Midyear Letter

To our Clients, Business Partners, and Friends
July 2024

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."

– Charlie Munger

Charlie Munger would have turned 100 years old January first of this year. At the time of his death in November 2023, his estimated net worth was $2.6 billion.[1] He will be remembered not just as Warren Buffett's business partner and the "architect of Berkshire Hathaway," but as a true visionary and curator of wisdom. I found it appropriate to begin my midyear letter with a quote from him.

It is my pleasure to report to you at midyear on the events of the last six months. As is customary in these letters, I would first like to restate our guiding principles, which I regard as timeless truths about enduringly successful wealth management. I will then proceed into current observations and end with some final thoughts.

The ideas that guide us

- We are goal-focused, plan-driven, long-term investors. Our portfolios are derived from and driven by your most cherished lifetime financial goals, not from any view of the economy or the markets.
- We do not believe the economy can be consistently forecast, nor the markets consistently timed. We do not believe it is possible to gain any advantage by going in and out of the markets, regardless of current conditions.
- We therefore believe that the most efficient method of capturing the full premium compound return of equities is by riding out the equity market's frequent, often significant, but historically always temporary declines.
- We believe that even during such trying episodes, our reinvested dividends will be buying more lower-priced shares—and that the power of equity compounding will be continuing, to our long-term benefit.

Current commentary

- The first six months of 2024 can be simply but accurately summed up in two observations. (1) The US economy continued to grow, however modestly.[2] (2) The equity market—responding to accelerating earnings growth and dividend increases—did very well indeed.[3]
- Economic growth remained marginally positive, continuing to avoid recession, while job growth continued relatively strong. Inflation slowed very grudgingly, providing the Federal Reserve with no urgent prompting to reduce interest rates.[4]

- Monetary policy remains gently but quite firmly restrictive—that is, the fed funds rate is well above the inflation rate—as I believe long-term investors should want it to be.[5] Getting inflation down to the Fed's two percent target remains sine qua non of monetary policy.
- Even without stimulating rate cuts, the equity market advanced solidly across a broad front: all three major stock indexes are significantly into new high ground.[6] The impetus for this has been just what it fundamentally ought to be: strengthening earnings and rising dividends. Bloomberg's current estimates are for the S&P 500's earnings to be up about 8.8% this year, to be followed by a further 13.6% increase in 2025.[7]
- Even though cash dividend payments to shareholders are at record high levels, S&P 500 companies are still paying out a below-average percentage of earnings (about 37% versus the average for the last 30 years of nearly 46%).[8] Between that and sharply increasing earnings, there could appear to be quite a bit of room for further dividend growth this year and next.
- Earnings and dividends are variables that can drive the long-term value of our core investment asset: ownership equity in a broadly diversified portfolio of enduringly successful companies.[9] Not the national debt; not the looming election; not the presence or absence of Fed rate cuts; not war(s); not the onset of the next regularly scheduled government shutdown "crisis".
- I continue to believe that the more we focus on the fundamental strengths of our core asset, the more we're able to tune out the noise, the less we will be in danger of emotional overreaction to ephemeral movements in "the stock market".

In closing

It's worth defining what Charlie meant by "trying to be very intelligent." In the investing world, "intelligence" often means acting in response to current market events—many times, it's just another word for pessimism. The seduction of pessimism is well documented and difficult to resist. Might I remind you of the front page article in the Wall Street Journal on December 29, 2008: "As if Things Weren't Bad Enough, Russian Professor Predicts End of US"

A financial plan grounded in the core principles laid out above, tailored to accomplish your personal financial goals, continues to be our best defense against such "intelligence," anchoring us to the only things that consistently work in the long run. After all, there's nothing less than our financial independence and pecuniary comfort at stake.

The responsibility to monitor and maintain such a plan for so many great people is not lost on me; I regard it as a true honor to which I work each day to deserve.

Thank you, as always, for being my clients. It is a privilege to serve you.

All my best,

Jonathan Israel

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[1] “3 Rules from Buffett Partner Charlie Munger That Helped Earn Him $3 Billion Fortune.” *Yahoo! Finance,* Yahoo!, December 8, 2023, finance.yahoo.com/news/3-rules-buffett-partner-charlie-123055425.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAEQIM8ObvdEtPhEts-ulnPTRyXa8lX3xMcLNKxB5j7RRm9Z-etAPyYVQsOOcCnrZ4GlVMZjuGxARqMCGCK8ARAnsy4iM6HOmBST5Hep-qParPsJlDylxUd2NecTqkxWFwXTKvZV-AtiJlcbqB2iEse9gC5iC6t-J87utYrH4PEOM.

[2] Adespiri. “Taking Stock: Q3 2024 Equity Market Outlook.” *BlackRock*, June 25, 2024, *blackrock.com/us/individual/insights/taking-stock-quarterly-outlook.*

[3] *Bloomberg.com*, Bloomberg, May 11, 2024, *bloomberg.com/news/articles/2024-05-11/wall-street-is-sending-a-bullish-signal-for-s-p-500-earnings.*

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[5] Hur, Krystal. “Analysis: Stocks Surged during the First Half of 2024. What’s next? | CNN Business.” *CNN*, Cable News Network, July 1, 2024, *cnn.com/2024/07/01/investing/premarket-stocks-trading-first-half-2024/index.html#:~:text=The%20S%26P%20500%20index%20gained,%2Dpopping%20gains%3A%20artificial%20intelligence.*

[6] Mena, Bryan. “Key Takeaways from the Fed’s Latest Interest Rate Decision | CNN Business.” *CNN*, Cable News Network, June 12, 2024, *cnn.com/2024/06/12/economy/june-fed-decision/index.html.*

[7] “Understanding the Federal Funds Rate.” *Forbes*, *Forbes* Magazine, April 21, 2024, *forbes.com/advisor/investing/federal-funds-rate/.*

[8] *Welcome to Pages at the Stern School of Business, New York University,* pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/spearn.htm. Accessed July 1, 2024.

[9] Wiseman, Paul. “US Economic Growth for Last Quarter Is Revised up Slightly to a 1.4% Annual Rate.” *AP News*, AP News, June 27, 2024, apnews.com/article/economy-growth-inflation-gdp-consumers-federal-reserve-869a27c99459a1ad10d0db89718f725d.