WESTBOURNE
INVESTMENT ADVISORS

## INVESTMENT PERSPECTIVE – SECOND QUARTER 2019

> *Grant me the serenity to accept the things I cannot change; the courage to change the things I can; and the wisdom to know the difference.* - The Serenity Prayer

The overall markets appreciated strongly in 1Q19 nearly erasing the market losses of 4Q18. We've seen no valid explanation for the near 20% peak-to-trough "correction" in 4Q. However, the same economic backdrop remains: robust global economic growth, lower U.S. tax rates, low unemployment, low interest rates – and a Federal Reserve which has seemingly paused on further interest rate increases. Thus far, this macro environment has been good for corporate earnings and for equity performance. Volatility is unsettling, but *volatility does not equal risk* and we are focused on what we can control – finding value in specific companies' equities and bonds.

## Personification of the Market is an Attempt to Control the Uncontrollable and Predict the Unpredictable

> *On every stock trade there is someone who wants to sell and someone who wants to buy…the person who is selling thinks that he is getting out just in time while the person buying thinks that he is about to make good money. The truth is that the market doesn't really reflect some magical perfect valuation of a stock under the efficient market hypothesis. It reflects the mass consensus of how actual individual investors value the stock, the sum-total of everyone's hopes and fears..."*
> ― M. E. Thomas

We are often asked questions like: "How do you *feel* about the market here, do you think the market has *more life* in it?" and "the market is *making me nervous*, and I'm *afraid it wants to go down* from here – I'm thinking of selling everything and *waiting for it to calm down*" and "don't you think the market (or stock XYZ) has *run too far too fast*?".

At the crux of these questions is fear - *fear of missing out* on a rising market and *fear of loss* in a declining market environment. Fear often produces irrational attempts to predict, control, and understand the movements of a market - a market which in the short-run is often driven by underlying buyers' and sellers' own irrational fear…and greed. During every single trading session, capital markets are impacted by literally millions of factors, ranging from China trade to German interest rates to changing tax policy to US GDP growth, each of which is driven by millions of underlying inputs. Yesterday's inputs will be replaced by tomorrow's inputs *ad infinitum* – the permutations are infinite and utterly unpredictable. Humans find this difficult to handle because we have a desire to understand and control nearly everything at every moment in a world which is often uncertain and incomprehensible. In a quest to understand and explain unknowns and uncertainty, we often assign *anthropomorphic* qualities to the inanimate stock market.

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**Anthropomorphic:** adjective; an·thro·po·mor·phic | \ ˌan(t)-thrə-pə-ˈmȯr-fik

*1 : described or thought of as having a human form or human attributes*

*2 : ascribing human characteristics to nonhuman things, anthropomorphic beliefs about nature.*

As an appreciation of our desire to personify that which we cannot always understand, famed investor Benjamin Graham created a metaphorical device called "Mr. Market" that *anthropomorphizes* the stock market. Graham described "Mr. Market" as a bi-polar, manic-depressive character with wild, unpredictable, often irrational mood swings.

Any of us who follow the markets can attest to the irrational attributes of Mr. Market. Consider an investor who ignored markets from October 1, 2018 until March 31, 2019: This investor would have noticed almost no change at all in the overall market level, while one who looked at it daily would have witnessed a 15%+ plunge in stock prices, corresponding panic selling, and then a climb back to near October 1 price levels with panic buying. This volatility occurred, *within six months,* despite little or no fundamental change in the underlying value, earnings power, or outlooks of most companies in the S&P 500.

*The trick is <u>not</u> to learn to trust your gut feelings, but rather to discipline yourself to ignore them. Stand by your stocks as long as the fundamental story of the company hasn't changed."*

– Peter Lynch

## Shouldn't we avoid markets we cannot predict or control?

In past client letters we've discussed the need to not only preserve capital but also to enhance the purchasing power of assets against the continual erosion of inflation, and how equities are a key component in doing so. We also asserted that if markets did not earn a long-term return above the "risk-free" rate (i.e. U.S. Treasuries – earning at or below inflation), then other markets would not exist, and the investment universe would consist entirely of these "risk-free" instruments.

If markets are as erratic and unpredictable as we've described above and we know we can't predict market behavior, then why try? <u>We don't.</u> However, we can control our own behavior amidst these "mood swings," offering long-term opportunities via investments in valuable companies whose shares can be purchased inexpensively within these irrational markets - or sold during irrationally ebullient times.

The market owes us nothing. Markets are merely tools. Tools of capitalism which exist to serve us, not to guide us. While today's computer-generated trading may make the market look much different than the markets of yesteryear, the markets are essentially the same at their core – auction mechanisms for buying and selling fractional shares of the world's economy. For every seller there is a buyer and vice-versa, each hoping for return on their investment.

At *Westbourne Investment Advisors*, we do not attempt to predict, control, or personify the market. We *control what can control* –investing in companies that we believe will deliver value over time. We fundamentally believe in capitalism's value-creation virtues and in the use of the capital market mechanism to access this value and we believe that understanding and accepting the nature of the market is essential to rational thinking and sticking with long-term investment objectives.

## Conclusion

Within the context of a market that is often volatile and driven by human emotion is opportunity. At *Westbourne Investment Advisors*, this market opportunity is not accessed by attempts at guessing its direction over the next three months, it is accessed by using the market tool in the following manner:

- Valuation: Paying attention to the valuation of the individual securities which we are buying, in light of their growth characteristics and Return on Capital;
- Underlying Businesses: Selecting investments in business models that are sustainable and run by management teams that allocate capital efficiently and effectively;
- Asset Allocation: Monitoring the exposure to Equities vs. Cash/Bonds in an individual's account based on age, risk tolerance, and near-term liquidity needs;

By focusing on these over-arching factors, we can harness the market mechanism to not only preserve capital, but also create value for clients over a long-term time horizon.

We wish all of you a Happy and Healthy Spring. If you want to discuss the market, value, risk, time horizon, or any new developments in your financial life, please do not hesitate to contact us.

All The Best,

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| Joseph C. Wilkinson | - Managing Director |
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| David Cunningham | - Founder, Senior Advisor |


## ADV Disclosure

Securities and Exchange Commission (SEC) regulations require that Westbourne Investment Advisors annually offer a copy of our firm's Form ADV Part 2 Disclosure Document (also on file with the SEC) to each of our clients. If you would like a copy, please let us know and we will send you one free of charge. Since the last annual updating amendment of this Form ADV Part 2A, dated February 7, 2018, the following material changes have occurred: effective December 31, 2018, Scot Labin became President of Westbourne Investment Advisors, Inc. and Bruce Kromminga became Chief Compliance Officer.