

Private: Fortifications

BY KENNETH E. LEE ON *DECEMBER 1, 2017*



San Antonio, Texas, was the site of a thirteen day siege of the Alamo Mission by Mexican troops in 1836. The men defending the Alamo fought for independence from Mexico. In the months prior to this siege, Texian (Texan) soldiers had successfully driven Mexican troops out of Texas, creating great hope and enthusiasm for the independence cause. Thus, the Battle of the Alamo was a shock: the few Texan combatants who surrendered on the final (bloody) day at the Alamo were *not* spared.

Fast forwarding a bit, I was born on Lackland Air Force Base, near San Antonio. This was during my father's service as a USAF physician in the later years of the Vietnam War. We left Texas when I was two years old, after my father returned to civilian clothes. Later in my childhood, in Georgia, the Alamo was a prominent feature in many play battles and pretend games, partly because of the popularization of Davy Crockett^[i] as a folk hero. The well-known Texan battle-cry "Remember the Alamo!" became part of me, yet I have no childhood memories of Texas.

I returned to San Antonio for the first time in 2007, 35 years after leaving. My adult take: the Alamo, originally a Spanish-built Catholic Mission, is a pitiful excuse for a military outpost. Evidence of the likely outcome would have been clear to those present, especially in light of the overwhelming numbers advantage of the Mexicans (6,000 men vs 200 men, approximately). The structure is not particularly well-positioned topographically and did not provide strong defensive positions. The Alamo might have been safe against a

small band of marauders or outlaws; but now the enemy forces were overwhelming and the defenders' options were very, very limited.

It is easy to lose sight of the importance of preparedness when the recent past has been good. This is certainly true in markets. Complacency, enthusiasm and overconfidence become more common as the market rises—the undeniable fact is that bull markets are always interrupted by bear markets at some point. The human tendency to forget lessons of the past due to denial or overconfidence ensures this pattern. The relatively massive force of the Mexican troops overtaking the Alamo in 1836 reminds me of the flush of liquidity-seeking that leans heavily on securities prices during the worst of a bear market, and often causes disaster for investors who are not prepared. Securities without clear advantages in valuation, liquidity and/or leverage typically succumb more quickly; and, therefore, value investors seek to utilize protective defenses by building valuation and balance sheet disciplines into their everyday practices.

The mercilessness of bear markets is a significant source of market “risk-premium” that has produced excess returns for long term owners of public equities (stocks). In addition to the well documented premium for holding stocks broadly, market dislocations provide us with opportunities to apply our disciplines more fruitfully to specific situations than when stocks are moving in lock-step. The ability to differentiate what is likely to suffer permanent value impairment from a downdraft versus the company/security with staying power is a key goal of our practice. Capital preservation (and growth) thrives on these differentiation abilities.

The money management practice I have today largely derives from the relationships I developed managing through the 2002 tech wreck and the 2008-2009 market debacle; anecdotally, value investors over-all did better during these periods, especially those with good balance sheet disciplines. Perhaps echoes of the Alamo still rumble around somewhere in my subconscious mind—some part of me identifies as a Texan to this day. New market highs are a good time to remember (and to study) previous bear markets. The battle-cry changes, but history does have a way of repeating itself.

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[i] David Crockett (1786 – 1836) was elected to the US House of Representatives to represent Eastern Tennessee. He had a strong reputation as a soldier and outdoorsman. Later, he gained national prominence for his outspoken opposition to the Indian Removal Act of 1830, which precipitated the loss of his congressional elections in both 1831 and 1835. Upon leaving Congress, he volunteered to fight for Texas and died (was possibly executed) at the Battle of the Alamo.