SEIZERT CAPITAL PARTNERS

DIRECTIONS

A PERIODIC PUBLICATION OF STOCK MARKET INSIGHTS AND OBSERVATIONS

"Successful investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time," Warren Buffett

Studies have shown that without careful training interviewers who are screening applicants will come to a quick conclusion about the applicant soon after the initial introduction. When tested, these initial notions are often wrong. Interviewers who are trained to withhold judgment about someone do a better job at applicant screening, the longer that judgment is delayed.

The book *Thinking Fast and Slow* by Daniel Kahneman argues that, "our thinking is controlled by two systems. System 1 is intuitive, associative, fast and largely in control of our decision-making process -- more than we know. System 2 is deliberative, logical, slow and must be called into action as a check to System 1. System 2 is fundamentally lazy and will defer to System 1 unless we take steps to actively bring it to life for any given decision."

Roughly 10 years after the collapse of Lehman Brothers, investors seem focused on identifying higher return opportunities despite potentially unintended risks as no clear indicators are providing a warning.

Daniel Kahneman points out that mistakes may be made when decisions are based on information that is readily available, called the availability bias. These decisions may lead investors awry as short term and recent news about a company may or may not be relevant to the long-term fundamentals. This is called recency bias. The best we can do is learn to recognize situations in which mistakes are likely and remain patient as we wait for opportunities to arise.

Benchmark Update

The outperformance of the Russell Growth indices over the Russell Value indices continues to highlight the optimism in the market. Over the last ten years ending September 2018, the Russell 1000 Growth index has outperformed the Russell 1000 Value index by roughly 126%. For the same time period, the Russell Midcap Growth has outperformed the Russell Midcap Value by close to 62% and the Russell 2000 Growth outperformed the Russell 2000 Value by about 81%. At the end of September, Barron's reported that the outperformance of growth over value in the past 10 years erased a lead that value had over growth for 30 years prior to 2008. By comparison, the last time growth took a lead over value was in the late 1990's when only the Russell 1000 data was available. During the time period between 1995 and 2000, the Russell 1000 Growth outperformed the Russell 1000 Value by roughly 124%. However, drawing conclusions based on the past time periods can cause a false sense of security as the history rarely repeats in the exact same way.

As of the end of September, the FAANG stocks (the acronym which stands for: Facebook, Apple, Amazon, Netflix and Google) had a market capitalization that was greater than many European countries. The market capitalization of these five companies is currently larger than the French economy, and Apple alone, with some $1 trillion market capitalization, is close to the size of Spain's economy. As of the beginning of September 2018 the FAANG stocks accounted for roughly 40% of the returns in the S&P 500.

On October 1, 2018, the Russell and S&P indices created a new sector called "Communication Services". The new sector was created to reflect companies that facilitate communication and offer related content and information through various media. The Communications Services sector now includes the stocks formerly in the Telecommunication Services Sector (Verizon and AT&T), and numerous securities pulled out of the

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Information Technology and Consumer Discretionary sectors. Within the Information Technology sector; Facebook, Twitter and Google exited and are now in Communication Services.

Current Environment

As we enter the fourth quarter of 2018 it appears that economic growth, corporate profits and the U.S. markets have exceeded expectations. In this environment we remain cautious and patient despite the perceived optimism in growth stocks as investors seem to react to daily news about economic and geopolitical events.

The U.S. trade dispute with China continues to escalate, however it is unclear if there can be a winner. A prolonged trade dispute could weigh on business investment, reduce the purchasing power of U.S. households and lead to a slowdown in emerging markets.

The growth in GDP and improvement in wage and employment data has enabled the U.S. Federal Reserve to continue raising interest rates, which has led to the strengthening of the U.S. dollar. While the economic data is positive for the U.S., globally a stronger dollar increases the prices of U.S. goods and services. It has also increased the debt burden of emerging markets which is denominated in U.S. dollars.

Investors seem to shrug off these concerns in favor of focusing on the positive data. However, the continued willingness to project current conditions indefinitely into the future may led to unfortunate outcomes.

The trade dispute and rising interest rates have failed to hold back the returns on the Russell Indices. During this time, we have taken time to evaluate the facts and look beyond the headlines of the day. Over the longer term, we invest in businesses that demonstrate the ability to generate free cash flow and deliver high economic returns. Importantly, we attempt to identify stocks trading at a discount to their intrinsic value. Through this consistent approach we attempt to make calculated, logical and thoughtful decisions.

As always, we appreciate the opportunity to serve you and look forward to discussing future results.