



First Quarter, 2023: As Uncertainty Persists... Opportunities Abound

As with 2022, volatility is omnipresent. Three months into the new year, the stock market (as measured by the S&P 500 Index) has gained 7%+. The market shot out of the gate, rising nearly 9% in January, only to give it all back by Mid-March to go right back up through the end of March, landing at the 7% level. Quite the roller coaster that gives the impression investors don't know if they are coming or going.

Well, we've said it numerous times over the years... there is one thing investors do not like, **uncertainty!** These days, issues abound that may paralyze an investor from executing their investment plan. Off the top of my head:

- The Ukraine / Russia war,
- Rising Federal Funds rate,
- Persistent inflation,
- The pending recession (if it's not already started),
- Bank failures,
- Donald Trump (and the 2024 presidential election), and
- The trade war with China (and then some).

While the world can only end once, the above issues are severe enough to cause concern amongst most stock market participants. Since the beginning of 2022, concerns have proliferated to the point where nothing seems clear to investors. Fortunately (for us), one investor's concern is another's opportunity. At least, that's what history and our own experience tell us...

In our past writings, we have belabored the point that, over the long term, the stock market goes up. Whether citing historical statistics or showing a graphic, we have demonstrated that history is on the stock investor's side. So, why break tradition? ***As of the end of 2022, depending on your source, the stock market (as measured by the S&P 500 Index) has a historical average annual return of just under 10%.***

So, when considering the below-average return of 2022, it stands to reason that future years should be brighter to return to that 65-year-old average... right? But maybe you are thinking... what if returns don't gravitate back to the average (or better)? The issues laid out above are somewhat concerning on an individual basis. Take them all together, and maybe you are thinking, dare I say it ... What if ***this time it's different?***

Well, I'm here to tell you this time is NOT different. It never is! In two-plus decades as investors, we have experienced not one but three, now four, significant stock market corrections. With every episode, we have come out on the other side better for it. History tells us this will happen again.

Naturally, you may ask, how can we know this time is not different? Because the same thing that drove the returns of the past will drive the future... fantastic companies! This fuels our steadfast belief in the stock market. Let's dive in with an example...

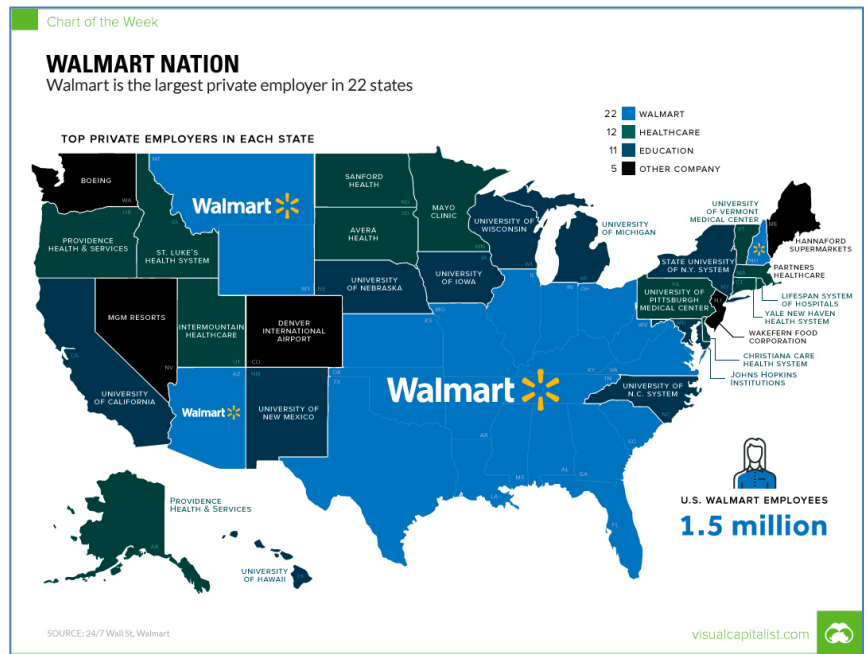
Walmart is a household name. It was founded in 1945 by its namesake, Sam Walton. Over the past 75+ years, the company has grown to the point where 90% of Americans live within 15 minutes of a Walmart. As of January 31, 2023, they have 5,317 stores (including Sam's Club) in the United States. Eye-popping, but even more impressive, they have another 5,306 international stores bringing the total to 10,623.

And guess what... they have a way to go. They only have 28 stores in India, a country that just became the most populous in the world with more than 1.4 billion people... more than four times our country's population. While

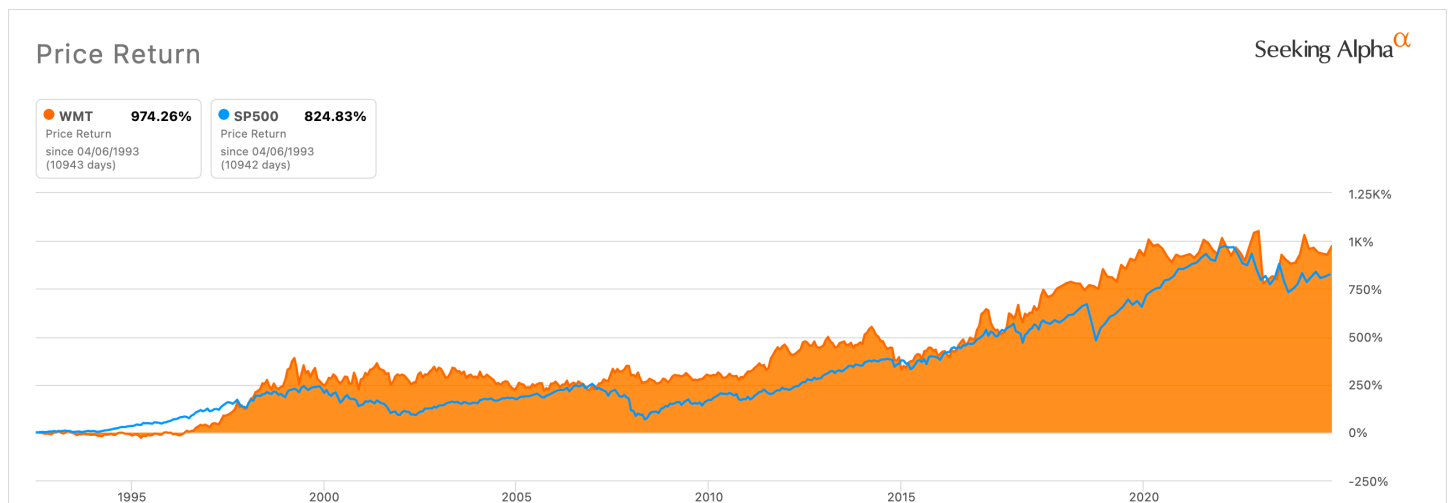
India may not be the nation of consumers we are, I think India might still need more than 28 Walmarts to serve its massive population.

To the right is a fantastic graphic that shows the behemoth that Walmart has become. In this country, they are the largest private employer in 22 states. As they continue to expand west, seeing them increase this total would not be surprising. Also, if you look closely, you will see the largest employer in the other states are mainly educational institutions or healthcare organizations... our beloved Government is funding both. Walmart's growth is all on its own.

So why do I bring all this up? Well, this is what we are investing in when we are Walmart shareholders. In a capitalist society, the growth of this business leads to higher sales and profits. Profits that get reinvested into the business or paid out to its owners. This is a 75 year trend for Walmart and has led to tremendous wealth for shareholders... are we to believe it will all suddenly end?



The chart below reflects Walmart (WMT) and the S&P 500 Index (SP500) price for the past 30 years through 3/31/23. Walmart is up 974%, and the S&P 500 Index is up 824%. This isn't a magic trick. For Walmart, it is the valuation of a company that now annually does \$600 billion in sales and \$30 billion in profits.



While the total return is impressive, even more important is to look at the direction of the chart. It goes up, and every time there is a decline, the stock price eventually returns to its previous high. In addition, notice how the S&P 500's price moves in line with Walmart's stock price. When people say "the stock market" is down or up or whatever, there is substance there. It is the Walmarts of the world we are talking about. So, when someone utters the phrase



this time, it's different... how can it be when we are talking about companies like Walmart? Are the seven issues I laid out at the beginning going to put a 75-year-old retailer out of business? Sure, there may be a lull in business or a decline over the short run... but over the long term? Um... I highly doubt it.

These short-term corrections are the opportunities long-term investors capitalize on. Walmart is trading at the same price it was selling at 18 months ago. This doesn't create a huge opportunity, as Walmart is a mature company... but it's a good time to invest in a great company at a discount.

But Walmart is not the only game in town. Other companies growing much faster have seen their market capitalization spiral down, and ever heard of a little company named AMAZON? This behemoth saw its stock price drop from \$183 a share to \$84 in a year. Regardless of how much anyone thinks Amazon is worth, is there any way a more than 50% decline in market value is justified? Did our fabled leaders unilaterally decide the internet will be closed for half the day?

As disciplined, value investors, we never owned Amazon stock before this recent sell-off. But guess what... we do now. While this uncertainty has caused some unrest, more importantly, it has created opportunities. For your sake (and ours... remember we are invested alongside you), it's our job to take advantage.

Uncertainty has worked in the past, and we see no reason why it won't work in the future. The next time someone proclaims the four words: ***this time, it's different...*** you be sure to return fire with our four words: ***this too shall pass***. At least, that's what history and experience tell us.

See you for our mid-year review... if not sooner!

Marcus