SAPPHIRE
FIDUCIARY ADVISORS

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> *"The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people." – Warren Buffett*

Dear clients and friends of Sapphire,

In *Garner's Modern English Usage*, Bryan Garner writes, "Prescriptivists — not all of them, perhaps, but enlightened ones — want to figure out the most effective uses of language, both grammatically and rhetorically." On the other end of the spectrum of linguists are the descriptivists. "For the pure descriptivist," Garner continues, "it's impermissible to say that one form of language is any better than another: as long as a native speaker says it, it's okay — and anyone who takes a contrary stand is a dunderhead." Even an armchair grammarian can tell for whom Garner is rooting. This brings us to the use of the word *risk* today.

Before Berkshire Hathaway began the practice of webcasting its annual shareholder meetings, I made the pilgrimage to Omaha on more than one occasion. Years ago, Buffett and Munger allowed conference attendees to ask questions during the meeting. When handed a microphone, one pilgrim asked the men on the dais to quantify the risk of Berkshire Hathaway. Charlie Munger sarcastically snapped, "Twelve!" and stopped talking. He provided an absurd answer to a question he believed to be deserving. Buffett and Munger think about risk in terms of potential, permanent loss – not *risk* as the word is often used today.

One of the definitions of *risk* according to Merriam-Webster reads, "the chance that an investment (such as a stock or commodity) will lose value." None of the six definitions of *risk* according to Merriam-Webster includes the word *volatility* — none, not one. Despite this fact, descriptivists in the investment industry use the words *risk* and *volatility* interchangeably.

Merriam-Webster defines *volatility* as "a tendency to change quickly and unpredictably." Business schools and investment professionals define *volatility* as standard deviation, which is a statistical measure of dispersion around an average over time — picture a bell-shaped curve in your mind's eye. Neither one of these definitions (one qualitative and the other quantitative) is synonymous with the risk of permanent loss, which is the risk that matters to the oracles in

Omaha and to Sapphire. Sapphire curates funds managed by like-minded investors who are at the prescriptivist end of the spectrum — they view *volatility* as an opportunity for alert, active investing that aims to capitalize on disparities between market price and intrinsic value.

Macroeconomic and geopolitical realities including inflation (PPI up ~20% since December 2020), supply chain bottlenecks (ocean freight costs up ~700% since early 2020), the prospect of a less dovish Fed, and an unconscionable war in Ukraine have resulted in extraordinary volatility in recent weeks. Direct and knock-on effects of these factors have global economic, financial, and market implications. The portfolios that Sapphire manages for its clients do not hold emerging markets funds, which typically include Russian stocks that currently increase the risk of permanent loss. These are tumultuous days, but clients of Sapphire can take comfort in knowing that they have a fiduciary working for them — a fiduciary that emphasizes quality and value as a means of managing portfolio risk.

Please contact Sapphire at any time if you would like to discuss your portfolio or to learn more.

Respectfully,

Paul Stropkay, CFA

Sources

- *Garner's Modern English Usage* 4th Edition by Bryan A. Garner, Oxford University Press, 2016
- *merriam-webster.com*
- *Morningstar Equity Research*

Disclosure

Past performance is no guarantee of future results. No guarantees are implied. The views in this letter are intended to assist investors in understanding the firm's present investment methodology and do not constitute investment advice.

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