



# COLBERT INVESTMENT MANAGEMENT

## Semi Annual Letter to Clients July 31, 2017

*"War is peace, Freedom is slavery, Ignorance is strength." – Slogan of the Ministry of Truth. From the book "1984", by George Orwell.*

Warren Buffett and Charles Munger often say that it's smart to invest in a business any fool can run, because someday a fool will. The same could be said about a country, whereby America has certain attributes that, even when an incompetent runs the show, the country keeps humming along.

Countries with particularly vibrant private sectors tend to be less affected by government action (or inaction). By comparison, the public sector plays a much smaller role in the U.S. than in many other countries. American businesses have been showing gradual progress since 2009, hence the country's economy keeps going strong.

Much of the world also shows good economic momentum this year. All this momentum is visible in higher real-estate and stock prices worldwide, an uptrend that has lasted for several years now. While there is an old saying that all good things come to an end, there doesn't seem to be a catalyst for an immediate major problem. Some possible risks are: a potential major credit/financial problem in China (not likely soon), a particularly bad politically driven event in the U.S., or, a forthcoming Federal Reserve reduction of liquidity by reducing their asset holdings (disruption there is quite possible).

In addition to the above potential risks, buoyant stock markets and extremely low interest rates on bonds raise cautionary flags. By historical standards, the bond market has been overvalued (and risky) for a number of years. Stocks are also relatively expensive by similar

historical standards. Of course, we are bound to have some bumpy periods ahead, which would be normal. Having said all that, businesses continue to do well, delivering good profit growth overall. And the benign interest rate environment is supportive of relatively high asset prices everywhere currently.

Remembering to be greedy when others are fearful, and fearful when others are greedy, now is not time to have an excessively high allocation to stocks or to low yielding long term bonds. Things are looking good, yes, just don't overindulge.

Sincerely yours,

A handwritten signature in blue ink, appearing to be 'Karim Armand', written in a cursive style.

Karim Armand  
President

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