

## THOUGHTS FOR THE WEEK

## VALUES IMMUNE SYSTEM

March 22, 2024

People are a collection of systems and values. Systems and values organize on the personal level, and aggregate on the cultural level, multiplying their power. Some of those systems and values are static, such as the laws of thermodynamics, a set of scientific laws characterizing thermodynamic systems in equilibrium. Others are dynamic, built from the compounding effects of experience. In the US, the difference between the rigid values that defined the Victorian era and the expressions of individualism that emerged during the Jazz Age exemplify the dynamic. Values shifted over time.

Inherent within a value system is an immune response. We're not talking about a physical immune defense, like that which resides within the body, rather a system of collective defenses that work to keep outside influences from altering the value system. Some immune systems are weak – an example is the swift fall of the Berlin Wall in 1989. The communist system was unable to ward off the infection of free principles. Some are strong and not easily penetrated, for example, the five precepts in Buddhism – abstain from killing, stealing, sexual misconduct, lying, and intoxication. Universally applicable and secular, people may choose not to abide, but the immune system protecting those values has so far warded off any challenges to the validity of those values.

There is a crux, though – determining if a figurative immune defense is protecting a system of enduring values. Or protecting a system in decline, and in need of a refresh. And that is where we segue to thinking about investing your capital. We operate with a strong value system, centered around long-term thinking, a gradual pace, and a willingness to endure short-term pain. And we have defenses built up that protect that value system. We keep a “too hard” pile, investments that might produce wonderful returns but ones in which we're unable to get comfortable with the odds of success. We limit reading material geared to short-term views. We don't watch financial television. We don't spend much time thinking about the macro-economic environment. All of these defenses help protect long-term thinking and a deliberate pace.

But that doesn't make us “right”. We are also believers that we exist in a state of impermanence. The world is an entropic place, and change is inevitable. Look no further than Eastern Europe or Hong Kong, two regions which have experienced immense social change in the near term, quickly testing, and eroding value systems that had arisen over the prior decades. The probability that the value system guiding our investment decisions is flawed is not zero. In fact, if it ever reached a “perfect moment”, that it somehow was the perfect strategy for the time (we are not claiming this, of course), the likely path from there *would* be one of decline (again, think entropy).

So, we test the system. Continuously. We read views and thoughts at odds with our own. When researching a company, we think about how it could fail – what circumstances or decisions could shift it from a position of strength to one of weakness. We consider whether we are relying on mental models that are outdated, or no longer relevant in a changing world.

We believe our value system is strong, but it is not strong in the sense of the five precepts referred to earlier. It is impeachable, and will almost certainly degrade over time. We do not think it is degrading now, and the system has been reasonably successful at producing positive investment outcomes. But there always remains a risk that we are clinging to a structure that is losing effectiveness. Change is inevitable, but accepting change is challenging, as we get comfortable with the status quo and the immune response gears to protect that status quo. The majority of time, the immune response is a positive effect, but not always.

While we don't anticipate a change to the value system governing our investment decisions, we are on guard against complacency, and we test for weakness. In aggregate, our vigilance likely strengthens the immune response, much like the body, once exposed to chicken pox, develops antibodies rendering future chicken pox outbreaks unlikely. But we can't assume we're safe. We like to think we operate with bedrock principles, but that flies against the idea of entropy. So, we're on guard. At all times.

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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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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