

## Protecting Capital for the Long Run

ACR's equity investment objectives, in order of importance:

- 1) Protect capital
- 2) Generate an equity-like absolute return in the long run
- 3) Beat the market in the long run

Long run means through a full market cycle of both economic and stock market expansion and contraction. Our updated results on that score:

	<u>EQR (Net 1.25%)<sup>1</sup></u>	<u>S&amp;P 500</u>
<b>2000-Present<sup>1</sup></b>	<b>11.6%</b>	<b>3.9%</b>
<b>2008-Present</b>	<b>10.6%</b>	<b>6.9%</b>

Generating the returns above has required special tactics in the market extremes that we have encountered since ACR's founding in 1999. We have maintained portfolios of companies with very different characteristics than the market and have at times held significant cash reserves.

Being defensive and sacrificing shorter term results relative to the market has been necessary to protect capital and generate the long term returns above. ACR's pattern of below market relative returns and satisfactory absolute returns is revealed in the two major bull market phases since our founding.

	<u>EQR (Net 1.25%)<sup>1</sup></u>	<u>S&amp;P 500</u>
<b>2003-2007</b>	<b>8.4%</b>	<b>12.8%</b>
<b>2009-Present</b>	<b>16.0%</b>	<b>17.7%</b>

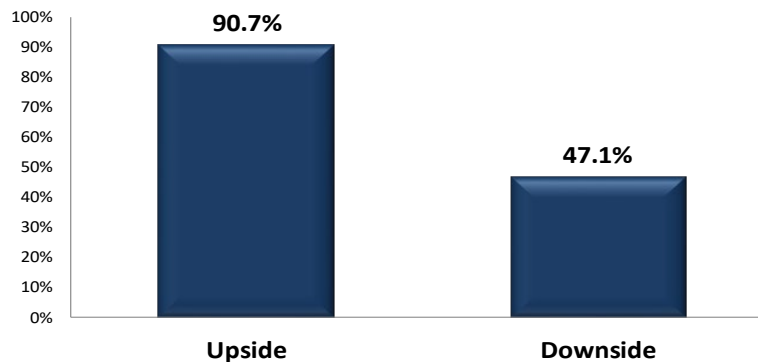
EQR beat the market in the three up years from the bottom in 2009 through 2011. This bull market phase offered sound investment opportunities and was, in our view, the only non-speculative bull market since our founding. In the past two years, markets have become frothier, and we have found more stocks to sell than to buy. We are once again playing defense. A dissection of the current bull market reveals these two phases.

	<u>EQR (Net 1.25%)<sup>1</sup></u>	<u>S&amp;P 500</u>
<b>2009-2011</b>	<b>16.2%</b>	<b>14.1%</b>
<b>2012-Present</b>	<b>15.9%</b>	<b>22.0%</b>

<sup>1</sup>EQR (Net 1.25%) is the annualized total return (dividends and capital appreciation) of the Equity Quality Return Advised SMA Composite calculated net of a 1.25% hypothetical annual fee. The EQR (Net 1.25%) return calculation is supplementary information based on the average recommended fee schedule across our client/partner base. Please refer to our full composite performance presentation with disclosures published under the performance section of our web site at [www.acr-invest.com](http://www.acr-invest.com). Actual fees may be higher or lower than 1.25%. '2000-Present' begins April 1, 2000. 'Present' period is as of June 30, 2014.

One of the most descriptive representations of our results is shown in our upside/downside market capture ratio. This is the percentage of the market return we have captured when the market is going up, and the percentage of the market return we have captured when the market is going down.

### Alpine EQR as a Function of S&P 500 April 2000 to June 2014



*The Upside Market Capture Ratio is calculated by dividing the monthly return of the manager during the up market periods by the monthly return of the market for the same periods. Generally, the higher the UMC Ratio, the better. The Downside Market Capture Ratio is calculated by dividing the monthly return of the manager during the down market periods by the monthly return of the market during the same periods. Generally, the lower the DMC Ratio, the better. ACR EQR returns in this chart are gross of fees.*

Past performance is, of course, no guarantee of future results. We do believe that, based on our current holdings and portfolio price fluctuations, we are in a very defensive position, and our portfolios should continue to offer solid downside protection.

Today we see complacency everywhere, reminiscent of past periods of market excess. The Mark Twain quote – “History doesn’t repeat itself, but it does rhyme” – is certainly true of financial market history. The interest rate spread between quality and junk bonds is near all-time lows, financial markets are placid with scant stock market volatility, stock prices continue to outpace more tepid increases in earnings, and theories abound which attempt to justify continued rising prices. It feels like the calm before the storm.

Yet ACR never invests based on feelings. We invest based on facts. Our analysis of financial statements and business prospects reveals that excellent investment opportunities based on intrinsic values are scarce at current prices. There are only 6 stocks on our 484 stock on-deck list that appear to be selling significantly below our estimate of their intrinsic value (80 cents on the dollar or less). For comparative purposes, about half the stocks on our on-deck list appeared to be selling below our estimate of their intrinsic value in early 2009.

We believe that in a market like today’s there is potentially more to lose than to gain. We will continue to protect capital by being relentless about not overpaying for the stocks we buy, and by not trying to keep up with the stock market Jones’ who are speculating on today’s prices at the expense of tomorrow’s results.

*Nick Tompras, CFA  
July 2014*

*As of November 4, 2022, we have provided this supplement to accompany the commentary and satisfy changing regulations:  
<https://acr-invest.com/commentary-supplement/>*

## **IMPORTANT DISCLOSURES**

*ACR Alpine Capital Research LLC is an SEC registered investment adviser. For more information please refer to Form ADV on file with the SEC at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC does not imply any particular level of skill or training.*

*All statistics highlighted in this research note are sourced from ACR's analysis unless otherwise noted.*

*It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the examples discussed. You should consider any strategy's investment objectives, risks, and charges and expenses carefully before you invest.*

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*The Equity Quality Return (EQR) Advised / SMA Composite consists of equity portfolios managed for non-wrap fee and wrap fee clients according to the Firm's published investment policy. The composite investment policy includes the objective of providing satisfactory absolute and relative results in the long run, and to preserve capital from permanent loss during periods of economic decline. EQR invests only in publicly traded marketable common stocks. Total Return performance includes unrealized gains, realized gains, dividends, interest, and the re-investment of all income. Please refer to our full composite performance presentation with disclosures published under the performance section of our web site at [www.acr-invest.com](http://www.acr-invest.com).*

*The S&P 500 TR Index is a broad-based stock index including reinvestment of dividends and has been presented as an indication of domestic stock market performance. The S&P 500 TR index is unmanaged and cannot be purchased by investors.*