

Quality – It's all how you define it.

Investment Manager Marketing - BEWARE

Our portfolio of quality companies with strong management, blah blah blah. How many times have investors heard about the quality companies their manager owns? Just this week there was a column on a hedge fund manager who has regularly been profiled in the media. The column reported this manager had a loss of 81% last year. Many of the manager's investments were in illiquid Russian and private companies.

No problem, investors who put money into these funds should have known the risks they were taking. But here's the kicker, the manager in his comment goes on to say "the current situation has provided an opportunity to buy great companies at great prices." In reading this we thought, are you kidding? We shouldn't judge but with the Russian and private investments, with the near wipe-out of the investors' funds, and with holdings such as Canadian Bioenergy Corp., MagMinerals, and Virginia Uranium, this portfolio sounds to us as far from "quality" as you can get. Here is the point. *Don't just believe the investment management hoop-la, don't chase the big returns, and when someone tells you about quality don't be afraid to challenge them.*

Haven't we all seen the managers of the day win their fanfare only to later discover that it was not risk management that got them their upside but adding risk? This is not only in buying stocks and mutual funds but the same goes for companies. Tough markets and economies show you who is managing the portfolio or business, not just going along for the ride. Even the best managers will succumb to a recession, but they can limit the damage done to their business and consider the opportunities to improve their position for better times. We at QV are potentially the greatest users of the phrase "buy quality companies" and we should be since the Q stands for Quality in the name QV Investors. We don't think we are hypocrites; our definition is just different than many others out there.

We had a recent example of quality management in our office. They are a prominent energy services firm which has an excellent balance sheet. 12-24 months ago investors were complaining that their balance sheet was not levered enough, meaning they were not getting the highest financial returns. The management just reminded them that they are in a cyclical business. Beautiful. It is rare to hear this type of level headed and simple response.

These shareholders much like in our previous hedge fund example need to give their heads a shake. The investment community's desire for things such as "optimal debt levels" and "significant share buybacks" are often a joke. They are stock market driven manipulations as opposed to long term thoughts on how to properly manage a business. Managers who don't follow the crowd and manage their business for the long term are quality; the others often have no clue ... until it is too late.

Advisor Advice – Can be worth its weight in gold.

It is our belief that good advisors earn their keep and more in this market. In good markets people are generally satisfied and don't second guess much of the advice they receive. Now the ability to keep people on track with their long term plans and invest with knowledge rather than emotions is critical. One such advisor that recently reminded us of his long term view and the problems with the state of investors' mindset is Ron Harper. Ron is a Vice President and Branch Manager with a major investment dealer, and has been in this business for quite some time. He has seen the cycles and understands the big picture. His gripe to us in responding to one of our e-letters was that the world only sees the negatives in the economy and stock market. The pessimistic consensus is running wild and when was the last time the "crowd" was right? Ron's comments can be found below; we consider this to be an example of "quality" thought. We could have written a letter expanding on his points, but I think he has said it as well or better than we could. Thanks Ron, we all need some basic educated perspective in these tough times.

Thanks Joe,

I challenge anyone out there to be more positive. They will be the first and very lonely! I view this as a very good sign as I have not seen such doom and gloom. I am not proposing blind optimism and being guilty of always looking through rose colored glasses. I am also aware of the cold hard facts that just when you do not believe it cannot possibly get worse it most often will. I also know the pendulum never stops in the middle...it overshoots on the upside and most definitely on the downside as humans feel the negative more painfully than the positive. How about talking about why investors always mess up by buying high and selling low, and never get the returns they could or should. Hold good businesses; buy more when they are cheap. I suspect a lot of good businesses are much cheaper than they were a year ago. We will continue to add to your great businesses that you select for us whenever and wherever we can.

Thanks - RON