

The Outlook: Oct. 25, 2022

The Anti-Midas Law.

Every once in a while it's OK, for us investors, to award ourselves a brief "time out" from the constant low-level anxiety which never leaves us, as we ride the market roller-coaster. The anxiety means nothing bad about our investment strategy, if that strategy has been built on a foundation of understanding how strong businesses work and how the market works. It just comes with being human, because no matter how much understanding we have it's not fun to ride the downward-plunging sections of the roller coaster.

One of the creators of our anxiety is the investment world's version of Murphy's Law: "Whatever can go wrong, will go wrong." For us investors, the Law goes something like this: "No matter how wonderful an operating company may be; no matter how much of a screaming bargain its stock may be; the moment I personally buy it, down it will go." It is the "Anti-Midas Law." This Law is a funny thing. Like Murphy's Law itself as it operates in the rest of our lives, this "Anti-Midas Touch" phenomenon actually seems to happen so often that it defies the laws of statistics. But the worst thing about our Anti-Midas Law is that it tempts investors to think there's something especially wrong (or ignorant, incompetent, etc.) about our personal investment judgment. We hear a great deal, in the investment world, about seemingly sophisticated investors and their successes. The Anti-Midas Law tries to persuade us that there's a giant gap between our brains and those of the Celebrity Investors.

There is not, of course. Of if there is a gap, it runs the other way: our understanding and patience steer us rightly; the Celebrities' thirst for fame and fortune steers them the wrong way. So it was with some pleasure, today, that we spotted an analyst's headline: "***Citigroup Has Fallen 28% Since Buffett Invested.***" Let's look at the picture:

Citigroup, 10 Years



That red circle is where Mr. Buffett's Berkshire Hathaway piled into more Citigroup shares early this year . . . at an average price of \$62 or so. The Anti-Midas Law showed up in a split second, didn't it? Down went Citi 28% to its current \$45.

Did Mr. Buffett blunder? Nope. At Outlook we don't invest in banks; but we understand them pretty well. At \$62 Citigroup was a darned good value. At \$45 it's almost surely a screaming bargain. The bank's results are just solid and its financial strength is "good to excellent" by any standards. The only thing Mr. Buffett ought to be doing right now is buying more shares—and maybe he is.

"Understanding" is the key to everything. We must understand two things: the real, working businesses we own; and the nature of the market. There are many textbooks and Celebrity Investors who would have us believe the market is like some kind of supercomputer: digesting and weighing an infinite amount of information at the speed of light, every minute of every day, and making judgments about the "correct" value of stocks with wisdom which leaves our feeble brains trailing in the dust. As Outlook has mentioned once or twice, "Only a professor could believe something that silly." Outlook's opinion is the opposite: the market is a vast crowd of nervous bettors whose business is trying to outguess the moods and impressions of their fellow betters . . . for a few minutes or a day, usually; for a few weeks or months, sometimes. Crowds of people rarely make good judgments. They very often make silly judgments. The salvation of the market is that they always have to reverse those judgments, finally, when Main Street facts and cash pile up so much they can't be ignored. That means our "Anti-Midas Law" is good for a rueful chuckle; but tells us nothing useful about good investing. When a stock is a good value at \$62, it's a ridiculously good value at \$45. Mr. Buffett's \$62 investment is pretty likely to pay off very well eventually—well enough to help him forget the 28% plunge which hit him the moment his finger finished

with the “Buy” key. That’s how good investing works, even though Celebrities and non-Celebrities alike have their noses rubbed in the Anti-Midas Law.

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