PRIVATE INVESTMENT MANAGEMENT GROUP QUARTERLY REPORT

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THE BAD NEWS: VOLATILITY IS HERE TO STAY. THE GOOD NEWS: VOLATILITY IS HERE TO STAY...

For some time now, investors have reluctantly grown accustomed to stock market volatility. In the not too distant past, we've persevered through the bursting of the tech bubble (2000 - 2002), the impact of 9/11 and the financial crisis/recession from late 2007 to early 2009. During this time, we've experienced meager growth in equities while succumbing to extreme levels of volatility.

The more recent past has been no different, with concerns over the U.S. fiscal cliff, Chinese growth rates, a softening Canadian housing market, and a bank run in Cyprus just to name a few. All of these burdens - and many more - have occurred in the first quarter of 2013 alone. As a result of these seemingly ever-present market head winds, volatility does indeed appear to be here to stay.

But for investors - should volatility be viewed as 'friend' or 'foe'?

My now close to two decades of experience convinces me that volatility acts as both friend and foe. Indeed, stock market volatility may very well be the enemy of the novice investor – those who succumb to panic, selling during temporary setbacks only to re-enter the markets after a rally. Meanwhile, on the other side of that trade is the intelligent investor – happily buying up quality assets at the fire-sale prices that only bouts of extreme volatility can provide. These investors have an uncanny knack for taking the longer-term view, confident that today's doom-du-jour will soon be talked about in historical terms. The pullbacks are never permanent.

As testimony, this past quarter marks the four year anniversary of the 'Great Recession' stock market lows reached in March of 2009. No question this was a period of extreme volatility. Panic selling was rampant and 'cash is king' was the catch phrase of the day. Here's an update: while 'cash' would have eliminated any further fluctuations in value, investors would have been left today with just that - their cash. But what about the interest earned...? For the price of ridding themselves of any further volatility, their money would have given them little to nothing in real returns, with the paltry interest earned largely eroded by the impact of inflation. By comparison, for those who chose to view the March '09 lows as an opportunity – to view volatility as friend rather than foe - the stock market (as measured by the S&P500) handsomely rewarded them by returning approximately 135% to the end of this past quarter, just four years later.

Volatility is here to stay – and to us, my dear friend and client, that is indeed the good news!

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