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2023 Q1 Market Review

The financial markets continued to gain in Q1. Four of the five asset classes* we follow were higher in Q1; only commodities were down, moderately, and international markets (as measured by the MSCI EAFE) were the better performers. This underlines our philosophy that a well-diversified portfolio is an effective strategy for investors.

I find it remarkable how yesterday's "serious" problems look less threatening as a new problem emerges. Over the past three years we have moved from the fears of Covid threatening humanity, to Supply chain disruption (largely due to Covid and the Ukraine war), to rising Inflation fears. However, all these took a back seat (based on media coverage) to the Banking Crisis fueled by Silicon Valley Bank and a few other smaller bank failures.

As I remarked in an earlier note: "In early 2023 all these are known issues and I believe we have the knowledge and institutions to work through them. Moreover, we do not see a systematic or permanent impairment in our business eco system as a result of these shocks. But, rarely do shocks (positive or negative) play out in a clean linear manner; instead there is an oscillating movement towards a new equilibrium". I believe the same will hold true for the Banking crisis. In fact this behavior pattern should keep reminding serious investors of Warren Buffet's observation many years ago: "In the Short-Run, the (stock) Market Is a Voting Machine, But in the Long-Run, the Market Is a Weighing Machine".

This implies being vigilant as investors: vigilant about monitoring fundamentals (which is how the Market behaves like a weighing machine) and vigilant about monitoring risks but NOT reacting to each bit of new (especially sensationalist) news. We believe it is short-term news that causes Markets to behave like a voting machine usually to the detriment of investor portfolios. Perhaps Kenny Rogers said it best in his song the Gambler: "You gotta know when to hold them and know when to fold them…". And that is what we strive to do.

We believe that leaning on time-tested principles is more important than trying to forecast the future, a futile endeavor in our opinion. To us it reinforces investment principles that have been profitable for us: One, be evidence based investors i.e. dig deep into data to understand the sub-currents. Two, diversification is important for preserving portfolios. Three, Volatility is not Risk so make friends with it.

In 2023, we plan to keep clients diversified across the 5 main asset classes, be prudent with any risks we take, and to remain cost-conscious. We think this remains a sound investment approach.

*Our Asset classes: Cash, Fixed income, Equities, Real Estate and Commodities.

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Our evidence–based Investment Philosophy

We seek to double clients' wealth every 10-12 years and to do it without exposing portfolios to the risk of a permanent loss of capital. Our objective is to preserve the money you invest with us and to maintain its value over time. Of course, performance cannot be guaranteed, and past performance is not indicative of future results.

Our portfolios are sensibly diversified across the five main asset classes, and with markets becoming increasingly global, we seek opportunities regardless of where they are located.

We strive to manage investments prudently, using the value-style oriented approach of buying high quality investments when they are available at attractive (inexpensive) prices.

We select investments to get better total returns fully recognizing that risk management, cash requirements, tax considerations, social investing demand, etc. may reduce returns of portfolios.

We use both active and indexed portfolio management techniques depending on market conditions. When markets offer opportunities, or as we uncover compelling ideas, active portfolio management is useful. At other times our default position is to use evidence-based indexed investments.

We believe that market conditions are important, especially when clients add to or withdraw capital. At these times, we pay attention to market trends based on the relative attractiveness of major asset classes and our expectations about their future performance. But normally, we do not attempt to time the market; research suggests it is futile.

We use fundamental techniques, quantitative approaches, and behavioral finance to guide us when we buy and sell securities and strive to take the least amount of risk that is consistent with a client's objectives – as distinct from shooting for the highest returns.
