Marshfield Associates

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This quarter, the invisible thermals holding the S&P 500 aloft continued to lift the market to ever greater heights. Even if somewhat less pronounced than last quarter, the prevailing winds over the past several months nonetheless proved favorable for a veritable fleet of names, including many held by Marshfield (please note: we're not complaining!). The stocks that tended to fly highest, of course, were the tech titans, particularly those dabbling in Artificial Intelligence, or AI. The advent of technology that, when fed a diet of human-produced content, is able not only to synthesize material but in fact generate its own work product seems to have given investors the conviction that despite the complexity and challenges of the world today a new "human lite" era has been launched. Whether or not that ultimately proves to be the case, our general skepticism about who wins and who loses—and who succeeds merely by coasting alongside the winners—when new technology of any kind comes on the scene remains as robust as ever. But even outside the realm of generative AI, companies that seem to be decidedly earth-bound have also enjoyed an aerodynamic boost, for no reason that we can discern apart from the general buoyancy of the market. And yet if the past teaches us anything, it is that companies with flawed business models, stratospheric valuations, questionable management, or some combination of the three almost always fall back to earth.

This, of course, is not a prediction. While we're in no position to critique AI and the breadth of its applications, nor do we know how, when, or even if the non-tech companies in the index gliding along in the high flyers' slipstream will continue to do so, we do know a thing or two about investor behavior, corporate history, and valuation. Having been in the business for a while now, we have learned that star power can wane, turbulence can emerge from clear skies, and tail winds can reverse course. Accordingly, in a nod to prudence, we took advantage of sky-high prices this quarter to reduce our positions in **Progressive**, **Arch Capital**, and **TJX**, names we felt had soared beyond sustainable levels. We're content to sit on both sides of the seesaw, continuing to hold some shares of each in case current valuations persist and selling some in case those lofty prices have peaked for now. And, of course, we stand ready to step in and buy more should that balance shift and the stocks hit an air pocket and fall back into buying range. While the cash we now hold as a result of such sales clips our wings a bit in terms of our ability to keep pace with the currents propelling today's market, we don't care. In taking the long view, we choose to embrace discretion over temporary gains, happy to exchange probabilistically fleeting prices for the optionality of cash and the relative safety of lower altitudes and reduced turbulence.

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