

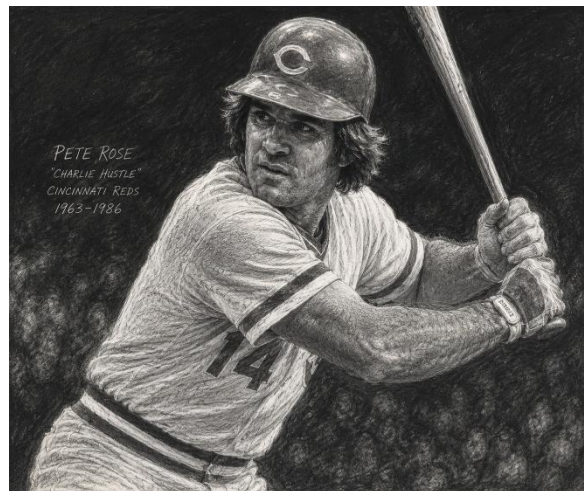
You're not wrong

It comes up fairly frequently. Comments like, "This is crazy." "I just don't understand why XYZ." As often as not, the comments are those of seasoned investors and very often those with backgrounds in fields like science, medicine, accounting. They are, rather practically, relying upon historical and statistical evidence; grounding their reasoning in fact; and, generally, presuming a very rational and efficient market should act in a very certain and specific way.

There are really two aspects to reconciling their view, their bewilderment, and the facts on the ground. First, to state the obvious, all things are not bought nor sold at fair or accurate prices. Just as buyers and seller of household goods and autos can sometimes act in ways that seem disconnected from value, so, too, markets can misprice things. You might recall having tried to buy a classic automobile or an antique from someone who was certain that it was worth twice what you were willing to pay. Suffice it to say that, at least for now, most buyers and sellers are still human. They make mistakes; they get excited; they get scared; they grow loyal; they have hopes and dreams of what could be. So, for veterans of hard disciplines like physics, electrical engineering, medicine, accounting and other professions, where facts are facts and the rules always apply, know that you do not live entirely in that world when you enter into trading anything. More accurately, in a single transaction or a single point in time, the price does not always perfectly reflect the value of the underlying asset.

The second aspect of addressing and reconciling your bewilderment at markets is the tendency of assets eventually to cluster around some nominal assumption of real value. This supports the rational nature of many from hard disciplines. You know, all too well, that a lifetime .333 batter who struck out twice and walked in the last game, still has a pretty fair chance of getting a hit today just as you know the slugger who has put it over the fence four times in two games is not necessarily going to punch it out again today.

And, notably, his contract would not reflect his continuing that streak indefinitely.



All of which is to say that certain immutable laws still exist even when things begin to feel irrational or, as one client said recently, "things just don't feel right." Without diverting into a lengthy discussion of investor psychology, it is fair to suggest simply that humans do irrational things. People confronted with greed or fear can do wildly irrational things. Some of those things can sometimes support your view. A trader may buy a stock to find that, eventually, everyone else starts buying and he is validated and, so bolstered, buys more. The dilemma for

many investors lies less in a finding of fair value as much as in being validated by near-term prices. This is a driver, in fact, behind the momentum factor in investing. Traders desire to buy things that are rising and ride the wave. The objective for fundamental investors, on the other hand, is assessing likely fair and, perhaps, forward value. This is fundamentally a different objective than momentum trading in which the objective is to simply buy something that is going up and ride it until it slows or the next, better opportunity comes along. You might have witnessed the software favorites were abandoned for AI companies who have, subsequently, been stepped over in favor of semiconductors. It is a great rotating, momentum machine.

There are numerous examples of companies whose prices are stretched relative to full cycle earnings potential. They are the beneficiaries of something of a self-perpetuating earnings, momentum cycle. The narrative supporting AI, for example, is self-fulfilling for now in both a business and market context. Investors buy. The companies stock up on the tools of AI. The earnings follow. Prices continue to rise. Given that so many smart, successful, wealthy, powerful people are involved, it is presumed that it, no doubt, has merit. The aforementioned rational fundamental investor might be tempted to occupy himself with the notion of estimating future cash flows and earnings against the price offered to create a discounted cash flow model to determine if investing is warranted. His math may tell him that it is not likely that this level of compounding growth can be sustained and multiples are too high against normalized earnings. He may find in the ensuing months that he, perhaps, was wrong in the near-term as momentum builds and the stocks scream upward. A similar investor may do, likewise, with rare earths, rocketry, satellites. The same investor may resign himself to buy shares in a consumer products concern with a strong balance sheet, consistent earnings, a reasonable dividend only to find that he lags the market by double digits for the next 12, 18, 24 months.

Five years later when reviewing his portfolio he might, in fact, find that he has performed fairly admirably. Some of the sectors that went through periods of robust growth amid adrenaline pumping excitement have, perhaps, returned to earth, while a select few may have continued their march, albeit at a more modest pace. Ten years, twenty pass. He experiences the fervor of wild rallies in certain sectors time and time again. Believing that he is ill-equipped to speculate on technology winners who can persistently translate excitement into earnings, he elects to continue to simply execute his process. He does his research, buys decent companies at what he regards as reasonable prices and comforts himself in steady dividends and strong balance sheets. He does miss the excitement of seeing high double digit and even triple digit gains in an occasional holding which he, ultimately, ignores in favor of a desire to sleep well at night while implementing what he regards as a defensible strategy.

One of the investor dilemmas (from which our investor has learned to insulate himself) is that the return chasers, the momentum players seldom get full. There is always something else and

they are always hungry for the next hit. In contrast to the .333 batter who punches singles over second, every at bat is an opportunity to swing for the fences for momentum players. They can't find the excitement in never hitting it out of the park. They will happily trade the .333 for a .240 batting average to be validated by the celebratory fans and promises of great riches. Interestingly, we don't see many investors who have built legacy portfolios by repeatedly swinging for the fences or going all-in on streaks. No, we find those that are inclined toward steady compounders and those who are willing to endure for a while to see value fairly priced have a pronounced capacity to build wealth over time. Certainly, a founder of a company can build staggering wealth holding a concentrated position in a growth equity. Interestingly, though, those founders have also almost universally ridden out some serious dry spells, some even including periods when their companies were at risk of bankruptcy. Some of the darlings of today's market, in fact, were solidly out of favor during some period. Interestingly, too, some of the same founders who are poster children for the momentum phase we are in now amassed a lot of their stock during times when momentum investors would not touch it. Go figure.

[Note to Investors: The comments herein are intended to provoke thought, inform and entertain. They are not intended as specific investment advice. As often as not, the contents reflect information that the authors' feel is not adequately disseminated or understood by investors. Some discussion topics are presented for emphasis due solely to their lack of popular reporting and may not reflect the primary determinants of any specific investment decisions. In all instances, investors should consult their appropriate advisors before making any financial, tax or legal decisions.]

The information contained herein is obtained from carefully selected sources believed to be reliable, but its accuracy or completeness is not guaranteed. Items discussed are for informational purposes only and not a solicitation or a recommendation that any particular investor should purchase or sell any particular security. All expressions of opinions are subject to change without notice and are those of David Dodson. Investments listed herein may not be suitable for all investors. Past performance may not be indicative of future results. Any information presented about tax considerations affecting client financial transactions or arrangements is not intended as tax advice and should not be relied on for the purpose of avoiding any tax penalties. You should discuss any tax or legal matters with the appropriate professional. Investment Advisory Services are offered through International Assets Investment Management, LLC ("IAIM") or Global Assets Advisory ("GAA"), a SEC Registered Investment Advisor. IAIM, GAA and IAA are affiliated companies. G2 Rampart Consulting, LLC is an independent and unaffiliated entity.

© 2025 G2 Rampart Consulting, LLC.