man of humility, who understood the limits of his competency (notwithstanding a slight aberration when attempting to design a window-free dormitory at UCSB), he was disciplined in a field notably lacking in that quality. He understood the importance of character, as well: "It takes character to sit with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities." He never fundamentally altered his approach, taking the market as it was served up to him and making astute decisions based on price, business model, and management heft. His rational approach to investing, along with his conviction that opportunity will likely knock in due time (and sometimes knock hard), gives us optimism that holding fast to our discipline continues to be the best way to create enduring value for our clients and ourselves as fellow investors. Both Munger and Paine understood the importance of the former's advice to "take a simple idea, and take it seriously." We will miss his acerbic wit, discerning eye, and fidelity to truth and reason.

During the fourth quarter we sold our remaining shares of **Union Pacific**, due in part to price appreciation and in part to our considered judgment that a tailwind that the railroads have benefitted from for the past twenty years—namely, their ability to raise prices faster than inflation—seems to be

diminishing, reducing the attractiveness of that industry to us. Despite rising prices in the overall market, we were able to finish our purchase of **Discover Financial**, and, during a very short window, add slightly to our positions in **Domino's** and **Goldman Sachs**.

Looking forward, the stock market will do, as always, what the stock market's participants, writ large, are collectively moved to do. The tricky times the world is attempting to navigate will perhaps factor into those decisions but perhaps not, and we are the last people to hazard any guesses about that. Having said that, a portfolio long on resilience and short on memes, themes, and dreams is one with which we feel comfortable going into 2024 and beyond.

We wish you all joy, happiness, and peace in the new year.

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