Quarterly Point of View
25 Years

October 20, 2021

It was 25 years ago this fall that I began my career in the investment business. Starting with former Fed Chairman Alan Greenspan's famous "irrational exuberance" speech in December of 1996, through a global pandemic that we all hope is in its final innings, it's been an event-packed quarter century in the markets.

We are collectors of quotes here at Martin Capital Partners, distributing one a week internally for at least the past decade. Believing that a well-constructed sentence or two can often educate and enlighten as effectively as an entire book, I've decided to deliberate on a handful of quotations that have had a significant impact on me, our firm, and our investment philosophy over the past 25 years.

> *In the short run the market is a voting machine, but in the long run it is a weighing machine.*
> *Benjamin Graham*

The conceptual framework for this quote was outlined in Benjamin Graham and David Dodd's seminal work *Security Analysis* in 1934, but there's a bit of debate about this often-cited stock market phrase. The version above is credited to Graham through his pupil, Warren Buffett, yet regardless of the exact sourcing, the expression is a truism. In short timeframes the market casts ballots, voting on the prospects for a particular enterprise based on a daily deluge of information - some based in fact, some in hearsay. This voting is greatly influenced by the psychology of the moment, and whether greed or fear is the prevailing market sentiment. As timeframes lengthen, however, the market ultimately values a company not by voting on its prospects, but by 'weighing' what ultimately matters, the cash flows consistently produced. This phrase is wise counsel to investors, advocating patience for staying the course when the market is voting against a profitable enterprise for a temporary reason, or conversely, to prod a reevaluation of an unsound holding that may be momentarily elevated due to market exuberance.

> *Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.*
> *Warren Buffett*

This short thought experiment acts as a very useful filter. What kinds of businesses would we want to own if trading was suspended for 10 years and we 'awoke' to have our businesses newly valued based on a decade of economic experience, but no corresponding market action? We would want to own businesses with these primary traits:

940 Willamette Street ▲ The Woolworth Building, Suite 350 ▲ Eugene, OR 97401
tel 541.636.4170 ▲ fax 541.636.4815 ▲ www.martincp.com

- distinct competitive advantages likely to be sustained 10 years and longer
- high returns on capital
- prudent utilization of leverage
- management that are disciplined stewards of capital

We would avoid businesses without these attributes because of the real risk that our capital could become permanently impaired if we owned non-quality assets, with no way to exit them. The lesson in this quote is that we shouldn't view the fact that markets are liquid and constantly tradable as an excuse to own inferior assets, no matter how appealing a short term 'speculation' may appear.

> ***Never invest in any idea you can't illustrate with a crayon.***
> *Peter Lynch*

For an investment strategy to be executed successfully it needs to be understandable, sustainable, and transparent. These characteristics dramatically increase the probability of long-term success by minimizing complexity and confusion, which often leads to poor decision making, particularly at points of market stress. All too often, investors are intrigued by 'black box' strategies, that purport to offer complex 'codes' for investment success. We wholeheartedly agree with Mr. Lynch, who compiled an extraordinary track-record leading the Magellan Fund decades ago, believing strongly that simplicity and transparency are virtues, and are ultimately much more effective in producing long-term investment success.

> ***I have been paid better my entire career taking less risk.***
> *Jeremy Grantham*

The quote above was the only one of this assembled group I had the good fortune of transcribing firsthand. Jeremy Grantham is a legendary British investor who co-founded Grantham, Mayo, & van Otterloo (GMO), a Boston-based investment firm. Earlier in my career I was fortunate to be a part of a relatively small discussion where Mr. Grantham spoke of his career and investment philosophy, and this comment made a noted impression on me. He was not speaking of taking less risk by opting for other asset classes, such as bonds versus stocks for example, but instead taking less risk amongst stocks themselves. The average market participant has a predisposition for volatile 'story' stocks, in part due to the fact a small number of big winners within this category get intense media attention and elicit FOMO (fear of missing out). With traders acting aggressively in these kinds of stocks, demand often produces valuations not warranted by fundamentals, ultimately rendering most as poor investments. Therefore, eschewing these stocks - in favor of lower-risk, high-quality companies with proven track records - decreases the probability of large losses, fueling the power of compounding over the long term.

> ***Earnings are only a means to an end, and the means should not be mistaken for the end. Therefore, we must say that a stock derives its value from its dividends, not its earnings. In short, a stock is worth only what you can get out of it. Even so spoke the old farmer to his son: A cow for her milk, a hen for her eggs, and a stock, by heck for her dividends. An Orchard for fruit, Bees for their honey, and stocks, besides for their dividends…. The old man knew where milk and honey came from, but he made no such mistake as to tell his son to buy a cow for her cud or bees for their buzz.***
> *John Burr Williams*

To give him a better understanding of the causes of the stock market crash of 1929 and the following Great Depression, John Burr Williams enrolled as a PhD student at Harvard, publishing his thesis as *The Theory of Investment Value* in 1938. His belief was that the value of a company ultimately rested on earnings that are shared with minority owners, as cash dividends. We agree, as every investor invests for an eventual return of cash, it's that plain and simple.

In our view, unlike earnings, which are an accounting opinion, cash dividends are tangible, and therefore the essential link between shareholders and the companies they own. Not unlike an ownership stake in a private business, dividends provide the route to consistently participate in the profits of the enterprise without having to give up ownership through an equity sale.

Thank you to all those who have entrusted us with their capital over the years, it has been, and continues to be, a sincere privilege, and we look forward to the next 25 years of partnership.

Please feel free to call or email with questions you may have regarding our strategies or Martin Capital Partners in general. You can also find information on our website at www.martincp.com.

Respectfully,

Cameron K Martin
Chief Investment Officer
Martin Capital Partners, LLC

Statistical and analytical data provided by Factset.

If you would like additional information on how Martin Capital Partners, LLC conducts business, we can provide a copy of our SEC Form ADV part II, firm brochure.

As always, past performance provides no indication of future results, further, loss of principal value is possible as the strategy invests in equities. The market views and opinions expressed above reflect the opinions of Martin Capital Partners, LLC and are not intended to predict or forecast the performance of any security, market, or index mentioned.