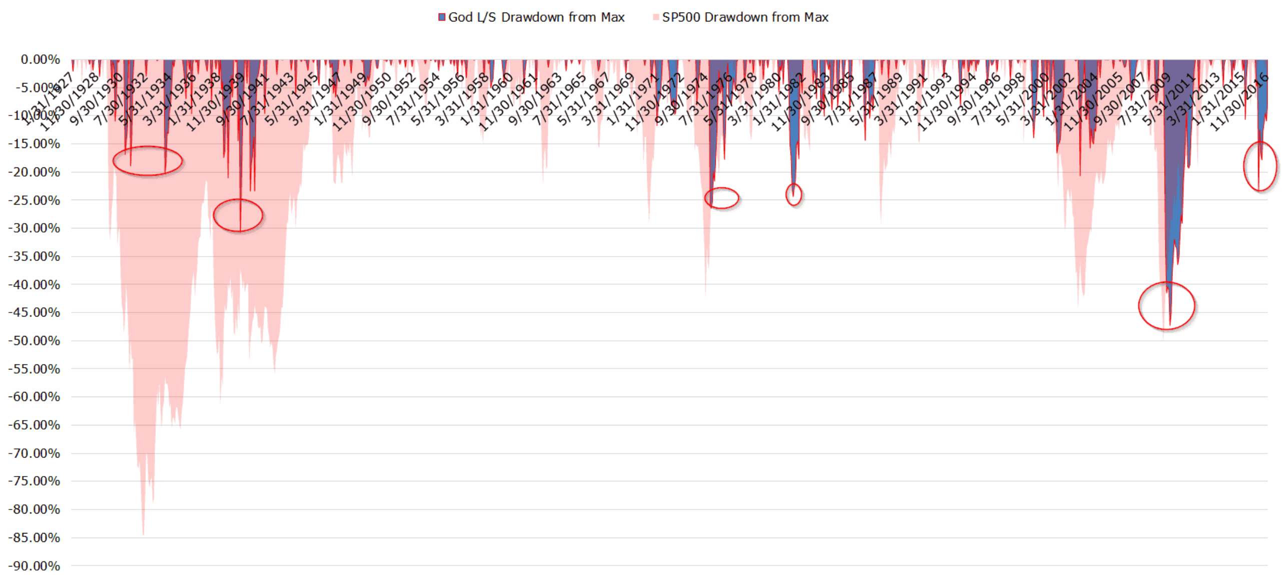
CSH Investment Management
4th Quarter Newsletter 2018



Your account is down 15, 20% ugh. Maybe you've never experienced it before or well its been awhile. After all the US stock market has not had a correction in a very, very long time. But a drawdown (what we call a temporary loss of value) is a reality in investing. The bull market of the last 10 years has spoiled us. We think its just an upward sloping line to the right.

Since 1929 the US stock market has returned on average around 10% per year. However in order to earn that 10% you would have been subject to multiple drawdowns or losses in value. It looks something like this.

The pink shades represents drawdowns that have occurred in the S&P 500 stock index. The big ones to left were the 1920's.
For our purposes we're looking at the ones to the right. The big downward movements in our lifetime. If you've been with me for awhile you probably remember them. 2003 & 2010 were the worst with 40% drawdowns. And since 1993, my first year in business and today we have lived through multiple periods of gut wrenching losses. The early 2000's and 2008 through 2010 there were at least 10 occasions where the stock market fell at least 15% sometimes after recovering nicely.

The point is that even with all those nasty drawdowns you would have made 11.29% per year investing in the S&P from 1993 to today. And if you would have focused your investing on what I call "high quality capital efficient companies." The kind we invest in for our clients you would have fared even better.

So can these drawdowns be avoided?? What if we knew ahead of time what the best performing stocks would be for the next decade?? Almost as if God was our portfolio manager. We could avoid all this stuff and sleep sounder. One man actually took the time to do that. He went through 90 years of data. What he found might surprise you....

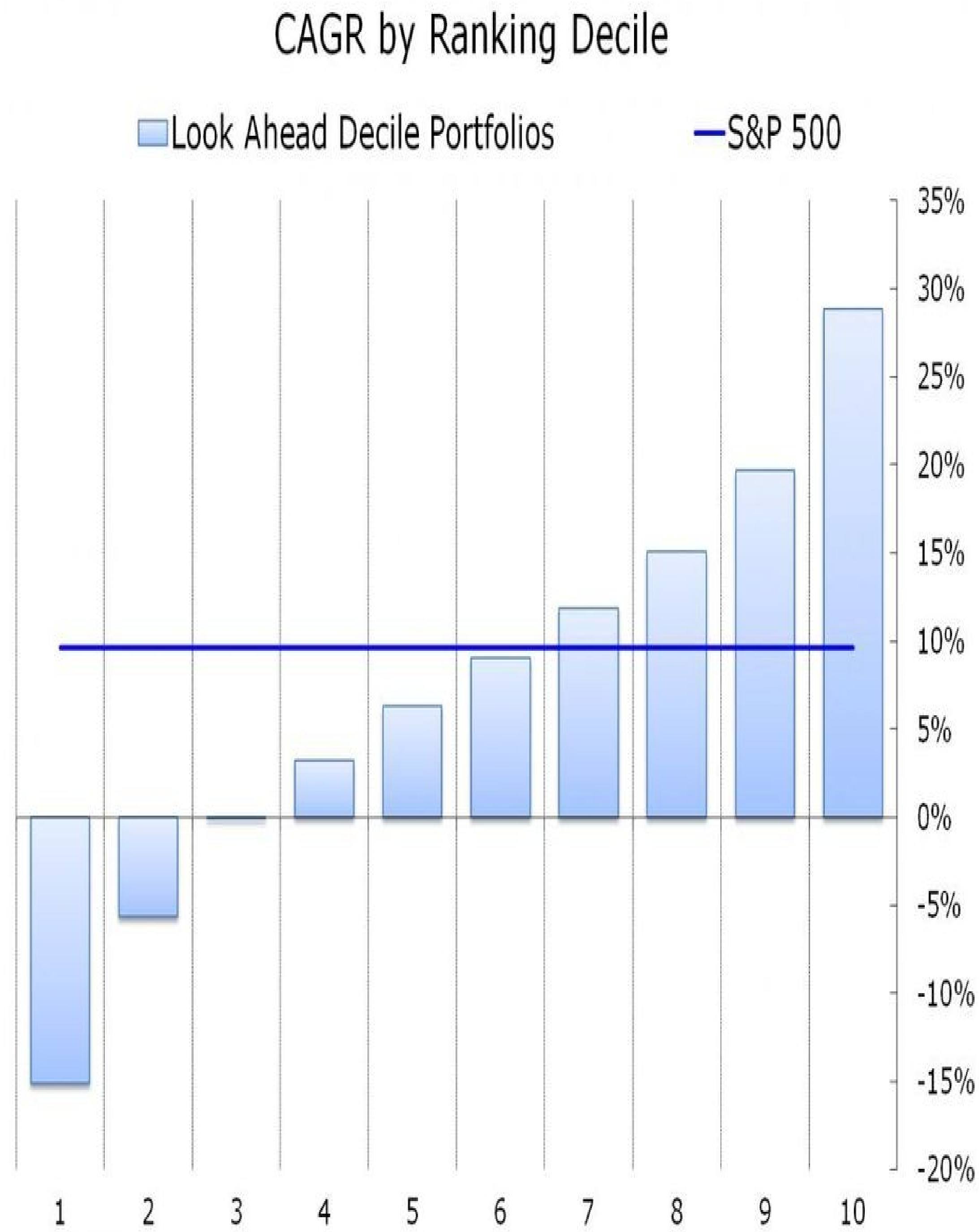
WOULD YOU FIRE GOD AS YOUR INVESTMENT ADVISOR??

Of course not.... who would do that..
But would you?
In our last post we spoke about how temporary drops in value are unavoidable. But are they???
What if you had perfect foresight and could go ahead 5 years and find out the best performing stocks. You'd feel pretty smart coming back in time and putting together a portfolio for your clients.

Wesley Gray decided to go back in time and find out. Gray is the founder of Alpha Architect, an investment research firm. He also earned his PhD at the University of Chicago studying under Nobel prize winner Eugene Fama.

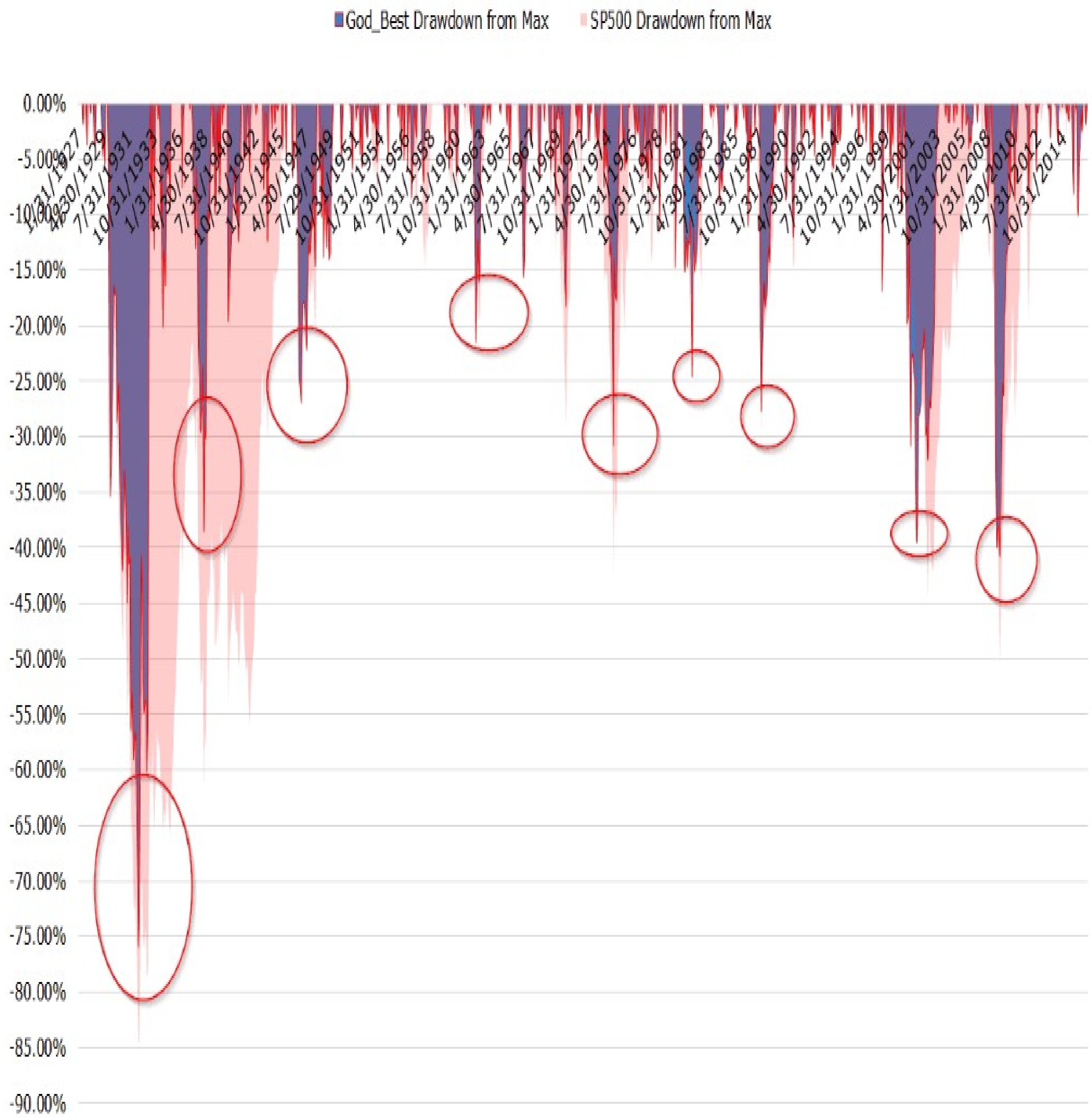
Gray went back and analyzed returns using the top performing stocks for each 5 year period starting in 1927 and ending in 2016.

See next page.



The red line in the middle represents the S&P index or the "market." The market return is 10% since 1926. Our God portfolio or buying the top performers earns nearly 30% annually. That's the portfolio at the far right. At that rate your money doubles every 2 years.

But how about those drawdowns! The perfect portfolio eats a devastating 76% drawdown in 1929. Not a surprise really. But it doesn't end there. Here is the chart of the drawdowns of our perfect portfolio over time.



The drawdowns of our God portfolio are almost identical to the market. And they last almost as long as well. Turns out even God can't protect us from pain...

If you had been lucky to be a friend of Susie Buffett and invested with her husband Warren back in the 1960's you would not have been immune. In the 3rd year of the Buffett Partnership you would have been down 60%. Speaking to a crowd of 30,000 in Omaha Buffett said "Most of you wouldn't have been here. The people who stayed believed in me and understood what we were doing." Of course his record is well known in that era. Even with those drawdowns he compounded money at well over 30% annually for 2 decades.

There was only 1 professional investor who didn't suffer drawdowns. His name was Bernie Madoff. The architect of the largest Ponzi scheme ever. The fact that his investors didn't suffer decreases in value got the attention of an analyst in New Jersey. Harry Markopolous knew Madoff was a fraud a full decade before the story was broken.

In my next missive I'll share with you how Markopolous figured it out well before the regulators and even pointed them in the right direction. More on next page.

CONCLUSION:

1) ASSESSING PERFORMANCE OVER SHORT TIME PERIODS CAN BE HARMFUL TO YOUR FINANCIAL HEALTH

2) ACTIVE INVESTORS MUST HAVE A LONG TERM TIME HORIZON.