



October 2023: Top-Performing Strategy, New ETF, Atkins Friendly

- Running Oak's Efficient Growth separate account **outperformed every single** Mid Cap Core fund over the last 10 years, per Morningstar and net of fees.¹
- Efficient Growth is now available as an **ETF** and SMA. (Sorry, ETF specifics and SMA performance can't be shared in the same email - annoying, I know. Please inquire for the ticker or more information.)
- Running Oak outperformed all peers, *despite* a historically poor environment for a strategy focused on risk, valuations, and debt and utilizing a disciplined process. It's tough to beat a top-performing strategy that has been out of favor for a decade.
- The average investor has little exposure to Mid Cap stocks at a time when Mid Cap is the cheapest it has been relative to Large in 23 years. Efficient Growth offers timely, opportunistic exposure via a strategy that has a long history of providing value for clients.

Quick update:

- Running Oak's Efficient Growth portfolio was down -4.15%, gross, and -4.19%, net, in September versus -4.77% and -5.08% for the S&P 500 Total Return and Equal Weight indexes, respectively.*
- Since inception, our Efficient Growth separate account has provided **24%** more return than the S&P 500 Equal Weight Index, given the same level of downside risk, gross of fees. (Ulcer Performance Index)*

Continental Breakfast

After much deliberation, it has been determined that Efficient Growth is the Bacon and Eggs of Equity Investing, also known as the Atkins-Friendly Continental Breakfast of equity investing or AFCBEI for short. Bacon and Eggs is simpler. Efficient Growth is the sweet spot between Common Sense and Data, or - in other words - where the bacon meets the eggs.

In the ever eyeball grabbing world of CNBC and social media, we are inundated with data and hype all day, every day. Return data, the bacon/meat candy of the investment world, is all many people focus on. Returns are obviously a critical consideration when assessing an investment, but it isn't the only consideration and may not even be the most important one. After all, 95% of statistics are made up (also a made-up statistic). The truth is statistics can be manipulated to make just about any point.

Returns are a *consequence* of a manager's philosophy, process, and decisions. They are the result. But what arguably matters most is that which comes first and drives those returns, largely because it's possible to stumble into an attractive outcome despite a really dumb decision.

For instance, I can drive 120 mph through a school zone, getting wherever I need to go sooner, and not hit a kid. The result may be desirable, but the decision was dumb. I could also drive 20 mph through a school zone, getting wherever I need to go but later. The result is less desirable than the first example but clearly the right decision and the one least likely to hurt a kindergartener.

Efficient Growth is where Common Sense and Data meet – where the eggs meet the bacon. Return data with no context is largely worthless. On the other hand, a clear investment philosophy and process enables one to form reasonable expectations that may or may not be corroborated by real-time performance. Common sense *makes* performance reliable and actionable; the data/performance confirms common sense. Efficient Growth checks *both* boxes. Investing while checking only one of the two boxes is a poor process; it's driving 120mph through a school zone and concluding it was a good decision because there were no casualties.

This is an excellent example of the whole being greater than the sum of the parts. All eggs and no bacon make Jack a dull boy. All bacon and no eggs make Jack a boy with heart disease. Neither are ideal.

The Eggs Efficient Growth's philosophy is simple, easy to understand, and common sense:

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

With just the slightest bit of critical thinking, one would theorize that Efficient Growth is likely to outperform due to higher earnings growth and investment in under to fairly valued companies and do so with less downside risk, due to the avoidance of overvalued, unprofitable, and insolvent companies. Efficient Growth would also never have over 30% of the portfolio invested in just 6 highly correlated companies (Because that would be irresponsible, putting clients at risk...).

The Bacon Efficient Growth has outperformed every single Mid Cap Core fund over the last 10 years, net of fees and per Morningstar.

Bacon and Eggs - working together in perfect continental breakfast harmony.

Efficient Growth outperformed all peers *despite* the last 10 years being a horrible environment for a disciplined strategy focused on valuations, debt, and risk. Efficient Growth really brings home the bacon when stocks don't go straight up, investors don't pay historic valuations, and zombies (bankrupt companies on life support) meet their inevitable apocalypse. In other words, Efficient Growth is likely ideal for the upcoming decade.

Heart Disease

While "all bacon, no eggs" is a pervasive syndrome, there's no better example than passive investing. Take a second and contemplate the passive narrative: "80% of managers fail to outperform the benchmark over time." It is solely focused on returns, never risk and certainly never on the investment philosophy. Why? Because passive investing is agnostic to risk, at its riskiest at peaks, and the investment philosophy makes no sense. Passive investing only checks 1 of the 2 boxes. That isn't to say that passive investing hasn't had a significant positive impact on investors. It has, but it's incomplete. Risk matters and markets aren't perfectly efficient - just look at 2000, 2008, GameStop, WorldCom, etc.

Risk By construction, passive portfolios become overweight the most overvalued companies at peaks. That can't be argued; it's a mathematical fact. Peaks occur at the tail end of economic cycles. We are now arguably 15 years into the longest economic cycle in history, thanks to a steroid cocktail of historic proportions, consisting of QE, tax cuts, and fiscal stimulus.

Philosophy "Let's buy every company above a certain size that was profitable at a point in time. Then, let's not pay any attention. Also, we're going to invest the most dollars in whatever is the biggest! Profitability, insolvency and valuations have nothing to do with investing."

We are in the midst of the greatest bacon binge in stock market history as Vanguard and BlackRock convince everyone that investing without any common sense (all bacon, no eggs) is best. Risk and investment philosophy are apparently meaningless. Generally speaking, no major life decision should be made thoughtlessly, but planning for retirement is – per the two companies selling passive investing – the exception. If Apple simply reverts back to its long-term valuation (2/3 lower), Microsoft no longer surpasses Tech Bubble valuations, Tesla automotive is priced as a car company, and Nvidia fails to take over the entire world, many investors will soon be afflicted by heart disease of their equity portfolios, crippling their ability to retire when planned. Don't forget... Atkins died of a heart attack.

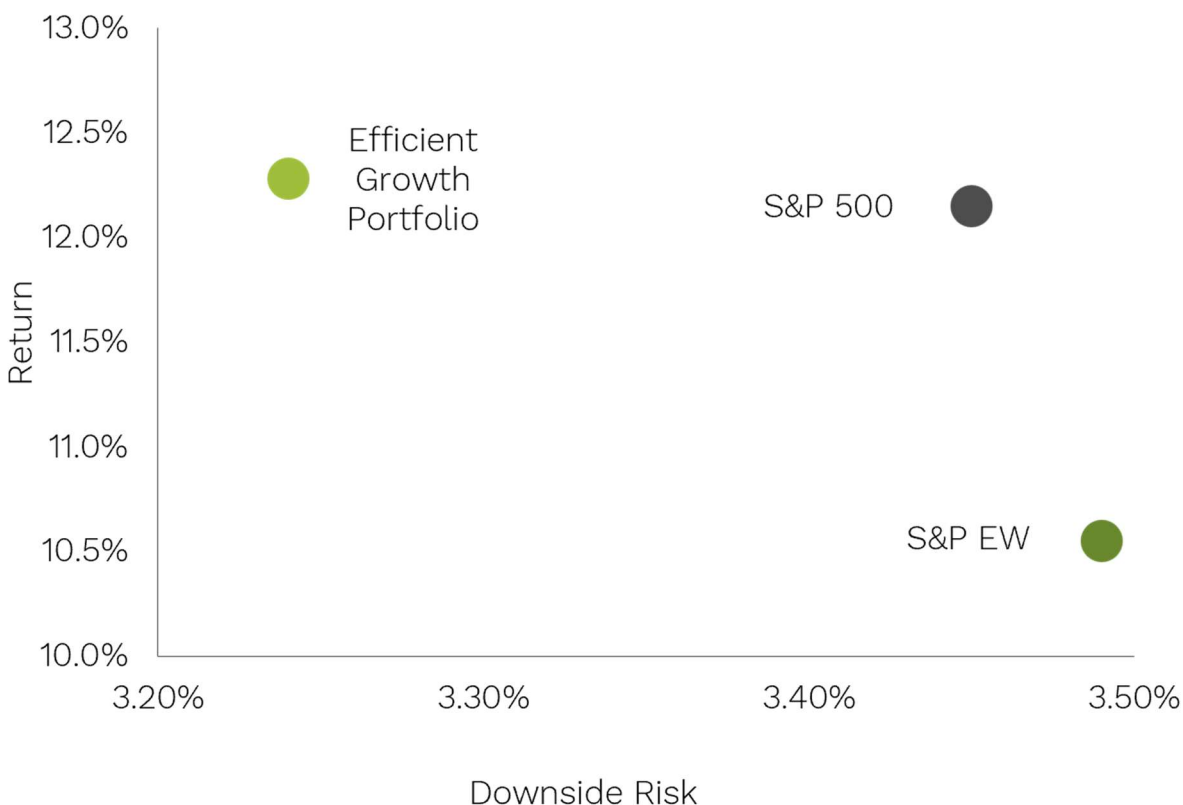
Efficient Growth addresses downside risk proactively and through portfolio construction. We do so by:

- Actively avoiding overvalued companies with the aim of sidestepping the growth-y landmines that all too often blow off appendages (like Amazon and Netflix last year or tech companies in 2000).
- Actively avoiding insolvent, overly indebted companies - Companies now hold more debt than anytime in history, and the Fed just raised rates faster than anytime in history - a dangerous combination.
- Diversification: Efficient Growth is diversified across companies and industries and equally-weighted. We won't be investing over 10% in one company just to keep up with the (Dow) Joneses.

Our goal is to maximize the growth of clients' portfolios, while subjecting them to far less risk of loss. In other words, we aim to help your clients realize their dreams without the nightmares.

If nothing else, Efficient Growth is an excellent complement to the Magnificent 7 big tech stocks. If those stocks continue to defy history and numbers, great. If they implode but a portion of a client's portfolio is invested with risk in mind, everyone lives to see another day.

Risk vs. Return, Gross (Sep. 2013 – Sept. 2023)*



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: [Schedule a call.](#)