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Get Rich Slowly

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"The people who have gotten rich quickly are also the ones who got poor quickly."
- John Templeton

Dear Fellow Investors,

A *Forbes* article of July 1974 profiled John Templeton and highlighted some of the wisdom he implemented in his investment process. The article touched on his discipline of consistently praying to God "for wisdom and clear thinking" at the start of each directors meeting for the Templeton Growth Fund. John Templeton noted that even with prayer they still "make hundreds of mistakes, but we don't seem to make as many as others." In the article, Templeton also advised that the "ninety-nine percent of investors shouldn't try to get rich too quickly; it's too risky." He advised, "Try to get rich slowly." Sir John Templeton is on nearly every short list showcasing the most successful investors of all time, and certainly held in high esteem among value and contrarian managers like us.

Templeton's words bring scarce wisdom to today's investing landscape, where the world has again become fixated – perhaps hypnotized – by an extremely narrow set of companies believed to have found a high-growth elixir. In many ways, these companies rule the world of today. They seem destined to dominate as they consolidate power and control the lives of humans in an ever concentrating, if not imposing way. These "Frightful Five" (Alphabet, Apple, Netflix, Amazon, Facebook) have been awarded the prized "halo effect" by investors. Investors and numerous TV commentators have moved into the realm of applying new adjectives and buzzwords to describe the activities of these entities at the center of a financial frenzy. We hear the talking heads espousing such narratives as Artificial Intelligence/AI, Internet of Things/IOT, Augmented Reality, Machine Learning, or the latest one (for those keeping score), Ambient Tech, which speaks to the type of technology that displaces the need for humans altogether.

Such new concepts are easy to get excited about, and we have no doubt, will continue to change the future of consumer behavior and commerce. With that as a given, we want to remind investors of our role in all of this: we are long-duration investors. Contrarian investors make money when they buy into temporary misery, and sell into excitement/mania. The great financier and investor, Bernard Baruch, would have illustrated good investing as “buy[ing] straw hats in the winter.” We would add by saying that once purchased, investors should simply do their best to get out of the way, and allow the fundamentals of those businesses to drive the results. In Berkshire Hathaway’s 1996 letter to shareholders, he advised:

> *“If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio's market value."*

WM Wrigley is a great example of what getting rich slowly might look like. From August of 1980 through October of 2008 (before Wrigley was acquired by Mars) an investor in Wrigley would have made 228 times their money, as compared to the respectable 16 times made from owning the S&P 500 Index. Wrigley’s mission is “Creating simple pleasures to brighten everyone’s day.” They also have an incredibly simple business model. We don’t think Wrigley’s gum packages have visibly changed over many decades, and last time we checked, they don’t have any side missions to colonize Mars (the planet). Mr. Wrigley and his family did own the Chicago Cubs from 1921-1981. Chewing gum is really not all that exciting or innovative, but it sure has rewarded its investors. We don’t believe they were ever the center point of an environment of broad investor frenzy. None of this led to the development of new adjectives to describe how gum would take over planet Earth.

At Smead Capital Management, we like to say that we are arbitrageurs of *time*. When the idea of having to wait has become distasteful in the psyche of investors, they will greatly discount extraordinary – but perhaps mundane – businesses. We like to use those opportunities to acquire shares. Similarly, when investors believe they can compress time by paying up for “high growth” companies, we would advise to run the other way or at a minimum, practice a high degree of skepticism.

As contrarians who implement these tenets of investing, we own, in our view, a portfolio full of great businesses that lack current investor excitement. We operate on long-term ideas such as household formation, banking needs, and the kind of sustained economic growth that paves the way for business and consumer spending to grow over time. We find attractive value in our banks, home-builders, media companies, health care, and select retailers. We believe the economic needs that our companies address will persist over time, and we want to be in front of the profitability and cash flow that can be gained in the process.

Thank you for your continued investment and support.

Warm Regards,

Tony Scherrer

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