

Client's Corner

Are They Companies or Stocks?

(EDITOR'S NOTE: NOTHING IN WHAT FOLLOWS CONSTITUTES a recommendation to purchase the stocks of the companies mentioned. They are cited for illustrative purposes only. No investment decision should ever be made without consultation with your financial advisor, and then only after carefully considering your financial goals and your risk tolerance.)

I begin by suggesting a hypothesis, to wit: The enduring values of consistently successful businesses are one thing, and the prices of those companies' stocks on any given day are another thing. And that not infrequently—when huge waves of investor enthusiasm carry stock prices to extravagant heights and/or rampant catastrophism drives them down into an abyss—the values of companies and the prices of stocks can and do separate from each other. (Though only temporarily; value has always reasserted itself in the long run.)

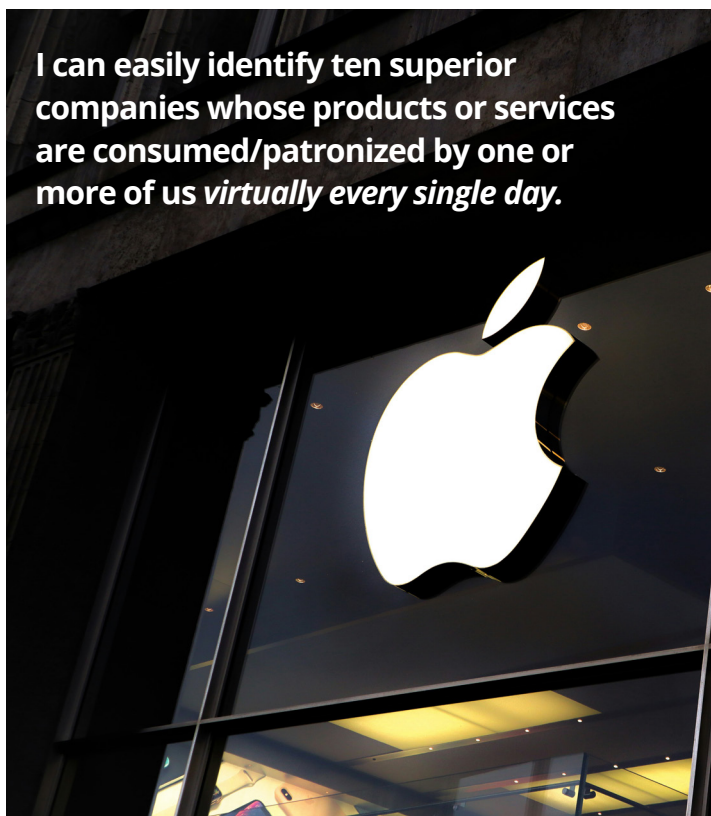
A textbook example is offered by the violent stock price crash which took place as the world closed down over COVID. In the 33 days between February 19 and March 23, 2020, the Standard & Poor's 500-Stock Index went down 34%.

One might reasonably have asked oneself, "Do I really believe that the enduring values of five hundred of the largest, most profitable, most innovative, most strongly financed businesses in the world have been lastingly impaired by a third?" One's answer would, I think, have been a confident "no." (In the event, that answer would fairly quickly have been proven right; the Index was back to its previous peak in just five more months.)

If, with an advisor's calm counsel, we can begin thinking along these lines, a lot of good things can happen. Or more accurately, a lot of bad things—most particularly, panic selling into a bear market—may be avoided. Permit me to offer, in support of this goal, a purely personal example.

Mine is an extended family of ten, across three generations. It is more than safe to say that, personally or in our businesses, I can easily identify ten superior companies

I can easily identify ten superior companies whose products or services are consumed/patronized by one or more of us *virtually every single day*.



whose products or services are consumed/patronized by one or more of us *virtually every single day*. Observe:

- 1. Apple.** Eight of the ten people in our family use an iPhone. (The outliers are my firstborn daughter, who clings to a Samsung, and my wife, who simply doesn't hold with them newfangled gadgets.)
- 2. Alphabet.** Among us, we must google something or other roughly a jillion times a day.
- 3. Netflix.** Somebody's always watching something.
- 4. Verizon.** The wireless carrier on our iPhones.
- 5. JPMorgan Chase.** My wife and I bank there.
- 6. Chubb.** Carries a lot of our personal and business insurance.
- 7. Procter & Gamble.** The distaff side of my family rejects the thesis that paper towels are a commodity, and holds that Bounty is, in fact, the quicker picker-upper. I

shave with a Gillette razor and cartridge every day (except some Saturdays).

8. Amazon. Between the family, my business, and my wife's lovely B&B, somebody's always ordering something.

9. American Express. Again, both personal and business cards are in constant use.

10. Berkshire Hathaway. Seems like our lives and our businesses run on Duracell batteries. We buy them in bulk at Costco. (Hey, that's an *eleventh* successful company!)

To come finally to the point, here's what I consider 'The Big Ask'. ***Would we cut back materially on patronizing these superior businesses if their stocks went down 50%?*** Our answer is no—and broadly speaking, we think most other people wouldn't either.

Hence, though their stock prices would surely decline along with their earnings in a deep recession or other significant economic reversal, we would expect these kinds of com-

panies to survive—and in the long run to thrive again, when the currently insoluble crisis (the Global Financial Crisis, COVID, the Tariff Typhoon) inexplicably gets solved. That's how it's always worked eventually. One man's family of ten believes that's how it'll most probably continue to work.

Again, I can't emphasize too strenuously that I'm not recommending that you buy the stocks of any or all of these ten (sorry: eleven) companies. I'm also not recommending you buy the S&P 500. Or anything else.

I'm suggesting that, working closely with your financial advisor, you begin consciously differentiating between the enduring values of superior businesses in which you've invested for the long term and the emotion-driven excesses of panic and euphoria frequently on display in the stock market.

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Sources: S&P 500 during COVID: Standard & Poor's, Yahoo Finance, Yardeni Research.