On Monday, March 27, the Breakfast Club met again. Our genial host Jeff F. was unable to join us on this morning, medical professionals having scheduled a conflicting appointment requiring Jeff’s presence. All other “usual suspects” sauntered in and contributed to another spirited and informative session.

Following coffee and breakfast, the March trivia was addressed: (1) We’ve all used one. What does “ATM” stand for? Several responded quickly to this one. “Automatic Teller Machine”. Others admitted trouble with the “T”. (2) Before the income tax, a large portion (about 1/3) of federal revenue was sourced from where? or what? “Booze is the answer”, and it is the answer here. (3) What has been the largest US public company bankruptcy in the modern era, say from 1980? For how much? The answer to our final question comes from recent history, the year 2008. The largest public company bankruptcy was that of the financial giant, Lehman Brothers, a $619 Billion bust. (Down the street, Bear Stearns was taken over by JP Morgan Chase. From a high of $173 per share in 2007, Chase bought up Bear Stearns for $2 per share. In the opinion of decision makers, Lehman’s could not be saved because it lacked sufficient collateral to support an emergency loan from the Fed.)

Next up, Portfolio Review. Portfolio 41 continues its march through the year, matching the fits and starts of the market but consistently trailing the indices. The portfolio has faltered further into negative territory, at -5.57%. The DOW and the S&P have prospered by comparison, offering small positive returns at 1.1% and 0.2% respectively. NASDAQ’s late moves have almost rescued it from the negative, where it has suffered since last July. NASDAQ has put up a -0.1% return over that span. The month has seen a position change in the portfolio’s top performers, with Frank C’s NVIDIA (NVDA) at 55.4% overtaking Paul S’s Netflix (NFLX) at a 49.4% return. (Both stocks appreciated over the month, NVDA riding the tech crest somewhat higher than NFLX.) Also, a trio of double-digit return selections provide much needed support. These are Carlos G’s Copart (CPRT), Dawn C’s Applied Materials (AMAT) and Brett T’s Campbell Soup (CPB), providing returns of 17.9%, 17% and 16.3% respectively. With the decline in energy stocks, Chuck D’s Suncon Energy (SU) took a blindside hit, falling from a 16% return in February to a negative -2.4% in March. The major drawback to the portfolio remains the many stock selections giving off poor negative returns. We are now three-quarters through the run of this portfolio. June awaits.

A similarity has developed between the two portfolios. Portfolio 42 is also led by a pair of tech stocks, and its overall return is also buttressed by a trio of double-digit return selections. We point out (again) the seeming resurgence of NASDAQ, at positive 6.1% return since January 20. The DOW and S&P 500 have stumbled, showing a negative -3.4% and a 0% (yes, zero) return. The portfolio is led by Diep C’s choice of NVIDIA (NVDA) at 50.1%. Second honors go to Frank C’s selection of Tesla (TSLA), which has appreciated 42.7%. The trio referred to above is comprised of Paul S’s Axon Enterprise (AXON), Dale W’s Broadcom (AVGO) and Carlos G’s Skyworks Solutions (SWKS), which have returned 17.1%, 12.3% and 12.1% respectively. The market volatility experienced in March has pushed over half the portfolio into negative territory, and the portfolio overall languishes at a negative -6.2%. As we reported last month, we re-tally totals excluding the forlorn Veng Energy (VENG). VENG has lost 97% of its value over these two months. With the exclusion, the portfolio improves to a negative -3.1% return, which virtually matches the DOW. If the worst is now behind us – and admittedly this is a big IF – we look forward to better days ahead.

We briefly re-cap the Breakfast Club’s experimental portfolio, the “Swinging for the Fences Portfolio”. In this experiment, the focus is the small cap universe. With the failure of banks dominating the news, we can expect a few things to occur. For example, we point to a challenge that small caps must always contend with, the access to capital at a reasonably good price. Have you ever seen reason on display in a panic? This challenge, combined with current high inflation, raises the cost of doing business and mutes the returns the small firm is able to earn. The market adjusts and discounts the expected performance of small caps. Over the period January 5 thru February 24, “Swinging for the Fences” had grown 10.4%, outperforming the indices by far. Enter the bank scares of March and this enviable return has been savaged. By time of the Club’s breakfast, portfolio return had shrunk to 1.2% (an 88% decline). Nevertheless, the portfolio still outshines its comparable reference indices: the Vanguard Small Cap Index ETF (VB) has turned negative, at -3.2%; the SPDR MidCap ETF (MDY) is also negative, -1.7%. (Both indices were positive through February.) We attribute the dominant performance of the Fences portfolio to its consideration of Quality in the selection process. Measures of Quality, particularly Profitability, tend to persist over time. This persistence suggests durability, as in a “durable competitive advantage”. This experiment will continue through the year, though copies of details and results will be reserved for Breakfast Club attendees. Join us for breakfast April 24 if you would like to learn more.

The agenda moved on to discuss handouts. Paul G’s handout reviewed the sector performance of the Standard & Poor’s eleven sectors of the US economy. For 2023, the sector expected to show the largest growth in Operational Earnings was the Financial sector, while the sector expected to show the least growth (in fact, negative) was the Energy sector. After a quarter into the year, one of the judgements of these extremes is playing out. Energy, as captured in the Vanguard ETF (VDE), has returned the largest negative among the sectors, at -11.3%. This is closely followed by the second-worst performing sector - surprise! – the Financials sector. The Financial ETF (VFH) has returned a negative -9.4%. The best performing sectors have been Information Technology (VGT) and Communication Services (VOX) returning 16.4% and 14.7% respectively. The rank correlation between expected performance and the first quarter realization is weak, 0.17. Over four quarters, we expect a stronger correlation to emerge. Thank you, Paul.

A second handout focused on dividends. Earlier in the year, host Jeff F discussed a Wall Street Journal opinion piece written by Burton Malkiel. (Malkiel is the author of “A Random Walk Down Wall Street”.) In this piece, Dr. Malkiel offered his advice on navigating the current turmoil in the market. For older investors and retirees who might need income from their investments to cover living expense, Malkiel advised dividend paying stocks and/or dividend focused ETF’s and mutual funds. Such stocks and funds would be good citizens in an older investor’s portfolio. Perhaps owing to the wide circulation this article received, Fidelity prepared a promotional mailing citing five of its mutual funds that specialize in dividend income. These five were: Fidelity Dividend Income (FEQTX), Equity Income (FWQIX), Global Equity Income (FGILX), Growth & Income (FGRIX) and Dividend Growth (FDGFX). In the mailing, the top ten stocks of each fund were listed. Of interest in the handout was a summary count of the common holdings across the funds. Of the top ten stocks in each fund, it was curious that just a single stock was preeminent across the five funds, and that stock was Exxon Mobil (XOM). Members questioned when the Exxon positions were built. Since XOM has always been a popular stock, were acquisitions made long ago? Or was XOM acquired when its share price was recently devastated? When its share price fell to less than $35 and dividend yield climbed over 10%? (Late price for XOM is over $105 per share.) An answer was not readily available. Other stocks appearing in multiple funds were Bank of America (BAC), Microsoft (MSFT) and Wells Fargo (WFC); these appeared in three of the five funds. Next most represented - in two funds - were Apple (AAPL), Bristol-Myers Squibb (BMY), Johnson&Johnson (JNJ), JP Morgan Chase (JPM), United Health Group (UNH), Visa (V) and Comcast (CMCSA). There you have it, the judgement of the professionals.

Media factoids. The failure of SVB was a frequent lead story on many a media outlet. Government flack-catchers stepped in to calm nerves and announce the protection of uninsured large deposits. And depositors. Elsewhere and on a different topic, the Oracle has spoken. Remember debates on the goodness or badness of stock buybacks? And the threatened quadrupling of tax on the maneuver? In his annual letter to shareholders, Mr. Buffett writes, “When you are told that all repurchases are harmful to shareholders or to the country, or particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are not mutually exclusive).”

The Breakfast Club meets again the final Monday of the month, April 24. We will provide the heads up in our usual notice. Let’s hope the day is free from showers. And that your return is filed without incident. Or audit.

a farm boy from Kansas. He would have won the Noble Prize had he not died so young. When Noyce would counsel younger engineers and scientists, or review performance with his direct reports, he would end the meeting by exhorting, “…now go out and do something wonderful.” Andy Grove was the Hungarian refugee who escaped to New York, enrolled at tuition free CCNY, learned to speak English and graduated at the top of his class. Thereafter to Cal Berkley, a Ph.D. in Chemistry, and a meeting with Noyce and Moore. When Andy served as CEO of Intel, there was no corner office – he placed his office in the middle of the production floor. Anyone with a suggestion, an idea, or complaint was encouraged to see Andy. But be prepared to

defend your thinking, you were likely to be challenged. Gordon Moore was regarded as the quiet, thoughtful, brilliant leader who pushed the development of ever more capable chips by devising the now famous “Moore’s Law”.