

## **Newsletter – Spring 2019**

"If you are rich, you can buy a lot of things, but on average you can't buy above-average (investment) performance."

*Warren Buffet*

*Dear clients and friends,*

As always each year, Warren Buffett has issued his letter to the shareholders of Berkshire Hathaway. I find his perspective helpful as we remember the rewards of investing in American (and global business). I hope you find the excerpt below interesting and beneficial.

We welcome your comments and questions. And we appreciate our new clients who joined us this past quarter and have placed their trust in us.

All my best!



D. Dean McCormick III, CPA

### **The American Tailwind**

On March 11th, it will be 77 years since I first invested in an American business. The year was 1942, I was 11, and I went all in, investing \$114.75 I had begun accumulating at age six. What I bought was three shares of Cities Service preferred stock. I had become a capitalist, and it felt good.

Let's now travel back through the two 77-year periods that preceded my purchase. That leaves us starting in 1788, a year prior to George Washington's installation as our first president. Could anyone then have imagined what their new country would accomplish in only three 77-year lifetimes?

During the two 77-year periods prior to 1942, the United States had grown from four million people - about 1/2 of 1% of the world's population - into the most powerful country on earth. In that spring of 1942, though, it faced a crisis: The U.S. and its allies

were suffering heavy losses in a war that we had entered only three months earlier. Bad news arrived daily.

Despite the alarming headlines, almost all Americans believed on that March 11th that the war would be won. Nor was their optimism limited to that victory. Leaving aside congenital pessimists, Americans believed that their children and generations beyond would live far better lives than they themselves had led.

The nation's citizens understood, of course, that the road ahead would not be a smooth ride. It never had been. Early in its history our country was tested by a Civil War that killed 4% of all American males and led President Lincoln to openly ponder whether "a nation so conceived and so dedicated could long endure." In the 1930s, America suffered through the Great Depression, a punishing period of massive unemployment.

Nevertheless, in 1942, when I made my purchase, the nation expected post-war growth, a belief that proved to be well-founded. In fact, the nation's achievements can best be described as breathtaking.

Let's put numbers to that claim: If my \$114.75 had been invested in a no-fee S&P 500 index fund, and all dividends had been reinvested, my stake would have grown to be worth (pre-taxes) \$606,811 on January 31, 2019 (the latest data available before the printing of this letter). That is a gain of 5,288 for 1. Meanwhile, a \$1 million investment by a tax-free institution of that time - say, a pension fund or college endowment - would have grown to about \$5.3 billion.

Those who regularly preach doom because of government budget deficits (as I regularly did myself for many years) might note that our country's national debt has increased roughly 400-fold during the last of my 77-year periods. That's 40,000%! Suppose you had foreseen this increase and panicked at the prospect of runaway deficits and a worthless currency. To "protect" yourself, you might have eschewed stocks and opted instead to buy 3 1/4 ounces of gold with your \$114.75.

And what would that supposed protection have delivered? You would now have an asset worth about \$4,200, less than 1% of what would have been realized from a simple unmanaged investment in American business. The magical metal was no match for the American mettle.

Our country's almost unbelievable prosperity has been gained in a bipartisan manner. Since 1942, we have had seven Republican presidents and seven Democrats. In the years they served, the country contended at various times with a long period of viral inflation, a 21% prime rate, several controversial and costly wars, the resignation of a president, a pervasive collapse in home values, a paralyzing financial panic and a host of other problems. All engendered scary headlines; all are now history.

Christopher Wren, architect of St. Paul's Cathedral, lies buried within that London church. Near his tomb are posted these words of description (translated from Latin): "If you would seek my monument, look around you." Those skeptical of America's economic playbook should heed his message.

In 1788 - to go back to our starting point - there really wasn't much here except for a small band of ambitious people and an embryonic governing framework aimed at turning their dreams into reality. Today, the Federal Reserve estimates our household wealth at \$108 trillion, an amount almost impossible to comprehend.

Remember, earlier in this letter, how I described retained earnings as having been the key to Berkshire's prosperity? So it has been with America. In the nation's accounting, the comparable item is labeled "savings." And save we have. If our forefathers had instead consumed all they produced, there would have been no investment, no productivity gains and no leap in living standards.