



---

---

# PERSPECTIVES

---

---

January 2020

## What is Important?

We are bombarded with information every day. Television has hundreds of channels pumping out product 24 / 7. Your phone buzzes you with tweets, Facebook posts and other updates. You can get hundreds of channels on your car radio. If some sort of device hasn't given you the information you need, just ask, "Hey Google, what is the temperature in Chicago today?" Information will be shared with you almost immediately.

With so much noise out there, how does one figure out what is worth considering? The field of finance may be one of the worst offenders of information overload. Several television channels are dedicated to investing. Finance self-help books take up an entire aisle at the bookstore (are there any bookstores left?) Perusing Twitter accounts and most financial web sites like "The Street" are free, while there are hundreds of subscription services for professional investors to add to the information pile.

So what do we pay attention to and what do we ignore? What is entertainment and what is worth noting? For a bottom-up, fundamental researcher like us, arguably the most important piece of information when assessing investments is the financial statements. Oh fun. No buzzers, no bells, no music or sound effects. No colorful pictures or entertainment of any kind. Income statements, balance sheets and statements of cash flows make up our primary source of information. From those statements we can start building our valuation model. Information from the financial statement allow us to calculated important ratios for earnings, cash flow and leverage. The financial statements help us paint a picture of how the company has performed over the recent past and includes management's assessment

of risks to the business. Financial statements are released every quarter by public companies as they report earnings.

Included in that quarterly report by companies is a statement by the company detailing the events that occurred during the past quarter that may have affected the financial results. We consider this statement (and the Q&A with analysts that ordinarily accompanies it) an important item as we assess value of a company. This quarterly release may include guidance by the company about what to expect over the next quarter or year in regard to earnings or other benchmarks.

We also like to talk to the management team of small companies we research. We understand that they are going to spin information to paint a pretty picture, but we believe talking to companies helps us understand two critical issues: the competitive environment and how the company will use the free cash it generates. In addition, we would rather get a feel for the economic environment from company executives with boots on the ground, as opposed to an economist in a classroom.

You can see we rely mostly on primary information directly from the company we are considering. When we say "We do our own research," this is what we mean. We ignore most of the noise coming from alleged experts on the television, radio or the press. Certainly we do a lot of reading. However, the type of reading we do comes by way of observations from investors we believe hold similar values regarding investing style. We read transcripts from meetings or conferences attended by companies we either own or are researching. We read investor letters from other investors who share our love of high quality companies with strong record and bright prospects. What do we ignore? If the article headline reads,

“Ten stocks you need to own right now!” we will likely ignore it. If the article refers to “momentum” or technical indicators such as a “breakout” or “trading range” it will likely end up in the shredder. Not all financial television is bad; Consuelo Mack interviewing Chuck Akre is good. Jim Cramer yelling “Buy! Buy! Buy!” is bad, bad, bad. In fact, if the article contains exclamation marks (or the commentator is talking with them), that is a sign of noise, not information.

Additional noise this time of year comes from the long line of people making predictions about what will happen in 2020. Election predictions, sports predictions, guesses about trends in movies, music and fashion. But possibly the biggest industry in the prognostication business is in the world of finance. So many people taking guesses at where the DOW will be at the end of the year. Or what the price of oil will be. Or interest rates. Pick an index or commodity, and I will find you someone who has guessed where it will be 12 months from now. We have written many times on these pages that we are not in the prediction business. Although we have to make projections of cash flow in order to compute a value of a stock, our assessment of fair value is never based on prediction of some event or economic indicator. The predictions of the people who you might see in the newspaper or magazine are notoriously bad. And just as importantly, even if the predictions were good, the information would probably not have any impact on our portfolio management. For instance, if one were to tell you that in 2019 there would be an impeachment, a trade war with China, and a resignation of the British Prime Minister, how many would have guessed a 20%-plus increase in the stock market? A guess on what the market will do this year, or what economic indicator will rise next quarter is the definition of noise: “irrelevant or meaningless data or output occurring along with desired information.”

Years of sifting, highlighting and curating the mounds of material out there has given us a very good idea of what should demand our attention, and

what deserves to be ignored. It is not always perfect – we have to sift through a lot of junk sometimes to find useful information – but understanding what is important keeps us focused on adding value and away from noise which only distracts us.

\*\*\*

### **Firm News**

Bernzott Capital is proud to announce we now manage over \$1 billion in client assets. Between the confidence from our long-term clients, additions of several new accounts, and stock appreciation in all portfolios, we have seen our assets under management grow materially over the past several years. The growth in our institutional small-cap product has been especially robust due to a five-star Morningstar ranking in our Mutual Fund, and performance that is extremely high versus our peers. We appreciate all the clients and other supporters for our growth, and we look forward to continuing that growth without compromising our performance or client service.

\*\*\*

Bernzott Capital welcomes Patrick Fiscoeder to the firm as a Business Development Officer. Pat has 27 years of sales and relationship management experience, most recently as a Senior VP with Rockefeller Global Family Office Services. Prior to that, he was responsible for asset gathering and client relationship management at Morgan Stanley’s Global Wealth Management business, and was a Principal & Senior Relationship Management with the Premier Equity Group at BofA Securities. Pat will market our strategies to the Institutional and Intermediary business segments.

#### About the Firm

**Bernzott Capital Advisors** is an independent institutional money manager serving foundations, endowments, public and private retirement plans including Taft-Hartley plans, and businesses, individuals, trusts and families. Please feel free to call with questions and comments, or visit us at **[www.bernzott.com](http://www.bernzott.com)**.

\*\*\*

With the new year upon us, it is a good time to review your portfolio, make sure all items are up to date (contact information, IRA beneficiaries, changing personal situation, etc.) and let us know if you want to make any changes. We are always available to talk about what is in your portfolio, why we have bought or sold any security or how we build your portfolio. We have an investment thesis for every position and we are happy to share our ideas and rationale. If you have any questions about your account, feel free to reach out and have a conversation.

*About the Firm*

**Bernzott Capital Advisors** is an independent institutional money manager serving foundations, endowments, public and private retirement plans including Taft-Hartley plans, and businesses, individuals, trusts and families.

Please feel free to call with questions and comments, or visit us at **[www.bernzott.com](http://www.bernzott.com)**.