DO YOU CRAVE TO BE BRAVE, OR WILL YOU CAVE?

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Here is an example, albeit paraphrased, of the kind of comment I often hear from investors (and all too often, investment professionals alike): "This is what's wrong with the company/the stock market/the economy/the world, etc. etc. – and that is why I'm NOT going to invest." Meanwhile, the thought that comes to my mind is usually along the lines of... "You're right – those are the things that are wrong with the company/the stock market/the economy/the world, etc. etc. - and that is exactly why I AM going to invest".

What these investors seem to fail to recognize is that the gloomy conditions they are describing are almost always temporary. If the stock market and/or the global economy were currently in a funk – do they really believe that this will always be the case? That this is a permanent condition and markets will never recover? Do they think that the management team of that publicly traded company will never 'right the ship'? And if not, that the board of directors won't eventually replace them...!?

If you think about it, when the news is bad, everyone usually knows it's bad. As such, that negative sentiment is already priced into the stock market. You're not likely going to 'win' by selling stocks in such a scenario - capitulating in concert with the masses at the same depressed prices. The converse, of course, is also true. Many seem to want to pour money into the markets, the 'hot' stock or sector when it seems everyone is excited about their investments, the economy, and what they're hearing on the 6 o'clock news. Again, we must remember that this enthusiasm is very likely already factored in, and that stocks are likely to be very expensive (again – usually temporarily!). The headlines are never predictive of what is to come. Rather, the news is always 'chasing' the ticker – not leading it.

Savvy investors seem to have an innate ability to understand the inverse relationship between price and value. They understand, and have the conviction to capitalize on, when to buy and when to sell. Please allow me to briefly explain...

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All else being equal, if the price of an item goes down, does its value also go down OR does it go up? Put another way, if a basic snow shovel typically sells for $29.99, but that same shovel is temporarily on sale (i.e. in the Spring) for $19.99 – has its 'value' gone up or down? The shovel, in this example, will still serve the same purpose: your need to remove the snow from your driveway or sidewalk. That hasn't changed regardless of the fluctuation in the price. Obviously the value it brings – relative to the price you had to pay for it – has gone UP, not down. Similar to the above example, famous 'value' investors (such as Benjamin Graham and Warren Buffett) refer to this as 'buying straw hats in the winter'. The premise is that, with stocks, you buy when both demand and price is low, and sell when demand and price is high.

So, as share prices inevitably fluctuate throughout the remainder of the summer – and perhaps even more so in the fall – keep in mind that the general value they provide (their attractiveness, as investments...) corresponds inversely to the price move. When price goes down - assuming the business model isn't entirely broken - their value goes up.

As your Portfolio Manager I view it as my job to buy straw hats in the winter, and snow shovels in the spring... and to be brave when most others seemingly want to cave.

To discuss further, please feel free to contact me. For your current holdings, recent transactions and performance results please see your Quarterly Portfolio Summary.

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