August will likely be remembered as one of the most volatile months in market history. What is going on? Are there fundamental reasons for the selling (and re-buying) or is it based on a more emotional reaction to uncertainty about global economic data? The scope of the selling on the morning of Monday the 24th was something that is difficult to understand or explain. Large companies had tens of billions of dollars of market cap erased in minutes with no specific cause other than the fact that investors were selling in a mad rush to be the first out the door. Over the next several years there may very well be case studies done on the magnitude of the market swings and ‘herd’ mentality that struck so quickly with no obvious reason.

Many will point to the economic slow-down and market issues in China or the on-going angst investors seem to have regarding when the Fed will begin to raise rates as the trigger. Still others will point to the simple idea that we have gone too long without a sell-off or that August tends to be a month in which many traders are on vacation resulting in lower than usual volume. Another idea that has been discussed is the concept of automated trading programs being triggered and taking on a life of their own. None of these ideas is very comforting and in reality the answer is that it was probably a combination of all those ideas and more coming together in a perfect brew that resulted in a frenzy of sorts. Wall Street is very good at putting a cause in place after an event in order to try to explain why a certain result occurred. In my view these opinions are worth just a tiny bit more than those opinions offered by forecasters trying to predict events before they occur.

Whatever the reason, we believe a lesson that should emerge from the episode is that one should be careful to make their investment decisions based on a sound, thoughtful process and not simply because it is down from its high. Since broad market sell-offs tend to hit all companies, why not take advantage of lower prices to build a portfolio of higher quality names? Many companies “deserve” to have their prices reduced based on their results--so simply buying ‘popular’ names in a sell-off is not a course of action we would recommend. Another technique, dollar cost averaging, is to simply add to existing positions. After all, you know your current names well and if you cannot find a reason for the decline why not consider buying more?

Legendary investor Shelby Davis was quoted as saying, “You make most of your money in bad markets but you don’t realize it at the time”. We think what he meant was those who have the ability to remain calm and logical, keep their good investments in place, and cherry pick the debris of the sell-off for quality names are those most likely to reap the long term benefits of a market correction. As always, thanks for your time and your trust. Please feel free to call on us at any time.
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Dollar Cost Averaging: Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

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