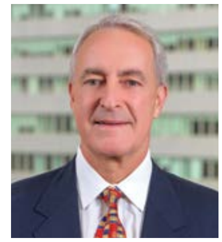
THE BORIS KAPLAN PUTRICH GROUP | ALEX. BROWN RAYMOND JAMES

Thoughts for Investors



Albert C. Boris, III
Managing Director, Investments
215.854.1527 or 800.443.7500
New York/Philadelphia/Naples
al.boris@alexbrown.com
alexbrown.com/boriskaplanputrich

Looking for a Needle in a Haystack

Summer 2024

You've heard the phrase, "It's like looking for a needle in a haystack." It conjures up images of frustration and often failure while looking for the one useful thing in the haystack, the needle. My good friend, the late Jack Bogle, founder of Vanguard, adapted that phrase to great effect. "Why look for the 'needle in the haystack,' just buy the whole haystack." Jack thought owning the whole haystack (the stock market) via a broad-based index fund, such as an S&P 500 index fund with 500 stocks, freed investors from spending time, effort and money looking for hard-to-find great stocks, the needles, for their portfolios.

As I often discussed with Jack, investors must look for the needle because *not every stock in the S&P 500 is or remains a needle; many stocks are just hay.* Thanks to changing consumer preferences, the regulatory environment, interest rates, and sometimes less-than-stellar management teams, it is difficult to become and remain a needle. With money pouring into index funds daily, investors seem to believe every stock in an index is a needle. Higher interest rates, inflation and high prices can presage a recession. If the Fed cannot orchestrate a "soft landing," it will be more important than ever to your long-term financial well-being to find and own the needles, the best stocks. Otherwise, you may find out the hard way, your portfolio was mostly hay.

"Man's mind, stretched to a new idea, never goes back to its original dimension."

– Oliver Wendell Holmes

There is a series on the Discovery Channel called "The [Companies] That Built America." Whether Kellogg's, Campbell's, Kentucky Fried Chicken or oil companies like Exxon, it is a fascinating review of how these companies came into existence because of an unmet need, rose to prominence by fulfilling that need, and made founders wealthy. Left unsaid in the shows, these companies, in their time, often made investors wealthy as well. They were the "needles" of their era. Countless times over the decades, shareowners told me, "Thank goodness for…" inserting names of the stocks above, more recently Merck, Dupont, IBM, Lockheed Martin, Air Products, Microsoft, Oracle, Sun Microsystems (the last three were Alex Brown IPOs) and lately Qualcomm, Apple, Amazon, Nvidia and others. Based on their returns, these stocks were/are needles. But not all stocks are needles. Undoubtedly, some investors cursed when "jabbed" by former needles or needle wannabes like Kodak, Bethlehem Steel, Enron and Peleton. Nothing stays useful forever. Sticking your hand in the haystack looking for a needle must be done *cautiously*.

"If the job has been correctly done when a common stock is purchased, the time to sell is almost never."

– Philip Fisher, renowned growth stock investor

"To buy when others are despondently selling and to sell when others are greedily buying requires the greatest fortitude and pays the greatest reward."

– Sir John Templeton, renowned value stock investor

My first needle was Qualcomm (QCOM), a wireless communications semiconductor company that provides technology for 3G, 4G, 5G and 6G smartphones, laptops, vehicles, etc. Let me illustrate the impact of this "needle." Suppose a person invested **$2,313.79** (@ $1.25/share) in Qualcomm stock in February 1997 for their newborn child's college fund. Channeling the advice of Fisher and Templeton would be necessary to remain invested through the rises ($100 stock price during the "dotcom bubble" of 2000) and falls ($11.61 in the aftermath in 2002). As of July 8, 2024, with dividends reinvested, the Qualcomm "needle" is now worth **$539,039**. Undoubtedly, you will remind me that as a component of the S&P 500, index fund investors also own the Qualcomm needle. That is true, except today, Qualcomm still is only a 0.53% weighting in the index. Instead, had that $2,313.79 been invested in an S&P 500 index fund, it would be worth **$26,477** today.

We don't suggest you invest in just one stock, and you could accuse us of "cherry-picking." Yet a person could have invested $2,313.79 in each of 20 other stocks at the same time, all of which had to decline to $0 value before wiping out Qualcomm's total return advantage over an investment in an S&P 500 index fund. With experience learning to spot needles like Qualcomm, we hope we might be able to spot other needles (and avoid some hay.) The dilution from owning 500 stocks, means other needles in the index can't "move the needle."

Forbes recently wrote, "While people talk about 'the next Tesla' or the 'next Amazon', they never talk about 'the next Qualcomm,' but they should – the company has delivered total returns of more than 50,000% (not a typo!) since its 1991 IPO, which is 20 times better than the S&P 500 over that time. The dividend, which was initiated in 2003, has been prolific in its own right!"

It is important to ask what does a "needle" look like. Our "Characteristics of Successful Companies" include large market opportunities, superior products and execution, barriers to entry, financials and quality management. I have met Qualcomm founder Irwin Jacobs and every successive CEO, from Paul Jacobs to Steve Mollenkopf, to most recently Christiano Amon. I believed each was skilled at keeping the company "ahead of the curve," adapting to evolutionary and revolutionary changes to consumer needs and preferences, the regulatory and macroeconomic environment, competition and costs. Furthermore, we believe opportunities for wireless communications have even increased, thanks to adding machine-to-machine (automation) and machine-to-human (sensors, medical devices, automotive, computers, networks, AI, etc.) capabilities to existing human-to-human (smartphone) opportunities. The WSJ recently wrote that soon, "smart bandages will talk to your doctor."

"The future is uncertain, but this uncertainty is at the very heart of human creativity."

– Ilya Prigogine

I started this letter explaining that "looking for a needle in a haystack" conjures up images of frustration and often failure while looking for the one useful thing in the haystack: the needle. It is indeed a hard process, taking time, effort, persistence, patience and cost… as do most valuable endeavors. Yet it can be worth it, which is why we continue looking for needles.

As evidenced by the wealth of Jeff Bezos, Bill Gates, Sam Walton and others, it only takes one needle to make a difference. Investors need a needle(s). As mentioned in my last letter, while Northwest Mutual suggests, "The New Magic Number for Retirement is $1.46 Million," Fidelity Investments states only "about 2% of Fidelity 401(k) participants have a balance of $1 million or more." This is despite nearly 50 years of index fund investors being able to "buy the whole haystack." Might the wide availability of index funds in 401(k) plans (sometimes the only choices) be detrimental to investors' financial well-being? Many stocks in index funds look like needles, but with the uncertainty of high interest rates, high inflation and high prices – the seeds of recession – they turn out to be just hay.

Time will tell whether the Fed can "engineer" a "soft landing" to benefit all 500 stocks in the S&P 500 index. Fortunately, uncertainty fosters human creativity, and creativity creates needles. Does your portfolio contain needles or mostly hay? Instead of "just buying the whole haystack," we think you should consider joining us in "looking for a needle."

"The great personal fortunes in this country weren't built on a portfolio of fifty companies. They were built by someone who identified one wonderful business."

– Warren Buffett, renowned investor

AUDI PARTEM ALTERAM

"HEAR THE OTHER SIDE"

The Boris Kaplan Putrich Group // 1735 Market Street, Suite 1400 // Philadelphia, PA 19103 // T 215.563.2300
320 Park Avenue, 14th Floor // New York, NY 10022 // T 212.430.2385
alexbrown.com/boriskaplanputrich

To subscribe, unsubscribe or to request back issues mentioned in this client letter, simply send an email to al.boris@alexbrown.com.

The Boris Kaplan Putrich Group manages over $1 billion in assets on behalf of private families, foundations, and institutions. We create custom portfolios consisting of 35 positions. We are long only, all cap, opportunistic investors. If you would like to discuss the topic of this client letter, or our team's approach to investing, please contact us.

Thoughts for Investors is a quarterly client letter written for clients since 1997 by this author. The purpose is twofold. First, it is meant to help explain the investment philosophy that guides the author's approach to portfolio management. Second, it is meant to remind readers of important behavioral skills that the author believes are necessary to help them become successful investors. The author welcomes comments and criticisms, especially if they can be shared for the betterment of all investors. Quotation is permitted with full attribution.