Laurus
INVESTMENT COUNSEL

GLOBAL SMALL CAP SPECIALISTS

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"And the seasons they go round and round, And the painted ponies go up and down, We're captive on the carousel of time…"

- Joni Mitchell, The Circle Game

Russia escalates its military presence and leverages nuclear threats. The US Federal Reserve announces the pullback of its massive monetary stimulus. Tensions escalate in US-China relations, while China's domestic growth slows. Middle East tensions also escalate with the outlook of a satisfactory nuclear arrangement with Iran doubtful and regional politics become more extreme.

Sound familiar? The year was 2014 and Laurus had just been founded.

Russia had annexed the Crimean Peninsula in the aftermath of the Revolution of Dignity - part of the wider Russo-Ukrainian war – as street protests erupted following a decision by then-President Yanukovych's decision to increase ties to the Soviet Union. Over 130 people died in the protests, which resulted in the overthrow of the Yanukovych government.

Meanwhile, Janet Yellen announced the pullback of monetary stimulus, with the US Federal Reserve increasing rates by 0.25% and pointed to further gradual increases – which occurred again in 2016. The distress caused by the action of monetary tapering coined the term a "taper tantrum" and was expected to raise long-term rates and pressure equity markets – none of which happened, as we now know.

And the emerging markets were in complete disarray. Massive demonstrations in Turkey against Prime Minister Erdogan and the redevelopment of Gezi Park. The Wall Street Journal contended the slowdown in China's economic growth portended the end of a high-growth heyday the buoyed global demand for everything.

As we wrote in last month's commentary: lions and tigers and bears…oh my!

While it's important to be aware of macroeconomic issues of the day, little of these events have long-term impact on market prices. Yes, there is short term nervousness leading to market volatility. It's also noteworthy that current events like rising interest rates and commodity prices put significant pressure on non-developed countries resulting in public demonstrations and regime changes…as has happened in the past.

These factors that surround us in the mainstream media are beyond our control. What we can control is our portfolio quality. Owning high-quality compounders led by strong management teams that benefit from structural growth opportunities either within the industry or internally generated. While these companies may be affected by short-term market influences, in the long-term they will prove to be the most resilient and deliver attractive risk-adjusted returns.

So, in our view, Mr. Market has now made the high-quality companies we own available to us at a much more attractive price. While it is not difficult to imagine various scenarios which could lead to further downside in the markets at this time of heightened uncertainty, the reality is that it is nearly impossible to accurately predict these events with any conviction. What we do know is that we own portfolios of high-quality businesses which have limited direct exposure to Russia/Ukraine, are global in nature with diversified income sources, and have the pricing power and balance sheet strength to navigate through periods of turbulence.

Patience – the ability to remain calm when dealing with a difficult situation – can often be confused with being stubborn. In the investing world, too many people think that activity in a portfolio equates to adding value and that one should react to exigent events. In truth, if you found an investment with the potential to compound over many, many years, one of the hardest things is to be patient and maintain your position (of course, as long as prospective return and risk warrant). It's easy to find examples – Amazon is the first to come to mind, with its increase from an initial $5 stock price to its current value of $2,887. It's incredibly difficult to have the patience to watch your investment continue to escalate beyond expectations.

What is painfully clear, to quote Howard Marks, "is that simply being invested is the most important thing". We do not have the predictive ability to time markets – which are impacted by short-term events and sentiment as noted earlier – and so we continue to remain fully invested in high-quality businesses. And should Mr. Market provide us better prices, our only solution is to buy more.