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Comments Regarding Recent Market Turmoil

Standard & Poor's recent downgrade of the U.S.'s credit rating and ongoing worry over Europe's debt crisis has unleashed emotional reactions from investors across the globe. Once again, the media is in full-throttle running stories filled with doom and gloom and fuelling volatility and uncertainty.

Uncertainty is one of the most difficult factors for investors to deal with. Emotional and behavioural biases tend to win out over objectivity and today's 24-hour news cycle, day trading and computer-driven quantitative trading do not contribute much to rational thinking. The result; you end up with large and completely irrational price movements in a short period of time.

The ability to predict this sort of swing movement is virtually impossible and the ability to explain them is equally so. It certainly gives people lots to talk about and fills endless hours of TV time, but is it important? In our experience it is not. In order to function and make objective decisions you must have other parameters for decision making – ones that are based on valuation not emotion.

The likelihood of objectively valuing the economics and sustainability of a business are far better than the alternative of predicting the movement of "markets" over any given time period. We know that in time, profits and cash flow always win out and remain the fundamental long-term drivers of equity valuations.

So while we don't enjoy this type of environment, we keep our focus on trying to buy good businesses at attractive prices. The current environment has given us the ability to do just that.

As usual, we welcome communication with you. At any point, if you wish to discuss this situation further, or review your portfolio, please do contact us.

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