



Missive

APRIL 2, 2024

Hit Them Where They Ain't

Dear fellow investors,

As a child, baseball became the core of my life. Collecting baseball cards, watching games on TV, and playing in Little League and neighborhood games absorbed my time outside of grade school. Out of this came a desire to know baseball history and become a statistics junkie. These forces came together at eight years old when I received a book called, *The History of Baseball*.

Early in the book, one of the first stars of Major League Baseball was a guy named Wee Willie Keeler. He played in what was called "the dead ball era." Keeler had superior hand-eye coordination and would hit the ball where nobody was standing and led the league in batting average hitting over .400. The modern era of baseball hitters like Ted Williams, Joe DiMaggio, Rod Carew and Tony Gwynn proved that hitting the ball where nobody was standing produced the highest batting averages.

As portfolio managers, we are interested in getting the highest annual returns from the least amount of risk. We want to find meritorious shares which give us a very high batting average. In today's Major League Baseball games, the statistics have moved teams away from hitting for high batting averages. The current theory emphasizes hitters who hit home runs and get walked often by pitchers afraid of giving up home runs. There aren't any fielders on the other side of the fence, so home runs are hit where they ain't.

Growth stock investing appears to have the popularity of home run hitting. Nobody ever talks about the massive percentage of growth stocks that carried euphoric prices, do poorly and get slaughtered. All that gets attention are the five to ten most glamorous winners. And we've spent the last ten years with very little variance in the list of winners.

As value investors, we go into companies that are out of favor but have characteristics that could lead us to multi-year winners. Our best stocks were found in the holes in the other portfolio manager's defenses. As we watched a .190 hitter, Kyle Schwarber, bat leadoff for the Phillies in the playoffs last year, purists like us yearn to see Rod Carew and Tony Gwynn again. Our stock picking discipline (our stock market sabermetrics) tells us that growth stock investing is too popular and is about to enter a "dead ball" era of stock performance.

Fear Stock Market Failure,

Bill Smead
Chief Investment Officer

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