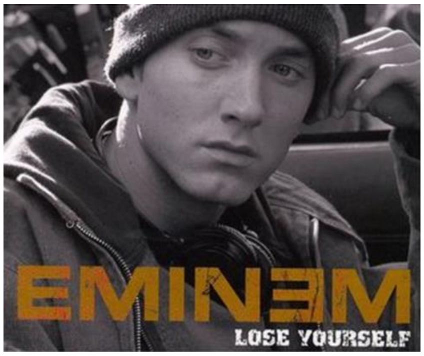
MEDALLION WEALTH MANAGEMENT

December 2022 Market Commentary

One Shot



"If you had one shot, or one opportunity
To seize everything you ever wanted
One moment
Would you capture it or just let it slip?"

https://www.youtube.com/watch?v=7YuAzR2XVAM
In honor of Eminem's 2022 induction into the Rock & Roll Hall of Fame

It's not often you get both Eminem and Warren Buffett in the same market commentary, so consider yourself lucky. Over the Thanksgiving weekend, I watched the 2022 Rock & Roll Hall of Fame induction ceremonies and was blown away by Eminem's performance (It's worth a watch). Whatever your musical proclivities, you can't help but be impressed by a poor white boy from Detroit who focuses all of his energy on becoming the greatest rapper of all time, and succeeding.

It's this singular focus, which he immortalizes in his hit *"Lose Yourself"*, that got me thinking about Warren Buffett's advice to young investors, the ***"Punch Card"***.

When Warren lectures at business schools, he says, *"I could improve your ultimate financial welfare by giving you a ticket with only 20 slots in it so that you had 20 punches—representing all the investments that you got to make in a lifetime. And once you'd punched through the card, you couldn't make any more investments at all."*

He continues, *"Under those rules, you'd really think carefully about what you did and you'd be forced to load up on what you'd really thought good about. So, you'd do so much better."*

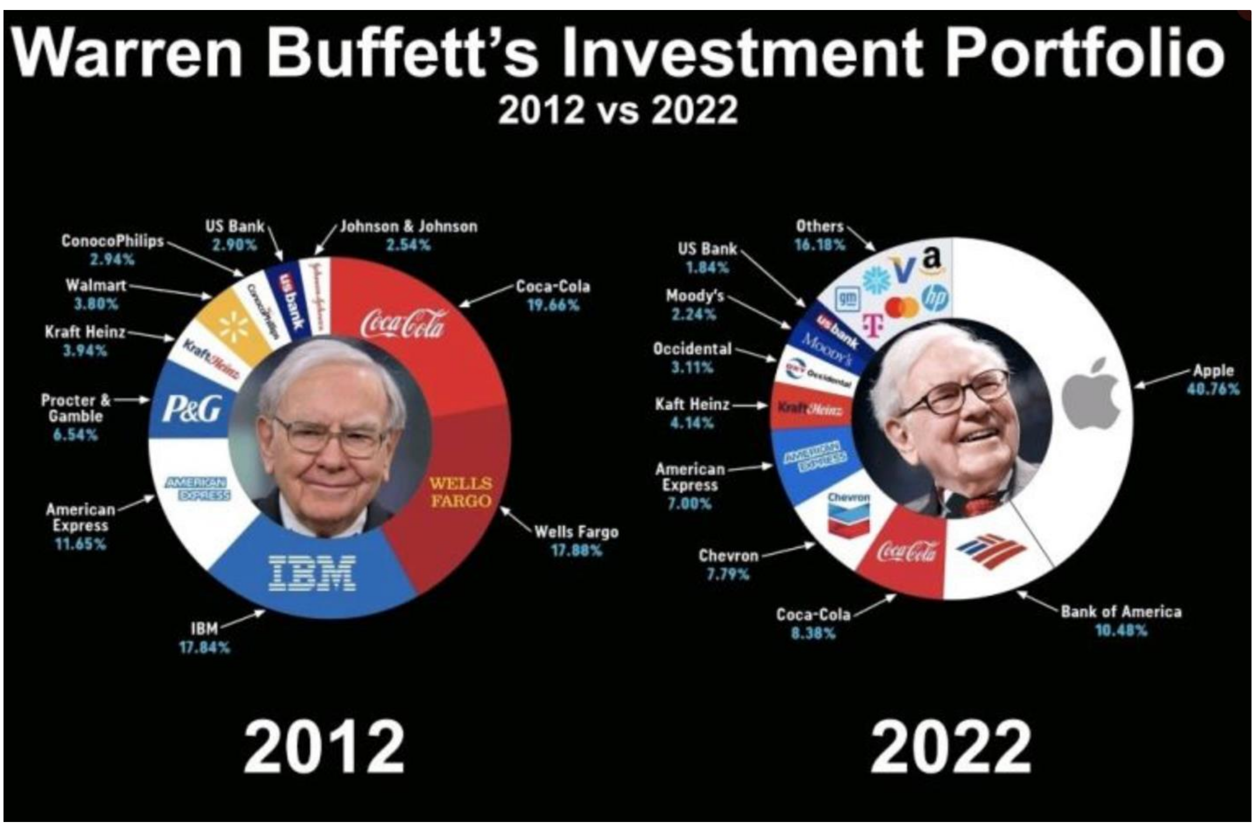
"You better lose yourself in the music, the moment
You own it, you better never let it go
You only get one shot, do not miss your chance to blow
This opportunity comes once in a lifetime"

This is one of Warren's many investment rules that has really resonated with me over the years. I've built it into both my portfolio construction, and even into my life. I've always had a touch of ADHD. Back in the '60's the teachers said I was a daydreamer, and I learned early that if I wanted to get something done, I really had to focus my attention on that one thing.

In the '80's when I started learning about Warren Buffett's investment rules the punch card lesson struck a chord. It just fit my personality. Till this day, if I'm thinking about adding a new security to my portfolio, I always ask myself, what am I going to replace? Because, if the security I'm thinking of adding isn't superior to what I already own, then I should just buy more of what I own. I call this ***"forced displacement"***, if what you want to buy isn't superior to what you own, then why make the trade.

To me, it's obvious that to be a winner in investing one has to bet very selectively. It's been obvious to me since very early in my investor life. I believe in concentrated portfolios where I can focus my attention on a few names, and hopefully not miss my shot.

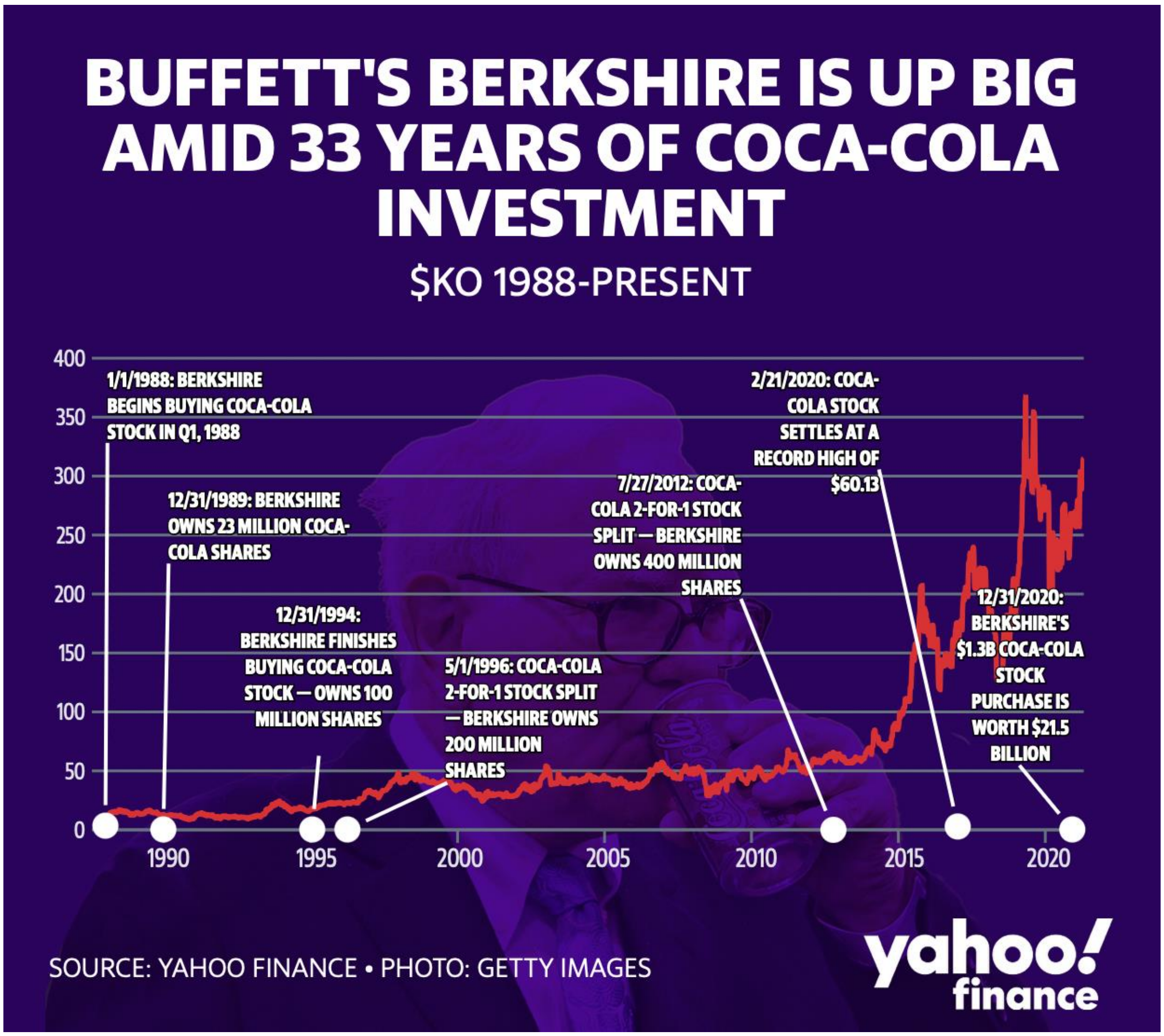
Since we're talking about Warren Buffett, let's take a look at his portfolio at Berkshire Hathaway. While I am going to mention some individual stocks in Berkshire's portfolio for educational purposes, please do not take any of this as a recommendation to buy/sell/hold any of these stocks.



Source – Quality Compounding
https://twitter.com/search?q=quality%20compunding%20Buffett%202012%20vs%202022&src=typed_query

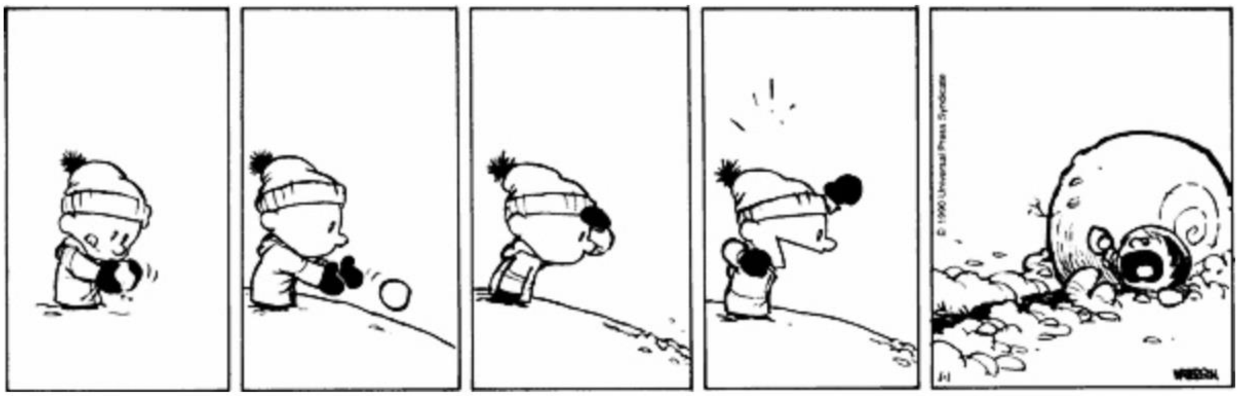
The first thing you notice in the graphic is the concentration, relatively few names and a willingness to let his biggest conviction stocks become rather large weights. This is classic **"Punch Card"** behavior. What you'll also notice is that, for a man with a reputation of buying and holding forever, the 2022 portfolio is significantly different than 2012. Some stocks have been replaced with others, and the addition of Apple in 2016, and its subsequent growth, has made it over 40% of his portfolio, and has therefore decreased the relative weight in some of the other holdings.

Another thing to study is the power of compounding over time. Again, I am not making any recommendations on Coca-Cola, I'm just using it as an example.



According to Berkshire Hathaway's 2021 Annual Shareholder Letter
(https://www.berkshirehathaway.com/letters/2021ltr.pdf) Buffett bought his original stake in Coca-Cola (KO) in 1988 and has a cost basis of $1.299 billion. At the end of 2021 that stake was valued at $23.684 billion. After stock splits, Berkshire now owns 400 million shares of Coke and collects $704 million in annual dividends. $704 million in dividends on his original investment of $1.299 billion is a dividend yield-on-cost of **54%** ($704M/$1,299M). ***Source Berkshire Hathaway Annual Shareholder Letter***.

This is known as the ***"Snowball Effect"***, or as Albert Einstein once said, "***Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it".***



Source – Calvin & Hobbes

The crux of Warren Buffett's investment approach:
Focus your energies on identifying a few well-run companies, with some type of competitive advantage, and be willing to bet with your convictions. You're becoming a co-owner in a business, not just a stock trader. Monitor those few investments and be willing to part company if you were wrong, or if you found a superior alternative. If you're right, be willing to let your winners run and let compounding work its magic.

"You only get one shot, do not miss your chance to blow
This opportunity comes once in a lifetime"

<u>Market Forecasting:</u>

As we approach the end of the year, our inbox becomes inundated with various economic and market forecasts for 2023. I spend very little time with these, and I suggest you do the same. The reason is simple, no one can predict what is going to happen. As Yogi Berra said, ***"It's tough to make predictions, especially about the future."*** Here's a nice example of the uselessness of Wall Street forecasts. Every year about this time Barron's rounds up some of the top strategists from various Wall Street firms and asks them for their forecasts for the next year. Here are their forecasts from the December 2007 Barron's for 2008:

2008 FORECAST: Wall Street strategists weigh in on stocks, bonds, profits and industry sectors.

Larry ADAM
Deutsche Bank
S&P 500 '08 Target: 1640
Profits: $99.40 **Growth:** 9%
10-Yr Treasury Yield: 4.75%
Fed-Funds Rate: 3.0%
Favorite Sectors: Technology, Health Care, Industrials
To Avoid: Consumer Discretionary, Utilities

Thomas LEE
JPMorgan
S&P 500 '08 Target: 1590
Profits: $100.21 **Growth:** 8.6%
10-Yr Treasury Yield: 5.0%
Fed-Funds Rate: 4.5%
Favorite Sectors: Financials, Energy, Health Care
To Avoid: Consumer Discretionary and Staples, Materials, industrials

Richard BERNSTEIN
Merrill Lynch
S&P 500 '08 Target: 1525*
Profits: N/A **Growth:** -7.3%
10-Yr Treasury Yield: 3.7%
Fed-Funds Rate: 2.5%
Favorite Sectors: Consumer Staples, Health Care, Telecom, Tech.
To Avoid: Energy, Materials, Financials, Consumer Discretionary

Tobias LEVKOVICH
Citigroup
S&P 500 '08 Target: 1675
Profits: $96.50 **Growth:** 5.2%
10-Yr Treasury Yield: 4.40%**
Fed-Funds Rate: 3.5%
Favorite Sectors: Semiconductors, Diversified financials, Specialty Retail
To Avoid: Materials, Real Estate, Capital Goods

David BIANCO
UBS Securities
S&P 500 '08 Target: 1700
Profits: $101 **Growth:** 10%
10-Yr Treasury Yield: 4.0%
Fed-Funds Rate: 3.5%
Favorite Sectors: Industrials, Technology, Energy
To Avoid: Utilities, Telecom, Health Care, Consumer Discretionary

Tom McMANUS
BofA Securities
S&P 500 '08 Target: 1625
Profits: $98 **Growth:** 5.4%
10-Yr Treasury Yield: 5.0%
Fed-Funds Rate: 3.0%
Favorite Sectors: Health Care, Consumer Staples, Utilities
To Avoid: Consumer Discretionary, Financials

Abhijit CHAKRABORTTI
Morgan Stanley
S&P 500 '08 Target: 1525
Profits: $93 **Growth:** 3%
10-Yr Treasury Yield: 4.5%
Fed-Funds Rate: 3.75%
Favorite Sectors: Health Care, Consumer Staples, Energy, Technology
To Avoid: Financials, Consumer Discretionary, Materials

Jonathan MORTON
Credit Suisse
S&P 500 '08 Target: 1650
Profits: $95.30 **Growth:** 5.5%
10-Yr Treasury Yield: 4.25%
Fed-Funds Rate: 3.5%
Favorite Sectors: Technology, Beverages, Pharmaceuticals
To Avoid: Regional Banks, REITs, Consumer Discretionary

Abby Joseph COHEN
Goldman Sachs
S&P 500 '08 Target: 1675
Profits: $95 **Growth:** 5.6%
10-Yr Treasury Yield: 4.0%
Fed-Funds Rate: 3.0%**
Favorite Sectors: Health Care, Cons. Staples, Info. Tech., Energy
To Avoid: Consumser Discretionary, Financials, Materials

Ian SCOTT
Lehman Brothers
S&P 500 '08 Target: 1630
Profits: $85.65 **Growth:** -5%
10-Yr Treasury Yield: 4.2%
Fed-Funds Rate: 3.25%
Favorite Sectors: Technology, Financials, Telecom
To Avoid: Consumer Staples, Utilities, Industrials

Jonathan GOLUB
Bear Stearns
S&P 500 '08 Target: 1700
Profits: $100 **Growth:** 12.4%
10-Yr Treasury Yield: 5.0%
Fed-Funds Rate: 4.75%
Favorite Sectors: Health Care, Energy
To Avoid: Consumer Discretionary, Financials, Technology

François TRAHAN
ISI Group
S&P 500 '08 Target: 1750
Profits: $100 **Growth:** 7%
10-Yr Treasury Yield: 4.0%
Fed-Funds Rate: 3.5%
Favorite Sectors: Financials, Consumer Discretionary
To Avoid: Materials, Industrials

*12-months target from 11/30/07. **Average over 4Q 2008.

The most bearish forecast was for the S&P 500 to gain 5% in 2008, the most bullish forecast was a gain of 20.7%, and the average forecast was for a gain of 13%. **In reality the S&P 500 plunged by -38.5%, they missed by about 50%.** Not only did no one foresee the greatest recession since the Great Depression, they didn't even foresee the collapse of three of the 12 firms they worked for. I'm not picking on any of them individually, I'm just trying to show the futility of forecasts.

Since we're talking about Warren Buffett today, here's what he has to say about economists and market strategists, *"Any company that has an economist on their payroll has one too many employees."* He goes on, *"Something different happens all the time. And that's one reason economic or market predictions just don't enter into our decisions. We make business predictions about what individual businesses will do over time. If* *those are good businesses run by great managers, then they should be able to succeed in good times as well as bad."*

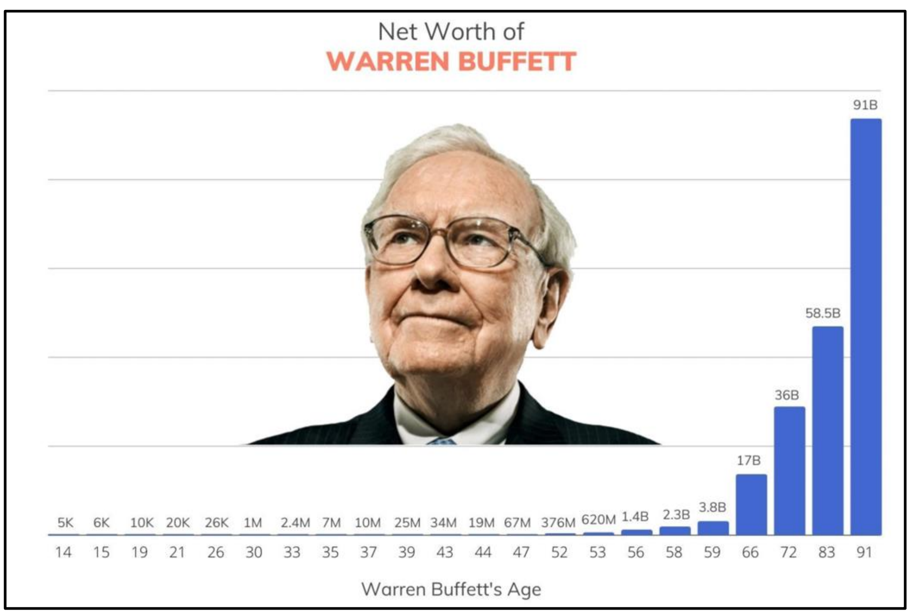
So, my Christmas gift to you is Time, the time you won't waste reading or thinking about what the market is going to do next year.

Some Final Thoughts on Building a Portfolio:

One of the toughest jobs an investor faces is blocking out all of the short-term noise and focusing your efforts on identifying good long-term holdings. Here are some things to keep in mind:

- Your investment style should fit your personality, if you're not a relatively conservative person than what I'm suggesting probably won't work for you.
- Think of buying an ownership stake in a company, not using ticker symbols as trading cards.
- Identify companies with strong business models, companies that are taking both market share and mind share.
- Focus on strong management teams, management that has a proven track record of success.
- Market volatility is not the same as risk. Price volatility in the short-run presents the long-term investor with opportunities. Real risk is the long-term deterioration in your company's business prospects.
- Valuation, what you pay for a company is important. Once you've identified an attractive company you should also determine what you are willing to pay for that great company. You can often use the markets short-term volatility to create your entry points.
- Patience. Patience is probably the individual investors greatest advantage. You don't have to do something every day, in fact you are probably much better off doing very little. Professional investors often feel like they need to be doing something all the time to show that they are "working".
- Let time, and the power of compounding work for you.

Many of us older investors believe that it's too late to think long-term, but the fact is most wealth is accumulated after age 50. In fact, 99% of Warren Buffett's net worth was earned after his 50th birthday. Here's a look at Warren Buffett's net worth over the years:



Finmasters - https://finmasters.com/warren-buffett-net-worth/#gref

So, as the year winds down, and you start to think about your investment portfolio, try to ignore all the noise and focus your attention on making a few good long-term decisions. Don't miss your shot.

As always, be careful out there,

Chris Wiles, CFA

Where Trust is Earned