



PORTFOLIO NOTES

May 2021

To our Business Partners:

- **"TIME DISCOVERS TRUTH."** We came across this phrase in a recent investment article. It is a saying attributed to a long-gone Roman philosopher. We doubt he was talking about investments, but it is certainly something that can be applied to the investment process. Truth to us is intrinsic value. While we know that when we undergo our investment process, our estimate of the value of a company is just that, an estimate. But it comes as close to the truth, in our opinion, as we can get. As in life, truth does not manifest itself all the time in the investment world. Investing is a long-term proposition, and eventually true investment values do prevail.

More modern-day versions of the same concept are "reversion to the mean" and Ben Graham's "in the short run, the market is a voting machine, in the long run it is a weighing machine." Stock prices often reach extreme levels, on both ends of the spectrum. But eventually prices tend to move toward intrinsic value. We are seeing many traditional valuation methods thrown out the window these days because they do not support the prevailing narrative. But speculating that this time will be different, we believe is a very risky proposition. Time will tell.

- **VALUATION.** As long as we're being philosophical this month, stock valuations remain so high that "The Greater Fool Theory" is coming into play. It's the (foolish) belief that you can make money from buying overpriced securities because there is usually someone – a "greater fool" – who is willing to buy you out at an even higher price.

Our own group of widely held stocks* sells at roughly 90% of intrinsic value which, if all purchased today, won't yield the returns we hope for. Likewise, among the investment candidates that come out of our screening process, they're generally either crummy companies, or they're priced too far above value to warrant purchase. We remain highly disciplined and extremely patient. They'll come our way, eventually.

- **RECENT RESULTS.** Stock prices rose in April, with returns ranging from 2-5%. The tech-heavy NASDAQ recovered from a flat performance in March to gain 5.4%. Year to date, smaller company indexes have the advantage with 18-20% gains versus 8-11 for the big-cap indexes. Over the last twelve months, all indexes are up significantly, with easy comparisons against the depressed markets of a year ago. The smaller company indexes have surged the most, as they suffered the largest declines last year. Year-over-year advances are significant, ranging from 40-70%. Our group of widely held stocks* has performed well this year, ahead of most of the indexes.
- **WE'RE MOVING!** Our office building has recently been sold, which necessitates a move to new offices about 300 paces away. Phone number remains the same. As of MAY 1, our new address will be:

**440 Wells Street, Suite 203
Delafield, WI. 53018**

Steve Nichols, CFA Bill Warnke, CFA

*The group of "portfolio stocks" -- our Equity Composite for the purpose of evaluating investment performance -- consists of 18 stocks that are held in our clients' accounts. Portfolios might hold some or all of these stocks, depending on investment guidelines unique to each client, the timing of purchases and sales, and start dates of accounts. The performance of this group of stocks is a good proxy for our equity performance but might vary widely among accounts. Of course, past performance is not necessarily indicative of future results.

We hereby offer to deliver to you without charge a copy of our current Form ADV Part 2, in accordance with the U.S. Securities and Exchange Commission's "Brochure Rule." Please contact us if you would like us to send you a copy.

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