June 2021

This quarter saw a renewed embrace of the alchemy in which financial markets periodically dabble: the transformation of oxygen into helium. Stock market valuations are, in general, hovering in the upper atmosphere, leaving those of us inclined to remain on earth gasping for breath (and not finding much air to breathe or stocks to buy). But at the end of the day, all the wizardry in the world cannot transmute a leaden investment into a golden one, however supportive current economic circumstances might appear. Just as each element has its own distinctive atomic weight, so each company has a value that a rational buyer would pay for it based on its likely future cash flows. However much we might wish otherwise, that weight doesn't change simply because we will it to.

With little tethering stock prices to reality right now, it might be tempting to view the job of investing clients' money as a purely theoretical exercise in intellectual curiosity. And yet, despite the mostly lofty prices on offer, there remain pockets of reasonable value to explore, just as there remain good companies and industries to investigate for future purchase once prices start losing altitude. For us, despite the heady times in which we find ourselves, our investment litmus test has not changed: we look for companies that we believe can earn a high return on invested capital over the long term, that have resilient business designs and top-notch management, and that are selling at a discount to our own carefully considered (and pretty conservative) valuations. In the absence of finding such perfect chemistry, however, we bank our cash and wait. This does not, however, mean that we're inert; we continue to generate and develop ideas, talking to several companies a week in search of the exceptional few we can add to our buy at a price list. And, of course, we look for opportunities to sell when even those companies we admire and would happily buy again are trading more buoyantly than makes sense to us. While investing is, to be sure, not a science, basic arithmetic still applies. Because however much we like a company like **Deere**, whose stock price more than quadrupled while its earnings "only" doubled over the eight or so years we held it, it seems to us elemental that if we can't justify its lofty price today, we shouldn't be holding it for some mercurial tomorrow. Remember that helium, that most noble of gases, is known for its rapid diffusion, so that which it holds up…will sooner or later come down.

So, yes, we sold the rest of our Deere position last quarter. We're sorry to lose it (we really like the company) but every stock we own is for sale at some price (the boiling point, if you will). For a change, we also found a couple of stocks to buy, albeit in small amounts. We added to our **Strategic Education** position as the stock became, in our view, extremely inexpensive. And we bought a trace amount of another stock, the currently small position size reflecting the fact that the stock quickly exceeded our price limit. We are nothing if not persistent (and disciplined) however; as bad news or whimsical sentiment brings its price closer to earth, we will be there to capture more.

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