Michael Anderson
Chief Investment Officer

At Hi-Line Capital Management, our intrinsic-value philosophy and decision-making principles drive how we approach investing and provide guard rails for thinking during periods of extreme uncertainty and volatility. Our piece, *Foundational Decision-Making Principles,* details the seven pillars of our decision-making process and its critical function in long-term success and rationality.

ABOUT HI-LINE CAPITAL MANAGEMENT

Hi-Line Capital Management, LLC ("HLCM"), based in Watertown, SD, provides investment management and advisory services for institutional and individual clients. The firm was founded in July 2009, became a registered investment advisor (RIA) with the U.S. Securities and Exchange Commission ("SEC") in March 2010.

FUNDAMENTALS OF INVESTING

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In preview, we expect this will be a "boring" insight but an important foundation for proper investing. What are the proper investing fundamentals? **The Conventional Definition** is *"The act of committing money or capital for purpose or expectations of financial gain".* But the conventional definition does not differentiate between thoughtful and wishful actions. The act could include many activities considered "gambling" or "speculative".

A Fundamental Definition of investing is *"an investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."* This was described by Ben Graham. **A Promise** is not a guarantee, and reality may be far different than expectations. In loans or bonds, the debtor may be unable to pay interest and principal timely. In businesses or stocks, the reality of earnings available to the owner may be far different than expectations or assumptions. **Safety** "must be based on study and on standards" which requires thoughtful consideration of potential (and the probability) of downside risks. Expectations without downside protection is incomplete.

The fundamentals that need execution require thoughtfulness, safety and security standards to avoid speculative pursuits. And humans are hard-wired to naturally speculate. In the book "Your Money and Your Brain" by Jason Zweig, it noted the neural activity of speculative money bets or pursuits known as indistinguishable from someone high on cocaine or morphine. Our brains are wired to chase the emotional thrill of uncertainty and long-shots. And the world is increasingly more "casino-like." Boring is not biologically rewarding.

"Are you investing for growth, wealth preservation, income or excitement?"

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Value-based investing is used to distinguish between the conventional definition that may be used by the majority of investors (or speculators)**.** Value requires fundamental analysis to estimate **the intrinsic value** of any investment, which is the estimate of all cashflows available to the owner discounted to its present value. A dollar of earnings today is far more valuable than a dollar of earnings in 10 years. More importantly, the fundamentals requires the pursuit of safety to eliminate any downside risk of an investment. And price is central to all decisions. When dealing with the investment and financial assets of others, there is no other fundamental way. **Boring works**.

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