Market Commentary No. 3
June 2019

A HISTORICAL PERSPECTIVE

The teams of the National Football League have seen many changes in players, coaches and even locations since Tom Brady, longtime quarterback of the New England Patriots, won his first Super Bowl against the St. Louis Rams in February 2002. These same teams, with new players and coaches, remarkably still face the same challenge today, as Mr. Brady won his sixth Super Bowl against the now Los Angeles Rams this past February. The "younger" contingent at RMC recently reviewed previous market commentaries spanning the last twenty years, which covered various quantitative, philosophic and economic topics. Reading commentary on historical events certainly provided context on Mr. Brady's impressive longevity. It also provided a valuable perspective on the impact of certain events on the financial markets, in the context of those events being current.

The "noise" of the market creates a tendency for investors to forget to step back and realize the bigger picture. When Mr. Brady became a household name, the volatility in the financial markets was headlined by several significant events: the 2000 Presidential election, "dot-com bubble", September 11 terrorist attacks, and fallout from the Enron, Arthur Andersen, and WorldCom scandals. During this time, market commentaries were written by RMC co-founders, Dan Flynn and Frank Loehmann. Mr. Flynn and Mr. Loehmann consistently articulated the need to see above the short-term market fluctuations and maintain core investment disciplines. We are all more familiar with the market noise today, which has been headlined by the 2016 Presidential election, possibility of Brexit, size and accountability of technology companies, and ongoing trade tensions with China, to name a few. Although these are different issues and events, the importance of a long-term focus remains the same.

In November 2000, as the U.S. Presidential election hinged on the outcome of Florida, Mr. Flynn wrote about the policy proposals of both candidates and their likely impact on the financial markets. In June 2002, Mr. Flynn commented on Alan Greenspan, long time Chair of the Federal Reserve, being an important factor as interest rates remained low and economic indicators were sending mixed signals. In June 2004, Mr. Loehmann commented on the concern around a growing federal deficit, which at that time was around $7.2 trillion. Unsurprisingly, the policy proposals in 2000 mainly concerned healthcare, tax cuts and foreign policy, and the market noise around what would happen could have easily been included in an analysis of the 2016 Presidential election. Additionally, our current headlines are still dominated by market swings from anticipation of the Federal Reserve's next interest rate move in the wake of mixed, but mostly positive economic numbers, as well as from debates on how the U.S. national debt should be addressed, which just recently surpassed $22 trillion.

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Tom Brady has been able to achieve long term success with thoughtful preparation and confident execution. His steadfast and disciplined approach has allowed him the longevity to continue playing today. Whether it be during the “dot-com bubble” or the ongoing trade disputes with China, RMC has remained diligent in portfolio construction and maintaining investment discipline. Mr. Flynn wrote in January 2002, “investing for longer-term results is relatively predictable while trading for short-term results poses considerable risk”. Mr. Loehmann wrote in April 2004, “At RMC, we try to stay focused on the big picture while avoiding, to the extent possible, the daily rhetoric”. We continue this approach today to see through market noise and distinguish between material changes to company fundamentals versus broad market swings, which can present positive investment opportunities.

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