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From the Desk of Laszlo

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What is Volatility and Risk?

Welcome to the ups and downs of investing. This was a volatile quarter and during the summer months, I fielded many calls regarding the volatility in the equity market. It is interesting to listen to the many concerns because it highlights how connected we are to media and THEIR messages. I learned a long time ago that news media's primary job is to sell space and time. I am not talking of science fiction here, but rather, the companies that run television and newspapers primary ways of making money is selling AIR time and space on their respective media. (One of the reasons I prefer small community newspapers is that while they do sell space in their papers, they report local news without charging the buyer; therefore, it is a pleasure to read and far more informative.)

When it comes to BIG media, the more grandiose the headline, the higher the chance that people will BUY the paper OR STAY TUNED to the news channel. These stories and headlines elicit fear which then cause a spike of phone calls into my office.

On the surface, this volatility is concerning to the average investor. However, to the INFORMED and professional investor, it is the best day one can have. On that day, between client calls, I also got a direct email from one of the many managers I use. They manage billions of dollars of client money and were excited when the markets presented a buying opportunity.

Here is an excerpt from the email:

"I thought I would send along an email displaying how incredibly inefficient markets can be at times. More importantly, how sometimes if you know the value of a business, you can take advantage of volatility. We've said this many times in the past, but on days like today it's worth repeating: Volatility is the friend of the investor who knows the value of a business and the enemy of the investor who doesn't. We continue to have cash to deploy should this downside volatility continue."

You see, what the average person reads and thinks of as a bad day, the money manager views it as a GREAT day. They know that the way to make money in the short and longer term is to buy investments they know the true value of, and buy it when others are fearful and selling at discounts. They research the TRUE value of a company or bond and wait for entry points. On that fateful day in August, some of the companies they watched dropped as much as 26% only to finish close to their opening value. Let me repeat that a different way; one of the company's they wanted to own fell as much as 26% in the first hour of trading and by the end of the day, the company value was back up close to its original starting price. If you were the average investor, you might have SOLD that investment. The professional investor was watching it, bought it, and by the end of the day was up as much as 26% because they know the TRUE value of the company. They do not watch CNBC or get their information from the MEDIA, because that is old news. They know what the company is worth and buy it when the price drops well below the true value. So the most important lesson in investing: IT IS THE VOLATILITY OF THE INVESTMENT that makes the long term investor the money and knowing its TRUE value. The very "risk" everyone reads about is the way the professional investor makes money for you.

Office Reviews and Appointments

For those wanting to book a time for review or planning session, I will be away the following dates.

The office is open for regular inquires but here are the dates I will be away.

October 6 to 9 CI Funds Investment Conference

November 2 to 6 Office Retreat

November 15 to 22 Fidelity Investment Conference

December 12 to 19 Family Vacation

Friends and Family

I wanted to mention that in my almost 24 years of working with families, many people I have had the pleasure of helping for my entire career have passed away this year. Much like family, you get to know people and their families very well in working with them so long, and I just wanted people to know, they will be missed. While it is important to save and invest for your future, be sure to balance that with enjoying your life. Work is something you do, but life and family is why you do it! Remember family and create memories.

Written by Laszlo Szojka