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After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight! [...] Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn.

Edwin Lefèvre, "Reminiscences of a Stock Operator".

Offering a dialogue.

This monthly letter offers our view on recent events, as seen from an Intrinsic Value perspective. After ten months of writing it, we want to move to the next planned phase, which is to add your voice to what we write, and engage in a dialogue with our readers and partners.

So, with this notice, let us now officially open Reflections to your ideas and observations. Let us know your thoughts. Email us at LeckieIntrinsicValue@nbf.ca, and we will engage in a published dialogue with you, as partners.

July in the markets

In July, markets were enthralled by the US soap opera. As the comedy moved from farce that will have a solution to risky gamesmanship with potentially serious consequences, the markets started to take a dim view of the situation and marked everything down. Or almost everything down, as some stocks seem to have a life of their own, whatever their underlying value (Green Mountain Coffee Roasters springs to mind).

We often stress the need for investors to stand back from the day-to-day news cycle so as to preserve a measured perspective. It becomes more difficult when events like the US budget debate add a whole new level of uncertainty to an already uncertain future. Moreover, when that happens, we tend to start imagining worse and worse scenarios, give them a

higher probability of occurrence than they truly deserve, and end up incapacitated by fear.

This tendency unfortunately is common to all of us, and takes work to undo. Below are two takes on this issue, taken from our summer readings. The first one was written by Jill Fredston in "Rowing to Latitude". An Alaskan avalanche specialist who in the summer rows in the Arctic, from Alaska to Norway, she often has to face uncertainty – and fear – when confronted with difficult sea, weather and other conditions. Here is her take on fear:

"[This brings] to mind Mark Twain's words: *"I have had a great many troubles, but most of them never happened."* Most of the time it isn't real fear that seems to cripple people; it is the worry about all the bad things that *could* happen. Will we get cancer or Alzheimer's or not have enough money to live on when we are old? What if the boat swamps or the ice breaks or the plane crashes? Uncertainty is nearly always at the root of such anxieties. Allowed to run free, our imaginations can be depended upon to conclude the worst. This is the kind of worry that Gavin De Becker, in *The Gift of Fear*, calls a form of self-harassment, *"a way to avoid admitting powerlessness over something, since worry feels like we are doing something."*

Sounds like a good description of what many of us are currently going through. At the same time, it offers the remedy: regaining the right perspective.

In “Flourish”, which Scott is currently reading, Martin Seligman makes a similar point:

We are bad-weather animals, naturally attracted to the most catastrophic interpretation of adversity, since we are the descendants of people who survived the Ice Age. Those of our ancestors who thought, “It’s a nice day in New York today; I’ll bet it will be nice tomorrow,” got crushed by the ice. Those who thought, “It only looks like a nice day; here comes the ice, the flood, the famine, the invaders, oy! Better store some food!” survived and passed down their brains to us. Sometimes thinking and planning for the very worst is useful; more often, however, it is paralyzing and unrealistic, so learning to calibrate the catastrophic realistically is a crucial.....skill.

We think it is important not to confuse the facts of the situation with a politically manufactured crisis. The US remains a very large economy, and it would not take that much to create conditions that would substantially reduced their current deficit. Forecasted long-term structural deficits due to population aging are another story, and as in all western countries, including Canada reforms will have to take place that will demand sacrifices from all. However that long-term issue does not have to be resolved tomorrow morning. A lot of what we have been seeing is just scare mongering and political tomfoolery, not a serious debate about how to deal fairly with all the issues. This is still to come.

From an investment standpoint, we currently have both high economic uncertainty and great bargains. History is usually kind to those who can seize the moment at the worst of times. In investing, great fortunes have been made by investing in what was then thought as the most awful conditions. As Scott, with all his experience and track record keeps saying, “**now** is an excellent time to invest capital **on an Intrinsic Value basis**, perhaps the second best I have seen in 25 years”. It is definitely our recommendation.

The US debt downgrade.

Finally, the rating agency debt downgrade of the US that everyone was talking about came to pass. One of the three main rating agencies (S&P) downgraded the US from AAA to AA+.

Absurdly, the reaction to the downgrade was for investors to sell stocks and buy... wait for it... the very US debt that had just been downgraded. Talk about circular thinking.

The US needs to get their house in order. They do not really need to look very far – only cast their eyes north for an example of a country which lost their AAA rating – that’s right, it was Canada – in the mid 90’s and took the steps necessary to regain that AAA (with a Liberal government in power no less!).

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