THOUGHTS FOR THE WEEK

HURRY UP AND WAIT

August 25, 2023

A recent article in *The Surfer's Journal* pointed out that, for all the focus on riding waves, surfers only ride waves ~3% of the time they are in the water. The other 97% of their time they are sitting or paddling, and waiting. Watching a baseball game is similar. Per a 2013 *Wall Street Journal* study, a three hour baseball game contains about 18 minutes of action, or ~10% of time spent watching the game. Action is the small part that occurs within the seams of waiting.

We can go on. If you attended one of the Taylor Swift concerts over the past 6 months, you might have waited in the merch line for as many hours as her 3.5 hour concert (and sometimes in blazing heat, too). That zip up sweatshirt was worth it for your daughter. But you waited for it. The point is that much of life is a wait. And much of your "investment life" is also a wait. Sometimes a long wait.

We preach long-term investing. To us that means foregoing making major shifts based on our view of what the market, Federal Reserve, or economy might do in the short run, and instead relying on the probability that assets tend to get more valuable over time. We of course try to identify, ahead of time, those assets which have increased odds of not only becoming more valuable, but also more valuable (measured as a rate of return) relative to the *other* choices we could make on your behalf.

This incorporates many of the topics we've covered in past *Thoughts*, primarily trade-offs. Do you want the expected return that equities have historically delivered? Be prepared to endure significant ups and downs. Or maybe you're attracted to the return possibilities from private equity. You'll likely have to commit capital for a decade, and not have much access to that capital during that time.

But regardless of what investment choices you make, unless you're adept at nimbly navigating ahead of the crowd (and few are adept at that skill with any consistency), you'll do a lot of waiting. Waiting for interest payments to hit. Waiting for a project to go from planning to construction to completion. Or waiting for a company's sales and earnings progress to materialize as they develop new products and services. And waiting for prices to reflect value.

In our view, markets are generally efficient over the long-term, and eventually price tends to reflect value. If a company has a track record of increasing sales and earnings, and investing capital in a wise and efficient manner that earns an above average return (measured as return on invested capital or return on equity), the market price will eventually reward that consistency. But the progress is not linear.

Market prices act as giant discounting mechanisms, extrapolating a view of the future into a price today. And that view is the compilation of all participants – their analysis, their emotions, their fear, their greed. It's the "emotions" part that is most responsible for non-linear movements. Once fear and greed enter the equation, small changes in fundamentals can produce big changes in price. “Miss” revenue estimates by a percentage point or two, and your stock may be down -10%. Or more.

Does that “miss,” and the subsequent selloff, signify a long-term problem? Possibly. But often it’s simply a reflection of consensus opinion recalibrating to a slightly different set of expectations. The selloff might be steep, but if the company is still making progress toward long-term goals, a near term selloff is hardly a reason to sell. So long-term investors wait. Wait for the price to shake off the emotional effects of the “miss.” And wait for continued signs of improving company fundamentals – growing sales, improving margins, etc.

And if and when prices do recover, they often hop rather than make slow, steady progress. A long-term investor, holding conviction in the assets they own, is in position to capture that hop. They may wait for it, sometimes for extended periods, but they’re present. And if you’re not patient, trying to adroitly navigate the peaks and valleys of stock prices for example, your odds of being out of position when those prices “hop” increase. There’s of course no guarantee that prices will ever hop. But the long-term history of investing in stocks shows a reasonable return, 10.1% (S&P 500, 1926-2022, source Bloomberg). And the highest odds of achieving those attractive long-term returns, should they persist into the future, lie with those who are comfortable with the wait.

Call it boring. Call it dull. But investing is not meant to be an action sport. For most, it’s a passive endeavor that tends to favor those with patience. Those with a capacity to wait. Just as you’re waiting for the small bits of action in a baseball game, or sitting idly on your surfboard, squinting, looking for that next wave, “waiting” on investments has historically led to satisfactory outcomes. That’s something we don’t expect to change. So, we wait.

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Sources:
The Surfer’s Journal, “Essay in Suspension,” volume 32.4

Wall Street Journal, “In America’s Pastime, Baseball Pass a lot of the Time,” July 16, 2013

Mike Burbank’s Awards:
2017-2022 **Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State) Source: Barrons.com (Awarded 2017-2022). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

2013-2020 **Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19

2019-2020 & 2022 **Forbes Best-In- State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.
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