January 2023 Newsletter - Top 1 Percentile: Winning the Right Way

Top 1%: Efficient Growth's **10-year** net performance ranks in roughly the **top 1 percentile** of Large Cap Core fund managers per Morningstar. (Based on 112 months of audited performance and 8 months real-time but unaudited performance)*

Wait...

Top 1%? A strategy that was as out of favor as it gets for 5 of the last 10 years & that has performed well below its 33-year average relative return is top 1%? Just imagine the next 10 years when it is likely to be as IN favor as it gets. The train is just leaving the station, and there is room for all.

Please see our December update and commentary below.

Quick update:

- Running Oak's Efficient Growth portfolio **outperformed** the S&P 500 Total Return Index by **2.14%** in December, gross of fees. (2.10% net)*
- Efficient Growth was down -3.62**%** for the month of December, gross of fees, versus -5.76% for the S&P 500 Total Return Index . (-3.66% net)*
- Efficient Growth **outperformed** the S&P 500 Total Return Index by **6.2%** in 2022, gross of fees. (5.72% net)*

Winning the right way

Efficient Growth's 10-year performance is akin to winning the great, steroid-fueled homerun race of 1998... without steroids. Mark McGwire hit 70 homeruns that year, while Sammy Sosa had 66. Ken Griffey Jr. (56) and Greg Vaughn (50) were left in the dust. If you weren't roided out, you didn't have a chance to hang with the top two.

Over the last 10 years, the performance of most top managers and the indexes was determined by Microsoft, Apple, Amazon, Tesla, Nvidia, Netflix, etc. The decade-long unceasing rise in prices of those stocks was fueled by the perfect steroid cocktail of historically low interest rates; historic flows into index funds; QE 1, 2, 3, annnd 4; zero regard for valuations; and $1.5T (capital T) in cash handed out to many who didn't need it. For a manager to compete with the market, he/she basically had to be overweight the hottest stocks, throwing caution and discipline to the wind. Efficient Growth, more or less, never owned those stocks. (We owned Apple for a few months and Microsoft years ago, until both blew past our sell points.)

Meanwhile, despite sell discipline, equal-weighting, and the avoidance of overvalued companies and companies mortgaging their future to buy back stock for the sake of their CEO's, Efficient Growth has performed in the top 1%. Crazy.

Significant, long-term use of steroids rarely (probably never) ends well. Mark McGwire and Sammy Sosa didn't last much longer. How are Microsoft, Apple, Amazon, Tesla, Nvidia, Netflix, ARK, the S&P 500, and Large Cap Growth portfolios likely to fare following the greatest financial steroid binge in history? It takes very little imagination to see how this ends.

Investing in the S&P 500 and most Large Cap Growth is akin to betting on Mark McGwire winning the homerun race a few years later as he shrunk to a shell of his former self. Both are really poor bets.

Common Sense

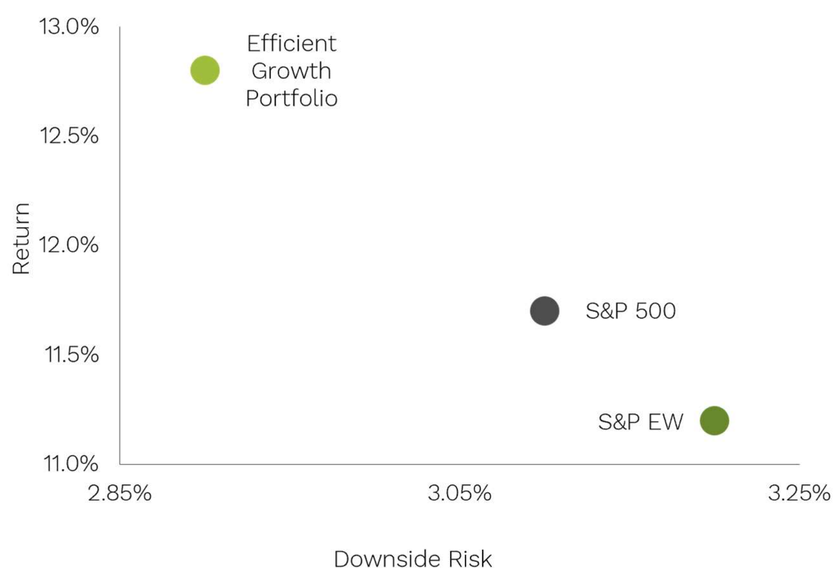
Instead of holding on to the has-beens, invest your clients' hard-earned money in a strategy based upon discipline and principle. Efficient Growth's investment philosophy just plain makes sense; there's no hope or faith necessary.

1. Above Average Earnings Growth – Because owning a company that is making more and more money is obviously a good thing.
2. Attractive Valuations – Because paying a dumb price is, well, dumb.
3. Lower Downside Risk – Because losing money stinks. Lower drawdowns mean smaller bounces are required to get back to new highs.

Efficient Growth performed well despite historic headwinds and steroid-fueled competition, and the winds are a-changin'. Our portfolio is now likely to have historic tailwinds at its back, while the stocks and strategies with uncommonly large heads and shrinking muscles wither away for years to come - just like every other time the market has topped.

New Year's Resolution

With the start of a new year, it's an excellent time to plan for the future and position client portfolios for the next 10 years. As many investors have recently experienced, it doesn't take much of a fall to wipe out years worth of gains, and it doesn't pay to hold on to good companies at terrible valuations.



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: https://m.levitate.ai/25b96d-6d5n9i/30-minute-meeting

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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 Large 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.