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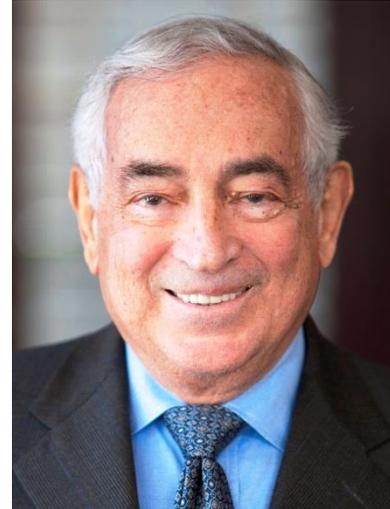
Partner Talk®

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An (Imaginary) Conversation between Warren Buffett and Ed Snitzer

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Ed: How do you view the world for 2016? Before you answer that Warren let me note a few items about 2015.

Since 1871 US Equities have never risen seven consecutive years in a row. 2015 didn't break that record, down 0.7% with 284 companies down for the year. On August 21, 2015 the Dow fell 531 points, closing at 16,459, and on August 24, 2015, it fell another 1,089 points in the first few minutes of trading to 15,370, more than 16% lower than its high for the year on May 19, 2015, before recovering to close at 15,871.

Oil prices were supposed to fall in 2015 but not as much as they did. The price went from \$100.00 a barrel to under \$40.00 a barrel, with the S&P 500 energy index down 25% for the year.

There is grave concern about terrorist attacks such as happened in Paris and California and the strange goings-on in Presidential debates by some very peculiar candidates in both political parties as well as the first hike of interest rates by the Federal Reserve in nine years.

There is concern that the commodities markets are signaling more than a temporary over supply, but something more sinister such as a slowdown in growth in America, China and Japan, let alone in the undeveloped countries.

Have I mentioned just some of the uncertainties for 2016 Warren?

Warren: You just touched the surface Ed. You failed to note that America is having one of the weakest economic recoveries after a recession on record - just +/- 2% GDP growth since the 2008 crash instead of a more historically robust GDP growth after a recession. That growth is leaving millions of Americans no better off than they were a decade ago. While a 5% unemployment rate would usually be considered wonderful, there is the argument that millions of American have left the job market suggesting that the unemployment rate is much higher.

The business with China is very serious because of manipulated data leaving everyone to guess what its ongoing economic growth will really be in 2016 and beyond. Did you know that the United States in 2015 contributed more to global GDP growth than China for the first time since 2006? Here are more uncertainties: Assuming America continues to have ongoing but lackluster GDP growth of 2%, will the Federal Reserve continue to increase interest rates to 1.50%-1.75%? What will the European Central Bank and the Bank of Japan do with much lower growth expectations? Will oil prices stabilize at a reasonable level curtailing the loss of jobs and investments in that sector of the market but at the same time not rising enough for countries such as Russia, Iran, Venezuela to carry out their questionable activities?

I'm sure there are other future uncertainties, Ed, but these should do for now. I don't spend much time thinking about markets going up and down.

I think back to 1973-1974 when I was 43 years old. The Dow had fallen from 1,051 on January 11, 1973 to its low of 577 on December 4, 1974, or down 45%. The English stock market over that same period had gone down 73%. GDP growth went from 7.2% real to -2.1% and inflation from 3.4% to 13%. Price to earnings ratio (P/E) fell from 18 times earnings to 8 times earnings. Forbes had an article about me when I was quoted as saying that buying stock in December 1974 was like shooting fish in a barrel. As the saying goes, "Be fearful when others are greedy and be greedy when others are fearful." I didn't care what the "the market" valued GE, The Washington Post, IBM, or American Express. Stock prices, instead of being right (all) or (most) of the time will be wrong some of the time, particularly and spectacularly at times of great market concern for the future.

I made a ton of money again in 2008 when stock prices were down 50%. I love periods such as these when I make so much money!

Ed: But Warren, most of us can't do what you do. You're Warren Buffett, having built the 5th largest company in the world. You're the Mozart of the investment world. There hasn't been anyone else like you. You're different from most of us regarding life's future uncertainties. We're fearful of not knowing the future, a future that is unknowable and uncontrollable. You're not fearful which is why you're different.

Warren: Oh come on Ed. We live in the strongest, richest most powerful country in the world, a country that is richer per capita than any other country, and one that in our lifetimes has risen, successfully, to meet all the problems that came its way. If you don't have confidence, or shall we say, faith, that as a nation we will continue to meet the many

problems that come our way as a people, what are the alternatives? Move to Canada, England, Australia, Israel, France or Germany, where your wealth will be safer? My conviction has always been that we are blessed to be Americans and we Americans are bound up with the future of America and its wealth creation. The creation of wealth in this country has been extraordinary. Do you know that a \$10,000 purchase of Berkshire Hathaway stock in 1974 would now be worth \$29,351,300?

Ed: Warren, I'll say it again. You're Mozart. Who was to know that in 1973/1974? There have been over those 40 plus years thousands, if not tens of thousands of stock pickers claiming to have your talents only to crash and burn out when the risk they were taking caught up with them. Most of us can't take the risks you take.

Warren: I grant you that's a problem Ed. But here's a different point. If an investor bought \$10,000 of the S&P 500 in 1974 and held onto it through thick and thin, as I have over these years, those shares would now be worth \$731,831 (excluding taxes), a gain of almost 11% compounded per year. What I'm saying is that for the non-Mozart investors of the world, that being everyone but me, you should control what you can control, which is what risk you want to take with financial instruments, be they stocks, bonds, hedge funds, etc. Isn't that what PMA has successfully been doing for over 34 years enabling it to now have more than one billion dollars under management?

Ed: Warren, yes but you and I know it's not quite that simple. You're talking about a buy and hold strategy over 40+ years when America was the dominant country in the world. If an investor bought the U S equity market in 1969, the annual compounded return over 13 years from 1969 to 1981 was 5.2%, not 10%, a huge difference in ending returns. The same result occurred recently after the dot-com collapse in 2000-2003 and the collapse in 2008-2009, when the compounded annual return for US stocks for thirteen years was 1.0% from 1998 to 2008.

Warren: You're right about that Ed. Timing plays a big role in stock market returns, which is also a risk of future returns and why most investors should always have a diversified portfolio of stocks and bonds.

Ed: Warren, are you telling me that even though the future is unknowable and beyond the ability of human beings to control, understanding risk in investing is what we can control? Put another way, if we're not Warren Buffett should we know what risk we're taking with financial instruments, not what the future will bring? Is that your point?

Warren: Isn't that what you have been doing at Prudent for over 34 years and hasn't it worked for your clients?

Ed: Yes. Prudent has very happy and satisfied clients, evidenced with almost 50% being clients for more than 16 years and almost 25% being clients for more than 21 years, because Prudent's basic investment idea - know and therefore control the risk of your investments - has indeed worked. I appreciate very much the confidence and trust our clients have given Prudent.

But Warren, let me ask you what you think about the Presidential election in 2016, even though your expertise is investing, not political prognostication.

Warren: That's true, but two apt quotes come to mind.

John Adams said "Our Constitution was made only for a moral and religious people. It is wholly inadequate to the government of any other kind."

And Edmund Burke said: "Men are qualified for civil liberty in exact proportion to their disposition to put moral claims upon their own appetites. Men of intemperate minds cannot be free. Their passions forge their fetters."

I remain, as always, confident of the American body politic and close with this last thought. God Bless America, still the land of the free and the home of the brave I wish you a very happy and healthy New Year, Ed, to you and to all of the clients and friends of PMA.