Patience Counts

Weitz | INVESTMENT MANAGEMENT

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Our firm celebrated its 40th anniversary this May. Several hundred shareholders, including some who have been with us since opening day in 1983, joined us for our annual meeting. Warren Buffett likes to say that companies get the shareholders they deserve, and we are proud to have this group of sensible, patient and loyal investors as clients.

In the second quarter, stocks generally continued their recovery from October 2022 lows, but the gains were anything but uniform. Large-cap stocks did better than small, “growth” outperformed “value,” and many companies associated with artificial intelligence, AI, enjoyed super-charged gains. Our businesses performed well, and our portfolios turned in another positive quarter.

Bond prices continued to face the headwinds of the Fed’s efforts to fight inflation and growing fears that a recession could create credit challenges. Nevertheless, our bond funds continued to do well, and more importantly, provided solid absolute returns. Today’s higher rates auger well for future returns as we reinvest interest income and maturing bonds at attractive rates

Market Commentary

The stock and bond markets peaked 18 months ago when the Fed made it clear that it would reverse the easy money policy that had prevailed during most of the 13 years since the Great Financial Crisis. Their zero interest rate policy (ZIRP) and quantitative easing (QE) had fueled a long bull market, and a reversal of those policies was not good news for stock or bond prices. We are still working through the transition from market tailwinds to market headwinds.

Despite some scary headlines – bank runs, debt ceiling drama, the Russian coup attempt – the long-term outlook for stock portfolio returns usually does not change very much from quarter to quarter. So, rather than dwell on the loud, but less important, news of the day, we will focus on two basic messages for our shareholders:

(1) While Fed tightening is not good news for the economy or stock and bond markets, ***it is necessary, and it will end***. The uncertainty of the timing or severity of its impact makes us think of a train going through a tunnel. It is dark outside, we don’t know how long the tunnel is, and with no external communication service, we cannot get the answers we would like. But there are rails keeping us on track, and even in the tunnel, our companies are moving toward the desired destination.

(2) ***Business value is still what drives stock prices***. Economic, business and political news, along with variations of fear and greed, have always pushed and pulled on stock prices. In recent years, the Covid pandemic created a whole new crop of distortions and distractions. But ***logic*** dictates that business value eventually determines stock price. If price is greater

than value, a company will sell new shares or convertible bonds to take advantage of cheap financing. They may also make acquisitions with their overvalued shares. The extra supply of shares depresses their price. Similarly, undervalued shares allow for company buybacks and may attract hostile takeovers or tempt management to take the company private. The price can stay disconnected from value for a frustratingly ***long*** time, but as long as value remains intact or continues to grow, the investment result should be good.

Outlook

The Fed policy "tunnel" may extend for several more quarters. The result of their efforts may be a recession. In any event, we will need to be patient and continue to upgrade and reshape our portfolios with the best companies available at reasonable prices. Buying the right companies at the right price and holding patiently has always been a prescription for investing success, even if results do not come on our preferred schedule. As Charlie Munger reminds us, "Investing is not supposed to be easy."