Marble Harbor Investment Counsel, LLC
Fourth Quarter, 2020 Letter

We are pleased to send an excerpt from our fourth quarter client letter that discusses our current thinking. We welcome your thoughts.

Sincerely,

Paul Davis, L.J. Harrington, Eric Robb and Daniel Rosenblatt

****

Reading our periodic missives may sometimes seem fatiguing and repetitive: We don't tire of discussing how we seek well-valued, growing streams of profits at reasonable prices while avoiding expensive, risky stocks that may (or may not) have profits. At times, this approach is at odds with current investing trends. It was so in 1999, in 2008, in 2011 and for much of 2020. We may be many things, but fashionable is not often used to describe us. The Joneses will need to look elsewhere for a parrot!

****

Last quarter we discussed how the market was enamored of technology stocks and ignored companies with steady cash flows. This was true until November 9, when Pfizer released results from its vaccine trial showing astonishing 95% efficacy. The market saw light at the end of the pandemic tunnel and began to believe it was not another freight train: Life will get back to normal, and with this realization came new-found enthusiasm for many ignored companies with cheap, reliable cash flows. Thus began one of the sharpest market shifts in the last 100 years.

Working in the investment field, acquaintances often ask, "when should we get out and when should we get back in?" The answer is always, "We don't know, and that's the wrong question in any case." As Charlie Munger would say, that is in our "too hard pile." The last 12 months should put this comment into stark relief. While this was one of the largest growth to value transitions in history, it largely took place over four trading days. If you had tried to time this trade, inevitably you would have missed out. Viewing this effect over a longer horizon, missing the best 40 *days* out of the past 20 *years* of investing in stocks, would have turned your healthy 7.5% annualized return into a ***loss*** of 3.4% per year. As a long-term investor, time in the market is far more important than timing the market.

With all the tumult and volatility, this year exemplifies the futility of market timing. The drop from January 1 to the nadir in March was about 30%. Many panicked in March, hoping to get back in when it was "safe," thus missing the rapid recovery and 60% appreciation since the bottom. Cash may give short-term comfort, but it erodes from inflation, lends little income, will not grow, and if raised while stocks are down, is mightily difficult to put back to work as stocks move higher. While there are always uncertainties and dark clouds on the horizon – now is no exception – holding a diversified portfolio of good businesses that are reasonably valued in your portfolio allows you to ride the inevitable waves of strong and poor stock markets over the years.

We recently read an account of Royal Air Force flight training where cadets are literally taught to sit on their hands in order to learn the patience needed to not react purely out of impulse in a stressful situation. Often the best route through volatility is simply to sit tight. Charlie Munger's partner, Warren Buffett, has a cute aphorism as one of his guideposts, "Don't just do something, sit there!"

As discussed last quarter, we were confident in the unrecognized value of our companies, and we were willing to wait for the market to see it. We did not expect a large portion of the discovery to happen in only four days, but the good part of being a long-term investor is that we are more focused on the "if" not the "when" of the market waking up to value.

The time to prepare for volatility is before it happens, not while in the air. We spend months and years getting to know the companies in your portfolio to understand how they'll withstand the turbulence that will inevitably occur. We all know that the long-term *value* of your businesses did not plummet 30% in March and then swoop back up 60% through the end of the year. It takes a steady hand on the yoke to navigate the maelstrom when so many are ejecting. Our job is made much easier by you, our thoughtful passengers, who both understand the strength of your portfolios and that turbulence is an unavoidable yet surmountable part of the journey. Thank you for accompanying us as we traveled through 2020. We're hoping 2021 will be a smoother flight.

Please don't hesitate to contact us if you have any questions. We wish you continued good health.

Sincerely,

Paul, Eric, LJ and Dan

*   *   *   *
