

NAVIGATING FINANCIAL STORMS AND CORRECTIONS

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Do you want to know some interesting facts about market corrections and storms...?

Especially this most recent one!

1. There has never been a correction in the overall market that has not proven to be an investment opportunity.
2. When positions are down in price, it can be difficult or painful to watch. However, if you own quality, value, and fundamentals; don't lose sleep at night. For example: Our portfolio's ETF's for a short period of time were trading at deep discounts to their net asset value with zero exposure to those *kryptonitesque* subprime instruments. We are not concerned about the overall quality and credit worthiness of the underlying assets in the portfolios. If that was not the case, we would have sold them faster than you could say *Lex Luther*.
3. The hedge fund implosion and subprime meltdown that we predicted would someday happen is occurring at a much faster and more violent pace than we ever expected. One thing that we are incapable of doing, along with any other mortal being, is timing the market. It is a complete waste of time and an exercise in futility. We are value investors with a long term approach. Warren Buffet stated that **"Over time, markets will do extraordinary, even bizarre things."** It was interesting to watch his response to the most recent storm, where he discussed **"opportunity"** with a cat that caught the mouse grin on his face.
4. Many hedge funds are in deep trouble. Not a day goes by now where we don't see another fund blowup. The hedge fund universe can be described as having 100,000 airplanes flying in the air with only 100 competent pilots; there is bound to be a bad accident. Currently nobody wants to buy their financially engineered subprime overleveraged investments. I never understood why anyone wanted these proverbial pieces of excrement anyway. Listening to hedge fund managers discuss their skill in financial engineering has always made me nauseous. The technical definition of financial engineering: **the creation of new and improved financial products through innovative design or repackaging of existing financial instruments.** Here is a quick bit of advice: Whenever you hear the words *financial engineering*, think to yourself; **"method of getting investor to buy a high risk investment while making them believe it's a low risk investment."**
5. Corrections separate the men from the boys. They can test the faith of the most ardent value/fundamental oriented investor. Being fixated on your portfolios market value during a calamity, you will just give yourself a strong case of agida. None of the fundamental qualities that made your securities investment-grade, just a few weeks ago have changed. Interest payments or dividends have not been cut, if they had, they would have been liquidated.
6. Nick Murray from *Wealth Manager Magazine* stated eloquently:

7. ***“The great truths of successful investing are immutable and timeless and therefore never spoken about in the mainstream media, from which nearly all Americans get nearly their entire daily economic and market input. There is, as we have often noted, a sound (if necessarily evil) business reason for this. If the media told the immutable truth, it would end up constantly repeating itself, whereupon people would soon stop reading/watching it, and it would go out of business. It therefore doesn’t cover the truth. It covers the news, and attempts to get people stirred up about the dominant news “event” of any given 24-hour news cycle. (“Is it time to sell Japan? Will oil hit \$100? What six funds went up the most in January?”)”*** It is our fiduciary duty as registered investment advisors to preach truth to the news. And the greatest of all investing truths is that the primary determinant of real-life returns isn’t investment **“performance”** but investor behavior. The critical variable isn’t what **your** funds do. It’s what **you** do.

We at Markowski Investments know that certain beliefs and behaviors can help individuals to achieve better lifetime returns than the proverbial “hamster wheel” that is pushed upon them. Investors need to follow and abide by a belief system that will navigate them through any financial storm no matter how unpredictable or ferocious.

Nick Murray describes the importance of faith in one’s financial plan. He states that it is the first characteristic of all successful long-term investors. It is impossible to invest successfully in a future of which one is fundamentally afraid. Thus, the great enemy of investment success isn’t ignorance, but fear. All human experience goes to teach us faith in the future, and especially faith in the American economy and its markets. The problem arises when the media suggests that some economic or market setback is new and different; terrible in an unprecedented way, and therefore a disaster you’d better jump clear of. The interesting thing is that the more inconsequential the disaster (Katrina, oil, or most recently subprime), the greater the volume of fear mongering. Time and time again these **“crises”** pass and the faithful investors are rewarded while the non-believers are punished. The day I was born, the S&P Index closed at 97.99, today it is 1445 (which ignores dividends).

Patience is a virtue; an old cliché that needs to be a part of an intelligent investor’s belief system. Understanding and building your financial plan around a time frame is imperative. Don’t concern yourself with **“what is working now”** but rather what will work over time (value, fundamentals, and dividends).

Investors need to be disciplined. Paying oneself first is a discipline. Funding your long-term plan before (and, if necessary, instead of) buying the latest flat-screen or grabbing that great deal on a Mercedes is a discipline. Funding that plan regularly, month in and month out, as opposed to the typical *“Maybe we better hold up for a while until this market stops going down”* is a discipline. Investors **must** be disciplined.

Navigating storms, even of the complex nature that we have all recently witnessed, is quite simple: Follow the belief system described above (faith, patience & discipline). Divert from this belief system and often a heavy price will be paid.