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The Pilgrimage to Omaha

CRAWFORD
INVESTMENT COUNSEL
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Last weekend, I found myself and 30,000 others piling into the CHI Health Center in Omaha, Nebraska. The purpose of this pilgrimage to the Cornhusker state: the Berkshire Hathaway Annual Meeting, commonly referred to as Woodstock for Capitalists. For one Saturday out of the year, famed investors Warren Buffett and Charlie Munger spend hours in an arena fielding questions from Berkshire Hathaway (BRK) shareholders. Both Buffett and Munger are well known for their folksy and humble demeanor and frugal spending habits, and they are revered for their investment prowess. This year, the topics on investors' minds ranged anywhere from macroeconomic and geopolitical concerns, to the operations of BRK, to advice on both investing and living a meaningful life.

At 92 and 99 respectively, I couldn't help but be surprised by their mental acuity as they fielded questions in between bites of See's Candies and sips of Coca-Cola (two companies owned in the BRK portfolio). Almost even more surprising was the extent to which the crowd was intent on soaking up their every word. In a world where screens, rings, and information are everywhere, a crowd so attentive is almost impossible to find.

The Oracle of Omaha and his right-hand man, who (referring to the coronation simultaneously taking place in England) Buffett referred to as "our own King Charles," gave practical investment advice on Saturday. While listening, I couldn't help but recognize that the same underlying principles that make Warren Buffet the most successful investor of the 20th century are very much at play in our philosophy and portfolios at Crawford Investment Counsel (Crawford). Of course, comparing our business at Crawford to that of BRK would be like comparing apples and oranges. However, many of the core tenets of Buffett's approach are integrated into the way we invest and think about the world here at Crawford. The purpose of this write-up is to offer some thoughts on achieving successful outcomes in investing, both for BRK and for Crawford.

Dividends Matter. In a previous letter to shareholders, Buffett described his experience investing in Coca-Cola saying, "Growth occurred every year, just as certain as birthdays. All Charlie and I were required to do was cash Coke's quarterly dividend checks." At Crawford, our philosophy is built on the importance of dividends and what we like to call Dividend Integrity. Not only do we think they add value to a stock through providing positive income year in and year out, but we believe a company's ability to sustain, and often raise, dividends can be an indicator of underlying business strength. In fact, we like to think of dividends as a silent factor in investing, one that goes unnoticed among most investors but can add up greatly over time, compounding under the surface to the shareholders' benefit. Our philosophy starts with quality, and we find dividends to be one of the best ways to identify quality companies.

Limit Emotions. One of the first questions asked at this year's meeting dealt with the subject of emotions, and Buffet's response was simple. He instructed the crowd to be emotional in all areas of life except one: investing. At Crawford, we have various measures in place to ensure we limit emotional responses to market behavior both internally and with our clients. We have long believed if you have and adhere to a sound investment philosophy, you will be well equipped to stay focused and avoid emotions. We recognize that there is a lot of "noise" in the market, and we seek to quiet and dampen that noise through investing in stable businesses with consistent patterns of return and the ability to manage their businesses through periods of market stress. As a result, our investment approach reduces the extreme highs and lows of the market, which naturally limits emotional response. Internally, other measures including analyst compensation structure and organizational stability also support this objective. Externally, we provide a high level of client service and have industry-leading levels of employee continuity, both of which contribute to the client's comfort and ability to remain invested regardless of the noise levels in the broader market.

Know What You Own. Buffett often cautions investors against investing in businesses they do not understand. At Crawford, we underwrite each of our investments and ensure a comprehensive understanding of all of the businesses owned in client portfolios. Our equity investment team consists of eight individuals with an average of 23 years of industry experience, 12 years with the firm, and deep sector knowledge. Many of these individuals came to Crawford from larger firms, and we believe we are able to adopt best practices across the industry and limit practices that may be less effective. Our team performs fundamental, bottom-up research on each of the securities in which we invest, meets at least weekly, reviews earnings and theses on a quarterly basis, and utilizes a proprietary rating system and Total Shareholder Return framework to determine the overall value of the businesses in which we invest. At Crawford, if we don't know it, we don't want to own it.

Invest in Businesses with Wide Moats. Buffett often uses this analogy to refer to the importance of investing in companies with a competitive advantage. Part of our research process includes identifying businesses with something that makes their business model unique and, in our opinion, superior to others. We find ourselves using this same terminology in our meetings and reports as we seek to invest in "incumbent" businesses of this nature.

Look for Value. Buffett was a disciple of Benjamin Graham, both as his student and employee until Graham's retirement. Graham is often revered as the father of value investing, and he wrote the book The Intelligent Investor, among others. Value investing can be described as investing in companies that are trading at a significant discount to their intrinsic value. We believe valuation is a meaningful component of total shareholder return, and we are focused on investing in high-quality businesses when the risk/reward tradeoff is positively skewed, which often occurs when short-term business conditions deteriorate or other considerations pressure valuation. We look for high-quality stocks at discounted prices with a potential catalyst for reversion to the mean in valuation.

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Opportunities Exist. At this year's meeting, Buffett said, "What gives you opportunities is other people doing dumb things." He was referring to the idea that all investors are human, and as mentioned above, humans tend to let their emotions get in the way of investment success. We tend to agree that behavioral biases are very much present in the markets, particularly when you move down the market cap spectrum. We seek to exploit these behavioral biases and uncover these opportunities through our research process. We believe this information advantage coupled with our long held conservative investment philosophy prevents us from "doing dumb things."

In closing, following these six basic principles has been good for Buffett, it has been good for us, and we believe loyalty to those principles will be good for you.

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