



## April 2023 Newsletter – On Your Marks

### Quick update:

- Running Oak's Efficient Growth portfolio was down -0.32% for the month of March, gross of fees. (-0.35%, net)\*
- As of March, Efficient Growth outperformed **every single** Mid Cap Core manager over the last 10 years, net of fees, per Morningstar. (114 months audited, 6 months real-time but unaudited)\*
- Since inception, Efficient Growth has provided **almost 20% more return** than the S&P 500 Total Return Index, given the same level of downside risk and gross of fees. (Ulcer Performance Index)\*
- Efficient Growth has outperformed the S&P 500 Total Return Index and provide almost 20% more return, given the same level of downside risk and gross of fees, *despite* arguably the best environment in history for the S&P and a poor environment for Efficient Growth. And the next decade is likely to be the opposite.\*

### Place your bets

It's tough to beat a good metaphor when attempting to convey a difficult or nuanced subject, and I have been binge watching the Formula One show on Netflix. Thus...

Investing is a race. It's a race without an end, but – still – one that I imagine we would all like to win, because winning means more money, which is better than less money. The S&P 500 is effectively a driverless car that was designed in the 50's. It also has no brakes. Fortunately, the equity market recently experienced the longest straightaway in its history, 14 years or so. Over that period, one could set a brick on the gas pedal and just let it go. Because it had no driver and no brakes and was set on the longest straightaway in history, that leg of the race was the S&P's best ever. (Yet, Efficient Growth still led.)

Then came a curve - 2022... Luckily, despite going off the track, the S&P hit no trees (recessions) and didn't fall off any cliffs (crises). It was bumpy, but it somehow popped out the other end relatively unscathed and is not only off to the races once again, it has had the wind at its back and been hurtling down a decline for the last two months or so, picking up more and more speed.

HOWEVER, if there is one thing we can bet on with absolute certainty, it is that there will be curves and cliffs along the way. The faster a car is going, especially one with no brakes or anyone behind the wheel, the more likely it is to end up in a giant ball of fire.

Case in point, we owned First Republic in our Efficient Growth portfolio, which cost us over 100 bps last month. We slammed on the brakes, assessed the situation, gave the position the boot, and were back in the race. Obstacles happen, but it takes a sentient being and brakes (discipline) to manage them.

Here are a few statistics illustrating just how out of control the S&P 500 now is:

**243** – Nvidia, the 4th largest holding in the S&P, is trading at a **243% premium** to Efficient Growth. (It does have higher expected earnings growth.)

**254** – Amazon, the 3rd largest holding in the S&P, is trading at a **254% premium** to Efficient Growth, despite lower expected growth.

**140** – Tesla is trading at a **140% premium** to Efficient Growth, despite lower expected growth.

**60** - Apple, the largest holding in the history of the S&P (11% higher than IBM at its peak, the last stock to set that record), is trading at a **60% premium** to Efficient Growth with no expected growth.

**50** - Microsoft, the 2nd largest holding in the S&P, is trading at **50% premium** to Efficient Growth with lower expected growth.

**20** – These 5 companies, alone, now comprise almost 20% of the S&P 500.

**108** – These 5 companies trade at a weighted average **108% premium** to Efficient Growth, despite - again - lower expected growth.

**108** – Efficient Growth must outperform this weighted basket of 5 stocks by **108%** to simply be valued on par, never mind that a premium is warranted due to the portfolio's higher earnings growth. It's also diversified, unlike 5 companies.

And if the S&P 500 sounds nuts, many managers (Large Cap Growth, some Large Cap Core) have had to go all-in on these 5 stocks or risk being left in the dust. They have effectively strapped jet engines to their cars – think Janus in 2000. Many were smoked in 2022, and 2022 was nothing but a little curve.

(As an interesting aside, I recently attended a lunch during which the CIO of a large firm said her team had no idea just how Growth-y their managers had strayed until 2022 hit. Many of their managers had drifted toward the Mega Caps just to keep up, and this firm had a rough year because of it.)

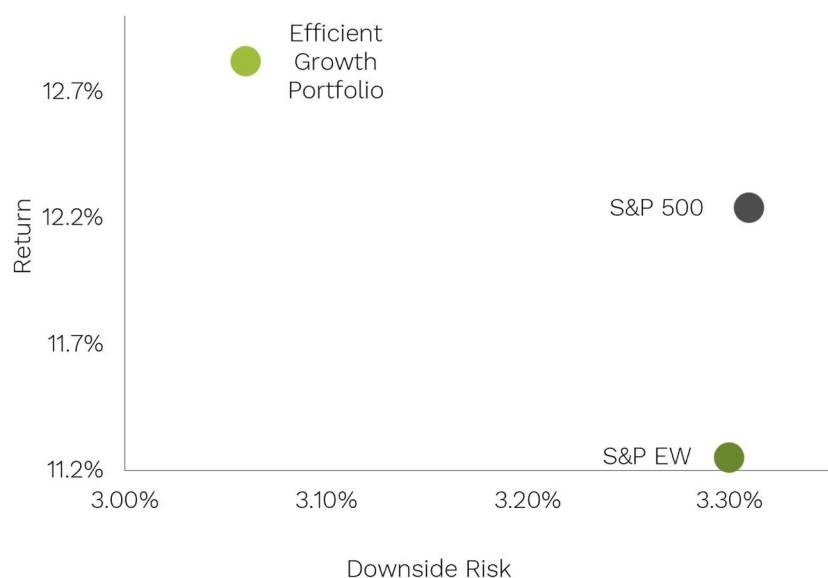
Investing is nothing more than making a bet. In this race, are you betting on the car with no driver, no brakes, and that just experienced the longest straightaway in history, a car that traded its steering wheel for a jet engine (Large Cap Growth), or a car with a driver, brakes, that has a three and a half decade track record of beating the other cars, and also beat the 1st car when it had everything going in its favor. I know which car I would put all my money on. Oh wait, I've already placed that bet.

### **Don't live in the past. Invest for the future.**

Where will you and your clients be 6 years from now? If history repeats itself, will you be yearning for happy clients, more assets, higher revenue, and greater profitability? We won't turn you away 6 years from now, but wouldn't it be better to simply grow together?

### **Risk vs. Return, Gross (Sep. 2013 – Mar. 2023)\***

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For more information, please see the strategy [Fact Sheet](#)

If you appreciate critical thinking, math, common sense, and occasional sarcasm, we would love to speak with you. Please feel free to set up a time here: [Meeting Request](#)

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*\*Past performance is no guarantee of future results. Performance expectations are no guarantee of future results; they reflect educated guesses that may or may not come to fruition.*

*Performance of the Efficient Growth strategy has been tracked since 1989. Performance prior to September of 2013, while unaudited, was documented and generated on a real-time (not back-tested) basis. Such results are from accounts managed at other entities prior to the formation of Running Oak Capital. All indices are unmanaged and may not be invested into directly. Comparison described here are made relative to mutual funds included in the Morningstar Mid Cap Blend universe, which were used for their availability and relative comprehensiveness of data. Other strategies managed in different vehicle structures may exist that are not represented here.*

*The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments and strategies may be appropriate for you, consult with us at Running Oak Capital or another trusted investment adviser.*

*Stock prices and index returns provided by Standard & Poor's.*