



Nick Murray
Interactive

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To the Prospective Subscriber

Nick Murray Interactive, now in its twenty-fourth year, offers multiple complementary resources:

- *An eight-page newsletter*, published on the last business day of each month, containing essays *for advisors only* such as you see here, on the economy, markets, practice management and financial planning. *The emphasis is always on giving you actionable real-life scripts*—what to say, not just what to think.
- *A Q&A/objections handling clinic (Ask Nick)*. Subscribers may email me directly with client/prospect issues they're encountering, and I'll formulate a response, usually within two business days. Selected exchanges are (anonymously) reprinted in the newsletter.
- The *Greatest Hits Reading List*, roughly four dozen essays drawn from past newsletters that, taken together, offer a virtually complete primer on my planning/behavioral philosophy and practices.
- Most months, *a Client's Corner essay* for transmittal (subject to your own compliance procedures) to clients and prospects, *only by email or snail-mail of the pdf we provide*.
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My goal is simple and straightforward: that every subscriber find in every monthly issue one idea, one script, one tactic, or one book or article review *which instantly repays the entire cost of their annual subscription*. I invite you to read the testimonials on the newsletter's [home page](#), to see how well our subscribers think we're doing in this regard.

I love producing this resource for its hardy band of subscribers, and would welcome the opportunity to do so for you, too.

Nick Murray

“The only thing new in the world
is the history you don't know.”

—Harry Truman

Client's Corner

On Black Friday Weekend, a Great Investing Lesson

[This essay is typical of the pieces I make available to newsletter subscribers most months, in pdf format, for direct transmittal to clients, though not in newsletters or any websites, which would open these essays up to the non-subscribing world. I retain the copyright, which must be cited. PLEASE NOTE THAT THE INCLUSION OF THIS ESSAY IN THIS SAMPLE ISSUE IS FOR ILLUSTRATIVE PURPOSES ONLY; NON-SUBSCRIBERS MAY NOT SEND IT ON TO ANYONE, WHICH WOULD CONSTITUTE COPYRIGHT INFRINGEMENT.]

January 2024

THERE WERE, IN NOVEMBER OF THE YEAR JUST ENDED, about 340 million people in the United States.

Of them, the National Retail Foundation reported that 200.4 million (including some 75% of all adults) shopped—online or in brick-and-mortar stores—over the five days of Black Friday weekend.

Now, why on earth did they do that? Why did the huge preponderance of the American public rush to shop—and spend record amounts of money—over just those five days? The answer is obvious: because retailers dramatically lower their prices over that weekend. There's a potentially great investing lesson in this, if only investors will perceive and embrace it.

In every single aspect of our economic lives, we behave that same way. To wit, we are attracted to the goods and services we need (or just want) more and more strongly *the more prices are reduced*. Conversely, we postpone purchases—or actively seek less expensive substitutes—when prices are raised. This isn't something we have to think much about; it's essential to our nature.

Which makes it all the more intriguing that, when it comes to investing, we instinctively behave the opposite way. We fly toward markets (or sectors, or funds) that have experienced the greatest price increases. And we urgently sell out of even the soundest investments when their prices fall sharply.

Again—and most ominously—this is intuitive. It's human nature. The problem is that it's quite clearly wrong. As one Wall Street humorist has observed, the stock exchange is the only place on earth where, when they have a big sale, everyone runs screaming out of the store.

What is the thought process (even though it's unconscious) that prompts this behavior pattern? It seems to run along these lines:

When the price of a financial asset rises significantly, chasing after it indicates a belief that it will keep going up, simply because it has gone up so much. In other words, our lizard brain seems to be saying that value is somehow directly correlated to price: an investment's potential to rise further is thus held to be a direct function of how much it's risen already. Stated another way: the higher an investment's price has gone, the greater its perceived



value and the less its risk.

As soon as we bring this line of “reasoning” into the light—by stating it in so many words—we realize how little sense it makes. Because every fiber of our rational economic self tells us that, in fact, *price and value are inversely correlated*. (I repeat that the entirety of our other economic behavior is based on those six words.)

Even more egregious—and fearfully costly to investors—is the converse: the perception that the more an investment's price falls, the less potential value it has, and the greater its risk.

Take, just for example, the Standard & Poor's 500 Stock Index, which is composed of five hundred of the largest, most profitable, most soundly financed, most innovative and most transparent companies headquartered in this country. You are probably familiar with many if not most of their names; indeed you may purchase their products and services often—and have no intention of stopping just because their share prices go down.

Because these companies' stocks are trading every day, they're highly sensitive to current events and trends in the economy and the world at large. (My personal experience suggests that short-term price movements often are driven as much by the ebb and flow of investor sentiment as by companies' intrinsic value as

successful businesses, but that's just one investor's opinion.) And the more prices decline, the stronger becomes the impulse to sell.

Stock prices are particularly sensitive to external shocks. When the COVID pandemic overran the world in early 2020, the S&P 500 went down by a third in the space of a month. Investor panic was rampant, so much so that the severely depressed share prices at the end of that month have never been seen again. This pattern has never ceased to repeat itself. Indeed, how could it? It's immutable human nature.

And it gives you the beginning of an idea as to what your financial advisor is really for. Simply stated, he/she is in your life

not to forecast the economy nor time the markets—things no one can consistently do.

They're there simply to remind you, in moments of extreme market stress, to focus on the enduring value of superior companies rather than on their highly random market prices. And to approach your investment decisions as you do everything else in your economic life: gravitating toward lower prices, or at least not running out of the store when the great companies go on sale.

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Books of the Year

January 2024

Herewith, a handful of must-reads from the year just passed. Four have been previously noted in these pages; one—the Norberg—will be new to you. In reverse order of urgency:

(5) *The Myth of American Inequality* by Phil Gramm, Robert Ekelund and John Early. The authors find that the hyperbolic claim of fearful and growing income inequality rests on one simple (and fatal) omission: the taxes paid by the allegedly rich, and the redistributive benefits paid out to the rest of the country. They find that though income inequality will never disappear—nor should it, in a society that rewards merit and initiative—the disparity is far less than the collectivist ethos supposes.

(4) *Number Go Up* by Zeke Faux. This is the cryptomania book—if any—that one ought to read, with all due respect to Michael Lewis. Mr. Faux is an energetic, peripatetic and gimlet-eyed reporter of the old school. And though he spends a lot of this book in Ahab mode—hunting the white whale of a particular stablecoin, convinced that its reserves are fictional—he manages however anecdotally to capture the full measure of the psychosis. I suggested last month that this book deserves an honored place in the literature of mania, and on a second reading am more convinced of this than ever.

(3) *The Greatest Capitalist Who Ever Lived: Tom Watson Jr. and the Epic Story of How IBM Created the Digital Age* by Ralph Watson McElvenny and Marc Wortman. Also just reviewed last month, this is certainly the best business-oriented biography of the year—though like Faux's book, it will probably be overwhelmingly outsold by Walter Isaacson's genuinely appalling book on Elon Musk. The family dramas in the story cause it to read like a novel at times, and it is a worthy reminder that electronic computing didn't begin in

Jobs's and Wozniak's garage, which may be a species of news to some younger readers. Overall, I now see, it's an object lesson, to the effect that nothing is a blue chip forever (especially in technology), and that there is no such thing as a one-decision stock.

(2) *The Capitalist Manifesto* by Johan Norberg. Every one of our tribe should have one clear and compellingly written book enumerating our free market beliefs, to which he/she can always refer back. Until further notice, this is officially mine. As Joakim Book wrote in a review on AIER ([which see](#)), the common denominator of all anticapitalism is still the fatally mistaken notion that trade and markets are zero-sum games—a cosmic battle over finite resources. Norberg's book is a spirited dismantling of this toxic misconception. And if there's not a whole lot that's new here—because there can't be—I found ***The Capitalist Manifesto*** to be the most readable treatment of the subject I've seen in a very long time. (So, apparently, did Elon Musk, but please don't hold that against Norberg.)

(1) *Game Changer: Our 50-Year Mission to Secure America's Energy Independence* by Harold Hamm. I can't possibly be objective about this wonderfully edifying, entertaining and informative book, for the simple reason that I love it so much. Harold Hamm, an energy billionaire up from the direst poverty, is a classic (maybe **the** classic) American success story for our time. His genius has been to see that horizontal drilling (combined with fracking) would unlock hitherto unimaginable reserves—and, as the subtitle suggests, at long last secure our country's energy independence. Mr. Hamm's account of our own government's holy war against this liberation—and the ways in which he rose to lead the counterattack—elevate this book from the level of a riveting autobiography to an economic (and moral) lesson. For all these reasons and more: my **Book of the Year**.

The Sixty-Two Year Scorecard

February 2024

Each year at this time, we consider the performance of the mainstream equity market—absolutely, and relative to consumer inflation—in the lifetime of a person reaching average retirement age (62) during the coming year.

Clients turning 62 in 2024 were born in 1962—the year the Beatles auditioned for Decca Records and were rejected, John Glenn became the first American to orbit the earth, Marilyn Monroe died, the New York Yankees won the World Series for the twentieth time, and—in the Cuban Missile Crisis—the world came closer to thermonuclear oblivion than at any time before or since.

So we ask three questions:

- **Where did the S&P 500 close out the year just past, relative to where it ended in 1962?**
- **Critically important to our clients on the cusp of retirement: how much did the Index pay in cash dividends last year versus 1962?**
- **And how did both price performance and the trend of dividend payments compare to consumer inflation—which, in a two-person, three-decade retirement, will be what matters most.**

And the answers:

- **The S&P 500 closed out 1962 at 63. It ended this past year at 4,770.**
- **The cash dividend paid out during 1962 was \$2.15. Last year it was \$70.30.**
- **The Consumer Price Index ended 1962 at 30. It closed out 2023 at 307.**

Thus the 62-year scorecard, in round numbers:



I never cease to be inundated, as you are, by mind-numbingly complex charts/graphics visualizing how much more—and for how much longer—stock prices have advanced as opposed to

The great challenge to us advisors is to help people understand, once and for all, why they need to own equities continuously for the rest of their lives.

declining. As often as not, I can't even decipher them; even when I can, I don't imagine the so-called "risk-averse investor" will find them compelling, much less convincing.

But if you told me that, for the rest of an advisory career, I would only be allowed to show the prospective client one single visual, **this would surely be it.**

Personalizing the long-term equity experience—rooting it firmly in **their specific lifetimes**—makes the critical point as powerfully as it can be made. Namely, that for their entire lives, mainstream equities have been the simplest and most effortless way of building real (net of inflation) wealth **while generating cash dividend income in retirement that grows at a significant premium to the inflation rate.**

In this as in all that we do, the more complex our illustrations are, the less likely they are to strike the prospect's heart. In this as in all that we do, we are best advised to follow single-mindedly the three great rules of effective client communication:

- **Simplify it.**
- **Humanize it.**
- **Personalize it.**

The issue is never how much longer equities go up—nor how much—than they go down. That's at best a secondary, and may even be a tertiary, concern. Indeed, once the investor can be brought into genuine emotional (as distinct from intellectual) contact with the long-term miracle that is mainstream American equities, the less he/she may actually care about that issue **at all.**

The great challenge to us advisors is to help people understand, once and for all, **why they need to own equities continuously for the rest of their lives.** The **Lifetime Scorecard** method of presentation remains by far the best way I've ever found to do that.

Promise yourself yet again that you will never go into a serious retirement planning meeting again without knowing what year your prospect was born, and thus able to show him **specifically** how brilliantly equities have been nurturing people **for his/her whole life.**

The Truth Versus the Darkness

When the genius of equity-driven innovation collides with catastrophic current events, equities always win. Always.

November 2023

SOMEWHERE IN THIS GREAT REPUBLIC OF OURS, A MIDDLE school child got on her school bus this morning. In her backpack was a brand new iPhone 15. Maybe she got it for her October birthday. It doesn't matter: she now owns it. We will find it useful to examine what exactly it is, and can do.

Simply stated, the young lady is carrying an instrument that commands more computing power than did all the IBM mainframe computers in operation on the planet in the year 1970.

But wait; there's more. If, when she gets to school, she is assigned to write a research paper about any subject in the world—nuclear physics, penguins, the Louisiana Purchase—this young person can use her iPhone to look up, at virtually no cost, all the public information on that subject in the entire world.

But wait; there's even more. Should the child find that a key research finding about her assigned topic was written in a language that she can't read, her iPhone—still for negligible cost—will translate it for her.

It isn't just that these capabilities were not anticipated or predicted by anyone in 1970. Merely to say that would be to miss the essential point here. Rather, we quite correctly observe that ***in 1970, an instrument whose capabilities I have just described was inconceivable.***

But it is doubtful that even the most astute investors in the year 1970 were even thinking along these lines. Instead, their attention was more probably riveted on the unrelieved political, geopolitical, environmental, financial and economic horror that unfolded day after day throughout that melancholy year. Consider:

The first five months of 1970 saw the cataclysmic terminal phase of a bear market in stocks that had begun all the way back in the presidential election month of November 1968—itsself an *annus horribilis* during which Senator Robert F. Kennedy and Dr. Martin Luther King Jr. were murdered, and the sitting president was driven from office.

That bear market, stretching over 18 months, drove the S&P 500 Index down a total of 36%. This was at the time by far the largest decline since the 1930s. It's not too much to say that an entire generation of investors—bred on the great bull market of the 1950s and '60s—had no longer believed that such a deep, prolonged market decline was even possible.

Only a couple of weeks after announcing that over 100,000 American troops were being withdrawn from Vietnam, President Nixon on April 30 went on national television—the YouTube

video of his talk is readily accessible—and announced to a stunned nation that the United States had invaded Cambodia. The administration had not told the Cambodians, our South Vietnamese allies nor the U.S. Congress that it was going to do this until the incursion was under way.

Virtually every American college campus erupted in a firestorm of rage. At Kent State University in Ohio, young National Guardsmen with little training fired on the student demonstrators, killing four of them. Suddenly, after living in mounting hope that the nightmare of Vietnam was finally in the process of ending, our country was torn apart all over again.

Nineteen seventy was also a year of apocalyptic environmental pessimism. The world was popularly held to be running entirely out of resources even as global population exploded. The author of a huge bestselling book titled *The Population Bomb* appeared on Johnny Carson's *Tonight Show* upwards of two dozen times, cheerfully predicting that hundreds of millions of people would starve to death over the coming decade.

Finally—and to investors more ominous than all the other catastrophes put together—as 1970 progressed, it became increasingly evident that the very foundation of the West's financial system was about to collapse.

The Bretton Woods agreement of 1944 had created a postwar financial construct in which the world's currencies were effectively pegged to the U.S. dollar. That entire system rested on our commitment to buy and sell gold at \$35 an ounce. But the cancer of inflation—which had begun in 1965 when President Johnson essentially tried to pay for the War on Poverty and the Vietnam War with the same money, hoping no one would notice—was by 1970 metastasizing apace. It became inevitable that we would eventually have to—in the jargon of the day—“close the gold window.”

By yearend, going off the gold standard was no longer an “if” but a “when.” In the event, the answer to “when” turned out to be August of the following year, but that fact is irrelevant to the point I'm making. Which is simply that in 1970 the financial equivalent of the law of gravity was about to be repealed, and no one could even imagine what chaos might follow.

We conclude from the foregoing that the year 1970 was at the very same moment the cusp of by far the most spectacular half century of technological innovation in mankind's history and an important milestone in the accelerating descent into darkness that would become the Somber Seventies.

Now, having absorbed all the wild and even existential contradictions of this astonishing year, we may proceed to examine—from a long-term investor’s point of view—what actually ensued.

	1970	Now	Increase
S&P 500*	92	4,300	45X
Earnings	\$5.51	\$220E	40X
Dividend	\$3.91	\$70E	22X
CPI (yearend)	40	310E	8X

*Note that nine of today’s ten most valuable companies in the Index by market capitalization **did not yet exist in 1970**.

What ought the long-term, goal-focused, plan-driven investor to infer from this? I propose two related conclusions:

- **That, second only to love, human ingenuity is the most powerful force on earth.**

- **That equities are the only investment asset class that fully captures human ingenuity, rendering it into enduring wealth.**

(I would most particularly draw your attention to the fact that the cash income produced by the S&P 500 has increased at nearly three times the rate of consumer inflation. If there is just one drop-dead critical statistic the retirement investor must know, **this is surely it**. In point of actual fact, the 10,000 people retiring in America every single day through at least 2029—when the youngest Baby Boomer turns 65—do not know it, and will not unless so informed by a Behavioral Investment Counselor. **Spartans, this is why you and I were sent into the world.**)

For perspective, I would add only that, in the 53 years since the end of 1970, the S&P 500 (including intraday panic bottoms) has declined at least 20% on 12 separate occasions. The three largest of these declines were 48%, 49% and 57%. Yet here we are, 45 times higher, **not counting the reinvestment of dividends**.

Ten thousand dollars invested in the Index at the end of 1970 and left to compound—taxes paid from another source—is as I write well in excess of \$2 million, and the compound annual growth rate has been 10.7%. Along the way, the longest it has taken an Index investor to break even with reinvested dividends is five years and eight months. Without a scintilla of statistical demonstration to back me up, I would again confidently put the number of 53-year-old American couples who know any of this at plus or minus zero.

Which brings us up, quite literally, to today. And today, as then, we find the Great Companies’ brilliant long-term stewardship of capital set against a manifestly darkening trend of current events. Jamie Dimon is surely right, as indeed he most often is, when he says, **“This may be the most dangerous time the world has seen in decades.”** To see this, all we need do is to enumerate the developments that have unfolded over the last five years.

- The *Pax Americana* that prevailed for 30 years following the

collapse of the Soviet Union has ceased to function. The two major countries that were supposed to be liberalizing their governance as well as their economies have instead opted out of what President Obama fancifully termed “the international community.” China and Russia—both experiencing rapid demographic collapse—have returned to their isolated, authoritarian, bellicose ways, with Russia and the West in a proxy war in Ukraine, and China threatening not just Taiwan but all its neighbors in the region, and ultimately us. Xi and Putin skipped the most recent G-20 meeting in India.

- The Middle East has once again degenerated into genocidal conflict, as Iran edges steadily closer to nuclear capability. Afghanistan is returning to the darkness, after an ignominious bugout by the United States.

- Here at home, the administration is waging a war of extinction against our incredibly vibrant and productive oil and gas industry, even as it draws down its strategic petroleum reserve to a matter of a few days. America’s energy independence, not to mention its opportunity to become Europe’s go-to energy source (to Putin’s great cost), is under relentless attack by our own government.

- Our southern border has ceased to exist. Millions of migrants are entering the country illegally, devastating local economies and creating an increasingly intolerable burden in the more progressive large cities. As well in those cities, crime, drug addiction and homelessness have reached unprecedented levels.

- The federal debt and deficit are increasing at unsustainable rates; a savagely divided Congress has demonstrated not just the inability but the complete unwillingness to address this.

- The fastest, sharpest interest rate spike in the 110-year history of the Federal Reserve has continued to increase the odds of a “hard landing” recession.

- The pandemic wreaked havoc on the K-12 public education system—most critically in the cities—and cratering ACT scores testify to its virtual collapse.

- Both Medicare and Social Security are on clear paths to insolvency.

- Inflation remains stubbornly high, especially in the service sector, sapping the incomes of America’s middle class. The affordability of the single family home is at a low ebb. Higher education, far from preparing students for productive working lives, is in thrall to various tribal ideologies.

- We are now 12 months away from a presidential election of the most extreme potential divisiveness. Were the election to be held today, the major party candidates would almost certainly be the two most bitterly loathed men in public life.

- And finally, in 2025, America faces The Mother of All Fiscal Cliffs.

This jeremiad might well suggest to the prudent investor that he place his wealth in a diversified portfolio of long-term survival food kits, a solar generator, gold coins and shotgun shells—as current events/trends prompted more than a few people to do back in 1970.

Remember, the armchair catastrophist in that year was anticipating that the dollar would momentarily become toilet tissue, and that hordes of starving people would soon break into his home to raid his Amana side-by-side refrigerator/freezer. One hopes you take this as a gently droll way of saying: *we've been here before.*

This time may be different in the details, but in fact it's never all *that* different. That's why Harry Truman said, "The only thing new in the world is the history you don't know." And why the documentary filmmaker Ken Burns wonderfully said, "**History is medicine. It has nothing to do with the past. It has everything to do with the present.**" (Emphasis mine.)

That the financial world has appeared to be ending an even dozen times in the life of today's 53-year-olds *and yet has signally failed to end*—instead driving the broad U.S. stock market up 45 times—should carry some very significant historical weight in your clients' thought process.

Unless, of course, it doesn't.

In which case we may fall back on the other (and even greater) engine of long-term equity investing optimism: logic. Specifically, the simple logic that is the organizing principle of all rationally managed, profit seeking businesses—most particularly, the 500 largest, most profitable, most soundly financed and most innovative companies headquartered in America.

Note that becoming a long-term owner of these kinds of companies in pursuit of one's most cherished financial goals has nothing whatever to do with "investing in the stock market." The differences, which are legion, are also immense. And they are critical to the analysis we're conducting here.

You see, any permutation of the headwinds listed above may at any moment cause "the stock market" to decline—sometimes significantly, but always temporarily. The investor has no way of knowing which crises will cause "the stock market" to decline, nor how deeply, nor for how long. As the crises ebb—soon to be replaced by still other crises—the investor has no way of knowing when "the stock market" will turn, and resume the quite spectacular advance it has been tracing out for our clients' entire lives, and much longer.

To state this phenomenally liberating truth even more succinctly, we say—as often as possible, to anyone who may listen:

The economy can never be consistently forecast, nor the market consistently timed.

I repeat that the adjective that best describes the state of mind of an investor who accepts these twinned truths is—or certainly ought to be—***liberated.*** Knowing these truths, he never has to look at current events, nor worry about when to get out of, and back into, the market on account of them. Because he sees that gets him nowhere—indeed that it can't be done profitably.

Rather, the long-term, goal-focused, plan-driven equity investor—embracing the joys of unknowing—can cheerfully turn his attention back to working his long-term plan. He may do so with full confidence that whatever today's macroeconomic/geopolitical/financial woes may be, ***he has the best managers in***

To me the highest function of the wealth manager is to get (and keep) his/her clients focused on the powerful logic of rational companies.

the country working to preserve his permanent capital, and to find further profit opportunities in any adversity. For that is the incontrovertible logic of owning the Great Companies as one's core investment policy.

Assuming merely for illustration that all I own is the S&P 500 Index, all the companies in my portfolio are characterized by one glorious attribute: **no power on earth can force them to continue losing money.** Rational managements, whose duty to the shareholders is fiduciary, will simply stop—as hard and fast as they humanly can—whatever activity is producing losses.

Companies offering homeowners insurance in California, confronted with legislation effectively preventing them from making a profit, will stop writing it. Whole Foods, Walmart and other retailers, faced with massive theft which the electorate evinces no interest in preventing, will close their money-losing center city stores. Marriott, the largest hotelier in the world by number of rooms, simply shuttered its hotels and furloughed their staffs during the pandemic's global lockdown. One can think of numberless other examples. ***The most fundamental imperative of a rationally managed business will always be to protect, to the greatest extent possible, the permanent capital of the owners.***

But it is not merely their fierce husbanding of shareholder capital in adversity—vitally important though it be—that is the greatest benefit of owning the Great Companies. In the long run, the very best defense of capital is to grow it. And as we have seen, companies' immensely successful commitment to technological innovation—from Intel's first microprocessor in 1971 to Apple's iPhone 15 this year, and everything in between—is the ultimate source of their power to create wealth.

And there are manifold other ways by which companies enhance their owners' wealth. Just this past month, we mainstream equity investors got to experience one of those methods, to potentially great effect. I refer, of course, to two of our companies—Exxon and Pioneer Natural Gas—combining in such an opportunistic way as may benefit us owners richly over the next several years.

The combined company will be capable of sharply increased Permian Basin production, while capturing very significant economies of scale—and in the process lowering the price at which its production becomes profitable. Perhaps most important, we passive investors didn't have to do anything in order to effect all this. We had a genuinely great executive (Exxon CEO Darren Woods) working the problem for us—and he really came through.

If I hadn't already suggested this, and/or if it isn't intuitive, ***my***

family and I employ Mr. Woods, as do all the other owners of the company. So as much as I may be temperamentally disposed to vexation about the current administration's war on hydrocarbon energy—and heaven knows I am—I could rest relatively easier knowing that I had Mr. Woods defending our capital and seeking ways to increase its return.

We also employ such individuals as the aforementioned Jamie Dimon at JP Morgan Chase, who is working that particular set of financial issues for us. (We also bank there.) Tim Cook has been busily multiplying our equity in technology for some years now. Warren Buffett—less our employee than our partner—is allocating his and our capital side by side, more brilliantly perhaps than anyone who's ever lived.

Vicki Hollub at Occidental is another masterful executive in the oil patch for us. (Buffett enthusiastically concurs.) Jane Fraser is cleaning up Citicorp on our behalf, taking out whole layers of management. A seasoned executive we'd not previously heard of called Tim Wentworth came in last week as the new CEO of Walgreens, with the immediate mission of taking a billion dollars out of our company's cost structure. I can go on and on like this, and would enjoy doing so, but I think you get the point.

What on earth do you suppose "the stock market" has to do with all this? I'm sure I have no idea. More to the point, I assure you that you don't either, nor does anyone else. Once more with feeling: ***the economy can never be consistently forecast, nor the market consistently timed.*** There is no repeat no method of correlating current events to "the stock market."

I know that the S&P has declined peak to trough an average of 14% annually for several decades, that it has gone down (if only intraday) at least 20% on 16 separate occasions starting in 1950, or once about every four and a half years, and that the average of those episodes was a temporary decline of about a third.

I see no reason to think it will stop doing that, and I regard the act of riding those declines out—merrily compounding our steadily

increasing dividends at panic share prices—as the one true price of totally effortless wealth. I repeat that over these nearly eight decades the longest it could have taken anyone to break even in the S&P 500 (dividends reinvested) was five years and eight months. My family and I did not think that was too long to wait. We've found over time that the prices of the stocks on any given day may bear no relation to the enduring (and increasing) values of the companies.

Be assured that I don't idealize large corporations; I'm a rational optimist, not a Pollyanna. They can become bureaucratic, political, and either excessively risk-averse—missing opportunities other companies seize—or recklessly chasing synergies that prove illusory. Occasionally, they engage in fraud (Enron). In other instances, sheer stupidity and/or greed are permitted to override prudent risk management (Bear Stearns, Silicon Valley Bank). Companies are, after all, human institutions, capable of exhibiting all too human foibles. An efficient market inevitably weeds out the companies that deserve to fail, and our policy of broad diversification largely if not quite perfectly erases those failures.

That aside, to me the highest function of the wealth manager is to get (and keep) his/her clients focused on the powerful logic of rational companies, and on the history of that logic consistently manifesting as effortless wealth for the long-term investor.

Otherwise, your professional life degenerates into people constantly calling you, asking you if the government is going to shut down—or whatever the crisis du jour is—and shouldn't we get out of the market. No reader of this newsletter should ever have to live that way.

The canoe of mainstream equities doesn't capsize. An investor may very well be killed—and many are—jumping out of the canoe in order to escape the perceived danger of it capsizing. He'll be dashed against the rocks of some violent rapids, or drowned leaping out of the canoe as it goes over a roaring waterfall. Yet the canoe does not capsize. There are even those of us who believe that it can't.

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