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Keeping Perspective

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Given the volatility in the last week we wanted to reach out to our investors and remind them about our process, how we think about volatility, and how to ignore all the "noise".

Ben Graham, considered the "father of value investing" wrote a book in 1949 called *The Intelligent Investor.* We think it's extremely relevant today. He said: "The investor with a portfolio of financially sound stocks should expect their prices to fluctuate and should be neither concerned by sizeable declines nor become excited by sizeable advances. He should always remember the stock market quotations are there for his convenience, either to be taken advantage of or to be ignored. He should never buy a stock simply because it has gone up in value or sell one because it has gone down in value.

He would not be far wrong if his motto read: never buy a stock immediately after a substantial rise of sell immediately after a substantial drop"

Graham described the stock market as "Mr. Market", a business partner of yours that offers to buy your positions or sell his on a daily basis. He is a manic-depressive fellow and has enormous mood swings. Some days he feels good about his positions and asks a very high price, other days he feels lousy and doom and gloom fill the air and he is willing to sell his positions for a mere fraction of the previously quoted prices. Mr. Market shows up on our doorstep every morning, regardless of whether we buy or sell from/ to him. We can simply ignore him or take advantage of him, but we must not succumb to his mood swings.

The S&P 500, Dow Industrial Average, and the NASDAQ indices are down -11% in the last five days. We went nearly four years without a correction (a fall of -10% or more), only to witness one in five days. The talking heads on TV try to explain why stocks are falling, including the slowing of the Chinese economy and crashing of the Chinese stock market, concern around China devaluing its currency, a potential Fed rate hike in September or December of this year, among others reasons. The Chinese stock market was clearly in a bubble. The Shanghai index increased +152% in the last year and +60% YTD, through June 12, 2015. It has since dropped -43%, erasing the 2015 gains but still +35% above the year ago level (and we don't think you should worry about the Shanghai index, we're not invested in it).

Here's our take (although it wouldn't make for exciting news): the stock market was over-valued and searching for a reason, any reason to correct after nearly four years without a correction. Corrections are necessary and healthy and we don't believe it's time to panic. In fact, nothing has changed since last week or last month. The Chinese stock market doesn't drive the U.S. markets, but even so, the majority of the Chinese stock market crash took place between June 12th and July 15th (without any U.S. fanfare).

Here's our action plan: we'll buy good businesses when offered at attractive prices. In fact, there are about a dozen businesses on-deck that we have been following for more than a year that offer very attractive long-term investment prospects. We have been raising cash the last year and we'll be redeeming some of our short-term bond mutual funds and cash in exchange for great opportunities. We'll deploy cash systematically to ensure we have some available if/when the market/prices continues to fall.

Remember, the stock market pricing system is there for our advantage. We can take advantage of it or simply ignore it – but we certainly won't succumb to Mr. Market's mood swings.

Sincerely yours,

John

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