

GameStop, AMC Stock Surge in a Rally for Meme Stocks

# Memes, Manias & Media Distractions

*Avoiding the Landmines that Sabotage Generational Wealthbuilding*

Chris Davis

Chairman & Portfolio Manager, Davis Advisors

CRYPTOCURRENCY  
DogeCoin to the Moon?

5 Best Inverse/Leveraged ETFs

Bitcoin recovers

# Avoiding Investing Landmines

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- 
- ❑ Don't make decisions based on short-term forecasts



## What Investors Want to Know Today

- **Number of COVID waves/variants**
- **Likelihood of market pullback**
- **Fed policy**
- **Geopolitics/China**
- **Inflation, taxation, rotation**

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## What No One Predicted

- **Global pandemic**
- **Fastest 30% market drop ever**
- **Record vaccine roll-out**
- **Pause in global recovery**
- **Historically low market volatility**
- **Double-digit return in 2021**

The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund. Davis Advisors may invest in companies when their prices become depressed. While Davis Advisors researches such companies, it cannot be correct every time, and the companies' stocks may never recover or may become worthless.



# Short Term Forecasts are Worthless

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Economist Irving Fisher

***“Stocks have reached what looks like a permanently high plateau.”***

– October 17, 1929



Former Fed Chairman Alan Greenspan

***“... I see nothing to suggest that (high rate-of-return, productivity-enhancing high-tech purchases) will peter out any time soon.”***

– March 6, 2000



Former Fed Chairman Ben Bernanke

***“I expect some failures...I don't anticipate any serious problems of that sort among the large internationally active banks that make up a very substantial part of our banking system.”***

– February 28, 2008

# Short Term Forecasts are Worthless

## Six Month Average Forecasted Direction vs. Actual Direction of Interest Rates

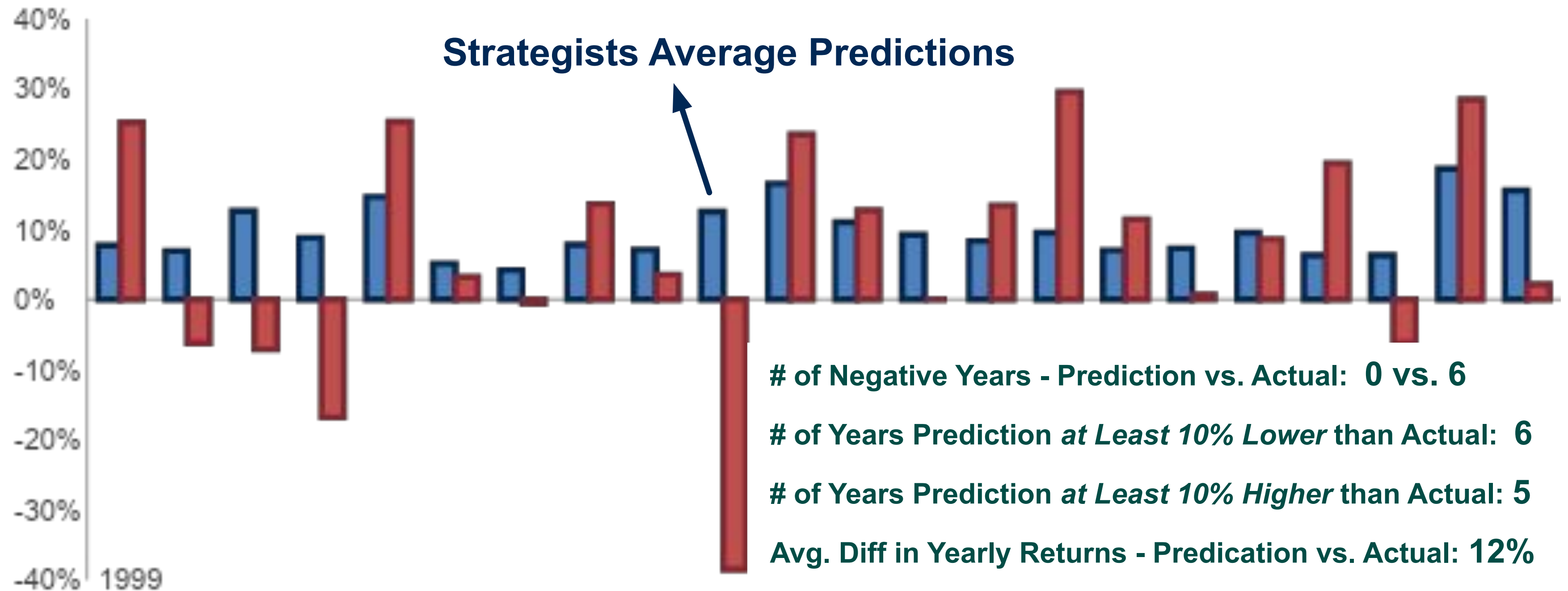
The *Wall Street Journal* Survey of Economists 12/82–6/21

Date	Result	Date	Result	Date	Result	Date	Result	Date	Result	Date	Result	Date	Result
12/82	Right	12/87	Wrong	12/92	Right	12/97	Wrong	12/02	Wrong	12/07	Wrong	12/12	Right
6/83	Wrong	6/88	Right	6/93	Wrong	6/98	Wrong	6/03	Wrong	6/08	Wrong	6/13	Right
12/83	Wrong	12/88	Right	12/93	Wrong	12/98	Wrong	12/03	Right	12/08	Wrong	12/13	Wrong
6/84	Wrong	6/89	Wrong	6/94	Wrong	6/99	Wrong	6/04	Right	6/09	Right	6/14	Wrong
12/84	Wrong	12/89	Wrong	12/94	Wrong	12/99	Wrong	12/04	Wrong	12/09	Right	12/14	Wrong
6/85	Wrong	6/90	Wrong	6/95	Wrong	6/00	Right	6/05	Wrong	6/10	Wrong	6/15	Right
12/85	Wrong	12/90	Right	12/95	Right	12/00	Wrong	12/05	Right	12/10	Right	12/15	Wrong
6/86	Wrong	6/91	Wrong	6/96	Right	6/01	Wrong	6/06	Right	6/11	Right	6/16	Wrong
12/86	Right	12/91	Right	12/96	Right	12/01	Right	12/06	Wrong	12/11	Wrong	12/16	Right
6/87	Wrong	6/92	Wrong	6/97	Wrong	6/02 <sup>1</sup>	Right	6/07	Wrong	6/12	Wrong	6/17	Wrong

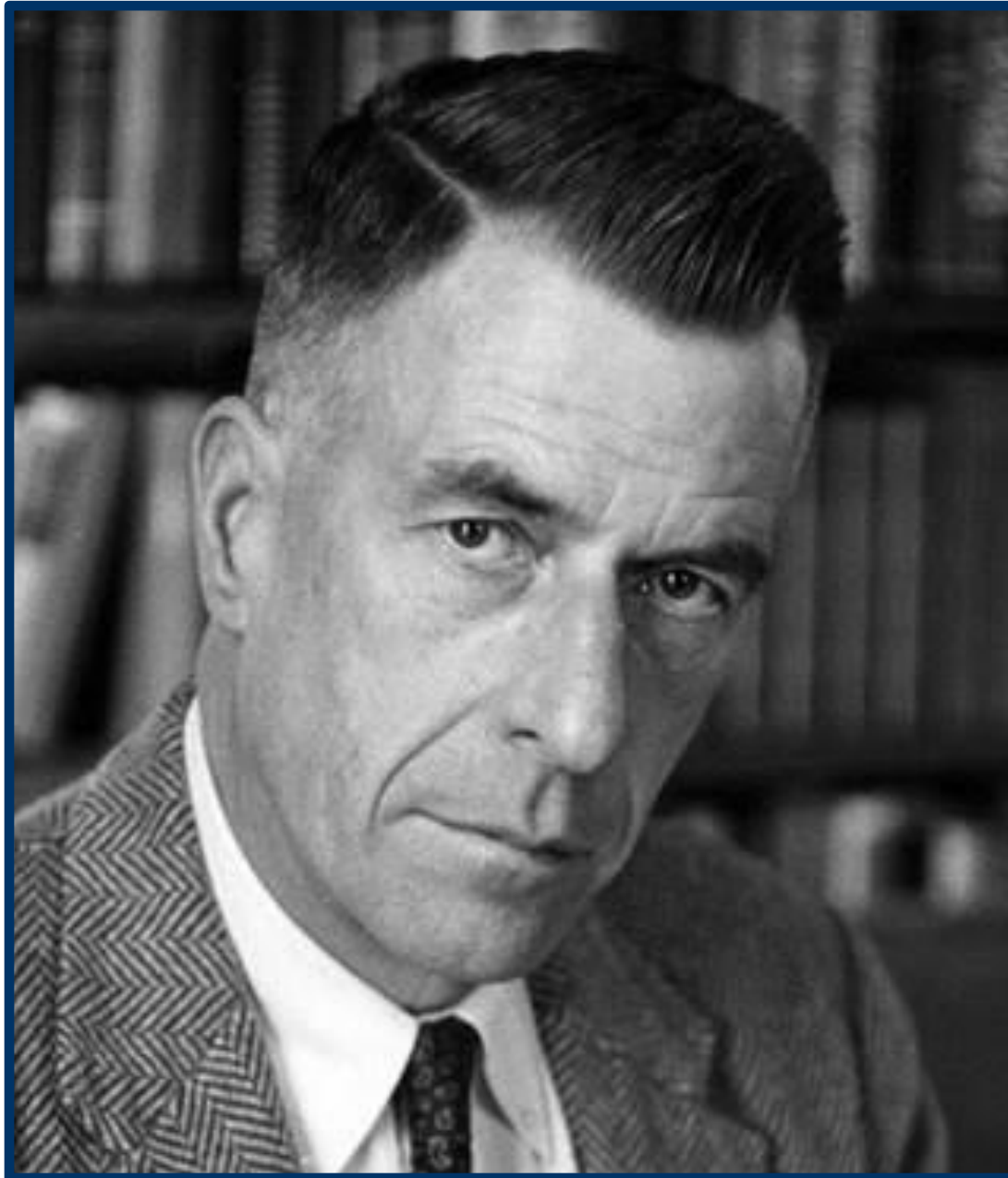
The forecast was incorrect 63% of the time

Source: Legg Mason and *The Wall Street Journal* Survey of Economists. This is a semi-annual survey by *The Wall Street Journal* last updated June 2021<sup>1</sup>. Benchmark changed from 30 Year Treasury to 10 Year Treasury. **Past performance is not a guarantee of future results.**

# Short Term Forecasts are Worthless



Source: Wall Street Journal Publications. From 1999 through 2005, numbers reflect Dow Jones Industrial Average forecasts. In 2006, the S&P 500 Index was used exclusively. **Past performance is not a guarantee of future results.**

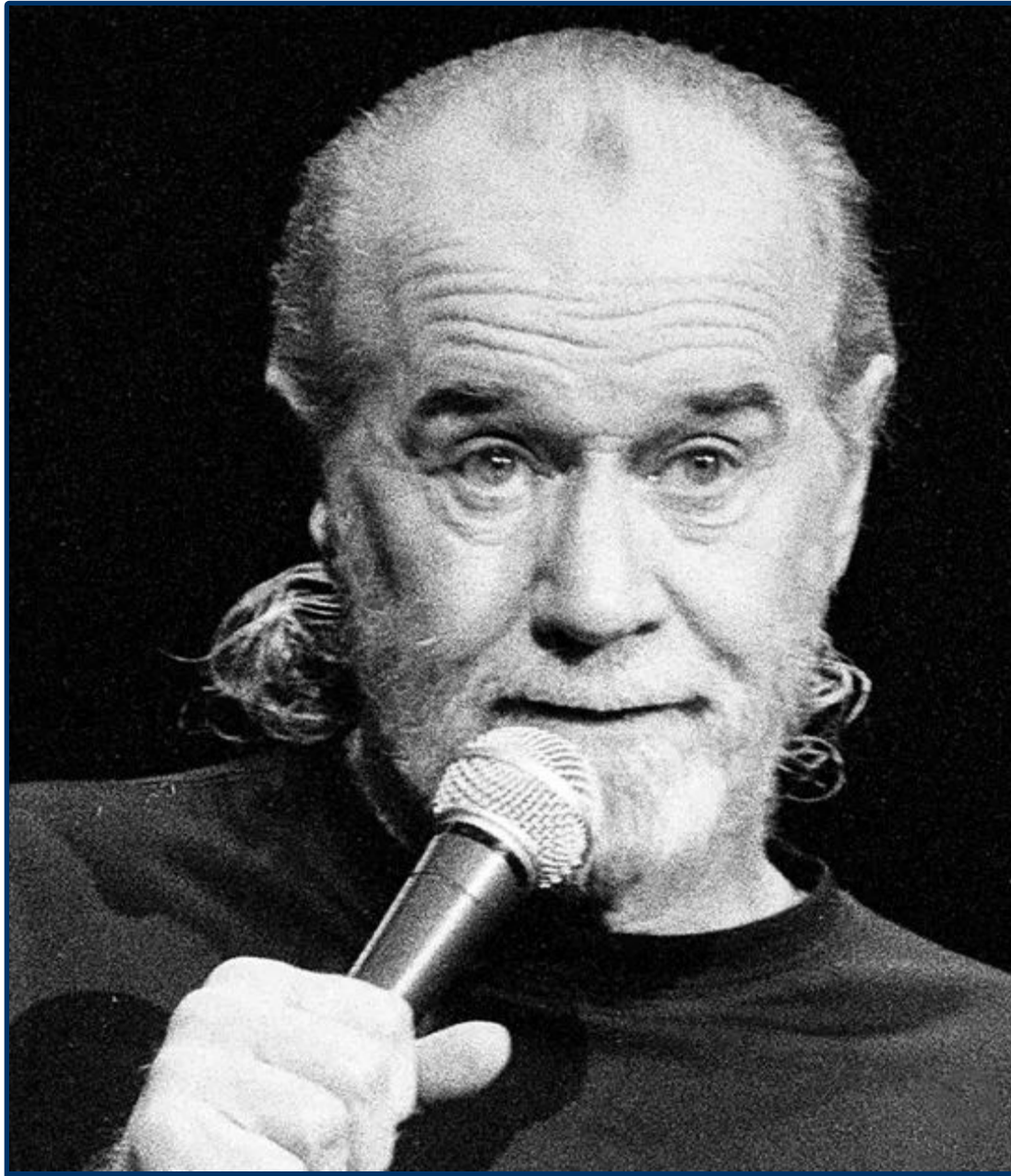


John Kenneth Galbraith

*Economist & Author*

**“The function of economic forecasting  
is to make astrology look  
respectable.”**





George Carlin

**“Weather forecast for tonight: dark.  
Continued dark overnight, with widely  
scattered light by morning.”**

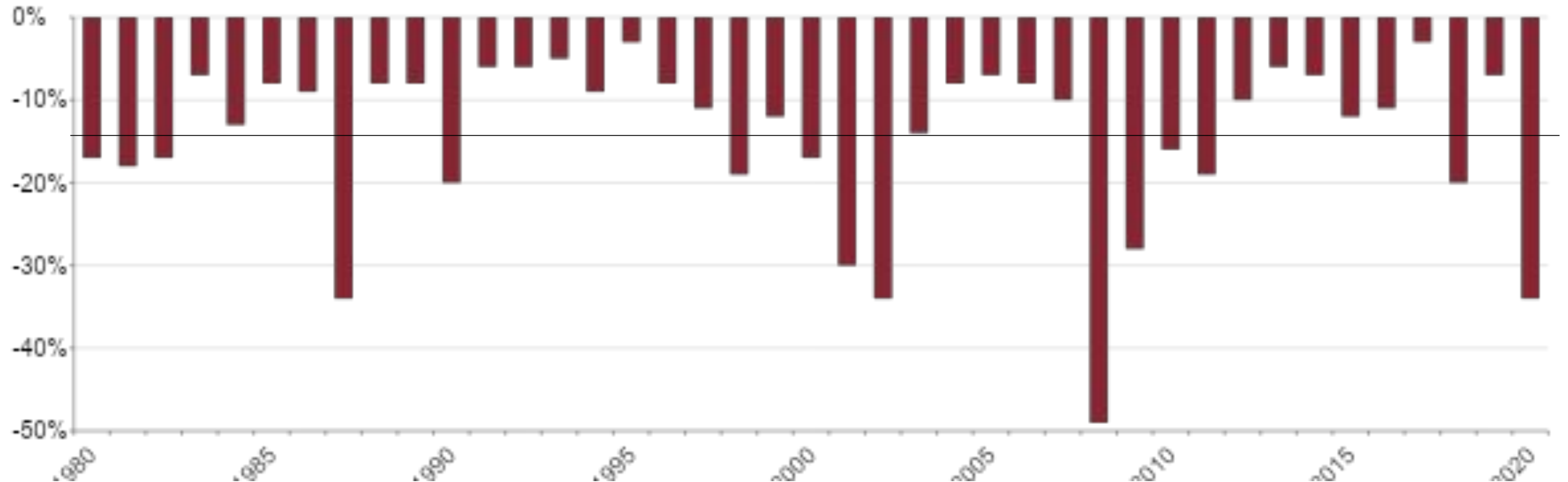
# Avoiding Investing Landmines

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- ❑ Don't make decisions based on short-term forecasts
  - ❑ Recognize that volatility & market declines are inevitable... but over time stocks build wealth

# Accept that Volatility & Market Dips Are Inevitable

S&P 500 Annual Peak-to-Trough Pullbacks 1980 – 2020



- Average Drawdown: -14%
- Percent of Years with Double-Digit Drawdowns: 56%
- Percent of Positive Years: 83%
- Percent of Years with Returns 10% or More: 63%

Source: Davis Advisors. Past performance is not a guarantee of future results.

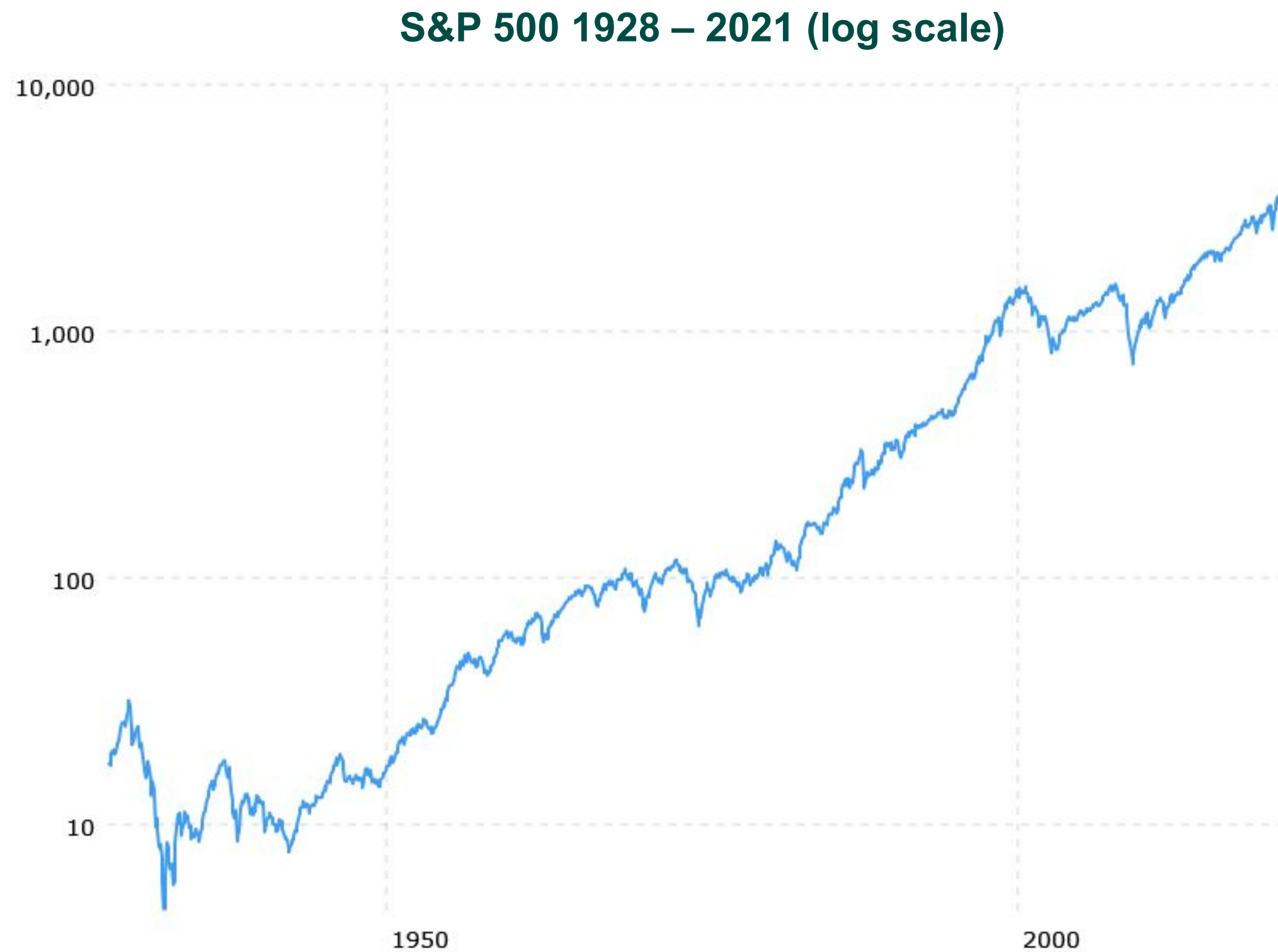
# Accept that Volatility & Market Dips Are Inevitable

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	<u>Occurrences Since 1928</u>	<u>Frequency of Occurrences</u>
<b>5% Correction</b>	<b>310</b>	<b>≈ 3 per year</b>
<b>10% Correction</b>	<b>98</b>	<b>≈ 1 per year</b>
<b>20% Correction</b>	<b>25</b>	<b>≈ 3.5 years</b>



# Despite Inevitable Declines, Stocks Have Built Wealth Over Time



# Avoiding Investing Landmines

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  - ❑ Don't take screens, factors & filters at face value

# Don't Take Screens, Factors & Filters at Face Value

**BERKSHIRE HATHAWAY INC.**

**2021**

GAAP EPS (B shares)	\$11.99
+ "Look Through" Undistributed Investee Earnings	\$4.50
<b>= Levered Owner Earnings/Share (LOE)</b>	<b>\$16.49</b>
Ending Share Price	\$278.12
+ "excess" cash per share (est. \$50bn at corporate)	(\$20.00)
<b>= Adjusted Share Price</b>	<b>\$258.12</b>

P/LOE (\$258.12/\$16.49)	15.7x
LOE/P Yield	6.4%


**DAVIS**

GAAP P/E (\$278.12/\$11.99)	23.2x
GAAP Yield	4.3%

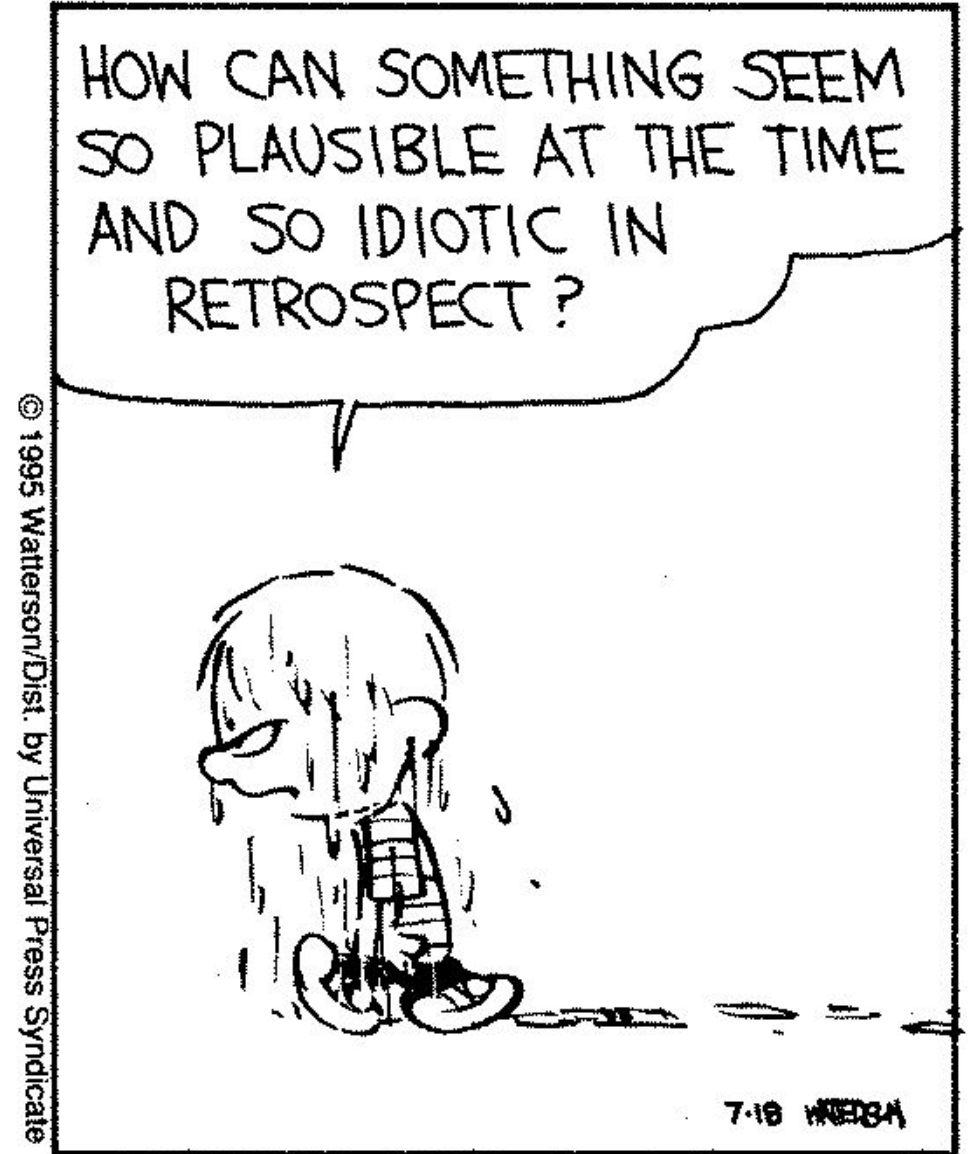
**GAAP**

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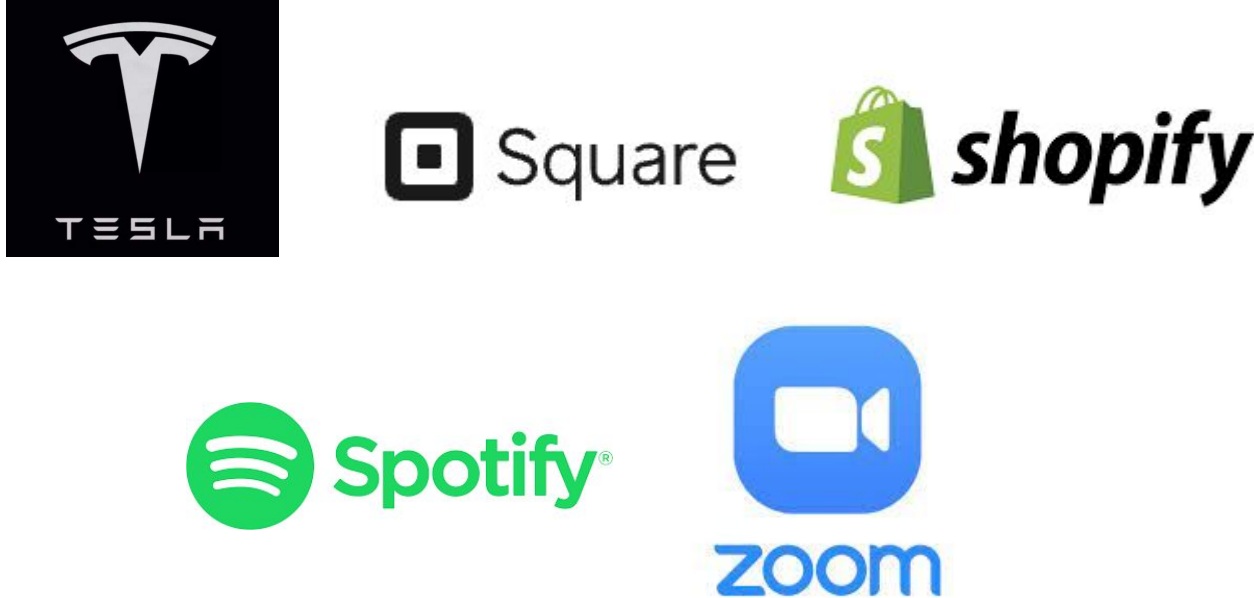



# Investing or Speculating?

	Group 1
	<div> Square</div>
Market Cap	\$1.3 trillion
Revenue	\$75 billion
Earnings	\$9 billion
P/E	144X
P/S	17X

Source: Davis Advisors. Bloomberg and Company Filings. Not a recommendation to buy, sell, or hold any particular security. The companies in Group 2 represent the eight growth securities discussed in an independent, third-party article (<https://theirrrelevantinvestor.com/2020/06/18/market-cap-madness/>) that was focused on the significant increase in market capitalization of these growth stocks. Group 1 represents current Davis New York Venture Fund holdings with a market value that was approximately equal to that of Group 2 as of 9/9/21.

# Investing or Speculating?

	Group 1	Group 2
		
Market Cap	\$1.3 trillion	\$1.3 trillion
Revenue	\$75 billion	\$411 billion (5.5x greater)
Earnings	\$9 billion	\$90 billion (10x greater)
P/E	144X	14X
P/S	17X	3X

Source: Davis Advisors. Bloomberg and Company Filings. Not a recommendation to buy, sell, or hold any particular security. The companies in Group 2 represent the eight growth securities discussed in an independent, third-party article (<https://theirrelevantinvestor.com/2020/06/18/market-cap-madness/>) that was focused on the significant increase in market capitalization of these growth stocks. Group 1 represents current Davis New York Venture Fund holdings with a market value that was approximately equal to that of Group 2 as of 9/9/21.

# Investing or Speculating?

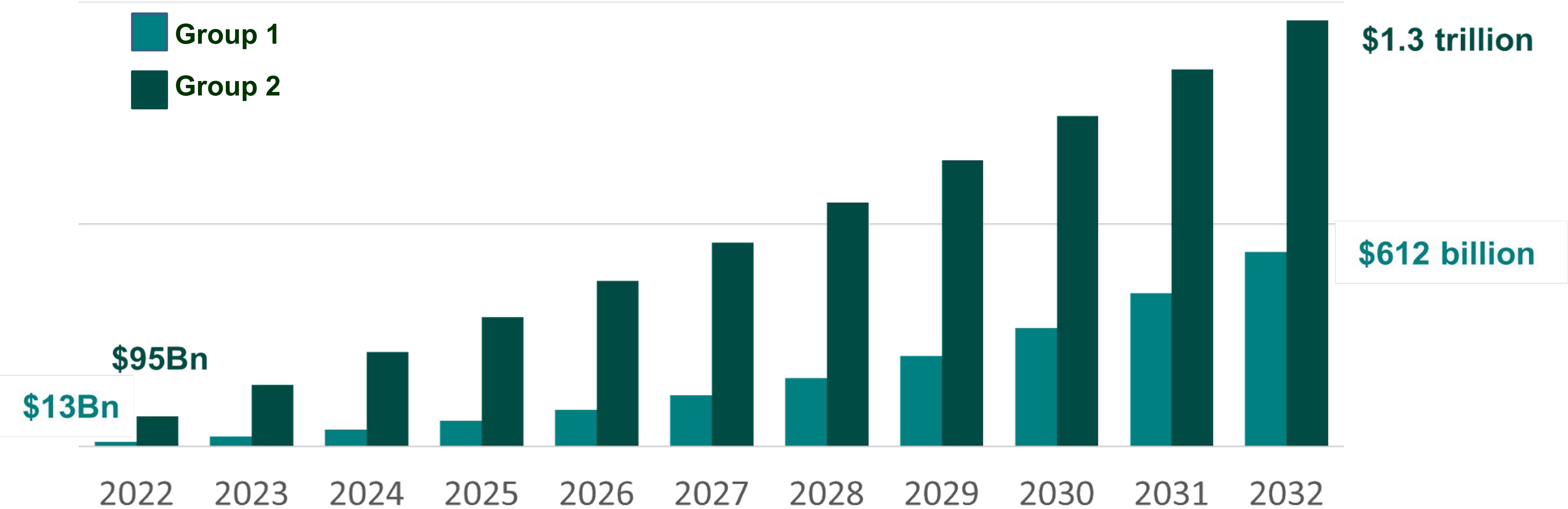
	Group 1	Group 2
		
Assumptions	<p>Grows as fast in the next decade as Apple, Google &amp; Amazon did in the last decade AND</p> <p>Achieves Google's after-tax profit margin</p>	<p>Profit growth only 5% over next decade</p>

Source: Davis Advisors. Bloomberg and Company Filings. Not a recommendation to buy, sell, or hold any particular security. The companies in Group 2 represent the eight growth securities discussed in an independent, third-party article (<https://theirrelevantinvestor.com/2020/06/18/market-cap-madness/>) that was focused on the significant increase in market capitalization of these growth stocks. Group 1 represents current Davis New York Venture Fund holdings with a market value that was approximately equal to that of Group 2 as of 9/9/21.



# Investing or Speculating?

Hypothetical 10-Year Cumulative Earnings Group 1 vs Group 2



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# Investing or Speculating?

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Scott McNeely  
CEO Sun Microsystems in 2002


“At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal.

And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate.

Now, having done that, would any of you like to buy my stock at \$64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?”

# Avoiding Investing Landmines

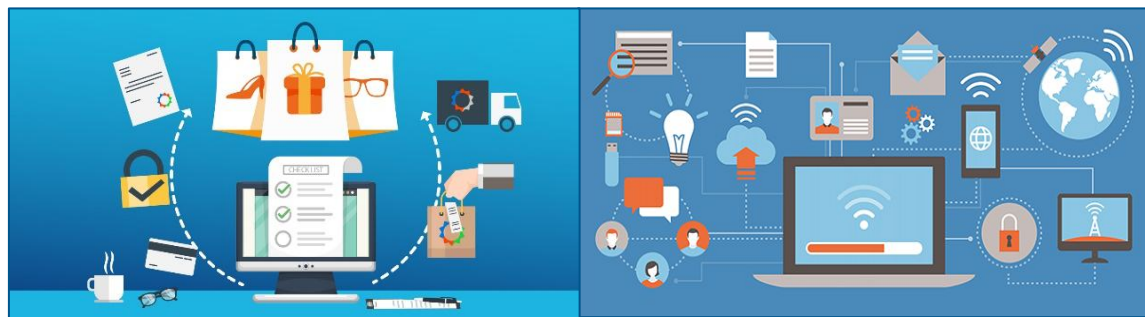
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  - ☐ ~~Growth or value:~~ Look beyond the labels

# Opportunities for the Coming Decade

## Undervalued Growth

*(Avoid Growth Pretenders)*



**Tech Blue Chips, e-Commerce,  
Workhorse Technology, Social Media & Cloud**

## Growing Value

*(Avoid Value Traps)*

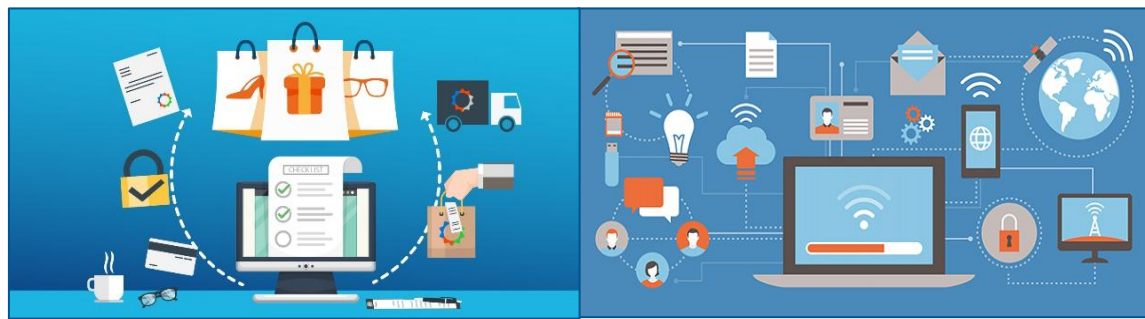


**Select Banks, P&C Insurers, Payment / Processing Co's,  
Select Healthcare & Industrials**



# Opportunities for the Coming Decade

## Undervalued Growth (Avoid Growth Pretenders)



Tech Blue Chips, e-Commerce,  
Workhorse Technology, Social Media & Cloud

## Growing Value (Avoid Value Traps)



Select Banks, P&C Insurers, Payment / Processing Co's,  
Select Healthcare & Industrials

amazon

facebook

Google

APPLIED  
MATERIALS

intel

TEXAS  
INSTRUMENTS

JD.COM  
多·快·好·省

Capital One

WELLS  
FARGO

DNB

DBS

BERKSHIRE  
HATHAWAY INC.

JPMORGAN  
CHASE & CO.

CHUBB

Quest  
Diagnostics

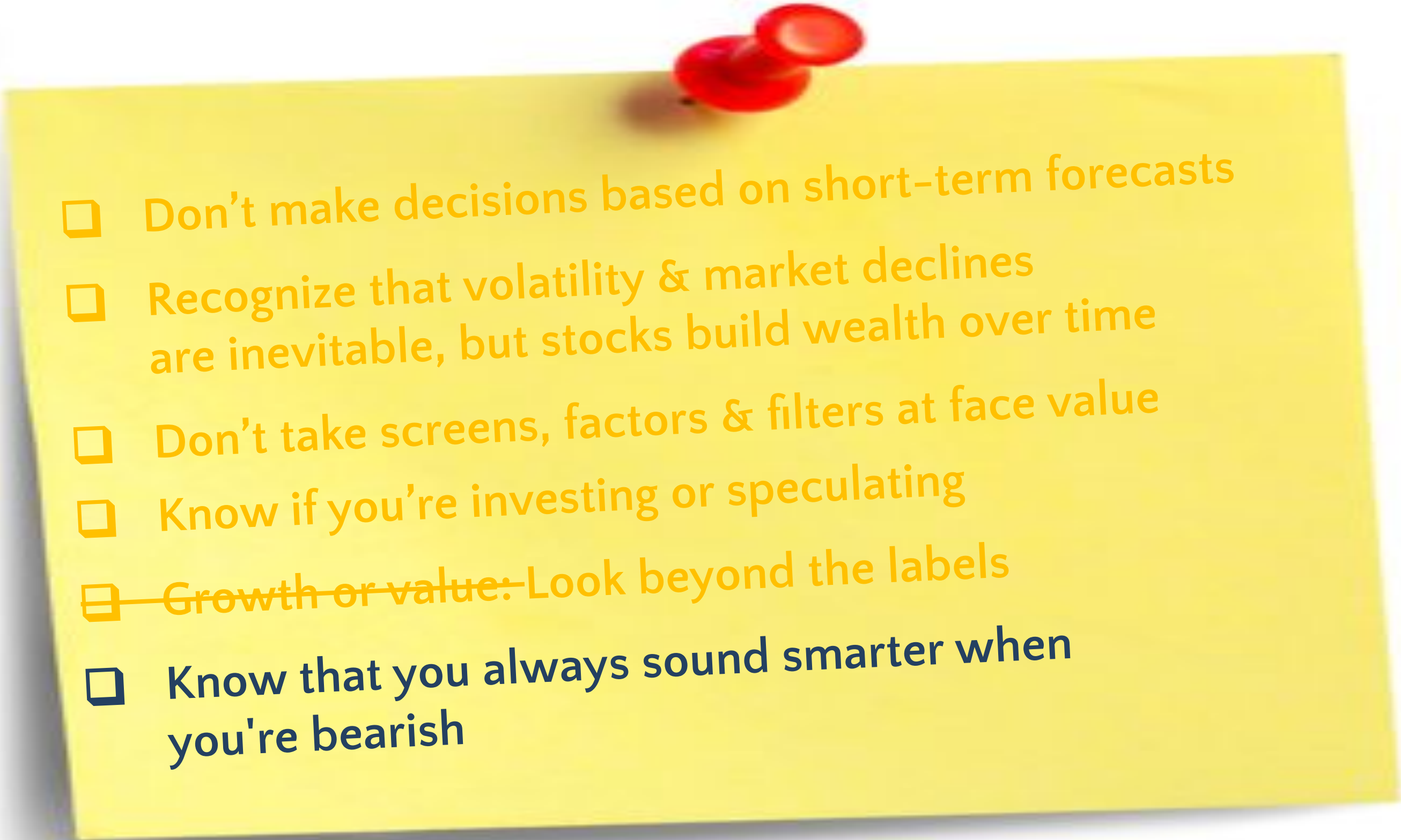
VIATRIS

DARLING  
INGREDIENTS

Not a recommendation to buy, sell, or hold any particular security. The information provided is not a sufficient basis upon which to make an investment decision. The securities listed above represent holdings from the Funds discussed in this presentation as of 6/30/21. The holdings are not in every fund and are subject to change. You should review the most recent shareholder report for a full schedule of investments for each fund.

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  - ☐ ~~Growth or value:~~ Look beyond the labels
  - ☐ Know that you always sound smarter when you're bearish

# You Always Sound Smarter When You're Bearish



Matt Ridley

*Author, The Rationale Optimist*

**“If you say the world has been getting better, you may get away with being called naïve and insensitive.**

**If you say the world is going to go on getting better, you are considered embarrassingly mad.**

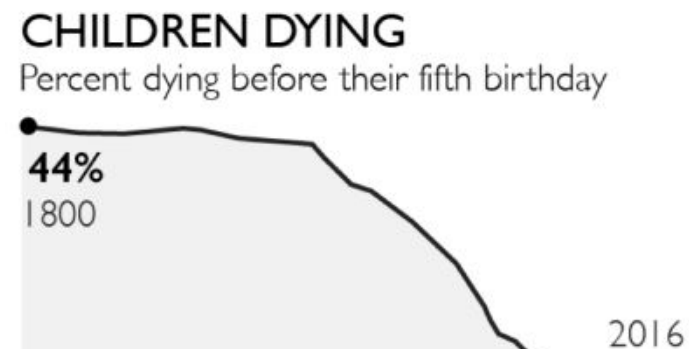
**If, on the other hand, you say catastrophe is imminent, you may expect a McArthur genius award or the Noble Peace Prize.”**



# You Always Sound Smarter When You're Bearish



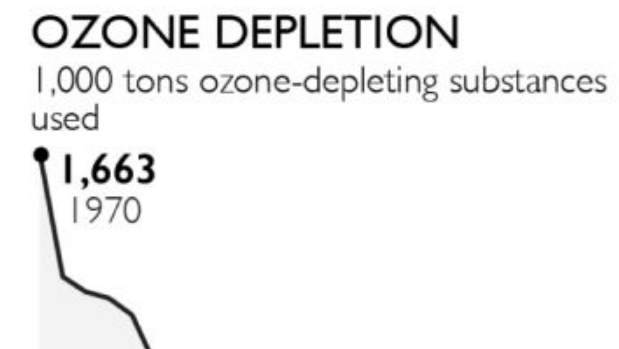
Source: Gapminder[18] based on FAO[1,3]



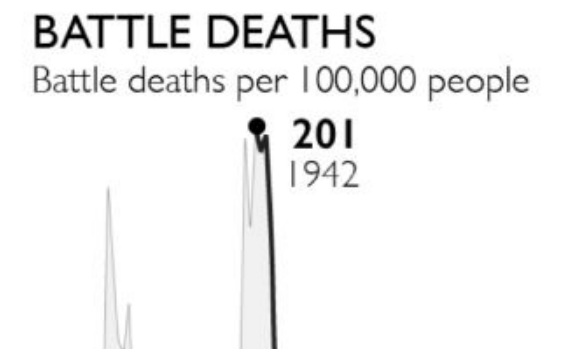
Source: Gapminder[6] based on UN-IGME & UN-IPED



Source: Gapminder[14] based on ILO[6-7] & OurWorldinData[3]

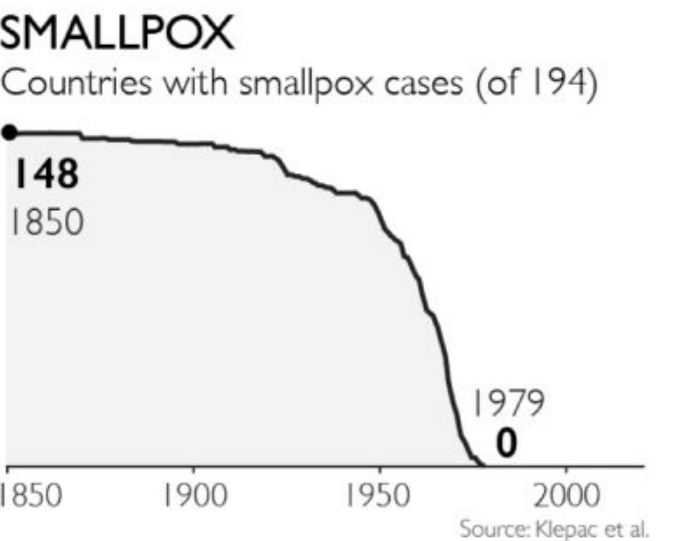


Source: UNEP[4]

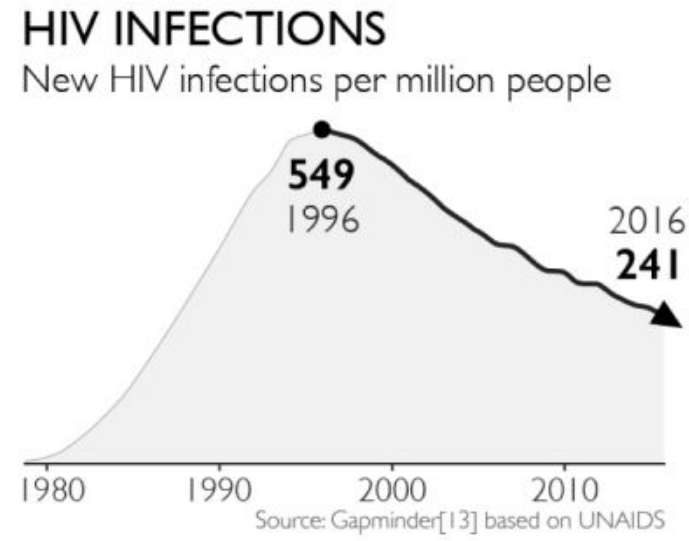


Source: Gleditsch (2016) including PRIO, Correlates of War & UCDP[1]

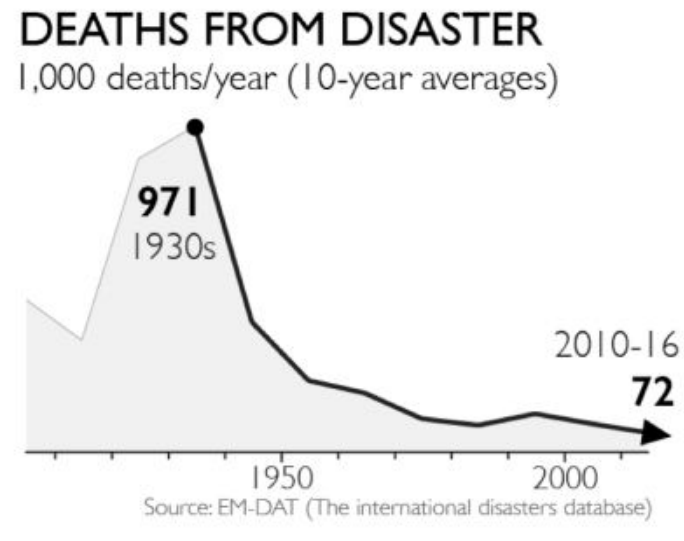
But bad things have been decreasing . . .



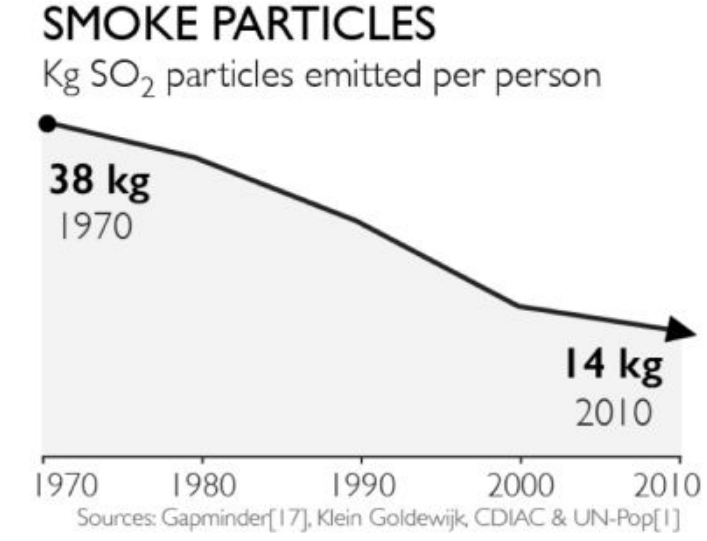
Source: Klepac et al.



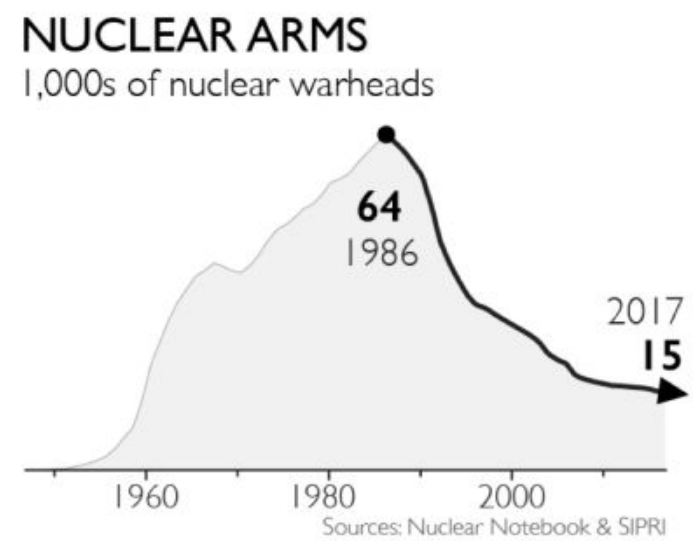
Source: Gapminder[13] based on UNAIDS



Source: EM-DAT (The international disasters database)



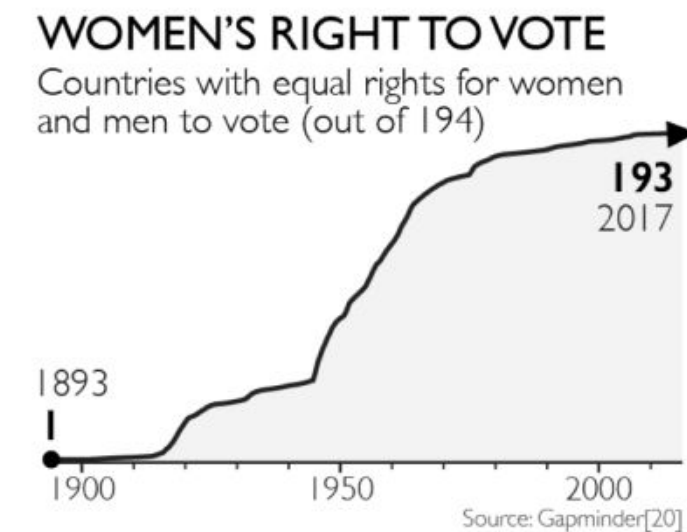
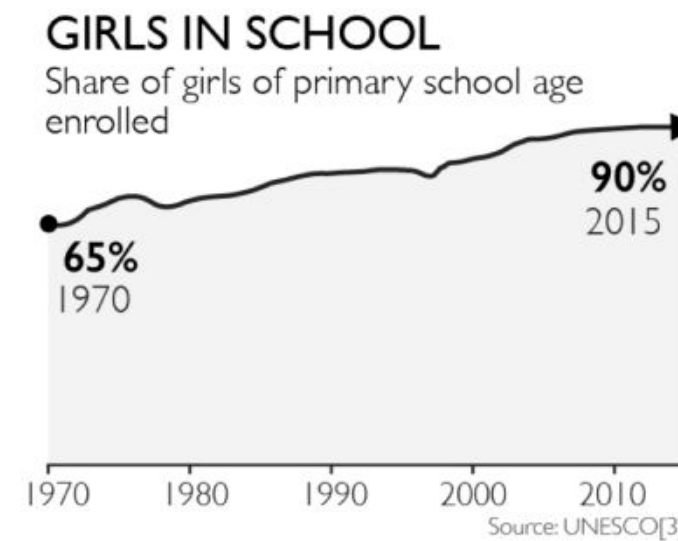
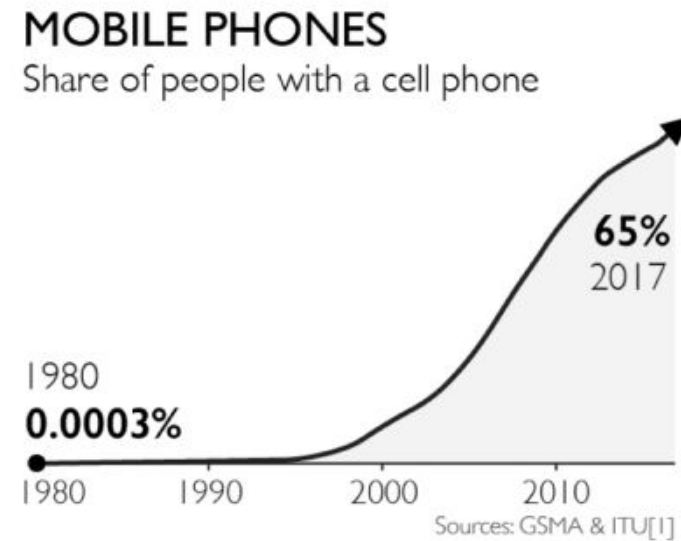
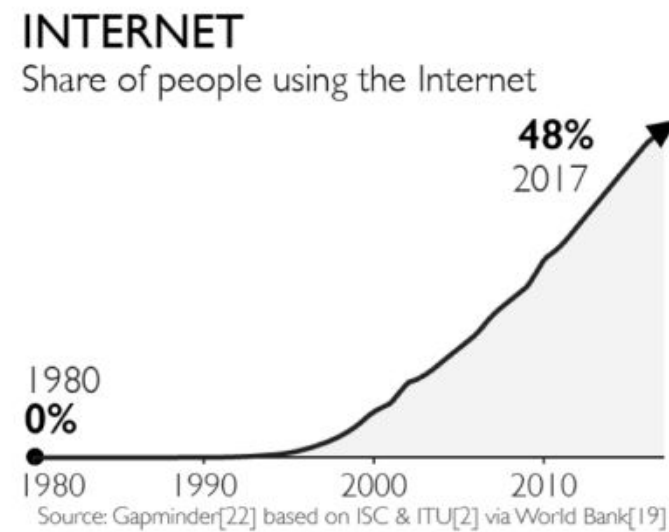
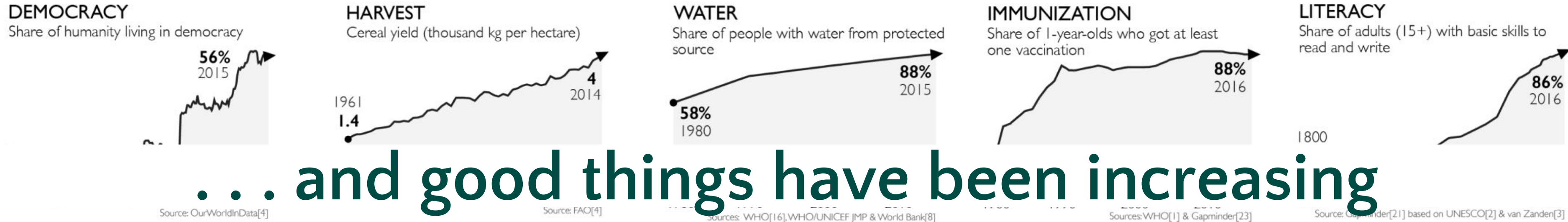
Sources: Gapminder[17], Klein Goldewijk, CDIAC & UN-Pop[1]



Sources: Nuclear Notebook & SIPRI



# You Always Sound Smarter When You're Bearish



# Endnotes

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*For Broker-Dealer use only.*

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include “forward-looking statements” which may or may not be accurate over the long term. Forward-looking statements can be identified by words like “believe,” “expect,” “anticipate,” or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

**Objective and Risks.** Davis New York Venture Fund’s investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. The Fund invests primarily in equity securities issued by large companies with market capitalizations of at least \$10 billion. Some important risks of an investment in the Fund are: **stock market risk:** stock markets have periods of rising prices and periods of falling prices, including sharp declines; **common stock risk:** an adverse event may have a negative impact on a company and could result in a decline in the price of its common stock; **financial services risk:** investing a significant portion of assets in the financial services sector may cause the Fund to be more sensitive to problems affecting financial companies; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified; **headline risk:** the Fund may invest in a company when the company becomes the center of controversy. The company’s stock may never recover or may become worthless; **large-capitalization companies risk:** companies with \$10 billion or more in market capitalization generally experience slower rates of growth in earnings per share than do mid- and small-capitalization companies; **manager risk:** poor security selection may cause the Fund to underperform relevant benchmarks; **depository receipts risk:** depository receipts may trade at a discount (or premium) to the underlying security and may be less liquid than the underlying securities listed on an exchange; **emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature markets; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; **foreign currency risk:** the change in value of a foreign currency against the U.S. dollar will result in a change in the U.S. dollar value of securities denominated in that foreign currency; and **mid- and small-capitalization companies risk:** companies with less than \$10 billion in market capitalization typically have more limited product lines, markets and financial resources than larger companies, and may trade less frequently and in more limited volume. See the prospectus for a complete description of the principal risks.

# Endnotes

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The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of June 30, 2021, the top ten holdings of Davis New York Venture Fund were: Capital One, 9.39%; Wells Fargo, 7.33%; Alphabet, 6.49%; Berkshire Hathaway, 5.81%; Applied Materials, 5.20%; Facebook, 4.85%; U.S. Bancorp, 4.50%; Amazon.com, 4.45%; Alibaba Group, 4.09%; and DiDi Global, 3.84%.

Davis Funds has adopted a Portfolio Holdings Disclosure policy that governs the release of non-public portfolio holding information. This policy is described in the prospectus. Holding percentages are subject to change. Visit [davisfunds.com](https://davisfunds.com) or call 800-279-0279 for the most current public portfolio holdings information.

We gather our index data from a combination of reputable sources, including, but not limited to, Lipper, Wilshire, and index websites.

The S&P 500 Index is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. Investments cannot be made directly in an index.

After October 31, 2021, this material must be accompanied by a supplement containing performance and rating (ranking) data for the most recent quarter end.

**Shares of the Davis Funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.**

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