Investor Letter
August 5, 2024 Market Update

Stocks sold off sharply on Monday morning following a large drop on Friday. The decline was sparked by a weaker than expected jobs report for July, and an increase in the unemployment rate. These reports, combined with several other recent economic releases, has led some investors to fear that the economy is headed for a recession. There are further concerns that the Fed has focused so much on fighting inflation that it may have contributed to the potential slowdown and will now need to quickly reverse course.

In our view, the US economy is in the process of steadying itself after its incredibly rapid post Covid comeback. There are likely to be both good and bad months over the course of the year. In this environment, it is very important not to overreact to a single number or even a group of numbers over a short period of time. This discipline can be hard to maintain amidst the breathless coverage in the financial press, which by Friday morning was already bracing for a "hard landing." In our view, such negative forecasts are not merited yet, although the situation could definitely change. The US economy is currently expected to grow at an annual rate of 2.5% in third quarter according to the Atlanta Fed's GDP Now estimate, although the estimate has been coming down recently.

In related news, bellwether company Berkshire Hathaway reported earnings on Saturday. The most important takeaway for investors was that Warren Buffett sold a record $75.5 billion of equities during the second quarter, including half of his very large position in Apple. Holdings of U. S. Treasury bills at Berkshire are now $277 billion, which is a record, and interestingly, more than the Fed currently holds. As with the economic figures, commentators have speculated that Buffett's sales could be an indicator of a coming market decline, given Buffett's outstanding record as an investor.

While Buffett's sales are large by any measure, it is worth putting them into perspective. At Friday's close, Berkshire's market cap was just under $900 billion. So, Buffett's sale of $75 billion in equities to reach a cash holding of $277 million could be thought of roughly as a reduction of his equity holdings from 78% to 70% of Berkshire's market value. One could say that Berkshire has a portfolio consisting of 70% equities (including private investments) and 30% cash at this point, which is less dramatic than the way it is reported in the press.

Investors should be wary of assuming that Buffett made these stock sales based on his forecast for the economy. He's made it clear over the years that this is not how he invests. As Buffett once said in an interview, “if you guaranteed me that there would be a recession next year, I’d be buying and selling the same securities I'm buying and selling today.”

From a valuation standpoint, the best data we have shows the overall stock market to be about fairly valued. This does not mean every stock is fairly valued of course. Some sectors of the market are on very high valuations, while others are in line with long term levels. Note that a number of the highly valued stocks have already had substantial falls from their market highs and could soon be within buying levels.

The recent volatility in the market highlights why we work with our clients to develop an Investment Policy Statement which takes account of age, income needs and risk tolerance. *Importantly, we take these measures in anticipation of periods such as the current one.* It is also why we invest with the best investment managers across different investment styles. We expect some of our managers to outperform during market upswings and others to do better during market declines.

Please feel free to call if you’d like to discuss the recent market or your portfolio. We are always available for such discussions, especially during volatile periods like the current one.

Thank you as always for being a client.

William R. Andersen, C.F.A.
Principal and Chief Investment Officer

Roger L. Johnson
Principal