First Quarter 2022 Commentary

The first quarter of 2022 was a bumpy ride in the stock market. While COVID-related fears abated, new ones arose to take their place, personified by Vladimir Putin and Jerome Powell. While the former at times seemed intent on starting a third world war, the latter struggled to steer the Federal Reserve's ship amid inflationary trends and economic fluctuations.

At one point in early March the broad U.S. market averages were down more than 10% below their 2021 closing prices. Optimism crept back in during the second half of March, but the major averages still posted losing numbers for the quarter overall. The S&P 500 index declined 4.6%, while the Dow Jones Industrial Average fell by 4.1%.

The Bigger They Come, The Harder They Fall

In the decade following the Global Financial Crisis of 2008-09, stock market volatility seemed to be a thing of the past. Nearly every year, stock prices advanced in a steady annual upward drumbeat to new all-time highs. Then came COVID. Since early 2020, volatility is now back with a vengeance, and it can cut both ways. Stock prices that seem ludicrously over-heated can climb still higher, and others that seem wildly under-valued can be beaten down even further.

On that note, we notice that there was a cohort of stocks which performed wonderfully in 2020. They were known as "pandemic trades" by some pundits, or "lockdown plays" by others. These are companies that you might not have heard of before COVID, but they became household names during the crisis: Peloton, Zoom, Docusign, DraftKings, Spotify, Teladoc, and many others. In total, there were 48 stocks which more than doubled over the course of 2020.

On average, these stocks advanced 266% in 2020 as compared to the lowly 18% returned by the S&P 500 index. However, since then, this exalted group has struggled to perform. Since the end of 2020 through March 2022, Peloton stock declined by 85%, Roku fell 63%, Teladoc by 67%, and DraftKings slipped 56%. The best performer of the group of 48 stocks over that period dropped by 40%, as compared to the 17% positive return posted by the S&P 500. Here is a chart showing how $100,000 would have fared if it was invested in the pandemic trade group versus the boring old S&P 500 broad market index:

Group	**Value at 12/31/19**	**Value at 12/31/20**	**Value in March 2022**
COVID Doubles	$100,000	$365,896	$120,928
S&P 500 Index	$100,000	$118,399	$138,765

source: Charlie Bilello, Yahoo! Finance, Inkwell analysis

Owning the COVID Doubles group would have produced an exhilarating result, but it would have significantly trailed simply owning the boring old large cap index. Often the most boring path can be the most rewarding path in the stock market.

Sometimes The Tortoise Beats the Hares

Speaking of boring…. what could be more boring than an insurance conglomerate? The largest position in your portfolio, and in our own personal portfolios, is Berkshire Hathaway. This company, run by its 91-year-old chairman and 98-year-old vice chairman, is about as boring as they come. While insurance operations are the oldest and most important line of business for the company, it also derives significant income from its wholly-owned railroad, its majority-owned electric utilities, and the remainder from its hodgepodge of other smaller companies such as furniture retailers, manufactured homes, a chocolate maker, Brooks running shoes, Fruit of the Loom, and even Dairy Queen.

Boring yes, but what wonderfully-run companies they are. Billions of dollars of profit pour into its Omaha headquarters every single quarter, and those profits seem to grow slowly and steadily year after year. In some years, the stock market recognizes what a special collection of businesses Berkshire is, and how well they are performing, and the BRK stock price reflects that. Other years the market is distracted by shiny new things, and Berkshire sort of falls by the wayside.

As you might expect, while shares of Peloton and Zoom were soaring throughout 2020, Berkshire stock just kept its head above water. It started the year at $226 per B share, and it finished at $232. Since then, however, Berkshire has been on a tear, ending March 2022 at $353 for a gain since the end of 2020 of 52%, more than doubling the 23% return of the S&P over that same time frame.

As Chairman Buffett likes to say, sometimes the stock market's returns can be more lumpy than smooth, but the patient investor should eventually be rewarded if he or she has selected good stocks to hold for the long run.

Thank You

We thank you for the patience you have exhibited in these wild times, and we especially thank you for the trust you have placed in us to manage your money. We look forward to reporting to you again in the summer.

Sincerely,

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