April 2024 – Buying and Selling Decisions

"Next in importance to having a good aim is to recognize when to pull the trigger."
– David Letterman

Turnover

We at Callahan Advisors are happy to report that our assets under management exceeded one billion dollars for the first time! We are all grateful to our clients who have entrusted us with the management of their money to allow us to achieve this goal.

In the 25 years since the firm was founded, we have experienced the Dot-com bubble bursting, September 11, 2001, the Great Recession, and, of course, COVID-19. However, it must be noted that the economic engine that is the United States economy and the great companies that make up the stock market have persevered through all these times and delivered significant rewards for investors. We are more than happy to hang onto their coattails.

Clearly, we haven't always done things perfectly, but our faith in our core principles is unshakable.

There was recently an article in the *Wall Street Journal* entitled: "The Psychologist Who Turned the Investing World on Its Head" by Jason Zweig. This article is about Daniel Kahneman, a Nobel Prize winner in Economics and author of the book, "Thinking, Fast and Slow." It is noted that Kahneman joked that the stocks people sell quite often outperform the ones they buy and is quoted saying, "All of us would be better investors if we just made fewer decisions."

A fundamental tenet for us is to have low turnover, but often clients will see a large number of transactions in their accounts. While the volume of transactions can be high, the actual dollar amounts are generally smaller. Oftentimes this will occur when large moves in a particular security have resulted in a concentration in that security or its sector which creates a higher risk profile in a portfolio than our client desires. Good portfolio management discipline often dictates a reduction in these positions.

This has happened particularly in the past year when stocks like Meta, Nvidia, and the other "Magnificent Seven" experienced tremendous gains relative to the rest of the market.

In our fourth quarter letter of 2014, we wrote:

> "When managing our clients' portfolios, another fundamental belief is that every dollar counts. Investment returns are reduced by costs which can be so significant as to determine whether an investor has an up or down year. Minimizing these costs is paramount to managing portfolios efficiently.
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> Two of the major components of costs are transaction fees and taxes. Costly transaction fees are generated by excessive turnover in an account. One of the reasons we generally prefer individual stocks to mutual funds is that mutual funds average 85% turnover – meaning 85% of the securities in a fund are bought and sold each year – generating significant additional costs.

> Taxes are always an important consideration…
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> In 2005, the *Wall Street Journal* addressed this topic, saying 'Critics have long said that money managers who buy and sell frequently are confusing motion with progress.' It is best to follow a balanced approach – you must be willing to adjust your portfolio to keep it in line with changes to goals and risk tolerance and to maintain diversification, but costs should always be considered before taking action. Transaction fees and taxes can really impact whether you are creating, preserving, or depleting your wealth. Unfortunately, while performance is presented on a before-tax basis, true performance is always on an after-tax basis – what you have made only after you have paid Uncle Sam."

Our very next quarterly letter also noted:

> "According to the always quotable Warren Buffet, 'Time is the friend of the wonderful company, the enemy of the mediocre.' We fully agree with his perspective, as in the short-run, stock prices can be very volatile and impacted significantly by a long list of factors not directly related to the companies themselves: the global economy, interest rates, investor psychology, or even natural disasters. With a reasonably long investment period, investors are not only able to flush out average or poor companies (and investments), but they also avoid the dilemma of having to sell their stake in a great investment when they do not want to."

All of us recognize the risk of Alan Greenspan's "Irrational Exuberance" and the psychological anguish a correction can cause. As a financial advisor, we must constantly balance diametrically opposed ideas. Kahneman is correct when he says we should think fast and act slowly, but Greenspan is also correct when he notes that valuation can be irrational.

This makes investing challenging, fun, and rewarding.

In our last newsletter, we noted a milestone for Callahan Advisors as we celebrated our twenty-fifth year in business. This time, as noted above, we passed one billion dollars under management. It is quite an honor that our clients have bestowed on us, and we recognize that we must continue to work diligently to maintain that trust.

Thank you as always. Please let us know if you have any questions, comments, or concerns.

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