Marshfield Associates

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As we call game, set, and match for the year that was 2024, we look forward to yet another round of intense competitive play over the next twelve months. We enter 2025 with a healthy stash of cash, having harvested gains in holdings we continue to like but whose share price the market lobbed to gravity-defying heights. Knowing that the laws of physics would more likely than not send those shares back to earth at some point, we chose to sell them—or part of them—instead. Those same forces also served us ball after ball so far past our price baseline that it should come as no surprise to anyone who knows us that we declined to return the shot. As to our quality requirements for both company and industry (good culture, management, and strategy for the former and attractive competitive structure for the latter), let's just say that most of the "affordable" companies we looked at this year were so lacking in bounce it was unclear they would ever have any pop.

Times like these—and we've lived and invested through many—demand a kind of patience that not all players in our shoes have. Many, if not most, investors will preemptively capitulate: change up their game, shift their grip, and join the crowd chanting "this time is different". Such cries inevitably arise when the score is 40-love in favor of a supercharged market. Why not buy Nvidia at 54 times earnings? The acceptance of high valuations as "the new normal" does have consequences, however, ones that go beyond the possibility that one has invested in an overpriced stock: to the extent it reduces a portfolio's cash position, it limits optionality within the portfolio if and when the market corrects. To wit, a recent Bank of America survey shows the lowest allocation to cash by global fund managers on record. Lest you conclude that it's just the so-called experts waving the white flag, consumers are all in as well: The Conference Board's survey of consumer expectations for the stock market shows a robust belief in accelerating stock gains.

Needless to say, it's not in our DNA to shift how we play the game. Our cash levels are the output of our buy and sell decisions, which are fused with our abiding philosophy and discipline. We are not tactical deployers of, or contributors to, cash and never have been. We like to think of ourselves as the player bouncing from foot to foot in a semi-crouch, ready for whatever might come, be it volley or drop shot, primed to discern what's in versus out of bounds. Moreover, it is our firm belief that the basic rules of investing have not changed, and strategy still matters. Appealing as it may look to switch to a game of pure power and no nuance, this often leads to unforced errors. We're team Nadal, who, in bemoaning those who play by hitting harder and "without thinking", makes clear that it takes stern stuff to be a consistent winner: "Endure, put up with whatever comes your way, learn to overcome weakness and pain, push yourself to the breaking point but never cave in."