

# Cape Ann Capital, Inc.

## November Letter

Dear Friend:

Commodities, emerging markets stocks and European stocks suffered another leg down in November. All other markets drifted sideways; ending the month within a percentage point of where they started.

	Last 10-Yrs	Last 5-Yrs	YTD	November
U.S. Cash	14.6%	0.2%	0.0%	0.0%
U.S. Bonds	55.3%	15.1%	0.7%	-0.3%
U.S. Stocks	108.6%	92.4%	2.4%	0.5%
European Stocks	50.5%	36.0%	0.4%	-1.3%
Pacific Stocks	32.3%	22.5%	2.6%	-0.3%
Emerging Markets Stocks	49.7%	-14.7%	-13.3%	-3.2%
Commodities	-45.2%	-44.6%	-22.3%	-7.3%
Risk Level 8 (0/42/22/7/7/15)	51.9%	18.0%	-3.3%	-1.3%

The Twenty-Fourth Annual Investment Conference hosted by Baron Capital on Friday, November 6th featured many highlights including presentations by the CEO of Illumina, the gene sequencing company, and Elon Musk the founder of SpaceX and co-founder of PayPal and Tesla Motors. But, the best moment for us was Cliff Greenberg's answer to a question posed by one of the 3,600 shareholders, advisors and brokers crammed into the Metropolitan Opera House in New York City.

The question went something like this: "You have an excellent long-term track record managing Baron Small-Cap Fund, but over the last couple of years you have lagged your benchmark. What are you doing wrong?" Cliff's answer was brief and to the point: "I do not want to own the stocks that have driven the index to new highs over this period. They are not good investments."

Cliff, who is Ron Baron's heir apparent, offered a gentle reminder that stocks often overshoot fair value. All top quintile investors must have the courage to endure short-term underperformance versus their benchmark. Most stock markets are dominated by a few large companies. When more and more investors start chasing the performance of these companies, prudent investors take a step back. Chasing performance is self-fulfilling ... until it isn't.

Here is what Morningstar has to say about the Vanguard Total Stock Market Index Fund, the fund we use to measure the performance of the U.S. stock market. "The fund does carry risk. It fell 55% during the bear market from October 2007 through March 2009. As a passive index fund, the fund stays fully invested all the time, so it rarely misses a rally. Investors here, however, are exposed to the full brunt of a market downturn. Indeed, the fund historically has captured 100% or more of the broad market's downside and at times has fared worse than peers." The Vanguard Total Stock Market index fund holds 3,791 stocks, but one half the value of the market is spread across just 90 companies. Even within the top 90 there is tremendous skewness. Apple the largest company by market value is about 14 times larger than Morgan Stanley, the 90th company. On a day when Apple moves 5%, Morgan Stanley would have to move 70% to have the same impact on the performance of the overall market.