

Northstar Notes

“Doubt is not a pleasant condition, but certainty is absurdity.”

– Voltaire

A world of certainty: Some thoughts from Henry

While we chose to quote Voltaire, we could have just as easily borrowed from the old comic strip, Pogo: “We have met the enemy and he is us.” As the news cycle intensifies, and strange new words are introduced into our lives, the latest being Brexit, Linda and I choose to slow down and think rationally. As always, our focus will be on investor behavior, not investor anxiety, and we will do our best to avoid the black hole of investment forecasts.

Imagine a world of certainty: you are a mythical retiree and you know exactly how much money you will spend each year for the rest of your life. What’s more, you have been provided with the exact date that you will pass from this world to the next. With these two simple pillars of certainty, we could calculate the precise sum of money you will need, stuff it carefully under the mattress, and all would be fine. With the money safely stored away, why invest at all?

But of course, this imagined world couldn’t be more at odds with the realities of our lives. While many media-influenced Americans tend to fret more about Brexit, interest rate increases, or the latest inane political pronouncement, the lead headline in today’s financial news seldom ends up impacting our portfolios as much as uncertainties and sudden changes in our own lives. As the old Yiddish proverb says, “Man plans and God laughs.”

Sometimes the changes are wonderful new people in our lives, cruises to take, vineyards to visit, new lands to explore, and new cultures to experience. On the other hand, our capital may be called upon to meet the burden of unusual medical expenses. And then there is the ultimate unknowable: What will be our own life span? As a wise person once said, retirement planning presents us all with a binary question: Do I outlive my money, or does it outlive me?

In any of these scenarios, and so many others, we would be more likely to have a painful financial experience if we had taken our money and stuffed it under the mythical mattress.

And here is our real point, and it may seem counterintuitive: A balanced portfolio containing outstanding businesses often proves to be the only rational course given the inherent financial uncertainties of our lives.

Stocks: Instruments of uncertainty or antidotes to uncertainty?

But how can this be? Stocks are, so we are often told, volatile. They're prone to large jumps and drops—sometimes they “soar” and sometimes they “crater.” Don't they just add more uncertainty to our lives?

As we remind ourselves constantly: Shares of stock are not pieces of paper. They represent the real ownership of major businesses. This has been cited by Warren Buffett as the single greatest lesson he learned from his great mentor, Benjamin Graham. While this may strike some as a somewhat simplistic observation, let's get into what it really means for us. Here at Northstar, we try to focus our investments on large businesses with strong cash flows that are managed by people who may well be the best in the world at what they do. While we consider ourselves to be intelligent and well informed, we couldn't begin to predict all of the repercussions of Brexit, or the next presidential election, or even a tiny rise in interest rates.

Yet, through Northstar's first thirty years—through bubbles and periods of high growth, countless imagined calamities that never materialized, three wars, a few major natural disasters, terrorist attacks, and a financial crisis for the ages—companies like Berkshire Hathaway, Exxon, and Coke, and later Google, Facebook, and Starbucks have continued to grow and get better at providing their valuable services. It turns out

that they don't need a crystal ball after all; there is no magic here, just the tremendous power of people engaging in trade and commerce. The lasting value of the services they provide and the intense expertise of their management has allowed these great companies, along with many others, to navigate uncertainty, and patient shareholders have enjoyed decades of compounding growth.

Prudent investing is the solution, not the problem

It seems especially important during times of some political and macroeconomic ambiguity to move away from the charts, buzzwords, and abstractions of financial group-think and ask ourselves why we invest. Investing is an ongoing art, and it is not an entertainment or spontaneous process independent of our individual needs. Rather, using our capital wisely is one of the solutions to a problem: how do we best provide security and financial dignity for our families and ourselves? How do we build and preserve our legacy? While financial security and dignity involve highly personal assessments, the ability to financially weather unexpected life events is at the core of what we do. In our seventy years of combined experience, we have found that crafting a balanced portfolio, with a focus on owning enduring "blue chip" businesses gives us a chance at arriving at a place of calm.

We all take in our fair share of media commentary, and how do we handle the twenty first century's immense flow of information? They say it's about the impact of today's headlines, but we know that it's always about our behaviors, our financial dignity, and our own legacy.

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