Northstar Notes

"Whenever we are surprised by something, even if we admit that we made a mistake, we say, 'Oh, I'll never make that mistake again.' But, in fact what you should learn when you make a mistake because you did not anticipate something is that the world is difficult to anticipate. That's the correct lesson to learn from surprises: that the world is surprising."

-Daniel Kahneman, Nobel Laureate, as told by Morgan Housel

November 1, 2022

It has been over twenty years since I heard Linda describe our job as protecting clients from their own worst impulses … and our own as well. During this season of confusion and market anxiety, that wisdom has guided us. My first observation is that today's news cycle is completely irrelevant to our advisory practice. Our belief, grounded in history, is that market timing and short-term forecasts are the enemies of lifelong accumulation of permanent wealth. At Northstar, our responsibility is to see the toddler and, in that instant, have the vision of her first day in college. No parent or grandparent wants to announce to the incoming freshman, class of 2042, that her college fund never got off the ground because the perfect investing moment never seemed to come. This same thought process applies to retirement income planning.

I started these comments in early October, as the market reached new lows for the year. Since then, sharp moves have propelled equity prices considerably higher. Our message remains the same: the magic of compounding only works when it is allowed to continue, uninterrupted by fear and dread. As most of our clients know, Berkshire Hathaway has long been our largest holding. During the decades we have owned it, we have seen several 50% declines. Even so, our first shares bought in 1990 have appreciated by over one hundred-fold. Patience, equanimity, and a reasonable mindset will yield highly gratifying results over decades.

Now that I've described optimal behaviors in a few sentences, it is equally important to highlight two of the investment sins to avoid:

1. *Impulsive, fear-driven interruptions of the compounding process*. These are often prompted by seductive calls to "move to the sidelines until things calm down."

2. *Overspending*. Behind the scenes at Northstar, this is a huge source of emotional stress for us as advisors. Simply put, the laws of arithmetic are almost immutable when it comes to investing; and, overspending will almost surely deplete lifetime capital. If our plan calls for four-percent withdrawals, we cannot rescue the client who insists on year after year of higher spending. During inevitable market pullbacks, high rates of withdrawal can render otherwise temporary effects permanent. Exuberant spending and lower portfolio values are a toxic mix, detracting from future financial dignity for our clients and their families.

Concluding thoughts: Markets will recover, and stock prices will inevitably rise to new highs. But, excess capital withdrawn from portfolios will never participate in those increases. We will make sure to emphasize this in all client reviews during the next several months. For those of us old enough to remember, Alfred E. Newman's "What, me worry?" is not a guide to retirement plan withdrawals.

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