Greenfield Seitz
CAPITAL MANAGEMENT

2023 Mid-Year Letter

July 25, 2023

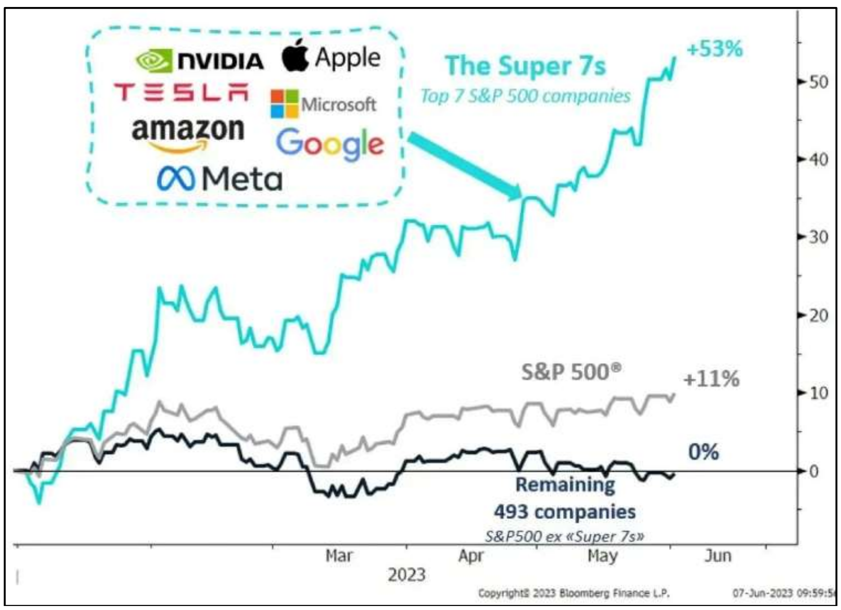
Dear Investor,

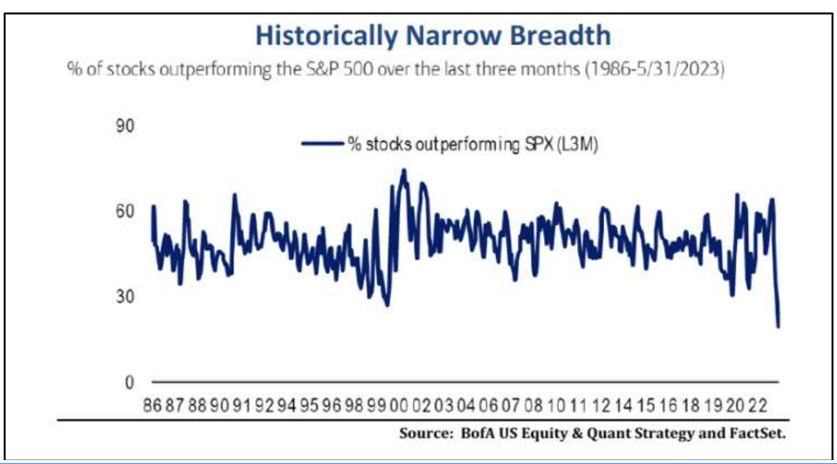
For the first half of 2023, the Greenfield Seitz Composite gained 4.0% (net of fees) while the S&P 500 gained 16.9%. This brings our 5-year return to 48.0% (net of fees).

Market Leadership

Enthusiasm for Artificial Intelligence helped fuel a rally in tech stocks to start the year after tech stocks plunged last year. Investors seem to be betting that the leaders of the last Bull market will also be the leaders of the next Bull market, which is rarely the case.

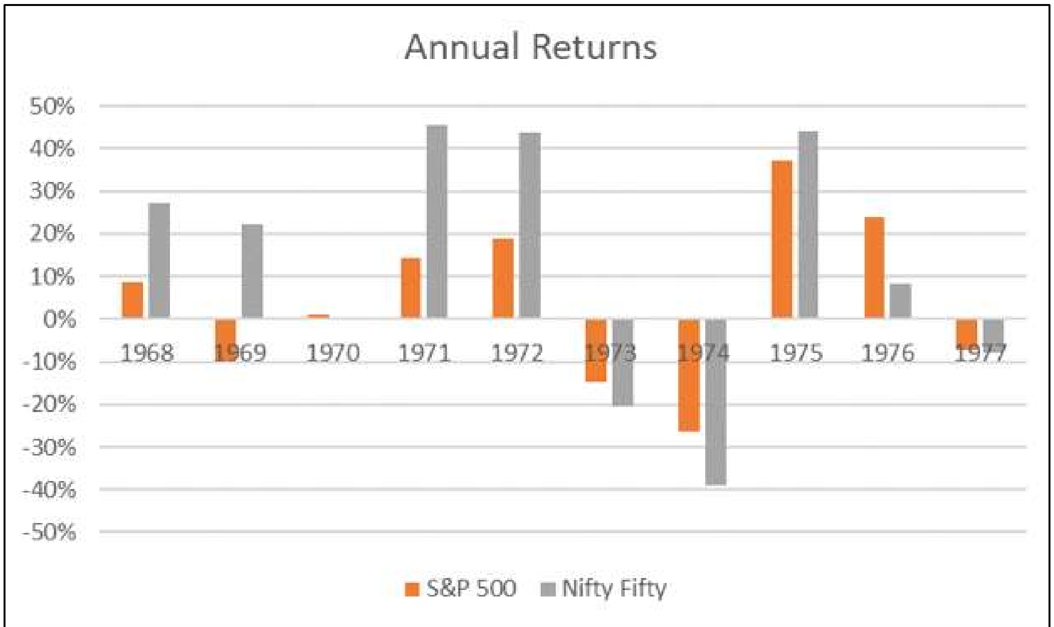
The first half of the year was dominated by a handful of stocks (Apple, Microsoft, Google, Amazon, Nvidia, Meta, and Tesla). In fact, it was the narrowest breadth in market history with seven stocks accounting for more than 90% of the S&P 500's gains. This narrow leadership last happened at the end of Dot-com Bull market. These seven stocks now comprise 29% of the entire 500 stocks in S&P Index, which is the most ever. These "magnificent seven" stocks were up 53% in the first six months, while the remaining 493 stocks of the S&P 500 were flat.





Remembering the Nifty Fifty

As market historians, it is hard not to be reminded of the "Nifty Fifty." In the 1960's-70's, there was a group of Blue-Chip stocks that were dubbed the Nifty Fifty. Companies such as IBM, Kodak, Sears, and Xerox were considered infallible. The Nifty Fifty average annual return was 28% over this period, which compared to just 7% for the broader S&P 500.[1] Jeremy Siegel famously said, "You can own the Nifty Fifty forever." But as every investor piled into the same stocks, their valuation got expensive and their expectations for growth became unrealistic. The Nifty Fifty fell 51% in 1973-1974 causing the S&P 500 to fall 35%.



Source: Refinitiv, S&P Global Ratings, CRSP, Compustat, Bridgeway

Treasury Bills Yielding More Than Stocks

With the Fed raising rates from 0% to 5%, the yields on government bonds have increased significantly. The yield on 6-month Treasury Bills is now roughly 5.5%. Simultaneously, as stock prices have increased, the earnings yield (EPS divided by stock price) has fallen. For the first time in more than 20 years, Treasury Bills are yielding more than the earnings on stocks. After years of low interest rates, investors are now "paid to wait" in risk free government Treasury Bills. With the market at historically high valuations, we like the ability to get a nice return from fixed income.

Source: True Insights, fred.stlouisfed.org, Bloomberg

Banks Must Compete to Keep Cash

We began moving our cash into higher yielding treasuries over a year ago. Our custodian only paid 0.10% on cash while Treasury Bills now pay roughly 5.5%. As other investors do the same, banks are losing deposits and must raise the rate they pay to keep deposits. For example, in the past year Charles Schwab lost over $300 billion in cash deposits. All banks are suffering from this, and it is our belief they will have to pay a higher rate, which will squeeze the banks' net interest margin. For this reason, we trimmed some bank stock holdings. In addition to this problem, many banks held long term treasuries. These long duration bonds were hit hard, with the 20-year Treasuries down 20% last year. These are the two primary reasons the U.S. had three of the five largest banks failures in history this year with Silicon Valley Bank, First Republic, and Signature.

Buffett Buying Energy Stocks and Cash

In the past year, Buffett's Berkshire Hathaway has bought roughly $25 billion of Occidental Petroleum and $21 billion of Chevron.[2] These two energy stocks comprise the bulk of his stock purchases in the past year. We are reminded of his saying "buy when others are fearful." Buffett has also been building cash. Berkshire Hathaway now holds $130 billion in cash, which is close to an all-time high. This is fascinating because he is famous for saying stocks are a better compounding investment than cash in the long run. We can assume from this action; he is not finding much value in stocks currently. Buffett has often stated that his favorite valuation metric is total stocks market cap to GDP, which is currently very expensive (chart below).

Outlook

We take comfort seeing that Buffett is investing in a similar fashion to Greenfield Seitz. It seems high yielding treasuries and unloved energy stocks are compelling to both of us.

We take protecting your investments seriously. At a time of record stock market valuations, we are pleased to have an alternative with higher yielding T-Bills.

As long-term investors, we aim to invest in great companies at an attractive price (valuation). This process is determined by current fundamentals, valuations, and the outlook for each company.

As always, please contact us anytime if you have any questions.

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

Past performance does not guarantee future results.
1 Bridgeway. *Party Like It's 1972*. 2022
2 Berkshire Hathaway. SEC 13F filing. 2023
All company information is from company filings

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