Laffer Tengler Commentary
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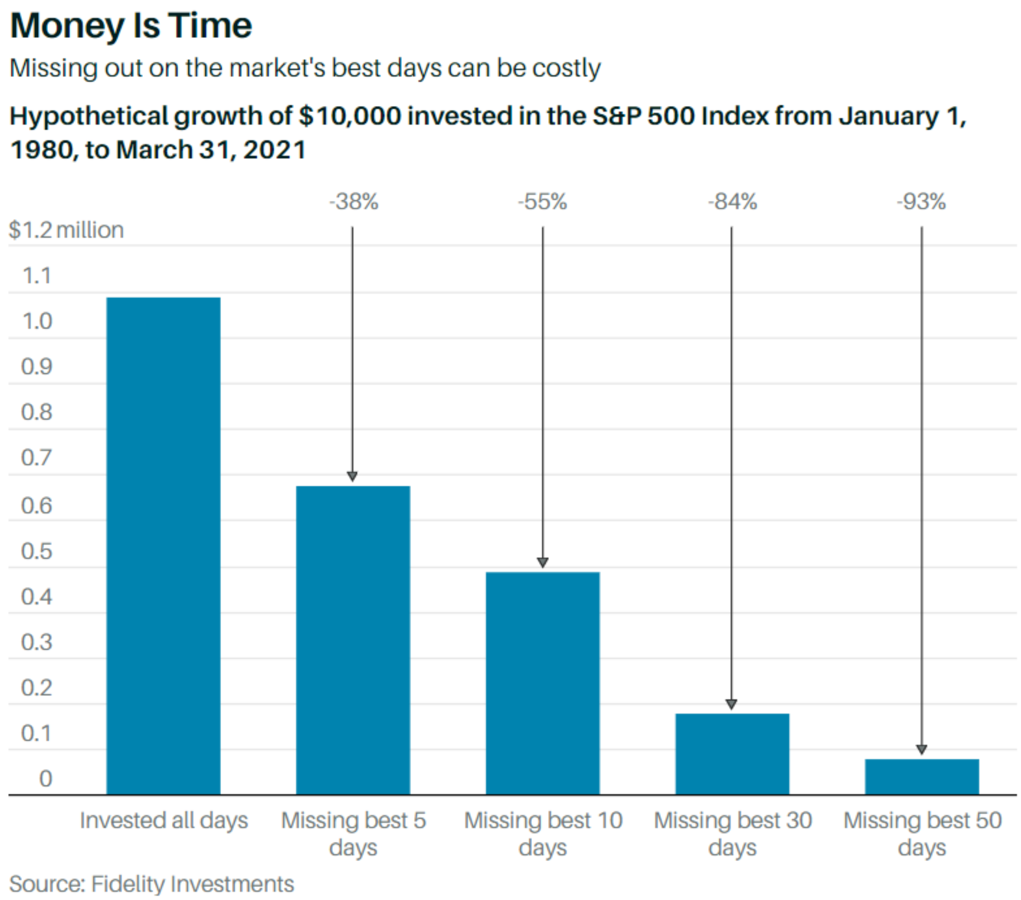
The Stockdale Paradox

It is midday, Monday, May 30, 2022 (Memorial Day). As I am writing, the futures are up strong with the NASDAQ leading the way—up over 1.0%--that is no guarantee, however, the enthusiasm may fade by morning. We had a much needed break in this 2022 bear market last week with each of the indices up over 6.0% on the week. Some are calling it a relief rally. Others are saying we hit bottom in the previous week and are working our way out. I maintain no one knows for sure. Which is why we continue to employ discipline to identify the highest quality stocks trading at attractive valuations—the stocks we will want to hold for the next three- to five- to ten-years. Or, as I like to call them: stocks to own for a lifetime.

I have written recently about a study (there are many) that measures annualized total return from 1995-2021, then measures the performance if you missed just the five best days over that 26 year period. If you remained fully invested you would have earned an 8.8% annualized return year in and year out. Miss the 5-best days and your return drops to 7.0% annualized.

Another study from Fidelity Investments and published by Barron's this week states the difference in dollars and expands the examination period from 1/1/1980-3.31/2021. The study assumes $10,000.00 invested at the beginning of the period. That $10,000 fully invested over the entire period would produce a portfolio valued at $1.09MM; missing the best 5 days your portfolio would be 38% lower than the fully invested portfolio at $678,395,000; missed the best 10 days?: $487,185,000; if you missed the best 30 days: $176,591,000 and your portfolio would be a meager $77,920,000 if you missed the best 50 days.

To put it another way: your standard of living in, say, retirement would be 38% lower if you missed only the best five-days.



(Many thanks to Barron's!)

But how to navigate the emotions and worry especially during a drawn-out sell-off like this one—now already five months old? I would like to recommend the most memorable lesson in endurance I have encountered: The Stockdale Paradox as chronicled by Jim Collins in *Good to Great*. Seems fitting on Memorial Day to focus our attention (and thanks!) on Admiral Jim Stockdale, the highest-ranking U.S. military officer held prisoner in the "Hanoi Hilton" prisoner-of-war camp during the Vietnam War. Admiral Stockdale was imprisoned from 1965 to 1973 during which time he was tortured over twenty times. Jim Collins interviewed Admiral Stockdale for his book on Great companies. He witness that excellent management teams accepted the brutal facts all the while maintaining a "commitment to prevail as a great company despite the brutal facts". After interviewing Admiral Stockdale he referred to this phenomenon as The Stockdale Paradox.

From *Good to Great:*

"In preparation, I read In Love and War, the book Stockdale and his wife had written in alternating chapters, chronicling their experiences during those eight years.

As I moved through the book, I found myself getting depressed. It just seemed so bleak—the uncertainty of his fate, the brutality of his captors, and so forth. And then, it dawned on me: "Here I am sitting in my warm and comfortable office, looking out over the beautiful Stanford campus on a beautiful Saturday afternoon. I'm getting depressed reading this, and I know the end of the story! I know that he gets out, reunites with his family, becomes a national hero, and gets to spend the later years of his life studying philosophy on this same beautiful campus. If it feels depressing for me, how on earth did he deal with it when he was actually there and did not know the end of the story?"

"I never lost faith in the end of the story," he said, when I asked him. "I never doubted not only that I would get out, but also that I would prevail in the end and turn the experience into the defining event of my life, which, in retrospect, I would not trade."

I didn't say anything for many minutes, and we continued the slow walk toward the faculty club, Stockdale limping and arc-swinging his stiff leg that had never fully recovered from repeated torture. Finally, after about a hundred meters of silence, I asked, "Who didn't make it out?"

"Oh, that's easy," he said. "The optimists."

"The optimists? I don't understand," I said, now completely confused, given what he'd said a hundred meters earlier.

"The optimists. Oh, they were the ones who said, 'We're going to be out by Christmas.' And Christmas would come, and Christmas would go. Then they'd say, 'We're going to be out by Easter.' And Easter would come, and Easter would go. And then Thanksgiving, and then it would be Christmas again. And they died of a broken heart."

Another long pause, and more walking. Then he turned to me and said, "This is a very important lesson. You must never confuse faith that you will prevail in the end—which you can never afford to lose—with the discipline to confront the most brutal facts of your current reality, whatever they might be."

To this day, I carry a mental image of Stockdale admonishing the optimists: "We're not getting out by Christmas; deal with it!"

Even if the market bottomed in May, we will see another sell-off at some point and some of us will feel worse than we thought we could because we thought it was over. We thought we would be out by Christmas. But, we best draw on the faith Admiral Stockdale identified, that we will prevail in the end.

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