Northstar Notes

"The big money is not in the buying and the selling, but in the waiting."

-Charlie Munger

Comments from Henry Asher

We had a discussion in our office, and while at first it sounded far-fetched, the very young children of Northstar's team members might well experience a Dow Jones Industrial Average of over 500,000 when they reach their parents' current age. To put that in context, the average stood at 900 when Linda and I entered the field in 1980 and stands at 35,000 today.

Stock prices follow earnings, and earnings will be remarkably higher over the next three decades. While that's not a guaranty, it is highly probable. This sort of thinking helps us to frame our beliefs as permanent investors.

The pressures from last year's inflation surge, higher interest rates, and rising dollar all seem to be abating. Our portfolios have powered ahead on the back of sustained earnings. Our process does not require us to know when the share prices of great businesses will recover from a bear market, but simply that they will resume their upward path. And they have.

1988

"But Henry, that stock doesn't pay a dividend," so said Seymour, my client's accountant about our purchase of Berkshire Hathaway in 1988.

And not only that, our investment declined by more than half on two occasions and suffered numerous periods of underperformance!

But Seymour, those $3,100 shares became $500,000 shares. Those two shares of Berkshire Hathaway gave our client comfort, provided for years of round-the-clock care when she was in her 90's, and even provided a legacy for her grandchildren. They served our client well without a penny of dividend income.

Why bring this up now? We are living in an era of rising costs. Last year gas prices surged; this year insurance premiums are climbing. It's no wonder that more of our clients are focused on the income their portfolios can generate. So, dividends sound like a good idea, once again.

But while stock dividends have indeed outpaced inflation over long cycles, Northstar is concerned with total return—dividend income, yes, but even more important, the value of the stock itself. And this is where the emotional challenge comes into play: How do we handle it emotionally when stock prices go down? I would love to have a new message to deliver, but the truth is simply that we must turn to patience, persistence, and the knowledge we've acquired from experience and understanding history.

When the world shut down in 2020, our lives were upended by the pandemic. In one incredible month, beginning in February of that year, the economy contracted severely, and the S&P 500 temporarily lost more than a third of its value. After a recovery in stock prices lasting more than a year, 2022 was the year the market hit a brick wall. For the first time in recent memory, stocks and bonds both suffered significant declines. These pullbacks were triggered by surging inflation and dramatically higher interest rates.

Among the hard-hit shares were the leading tech companies, including Apple, Microsoft, and Amazon.

As the year ended, an epic price recovery was around the corner. But how could we know that? How could we hold on amidst calls from clients insisting that the first quarter of 2023 was destined to be awful, so why not move to cash?

In December, a wonderful client of ours, a board member of an endowment fund, called with concerns prompted by the endowment's advisor; equities would suffer terribly in the first quarter of 2023, and the only haven would be Treasury bills. The advisor's arrogance—a willingness to state a guess as a fact—leaves me incredulous still, but I guess his conclusion was based on the twin terrors of a deep recession (still waiting on that one) and rising inflation (it isn't). Our belief system does not require an action plan in the face of free-floating anxiety. Peter Lynch, the maestro of the Magellan Fund in the 80's, put it well when he said, "The real key to making money in stocks is to not get scared out of them."

In our Fall 2012 newsletter (you can find it on our website), Linda and I spoke of the best advice being "don't do that." Just those three words in the face of adversity have brought enormous benefits to all of us over the decades. When the investment horizon is murkiest, the greatest rewards are bestowed upon investors who don't react.

Comments from Jeff Dziegielewski

"The only function of economic forecasting is to make astrology look respectable." – John Kenneth Galbraith (Economist).

On topics where everyone seems to have an opinion, we find it a valuable mental exercise to follow Charlie Munger's eloquent advice: "Invert, always Invert." Sometimes inverting can mean looking at the outcome you don't want, and then taking steps to avoid it. At Northstar, it can mean taking a different viewpoint; when Wall Street looks at the broad outlook, we search for the wisdom in the day-to-day operations of the finest businesses we can find. We ask: How are these businesses improving themselves to better delight their customers today, and how will that impact these enterprises over time?

This year, American ingenuity (a trend that goes back to 1776!), has been the unexpected star. The form it has taken is Artificial Intelligence, known to the masses as "AI." We have been particularly inspired by some of the "boring" companies that are utilizing it to write their next chapter. Take Walmart, for example, a business that has quietly used powerful technology for decades to keep their machine running. Walmart has implemented AI to bring in more sales (by better serving the customer, tailoring individual product offerings based on shopping history), and cut costs (with warehouses full of robots and drones automatically packaging up the billions of dollars of merchandise they are selling).

The ability to both increase sales and reduce costs is a powerful way for businesses to grow. As we see more and more companies take this approach, we believe we will see a more profitable corporate world able to withstand whatever the global economy throws at it.

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

Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as tax or legal advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary; therefore, information in this newsletter should only be considered when coordinated with individual professional advice.
This newsletter is produced for the benefit of clients of The Northstar Group, Inc., an investment advisor registered with the Securities and Exchange Commission. Comments and opinions offered here are not solicitations to buy or sell any security. Furthermore, these opinions are those of Northstar's principals, Henry Asher and Linda Ray, and are not those of Osaic Wealth, Inc.
Securities offered through Osaic Wealth, Inc., Member FINRA & SIPC. Advisory services offered through The Northstar Group, Inc., a Registered Investment Advisor, which is independent of Osaic Wealth, Inc.