

# Northstar Notes

*“Business today with all its complicated ramifications seems a bit like the Mad Hatter’s Tea Party! A little simplification would be the first step towards rational living, I think.”*

*– Eleanor Roosevelt, 1936*

## Notes from Henry Asher

On my flight back from a relaxing few days in Bermuda on the last day of 2018, I was surrounded by infants and toddlers. Seemingly all I could hear was whining and wailing, all completely impervious to reason and out of proportion with the circumstances. Which brings us to global stock markets.

When the market enters any sort of downturn, as it did at the end of 2018, carving out a quiet space amid the torrent of scary-sounding push notifications, news articles, and TV segments is a tall order. But it is in those periods of turmoil when it’s most important to come back to the basics. These are lessons Linda and I have learned over our thirty-three years of working together.

## Thoughts from Henry Asher and Linda Ray

- Use actual multi-year cash needs as the starting point for asset allocation, rather than strictly age-based mixes of stocks, bonds, and cash. Our process emphasizes each client’s need for cash flow and is based on the assumption that most of us will withdraw on average four to five percent of our capital

annually. This is the sort of prudence that leads to long, comfortable retirements. We strive to avoid the wrong answer to a binary question: Does our money live longer than us, or do we outlive our own resources?

- Remember that our portfolios are part of our life plans, and they need to be constructed accordingly. They change more in response to our own needs and decisions than they do in response to stock market gyrations.
- Invest with awareness that the market might appear to be a wise sage one moment and an irritable infant the next. Over time, the results smooth out, and investing in great businesses will continue to lead to good outcomes. We hold far larger positions in Berkshire Hathaway than most investment advisors. Berkshire's relative strength — the result of Warren Buffett and Charlie Munger's unceasing commitment to patience and rationality in investing — has been a saving grace for many of us during many periods of unpleasantness.
- Widely-reported issues tend to be baked into stock prices, so don't place too much emphasis on data points simply because they're the most visible. Tariffs and trade wars are reminders that the world is an imperfect place, but take care not to overestimate their impacts.
- Don't become dulled to the extraordinary level of achievement encapsulated in the words "index funds." The S&P 500 represents an enormous cross section of business brilliance. Irrespective of short-term price declines, history teaches us that owning a share of America's leading enterprises is a winning proposition. No matter the political environment, the vast earning power of America's leading businesses, such as Microsoft, Apple, Amazon, Google and Berkshire, will continue to flow to the owners of those companies. Count us in for the long game (see the above point on results smoothing out over time).

## Thoughts from Joshua Garcia, Jeff Dziegielewski, and Bobby Asher

Our investment strategy does not, nor does it claim to, protect against short-term and temporary declines in the market. Rather, we construct strong portfolios that will provide for clients' long-term goals and spending needs.

Here is one example from the dark days of the Financial Crisis: We try to focus on facts and reason and often use common sense and our own consumer experience as a starting point. One area we looked at was the recession-proof desire for pure drinking water. This led us to our investments in Nestlé and Clorox (the parent company of Brita water filters). Each company has continued to grow, and they are solid contributors in the portfolios that hold them.

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*“People calculate too much and think too little.” – Charlie Munger*

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Constructing a portfolio, however, is only one part of operating on the highest level possible. If one of the pillars of our approach is how we evaluate investment opportunities, the other pillar is our commitment to client services. We have been honored by Royal Alliance with two awards for compliance excellence. We take pride in these awards not because they come with a fancy plaque or trophy, but because they are a testament to our commitment to putting clients first. We view operational excellence as part of our responsibility to our clients.

We know that the only thing that fuels investor anxiety more than worrying news, is radio silence. We also believe that in order to successfully meet future needs, you need to start with today's communications. Northstar clients expect real people to answer the phone and to respond to email inquiries. It's rare indeed that you'll call during business hours and get an answering machine or have to wait around for an email

reply. We don't believe in putting clients on hold or subjecting you to the "call-center" approach. When you call the Northstar Group, you are tapping into a wealth of guidance and experience acquired over decades littered with crashes, recessions, and periods of political chaos. When you call us, you get to speak to a person — Henry or Linda, Josh or Bobby, Jeff or Jenna — ready to engage you in a discussion of your needs.

The key to clients reaching their goals is the creation and execution of a financial plan. Usually, when you come into our office, we are either creating or discussing that plan. For the other three hundred sixty-four days of the year, we all have major responsibilities to follow through on the plan. In the spirit of open lines of communication, we thought you might find it interesting to get a glimpse behind the curtain, and see what we're doing to fulfill our obligations to you.

### *Continued Learning*

The Northstar team is relentless in our learning habits, both in and out of the office. Over the course of a year, we spend countless hours reading corporate filings, newspaper and magazine articles, blog posts — anything that is both interesting and substantive (ruling out many clickbait headlines). We attend Berkshire's annual shareholder meeting in Omaha. We watch for and analyze current events. These check-ins help us monitor the companies we own or are considering purchasing, and hold management accountable for the progress they have previously promised. This is also how we learn about new investment opportunities we may not have considered previously.

### *Portfolio Reviews*

We are constantly attempting to analyze our clients' portfolios from as many angles as possible. We do this work with the goal of finding ways we can improve our investment decisions to more closely align with your individual needs. We use multiple filters to monitor portfolios, each allowing us to measure different attributes

and how they relate to your goals. We might discuss asset allocation and concentration in a certain company or sector. We also track account cash flows and short-term bonds for upcoming liquidity needs. This is a continual, daily effort. On a more scheduled basis, we review your files to ensure all documentation is in place so that regulatory requirements are satisfied and you are taking your required minimum distributions, if required by law.

### *Operations*

Some of what we do is hardly the stuff of spy novels, but still very important. For example, when we purchase municipal bonds, we manually spot-check prices against the public database to ensure that we are getting the figures we expect. We will continue to look for ways to improve our analysis of our broker-dealers and are pleased to say that the results have been positive to date.

In case we haven't been clear enough about this: At Northstar, we do our best to ensure that there is always someone here to speak with you. We are always working to understand your financial situation better, and we welcome hearing from you in 2019!

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The Northstar Group, Inc.  
405 Lexington Avenue  
Suite 37A  
New York, NY 10174  
Phone: (212) 883-9595

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