

BEHAVIORAL & FINANCIAL INSIGHTS

Lessons from the Greats

In Summary:

- With high levels of uncertainty and headlines abound, it can be useful to take a step back and contemplate past lessons from several of the investment industry's greats.
- In the short- to medium-term, asset prices are likely to disconnect from their fundamental values as they incorporate the fear and doubt prevalent in today's market.
- Periods of excessive volatility are rarely the appropriate time to panic and sell. Rather, it is more likely a time to capitalize on attractive long-term opportunities.
- At the core, a well-diversified, balanced portfolio is the best method to navigate market cycles and strike an appropriate balance between risk and return.

Over the last few weeks, the markets have taken us all for a wild ride. It's easy to get overly fixated on headlines when equity indices have recorded some of the largest single day moves of all-time. During these uncertain times, we urge investors to stay focused on the long-term. Additionally, we offer guidance from several investing icons who have encountered (and heavily profited from) similar turbulent times in the past.

“In the short run, the market is a voting machine, but in the long run it is a weighing machine.”

- Benjamin Graham

Since mid-February, the market has dramatically re-priced risk assets. More than a decade into a bull-market, risk-oriented investments such as equities had valuations that may have reflected elevated levels of optimism. Now, risk has gone out of favor and investors are placing a premium on assets with 'defensive' and 'safe' characteristics. As Mr. Graham notes, the market can be a voting machine - more akin to a popularity contest in the short-term. That said, the market tends to be a weighing machine that more directly correlates price to the long-term future value of a business over the long-term. We believe that while there will be a temporary hit to earnings, the long-term value of global businesses remains intact and will again translate into higher valuations in the future.

“Be fearful when others are greedy and greedy when others are fearful.”

- Warren Buffett

The 'Oracle of Omaha' has a pretty remarkable track record for capitalizing on times of fear. In the midst of the 2008 Financial Crisis, Berkshire Hathaway made a variety of contrarian bets that reaped highly lucrative long-term gains. While it can be painful in the short-run, times of excessive fear are often

occasions to capitalize on attractive opportunities. Remember that times of excessive fear don't come around that often (luckily), but we think now is one of those rare times. As such, it can be the once in a decade chance to acquire quality companies and/or the broader market at heavily discounted prices.

“If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring.”

- George Soros

We are pretty sure that few are having 'fun' right now investing, but that's not the point of Mr. Soros' message. Instead, investing in a friend's 'hot stock pick' or the 'flavor of the week' fad can be entertaining but is rarely the best way to steadily build long-term wealth. Rather, it's the 'boring' strategies that ultimately arrive at the best and most durable results. These include investment pillars like employing a diversified portfolio well-aligned with your long-term risk tolerance, dollar-cost averaging, and regular rebalancing.

“You can't predict. You can prepare.”

- Howard Marks

We'll be the first to admit that we are uncertain exactly how the current crisis will unfold. While impossible to 'predict', we agree with Mr. Marks' approach to be prepared (and we have been preparing before this all started). Successfully navigating the next several weeks, months, and beyond can be critical to the long-term performance of your investment portfolio. Now is a time to stay focused on long-term goals and stay true to the essential investing lessons of the past.

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