THOUGHTS FOR THE WEEK

AVOID THE SECOND ARROW

January 12, 2024

I'm not Buddhist, but I have spent considerable time studying Buddhist teachings and incorporating many of its principles into my life. One of the principles I keep top of mind is to avoid getting, "shot with the second arrow." In the Buddhist view, suffering is inevitable. How we react to that suffering, however, is within our control. And the Buddhist parable of the second arrow illustrates this.

A simple example is getting cut off by another driver on the road – you're "shot" with the first arrow. You "suffer" (not really, assuming you don't wreck your car), but the suffering can end there, perhaps after a deep breath or two. Or not. You might yell, and flip the bird to the other driver, or lay on the horn. Suddenly, your heart is racing, you're angry, and the initial suffering is compounded by the road rage you feel. You've been shot with the second, avoidable arrow. Your reaction to the initial suffering magnified the effects.

There might be no better example than instilling the trait of honesty in your children. Kids mess up all the time. They might do something irresponsible, egged on by friends. Maybe they back your new Mercedes into a light pole. Bad enough that their actions caused suffering. But lying about what happened worsens the problem. A mistake can be forgiven. Lying about that mistake is harder to forgive. Instead of being shot with just one arrow (yes, mistakes are inevitable), the dishonesty worsens the pain, and it's as if they've been shot by two arrows – the second one entirely self-inflicted.

This also occurs in the investment world. In our view, "suffering" is a natural accompaniment to long-term investing. Tom Russo, a noted value investor, incorporates suffering into his analysis of companies, believing that a company with a "capacity to suffer" is one with its sights properly trained on long-term sustainability. An example is a company that eschews Wall Street's clamor for quarterly profit growth, instead willing to make costly investments that might hurt the stock price in the near term, but that have a high probability of strengthening the resiliency, and subsequently greater profit growth, over the long-term. Many companies pay lip service to these types of actions. Few actually do them. Companies too often try to avoid short-term pain, which in this case is the first arrow, and "shoot" themselves with the second arrow – an opportunity to build long-term value that is wasted.

When thinking about the investing we conduct on behalf of clients, similar traits are employed, only in this case the "capacity to suffer" takes the form of the ability to withstand market declines. Asset prices generally increase over time, at least that is the 100+ year history of stocks in the United States. Hitching a ride on that train has been highly profitable for those with a long-term view. But that train ride can be scary at times. And the scary times are inevitable, while the ability to sidestep those scary times is nearly impossible. Investors are bound to be occasionally shot with the first arrow.

How investors react to those scary times is a choice, and can at times be the single biggest determinant to long-term investment success. If properly prepared for getting shot with the first arrow – an understanding that market prices move in cycles and do not make linear progress; holding an appropriate amount of cash and short term securities to help make it through the lean market years – then investors can avoid that second arrow. But reacting to those market declines - radically changing strategy; selling assets at bad prices to "stop the pain;" going to the sidelines to "wait out the volatility" – can take the form of the second arrow, and compound the near-term pain from market declines into the long-term pain of falling well short of investment goals. Advance preparation for the "first arrow," which is inevitable, goes a long way to avoiding the "second arrow," which is not inevitable.

"If the thunder don't get you then the lightning will," lifted from the Grateful Dead's "The Wheel", is an apt metaphor…stuff will happen. You'll occasionally get shot with the first arrow. But how you react can determine whether you recover, or sink further. We're pragmatic, we know that first arrow is coming. At any time. But we're vigilant in working to avoid the second – in our relationships with friends and family, in taking care of ourselves, and, importantly, in how we think about stewarding clients' financial structures over a long, lifetime journey.

Enjoy your reading and your weekend, and Happy New Year!

Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

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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.
Awards Disclosures

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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

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Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

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CRC 6213675 dtd 01/12/2024