

FRIDAY, MARCH 31, 2023

Hello and welcome to the Dividend Cafe recording here from our nation's capital, Washington DC, not my favorite city to come to, but I will say if you're going to come here this time of year, this is the time to be here. Absolutely beautiful springtime weather. And I just got done on Thursday, yesterday, I spoke at a summit, and now I will be flying back to California this evening.

And in the meantime, want to talk to you about what's on everyone's mind right now. And of course, I'm referring to March Madness in the college basketball tournament. The Final Four will be played out on Saturday, the championship game will be played Monday night, and this is that time of year. And I believe that the history of me using Dividend Cafe to weave in various sports analogies is rich. One of my favorite things is getting both people emailing how much they like it and people emailing how much they hate it because it does nothing at all to impede my behavior. And I think it is very funny. However, this is a really good sports analogy today. I'm quite confident that those of you who hate sports and don't want to hear me talk about March Madness will be happy you did in the end for the market lesson. I'm going to extract from my point, my comments here today.

One of the things I love most about the March Madness Tournament every year, besides the fact that I do love college basketball, I do not get the chance to watch sports anymore. As an old man with a very, very busy career, and being a father of three and a husband, I watched a lot more college

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basketball in my teen years and even in my twenties than I do now. And yet March Madness still represents this period where there's a lot of excitement, a lot of uncertainty, a lot of upsets, a lot of heartbreak, a lot of glory. And there is the societal cohesion that comes from brackets, that is people filling out brackets that have maybe never watched a minute of a college basketball game in their lives and often winning their brackets at work with their coworkers or their family or friends or whatever it may be. It's a fun cultural exercise. And I've organized a bracket every year for many, many years, and I think it just sort of complements and colors the whole experience of the March Madness College basketball tournament.

So this year is an interesting year because I went into this tournament saying some pretty crazy things. I was on record quite publicly stating that I didn't think the number 1 seeds were really any different from the 3, 4, 5, even number 6 seeds, that there was so much parody out of it, there's a tournament of 64 teams that the top 20 teams could all be arguably number 1 seeds and not a single number 1 seed survived even past the Sweet 16 unheard of that no, number 1, number 2 or number 3 seed would make the Final Four never happen in history. And I was predicting months ago, let alone even repeating it weeks ago, that this was the most parody we had ever seen, that anyone could beat anyone. All bets were off, went into the tournament predicting a record number of severe upsets, and indeed opening weekend number 1 Purdue losing to the powerhouse that is Furley Dickinson. Number 2, Arizona losing to Princeton, helping, by the way, UCLA Bruins to forget

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about their loss to Princeton back in the 90s. Who else? Virginia losing to Furman. And number 4 seed losing your number 13 seed in the second round. Number 1 seed Kansas losing to 8 or 9 seed Arkansas. So you had just this bloodbath of upsets and then into the sweet 16, both Alabama and Houston losing and the number 2 seed UCLA, number 2 seed Texas losing over the weekend as well. And you end up with this Final Four that absolutely not one single person in America could have predicted.

And so out of all of these macro predictions, bad year for number 1s, a lot of upsets, lot of parody, every bit of that macro was true and true in spades and was contrary into consensus. I just nailed it. And I am number 53 in my bracket pool out of 63 contestants. Now I'm hoping this recording will continue because the people doing the recording right now include the number 61 place, Brian Tong and number 63 place, Lukas Klause from our Content Communications Team at TBG. So I just want to make clear that I'm not quite as bad as them. And number 62 seed, Trevor Cummings, you'll look forward to seeing him guest host on a DC today sometime. And I can assure you he won't be doing a college basketball analogy, but number 53 is pretty bad. The themes, the kind of macro calls, the big picture stuff that is absolutely irrelevant to how the specifics, the granularity played out and still having to pick the teams and the sequence and the way all the stuff goes is much harder than just getting the macro. And you go, okay, can you please stop talking about college basketball? Now, what does this have to do with life? What does this have to do with

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markets and investing? By the way, the point I'm about to make on markets is, you can use analogies outside of March Madness in my number 53 place bracket, how many times in politics has someone had a general theme, a general cultural observation that was accurate and yet played out poorly in the actual specific outcome, even in things related to markets, not necessarily the stock market that I'm about to talk about, but I have over the last 20 years talked quite a bit about my repeated and emphatic predictions in 2004, 2005, 2006, about the housing bubble and the belief that it was not going to end well, that housing prices were deeply overpriced and so forth. And that proved to be accurate, but that didn't say anything about credit default swaps. It didn't say anything about over levered financial institutions bringing the world to its knees with collateralized debt obligations imploding and credit leverage bubble bursting. It didn't speak to the reality of its impact on employment. Consumers bringing us into the worst recession since the Great Depression. So sometimes it's not enough to be right on certain premises. You have to be right in the execution, and some conclusions can be right, but miss other conclusions adjacent to them that kind of tell a story as well.

The analogy I've used the last couple years is those inflation hawks that said, oh, inflation's coming, inflation's coming, and they've been calling it for 20, 30 years, been wrong. It comes for two years. And they say, see, inflation's coming, but they were invested in gold, which didn't move a dollar, or they were invested in Bitcoin, which went down 70%. The getting the

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premises right is hard. Moving from premises to conclusions is even harder. And that is a story that can be true in something as fun as March Madness, but it is something that is painfully true in the world of investing in markets. And what I would say when it comes to those trying to formulate investment policy from market calls is that number 1, the market call, the macro theme that I should say, the call on some macro event or circumstance or economic condition is very hard. But number 2, when it is done well, it still involves the need to know how the markets will respond to that call and the circumstances in that call. And number 3, it requires execution.

There was a individual, I'm not going to say his name, who was on TV a lot in 2008 saying, oh, the market's going to crash, the credit markets are going to implode. There's a big pandemonium coming. And then all of a sudden all those things happened and you go, wow, he was kind of right. And then I was reviewing a portfolio of one of their clients years later as we were doing analysis to bring that client into our firm. And I was just shocked that the portfolio was down 50%, 60% because it didn't matter that those other calls had been right, they still had to be invested somewhere and they were invested in something different that was down even more.

And so this is a trend and a theme that comes up all the time. It's one of the embarrassing realities for the perma bears is that first of all, they're basically never really right. And then those couple broken clock times a day that they are couple broken clock times a decade that they are, they still don't make money

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because it turns out that there has to be beyond a macro call, a micro execution beyond a premise, a conclusion, and this is the lesson of my March Madness bracket, but it's a lesson about investing even when someone gets a call, right? They have another really big problem in front of him, and that is doing it again. Again, can't say his name either, but there is a very, very well known hedge funder who made billions for himself, billions for clients, calling shorting housing in 2008, and since then has given up billions in gold and given up billions in Puerto Rico and given up billions in certain biotech companies. And the problem is that one particular call can be right at a time, and then new investors come in and history doesn't repeat itself. See, a coherent investment philosophy has to be repeatable by nature. It has to be rooted in an actual economic logic, rooted in history, rooted in the reality that is not dependent upon calling premises exactly right. And the conclusions that flow from those premises. Exactly right. At our firm, we call it dividend growth investing, and there will be certain macro issues that can be right or wrong, and there will definitely be execution issues that can be right or wrong, but we want the validity of the investment strategy to be dependent upon the cogency of its philosophy, not the fallibility of market calls not exposed to somebody who could go number 53 in a March Madness bracket.

I hope this makes sense. I hope you're not bothered by the sports analogy. I hope if you are, you will not feel it necessary to email me to tell me, but whatever you do, it's okay. We look forward to the Final Four. We look forward to ongoing cogent,

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philosophically based investing rooted in dividend growth. And most importantly, thank you for listening to watching and reading the Dividend Cafe.

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