



Thank God It's Friday!

May 28, 2010



That's life, that's what all the people say.
You're riding high in April,
Shot down in May
But I know I'm gonna change that tune,
When I'm back on top, back on top in June."

Ole Blue Eyes, Frank Sinatra, really captures what it felt like as an investor this Spring. He also speaks to the approach we take to portfolio management. When the facts change, so do we. This correction didn't catch us by surprise. The speed and severity did. It seems investors were taken aback by the decline, which led to panic selling and a Market freefall.

The key to successful portfolio management is anticipating how securities will behave in different environments, and have a plan to protect from downside pressures. Successful Portfolio Managers focus on managing risk and preserving capital. As we have said, we anticipated a correction and ultimately felt we would see the low levels touched this week, but we thought those levels would come some time in June or July.

This May wash-out, was the worst month for the DOW since the recovery rally began a year ago. Its 7.5% retreat drove investors to panic. That's usually a good time to be buying. But with so many global problems out there, it's very difficult to quantify the risks and how each one is priced into the market. We definitely see bargains out there but realize the Market is full of landmines too, requiring cautious footwork. Also, during crises, patience is absent.

We are long-term investors, always have been and always will be. But we recognize the need to layer-on tactical trades to enhance our pro-active management strategy. In 2010, "Buy and Hold" strategies simply don't work. Blame technology! The advancement of electronic program trading has encouraged addiction to the short-term. A week can be an eternity for day-traders and hedge funds.

Renowned Wharton Business School Professor Jeremy Siegel remains a staunch advocate for long-term investing. His statistical analysis suggests that the riskiness of owning stocks declines as the holding period increases. For decades this wisdom prevailed, but for the past decade it is a tough argument to sell. Supporting the philosophy of long-term investing is legendary investor Benjamin Graham's theory that the Market rewards those that accept greater uncertainty associated with longer time horizon. There was no worldwide web when he studied markets!

So the marriage of a long-term approach to investing - buying quality companies with a track-record of success for growth and income- with active management in terms of profit-taking, hedging and preservation of capital is the approach that we take to this new age. We continue to reinvent ourselves time and again. Perhaps that's one of the main reasons we've been in business for 35 years. When the facts change so do we. That's life. Bring on June!

Have a wonderful Memorial Day. Salute the troops!

By: Jude Bedell and Mike Frazier