STOCKBOY

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25 YEARS!

A Quarter Century and Counting

This issue marks 25 years writing the *Stockboy*. As is often said, time goes fast. I'm not sure how much I've changed from an investor perspective over that period, but it's more than the market has changed.

The market itself hasn't changed much over the past quarter century. First, it still generally trends upward over the long run (but with unpredictable downdrafts that can be quick and mild or protracted and severe). Second, those who 'stay the course' tend to be rewarded handsomely over time. Third, market behavior will create times of over-optimism and great pessimism. Those investors who can chart a contrary course can take advantage of those times, particularly to buy stocks when many others would prefer to sell. This, by definition, gives you a lower price. It often pays to follow, as Robert Frost wrote, the "path less taken."

The past 25 years have certainly taught me a lot about investing and I've tried to apply those lessons to my approach today. As a contrarian investor who looks for opportunities where other don't, I've found it's important to not get overly enamored with a stock (company) that is struggling. Just because a stock is cheap doesn't mean it will automatically get better with time. It's important to recognize the difference between a company facing a temporary problem versus a company that has lost its competitive advantage. Think Volkswagen vs. Sears/Kmart.

If a good company is experiencing a temporary problem (including perhaps simply that the overall stock market is struggling) then it does often pay to keep buying a stock as the price falls. That said, it's wise to buy only good companies with strong financials and market positions and then buy them in an incremental, non-emotional fashion instead of trying to guess where the lowest price will be.

Being confident enough to step up when others won't is a valuable trait in investing. It's even more valuable if you don't become a victim of the opposite: hubris. As Warren Buffett will tell you, every investor will make missteps. Just factor this into your thinking instead of believing you can avoid those mistakes. JP Morgan said he never bought a stock at the bottom nor sold at the top, yet made a lot of money in the middle.

I've tracked the *Stockboy* funds vs. the S&P 500 since 2000 and the Stockboy primary fund is up more than 3 times the S&P 500 over those 17 years. Interestingly, there was only one 'up' year in the market where the Stockboy fund did notably better (2003). Where our flagship fund really separated itself was by holding up much better during the down years, especially 2000, 2001 and 2008.

Quarterly Misfeasance

Though I didn't expect Wall Street misconduct to be a *Stockboy* regular feature, all the headlines indicate otherwise!

Late last year the Wells Fargo 'fake accounts' scandal ended up costing the bank $185 million in SEC, not to mention costs – direct and indirect – trying to appease customers. Meanwhile, as reiterated by *Financial Planning* magazine, JPMorgan was also recently slapped with penalties by the SEC that were over 50% higher than Wells'. JP Morgan's misconduct: sales practices that did "significant harm" to clients, according to the SEC, including promoting JPMorgan products, even when they weren't the best choice for clients. As a side note, JP Morgan didn't have to claim guilt and the only person penalized by FINRA was the whistleblower who revealed the issues!!

Once again, these 'reputable' financial firms' sales practices and primary focus on profits has led them down the wrong path and ultimately hurt their clients. Investment advising requires trust, so these examples are unforgivable. Further, it's ultimately bad for the companies themselves. As too often happens, the large financial companies market themselves as listeners, helpers and trusted allies, but their business practices suggest just the opposite.

Student Debt – Tic, Tic….

As I've often mentioned in this newsletter, there are certain problems facing America that are slowly developing, yet huge in scope, such as shortfalls with social security and pension funding. Similar to steering a large ship, the best way to tackle such issues is to take evasive maneuvers as soon as possible. Waiting usually makes the problem much worse.

While social security issues are being ignored by Washington (neither candidate focused on it during their campaigns) and pension funds continue to tip-toe a fine line between properly funding their obligations and hoping future returns will be very optimistically strong, there's another giant financial problem in our midst: student debt.

The numbers are startling: total student debt is currently over $1.3 trillion – almost doubling since 2005. The number of people with student debt over $100,000 has quadrupled in the past decade. Over 1 million debtors are now in default. (compare this to a 60-day mortgage delinquency rate of less than 3%).

Of course, a great deal of the debt problem is due to the rising costs of college, particularly over the past 20 years. These costs have greatly outpaced inflation and the average American salary. Further, the average American salary doesn't factor in the very real and growing gap between the very large salaries of the relatively small top wage earners and the falling overall income of the 'lower' 50%.

While more and more students find themselves with giant student debts, *Barrons* recently featured a service for well-off families to provide their high school seniors a private jet to tour college campi – for $43,000. For $100,000 you can have tours <u>plus</u> help with tests, essays and applications! Does all this create a level playing field for the college bound? Shouldn't college admission come down to who is most qualified and who most fits the type of student(s) a particular college is looking for? That shouldn't take $100,000 to 'prepare' for, nor should getting a typical college education require being saddled with debt in the same six figures.

If you look at the chart of outstanding student debt in the past 10 years, the line goes up at a disconcertingly sharp angle. I saw a very similar looking chart trajectory the other day and it depicted the huge rise of CEO pay over the past 10 years. I don't think this is just a coincidence. It appears our current economy is massively rewarding those at the very top while simultaneously burdening the next generation. Not a good formula for long term health of our country. Our most recent election reflected some of these issues and I'm sure there's more to come.

BrianWeisman,*CFA,CPA,CFP,CMA*
(734) 665-1454 *brian@columbiaasset.com*