

THOUGHTS FOR THE WEEK

USE YOUR COMPASS

May 02, 2025

We've worked through a number of exceptionally cloudy environments. The last "normal" recession we worked through was in the early 2000's, when excess supply and investment in technology businesses tipped the economy into negative growth. Since then, it's been a panoply of one-off major events: a financial crisis during which the banking system teetered; a pandemic that shut down the world economy; and now a trade war that is re-writing a world order that's built up over the past 80 years. It's the difference between catching a nasty flu – you kind of know what to expect – and a total shock to the system – you wake up in a new reality.

The common thread across one-off events? There is no map to help find your way. Consider the plight of an auto company CEO. In a normal recessionary environment, your inventory grows as sales decelerate, and margins slip as factory efficiencies degrade. You alter your production schedules, and perhaps furlough a portion of your workforce. Your CFO leans on suppliers for discounts and extended terms. Your moves ripple through your supplier base, and they execute similar moves. Finding equilibrium takes a bit of time, but eventually your sales decline bottoms and growth reappears. There's a roadmap for how to respond.

Now consider that same CEO today. Signs of a slowdown are on the horizon, but you just sold a boatload of cars as buyers anticipate a price hike. Your production lines need to run but you don't know your input costs. Your costs could be exponentially higher due to tariffs, but you don't know what those tariffs will be. You don't know whether tariffs will be heavy, or revert back to levels when the year began. You sell globally, so you also don't know how other customer countries will respond. You are essentially flying the plane with no map.

But you have a compass. A compass won't illuminate the path, but it will guide you in the right direction. It can keep you from veering too far to one side or the other. And it stays true. Handed a map, you first need to question the map's veracity – who drew it; is it accurate and updated; what has changed since the map was drawn? A map, after all, is completely man-made – based on observations and inputs at a static time. A compass, on the other hand, relies on the earth's magnetic field, which is stable. Even today, when navigation uses GPS and a sophisticated system of satellites, sailors are still trained to use a compass in the event the technology fails.

So, what constitutes an *investing compass* – an instrument to navigate a world that exists primarily in intangible form, and is impacted by continual updates of forecasts on the future? A world that exhibits reflexive properties, in which the actions of one participant ripple through markets, influencing the actions of other participants? A world in which your map is often out of date before it's even printed? We employ a set of operating principles that, while not failsafe, keep us pointed in the right direction.

A few Key Principles

1. **Avoid Permanent Loss of Capital** – Price volatility is often unavoidable, but you can significantly reduce the odds of losing permanent capital by avoiding excess leverage, employing sober forecasts when valuing an asset, and steering clear of investments with binary outcomes.
2. **Respect That Bad Things Happen** – Make your personal balance sheet more resilient by holding a portion of your assets in conservative investments like US Treasury Bills and living within or below your means.
3. **Practice Humility** – Financial markets can make smart people look stupid, especially in the short run. Keep a flexible mind and be willing to admit you're wrong and change course.

In summary, this year's investment environment has been a shock to the system. We feel like we've awakened in a new reality.

Unfortunately, there's no map to illuminate the path forward. No GPS to tell us which way to turn. But like a sailor navigating a vessel without modern-day technology, we still have our compass, and we're confident this tool will help shepherd us through the current economic environment and unforeseen challenges to come.

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Awards:

2024 Barron's Top 250 Private Wealth Management Teams

Source: barrons.com (Awarded May 2024) Data compiled by Barron's for the period Jan 2023-Dec 2023.

2024 Forbes Best-In-State Wealth Management Teams

Source: Forbes.com (Awarded Jan 2024) Data compiled by SHOOK Research LLC based on time period from 3/31/22-3/31/23.

Mike Burbank | 2020 & 2022-2024 Forbes Best-In-State Wealth Advisors

Source: Forbes.com (Awarded 2020 & 2022-2024). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.

Mike Burbank | **2017-2024 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 2017-2024). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

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