April 2016

An avid baseball fan once invited a business associate to a game. The associate was not much interested in baseball, but he agreed to go. They travelled to the park separately. The true fan got to their seats first well before the game started…and what a game it was! Both pitchers were sparkling in the ways they befuddled the opposing hitters. In the few cases that batters did make contact, it seemed that the fielders were all making sensational catches. Twice, runners were thrown out at home. By the sixth inning, when the non-fan finally showed up, the crowd was on the edges of their seats. "What's the score?" the newcomer asked. "Zero – zero," his exasperated friend replied. "Oh, good! I haven't missed anything."

That's the way an investor who's been away for three months might view the stock market. As I write this letter today, the Dow Jones Industrial Average and the S&P 500 are almost exactly where they were as 2015 drew to a close. "Not much has happened," the sojourning investor might say. Except that so much did indeed happen! The stock market began falling on the first trading day of the year and continued to fall for six weeks, such that on February 11th the S&P 500 hit an intraday low that was 11.4% below the 2015 year-end close, excluding the effect of dividends. Then the market promptly began a rally that carried it up 13.8% by the end of March. So the S&P 500 ended the quarter up just 0.8% (excluding dividends) from where it started. "Oh, good! I haven't missed anything."

Market analysts have spilled a lot of ink trying to explain it all (much has to do with continually changing guesses about the course of Fed policy), but I'm reminded again about just how hard it is to predict the future. What I do know is that, along with the overall stock market, the stock prices of some great businesses were temporarily depressed by 11% during the quarter, and some by a lot more than that! Rather than try to guess how much the stock market might go up or down over the next month, it's much better to have identified some outstanding businesses you'd like to own and wait for an opportunity for them to go on sale. That's the essence of having a value-oriented investment discipline, and it's the essence of what we try to do as investors on your behalf. We have definite ideas about what makes for an outstanding business and definite ideas about what such companies are worth. This process permits us to use the markets rather than let the markets use us. That means when the market sells off we can use it as a buying opportunity and when it rallies we can use it as an opportunity to sell an expensive stock, if that's what our analysis tells us.

Oscar Wilde once wrote: "*What is a cynic? A man who knows the price of everything and the value of nothing.*" By that definition, many so-called investors are cynics. The volatility of stock **prices** can be troubling to an investor who doesn't have a good idea of what his stocks are **worth**. But for someone who makes it his business to know the **value** of everything he owns and wants to own, market volatility is not such a bad thing.

We appreciate your confidence in us.

Gratefully,

Mark A. Keller, CFA
CEO and Chief Investment Officer

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