

## *As We See It*

“Plus ça change, plus c'est la même chose.”

**Alphonse Karr, *Les Guêpes 1849***

This observation by the 19<sup>th</sup> century French writer translates as, “The more things change, the more they stay the same.” Perhaps no better axiom can be applied to the fields of investments, finance, and economics. A year ago the chatter in the stock market was all about the *Goldilocks economy* as it had been in the late 90s and many instances before. Today the talk centers on the threat of a global recession caused by credit contraction in the financial markets. It seems that the pendulum has swung from extreme optimism toward pessimism. When the pendulum will reach its apex and reverse course is what most Wall Street prognosticators spend their days contemplating.

While we believe the global macro economic fluctuations affect financial decision making, getting caught up in the daily mood swings of the market will likely be hazardous to long-term financial health. It is always tough in a volatile market to maintain composure and emotional stability, but these may be the two most important characteristics of successful investors. An ability to *step back* from the daily news deluge and focus on the big picture is absolutely essential to long-term success. In that realm we have an advantage. We can turn off the computer screen for long stretches of time. We avoid watching CNBC and the other talking heads who seem to be driving the public’s love/hate relationship with stocks. We don’t have brokerage clients calling and asking why they don’t own Google, RIMM, or whatever is the hot stock of the day. We don’t have to trade to show we are doing something. We can remain secluded in our offices—far from the hectic traders on Wall Street—doing our best to remain clear-headed and balanced in our approach to your investments.

Distance is often associated with independence, and we believe independent thinking is the basis for outstanding investment performance. A great starting point for portfolio construction is the attempt to identify companies that will have profitable futures. Such companies usually identify and address unmet needs in the market and carve out a successful niche for themselves. This starting point may develop into an investment theme applicable to other potential investments—or it may remain a single investment idea in a portfolio of other singularly successful ideas. To the extent that several themes emerge over time—for instance, the aging of the population or rising demand for basic commodities—the stock portfolio becomes a reflection of our long-term vision, and not a reaction to short-term prognostications.

In order to help us maintain our sense of balance and independence in periods like today, we believe it is imperative to remember that risk management is really the focal point of our activities. Actual risk management practices come in many shapes and sizes, and are somewhat dependent on market circumstances at the time. For most, risk management takes the form of asset allocation. For us, risk management also includes taking advantage of market overreactions and opportunities. Perhaps a less famous quote from Karr is more appropriate, “Some people are always grumbling because roses have thorns. I am thankful that thorns have roses.”

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