



March 2024

The market surged this quarter and, somewhat uncharacteristically for such a breathless sprint (especially one fueled principally by tech), our stocks outpaced it. While we have confidence in our companies and their shares' ability to outperform the S & P 500 over time, we could never have predicted the strong performance we saw this quarter. Nor, frankly, could we have foreseen the market's robust upswing in a world so beset with uncertainties. Ultimately, the timing of such bursts of performance is both impossible to anticipate or even to understand. When it happens for us, though, we give thanks to the rigors of our process and discipline that keep us on the straight and narrow no matter how the market chooses to behave.

Therefore, while ever obedient to the higher power of our philosophy, we remain unrepentant agnostics when it comes to the future trajectory of the stock market in general and individual names in particular. The fact that the S & P 500 is weighted according to the market cap of its constituent companies only serves to reinforce that resolve, especially while "as goes Nvidia so goes the index" is now apparently the rule of the day. This is nothing particularly new; investors worshipping at the altar of the reigning FOMO darlings have always had outsized influence over the direction of the market—at least in the short-to-medium term. But as we've seen time and again, many a false god has been praised to the heavens only to have its feet of clay revealed in due time.

That does not mean, though, that we are without religion when it comes to embracing the information the market can and does provide us. Indeed, the faith we place in the market's efficiency in aggregating individual views as to what a company's stock is worth each day is valuable treasure; while stock prices are not always *correct* in how they reflect underlying value, they are unassailably *right* in describing how investors view those stocks each day. It's our job to use that information by, as appropriate, buying, selling, or holding. So long as a stock's price is, over time, tethered—even loosely—to its true value, our ability to wait for the right moment to engage in advantageous trades turns out to be our greatest blessing. Who cares what the market might be about to do—race higher, skid lower, coast—so long as we have a sound read of intrinsic value against which we can measure, on any given day, whether our chosen stock is priced too low, too high, or more or less right on the nose?

Given the above-mentioned market surge, we found little to buy and more to sell. Early in the quarter, before Capital One's acquisition attempt was announced, we continued to add to our position in **Discover Financial**. Subsequent to that announcement, we sold our entire position in that stock. Once an acquisition is announced, the price of the stock is essentially set by arbitrageurs, who, frankly, understand the odds of the deal closing better than we could. During the quarter we also sold our position in **Goldman Sachs**. A succinct version of our theory in owning Goldman goes as follows: they have large pool of capital and we believed they could allocate that capital intelligently enough to earn a decent return. Unfortunately, many of the allocation decisions they made were subpar and we saw no reason to believe that the quality of their decisions would improve in the future. We also finished trimming our position in **Arch Capital**, solely due to price appreciation.



The broad market today seems to be hosting a tent revival of sorts, with tech stocks as the talismanic centerpiece. But this too offers us an opportunity: instead of bemoaning the exorbitant price of stocks, we rejoice in our ability, as just noted, to sell those holdings that are hitting highs we believe are unlikely to be sustained or surpassed, at least in the medium term. Markets like this, whether held aloft by hope, euphoria, or (ir)rational exuberance, do tend to return to earth at some point. If opportunity is knocking today, we'll answer the door with a smile. What we won't do is join the pilgrimage to the top of the cliff. But by this point, we assume we're preaching to the choir.

The information contained herein should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any securities transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions that we make in the future will be profitable. The opinions stated and strategies discussed in this commentary are subject to change at any time.