**Market Commentary for June 2019**

Channeling Voltaire’s Candide, equity market participants continue to invest as though this is the best of all possible worlds. The S & P 500 rose 4.3% during the second quarter, with little attention paid to whether actual events during the period boded well or poorly. As beneficiaries of that enthusiasm, having bested even the market’s robust performance, we find ourselves in the awkward position of being the skunk at the garden party. But it’s our job to notice the ironies: the economy looks iffy, so the Fed might have to lower interest rates? Great! More cheap money! Tensions growing with Iran? No worries, the US and China might ink a trade deal! Partaaay!! With the exception of a brief bobble due to worries over a possible trade war with Mexico, the market has mostly metabolized troubling news by turning it into positive energy.

Don’t get us wrong: optimism, in the right dose and at the right time, is a powerful motivator; without it, innovation and expansion would languish. Yet in the context of the stock market, the forward thrust powered by positive thinking must, we believe, be tempered by a sober acknowledgment that things don’t necessarily have to turn out for the best. When looking to buy a stock, this assessment should be easy: price reflects expectations about the future of the underlying company; as the share price rises, the expectations embedded in that price rise commensurately as well. At some point, the price rises to a level that, however good the company, the success of the investment is predicated on a near-perfect future.

As value-oriented investors, we are endowed with a stubborn streak of skepticism. It’s simply not in our DNA to act as though the rosiest scenarios are the only possible outcomes, which is why we like our stocks to be cheap when we buy them, lest the unexpected (or less expected) happens. It’s also why we prune a stock position when it gets toppy and therefore more likely to fall (and fall prey to bad events) than to keep ascending. Realistic negative scenarios are thus always the warp to the more optimistic woof that we weave into each valuation and investment thesis. Given the way we look at the world, our valuations right now are telling us that the companies we like—those that create value, have enduring competitive advantages, and possess resilience, a good culture, and top-notch management—are pretty pricey. All too often, we’ve found that too much has to go right and too little has to go wrong to justify such lofty price tags.

And so we continue to cultivate our garden, tending to our holdings by updating our valuations and testing our theories against results. We’ve also been harvesting any names that have outgrown reasonable expectations about their future. Of course, with the deep topsoil of cash those sales produce, we continue to stand ready to plant new seedlings as opportunities allow.

We don’t have much to report on the trading front. As noted above, when we believe that the price of one of our stocks is too high (i.e., it assumes too perfect a future) we sell some or all of it. Thus, we cut back on our positions in **Strategic Education** and **Chipotle,** and we sold our entire remaining position in **Yum! Brands**. (The sale of our last **Yum!** shares is notable because we have owned the stock in our separately-managed accounts since 1997 and in the fund since inception.) In all three cases, the sales were solely because of over-valuation (meaning that we would buy these companies again if their prices declined, although the decline would have to be significant). We found nothing to buy at prices that are acceptable to us. In time, we expect that will change, although we don’t pretend to know when or what circumstances will lead to new opportunities for us.