

Now is always the hardest time to invest

It is a gloomy moment in the history of our country. The domestic economic situation is in chaos. Our dollar is weak throughout the world. Prices are so high as to be utterly impossible. The political cauldron seethes and bubbles with uncertainty. Russia hangs, as usual, like a cloud, dark and silent, upon the horizon. Of our troubles, no man can see the end.
Harper's Magazine ~ 1847

Economic and geopolitical concerns are not exactly the same today as they were some 168 years ago—the dollar is currently strong rather than weak and inflation is low rather than high. We can all remember when the dollar was weak and inflation was high, so it could be said that while our economic and geopolitical concerns shift back and forth they have always been with us in one form or another. In fact, it could appear the situation has gotten worse. Concerns over quantitative easing leading to runaway inflation, a U.S. government debt default, and a breakup of the Eurozone were all popular headline fears during the past five years.

Scary headlines are always with us and there is a natural tendency for investors to focus on the negative because negative events pose a chance of danger. It is man's innate sense of self-preservation which reinforces this tendency. When things are bad, we magnify the problems into something far worse in our minds. However, when we pay less attention to the disturbing headlines we overcome the fears presented by those headlines and focus on the positive. When things are good, we expect them to get even better. Extremes in expectations create extremes in valuation of stock prices. Warren Buffet once said, "It's just that sometimes people focus on the myriad uncertainties that always exist while at other times they ignore them (usually because the recent past has been uneventful)."

Rather than reacting to economic and geopolitical headlines, our firm has found that an emphasis on long-term fundamental company and industry analysis to be a better avenue to success. If we invest in sound companies with high-quality managements, we can expect those companies will earn a profit. Furthermore, we can assume the amount investors will be willing to pay for that profit will fluctuate. Those emotional swings will balance out over time, and over the long run the profits companies earn will accrue to investors' pockets through dividends and increased stock prices. Everything else—whether the dollar will rise or fall, whether oil prices will rise or fall, whether Russia will make a full-scale move into Ukraine, or when the next stock market crash might come can be needlessly distracting.

Peter Lynch, one of the great investors of our time, once said, "Your ultimate success or failure will depend on your ability to ignore the worries of the world long enough to allow your investments to succeed. It isn't the head, but the stomach that determines the fate of the stock picker." Yes, now is always the hardest time to invest.

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