Sandpiper Capital

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Gleanings



Better prices

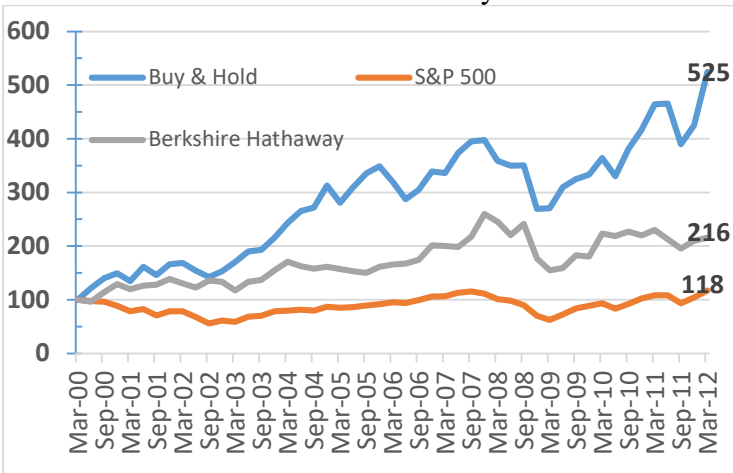
Index Returns	2023	2024	2025	**2026**
S&P 500	26.3	24.9	17.9	-4.3%
ML 1-5 yr Gov't/Corp	5.2	4.6	6.1	.2%
EAFE (Dev Fgn Mkts)	18.2	3.8	27.9	-1.2%
Emerging Markets	10.1	7.5	30.6	-.2%

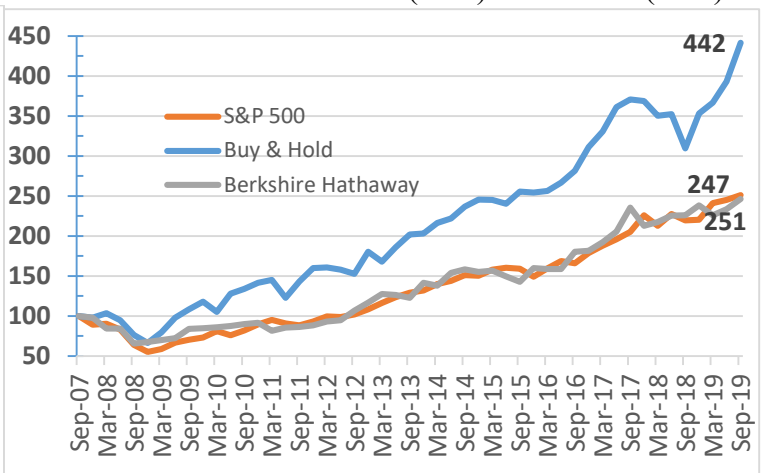
I've seen four global recessions and the corresponding market corrections in the course of my career; some of you have been clients for all of them. Looking back, we have had a pretty good history of anticipating these disruptions, but also of worrying about downturns that never happened. The investment theme has always been that "If you can avoid losing money, making it takes care of itself." Two things have changed over those forty years. One is that the increasing political and economic power that has accrued to the monopolies that have built up in the tech industry has given them unprecedented ability to grow both their sales and their profit margins. That reality has made investing almost anywhere else more challenging and less rewarding as Google, Amazon, Apple and Microsoft vacuum up all the investment dollars, (just those four make up almost a quarter of the S&P index). Two, with the wealth created by the boom in technology concentrated in fewer and fewer households, the importance of "markets go up" as a political and economic mandate has grown to dominate everything else. If the markets don't go up, the wealthy will spend less and their spending dominates in our economy. The upshot of those two changes is that often, when the headlines indicate that financial retrenchment should happen, it doesn't, (witness the pandemic). As a result, "Predicting is very hard, especially about the future". For that reason, as you've read here a lot in the past, it's essential that you have an objective plan about what you will do when the headlines spell doom and gloom. If you have confidence that accumulating and holding a portfolio of large cap, low risk companies will reward you with substantial growth, regardless of recessions and market downturns, then acting in spite of your fears becomes manageable. These two graphs should help with that. March of 2000 saw the S&P concentrated in tech stocks with valuations overextended, followed by a sharp decline in investment spending and a global growth slowdown. The S&P index fell by 50% from the peak and twelve years later had a total return including dividends of just 18% or 1.4%/yr. Similarly, the global financial crisis of 2008 saw the S&P drop by 50% from its September peak, recovering to 2.5 x's its starting value twelve years later (or 8%/yr). In both cases, notice the differences in the path of similar investments in our buy & hold portfolio and Berkshire Hathaway (the most public proponent of that philosophy). Invested conservatively, they didn't experience the same precipitous drop as the index, while the buy and hold portfolio doubled in the first four to six years and at twelve years had total returns of 5.2 x's (13%) and 4.4 x's (15%).

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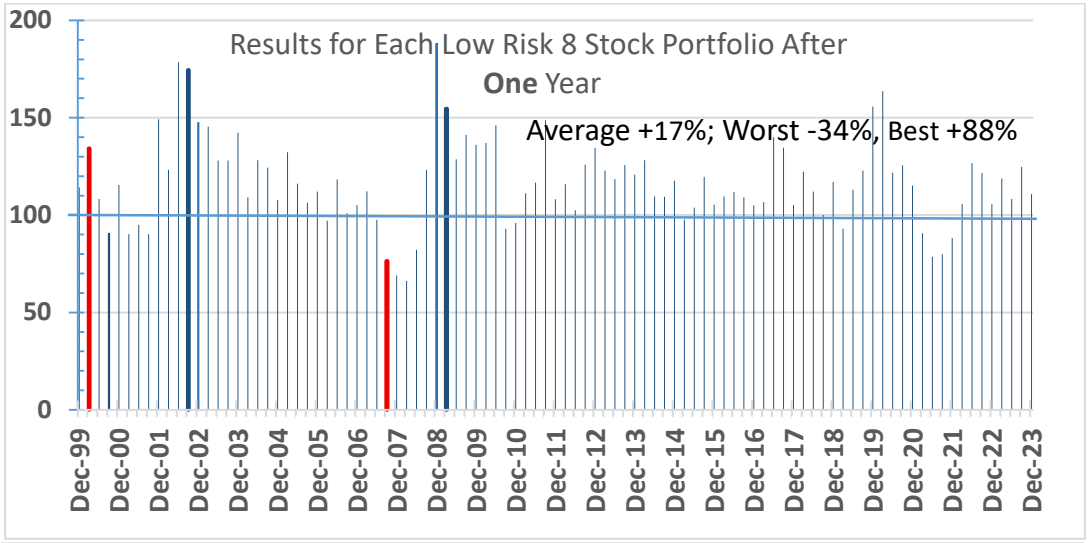
"If you can invest 25% of your income, you might hope to retire in twelve years."



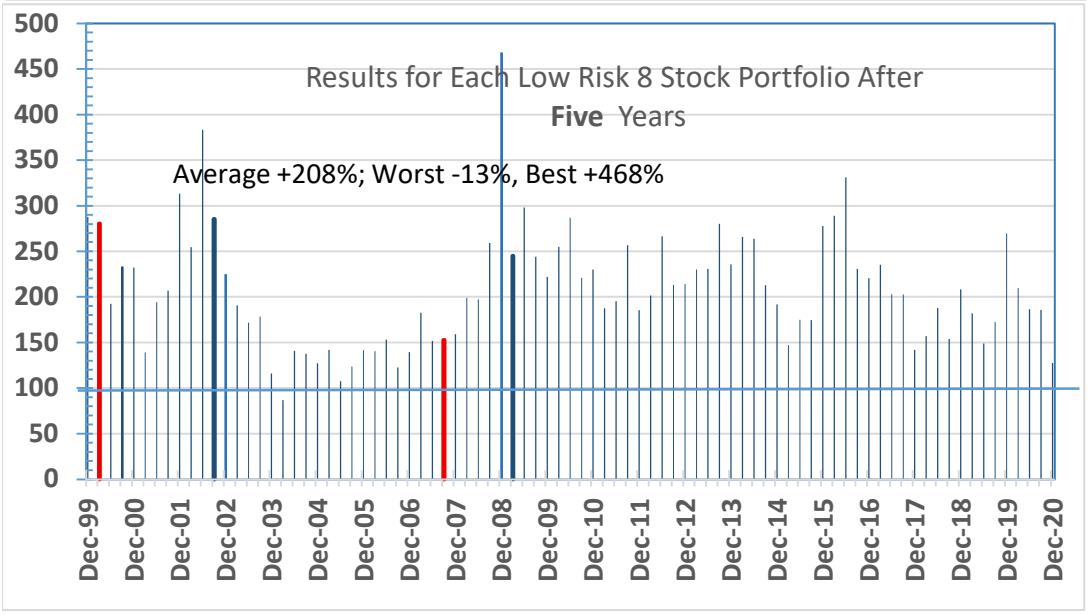




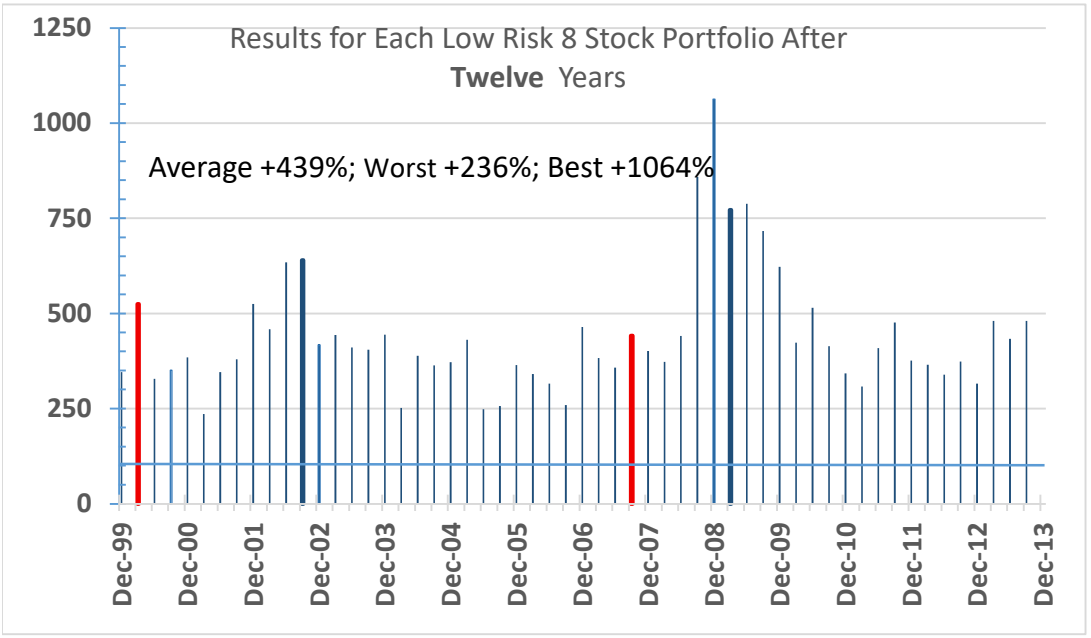
Still, does that give you the confidence to buy when everyone is selling? Here is where history may help. Each of the vertical lines in the chart to the right represents the value of $100 invested equally in the eight stocks that our S&P stock screen selected on that date. The red lines coincide with market tops, the dark blue with market bottoms. Of the 96 portfolios, 16 were below $100 after a year. Buying at the bottom produced a one-year return that was 41% and 79% better than buying at the top.



For five-year periods, of the 84 portfolios, just one was down. Buying at the bottom produced a five-year return that was 1%/yr and 11%/yr better than buying at the top. Interestingly, buying one quarter before the bottom produced better returns. $100 grew to $208 on average, or 16%/yr. Also, it's important to note that the portfolios from 1999 to 2018 are back-tested, hypothetical portfolios. From 2019 on, these are real time actual portfolios from the same model.



The twelve-year holding periods are the most instructive. Averaging a $439 on a $100 investment, the worst return was $236 or 7.4%/yr. Buying at the bottom produced a twelve-year return that was 2% and 5%/yr better than buying at the top. For someone in their high-earning years, saving 25% of their income, a quarterly investment of $1000 would have an average value of $4390 twelve years later. Assuming the pattern continues, investing 25% of that would do the same thing. If you can invest 25% of your income, you might hope to retire in twelve years.



Tom Lukic