

# StraightTalk

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## It's Not About Ukraine

As I write this, Russia has invaded Ukraine, and the markets are reacting in a predictable fashion. Oil, gold and bonds are all seeing buying activity, and stock markets around the world are down. Markets disdain uncertainty, and war is on the top of most people's list in that category. However, it is always prudent to pause and refocus on what is important, what is short-term noise versus your long-term plan, and why we invest in the great companies as a funding mechanism for that plan.

Vladimir Putin has done this before, and I suspect he will do it again. The West collectively seems to overlook that Russia's presence in Luhansk and Donetsk – at the heart of this invasion – is not new. Russian soldiers have been there in some form or fashion since Putin annexed Crimea in 2014. There is no doubt that he is a bad actor on the world stage, and I feel terrible for the citizens of Ukraine. However, as it relates to your portfolio, it is widely understood that Ukraine is unimportant from an investment standpoint, and Russia's main impact is concentrated in the oil markets – in fact, less than 1% of S&P 500 revenue comes from Ukraine and Russia combined, according to Standard & Poor's Research. It is also worth pointing out that, according to Factset, the five largest oil-producing countries aside from the U.S. are Saudi Arabia, Russia, China, Canada and Iran – only one of which is friendly to the U.S. Perhaps this will finally be the event that galvanizes our elected leaders to regard energy independence as a national security item of the highest order? Hope springs eternal....

At the end of the day, the reason that we own the great companies of the U.S. and the world is for their historically proven ability to protect us from two of the three things that can ruin your plan – inflation and taxes. Despite all of the intervening headlines, the truly great companies have a peerless 200 hundred year history of successfully doing just that. The problem is that we tend to focus on the short term *price* of these companies each day (or worse, during the day) rather than seeing their long term *value*. Do any of you think that the excellent companies you own in your portfolio will permanently lose their value because of Russia's encroachment into Ukraine? Or more importantly, do you think that a diversified basket of these companies won't be worth meaningfully more over the next decade, regardless of the headlines about Vladimir Putin?

History is a fantastic guide, and it is quite clear in this regard. Only one war-related conflict in the last 100 years caused a secular bear market. Other than World War II, the markets initially dropped, but then recovered without a secular (multiyear) bear market each time. A partial list of those conflicts is as follows: the Korean War, the Cuban Missile Crisis, the Six Day War, the Iraq War (both of them), the Balkan War, Civil War in Syria, the war in Afghanistan, and Russia's annexation of Crimea. All of these caused negative news headlines, were awful for the citizens and soldiers involved, and created short-term market declines. However, none proved to be impactful on our domestic economy or long-term portfolios.

As investors, we must always try to separate the signal from the noise. The third of the three things that can ruin your plan is impulsive behavior. Knee jerk reactions to cue-card reading TV hosts is always and everywhere a bad idea. Your investment managers are likely not surprised at these Ukrainian events, as those have been forecasted for some time now, and decisions on portfolio holdings have already been made on your behalf. Selling those funds now is very much akin to closing the barn door after the horses are all out in the field. Market declines are never any fun, but they are the price of the full return over time. I do not believe that any of the companies you will purchase goods and services from over the next year will have lost their competitive edge, or their profit margins, or their continuous improvements for their futures because of today's news. If they are good enough for you to remain a customer – surely they are good enough for you to remain an owner....

As a friend of mine said, "It's safer to remain seated on the roller coaster than to jump off of it." This year will be about a return to normal in our economy, and the great franchises getting back to business, not about Russia. If you are worried, or want to review your plan, call me anytime. Remember, this time is not different, and this too shall pass.

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