

# Notes from Northstar

The Northstar Group, Inc.

## We've Moved!

We have now been proud tenants of The Chrysler Building for five months, and we are thrilled every day to be in our beautiful new space. But it's not just the view that excites us, it's the opportunities the office presents to bring in new talent and to work collaboratively and creatively with and for our clients. The decision to move was a hard one. The Northstar Group, Inc. has never been about appearances. We're not fancy or chic. We chose these offices because they give us a bigger and more functional space for the type of meetings that lead to better decision-making and specifically better investment decisions. Linda and I are now able to work with our clients and other professionals in a way that wasn't possible in our previous space. And yes, the view is awesome.

For those clients who have already visited Northstar's new home, we hope you share our enthusiasm about the virtues of the space. For those yet to visit we hope you'll come to see us soon.

## Think Fast and Slow.

As financial advisors, we sit at a busy intersection of hope, aspiration, rational thought and cable news. In the wise words of Sesame Street, "one of these things is not like the others."

News delivered with a false sense of urgency isn't information, it's thought-twisting stimulus. When we hear the question, half-joking or not, "What are you doing to protect me (i.e. my portfolio) from The End of the World?" we have to wonder why we are being asked the question in the first place. Maybe it's the incessant repetition of the word "Crisis," the "Breaking News" headlines, the red banners and endless TV scrolls. These stimuli bring on a host of neurological impulses, many of them antithetical to successful planning.

Daniel Kahneman, a Nobel Prize winner, is one of the seminal minds in the field of behavioral finance. In his most recent book, *Thinking Fast and Slow*, he uses the model of the brain as having two systems, prosaically named System One and System Two. The first makes pre-conscious decisions and judgments; in a sense, very close to the traditional idea of intuition. Meanwhile, the second system is called into play when we stop to think and analyze. While this is a gross over-simplification of his work, it might just help us to understand our "the news is terrible, what do I do?" conundrum.

Every day we receive a constant barrage of nerve-rattling stimuli on electronic devices of all kinds. Pundits add the suffix "geddon" to denote impending doom from the Euro, oil prices or failed tax negotiations. Each headline activates our System One. It screams "DO SOMETHING!" before System Two can even respond. Often, the saner and wiser reaction, the System 2 conclusion, is to sit tight and do...nothing.

With thirty years of experience apiece, we've come to recognize those times when System One is demanding rash, immediate action, and develop strategies to deal with it. Charlie Munger, longtime business partner of Warren Buffett, puts it another way. Munger claims to have a mental filing system that relegates many of the day's challenges to the "Too Hard" pile. What he is doing is short circuiting his System One, and resetting his mental clock to the moment before his brain told him that he must make a decision about the panic du jour.

Understanding national and global events is part of our job. But understanding how these events relate to you, our clients, is the more important part of our mission. Thinking fast, and slow. By doing both, we can work to build long lasting, generational wealth for our clients.



“Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves.”

- PETER LYNCH

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Q: What was the most valuable lesson you learned during the financial crisis?

There were too many to choose just one. But if we had just one? Don't look for individual financial guidance on the Op-Ed page of any paper. Nobel prize winners included.

Q: What steps do we need to take to protect our portfolio against what is happening with Greece and Spain and with the Euro?

Portfolios are at their core an expression of our own needs for income and wealth at some point in the future. We can never know in advance what challenges the markets will throw at us, and we never set out prepared only for smooth sailing. And so the news from Europe is today's version of stormy weather. We have been through a lot before; we will surely have to deal with unpleasant environments in the future...different continents, different trouble. One priceless lesson we have learned is that volatility, which is the short term change in prices of securities, is not the same thing as loss. As we look back on the darkest days of the financial crisis, it's amazing how many wonderful companies have had their share prices roar back to new highs. The lesson? Money is only lost permanently when businesses go under or if currencies get devalued permanently.

Q: Are You Still Comfortable Owning So Much Berkshire Hathaway?

Yes. It is certainly true that we have positions that may be larger than advisors might be comfortable with. In many cases it's because we have owned it for years and the shares have appreciated. It's difficult when you own shares in a company with that kind of financial strength, with that kind of commercial and financial reach, to say "let's sell a chunk of this wonderful company, and go to something a little bit lesser in quality because I will be safer in the long term with less concentration". That may be an over simplification, but it is a good illustration of diversification running amok.

We are certainly aware of Warren Buffett's age (81), and we tend to discount this as a significant risk. Clearly, Buffett's mortality is not something the markets aren't prepared for, nor is their board standing by passively. Meanwhile you've got a collection of assets that are extraordinarily well valued.

Q: How does a Republican or Democratic presidential victory affect our portfolios?

Every piece of data that we have been able to get our hands on makes it very clear that the party controlling the White House seems to have little to no impact on equity prices during their term in office. So many other external factors enter into the price of marketable securities: wars, shortages, tax laws...the list goes on and on. There are certain basic qualities that we bring to this of prudence and moderation. Really our job is not about being smart enough to forecast the next big thing, it's being smart enough to avoid letting our emotions get in the way. It's the learned response that teaches us that when that next crucial moment comes, when every fiber of our being tells us to sell everything, we remember three incredibly important words: don't do that.

“Chance fights ever  
on the side of the  
prudent.”

- EURIPIDES

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